Financial statements 2020

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Report of the Board of Directors

OVERVIEW

Teleste is an international technology group that offers an integrated product and service portfolio that makes it possible to build and run a better networked society. Our solutions enable television and broadband services, secure safety in public places and guide the use of public transport. With solid industry experience and drive for innovations, we are a leading international company in broadband, security and information technologies and related services. Our customer base consists of cable and telecom operators, train manufacturers, public transport operators as well as public sector organisations. Until the end of 2020, our business was divided into two divisions, which are Video and Broadband Solutions and Network Services. In both areas, we rank among the world's leading companies and technological forerunners.

Teleste revised its strategy in May 2020, according to which the company will focus on technology business operations and the services of higher-added-value supporting them. In accordance with the new strategy, Teleste divested in November its extensive cable network field service operations in Germany to focus on higher-added-value services in the future. The services business of the Germany-based Cableway companies was classified as an asset held for sale pursuant to IFRS 5 ("Non-current assets held for sale and discontinued operations"), and Teleste reported the business as a discontinued operation in accordance with the standard. The business classified as an asset held for sale has not been reported under the figures of the Network Services business area as of the beginning of the first quarter. Teleste will continue its higher-added-value services business in England, Switzerland, Finland, Poland and Belgium.

The strategic priorities in 2021 include the development of the next-generation access architecture offering, the increase in the sales in the North American market as well as the growth of the public transport's and the authorities' video security and information solutions. The continuation of the pandemic causes uncertainty in forecasting the year 2021. However, we estimate that Teleste has good prospects for returning to the path of profitable growth.

The income statement figures presented in this report only include continuing operations, except where otherwise noted. The figures in the balance sheet and the cash flow statement include both continuing and discontinued operations.

NET SALES AND PROFITABILITY, CONTINUING OPERATIONS

Orders received by the Group decreased by 11.1% to EUR 148.8 (167.5) million. Orders decreased in both business areas. The order backlog increased by 5.3% compared to the end of the reference period and totalled EUR 77.1 (73.2) million at the end of the financial period. Net sales decreased by 12.3% to EUR 145.0 (165.3) million. Net sales decreased in both business areas.

Expenses for material and production services decreased by 13.6% to EUR 72.0 (83.3) million. Personnel expenses decreased by 1.9% to EUR 45.2 (46.0) million. Depreciation and amortisation increased by 7.3% to EUR 7.2 (6.7) million. Other operating expenses decreased by 39.7% to EUR 17.8 (29.5) million. Other operating expenses in the reference period included the assets lost due to a crime committed against a foreign subsidiary and a provision for expenses associated with the handling of the case, totalling EUR 6.9 million that have been eliminated from the adjusted operating result. Adjusted operating result decreased by 42.6% to EUR 5.1 (8.8) million, representing 3.5% (5.3%) of net sales. Adjusted operating result decreased due to lower net sales of the access network products in Video and Broadband Solutions business area and due to focus on higher-added-value services in Network Services business area. The operating result totalled EUR 4.5 (1.9) million, an increase of 138.9%.

Continuing operations net sales, M€

145.0

(2019; 165.3)

Continuing operations adjusted operating result, M€

5.1

(2019; 8.8)

Net financial expenses were EUR 0.8 (0.2) million. The Group's income taxes stood at EUR 0.9 (2.0) million, and the effective tax rate was 24.6% (119.8%). Earnings per share was 0.16 (-0.00) and earnings per share including discontinued operations amounted to EUR -0.43 (-0.07).

BUSINESS AREAS

Video and Broadband Solutions

Video and Broadband Solutions focuses on access network products as well as video security and information solutions. Its main customer base comprises cable operators, train manufacturers and public sector organisations, such as public transport operators and authorities. Customers may also include companies that integrate solutions into larger systems using Teleste's products for their end-to-end-deliveries. The business area's main market is Europe, but it also operates in North America and China. Teleste develops, designs and manufactures large part of its products. The company's product development units are located in Finland, Poland, Germany and Belgium. Teleste's in-house manufacturing is mainly carried out in Finland. The product portfolio also includes products developed by third parties that Teleste uses to complement its product range.

Video and Broadband Solutions has over 20 offices of its own and a number of retail and integration partners. Outside Europe, it has subsidiaries and offices in the United States and China.

Orders received decreased year-on-year by 10.8% to EUR 128.0 (143.5) million. Orders received decreased both in access network products and in video security and information solutions. The order backlog increased by 5.3% compared to the end of the reference period and totalled EUR 77.1 (73.2) million. Net sales decreased by 12.2% to EUR 124.1 (141.4) million. Net sales decreased in access network products. Orders received and net sales were affected by operators' expectations regarding the transition to distributed access architecture technology as well as the COVID-19 pandemic. Operating result decreased by 55.5% to EUR 3.6 (8.1) million, representing 2.9% (5.7%) of net sales. The decline in operating result was attributable to the decrease in net sales.

R&D expenses amounted to EUR 10.8 (13.5) million, representing 8.7% (9.5%) 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 3.9 (4.7) million. Depreciation on capitalised R&D expenses was EUR 3.4 (2.5) million.

Network Services, continuing operations

Network Services offers comprehensive services for access network design, construction and maintenance. Its customer base mainly consists of large European cable and telecommunications operators and network equipment manufacturers. The implementation and scope of services range from stand-alone solutions to integrated turnkey deliveries. Most deliveries are based on frame agreements. The services also include Teleste's own product solutions. Teleste's competence covers an extensive range of services from cable network design, installation and maintenance to technical operation of networks. Teleste also uses its network of subcontractors to provide services. The services business of the Germany-based Cableway companies was sold in November. Teleste will continue its higher-added-value services business in England, Switzerland, Finland, Poland and Belgium.

Orders received and net sales decreased by 13.2% to EUR 20.8 (24.0) million. Net sales declined due to the restrictions imposed in response to the COVID-19 pandemic and also in England, where the focus was on high-added-value design services and the scaling down of lower-margin project services. In Belgium, the decrease in net sales resulted from the discontinuation of the provision of loss-making field services. The restructuring costs associated with the operations in Belgium have been eliminated from adjusted operating result only at the Group level. Operating profit grew by 90.5% to EUR 1.5 (0.8) million. The growth of operating result in England and in Finland was attributable to the focus on higher-added-value design services and cost adjustments.

Discontinued operations

The result of the discontinued operations classified as an asset held for sale pursuant to IFRS 5 ("Non-current assets held for sale and discontinued operations") was EUR -10.8 (-1.3) million during January-December, including, besides the losses on operational activities, the estimated final losses on sales totalling EUR 6.1 million. The final purchase price depends on changes in the net working capital and net debt of the companies to be sold. The final purchase price is estimated to be confirmed during the first quarter of 2021. Teleste estimates that EUR 3.7 million of the preliminary net purchase price received at the closing date will be returned during the first quarter of 2021 as a result of the decrease in the net working capital and the debt to Teleste Group. The assets of the discontinued operations on the consolidated balance sheet amounted to EUR 0.0 million and the liabilities totalled EUR 0.0 million as of 31 December 2020. By divesting its Germany-based services business operations, Teleste seeks to safeguard its financial position and its ability to invest in technology and services business growth areas.

INVESTMENTS, INCLUDING DISCONTINUED OPERATIONS

Investments by the Group totalled EUR 6.6 (13.0) million, representing 4.5% (5.5%) of net sales. Of the investments, EUR 3.9 (4.7) million were related to product development. In accordance with the IFRS 16 standard, the value of the activated lease agreements decreased by EUR 3.1 million and the investments in tangible and intangible assets of the discontinued operations decreased by EUR 2.2 million. Product development projects were 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, INCLUDING DISCONTINUED OPERATIONS

Cash flow from operations was EUR 13.1 (4.1) million. The increase in the cash flow from operations was influenced by the growth of the operating result and the decrease in the net working capital. Cash flow from operations during the reference period was decreased by the non-recurring item of EUR 6.9 million.

Teleste Corporation has credit and loan facilities with a combined total value of EUR 56.0 million. 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 EUR 20.0 million credit facility will run until the end of August 2021 and includes a one-year extension option. The loan of EUR 6.0 million has a maturity of 4 years, and it will be repaid in fixed instalments in six-month intervals by August 2024. At the end of the period under review, the Group had unused binding credit facilities totaling EUR 21.5 (20.9) million.

On 31 December 2020, the Group's interest-bearing debt stood at EUR 31.0 (33.0) million. The Group's cash and cash equivalents were EUR 20.2 (8.2) million. The Group's equity ratio was 48.8% (49.5%) and net gearing ratio 17.0% (34.1%).

CORPORATE RESPONSIBILITY AND REPORTING OF NON-FINANCIAL INFORMATION

Corporate responsibility is a natural part of Teleste's operations and the product and service offering of its businesses. The products and services provided by Teleste promote safety, security, environmentally friendly and efficient public transport as well as energy-efficient digital communications solutions. The company's management has assessed the materiality of different aspects of corporate responsibility with respect to Teleste's stakeholders and business operations. The most significant aspects identified in the materiality assessment were the continuous development of Teleste's products and services, promoting eco-friendly digital development as well as the efficiency of operations.

Teleste participated in the ECOVADIS business sustainability rating framework in 2020 and was awarded a silver medal in recognition of the company's achievements in the area of corporate social responsibility. The rating evaluates organisations with respect to the strength of their policies, actions and results under four themes: the environment, labour and human rights, ethics and sustainable procurement. Teleste scored particularly well in the assessment of environmental matters.

A description of the company's business model is provided in the section on business areas.

Social and personnel-related matters

The Group's continuing operations employed an average of 856 (895) people during the review period. Of these, 650 (682) were employed by Video and Broadband Solutions and 206 (213) by Network Services. At the end of the review period, the Group employed 858 (867) people, of whom 47% (45%) worked abroad. Approximately 3% of the Group's employees were working outside Europe. The personnel expenses of the Group's continuing operations amounted to EUR 45.2 (46.0) million, down by 1.9% year-on-year. The change in personnel expenses was attributable to a decrease in the number of personnel, wage increases and capitalisation of R&D costs as well as the temporary layoffs that were implemented as from April due to the COVID-19 pandemic. As a result of changes taken place in the business environment, personnel were reduced in the manufacture of HFC products in Finland and due to the discontinuation of the field services in Belgium. The average number of personnel decreased by 4.3%. The number of personnel decreased in both Video and Broadband Solutions and Network Services.

Operating principles

Teleste supports pluralism and equality. Teleste employees represent various backgrounds, nationalities and cultures, but they share the same values: customer centricity, respect, reliability and result orientation. Value-based management principles were also launched in 2020, which support both the business success and positive employee experience.

Respect for all people is included in the basics of Teleste's social responsibility. Social responsibility means responsibility for customers, employees and partners. Social responsibility is addressed in ethical guidelines as well as through fair working conditions and practices. Non-discrimination, equality, good leadership, well-being at work and occupational safety are high priorities for Teleste. Respect for human rights is required of employees and partners alike. At Teleste, continuously developing employees together with the partner network constitute the foundation for ensuring high-quality products and services for a diverse customer base.

Teleste offers its employees challenging and varied tasks, the opportunity to develop their skills among the industry's best professionals, as well as an international work community. Well-being at work springs from meaningful tasks, a pleasant working environment and management as well as a good work-life balance.

Due to the COVID-19 pandemic and change in the demand for access network products brought about by technological transformation, Teleste launched co-determination negotiations during the period under review in order to adjust its operations. A few employment relationships were terminated and employees were temporarily laid off to work shortened hours.

The results of adherence to the operating principles

Teleste's competitiveness is largely based on motivated and skilled personnel. Ensuring excellent working conditions for the personnel is essential, which is why the focus of the company's HR functions is on ensuring smooth HR processes, leadership development and promoting a positive employee experience and expertise. Teleste supports carefully considered parties to realise its social responsibility.

Teleste offers summer trainee positions each year in production and in expert positions where possible. The company is committed to the principles of the Responsible Summer Job campaign. Teleste also offers young people opportunities to gain experience in working life through work practice programmes for students and by participating in a campaign that provides opportunities for familiarisation with working life while also earning money.

Continuing operations earnings per share, €

0.16
(2019; 0.00)

Continuing operations orders received, M€

148.8
(2019; 167.5)

R&D expenditure,
M€, % of Net Sales

10.8 M€
(2019; 13.5 M€)
7.4%
(2019; 5.7%)

Continuing operations average personnel

856
(2019; 895)

Teleste's online training system offers courses on topics such as Teleste's values, Code of Conduct, the environment and quality, and the courses are available to all of the company's employees. The quality of operations is measured by means of various feedback surveys, the quality management system as well as internal and external audits.

No incidents related to HR issues or social responsibility were reported at Teleste during the reporting period.

Risks

The key risks related to HR functions include ensuring the availability of professionally competent software developers and the retention of key employees as well as ensuring the competence of operations personnel. Teleste strives to minimise these risks by maintaining a positive employer image and modern recruitment practices as well as by ensuring the high-quality implementation of competence development. The operating guidelines governing the global HR functions are updated regularly and the company also monitors market practices and changes in legislation. To reduce risks related to social responsibility, Teleste ensures that its chosen partners operate responsibly and in accordance with Teleste's values and principles. Personnel risks caused by the COVID-19 pandemic are followed tightly. Risks are minimised by complying with the authorities' instructions and by giving refined guidelines for the personnel's working, presence and travelling. In addition, HR has together with the business units prepared contingency plans, the aim of which is to secure the personnel's safety and the continuance of business should the virus spread among Teleste's workplaces.

Key indicators

Teleste has Group-wide HR indicators to measure performance in areas such as well-being at work, sickness absences, costs, fluctuation and the number of measures that support the development of employee competence. Globally, the company has over 800 employees at more than 20 offices. In terms of the number of employees, the largest Teleste countries were Finland (55%) and Poland (17%) at the end of the financial period. The average age of the personnel was 43 years (41 in 2019). Men represented 68% (81%) of Teleste's personnel and women 32% (19%). Teleste hired 114 (118) new employees with indefinite contracts (FTE), the workplace accident frequency rate was 1.7 (3.8) accidents per one million working hours and the absence rate due to illness decreased to 1.5% (3.2%) despite the pandemic.

The company also conducts comprehensive measurements of employee satisfaction, workplace atmosphere and the quality of management by means of a myPulse personnel survey carried out in six-month intervals.

Environmental matters

Teleste is committed to protecting the environment. We support sustainable development as well as the reduction of resource consumption and environmental pollution. Teleste's most important environmental considerations related to its normal operations are energy consumed by the products, emissions from transport, generation of waste and energy consumption at the company's business premises. In exceptional situations, the most important environmental risk would be caused by a large fire as well as the resulting fire gases and the extinguishing waters.

Teleste's Management Group has specified environmental targets for the years 2019 to 2021 on the basis of the environmental policy, risk assessment and environmental considerations. The targets are related to emissions from air cargo, the life cycle power consumption of products and the energy consumption of the company's own operations. Teleste's Management Group regularly monitors the achievement of the environmental targets. As a result of the pandemic, environmentally favourable development has taken place in 2020 since business trips and commuting between home and work have decreased. The pandemic has also sped up the already-widespread use of teleworking and online meetings. The environmental policy was renewed in 2020, and principles were added to it with the help of which environmental matters can be taken into account in many jobs at a practical level.

Environmental targets and indicators

The company's environmental targets for 2019–2021 are listed below. The results achieved in 2020 are indicated in square brackets.

- include a power saving feature in 65 per cent of new network products installed outdoors (100%),
- reduce energy consumption in properties by 10 per cent compared with the 2018 level (-4%),
- reduce the carbon footprint from air cargo below the level of 2018 (-4%).

The new network products launched in 2019 and 2020 include a power saving feature that won the 2018 SCTE Adaptive Power Challenge award. The power saving feature can reduce the power consumption of the network device by as much as 20% compared to conventional devices.

Energy consumption by the Group consists of the consumption of electricity and heating energy. The year 2020 was warmer than the reference year, and district heating consumption significantly decreased, being 2.0 GWh. Electricity consumption also slightly decreased from the level of the reference year, being 4.0 GWh. The company aims to use energy generated using renewable energy sources whenever possible. For instance, 100% of the electricity purchased for the largest office and plant is generated using wind power and 70% of district heating is from renewable energy sources.

The carbon footprint of air cargo has decreased since 2018 by 4% and amounted to 201,000 kg in 2020. However, emissions increased compared to the previous year because, due to the COVID-19 pandemic, the use of air cargo in transport had to be increased to secure delivery capacity.

Recycling and reuse in 2020

The total amount of waste generated by the Group declined by 14% from the previous year amounting to 130 tonnes. The decrease was mostly attributable to the lower production volume. The amount of recycled material decreased, while the quantity of waste directed to energy production slightly increased. The waste recycling rate decreased from 57% to 53%. The amount of waste taken to disposal sites decreased by 66% and amounted to 1 tonne.

Impact on climate change and the effect of climate change on the company's operations

In Teleste's operations, the life cycle energy consumption of products, the company's own energy consumption and the emissions arising from transport have an impact on climate change.

At the same time, Teleste offers solutions that help mitigate climate change. Examples include more energy-efficient network devices and the development of broadband network technology solutions that provide better opportunities for teleworking and online meetings. Similarly, information solutions that make public transport more efficient and useful help motivate people to switch from private cars to public transport, especially in cities and growth centres. Teleste has studied the effects of climate change on the company's operations and found that natural disasters and widespread epidemics pose a risk to the availability of components. The risk assessment of key suppliers includes the impact of climate change.

Prevention of corruption and bribery and respecting human rights

Operating principles

Teleste's Code of Conduct represents a commitment to honest, transparent and reliable business as well as compliance with all applicable national and international laws and regulations. Teleste is also committed to observing laws, regulations and standards pertaining to bribery, corruption, money laundering and the financing of illegal activities as well as respecting and observing internationally recognised human rights, such as the Universal Declaration of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work. Teleste updated its Code of Conduct in 2019.

Everyone at Teleste must observe the company's Code of Conduct and its principles in their work. To this end, the Code of Conduct has been published in six different languages to ensure that it is easy to read and understand by all of the company's employees. Teleste introduced an online course on the updated Code of Conduct immediately after its publication. Completing the course is mandatory for all Teleste employees and the company actively monitors the relevant statistics. The Code of Conduct is communicated to new employees when they join the company.

Teleste also has a Supplier Code of Conduct based on the same values and principles. Teleste aims to have all of the company's suppliers sign the Supplier Code of Conduct to formalise their commitment to the same anti-corruption and bribery principles and human rights principle that Teleste observes in its operations. In any case, the company requires that all suppliers observe the internationally recognised principles pertaining to corruption, bribery and human rights. Where necessary, Teleste also audits its suppliers with regard to these issues. Any suspected or observed violations of these principles by suppliers are treated very seriously by Teleste and they result in a critical assessment of whether the business relationship can continue.

Teleste has renewed the company's internal policies and guidelines. A new policy concerning corruption and bribery as well as a new human rights policy were approved and published in 2020. The goal is to communicate anti-corruption measures more clearly to all Teleste employees and emphasise that the company does not condone corruption in any form. Similarly, the human rights policy is aimed at engaging the commitment of all Teleste employees to respecting human rights. The new policies will be implemented in all of Teleste's countries of operation and in all Teleste companies during 2021.

The results of adherence to the operating principles

Teleste was not informed of any incidents of corruption during the reporting period. Teleste has no pending legal processes or processes with the authorities pertaining to human rights, corruption or bribery. Teleste has a whistleblowing channel for Teleste employees and third parties to anonymously report suspected violations related to human rights, corruption, bribery and other aspects of the Code of Conduct, Supplier Code of Conduct or other Teleste policies. No incidents were reported via the whistleblowing channel during the reporting year.

Risks

The most significant human rights risk is related to the suppliers used by Teleste. As a technology company that operates in the global market, Teleste sources components, among other things, globally. As a result, the most significant human rights risks are related to forced labour, the freedom to organise and occupational safety issues. The continuous and active monitoring of the supplier network is challenging due to its vast size and global nature. Nevertheless, Teleste strives to prevent the previously mentioned risks by mainly using well-known suppliers, by regularly auditing suppliers and by requiring that suppliers observe international human rights principles by committing to the principles outlined in Teleste's Supplier Code of Conduct, for example.

Teleste has not identified particular risks related to corruption and bribery in its normal risk management processes. Risks are managed with the help of contractual obligations, guidelines concerning corruption and bribery and internal trainings. Teleste has confirmed its principles and approach concerning corruption and bribery in its Code of Conduct and in its policy concerning corruption and bribery. Teleste will provide targeted training relating to the matter to its employees during 2021.

GROUP STRUCTURE

The parent company has a branch office in the Netherlands and subsidiaries in 14 countries outside Finland. In November 2020, Teleste Corporation sold its subsidiary, Teleste Services GmbH, and the four Cableway companies owned by it that were engaged in services business in Germany.

KEY RISKS FACED BY THE BUSINESS AREAS

As to Video and Broadband Solutions, client-specific and integrated deliveries of solutions create favourable conditions for growth, even if the resource allocation involved and technical implementation pose a challenge and therefore also involve reasonable risks. Operator customers' network investments vary according to the development of technology, customers' need to upgrade networks 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, involve 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 success. Product development contains calculated risks and should they materialise, the value of the product development investments can decrease. Various technologies are used in the 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 and global disruptions, such as a pandemic, or accidents, such as a fire or a flood, 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 different countries and changes or restrictions on exports or imports may have a negative effect on component supply chains and the profitability of products. Expanding business operations to new markets is demanding. The Group's investments in growth in the North American market will not necessarily lead to the desired results. Many competitors in the business area come from the United States, which is why the exchange rate of the euro against the US dollar has an effect on competitiveness. In particular, the development of the exchange rates of the US dollar and the Chinese renminbi against the euro influences product costs and result. The company hedges against short-term currency exposure by means of forward exchange contracts and currency options.

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 large projects with overall responsibility, tender calculation and project management are complex tasks that involve risks. Severe weather conditions may affect ability to deliver services.

Teleste's strategy involves risks and uncertainties, such as that new business opportunities may fail to be identified or successfully utilised. 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 in access networks, 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 customers. The maintenance of information systems and deployment of new systems involve risks that may affect 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 COVID-19 pandemic presents risks to Teleste's supply chain, the company's own operating capacity, the operating capacity of customers and the demand for Teleste's products and services. Thus far, in response to the restrictive measures imposed by the authorities in various countries due to the COVID-19 pandemic, operators have reduced or suspended their broadband network construction, while certain customers in passenger information solutions have been forced to close down their factories and delay projects. The effects of the pandemic on Teleste's supply chain and component availability have been limited. Our personnel and our in-house production activities have mainly remained operational. The company initiated measures in the first quarter of 2020 to safeguard its liquidity and financial position. The COVID-19 pandemic had a negative impact on net sales and operating result as from the second quarter of 2020. If the stricter restrictions on movement in society imposed by the authorities in various countries continue to remain in effect, we expect that the negative impact on Teleste's net sales and operating result are significant.

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 and the Board of Directors on a regular basis.

In the period under review, no such legal proceedings or judicial procedures were pending that would have had any essential significance for the Group's operation.

DECISIONS BY THE ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) of Teleste Corporation held on 22 April 2020 adopted the financial statements and consolidated financial statements for 2019 and discharged the members of the Board of Directors and the CEO from liability for the financial period 2019. The AGM resolved to authorise the Board of Directors to resolve, at its discretion, on the distribution of a maximum of EUR 0.10 per share as dividend from the retained earnings and/or as repayment of capital from the fund for invested unrestricted equity in one or more instalments. The authorisation is valid until the opening of the next AGM. The company will announce each Board resolution on the distribution of funds separately and confirm the relevant record and payment dates in such announcements. On 23 November 2020, Teleste Corporation's Board of Directors decided to distribute dividend of EUR 0.10 per share based on the authorisation given by the 2020 AGM. The dividend was paid out on 3 December 2020.

The AGM decided that the Board of Directors shall consist of six members. The annual remuneration to be paid to the members of the Board of Directors were resolved on 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 shall be EUR 49,000 per year. Of the annual remuneration to be paid to the Board members, 40% of the total gross remuneration amount will be used to purchase Teleste Corporation's shares for the Board members through trading on a regulated market organised by Nasdaq Helsinki Ltd and the rest will be paid in cash. In addition, EUR 400 per meeting shall be paid to the members of the Board of Directors' Audit Committee as a meeting fee. However, a separate meeting fee shall not be paid to the chairman of the Audit Committee.

Jussi Himanen, Vesa Korpimies, Mirel Leino, Timo Luukkainen, Heikki Mäkijärvi and Kai Telanne were elected as members of Teleste Corporation's Board of Directors.

In its organisational meeting held after the AGM on 22 April 2020, the Board of Directors elected Timo Luukkainen as its Chairman. Mirel Leino was elected Chair of the Audit Committee, with Jussi Himanen and Vesa Korpimies 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 audit firm appointed Petri Kettunen, APA, as the auditor in charge.

The AGM 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 regulated market organised by Nasdaq Helsinki Ltd at the market price of the time of the purchase.

The AGM 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.

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.

The AGM resolved, in accordance with the proposal of the Board of Directors, to establish a shareholders' nomination board that prepares matters concerning the nomination and remuneration of the Board of Directors. Further, the AGM adopted the charter of the nomination board according to the proposal of the Board of Directors. The AGM also approved the proposal by the Board of Directors for the remuneration policy of the governing bodies of the company.

SHARES AND CHANGES IN SHARE CAPITAL

On 31 December 2020, Tianta Oy was the largest single shareholder with a holding of 24.1% (23.2%).

In the period under review, the lowest price of the company's share was EUR 3.51 (5.04) and the highest price was EUR 5.78 (6.80). The closing price on 31 December 2020 stood at EUR 4.49 (5.34). According to Euroclear Finland Ltd, the number of shareholders at the end of the period under review was 5,863 (5,515). Foreign and nominee-registered holdings accounted for 2.9% (6.1%) of the holdings. The value of Teleste's shares traded on Nasdaq Helsinki from 1 January to 31 December 2020 was EUR 13.8 (9.2) million. In the period under review, 3.1 (1.6) million Teleste shares were traded on the stock exchange. Teleste's share is quoted in the technology section of Nasdaq Helsinki.

On 22 April 2020, Teleste Corporation's Board of Directors decided on a directed share issue without consideration, relating to the reward payment for the performance period 2017-2019 of Teleste Group's share-based incentive plan 2015. In the share issue, 22,402 Teleste Corporation shares held by the company were conveyed without consideration to the key employees participating in the share-based incentive plan in accordance with the terms and conditions of the plan. On 31 December 2020, the Group held 776,419 (798,821) 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 4.1% (4.2%).

On 31 December 2020, 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 21 October 2021.

OWNERSHIP BY MANAGEMENT AND MEMBERS OF THE GOVERNING BODIES ON 31 DECEMBER 2020

On the balance sheet date, the CEO and Members of the Board owned 187,038 (182,853) Teleste Corporation shares equal to 0.99% (0.96%) of all shares and votes. The CEO and the Board members did not have subscription rights based on stock options. On the balance sheet date, the members of the Management Group other than the CEO or entities under their control owned 59,486 (52,948) Teleste Corporation shares equal to 0.31% (0.28%) of all shares and votes.

Teleste Corporation complies with the Finnish Securities Market Act and the Finnish Corporate Governance Code. The Corporate Governance Statement is issued separately from the Report of the Board of Directors, and it is available in full on the company's website under Investors. Since 1 March 2000, Teleste complies with the insider guidelines of the Stock Exchange in their valid form at any given time.

OPERATING ENVIRONMENT IN 2021

Teleste's goal is to maintain its strong market position in Europe and to strengthen the market position in North America.

The demand for broadband services by data communications operators continues to grow. Household broadband traffic has grown at an annual rate of 30-40% in recent years. Broadband traffic has increased sharply during the COVID-19 pandemic due to the growth of teleworking and online education and the higher consumption of streaming services. It is possible that part of the growth created by the pandemic will remain a permanent phenomenon, which could accelerate network investments when the restrictions imposed due to the pandemic are lifted. 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 during the past few years. Investments in the expansion of the traditional HFC network infrastructure frequency range continue, but with a lower volume than in the past few years. Operators are already planning investment in next-generation distributed access architecture network solutions as set out in the DOCSIS 4.0 standard. The vision is to offer up to 10 Gbps connections to households. 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. Operators' investments in distributed access architecture have been delayed compared with previous schedule estimates and the COVID-19 pandemic will cause further delays, with field testing by operators having to be postponed. We estimate that operators' distributed access architecture deployment projects will commence at the end of 2021. The R&D projects of 1.8 GHz access network products set out in the DOCSIS 4.0 standard have been launched. By estimation, the deployment projects of these products will start in volumes in 2023. The 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 a significant risk. We estimate that the net sales of the access network products and services in 2021 will reach or exceed the level of the reference year. However, this estimate involves uncertainty caused by the pandemic and the timing of the technological transformation.

Growing urban environments and their safety, the increase of public transport services and the increasing popularity of smart digital systems for a smoother life provide a foundation for growing business in the coming years. Public transport operators and other authorities must ensure smooth operation of services and infrastructure as well as the safety of people. Public transport information systems are continuously developing to be increasingly smart and real-time. The intelligence of video security solutions increases and 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. We estimate that the market growth of public transport information systems has decreased in 2020 by the reduction in the use of public transport caused by the COVID-19 pandemic as well as delays in investments and projects. However, the market is expected to return to growth at the end of 2021 provided that the prolongation of the pandemic does not lead to a new negative movement in the market. Ensuring competitiveness requires Teleste to continuously make R&D investments in new intelligent solutions. The improvement in project management and operational efficiency in business are also necessary. Teleste increased its market share in video security and information solutions during 2020. We estimate that the net sales in 2021 will reach or exceed the level of the reference year. However, this estimate involves uncertainty caused by the pandemic and the timing of the projects.

OUTLOOK FOR 2021

Teleste estimates that the net sales of the continuing operations in 2021 will reach or exceed the level of 2020 and that the adjusted operating result will exceed the adjusted operating result of 2020. The net sales of the continuing operations in 2020 were EUR 145.0 million, and the adjusted operating result was EUR 5.1 million.

However, the COVID-19 pandemic continues to cause uncertainty among Teleste's customers and in the company's own operations in the 2021 financial period.

Proposal for the distribution of earnings

Teleste Corporation's distributable equity on the date of the financial statements amounted to EUR 18,510,381.97.

The Board of Directors proposes to the Annual General Meeting of 7 April 2021 that a dividend of EUR 0.12 per share be paid to outstanding shares for the year 2020.

Consolidated financial statements

Statement of Comprehensive Income

1,000 €	Note	1.1.–31.12.2020	Restated 1.1.–31.12.2019	Change, %
Continued operations				
Net sales		144,983	165,348	-12.3
Other operating income	1	1,783	2,210	-19.3
Material and services		-72,039	-83,340	-13.6
Employee benefits expense	2	-45,156	-46,049	-1.9
Depreciation and amortisation	3	-7,241	-6,747	7.3
Other operating expenses	4	-17,814	-29,532	-39.7
Operating profit		**4,516**	**1,890**	**138.9**
Financial income	5	836	1,036	-19.4
Financial expenses	5	-1,670	-1,268	31.7
Profit before taxes		**3,681**	**1,658**	**122.0**
Income tax expense	6	-905	-1,987	-54.5
Profit of continued operations		**2,777**	**-328**	
Discontinued operations	7			
Result from discontinued operations		**-10,812**	**-1,324**	
Profit for the financial period		**-8,035**	**-1,653**	
Profit attributable to:	8			
Equity holders of the parent		-7 827	-1,327	
Non-controlling interests		-209	-327	
		-8,035	-1,653	
Earnings per share for profit of the year attributable to the equity holders of the parent				
Basic (expressed in € per share)		-0.43	-0.07	
Diluted (expressed in € per share)		-0.43	-0.07	
Earnings per share for profit of the year from continued operations, attributable to the equity holders of the parent				
Basic (expressed in € per share)		0.16	0.00	
Diluted (expressed in € per share)		0.16	0.00	
Earnings per share for profit of the year from discontinued operations, attributable to the equity holders of the parent				
Basic (expressed in € per share)		-0.59	-0.07	
Diluted (expressed in € per share)		-0.59	-0.07	
Total comprehensive income for the period (tEUR)				
Net profit		-8,035	-1,653	
Items that may be reclassified to profit or loss:				
Translation differences		-606	299	
Fair value reserve		62	19	
Total comprehensive income for the period		-8,579	-1,335	
Total comprehensive income attributable to:				
Owners of the parent company		-8,344	-1,019	
Non-controlling interests		-235	-316	
		-8,579	-1,335	

Statement of financial position

1,000 €	Note	31.12.2020	31.12.2019	Change, %
Assets				
Non-current assets				
Intangible assets	9	12,816	12,907	-0.7
Goodwill	9	30,502	30,668	-0.5
Property, plant and equipment	10	9,052	17,038	-46.9
Available-for-sale investments	11	698	645	8.2
Deferred tax assets	12	2,203	1,924	14.5
		55,270	63,182	-12.5
Current assets				
Inventories	13	28,225	37,409	-24.5
Trade and other receivables	14	28,867	40,112	-28.0
Tax receivables	20	428	683	-37.3
Cash and cash equivalents	15	20,224	8,249	145.2
		77,745	86,452	-10.1
Assets reported in discontinued operations		0	0	
Total Assets		**133,015**	**149,634**	**-11.1**
Equity and Liabilities				
Equity attributable to equity holders of the parent				
Share capital	16	6,967	6,967	0.0
Share premium	16	1,504	1,504	0.0
Translation differences		-1,557	-1,594	-2.3
Fair value reserve and other reserves		3,140	3,079	2.0
Retained earnings		52,715	62,618	-15.8
Owners of the parent company		**62,770**	**72,573**	**-13.5**
Non-controlling interests		**320**	**206**	**55.3**
Equity total		**63,090**	**72,779**	**-13.3**
Non-current liabilities				
Interest-bearing liabilities	17	24,716	26,501	-6.7
Other liabilities	19	832	79	957.1
Deferred tax liabilities	12	1,518	1,603	-5.3
Provisions	18	119	93	27.5
		27,184	28,275	-3.9
Current liabilities				
Trade and other payables	19	33,893	39,238	-13.6
Current tax payable	20	880	1,283	-31.4
Provisions	18	1,711	1,528	12.0
Interest-bearing liabilities	17	6,256	6,531	-4.2
		42,741	48,579	-12.0
Liabilities reported in discontinued operations		0	0	
Total Liabilities		**69,925**	**76,855**	**-9.0**
Total Equity anf Liabilities		**133,015**	**149,634**	**-11.1**

Consolidated cash flow statement

1,000 €	Note	1.1.–31.12.2020	1.1.–31.12.2019
Cash flows from operating activities			
Result for the period		-8,035	-1,653
Adjustments for:			
Non-cash transactions	22	7,984	9,549
Gain on sale on discontinued operation, net of tax		6,028	0
Other non-cash items		510	532
Financial income and expenses		928	286
Dividend income		0	-4
Income tax expense		1,842	2,042
Changes in working capital and provisions			
Increase/decrease in trade and other receivables		7,882	10,388
Increase/decrease in inventories		-990	-4,576
Increase/decrease in trade and other payables		-1,078	-12,039
Increase/decrease in provisions		215	1,637
Paid interests and other financial expenses		-993	-1,416
Received interests and dividends		33	1,036
Paid taxes		-1,255	-1,725
Net cash from operating activities		**13,071**	**4,057**
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		0	-1,050
Purchases of tangible assets		-1,214	-3,849
Proceeds from sales of PPE		171	475
Purchases of intangible assets		-3,916	-4,900
Purchase of investments		-77	-77
Proceed from sales of investmens		6,276	0
Net cash used in investing activities		**1,239**	**-9,401**
Cash flow from financing activities			
Proceeds from borrowings		6,466	0
Payments of borrowings		-3,569	-489
Payment of finance lease liabilities		-3,794	-4,499
Dividends paid		-1,685	-3,630
Capital investment by non-controlling interests		349	0
Net cash used in financing activities		**-2,232**	**-8,618**
Change in cash			
Cash and cash equivalents 1.1.		8,249	22,240
Effect of currency changes		-103	-28
Cash and cash equivalents 31.12.		**20,225**	**8,249**

Consolidated statement of changes in equity

	Attributable to equity holders of the parent								
1,000 €	Share capital	Share premium	Translation differences	Retained earnings	Invested non-restricted equity	Other reserves	Total	Non controlling interest	Total equity
At 1 January 2019	6,967	1,504	-1,570	66,691	3,140	-92	76,641	522	**77,163**
New standards & other changes				49			49		49
Comprehensive income			0	-1,327		19	-1,308	-327	-1,634
Translation differences			-25	302		11	288	10	298
Total comprehensive income	**0**	**0**	**-25**	**-1,025**		**30**	**-1,019**	**-317**	**-1,335**
Dividends				-3,628			-3,628	0	-3,628
Excercised share options				529	0		529	0	529
	0	0	0	-3,099	0		-3,099	0	-3,099
At 31 December 2019	**6,967**	**1,504**	**-1,595**	**62,618**	**3,140**	**-62**	**72,574**	**206**	**72,779**
Comprehensive income			0	-7,827		62	-7,765	-209	-7,973
Translation differences			37	-624		0	-587	-27	-614
Total comprehensive income	**0**	**0**	**37**	**-8,451**		**62**	**-8,352**	**-235**	**-8,588**
Dividends				-1,821			-1,821	0	-1,821
Excercised share options		,		370	0		370	0	370
Capital investment by non-controlling interests								349	
	0	0	0	-1,451	0	0	-1,451	349	-1,101
At 31 December 2020	**6,967**	**1,504**	**-1,558**	**52,716**	**3,140**	**0**	**62,770**	**319**	**63,090**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING PRINCIPLES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

COMPANY PROFILE

Teleste Corporation (the"Company") is a Finnish public limited liability company organised under the laws of Finland and domiciled in Turku in Finland. Its registered address is Telestenkatu 1, 20660 Littoinen.

Founded in 1954 Teleste is a technology company running its two business units Video and Broadband Solutions and Network Services; in both fields, we are among the global leaders. Video is at the core of our business activities, with a focus on the processing, transmission and management of video and data for operators and public authorities who provide multiple video-related information, entertainment and security services to end-users. Video and Broadband Solutions business segment has the emphasis on product solutions for broadband access networks, video service platforms and video surveillance applications. Network Services segment deliver comprehensive network service solutions including new construction, rebuilding, upgrading, planning and maintenance services of cable networks. The parent company of Teleste Group, Teleste Corporation, has operations in China, Denmark, the Netherlands and a subsidiary in fourteen countries outside Finland. Teleste Corporation has been listed on the Helsinki Stock Exchange since 1999. A copy of the consolidated financial statements can be obtained either from Teleste's website www.teleste.com or from the parent company's head office, the address of which is mentioned above.

STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) in force as at 31 December 2020. International financial reporting standards, referred to in the Finnish Accounting Act and in ordinances issued based on the provisions of this Act, refer to the standards and their interpretations adopted in accordance with the procedure laid down in regulation (EC) No 1606/2002 of the EU. The notes to the consolidated financial statements also include additional information in accordance with the Finnish accounting and company legislation.

The Group has applied as from 1 January 2020 the following new and amended standards that have come into effect. These had no significant impact on the consolidated financial statements for the financial year 2020.

- **Amendments to References to Conceptual Framework in IFRS Standards** (effective for financial years beginning on or after 1 January 2020). The revised Framework codifies IASB's thinking adopted in recent standards. The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs.
- **Definition of a Business – Amendments to IFRS 3 Business Combinations** (effective for financial years beginning on or after 1 January 2020). The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set is a group of assets rather than a business.
- **Definition of Material – Amendments to IAS 1 Presentation of Financial Instruments and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors** (effective for financial years beginning on or after 1 January 2020).
- The amendments clarify the definition of material and include guidance to help improve consistency in the application of that concept across all IFRS Standards. In addition, the explanations accompanying the definition have been improved.
- **Interest Rate Benchmark Reform – Phase 1 – Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures** (effective for financial years beginning on or after 1 January 2020).
  Amendments have been issued to address uncertainties related to the reform of interbank offered rates (IBOR). The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform.
- **COVID-19-Related Rent Concessions – Amendment to IFRS 16 Leases** (effective for financial years beginning on or after 1 June 2020).
  The amendment allows the lessees not to account for rent concessions as lease modifications if the concessions are a direct consequence of the COVID-19 pandemic and only if certain conditions are met.

BASIS OF PREPARATION

The consolidated financial statements are presented in thousands of euro (TEUR) and have been prepared under the historical cost convention, unless otherwise stated in the accounting principles.

USE OF ESTIMATES

The preparation of financial statements in conformity with IFRSs requires management to make estimates and assumptions that affect the contents of the financial statements as well as use judgement when applying accounting principles. The estimates and assumptions are based on the management's current best knowledge reflecting historical experience and other reasonable assumptions. Actual results may differ from these estimates. Accounting estimates mainly relate to goodwill, obsolete inventories, credit losses and warranty provisions. The chapter "Accounting policies requiring management's judgement and key sources of estimation uncertainty" discusses judgements made by management and those financial statement items on which judgements have a significant effect.

SUBSIDIARIES

The consolidated financial statements include the accounts of the parent company Teleste Corporation and all those subsidiaries in which it holds, directly or indirectly, over 50 per cent of the voting rights or in which it otherwise has control. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The companies acquired during the financial periods presented have been consolidated from the date of acquisition, when control commenced. The companies disposed during a financial period are included in the consolidated financial statements up to the date of disposal.

ASSOCIATES

Associates included in the consolidated financial statements are those entities in which Teleste Group holds voting rights over 20 per cent or in which it otherwise has significant influence, but not control, over the financial and operating policies. Holdings in associates are accounted for using the equity method from the date that significant influence commences until the date that significant influence ceases. The Group's proportionate share of associates' net income for the financial year is presented as a separate line item in the consolidated income statement. The unrealised profits between the Group and associates are eliminated in proportion to share ownership. The carrying amount of an investment in an associate includes the carrying amount of goodwill resulted from its acquisition. When Teleste's share in an associate's losses exceeds its interest in the associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate or made payments on behalf of the associate. At the end of the reporting period the Group had no investments in associates.

JOINT VENTURES

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's proportionate share of the joint ventures' assets, liabilities, revenue and expenses on a line by line basis, from the date that joint control commences until the date that joint control ceases. At the end of the reporting period the Group had a joint venture with the US company Antronix to promote sales of the companies' broadband network products for North-American cable operators. The new company operates under the name Teleste Intercept LLC and operation started in 2017.

PRINCIPLES OF CONSOLIDATION

Acquisitions of companies are accounted for by using the purchase method. All intercompany income and expenses, receivables, liabilities and unrealised profits arising from intercompany transactions, as well as distribution of profits within the Group are eliminated as part of the consolidation process. The allocation of the profit for the period attributable to equity holders of the parent company and non-controlling interest is presented on the face of the income statement and the non-controlling interest is also disclosed in the statement of comprehensive income. Non-controlling interests are disclosed separately under consolidated total equity.

FINANCIAL STATEMENTS OF FOREIGN SUBSIDIARIES

The functional currency of the parent company is euro and the consolidated financial statements are presented in euro. The functional currency is the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity. In preparing the consolidated financial statements income statements and cash flows of those foreign subsidiaries whose functional and presentation currency are not the euro, are translated into euro at the average exchange rate during the financial period. Their balance sheets are translated at the closing rate at the balance sheet date.

All translation differences arising from consolidation of foreign shareholdings are recognised as a separate item in the comprehensive income. If an interest in a foreign entity is disposed of all, or part of, that entity, related cumulative translation differences deferred in equity are recognised in the income statement as part of the gain or loss on sale.

FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated at the rates of exchange prevailing on the dates of the transactions. At the end of the accounting period, foreign currency monetary balances are translated at the closing rate at the balance sheet date. Non-monetary items stated at fair value in a foreign currency are translated at foreign exchange rates ruling at the dates the fair value was determined. Other non-monetary items are translated using the exchange rate at the date of the transaction. Gains and losses resulting from transactions in foreign currencies and translation of monetary items are recognised in the income statement. Foreign exchange gains and losses on trade receivables and payables are adjusted to revenues and operating expenses, respectively. Other foreign exchange gains and losses are presented as financial income and expenses.

PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are stated at historical cost less cumulative depreciation and any impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Interest costs which are directly attributable to the acquisition, construction or manufacturing of an asset that meets the determined criteria, in which case they are capitalized as part of the cost of that asset. Ordinary maintenance, repairs and renewals are expensed during the financial period in which they are incurred. In Teleste there are no such significant inspection or maintenance costs that should be capitalised. The Group recognises in the carrying amount of an item of property, plant and equipment the subsequent costs when that cost is incurred if it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group and the cost of the item can be measured reliably. Such renewals and repairs are depreciated on a systematic basis over the remaining useful life of the related asset. Gains and losses on sales and disposals are calculated as a difference between the received proceeds and the carrying amount and are included in other operating income and expenses, respectively.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Expected useful lives and residual values of non-current assets are reassessed at each balance sheet date and where they differ from previous estimates, depreciation periods are changed accordingly. The estimated useful lives are as follows:

- Buildings 25–33 years
- Machinery and equipment 3–5 years
- Computers 0–3 years
- Software 3 years
- Land is not depreciated.

LEASES

Teleste has applied IFRS 16 Leases from 1 January 2019.

Group as lessee

Assets leased by Teleste that are not subject to exception available of IFRS 16 are recognized in the balance sheet at the inception of the lease as a non-current asset and a lease liability. The property, plant and equipment is amortized over the lease term and any impairment losses are recognized. Lease liabilities are included in the Group's current and non-current financial liabilities. Lease costs arising from leases are divided into interest expense and lease repayment. Interest expense is recognized in the income statement over the term of the agreement so that the same amount of interest is accrued on the outstanding debt for each financial year. Repayment of a lease liability is recognized in the cash flow statement in the cash flow from financing activities.

Teleste applies the exception available allowed by the standard for short-term leases and leases of low value assets. Teleste leases have a fixed interest rate and typically do not have option rights.

GROUP AS LESSOR

Those leases under which Teleste is a lessor are classified as operating leases. Leased assets are presented in the lessor's balance sheet under property, plant and equipment according to the nature of the asset. They are depreciated over their estimated useful lives in accordance with the depreciation policy used for comparable assets in own use. Lease income is recognised in the income statement on a straight-line basis over the lease term.

INTANGIBLE ASSETS

An intangible asset is recognised only when it is probable that future economic benefits that are attributable to the asset will flow to the Group and if the cost of the asset can be measured reliably. All other expenditure is expensed as incurred.

Goodwill

Goodwill represents the Group's share of difference between the cost of the acquisition and the fair value measured at the acquisition date of the net identifiable assets, liabilities and contingent liabilities acquired. The difference is first allocated, where applicable, to the underlying assets. The rest of the excess is presented as goodwill as a separate item in the consolidated balance sheet. Goodwill has been allocated to segments and in respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate. Goodwill is stated at cost less any cumulative impairment losses. Goodwill (together with other intangible assets with indefinite lives) is not amortised but is tested annually for impairment.

Research and development costs

Research and development costs are expensed as they are incurred, except for certain development costs, which are capitalised when certain criteria are met. Significant future product platforms for which the potential demand and future cash flows can be estimated with sufficient degree of accuracy have been capitalised as intangible assets. Amortisation of such capitalised development projects is commenced after the completion of the subprojects related to the product platform concerned. They are amortised on a systematic basis over their expected useful life, which is three years.

Other intangible assets

Other intangible assets of the Group mainly consist of connection fees and these are not amortised.

Those intangible assets which have estimated useful lives are depreciated on a straight-line basis over their known or estimated useful lives.

The estimated useful lives are as follows:

- Customer relationships 2–4 years
- Trademarks 5–10 years
- Technology 3–5 years

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

A non-current asset (or disposal group) is classified as held for sale when its carrying amount will be recovered principally through a sale transaction rather than through continuing use. It is measured at the lower of carrying amount and fair value less costs to sell. Such assets and associated liabilities are presented separately in the balance sheet. Assets held for sale are not depreciated (or amortised) after the classification as held for sale.

A discontinued operation is a component of the Group's business that represents a separate major line of business or a geographical area of operations or is a subsidiary acquired exclusively with a view to resale. The result of discontinued operations is presented separately on the face of the consolidated income statement. The german Networks Service business has been claddified as discontinued operations. Therefore some comparatives for previous year has been restated.

IMPAIRMENT

The carrying amounts of assets are assessed for potential impairment at each balance sheet date and whenever there is any indication that an asset may be impaired. For the purposes of assessing impairment, assets are grouped at the cash generating unit level, which is the lowest level for which there are separately identifiable, mainly independent, cash inflows and outflows. Goodwill, unfinished intangible assets and intangible assets with indefinite useful lives, if any, are in all cases tested annually. All goodwill items of the Group have been allocated to segments. If there is an indication of an impairment, the Group estimates the recoverable amount of the asset or cash generating unit. When the recoverable amount of the asset or cash generating unit is lower than the carrying amount, the difference is immediately recognised as an impairment loss in the income statement. If the impairment loss is to be allocated for a cash-generating unit, it is allocated first by writing down any goodwill and then on pro rata basis to other assets of the unit.

The recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell or value in use. Teleste has applied value in use in its calculations in which case the estimated future net cash flows expected to be derived from the asset or cash generating unit are discounted to their present value. Expenditures to improve assets' performance, investments or future restructurings are excluded from the cash flow estimates.

An impairment loss relating to property, plant and equipment and other intangible assets excluding goodwill is reversed if there is an indication that the impairment loss may no longer exist and there has been a positive change in the estimates used to determine the recoverable amount of an asset or cash generating unit. An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. However, an impairment loss in respect of goodwill is never reversed.

INVENTORIES

Inventories are stated at the lower of cost or net realisable value. Cost is assigned by using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. The cost of inventories comprises all direct costs incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

FINANCIAL ASSETS AND LIABILITIES

Financial assets

Financial assets are classified according to the assets and the assets' contractual cash flow characteristics as follows:

- assets measured at amortised cost
- assets measured at fair value through other comprehensive income and
- assets measured at fair value through income statement.

The classification is made on the basis of the objective of the contractual cash flows of the investment or by applying the fair value option at the time of the original acquisition.

Purchases and sales of financial assets are recognised on the transaction date, which is the date on which the Group commits to purchasing or selling the financial instrument. At initial recognition, the Group measures financial assets at fair value. If the asset is not an asset measured at fair value through income statement, transaction costs caused directly by the asset are added to or deducted from the asset. Transaction costs are included in the original carrying amount of financial assets in the case of items not measured at fair value through income statement. Financial assets measured at fair value through income statement are recognised on the balance sheet at initial recognition, and transaction costs are recognised through income statement.

Financial assets measured at amortised cost

Financial assets measured at amortised cost include financial assets that according to the business model are to be held until maturity in order to collect contractual cash flows. The cash flows of these items consist fully of equity and interest related to the remaining equity. The Group did not have financial assets measured at amortised cost.

After initial measurement, the value of these financial assets is measured at amortised cost using the effective interest rate method less any impairment. The Group recognises the loss allowance on expected credit loss for an asset measured at amortised cost. Expected credit losses are presented under the income statement item impairment of financial assets. Losses due to impairment are taken to the income statement.

The Group's financial assets measured at amortised cost include trade receivables and other receivables that are non-derivative financial assets. The carrying amount of current trade and other receivables is considered to equal their fair value. Trade and other receivables are presented on the balance sheet as current assets if they are expected to be realised within 12 months of the end of the reporting period.

The so-called simplified approach according to IFRS 9 is used for expected credit loss related to **trade receivables**. In the simplified approach, the recognised amount of credit losses covers all the credit losses expected during the validity period. In the simplified approach, credit losses are determined using a provision matrix and recognised as the amount corresponding to the expected credit losses over the entire validity period. Expected credit losses are evaluated on the basis of history data on previous credit losses. The model also takes into account any information on future financial conditions available at present.

In addition, the Group recognises an impairment on receivables if there is objective evicence of a customer's financial difficulties.

In the consolidated financial statement previous periods, no expected credit losses were recognised, as taking into account the Group's history, realised credit losses from sales were vbn ery small.

Financial assets measured at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income include financial assets that according to the business model are to be held to collect and sell contractual cash flows. In addition, cash flows of financial assets consist fully of equity and the payment of interest on remaining equity. The Group's financial assets measured at fair value through other comprehensive income consist of investments in non listed shares.

Profit or loss on items measured at fair value through other comprehensive income is recognised in other comprehensive income excluding impairment gain and losses as well as exchange rate gains and losses, until the financial asset item is derecognised from the balance sheet or its classification is changed.

The Group recognises the loss allowance on expected credit loss for an asset measured at fair value through other comprehensive income. The loss allowance is recognised in other comprehensive income and it does not reduce the carrying amount of the financial asset item on the balance sheet. Expected credit losses are presented under the income statement item impairment of financial assets.

Financial assets measured at fair value through profit or loss

The category of financial assets recognised at fair value through profit or loss includes financial assets acquired to be held for trading or designated as such at initial recognition. Financial assets held for trading purposes have mainly been acquired to obtain a gain in the short or long term, and they are shown in non-current or current financial assets. The Group's financial assets measured at fair value through profit or loss consist of shares and derivatives where hedge accounting is not applied.

Gains and losses arising from a change in fair value, realised or unrealised, are recognised through profit or loss. If investments do not have quoted prices, the Group applies different methods of valuation to them. Unquoted shares are valued at the lower of acquisition cost and probable transfer price.

Cash and cash equivalents
Cash and cash equivalents comprise cash, demand deposits and other highly liquid short-term investments which are easily exchangeable for a previously known amount of cash assets and whose risk of a change in value is minimal. Items classified in cash and cash equivalents have a maturity of less than three months from the date of acquisition. Bank overdrafts are included in current liabilities.

Recognition of final credit loss
At the end of each reporting period, the Group assesses whether it can reasonably expect to fully or partially collect an item included in financial assets. Recognition of final credit loss directly reduces the gross carrying amount of an item included in financial assets.

Derecognition of financial assets
Financial assets are derecognised from the balance sheet when the Group's contractual right to the cash flows has expired or has been transferred to another party, or when the risks and rewards of ownership have to a significant degree been transferred outside the Group.

FINANCIAL LIABILITIES
Financial liabilities have been classified according to IFRS 9 into the following categories:
- financial liabilities measured at amortised cost
- financial liabilities measured at fair value through income statement.

Financial liabilities are initially recognised at fair value. Excluding financial liabilities measured at fair value through profit or loss, financial liabilities are later measured at amortised cost using the effective interest rate method. Transaction costs are included in the initial carrying amount of financial liabilities measured at amortised cost. Transaction costs related to financial liabilities measured at fair value through profit or loss are recognised as expense.

The Group's financial liabilities consist of leasing and bank loan liabilities.

On the Group balance sheet, financial liabilities may be included in both non-current and current liabilities. Financial liabilities are classified as current if they mature in less than 12 months and the Group does not have an unconditional right to defer payment for at least 12 months from the end of the reporting period.

Derecognition of financial liabilities
Financial liabilities are derecognised from the balance sheet when the liability has ceased to exist, that is, an obligation specified in the contract has been fulfilled or cancelled, or it has expired.

Treasury shares
Teleste Corporation's own shares acquired by the Group, including directly attributable costs, are presented as a deduction from total equity in the consolidated financial statements. Purchases or subsequent sales of treasury shares are presented as changes in equity.

Dividends
The dividend proposed by the Board of Directors is not recognised until approved by a general meeting of shareholders.

Provisions
A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, a reliable estimate can be made of the amount of the obligation and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the effect of the time value of money on the amount of a provision is material, a provision is discounted. Provisions can arise from warranties, onerous contracts and restructurings. A warranty provision is recognised when the underlying products are sold. The provision is based on historical warranty data and an estimate. A provision for non-cancellable purchase commitments of the Group is recognised, if these commitments result in inventory in excess of forecasted requirements. A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. A reimbursement from a third party related to a provision is recognised as a receivable only when the reimbursement is virtually certain.

A provision for restructuring is recognised when the Group has a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly to those it concerns. The plan identifies at least the following: the business concerned, the principal locations affected, the location, function, and approximate number of employees who will be compensated for terminating their services, the expenditures that will be undertaken and when the plan will be implemented. Future operating costs are not provided for.

REVENUE RECOGNITION AND NET SALES
Revenue is recognised at a point in time or over time. The performance obligations is typically satisfied when goods are delivered and services are performed. Revenue from the sale of goods is recognised in the income statement when all significant risks and rewards of ownership have been transferred to the buyer, which normally takes place when a commodity is delivered. Revenue from services is recognised when the service has been performed. Typical payment term to customer is 30 to 90 days from invoicing data. Payment term over 12 months doesn't exist. Teleste is granting normal warranteis in this business for it's products. Defects in Teleste products caused by design, bad material or manufacturing are repaired or replaced by new products. There is no sale with a right of return. Costs of obtaining customer contract are capitalized when they exist.

Revenue from construction contracts is recognised either on a percentage-of-completion basis, using units of delivery (based on predetermined milestones) or by applying the cost-to-cost method of accounting as the measurement basis. Estimated contract profits are recognised in earnings in proportion to recorded sales, when a certain predetermined milestone has been achieved. In the cost-to-cost method, revenue and profits are recognised after considering the ratio of cumulative costs incurred to estimated total costs to complete each contract (the stage of completion). Recognition of profit requires the outcome of a construction contract be estimated reliably. If this is not the case, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable; and contract costs are expensed in the period in which they are incurred. In the event that the Group can be held as the main contractor of a construction contract, various product expenses including raw materials and labour costs will be accounted for in the calculation of the stage of completion. Possible changes in the expected total expenses of a construction contract are expensed as incurred. The expected loss is charged to the income statement immediately.

Costs related to a construction contract for which revenue is not yet recognised are included in inventories under unfinished construction contracts. If costs incurred together with recognised profits exceed the amount billed, the difference is included in the balance sheet item "trade and other receivables". When costs incurred together with recognised profits are lower than the amount billed, the difference is shown under "trade and other payables".

Net sales include revenue from services rendered and goods sold, adjusted for discounts granted, sales-related taxes and effects of the translation differences.

Other operating income

Other operating income comprises income not generated from primary activities, such as rental income and gains from disposal of assets.

Government grants

Government grants that compensate the Group for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised by deducting the grant from the carrying amount of the asset.

Employee benefits

Pension arrangements

Pension plans are classified as either defined contribution plans or defined benefit plans. The plans the Group has currently are classified as defined contribution plans. Contributions to defined contribution pension plans are recognised as an expense in the income statement in the year to which they relate. The statutory pension plans of Finnish subsidiaries in the Group are funded through pension insurance. Subsidiaries outside Finland have various pension schemes in accordance with local requirements and practices.

Share-based payments

The granted share options are measured at their fair values using the Black-Scholes option pricing model at the grant date and are recognised as an employee expense during the vesting period with a corresponding increase in equity. When the options are exercised, the proceeds received, net of any transactions costs, are credited to share capital (nominal value) and the share premium reserve.

Operating profit

Operating profit is not defined under IAS 1 *Presentation of Financial Statements*. In Teleste it is defined as a net amount that is comprised of the following items:

Net sales

+ other operating income
- raw material and consumables used adjusted for changes in inventories of finished goods and work in progress
- employee benefits expense
- depreciation and amortisation expense and impairment losses
- other operating expense

= perating profit / loss

All other items not mentioned above are presented under the operating profit. Translation differences relating to sales and purchases are treated as adjustments to these items. All other translation differences are included in financial income and expenses.

Borrowing costs

Borrowing costs are generally expensed in the period in which they are incurred, except if they are directly attributable to the construction of an asset that meets the determined criteria, in which case they are capitalized as part of the cost of that asset. These criteria are that the borrowing costs incurred for the construction of a major investment. However, incremental transaction costs directly related to acquiring a loan are included in the initial cost and are amortised as an interest expense using the effective interest rate method. The Group had no such capitalised transaction costs in its balance sheet at the end of the reporting period.

Interest and dividend income

Interest income is recognised using the effective interest method. Dividend income is recognised when the right to the dividend has established.

Income taxes

The income taxes in the consolidated income statement consist of current tax and the change in the deferred tax assets and liabilities. Current tax includes taxes of the Group companies calculated on the taxable profit for the period determined in accordance with local tax rules, as well as the tax adjustments related to previous years. Deferred tax relating to items charged or credited directly to comprehensive income is itself charged or credited directly to comprehensisive income and equity.

Deferred tax assets and liabilities are provided in the consolidated financial statements using the balance sheet liability method, providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The main temporary differences arise from the treatment of development costs, the depreciation difference on property, plant and equipment and effects of consolidation and eliminations. Deferred taxes are not provided for impairment of goodwill, which is not deductible for tax purposes, nor for undistributed profits of subsidiaries to the extent that is it probable that the temporary difference will not reverse in the foreseeable future. Deferred tax liabilities are recognised at their full amounts in the balance sheet, and deferred tax assets are recognised at estimated realisable amounts. The enacted or substantially enacted tax rate at the balance sheet date is used as the tax rate.

Accounting policies requiring management's judgement and key sources of estimation uncertainty

Management's estimates regarding obsolete inventories, bad debts and warranties are based on approved financial models and case-specific judgments. Both historical experience and management's current view on the market situation have been employed when using the financial models. Management has used the best information available during the process of preparing the financial statements when making case-specific judgements. Impairment tests reflect assumptions made by management and underlying sensitivity analyses of the future cash flows.

By the issuance of the consolidated financial statements Teleste is not aware of any significant uncertainties regarding estimates made at the balance sheet date, nor of such future key assumptions that might have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The COVID-19 pandemic presents risks to Teleste's supply chain, the company's own operating capacity, the operating capacity of customers and the demand for Teleste's products and services.

Thus far, in response to the restrictive measures imposed by the authorities in various countries due to the COVID-19 pandemic, operators have reduced or suspended their broadband network construction, while certain customers in passenger information solutions have been forced to close down their factories and delay projects. The effects of the pandemic on Teleste's supply chain and component availability have been limited. According the managent there is no need change previously used estimations or impairments of book values of assets or liabilities.

ADOPTION OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS APPLICABLE IN FUTURE FINANCIAL YEARS

Teleste has not yet adopted the following new and amended standards and interpretations already issued by the IASB. The Group will adopt them as of the effective date or, if the date is other than the first day of the financial year, from the beginning of the subsequent financial year.
* = not yet endorsed for use by the European Union as of 31 December 2020.

- **Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases*** (to be applied from 1 January 2021).
- Amendments address issues affecting financial statements when changes are made to contractual cash flows and hedging relationships as a result of interest rate benchmark reform. Amendments assist companies in providing useful information about the effects of interest rate benchmark reform on financial statements.
- **Property, Plant and Equipment — Proceeds before Intended Use – Amendments to IAS 16 Property, Plant and Equipment*** (to be applied from 1 January 2022)
  Under the amendments, proceeds from selling items before the related item of PPE is available for use should be recognized in profit or loss, together with the costs of producing those items.
- **Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets*** (to be applied from 1 January 2022).
  When an onerous contract is accounted for based on the costs of fulfilling the contract, the amendments clarify that these costs comprise both the incremental costs and an allocation of other direct costs.
- **Annual Improvements to IFRS Standards 2018–2020*** (to be applied from 1 January 2022)
- The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments clarify the following standards:
  - IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter: This amendment simplifies the application of IFRS 1 for a subsidiary that becomes a first-time adopter later than its parent – a subsidiary may elect to measure cumulative translation differences at amounts included in the consolidated financial statements of the parent.
  - IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities: This amendment clarifies that – for the purpose of performing the ''10 per cent test' for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
  - IFRS 16 Leases – Lease incentives – Example 13. The amendment removes the illustration of payments from the lessor relating to leasehold improvements. The example was not clear as to why such payments are not a lease incentive.
  - IAS 41 Agriculture – Taxation in fair value measurements. This amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in IAS 41 with those in IFRS 13 Fair Value Measurement. When a present value technique is used to measure fair value, the assumptions used for the cash flows and discount rates should be internally consistent – i.e. using either after tax or pre-tax for both.
- **Classification of Liabilities as Current or Non-current – Amendments to IAS 1 Presentation of Financial Statements*** (to be applied from 1 January 2023)
- The amendments are to promote consistency in application and clarify the requirements on determining if a liability is current or non-current.
- **IFRS 17 Insurance Contracts*** (to be applied from 1 January 2023) The new standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. This standard replaces IFRS 4 standard.

SEGMENT REPORTING

Teleste Group is organised in two reporting segments. These segments are based on the Group's organisational and internal reporting structure.

The divestment of the German services business, the company's internal organisation change as well as changes to the reporting practices of the operative management and the Board of Directors affect the segments required to be reported. As set out in IFRS 8 standard, it is well-founded to combine the remaining services business reported in the Network Services segment with the business reported in the Video and Broadband Solutions segment. Due to the business model, the similarity of financial characteristics of the businesses and the administrative structure as well as the changes taken place in the financial period of 2020, Teleste's business segment to be reported is the entire Group as of the beginning of the financial period 2021.

BUSINESS SEGMENTS

Video and Broadband Solutions business segment has the emphasis on product solutions for broadband access networks, video service platforms and video surveillance applications.

The most significant customer base for the business segment consists of cable operators, but also includes retailers and organisations in the public sector. The main market and business area is Europe.

The most significant customer base for the Network Services business segment consists mainly of large European cable operators. Network Services segment deliver comprehensive network service solutions including new construction, rebuilding, upgrading, planning and maintenance services of cable networks.

The implementation and scope of services range from stand-alone solutions to integrated turnkey deliveries. Most deliveries are based on frame agreements. The services also include Teleste's own product solutions. Teleste's competence covers an extensive range of services from Installation and maintenance of network headers to housing network upgrades. Teleste also uses its network of subcontractors to provide its services.

GEOGRAPHICAL DIVISION

The two segments operates in four geographical areas:

- Finland
- Other Nordic countries
- Other Europe
- Others (North America, Asia and Other countries)

The geographical division of sales are shown based on customer location. Assets and investments are presented by geographical location of assets.

There are no major inter-segment sales in the Group.

UNALLOCATED ITEMS

Unallocated income statement items include costs and incomes which follow earnings after depreciations.

DISCONTINUED OPERATIONS

Discontinued operations were part of the Network Services business segment and their effect has been restated in the figures presented here, as well as the 2019 and 2020 figures.

Business segments

2020 1,000 €	Video and Broadband Solutions	Network Services	Discontinued operations	Total
Sales by origin				
Assets	5,622	20,836	56,291	82,749
Goods	118,524	0	0	118,524
Capital expenditure	124,146	20,836	56,291	201,273
Operating profit of segments	3,588	1,478	-3,637	1,429
Operating profit				1,429
Non allocated item				-550
Discontinued operations				3,637
Financial items				-834
Profit before taxes				3,681
Non-current assets of segment	51,404	1,663		53,067

2019 1,000 €	Video and Broadband Solutions	Network Services	Discontinued operationst	Total
External sales				
Services	4,087	23,996	70,110	98,193
Goods	137,265	0		137,265
Total external sales	141,352	23,996	70,110	235,458
Operating profit of segments	8,056	776	-1,122	7,711
Operating profit				7,711
Non allocated item				-6,942
Discontinued operations				1,122
Financial items				-232
Profit before taxes				1,659
Non-current assets of segment	56,928	1,578	2,751	61,257

Geographical division

2020 1,000 €	Finland	Nordic countries	Other Europe	Others	Discontinued operations, Germany	Total
Sales by origin	14,430	12,939	106,430	11,183	56,291	201,273
Assets	48,381	648	3,587	451	0	53,067
Capital expenditure	3,175	103	2,354	150	807	6,588

2019 1,000 €	Finland	Nordic countries	Other Europe	Others	Discontinued operations, Germany	Total
Sales by origin	15,799	20,607	114,122	14,820	70,110	235,458
Assets	50,776	590	7,027	112	2,751	61,257
Capital expenditure	4,632	236	2,788	685	4,640	12,981

Major customers

The company had no major customer concentrations in 2020. In 2019, the group's profits from a single customer to both Video Broadband Solutions and Network Services segments were 70.3 Meur, amounting to approximately 29.7% of the group's net sales, including Discontinued operations.

Revenue from contracts with customers

	2020	Restated 2019
Revenue from contracts with customers	144,983	165,348
All revenue streams are generated from contracts with customers		
Receivables, which are included in”trade and other receivables” Note 14	25,567	32,124
Net assets from contracts (+assets - liabilities)		
Contract assets (+)		
Video and Broadband Solutions	7,815	2,406
Network Services	547	11,215
	8,362	13,621
Contract liabilities (-)		
Video and Broadband Solutions	-5,020	-2,043
Network Services	-65	-2,822
	-5,085	-4,865
	3,277	**8,756**
Timing of the revenue recognition		
Timing of the revenue recognition, at point in time		
Video and Broadband Solutions	113,724	133,093
Network Services	19,889	22,734
	133,614	155,827
Timing of revenue recognition, over the time		
Video and Broadband Solutions	10,422	8,259
Network Services	947	1,262
	11,369	9,521
	144,983	**165,348**
Revenue by category		
Goods		
Video and Broadband Solutions	118,524	137,265
Network Services	0	0
	118,524	137,265
Services		
Video and Broadband Solutions	5,622	4,087
Network Services	20,836	23,996
	26,458	28,083
Total	**144,983**	**165,348**

Order backlog

Timing of order backlog

	2021	Later	Later
Order backlog end of 2020			
Video and Broadband Solutions	48,946	28,140	77,086
Network Services	0	0	0

Timing of order backlog

	2020	Later	Later
Order backlog end of 2019			
Video and Broadband Solutions	47,197	26,026	73,223
Network Services	0	0	0

BUSINESS COMBINATIONS ACQUIRED DURING 2020 AND 2019

YEAR 2020

During 2020 there were no acquisitions.

YEAR 2019

The conditional supplementary contract price from Iqu Systems GmbH acquisition of 1,050 thousand euro was paid in the beginning of the year.

1. OTHER OPERATING INCOME

1,000 €	2020	Restated 2019
Government grants related to development costs	967	942
Gain on disposals of non-current assets	46	102
Insurance compensation	0	858
Other income	770	308
Total	**1,783**	**2,210**

2. EMPLOYEE BENEFITS EXPENSE

	2020	2019
Wages and salaries	-37,598	-37,779
Pension expenses		
Defined contribution plans	-7,132	-7,167
Other post employment benefits	-3,907	-5,247
Activated R&D salaries and social costs	3,851	4,672
Equity-settled share-based transactions	-370	-529
Total	**-45,156**	**-46,049**

Information on the remuneration of (and loans to) the Group management is presented in the note Related party transactions.

The average number of employees during the financial year	858	883

3. DEPRECIATION, AMORTISATION AND IMPAIRMENT

1,000 €	2020	Restated 2019
Depreciation and amortisation by asset type:		
Tangible assets		
Buildings	-366	-367
Machinery and equipment	-463	-502
Other tangible assets	-32	-8
Total	**-860**	**-877**
Intangible assets		
Capitalised development expenses	-3,419	-2,534
Other intangible assets	-515	-723
Total	**-3,934**	**-3,257**
Right-of-use assets		
Land and water, right-of-use	-25	-25
Buildings and structures, right-of-use	-1,219	-1,261
Machinery and equipment, right-of-use	-1,203	-1,327
Total	**-2,447**	**-2,613**
Total depreciation, amortisation and impairment	**-7,241**	**-6,747**

4. OTHER OPERATING EXPENSES

1,000 €	2020	2019
Rental expenses	-2,134	-1,799
External services	-4,804	-6,319
Other variable costs	-5,735	-7,310
Travel and IT costs	-3,938	-6,482
R&D costs	-1,392	-2,186
Other expenses	188	-5,435
Total	**-17,814**	**-29,532**

R&D costs are included also in employee benefits expense, travel and IT costs and other costs.

Audit expenses

1,000 €	2020	Restated 2019
KPMG		
Auditing assignments	-140	-109
Tax consultancy	-12	-2
Other assignments	-37	-39
Other auditors		
Auditing assignments	-54	-33
Other assignments	-10	-36

Other assignments than audit assignments during year 2020 by KPMG Oy Ab amounted 49 thousand euros. These assignments consisted of tax consultancy (12 thousand euros) and other assignments (37 thousand euros).

5. FINANCIAL INCOME AND EXPENSES

Financial income

1,000 €	2020	2019
Interest and other financial income	55	80
Foreign exchange gain	776	952
Dividend income	4	4
Total	**836**	**1,036**

Financial expenses

	2020	2019
Interest expenses	-353	-446
Foreign exchange loss	-1,223	-701
Interest from lease liabilities	-94	-115
Other financial expenses	0	-6
Total	**-1,670**	**-1,268**

Losses from forward exchange contracts are included in operating profit.

Network Services segment in Germany has been classified as Discontinued business and therefore 2019 figures have been restated.

6. INCOME TAXES

1,000 €	2020	Restated 2019
Current tax expense		
Current year	-972	-1,496
Taxes from previous year	-166	-135
Change in deferred tax liabilities and tax assets	233	-356
Total	**-905**	**-1,987**

Reconciliation of the tax expense, EUR, -905 thousand, calculated using the Teleste Group's domestic corporation 20.0 % tax rate.

1,000 €	2020	2019
Profit before tax	3,681	2,062
Income tax using the domestic corporation tax rate (20.0 %)	-736	-412
Effect of tax rates in foreign jurisdictions	-25	-24
Non-taxable income	4	4
Non-deductible expenses	18	410
Loss for the period, for which no deferred tax asset is recognized	0	-1,830
Taxes from previous year	-166	-135
Income tax income/expense reported in the consolidated income statement	-905	-1,987

7. DISCONTINUED OPERATIONS

Teleste adopted a new strategy, according to which the company will focus on technology businesses and the higher added-value services that support them.

Teleste decided to classify the services business of the Germany-based Cableway companies as an asset held for sale pursuant to IFRS 5 "Non-current assets held for sale and discontinued operations" since Q1 2020.

In November 2020, Teleste sold the German services business belonging to the Network Services business segment to the Circet Deutschland GmbH, which is a part of the French Circet Group. Circet is a leading European telecommunication network service provider, which operates in France, Ireland, England, Spain, Germany, and Morocco. The company provides a wide range of services for fixed and mobile networks, including contracting, installation, and maintenance services.

The provisional contractual net debt free purchase price was 8.0 million euros, and at the date of closure of the accounts, the sale is estimated to cause a one-time loss of approximately 6.1 million euros to the Teleste group.

Income statement and balance sheet

Results of discontinued operations

1,000 €	2020	2019
Net sales	56,291	70,110
Expenses	-60,060	-71,380
Total	-3,769	-1,270
Business disposals	-6,106	0
Operating profit	**-9,875**	**-1,270**
Income taxes	-937	-55
Profit/loss for the year	-10,812	-1,325
Earnings per share, discontinued operations, euro	-0,59	-0,07

Income taxes in Discontinued operations consists entirely of writedown to deferred tax assets regarding the operative transactions.

Effect of disposal on the financial position of the Group

	2020	2019
Property, plant and equipment	-4,921	0
Deferred tax assets	-9	0
Inventories	-9,982	0
Trade and other receivables	-3,646	0
Cash and equivalents	-8,067	0
Deferred tax liabilities	119	0
Long term liabilities	1,284	0
Trade and other payables	8,570	0
Net assets and liabilities	**-16,654**	**0**

Cash flow in discontinued operations

	2020	2019
Net cash used in operating activities	144	-2,325
Net cash from investing activities	6,974	-2,665
Net cash flow for the year	7,118	-4,990
Net cash from investing activities, specification		
Purchases of tangible assets	-824	-2,885
Proceeds from sales of PPE	66	220
Consideration received, satisfied in cash	15,800	0
Cash and cash equivalents disposed of	-8,067	0
Total	**6,974**	**-2,665**

Network Services segment in Germany has been classified as Discontinued business and therefore 2019 figures have been restated.

8. EARNINGS PER SHARE

The basic earnings per share is calculated as follows:

Profit for the year attributable to equity holders of the parent

Weighted average number of ordinary shares outstanding during the financial year

The number of ordinary shares outstanding excludes the treasury shares.

The diluted earnings per share is calculated as follows:

Profit for the year attributable to equity holders of the parent (diluted)

Weighted average number of ordinary shares outstanding during the financial year (diluted)

The changes in the number of the shares are presented in the note 16 Capital and reserves.

	2020	2019
Profit for the year attributable to equity holders of the parent, (1 000 €)	-7,827	-1,327
Weighted average number of ordinary shares outstanding during the financial year (1 000)	18,204	18,181
Basic earnings per share (€)	-0.43	-0.07
Weighted average number of ordinary shares outstanding during the financial year (1000)	18,204	18,181
Effect of share options on issue (1000)	17	17
Weighted average number of ordinary shares outstanding during the financial year (diluted) (1 000)	18,220	18,208
Diluted earnings per share (€)	-0.43	-0.07

The Share-based Incentives program granted by the Group have a dilutive effect. The dilutive effect equals the number of the shares gratutiously issued ; this difference arises when the Group can not issue the same number of shares at their fair value using the proceeds received on the Share-absed Incentives program.

9. INTANGIBLE ASSETS

1,000 €	Develop-ment costs	Immaterial rights	Other intangible assets	Goodwill	Total
Cost 1.1.2020	20,115	1,908	11,399	38,372	**71,794**
Translation differences	-64	-6	-125	-166	**-361**
Additions	3,851	40	26	0	**3,916**
Disposals			-14		**-14**
Business disposals		-3	-3,088	-7,705	**-10,796**
Cost 31.12.2020	23,902	1,939	8,197	30,502	**64,539**
Cumulative amortisation and impairment 1.1.2020	-8,505	-1,215	-10,794	-7,705	**-28,219**
Translation differences	2	9	128	0	**139**
Amortisation and impairment from disposals			3,088	7,705	**10,792**
Amortisation	-3,419	-308	-207	0	**-3,934**
Cumulative amortisation and impairment 31.12.2020	-11,922	-1,514	-7,786	0	**-21,222**
Carrying amount 1.1.2020	11,610	562	604	30,668	**43,444**
Carrying amount 31.12.2020	**11,980**	**425**	**410**	**30,502**	**43,318**

Intangible assets consists of:	
- Assets owned by the Group	43 318
- Leased right of use assets	127
	43 445

1,000 €	Develop-ment costs	Immaterial rights	Other intangible assets	Goodwill	Total
Cost 1.1.2019	15,435	1,363	11,332	38,277	**66,407**
Translation differences	8	-1	79	95	**181**
Additions	4,672	229	8	0	**4,909**
Cost 31.12.2019	20,115	1,590	11,419	38,372	**71,497**
Cumulative amortisation and impairment 1.1.2019	-5,971	-655	-10,371	-7,705	**-24,701**
Translation differences	0	-3	-80	0	**-83**
Amortisation	-2,534	-370	-363	0	**-3,268**
Cumulative amortisation and impairment 31.12.2019	-8,505	-1,028	-10,815	-7,705	**-28,052**
Carrying amount 1.1.2019	9,465	708	961	30,573	**41,706**
Carrying amount 31.12.2019	**11,610**	**562**	**604**	**30,668**	**43,444**

For the purposes of impairment testing goodwill items of the Group have been allocated to the segments, each of which represents a separate cash-generating unit.The aggregate goodwill amount totalled 30.5 million euro at 31 December 2020. Goodwill has been allocated to the following cash-generating unit:

	million euros
Video and Broadband Solutions	30,1
Network Services, Switzerland	0,4

The recoverable amount of the segments is based upon value-in-use calculations. Those calculations use cash flow projections based upon the strategies and business plans approved by the management. Calculations are prepared covering a 10 years' period. The cash flows for the first year for both segments are based on the budget for 2021 according the business plan. For years 2022 and 2023 VSB cash flow is based on strategic long term plan. From 2024 onwards the cash flows are calculated with 2% (2%) annual growth rate. Respective cash flows from NS segement are calculated with 2 % (2 %) annual growts rate from 2022 onwards. Management's view on the cash flows is cautious as the changes of the industry are difficult to foresee. A discount rate of 9.19% is used in both segments. The terminal value of the segments is calculated by using a growth rate of 2 per cent. The impairment test process included the sensitivity analysis of the segment or a cash generating unit (CGU) in the segment.

Assumption used in 2020 and 2019 impairment tests

	2020		2019	
%	VBS	NS	VBS	NS
Growth of net sales, year 1	7	2	2	2
Growth of net sales, year 2	30	2	2	2
Growth of net sales, year 3	13	2	2	2
Growth of net sales, year 4-10	2	2	2	2
WACC (after taxes)	9.19	9.19	9.48	9.91

The table below shows the amount by which the segments' recoverably amount exceeds its carrying amount.

Impairment test

Meur	**2020**	2019
VBS	32,1	17,3
NS Switzerland	1,8	1,0

The tables below show the required decline in free cash flow and the increase in discount rate per segment which would cause the recoverable amount of a segment to be equal to the carrying amount.

Decline of free cash flow

	2020	2019
VBS	-26 %	-18 %
NS Switzerland	-49 %	-46 %

Increase in discount rate (after taxes) change % unit

	2020	2019
VBS	2.6 %	1.9 %
NS Switzerland	8.0 %	6.0 %

Group has revceived grants of 1,0 million euros in Finland and Poland for development costs in year 2020 (0,9 million euros in year 2019). Of these grants, 0,0 million euros (0,0 million euros in year 2019) has been booked as deduction of activated deveplment costs. Development grants have clause which states that of the the total project costs, 10 % must be allocated to local SME subcontractors.

10. PROPERTY, PLANT AND EQUIPMENT

1,000 €	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and work in progress	**Total**
Cost 1.1.2020	56	7,999	13,602	2,545	71	**24,273**
Translation differences	0	-44	-97	-10	0	**-151**
Additions	0	19	1,158	7	0	**1,184**
Business disposals		-117	-7,991	-1,301		**-9,409**
Disposals	0	-19	-74	-1	0	**-94**
Cost 31.12.2020	56	7,840	6,598	1,239	71	**15,804**
Cumulative depreciation and impairment 1.1.2020	-2	-3,780	-9,430	-2,349		**-15,562**
Translation differences	0	13	103	2		**118**
Cumulative amortisation on business disposals		99	4,816	1,249		**6,164**
Cumulative amortisation on disposals and reclassifications	0	-5	9	7		**11**
Depreciations	0	-368	-759	-40		**-1,167**
Cumulative depreciation and impairment 31.12.2020	-2	-4,041	-5,261	-1,131	0	**-10,435**
Carrying amount 1.1.2020	54	4,219	4,171	196	71	**8,711**
Carrying amount 31.12.2020	**54**	**3,798**	**1,337**	**109**	**71**	**5,368**

Intangible assets consists of:	
- Assets owned by the Group	5,368
- Leased right of use assets	3,690
	9,058

1,000 €	Land and water	Buildings and structures	Machinery and equip-ment	Other tan-gible assets	Advance payments and work in progress	**Total**
Cost 1.1.2019	56	7,668	10,744	2,523	80	**21,072**
Translation differences	0	34	77	2	0	**114**
Additions	0	297	3,361	53	-10	**3,702**
Disposals	0	0	-581	-33	0	**-614**
Cost 31.12.2019	56	7,999	13,602	2,545	71	**24,273**
Cumulative depreciation and impairment 1.1.2019	-2	-3,396	-8,157	-2,327		**-13,881**
Translation differences	0	-8	-51	-4		**-63**
Cumulative amortisation on disposals and reclassifications	0	0	315	27		**342**
Depreciations	0	-376	-1,537	-46		**-1,959**
Cumulative depreciation and impairment 31.12.2019	-2	-3,780	-9,430	-2,349	0	**-15,562**
Carrying amount 1.1.2019	54	4,272	2,588	196	80	**7,190**
Carrying amount 31.12.2019	**54**	**4,219**	**4,171**	**196**	**71**	**8,711**

RIGHT-OF-USE ASSETS

Righ-of-use assets according to IFRS 16

1,000 €	Intangible assets, right-of-use	Land and water, right-of-use	Buildings and structures, right-of-use	Machinery and equipment, right-of-use	**Total**
Cost 1.1.2020	323	1,017	4,090	7,558	**12,988**
Translation differences	-11	0	-81	-1	**-93**
Additions	0	0	1,048	380	**1,428**
Business disposals	0	0	-1,142	-4,151	**-5,294**
Cost 31.12.2020	312	1,017	3,915	3,785	**9,030**
Cumulative depreciations and impairment 1.1.2020	-192	-26	-1,644	-2,668	**-4,529**
Translation differences	7	0	45	8	**60**
Cumulative depreciation on disposals and reclassifications	0	0	0	0	**0**
Cumulative depreciation on business disposals			611	1,473	
Depreciations	0	-26	-1,461	-1,342	**-2,828**
Cumulative depreciations and impairment 31.12.2020	-185	-51	-2,448	-2,528	**-5,213**
Carrying amount 1.1.2020	131	991	2,446	4,891	**8,459**
Carrying amount 31.12.2020	**127**	**966**	**1,467**	**1,257**	**3,817**

	Intangible assets, right-of-use	Machinery and equipment, right-of-use	**Total**
	127	3,690	**3,817**

1,000 €	Intangible assets, right-of-use	Land and water, right-of-use	Buildings and structures, right-of-use	Machinery and equipment, right-of-use	**Total**
Cost 1.1.2019	345	1,017	3,589	6,763	**11,714**
Translation differences	9	0	50	8	**67**
Additions	8	0	450	787	**1,245**
Disposals	-39	0	0	0	**-39**
Cost 31.12.2019	323	1,017	4,089	7,558	**12,988**
Cumulative depreciations and impairment 1.1.2019	-210	0	0	-1,618	**-1,828**
Translation differences	-5	0	-13	-3	**-21**
Cumulative depreciation on disposals and reclassifications	23	0	0	0	**23**
Depreciations	0	-26	-1,631	-1,047	**-2,703**
Cumulative depreciations and impairment 31.12.2019	-192	-26	-1,644	-2,668	**-4,529**
Carrying amount 1.1.2019	135	1,017	3,589	5,145	**9,886**
Carrying amount 31.12.2019	**131**	**991**	**2,446**	**4,891**	**8,459**

Machinery and equipment, right-of-use, includes leased cars as follows:

1,000 €	Leased cars, right-of-use
Cost 1.1.2020	5,714
Additions	96
Business disposals	-4,151
Cost 31.12.2020	1,659
Cumulative depreciations and impairment 1.1.2020	-1,848
Cumulative depreciation on business disposals	1,473
Depreciations	-523
Cumulative depreciations and impairment 31.12.2020	-898
Carrying amount 1.1.2020	3,866
Carrying amount 31.12.2020	760

11. OTHER FINANCIAL ASSETS

1,000 €	Available for sale investments	Investments designated as at FVTOCI	Total
Cost 1.1.2020	425	220	645
Translation differences	-24	0	-24
Additions	0	77	77
Cost 31.12.2020	401	297	698
Carrying amount 1.1.2020	425	220	645
Carrying amount 31.12.2020	**401**	**297**	**698**

1,000 €	Available for sale investments	Investments designated as at FVTOCI	Total
Cost 1.1.2019	418	143	561
Translation differences	7	0	7
Additions	0	77	77
Cost 31.12.2019	425	220	645
Carrying amount 1.1.2019	418	143	561
Carrying amount 31.12.2019	**425**	**220**	**645**

12. DEFERRED TAX ASSETS AND LIABILITIES

1,000 €	1.1.2020	Recognised in the income statement	31.12.2020
Movements in temporary differences during 2020			
Deferred tax assets			
Effects of consolidation and eliminations	131	-41	90
Unused tax losses	1,160	402	1,562
Provisions	633	-83	550
Total	**1,924**	**278**	**2,203**
Deferred tax liabilities			
Capitalisation of intangible assets	-1,420	37	-1,383
Fair value adjustments to intangible and tangible assets on acquisition	-122	33	-89
Cumulative depreciation difference	-61	15	-46
Total	**-1,603**	**85**	**-1,518**

The change in liabilities doesn't match the deferred tax recognised the income statement due to recognition of deferred tax liabilities for other intangible assets, foreign exchange rates and group internal eliminations.

1,000 €	1.1.2019	Recognised in the income statement	31.12.2019
Movements in temporary differences during 2019			
Deferred tax assets			
Effects of consolidation and eliminations	368	-237	131
Unused tax losses	1,157	3	1,160
Provisions	606	27	633
Total	**2,131**	**-207**	**1,924**
Deferred tax liabilities			
Capitalisation of intangible assets	-1,335	-85	-1,420
Fair value adjustments to intangible and tangible assets on acquisition	-193	71	-122
Cumulative depreciation difference	-79	18	-61
Total	**-1,607**	**4**	**-1,603**

At 31 December 2020 the Group had unused tax losses in subsidiaries amounting 8,597 thousand euro (31 Dec. 2019: 18,259 thousand euro). A tax asset has been booked from 1,562 thousand euro. Use of lax losses is based on best assesment of the Group management.

No deferred tax liability has been provided for the undistributed profits of the foreign subsidiaries amounting to 19,664 thousand euro at 31 Dec. 2020 (31 Dec. 2019: 10,481 thousand euro). This is because the realization of this tax liability is unlikely in the near future.

13. INVENTORIES

1,000 €	**2020**	2019
Raw materials and consumables	10,418	12,077
Work in progress	9,330	15,067
Finished goods	8,478	10,264
Total	**28,225**	**37,409**

The amount of the impairment losses of inventories to the net realisable value recognised as an expense during the financial period is 21 thousand euro. At the end of the financial year 5,050 thousand euro was deducted from the inventory value to the net realisable value (31 Dec. 2019: 4,994 thousand euro).

14. TRADE AND OTHER CURRENT RECEIVABLES

1,000 €	**2020**	2019
Trade receivables	25,567	32,124
Accrued income and prepayments	3,301	7,202
Other receivables	0	786
Total	**28,867**	**40,112**

15. CASH AND CASH EQUIVALENTS

Cash at bank and in hand and call deposits	20,224	8,249
Total	**20,224**	**8,249**
Cash and cash equivalents in the statement of cash flows	20,224	8,249

LONG-TERM SHARE-BASED INCENTIVE PROGRAMS LTI 2015 AND LTI 2018

The objective of share-based incentive programs is to align the key employees' interests with those of Teleste's shareholders by creating a long-term equity interest for the key employees and, consequently, to increase the company's value in the long term and to drive a performance culture, retain key employees and offer the key employees a competitive compensation for excellent performance.
The potential share rewards will be delivered, if the performance targets set by the Board of Directors are achieved. Investment in Teleste's shares is the requirement for an individual key employee to be included in the plan. The criteria for share-based reward are continued employment and the total shareholder return (TSR) of Teleste share during the three-year vesting period. Applicable taxes are deducted from the gross quantities, and the remaining net quantity is delivered to the participants as Teleste shares.

Share-based incentive program LTI 2015

LTI 2015 consists of three annually commencing plans with three main elements: an investment in Teleste shares that is required for a key employee to be included in the LTI 2015 programme; a matching share plan with a three-year vesting period that is based on the above investment; and a performance matching plan with a three-year performance period. The commencement of each plan and the inclusion of eligible participants were subject to a specific approval by Teleste's Board of Directors.

The matching share plan includes the investment of an individual participant in Teleste's shares and the delivery of matching shares as a long-term incentive reward against the invested shares. After the three-year vesting period, the key employee receives one matching share for each invested share free of charge.

The performance matching plan includes a three-year performance period. The potential share rewards will be delivered if the performance targets set by the Board of Directors are achieved.

The performance criterion applied to all the three plans alike is the total shareholder return (TSR) of Teleste's share in the three-year performance period. The above investment in Teleste's shares was the requirement for an individual key employee to be included in the plan. The Board of Directors approved 37 key employees as eligible to participate in the first plan 2015–2017 of LTI 2015, and 42 key employees as eligible to participate in the second plan 2016–2018 and 40 key employees as eligible to participate in the third plan 2017–2019.

The gross quantity of matching shares delivered under the 2015–2017 plan ending in April 2018 was 47,250 shares, and the gross quantity of performance matching shares was 39,724 shares. A net quantity of 42,771 shares were delivered to the key employees entitled to reward through a directed share issue on 6 April 2018.

The gross quantities of shares delivered under the 2016–2018 plan that ended in April 2019 were 35,438 shares and 0 performance matching shares. A net quantity of 22,361 shares were delivered to the key employees entitled to reward through a directed share issue on 5 April 2019.

The gross quantities of shares delivered under the 2017–2019 plan that ended in April 2020 were 35,201 shares and 0 performance matching shares. A net quantity of 22,402 shares were delivered to the key employees entitled to reward through a directed share issue on 23 April 2020.

Share-based incentive programme LTI 2018

LTI 2018 consists of three annually commencing plans with the following main elements: an investment in Teleste shares as a precondition for the key employee's participation in the individual plan, a matching share plan with a three-year vesting period based on the individual investment and a performance share plan with a three-year performance period. The commencement of each new plan, its eligible participants and the matching ratio and performance targets applied to the individual plan are subject to a separate approval of Teleste's Board of Directors.

The matching share plan includes the investment of an individual participant in Teleste's shares and the delivery of matching shares as a long-term incentive reward against the invested shares. After the three-year vesting period, the key employee receives one matching share for each two invested share free of charge.

The performance matching plan includes a three-year performance period. The potential share rewards will be delivered if the performance targets set by the Board of Directors are achieved.

The performance criterion applied to all the three plans alike is the total shareholder return (TSR) of Teleste's share in the three-year performance period. The above investment in Teleste's shares was the requirement for an individual key employee to be included in the plan. The Board of Directors approved 35 key employees as eligible to participate in the first plan 2018–2020 of LTI 2018, and 33 key employees as eligible to participate in the second plan 2019–2021 and 33 key employees as eligible to participate in the third plan 2020–2022.

The first plans within the programme are the matching share plan 2018–2020 and the performance share plan 2018–2020. The matching share plan 2018–2020 comprises the individual key employee's investment in Teleste's shares and the delivery of a specific number of matching shares without consideration as a share reward based on the share investment after the three-year vesting period. The gross quantity of matching shares that may be delivered on the basis of the matching share plan 2018–2020 is approximately 13,963 shares. The performance share plan 2018–2020 comprises a three-year performance period. If all the eligible key employees participate in the plan by fulfilling the investment precondition and the performance targets set for this performance share plan are fully achieved, the gross number of shares that may be delivered under the performance share plan 2018–2020 is 248,400 shares. Applicable withholding tax is deducted from the gross quantities before paying the share reward. At the end of 2020, altogether 24 key employees were approved as eligible to participate in the plan.

The second plans within the programme are the matching share plan 2019–2021 and the performance share plan 2019–2021. The matching share plan 2019–2021 comprises the individual key employee's investment in Teleste's shares and the delivery of a specific number of matching shares without consideration as a share reward based on the share investment after the three-year vesting period.

The maximum aggregate gross quantity of matching shares that may be delivered on the basis of the matching share plan 2019–2021 is 18,087 shares. The performance share plan 2019–2021 comprises a three-year performance period. If all the eligible key employees participate in the plan by fulfilling the investment precondition and the performance targets set by the Board of Directors for this performance share plan are fully achieved, the maximum number of gross shares that may be delivered under the

performance share plan 2019–2021 is 281,220 shares. At the end of 2020 25 key employees remained eligible in the programme.

The third plan to be implemented within the programme is the matching share plan 2020–2022 and the performance share plan 2020–2022. The performance share plan 2020–2022 comprises the individual key employee's investment in Teleste's shares and the delivery of a specific number of matching shares without consideration as a share reward based on the share investment after the three-year vesting period. The gross quantity of matching shares that may be delivered on the basis of the matching share plan 2020–2022 is approximately 19,201 shares. The performance share plan 2020–2022 comprises a three-year performance period. If all the eligible key employees participate in the plan by fulfilling the investment precondition and the performance targets set for this performance share plan are fully achieved, the gross number of shares that may be delivered under the performance share plan 2020–2022 is 290,700 shares. At the end of 2020, altogether 28 key employees were approved as eligible to participate in the plan.

Plan	LTI 2018	LTI 2018	LTI 2018	LTI 2015
Type	Share	Share	Share	Share
Instrument	2020–2022	2019–2021	2018–2020	2017–2019
Initial amount, pcs *	346,125	346,125	317,200	291,500
Initial allocation date	1.7.2020	1.7.2019	2.7.2018	1.7.2017
Vesting date	31.3.2023	31.3.2022	31.3.2021	23.4.2020
Maximum contractual life, yrs	2.7	2.8	2.7	2.8
Remaining contractual life, yrs	2.2	1.2	0.2	0.0
Number of persons at the end of the reporting year	28	25	24	0
Payment method	Cash & Equity	Cash & Equity	Cash & Equity	Cash & Equity

** Gross reward before the deduction of the applicable taxes.*

Changes during the period	Period 2017–2019	Period 2018–2020	Period 2019–2021	Period 2020–2022	Remaining contractual life, yrs
1.1.					
Outstanding at the beginning of the reporting period, pcs	180,505	277,313	309,895	0	
Changes during the period					
Granted	0	0	0	313,270	
Forfeited	145,304	14,950	10,588	3,369	
Excercised	35,201	0	0	0	
31.12.					
Outstanding at the end of the period	0	262,363	299,307	309,901	

The table below shows the key parameters of the fair value of share rewards delivered during the 2020 accounting period are. The fair value of share-based payment is measured on the day when the arrangement has been made between the company and the target group. The market criteria, in this case the overall profitability of the share, is taken into account according to the IFRS2 standard when the fair value is measured, and it is not changed during the programme. Hence the cost estimate for the 2019 vesting period made at the time of issue is not changed save where the obligation to work is not fulfilled.

Share reward, fair value calculation, LTI 2018, period 2020–2022

Stock value at vesting date, EUR	4.36 €
Effect of market valued criteria in fair value	59 %
Assumed dividends, €	0.39 €
Share reward, fair value per share, EUR	1.47
Reward, fair value 31.12.2020	422,702 €

Effect of Share-based Incentives on the result and financial position during year 2020, 1,000 €

Expenses for the financial year, share-based payments	577
Expenses for the financial year, share-based payments, equity-settled	561
Liabilities arising from share-based payments 31 December 2020	5
Estimated tax effect on share based payments 31 December 2020	330

Effect of Share-based Incentives on the result and financial position during year 2019, 1,000 €

Expenses for the financial year, share-based payments	623
Expenses for the financial year, share-based payments, equity-settled	619
Liabilities arising from share-based payments 31 December 2019	5
Estimated tax effect on share based payments 31 December 2019	187

16. CAPITAL AND RESERVES

1,000 €	Number of shares, 1,000	Number of own shares, 1,000	Number of shares, total 1,000	Share capital, 1,000 €	Reserve fund, 1,000 €
1.1.2020	18,187	799	18,986	6,967	1,504
Change in own shares	22	-22	0	0	0
31.12.2020	18,210	776	18,986	6,967	1,504

The number of Teleste Oyj shares was 18,985,588 December 2020 (31 Dec. 2019 18,985,588 shares). All shares issued have been fully paid.

The Annual General Meeting of Teleste Oyj held on 22nd of April 2020 decided to authorize the Board of Directors to decide on repurchasing the Company's own shares in accordance with the proposal of the Board of Directors. Based on the authorization, the Board of Directors may repurchase a maximum of 1,200,000 own shares of the Company otherwise than in proportion to the holdings of the shareholders by using the non-restricted equity through public trading on Nasdaq Helsinki Ltd at the market price prevailing at the time of acquisition.

The Annual General Meeting of Teleste Oyj held on 4th of April 2019 decided to authorize the Board of Directors to decide on repurchasing the Company's own shares in accordance with the proposal of the Board of Directors. Based on the authorization, the Board of Directors may repurchase a maximum of 1,200,000 own shares of the Company otherwise than in proportion to the holdings of the shareholders by using the non-restricted equity through public trading on Nasdaq Helsinki Ltd at the market price prevailing at the time of acquisition.

At the end of December 2020, the Group held 776,419 of its own shares.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Dividends

After the balance sheet date the dividend of 0.12 euro per share (2019 0.10 euro per share) was proposed by the Board of Directors.

17. INTEREST-BEARING LIABILITIES

1,000 €	2020	2019
Non-current		
Loans from financial institutions	22,500	21,324
Lease liabilities	2,216	5,177
Total	**24,716**	**26,501**
Current		
Loans from financial institutions	4,750	3,003
Lease liabilities, current portion	1,506	3,528
Total	**6,256**	**6,531**

The currency mix of the Group long-term interest-bearing liabilities was as follows:

1,000 €	31.12.2020	31.12.2019
EUR	24,208	25,059
Other	508	1 442
Group long-term interest-bearing liabilities – interest rates are as follows:		
Bank loans	0.9 %	1.0 %
Lease liabilities	1.3 %	1.3 %
The currency mix of the Group short-term interest-bearing liabilities:		
EUR	84 %	95 %
Other	16 %	5 %
	100 %	100 %
Group short-term interest-bearing liabilities – interest rates are as follows:		
Bank loans	0.9 %	1.0 %
Lease liabilities	1.3 %	1.3 %
Right-of-use liabilities of the Group are payable as follows:		
Minimum lease payments		
Less than one year	1,705	3,622
Between one and five years	1,437	4,447
More than five years	853	896
Total	3,995	8,965
Present value of minimum lease payments		
Less than one year	1,506	3,528
Between one and five years	1,341	4,287
More than five years	875	890
Total	3,722	8,705
Future finance charges	273	260
Total lease liabilities	3,995	8,965
Cash outflow from leases		
Expenses not included in lease liability		
Short-term rents and leases	-196	-224
Low-value rents and leases	-519	-472
Total	-715	-696

18. PROVISIONS

1,000 €	Warranty provision	Other provisions	Total
1.1.2020	1,166	112	**1,621**
Provisions made during the year	-177	730	**552**
31.12.2020	**989**	**842**	**1,830**

1,000 €	2020	2019
Non-current	119	93
Current	1,711	1,528
Total	**1,830**	**1,621**

Warranties

The Group grants average 30 months guarantees for its certain products. If defects are detected during the warranty period, the Group either repairs the product or delivers a comparable new product. The amount of the warranty provision is based on the past experience on defective products and an estimate of related expenses.

19. TRADE AND OTHER CURRENT LIABILITIES

1,000 €	2020	2019
Current		
Trade payables	10,654	15,256
Personnel, social security and pensions	5,582	5,463
Accrued interest expenses and other financial items	63	61
Other accrued expenses and deferred income	11,199	12,798
Advances	3,767	2,992
Other liabilities	2,628	2,669
Total	**33,893**	**39,238**
Non current		
Other liabilties	832	79

20. INCOME TAX PAYABLE FOR THE PERIOD

At the end of the period there was income tax receivable 428 and tax payable of 880 thousand euro on the profit for the period (31 Dec. 2019 there was 683 thousand euro tax receivables and 1,283 thousand euro tax payables).

FINANCIAL RISK MANAGEMENT

The objective of the Group's financial risk management is to identify, evaluate and hedge financial risks to reduce the impacts of price fluctuations in financial markets and of other factors on earnings, balance sheet and cash flows as well as to guarantee cost-efficient funding for the Group at all times.

The Board has approved financial risk management guidelines and the allocation of responsibilities defined in the Group risk management policy and related operating policies covering specific areas. The Board oversees the Group's risk management framework. The Group's administration is responsible for the coordination and control of the Group's total financial risk position and external hedging transactions with banks in the name of the parent company. Teleste is risk averse in its treasury activities. The identification of the exposure is a common task of the business units and the Group administration.

The hedge accounting principles are applied in Teleste only for hedging the interest risk for specific long term loans.

Financial risks comprise market, credit, liquidity and cash flow interest rate risk, which are discussed more in detail below. The Group's exposure to price risk is low.

MARKET RISK

Market risk includes three types of risk: currency risk, price risk and fair value interest rate risk. Fluctuations of foreign exchange rates, market prices or market interest rates may cause a change in the value of a financial instrument. These changes may have an effect on the consolidated earnings, balance sheet and cash flows.

CURRENCY RISK

Transaction risk

The Group's currency position is divided into the transaction position and net investments in foreign operations. Foreign exchange exposures of the Group's units arise from receivables and accounts payables denominated in foreign currency, sales and purchase contracts and from forecast sales and purchases. Major part of the Group's sales is in Euro. The most significant non-euro sales currencies are UK pound sterling (13 per cent), PLN (accounts for 8 per cent of the net sales), Swedish and Norwegian crowns (5 per cent) and US dollars (2 per cent). Significant part of expenses, 46 per cent, arise in euro and in US dollar almost 54 per cent. The hedging decisions are based on the expected net cash flow for the following six months.

Assets and liabilities in foreign currency translated at closing rate

	2020					2019				
	USD	SEK	NOK	GBP	PLN	USD	SEK	NOK	GBP	PLN
Current assets	1,843	1,666	1,100	7,128	7,671	2,000	512	395	7,126	5,369
Current liabilities	2,538	1,809	1,117	2,726	4,017	2,697	495	490	2,862	3,057

Cash flow hedges at 31 Dec 2020

Currency position

Currency	Exposure	Hedge	Net	Hedge Instrument	Hedge
USD	10,024	8,231	1,793	Forward exchange contract	82%
CNY	897	773	125	Forward exchange contract	86%
GBP	1,891	1,346	545	Forward exchange contract	71%
PLN	1,513	1,250	263	Forward exchange contract	83%
NOK	888	688	201	Forward exchange contract	77%
SEK	508	429	80	Forward exchange contract	84%

Cash flow hedges at 31 Dec 2019

Currency position

Currency	Exposure	Hedge	Net	Hedge Instrument	Hedge
USD	11,902	10,281	1,621	Forward exchange contract	86%
CNY	499	422	77	Forward exchange contract	85%
GBP	2,703	2,174	529	Forward exchange contract	80%
PLN	1,410	1,123	287	Forward exchange contract	80%
NOK	1,044	831	213	Forward exchange contract	80%
SEK	1,434	1,144	290	Forward exchange contract	80%

In principle Teleste hedges forecast and probable cash flows. The Group only uses forward exchange agreements. According to the Group's currency risk management policy all material currency risks are hedged at least six months ahead and the Group's transaction position shall at all times be hedged 80–100 % by currency. The level of hedges is monitored on a monthly basis. Currency risk is also managed through, among others, operational planning, pricing and offer terms. Reprising interval varies between 3 and 24 months.

At the year-end 2020 the fair value of currency derivatives amounted to 18.5 million euro (31. Dec 2019: 21.1 million euro).

Translation risk

Since the Group's currency risk exposure regarding net investments in foreign operations is relatively low, the equity position, i.e. differences in the calculatory euro values of these amounts (translation risk) is not actively hedged. At 31 December 2020 the total non-euro-denominated equity of the Group's foreign subsidiaries amounted to 14.5 million euro (31 Dec. 2019: 14.4 million euro).

Sensitivity to market risk

	2020	2019
Sensitivity to market risks arising from financial instruments as required by IFRS 7	Profit or Loss	Profit or Loss
10 % change in EUR/USD exchange rate	+-179	+-162
10 % change in EUR/CNY exchange rate	+-12	+-8
10 % change in EUR/GBP exchange rate	+-54	+-53

FAIR VALUE INTEREST RATE RISK AND CASH FLOW INTEREST RATE RISK

Teleste's interest rate risk mainly comprises cash flow interest rate risk that arises from the interest-bearing liabilities. The Group can have floating or fixed interest loans and use interest swap contracts to achieve financial objectives. At the end of the reporting period 27,250 thousand euro have short-term interest as a reference rate. The interest period is of less than one year. Hedge accounting is applied for interest swap contracts hedging the interest risk. At 31.12.2020 there were no interest swap contracts . The change in the fair value of this hedging instrument, 62 thousand euro, is recognised in profit and loss as other comprehensive income. The fair value of the interest swap contract is 0 thousand euro. Main part of Group loans are denominated in euro. In 2020, the average interest rate of the loan portfolio was 0.9 per cent. All right-of-use agreements are fixed-rate.

The Group does not hedge the risk position resulting from the fair value interest rate risk as the position is small. The average balances of the variable rate loans realized during the period have been used in calculating the sensitivity analysis required by IFRS 7. At the closing date 31 December 2020, the effect on variable rate interest-bearing liabilities on profit before taxes would have been +-273 thousand euro had the interest rate increased or decreased by 1 percentage point.

Period in which repricing occurs	Within 1 year	1 year –5 years	over 5 years	**Total**
Financial instruments with floating interest rate				
Financial liabilities				
Loan from financial institutions	27,250			**27,250**

CREDIT RISK

The Group's accounts receivables are dispersed to a number of customers worldwide. Thus the primary responsibility for commercial credit risks lies with the Group's geographical areas. Commercial credit risks are managed in accordance with the Group's credit policy and are reduced for example with collaterals. Some accounts receivables are covered by a credit insurance. Credit risks are approved and monitored by the Group management team.

The credit risk related to financial instruments, i.e. counterparty risk is managed in the Group administration. Counterparty risk realises if a counterparty is unable to meet its obligations. In order to minimise counterparty risks, Teleste seeks to limit the counterparties, such as banks and other financial institutions, to those which have good credit rating. Liquid funds are invested in liquid instruments with low credit risk, e.g. in short-term bank deposits and commercial papers.

All receivables are without collaterals. There are no significant concentrations of risk with respect to the receivables of the Group. Impairment losses on trade receivables are shown in note 4 Other operating expenses.

	2020				2019			
Analysis of trade receivables by age	Gross	Provision	Impairment loss	**Net**	Gross	Provision	Impairment loss	**Net**
Not over due	19,869	0,3%	-60	19,810	24,840	0,3%	-75	24,766
1–30 days	3,776	2,0%	-76	3,700	3,171	2,0%	-63	3,107
31–60 days	1,139	4,0%	-46	1,094	1,503	4,0%	-60	1,443
61–90 days	262	6,0%	-16	247	1,372	6,0%	-82	1,290
91–120 days	313	12,0%	-38	276	772	12,0%	-93	679
Over 120 days	1,049	20,0%	-607	442	1,872	20,0%	-1,032	840
Total	**26,408**		-841	**25,567**	**33,530**		-1,405	**32,124**

Customer specific provisions are shown in group over 120 days over due.

The maximum exposure to credit risk at the reporting date was:	**2020**	2019
Loans and receivables	28,867	40,112
Available for sale financial assets	428	645

LIQUIDITY RISK

Liquidity risk is monitored through Group's cash flow forecasts. The Group seeks to reduce liquidity risk through sufficient cash reserves and credit facility arrangements as well as with balanced maturity profile of loans. Efficient cash and liquidity management also reduces liquidity risk. At the year-end 2020 the Group's cash reserves totaled 20.2 million euro and its interest-bearing net debt 31.0 million euro. The Group administration raises the Group's interest-bearing debt centrally. At 31 December 2020 Teleste had committed and available credit facilities as well as other agreed and undrawn loans amounting to 21.5 million euro. Group's loan agreements and committed loan facilities include profitability and cash flow covenants like netdebt/EBITDA and equity-ratio.

The recognition and measurement principles applied to derivatives are described in the accounting principles for the consolidated financial statements. The nominal and fair values of derivatives at the balance sheet date are presented in the note Commitments and contingencies to the consolidated financial statements.

As of 31 December 2020, the contractual maturity of interest-bearing liabilities was as follows:

	2021	2022	2023	2024	2025	Over 5 years
Loans from financial institutions	4,710	19,633	1,527	1,507		
Trade payables	10,654					
Lease liabilities	1,705	890	441	72	34	853
Forward exchange contracts						
Outflow	-18,988					
Inflow	18,515					
Other	63					

As of 31 December 2019, the contractual maturity of interest-bearing liabilities was as follows:

	2020	2021	2022	2023	2024	Over 5 years
Loans from financial institutions	3,164	3,142	18,077			
Trade payables	15,256					
Lease liabilities	3,622	2,432	1,419	441	78	896
Forward exchange contracts						
Outflow	-21,259					
Inflow	21,146					
Other	61					

CAPITAL RISK MANAGEMENT

The Group's objective when managing capital is to secure the continuity of the business and to make investments possible with optimal capital structure. The capital structure of the Group is reviewed by the Board of Directors on a regular basis.

The Group monitors its capital on the basis of leverage ratio, the ratio of interest-bearing net debt to interest-bearing net debt, plus total equity. Interest-bearing net debt is calculated as borrowings less cash and cash equivalents. The Group's objective to maintain the leverage less than 50%. The leverage ratio as of 31 December 2020 and 2019 was as follows:

1,000 €	**2020**	2019
Total borrowings	30,973	33,032
Cash and cash equivalents	20,224	8,249
Interest-bearing net debt	10,748	24,783
Total equity	63,090	72,779
Interest-bearing net debt and total equity	73,838	97,562
Leverage ratio	14.6 %	25.4 %

21. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

All other financial assets and liabilities are measured at their fair values in the consolidated balance sheet except for the long-term bank loan and right-to-use liabilities , which is measured at amortised cost.

Derivative instruments

Teleste uses forward exchage contracts to hedge its balance sheet items against transaction risk. The changes in the fair values of forward exchage contracts designated as hedging instruments are fully recognised through profit and loss. The fair value changes of forward exchange contracts amounted to -473 thousand euro in 2020 (2019: -48 thousand euro) and they are recognised as adjustements to sales. Long term bank loans are hedged by a interest swap contract. For this interest swap contract Teleste apply hedge accounting. The fair value changes of interest swap contracts amounted to -0 thousand euro. The change in fair value 62 thousand euro is entered in the total comprehensive income. The currency exchange contracts and interest swap contracts are in level 2.

Investments designated as at fair value through other comprehnsive income (FVTOCI)

These financial assets comprise unlisted shares that are measured at cost. They are in level 3. The fair value of these investments could not be determined reliably and the estimate fluctuates significantly or the probabilities within the range of different estimates are not reasonably determinable to be used to estimate the fair value.

Finance lease liabilities

The fair values of finance lease liabilities are based on the discounted future cash flows. The discount rate used is the market interest rates for homogeneous lease agreements.

Trade and other payables or receivables

For trade payables and other receivables than those arising from derivative instruments the notional amount equals their fair value as the discounting has no material effect considering the short maturity of these items.

Following discount rates were used for determining fair value:

	2020	2019
Right-of-use liabilities	1.3 %	1.3 %

Carrying amounts of financial assets and liabilities by measurment categories

	Assets and liabilities at fair value through income statement	Investments designated as at fair value through other comprehnsive income (FVTOCI)	Assets and liabilities measured at amortized cost	Carrying amount by balance sheet item	Fair Value	Note
2020 Balance item						
Non current financial assets						
Other financial assets	401	297	0	698	698	11
Current financial assets						
Trade and other receivables			25,567	25,567	25,567	14
Carrying amount by category	**401**	**297**	**25,567**	**26,264**	**26,264**	
Non-current financial liabilities						
Interest-bearing liabilities			24,716	24,716	24,716	17
Current financial liabilities						
Interest-bearing liabilities			6,256	6,256	6,256	17
Currency derivatives	473			473	473	23
Trade and other payables			10,654	10,654	10,654	19
Other current liabilities			63	63	63	19
Carrying amount by category	**473**	**0**	**41,689**	**42,162**	**42,162**	

	Assets and liabilities at fair value through income statement	Investments designated as at fair value through other comprehnsive income (FVTOCI)	Assets and liabilities measured at amortized cost	Carrying amount by balance sheet item	Fair Value	Note
2019 Balance item						
Non current financial assets						
Other financial assets	426	219	0	645	645	11
Current financial assets						
Trade and other receivables			32,124	32,124	32,124	14
Carrying amount by category	**426**	**219**	**32,124**	**32,769**	**32,769**	
Non-current financial liabilities						
Interest-bearing liabilities			26,501	26,501	26,501	17
Current financial liabilities						
Interest-bearing liabilities			6,531	6,531	6,531	17
Currency derivatives	48			48	48	23
Interest swap contracts		65		65	65	23
Trade and other payables			15,256	15,256	15,256	19
Other current liabilities			61	61	61	19
Carrying amount by category	**48**	**0**	**48,348**	**48,461**	**48,461**	

22. ADJUSTMENTS TO CASH FLOWS FROM OPERATING ACTIVITIES

1,000 €	2020	Restated 2019
Non-cash transactions:		
Depreciation and amortisation	7,984	6,747
Employee benefits	370	529
Total	**8,354**	**7,276**

23. COMMITMENTS AND CONTINGENCIES

1,000 €	2020	2019
Rental and leasing liabilities		
Lease liabilities	921	886
Currency derivatives		
Value of the underlying forward contracts	18,515	21,146
Market value of the forward contracts	-473	-48
Interest swap contracts		
Value of the underlying interest swap contracts	0	10,000
Market value of interest swap contracts	0	-65
Guarantees		
Guarantees	11,055	2,197

24. RELATED PARTY TRANSACTIONS

The party is considered to be Teleste's related party if the party can exercise control over or otherwise significantly influence a Teleste Group company's finance and business decision making process. Teleste's related parties are the following:

- The companies which are part of the Teleste Group (group companies);
- The associated enterprises and joint ventures of a company which part of the Teleste Group;
- The members and deputy board members, the CEO and the deputy CEO, and the members of the official management groups of Teleste Oyj and the companies mentioned above, as well as their closest family members;
- A Teleste Oyj shareholder who holds at least 20 % of the vote share of the total number of votes held by shareholders, or who can otherwise significantly influence Teleste Oyj financial and business decision making process, the group companies and subsidiaries of such a shareholder, and the members and deputy board members, the CEO and the deputy CEO, and the members of the official management groups, and the closest family members of abovementioned individuals, of group companies and subsidiaries belonging to such a shareholder;
- The key personnel managing a company mentioned above, including their closest family members; and
- A company owned by any individual mentioned above, where persons can, together or separately with another abovementioned individual, exercise control over or otherwise significantly influence the company's finance and business decision making process.

In addition to the parties mentioned above, Teleste Oyj can include other key personnel belonging to the management of a company which is a part of the Teleste Group (such as country managers) and their close family members to the list of related parties to ensure transparency.

Companies owned by the Group and parent company	Group holding, %	Group voting, %
Parent company Teleste Oyj, Turku, Finland	100	100
Asheridge Investments Ltd, Chesham, UK	100	100
Dinh TeleCom S.A., Herstal, Belgium	100	100
Teleste Norge A/S, Porsgrun, Norway	100	100
Flomatik Network Services Ltd. Fareham, UK	100	100
Kaavisio Oy, Turku, Finland	100	100
Teleste Information Systems Sp. Zoo, Warsow, Poland	100	100
Teleste Information Solutions Oy, Forssa, Finland	100	100
Teleste Networks Sp. Zoo, Wroclaw, Poland	100	100
Teleste Belgium SPRL, Bryssel, Belgium	100	100
Teleste Corporation Iberica S.L, Alcobendas, Spain	100	100
Teleste d.o.o., Ljutomer, Slovenia	100	100
Teleste Electronics (SIP) Co., Ltd, Shuzhou, China	100	100
Teleste France SAS, Paris, France	100	100
Teleste GmbH, Hildesheim, Germany	100	100
Teleste Intercept, LLC, Dover DE, USA	60	60
Teleste LLC, New Jersey, USA	100	100
Teleste Ltd, Chesham, UK	100	100
Teleste Networks Services S.A. Yverdon, Switzerland	100	100
Teleste SP z.o.o, Wroclaw, Poland	100	100
Teleste Systems GmbH, Hannover, Germany	100	100
Teleste Sweden AB, Stockholm, Sweden	100	100
Teleste UK Ltd, Cambridge, UK	100	100
Teleste US, Inc, Dover DE, USA	100	100
Teleste Video Networks Sp zoo, Krakova, Poland	100	100

The key management personnel compensations

1,000 €	**2020**	2019
CEO		
Salaries and other short-term benefits	397	535

During 2020 no options were granted to the management of Teleste (2019: 0 options). Management of the parent company has 1,0 % or 187,038 of the parent company's shares (2019: 1,0 % or 182,853 shares).

The CEO's pension plan is arranged through group pension insurance, payment amounted 97 thousand euro (94 thousand euro in 2018) and a capital redemtion policy, payment amounted 77 thousand euro (77 thousand euro in 2019). These payments are not included in above mentioned salaries and other short term benefits.

The key management personnel compensations 1,000 €	**2020**	2019
Pertti Ervi, Chairman of the Board and Member of the Audit Committee until 22.4.2020	0	66
Jannica Fagerholm, Member of the Board and Chairman of the Audit Comittee until 22.4.2020	1	34
Jussi Himanen, Member of the Board and Member of the Audit Comittee from 22.4.2020 onwards	35	32
Vesa Korpimies, Member of the Board, Member of the Audit Comittee	36	33
Mirel Leino-Haltia, Member of the Board and Chairman of the Audit Comittee from 22.4.2020 onwards	49	0
Timo Luukkainen, Chairman of the board from 22.4.2020 onwards	66	32
Heikki Mäkijärvi, Member of the Board	33	32
Kai Telanne, Member of the Board	33	32
Jukka Rinnevaara, CEO	397	535
Total	**650**	**796**

The contractual age of retirement of CEO of the parent company, Jukka Rinnevaara, is 60. As to the contract, his term of notice has been specified as 6 months in case the President and CEO decides to withdraw, and 18 months should the contract be terminated by the company. A fixed remuneration for the Board is paid as shares of the company in accordance with the decision of the Annual General Meeting. Remuneration of Board Meetings are paid in cash.

No cash loans were granted to nor commitments assumed or collaterals given regarding CEO or the members of the Board of Directors in 2020 and 2019.

25. SUBSEQUENT EVENTS

The Group management is not aware of any significant events occurred after the balance sheet date, which would have had an impact on the financial statements.

Income statement of parent company

Income statement of parent company 1.1.–31.12.2020

1,000 €	Note	2020	2019
Net sales	1	**70,257**	**81,877**
Change in inventories of finished goods		-439	-255
Other operating income	2	2,147	3,444
Material and services	3	-39,540	-44,135
Personnel expenses	4	-20,299	-21,825
Depreciation and amortisation	5	-772	-911
Other operating expenses	6	-37,234	-16,028
Operating profit		**-25,880**	**2,167**
Financial income and expenses	7	-2,301	-2,408
Profit before extraordinary items		**-28,182**	**-241**
Appropriations	8	170	92
Group Contribution	8	0	0
Income taxes			
Taxes from current and prior periods	9	-216	-513
Profit for the financial period		**-28,228**	**-663**

Balance sheet 31.12.2020

1,000 €	Note	**2020**	2019
Non-current assets			
Intangible assets	10	166	541
Property, plant and equipment	10	2,788	3,170
Long-term receivables	11	13,405	30,785
Investments	12	28,643	34,824
		45,002	**69,320**
Current assets			
Inventories	13	10,996	12,347
Trade and other receivables	14	16,235	32,668
Cash and cash equivalents	15	16,094	4,400
		43,325	**49,415**
Total assets		**88,327**	**118,735**
Equity and liabilities			
Shareholders' equity			
Share capital	16	6,967	6,967
Share premium	16	1,504	1,504
Invested non-restricted equity	16	3,704	3,704
Retained earnings	16	43,034	45,517
Profit for the financial period	16	-28,228	-663
		26,981	**57,029**
Appropriations	8	**136**	**306**
Provisions	17	**667**	**467**
Liabilities			
Long-term liabilities	18	22,500	21,000
Short-term liabilities	19	38,043	39,932
		60,543	**60,932**
Total equity and liabilities		**88,327**	**118,735**

Cash flow statement

1,000 €	2020	2019
Cash flow from operations		
Result before extraordinary items	-28,182	-241
Adjustments		
Depreciations according to plan	772	911
Profit/loss from sale of investments	24,905	
Financial income and expenses	2,301	2,408
Cashflow before changes in working capital	-203	3,078
Changes in working capital		
Increase (-) /decrease(+) in trade and other receivables	6,908	-2,592
Increase (-) / decrease (+) in inventories	1,352	-1,530
Increase (+) / decrease (-) in trade payables	-2,221	-2,025
Change in provisions	200	-139
Loans granted	0	-99
Cashflow before financial items and taxes	6,036	-3,308
Paid interests	-389	-341
Interests and dividends received	794	4,018
Income taxes paid	-50	-1,076
Cash flow from operations	**6,390**	**-706**
Investments		
Invetsments in intangible and tangible assets	-15	-85
Investments in subsidiary shares	0	-2,130
Disposal of shares in subsidiaries	6,276	0
Loans granted	-3,631	0
Proceeds from borrowings	3,031	0
Change in group cashpool	3,819	-7,893
Investment in other financial assets	-77	-77
Cash flow from investments	**9,404**	**-10,184**
Financing activities		
Proceeds from borrowings	6,000	567
Payments of borrowings	-3,567	0
Change in trade payables group	-4,848	2,684
Paid dividends and other profit distribution	-1,685	-3,639
Cash floes from financing activities	**-4,099**	**-389**
Change in liquid funds	**11,694**	**-11,279**
Liquid funds 1.1	4,400	15,678
Effects of exchange rate fluctuations on cash held	0	0
Liquid funds 31.12	16,094	4,400

ACCOUNTING PRINCIPLES OF TELESTE CORPORATION

Teleste Corporation is the parent company of the Teleste Group. Business ID of Teleste Corporation is 1102267-8 with registered office in Turku. The company registered address is Telestenkatu 1 20660 Littoinen.

FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are recorded at the rates of exchange prevailing on the date of the transaction. At the end of the accounting period, unsettled foreign currency balances are translated into the accounting currency at the closing rate on the balance sheet date. Foreign exchange gains and losses on trade accounts receivable and payable are adjusted to revenues and operating expenses, respectively. Other foreign exchange gains and losses are recorded as financial income and expenses.

DERIVATIVES

The company has currency forward exchange agreements. Exchange agreements are designed to eliminate the effect of currency exposures on the company performance and financial standing. The interest swap agreements are taken for specicig long term floating interest loans to eliminate the interest risk.

Our corporate hedging policy is to cover all material currency risks at least six months ahead. The effect on company performance of the exchange rate agreements is recorded on their exercise day.

VALUATION OF FIXED ASSETS

The balance sheet values for fixed assets are stated as historical cost, less the accumulated depreciation and amortisation. Depreciation and amortisation is calculated on straight-line basis over the expected useful lives of the assets. Estimated useful lives for various assets are:

Intangible assets	3 years
Goodwill	8 years
Other capitalised expenditure	3 years
Buildings	25–33 years
Machinery	3–5 years
Computers	0–3 years

Write-downs on permanent impairment of the assets are recorded when it becomes evident that the carrying amount is not recoverable.

Companies acquired or established during the financial period are included in the subsidiary shares as of date of acquisition or formation. Companies disposed of in the financial period have been included in the subsidiary shares up to the date of disposal.

Long-term investments and receivables include financial assets, which are intended to be held for over one year.

LEASED ASSETS

Purchases made under operating leases and capital leases are entered into income statement as renting expenses.

INVENTORIES

Inventories are stated at the lower of cost or net realisable value. Acquisition cost is determined using the first-in-first-out (FIFO) method. In addition to variable expenditure, value of inventory includes their share of the fixed expenditure under purchases and manufacturing.

CASH

Cash and cash equivalents include cash in hand and in bank. Short-term investments include other funds equivalent to cash, such as commercial papers.

NET SALES

Net sales include revenue from services rendered and goods sold, adjusted for discounts granted, sales-related taxes and effects of the translation differences. Revenue is recognised when services are rendered, or when the goods are delivered to the customer.

RESEARCH AND DEVELOPMENT

R&D expenses are recorded as revenue expenditure.

PENSION ARRANGEMENTS

The statutory pension liabilities of Finnish companies are funded through pension insurance.

INCOME TAXES

Income tax includes tax on profit for the current financial period and the accrual adjustment for the preceding financial period.

TREASURY SHARES

Treasury shares acquired by the Group are not included in balance. As to this, final accounts for the year of comparison have been adjusted by eliminating the value of treasury shares from the company fixed assets and the equity. This adjustment is based on an amendment of the Finnish accounting legislation. Use of own shares are recognised in invested non-restricted equity since 3 April 2007.

Notes to the parent company's financial statements 31.12.2020

1. NET SALES

1,000 €	2020	2019
Net sales by segments		
Video and Broadband Solutions	68,499	80,482
Network Services	1,758	1,395
Total	**70,257**	**81,877**
Net sales by market area		
Finland	11,916	12,810
Nordic countries	6,555	11,284
Other Europe	44,110	50,229
Others	7,675	7,554
Total	**70,257**	**81,877**

2. OTHER OPERATING INCOME

R&D subvention and others	402	335
Insurance compensation	257	858
Other	1,489	2,251
Total	**2,147**	**3,444**

3. MATERIAL AND SERVICES

Purchases	-36,601	-43,331
Change in inventories	-912	1,785
	-37,514	**-41,546**
Purchased services	-2,026	-2,589
Total	**-39,540**	**-44,135**

4. PERSONNEL EXPENSES

1,000 €	2020	2019
Wages and salaries	-16,808	-17,728
Pension costs	-2,978	-3,471
Other personnel costs	-512	-627
Total	**-20,299**	**-21,825**
Remuneration to Board members and Managing Directors		
Pertti Ervi, Chairman of the Board until 22.4.2020	0	-66
Jannica Fagerholm, Member of the Board until 22.4.2020	-1	-34
Kai Telanne, Member of the Board	-33	-32
Timo Luukkainen, Chairman of the Board from 22.4.2020 onwards	-66	-32
Heikki Mäkijärvi, Member of the Board	-33	-32
Vesa Korpimies, Member of the Board	-36	-33
Jussi Himanen, Member of the Board	-35	-32
Mirel Leino-Haltia, Member of the Board from 22.4.2020 onwards	-49	0
Jukka Rinnevaara, CEO	-397	-535
Total	**-650**	**-796**

Cash loans, securities or contingent liabilities were not granted to the CEO or to the members of the Board of Directors.

Year-end personnel	331	362
Average personnel	336	356
Personnel by function at the year-end		
Research and Development	86	89
Production and Material Management	160	182
Sales and marketing	51	55
Administration	35	36
Total	**331**	**362**

5. DEPRECIATION ACCORDING TO PLAN

1,000 €	2020	2019
Buildings	-290	-291
Machinery and equipment	-92	-109
Goodwill	-275	-275
Other intangible rights	-116	-237
Total	**-772**	**-911**

6. OTHER OPERATING EXPENSES

Office and property costs	-3,563	-3,748
Travel expenses	-316	-1,156
Sales and marketing	-186	-384
IT costs	-1,735	-1,715
Disposal of shares in subsidiaries	-24,905	0
Other expenses	-6,529	-9,024
Total	**-37,234**	**-16,028**

7. FINANCIAL INCOME AND EXPENSES

Interest income	22	68
Interest income from Group companies	858	1,022
Interest expenses	-262	-199
Interest expenses to Group companies	-127	-142
Impairment of investments	-3,700	-6,070
Currency differences	-441	267
Other financial income and expenses	-50	-55
Dividend income from Group companies	1,394	2,696
Dividend income	4	4
Total	**-2,301**	**-2,408**

8. APPROPRIATIONS AND DEFERRED TAX ASSETS AND LIABILITIES IN THE PARENT COMPANY

1,000 €	2020	2019
Change in accumulated depreciation difference		
Buildings	109	95
Machines and equipment	-10	-20
Intangible assets	71	16
Total	**170**	**92**
Group contribution	**0**	**0**
Total	**170**	**92**
Accumulated depreciation in excess of plan	136	306

9. INCOME TAXES

	2020	2019
Direct taxes	13	-464
Taxes from previous years	-229	-50
Total	**-216**	**-513**

10. TANGIBLE AND INTANGIBLE ASSETS

1,000 €	Intangible assets	Goodwill	Total	Buildings	Machinery	Total
Acquisition cost 1.1.	8,376	2,197	10,573	8,931	9,251	18,182
Additions	15	0	15			0
Acquisition cost 31.12.	**8,391**	**2,197**	**10,588**	**8,931**	**9,251**	**18,182**
Accumulated depreciation 1.1.	-8,225	-1,808	-10,033	-5,940	-9,073	-15,013
Depreciation	-116	-275	-390	-290	-92	-382
Accumulated depreciation 31.12.	**-8,341**	**-2,082**	**-10,423**	**-6,231**	**-9,165**	**-15,395**
Book value 31.12.2020	**51**	**115**	**166**	**2,701**	**87**	**2,788**

11. LONG TERM RECEIVABLES

1,000 €	2020	2019
Subordinated loan from group company	2,000	6,300
Other long term receivables from group companies	11,405	24,485
Total	**13,405**	**30,785**

12. INVESTMENTS

Parent company	Shares in group companies	Shares others	Other Investments	Total
Acquisition cost 1.1.	48,482	19	220	48,720
Additions	0	0	77	77
Disposals	-13,627	0	0	-13,627
Acquisition cost 31.12.	**34,855**	**19**	**297**	**35,171**
Accumulated depreciation 1.1.	-13,897	0	0	-13,897
Disposals	11,070	0	0	11,070
Impairment	-3,700	0	0	-3,700
Accumulated depreciation 31.12.	**-6,527**	**0**	**0**	**-6,527**
Book value 31.12.2020	**28,328**	**19**	**297**	**28,643**

13. INVENTORIES

1,000 €	2020	2019
Raw materials and consumables	6,270	7,183
Work in progress	241	575
Finished goods	4,484	4,590
Total	**10,996**	**12,347**

14. CURRENT ASSETS

1,000 €	2020	2019
Accounts receivables	7,690	9,156
Accounts receivables from Group companies	5,951	13,550
Other receivables from Group companies	1,193	8,876
Other receivables	686	76
Accrued income	715	1,009
Total	**16,235**	**32,668**

15. LIQUID FUNDS

Cash and cash equivalents	**16,094**	**4,400**

16. CHANGES IN SHAREHOLDERS' EQUITY

1,000 €	2020	2019
Share capital 1.1.	6,967	6,967
Share capital 31.12.	6,967	6,967
Share premium fund 1.1.	1,504	1,504
Share premium fund 31.12.	1,504	1,504
Invested non-restricted equity 1.1.	3,704	3,704
Invested non-restricted equity 31.12.	3,704	3,704
Retained earnings 1.1.	44,855	49,155
Dividends	-1,821	-3,637
Retained earnings 31.12.	43,034	45,517
Profit for the financial period	-28,228	-663
Accumulated profit 31.12.	14,806	44,855
Total	**26,981**	**57,029**
Companys distributable equity 31.12.	18,510	48,558

Company's registered share capital consists of one serie and is divided into 18,985,588 shares at 1 vote each.

17. OBLIGATORY PROVISIONS

1,000 €	2020	2019
Guarantee provisions	194	354
Other provisions	473	113
Total	**667**	**467**

18. LONG TERM LIABILITIES

Loans from banks	**22,500**	**21,000**

19. SHORT TERM LIABILITIES

Loans from banks	4,500	3,567
Accounts payables	5,122	5,401
Accounts payables from Group companies	2,833	2,876
Other current liabilities	1,089	773
Other current liabilities from Group companies	14,325	20,311
Accrued liabilities	10,175	7,004
Total	**38,043**	**39,932**

20. CONTINGENT LIABILITIES AND PLEDGED ASSETS

1,000 €	2020	2019
Leasing liabilities		
For next year	851	1,140
For later years	909	868
Total	**1,760**	**2,008**
Rental liabilities		
Less than one year	77	90
Between one and five years	83	232
More than five years	875	851
Total	**1,035**	**1,173**
Liabilities on own behalf		
Bank guarantees	1,425	1,428
Guarantees given on behalf of subsidiaries	9,630	769

21. CURRENCY DERIVATES

Value of underlying forward contracts	18,515	21,146
Market value of forward contracts	-473	-48
Interest rate swap	0	10,000
Market value of interest rate swap	0	-65

Negative market value booked as cost for the fiscal period of 2020.

22. COMPANIES OWNED BY THE GROUP AND PARENT COMPANY

	Group holding share %	Parent company's share %
Asheridge Investments Ltd, Chesham, UK	100	0
Dinh TeleCom S.A., Herstal, Belgium	100	1
Teleste Norge A/S, Porsgrun, Norway	100	100
Flomatik Network Services Ltd., Fareham, UK	100	100
Teleste Systems GmbH, Hannover, Germany	100	0
Kaavisio Oy, Turku, Finland	100	100
Teleste Information Solutions Sp. Zoo Warsaw Poland	100	0
Teleste Information Solutions Oy, Forssa, Finland	100	100
Teleste Networks s.p.zoo,Wroclaw, Puola	100	100
Teleste Belgium SPRL, Bryssel, Belgium	100	100
Teleste Corporation Iberica S.L, Alcobendas, Spain	100	0
Teleste d.o.o., Ljutomer, Slovenia	100	100
Teleste Electronics (SIP) Co., Ltd, Shuzhou, China	100	100
Teleste France SAS, Paris, France	100	100
Teleste GmbH, Hildesheim, Germany	100	100
Teleste Intercept, LLC, Dover DE, USA	60	0
Teleste LLC, Georgetown Texas, USA	100	100
Teleste Ltd, Chesham, UK	100	0
Teleste Network Services S.A., Yverdon, Switzerland	100	100
Teleste SP z.o.o, Wroclaw, Poland	100	0
Teleste Sweden AB, Stockholm, Sweden	100	100
Teleste UK Ltd, Cambridge, UK	100	100
Teleste US, Inc, Dover DE, USA	100	100
Teleste Video Networks Sp zoo , Krakow, Poland	100	100

23. OWN SHARES

	Number of shares	Percentage of shares and votes	
Teleste Oyj own shares 31.12.2020	776,419	4.09 %	4.09 %

24. SHARES AND OWNERS

Management interest

	Number of shares	Percen-tage of share capital	Percen-tage of votes
CEO and Board Members	187,038	0.99 %	0.99 %

Audit expenses	1,000 €	**2020**	2019
Auditing assignments		-68	-46
Tax consultancy		-12	-2
Other assignments		-37	-39
Total		**-117**	**-87**

25. MAJOR SHAREHOLDERS

Major shareholders 31.12.2020	Shares	Precentage of share capital, %
Tianta Oy	4,570,760	24.1
Mandatum Life Insurance Company Limited	1,684,380	8.9
Ilmarinen Mutual Pension Insurance Company	899,475	4.7
Kaleva Mutual Insurance Company	824,641	4.3
Teleste Oyj	776,419	4.1
Mariatorp Oy	550,000	2.9
Varma Mutual Pension Insurance Company	521,150	2.8
The State Pension Fund	500,000	2.6
Wipunen varainhallinta Oy	450,000	2.4
OP-Finland Small Firms Fund	240,408	1.3
Total (10)	**11,017,233**	**58.04**

Sector Dispersion	Shareholders	%	Shares	%
Households	5,516	94.08	5,228,443	27.54
Public sector institutions	3	0.05	1,920,625	10.12
Financial and insurance institutions	22	0.38	3,701,889	19.50
Corporations	272	4.64	8,027,970	42.29
Non-profit institutions	20	0.34	43,918	0.23
Foreign	30	0.51	62,743	0.33
Total	**5,863**	**100**	**18,985,588**	**100**
Of which nominee registered	10	0.17	483,657	2.55

Holding Dispersion				
1–100	1,672	28.52	94,186	0.50
101–500	2,361	40.27	638,124	3.36
501–1 000	829	14.14	665,133	3.50
1 001–5 000	792	13.51	1,763,420	9.29
5 001–10 000	98	1.67	685,069	3.61
10 001–50 000	82	1.40	1,691,823	8.91
50 001–100 000	7	0.12	476,961	2.51
100 001–500 000	15	0.26	3,144,047	16.56
500 001–	7	0.12	9,826,825	51.76
Total	**5,863**	**100.00**	**18,985,588**	**100.00**
Of which nominee registered	10	0.17	483,657	2.55

PROPOSAL FOR THE DISTRIBUTION OF EARNINGS

PROPOSAL FOR THE DISTRIBUTION OF EARNINGS

Teleste Corporation's distributable equity on the date of the financial statements amounted to EUR 18 510 381,97.

The Board of Directors proposes to the Annual General Meeting of 7 April 2021 that a dividend of EUR 0.12 per share be paid to outstanding shares for the year 2020.

Signatories to the Annual Report and the Financial Statements

10 February 2021

Timo Luukkainen, COB

Jussi Himanen, MOB

Vesa Korpimies, MOB

Mirel Leino-Haltia, MOB

Heikki Mäkijärvi, MOB

Kai Telanne, MOB

Jukka Rinnevaara, CEO

The Auditor's Note

Our auditors' report has been issued today.

10 February 2021

KPMG OY AB

Petri Kettunen
Authorised Public Accountant

AUDITOR'S REPORT

To the Annual General Meeting of Teleste Corporation

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Teleste Corporation (business identity code 1102267-8) for the year ended 31 December 2020. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, cash flow statement and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU;
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 4 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Divestment of the services business in Germany and its reporting as a discontinued operation (Refer to accounting principles for the consolidated financial statements, note 7 to the consolidated financial statements and note 6 to the parent group's financial statements)	
• The divestment of the services business in Germany was completed in November 2020. The divested business comprised a significant part of Teleste Group's operations and has been presented as discontinued operations in the consolidated financial statements. • A disposal loss of EUR 6.1 million, including costs for sale, has been recognised in the Group's result for the financial year. The effect of the discontinued operations on the Group's result for the financial year 2020 totalled EUR -10,8 million. The disposal loss on the sale of subsidiary shares recognised in the parent company's result for the financial year was EUR 24.9 million. • Due to the significance of the transaction we have considered the divestment of the services business in Germany as a key audit matter.	• We reviewed the documentation and accounting entries in relation to the divestment of the services business in Germany and evaluated the appropriateness of the accounting treatment of the transaction in relation to the applicable accounting principles. • We evaluated the appropriateness of the presentation of discontinued operations in the consolidated income statement and in the notes to the consolidated financial statements.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Valuation of goodwill and capitalized development costs (Refer to accounting principles for the consolidated financial statements and note 9)	
• As a result of acquisitions, significant goodwill balance of EUR 30.5 million has been created in the consolidated statement of financial position. Under IFRS standards goodwill is not amortised, but it is tested for impairment at least annually. Management makes several estimates of assumptions used in the impairment calculations. The future cash flow projections require management judgement in regard of, e.g., sales growth, profitability, terminal growth and discount rates applied. • The research and development operations are a central part of industry were Teleste operates in. The development costs are capitalized in the consolidated statement of financial position to the extent that they meet the capitalisation criteria set out in the relevant accounting standard (IAS 38) and are assessed to contribute future economic benefits. The assessment may change even in a rather short term, e.g. as a result of technical development. At the end of financial year 2020, the carrying value of capitalized development costs in the consolidated statement of financial position amounted EUR 12 million. • We considered the valuation of goodwill and capitalized development costs as a key audit matter because of the management judgement involved in the assumptions used in the impairment testing and the significance of their balance sheet values.	• Relating to impairment testing, we assessed the Group's process for preparing cash flow forecasts and the key assumptions used in the calculations, such as net sales growth rate, profitability and discount rate, by reference to the budgets and business plan approved by the parent company's Board of Directors, third party information and our own views. • We involved our valuation specialists in assessing the technical appropriateness of the calculations and comparing the assumptions used to market and industry data. • We assessed the process for capitalizing development costs and considered whether the development costs capitalized during the financial year met the capitalization criteria under the relevant accounting standard. • In addition, we considered the appropriateness of the notes to the consolidated financial statements on goodwill and capitalized development costs.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Accuracy of net sales (Refer to accounting principles for the consolidated financial statements and note 1)	
• Net sales, EUR 145 million, is a material item in the consolidated financial statements: the number of sales transactions is large and the Group sells a wide variety of products, services and projects. In part of product and service sales it is agreed that group companies receive prepayments from customer before delivering products and services. • Due to the variety and large number of sales transactions the accuracy of net sales is considered a key audit matter.	• We tested controls over registering sales transactions and recognising related revenue. • We assessed the appropriateness of the revenue recognition principles the Group applies by comparing to currently valid IFRS standards, the Group accounting principles and contract terms. • As part of the audit procedures made to assess the accuracy of net sales, we performed various analyses to identify and analyse divergent sales transactions.
Valuation of inventories (Refer to accounting principles for the consolidated financial statements and note 13)	
Valuation of inventories is considered a key audit matter due to the following factors: • Inventories represent a significant item of the consolidated total assets, 21%. • Valuation of inventories requires management judgements over future sales and appropriate level of write-downs on inventory items. Demand for products may change due to customer behavior, fluctuations in market prices and technological developments.	• We analysed the inventory accounting process and tested the functionality of the related internal controls. We also tested internal controls surrounding inventory valuation and the accuracy of inventory quantities. Furthermore, we assessed the appropriateness of the company's inventory counting procedures. • In addition, we considered the appropriateness of inventory write-down principles and the adequacy of the write-downs recognised in the financial statements.

Responsibilities of the Board of Directors and the CEO for the Financial Statements

The Board of Directors and the CEO are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the CEO are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the CEO are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the CEO's use of the going concern basis of accounting and based on the audit evidence obtained, whether

- a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

OTHER REPORTING REQUIREMENTS

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on 8 April 2003 and our appointment represents a total period of uninterrupted engagement of 18 years.

Other Information

The Board of Directors and the CEO are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report and the Annual Report is expected to be made available to us after that date. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki, 10 February 2021
KPMG OY AB

Petri Kettunen
Authorised Public Accountant, KHT

Corporate governance statement 2020

This Corporate Governance Statement has been prepared pursuant to Chapter 7, section 7 of the Finnish Securities Markets Act and the Finnish Corporate Governance Code 2020 issued by the Securities Market Association of Finland on 1 January 2020. The Corporate Governance Code is available on the Finnish Securities Market Association's website at http://cgfinland.fi/en/. The Corporate Governance Statement is issued separately from the Report of the Board of Directors, and the provided data are based on the situation as at 31 December 2020.

CORPORATE GOVERNANCE

Teleste Corporation (hereafter "Teleste") aims to organise its management in a consistent and functional manner. The company's governance is based on Finnish legislation and Teleste's Articles of Association. Teleste shares are listed on Nasdaq Helsinki Oy (hereafter "Stock Exchange"). Teleste complies with the Finnish Securities Markets Act, the rules and regulations for listed companies issued by the Stock Exchange, including the Finnish Corporate Governance Code 2020, and the rules and regulations of the Finnish Financial Supervisory Authority. Since 1 March 2000, Teleste complies with the insider guidelines of the Stock Exchange in their valid form at any given time. These insider guidelines are complemented by Teleste's internal guidelines. The company has confirmed the values applied to its operations.

General Meeting

Teleste's General Meeting is the highest decision-making body of the company. The AGM convenes at least once a year. According to the Articles of Association, the Annual General Meeting (AGM) must be held by the end of June each year.

The General Meeting decides on matters as required in the provisions of the Limited Liability Companies Act. The matters decided by the AGM include adoption of the financial statements, allocation of profit shown by the balance sheet, discharge of the Board of Directors and the CEO from liability, and election of the Board members and the auditor. In addition, responsibilities of the General Meeting include making amendments to the Articles of Association and deciding on share issues, granting of entitlements to options and other special rights, procurement and redeeming of the company's own shares, and reduction of share capital. Teleste's General Meeting shall be convened by the Board of Directors.

Board of Directors

Rules of Procedure

It is the responsibility of Teleste's Board of Directors to manage the company in accordance with the law, statutory regulations, Articles of Association and decisions taken by the General Meeting. The operating procedures and main duties of the Board of Directors are specified in the Board's Rules of Procedure.

According to the Rules of Procedure approved by the Board of Directors on 18 September 2018 and amended on 18 December 2019, the Board of Directors represents all the shareholders and always acts in the best interests of the company and its shareholders. The objective of the Board of Directors is to guide the company's business in such a manner that it provides the company's shareholders with the best possible return in the long run. The Board of Directors regularly monitors the achievement of the company's financial and strategic targets as well as the development of the company in accordance with the long-term goals. The Board of Directors provides the company management with external opinions and support. The Board is also responsible for ensuring that accounting, financial management and risk management in the company are appropriately organised. In addition, as applicable, the Board of Directors is responsible for matters related to the preparation of the shareholders' meeting and the implementation of its decisions.

The Board of Directors considers matters that have a significant and long-lasting effect on the company and defines the powers of the Chief Executive Office (CEO). When considered necessary, the Board of Directors establishes committees to support its work. The Board of Directors decides on the members, chairpersons and rules of procedure of the committees.

Matters requiring approval by the Board are listed in Appendix 1 to the Board of Directors' Rules of Procedure. The appendix is regularly reviewed. In addition, the Board of Directors:

- confirms the company's ethical values and policies and monitors their implementation;
- monitors the company management's communications with shareholders and the securities market and, when necessary, discusses the formation of shareholder interest and the response of the market;
- defines the company's dividend policy;
- annually confirms the company's basic strategy as well as the business objectives for the planning period derived from the basic strategy;
- annually studies the technical development as well as the general demand and competition environment in the industry and assesses the company's key risks on the basis of the analysis prepared by the CEO;
- reviews and approves interim financial statements and interim reports as well as the annual financial statements and the Report of the Board of Directors;
- holds a meeting with the chief auditors at least once a year;
- appoints and, when necessary, dismisses the CEO;
- makes the necessary proposals to the shareholders' meeting;
- grants authorisation to sign for the company and power of procuration;
- establishes Board committees, when necessary;
- approves proportional principles and processes for related party transactions and monitors and assesses transactions between the company and its related parties;
- considers any other matters that the Chairman of the Board and/or CEO have decided to place on the agenda for a meeting and matters that Board members have requested to be considered at a meeting by informing the Chairman about their request; and
- performs any other duties required by the Limited Liability Companies Act, the Articles of Association and other regulations.

The Rules of Procedure of the Board of Directors are available in their entirety on Teleste's website at **www.teleste.com/investors/corporate-governance/board-directors/rules-procedure-board**

Members of the Board of Directors

According to the Articles of Association, the Annual General Meeting elects a minimum of three and maximum of eight Board members each year. The Annual General Meeting (AGM) decides on the number of Board members and their election. The Board elects a Chairman of the Board from among its members. A person designated by the Board of Directors acts as the secretary of the Board.

The company has a nomination board that comprises three (3) members who represent the company's three largest shareholders calculated based on all shares conferred by the company on 30 August preceding the next annual general meeting. The nomination board is responsible for a) preparing and presenting a proposal on the number of Board members to the AGM, b) preparing and presenting a proposal on the Board members to the AGM and advising the company's Board in respect of the composition of the Audit Committee, c) preparing and presenting a proposal on the remuneration of the Board members, d) looking for candidates for new Board members. Its term continues until a new nomination board is elected. In addition to the required experience and areas of expertise, the guidelines on the diversity of the Board are taken into account when choosing candidates.

The term of office of Board members is one year, lasting until the close of the Annual General Meeting following the election. The number of terms of a Board member is not limited.

The Annual General Meeting held on 22 April 2020 elected the six persons specified below to Teleste's Board of Directors. Timo Luukkainen was elected Chairman on 22 April 2020 by the members of the Board.

- Luukkainen Timo, Chairman, born 1954, M.Sc. (Econ.), M.Sc. (Eng.), MBA, Board professional 2016
- Himanen Jussi, Member, born 1972, M.Sc. (Eng.), Ramboll Finland, Business Development Director 2019
- Korpimies Vesa, Member, born 1962, M.Sc. (Econ.), EM Group Oy, CEO 2019
- Leino-Haltia Mirel, Member, born 1971, D.Sc. (Econ.), CFA professor of practice, Board professional 2020
- Mäkijärvi Heikki, Member, born 1959, M.Sc. (Eng.) Head of Telia Ventures 2018
- Telanne Kai, Member, born 1964, M.Sc. (Econ.) Alma Media Corporation, CEO 2008

The members of the Board are not employed by the company, and on the basis of assessment in accordance with the issued Finnish recommendations, they are independent of the company. The Board members are independent of the company's significant shareholders, except for the following Board members:

- Timo Luukkainen – (Chairman of the Board in Tianta Oy from 6 April 2018). Tianta Oy is a significant shareholder of Teleste.
- Vesa Korpimies – (CEO and a Board member in Tianta Oy). Tianta Oy is a significant shareholder of Teleste.

On 31 December 2020, Board members and their controlled entities held shares in Teleste Corporation and other companies included in the Teleste Group as follows:

- Himanen Jussi .... 5 592 shares
- Korpimies Vesa .... 6 592 shares
- Leino-Haltia Mirel .... 5 084 shares
- Luukkainen Timo .... 25 910 shares
- Mäkijärvi Heikki .... 7 508 shares
- Telanne Kai .... 28 655 shares

On 31 December 2020, Board members or their controlled entities held no share-based entitlements in Teleste Corporation or other companies included in the Teleste Group.

In 2020, Teleste's Board of Directors held 16 meetings. The Board members attended the meetings as follows:

- Ervi Pertti 6/6 (100%) member until 22 April
- Fagerholm Jannica 6/6 (100%) member until 22 April
- Himanen Jussi 16/16 (100%)
- Korpimies Vesa 16/16 (100%)
- Leino-Haltia Mirel 10/10 (100%) member from 22 April
- Luukkainen Timo 16/16 (100%)
- Mäkijärvi Heikki 16/16 (100%)
- Telanne Kai 16/16 (100%)

In addition to the Board members, meetings of the Board were attended by the CEO, the Deputy CEO and the CFO as well as other persons who were specifically invited as necessary.

Principles concerning diversity of the Board of Directors

Teleste has established principles concerning the diversity of the Board of Directors, taking into account the extent of the company's business and the needs related to its phase of development. Teleste's Board of Directors adopted the diversity principles concerning the Board of Directors on 10 August 2016.

It is in the interests of Teleste and its shareholders that Teleste's Board of Directors is composed of people with different educational and professional backgrounds and international experience, and that Board members have complementary expertise and knowledge in different topics, such as Teleste's field of business and the related technologies, risk management and international sales and marketing. Teleste's objective is that both genders are represented in the Board of Directors.

The Annual General Meeting held on 22 April 2020 elected six members to the Board of Directors, five men and one woman. All Board members have a degree in technology or business. All the other above factors and characteristics relevant to diversity were also represented in the Board of Directors in 2020.

Remuneration of Board members

The Annual General Meeting decides on the remuneration of the members of the Board of Directors. The Annual General Meeting held on 22 April 2020 decided on the following remunerations for Board service until the next AGM: the Chairman of the Board will be paid EUR 66,000 a year and each member EUR 33,000 a year. The annual remuneration of the Board member who acts as the chairman of the Audit Committee shall be EUR 49,000 per year. Of the remuneration to be paid to the Board members, 40% of the total gross remuneration amount will be used to purchase Teleste Corporation's shares for the Board members through trading on a regulated market organised by Nasdaq Helsinki Ltd and the rest will be paid in cash. In addition, EUR 400 per meeting shall be paid to the members of the Board of Directors' Audit Committee as a meeting fee. However, a separate meeting fee shall not be paid to the chairman of the Audit Committee.

Salaries, remuneration and fringe benefits paid to the Board of Directors in 2020 were as follows:

- Luukkainen, Timo, EUR 66,000, including 6,852 Teleste Corporation shares
- Leino-Haltia, Mirel, EUR 49,000, including 5,084 Teleste Corporation shares
- Himanen, Jussi, EUR 35,400, including 3,426 Teleste Corporation shares
- Korpimies, Vesa, EUR 35,800, including 3,426 Teleste Corporation shares

- Mäkijärvi, Heikki, EUR 33,000, including 3,426 Teleste Corporation shares
- Telanne, Kai, EUR 33,000, including 3,426 Teleste Corporation shares

AUDIT COMMITTEE

On 5 April 2018, Teleste's Board of Directors established an audit committee to prepare matters concerning the company's financial reporting and supervision. The Audit Committee assists the Board of Directors by preparing the matters that fall within the responsibilities of the Audit Committee. The Audit Committee shall convene at least four times a year, in accordance with a schedule confirmed by the chairperson of the Audit Committee.

The majority of the members of the Audit Committee must be independent of the company. At least one member must be independent of the company's significant shareholders. The Audit Committee members must have sufficient expertise and experience considering the responsibilities of the committee and obligatory auditing-related duties. At least one Audit Committee member must have expertise in accounting or auditing.

The Audit Committee consists of a minimum of three Board members, each of whom fulfils the requirements on independence and understanding of financial information as well as any other requirements specified in Finnish law and regulations concerning Finnish listed companies.

In addition to the committee members, the participants in Audit Committee meetings include the company's CIO (secretary), CEO, CFO and auditor. The Audit Committee may invite other experts or representatives of the operative management to attend its meetings as necessary. Any Board member may attend Audit Committee meetings at their discretion. The minutes and materials of the Audit Committee are available to all Board members.

The chairperson of the Audit Committee presents the committee's most important observations, its recommendations and a summary of Audit Committee meetings to the Board of Directors.

The Board of Directors that convened after Teleste Corporation's AGM on 22 April 2020 decided on the following Audit Committee composition: Mirel Leino-Haltia (Chair), Jussi Himanen and Vesa Korpimies.

In 2020, the Audit Committee held 8 meetings. The members attended the meetings as follows:

- Ervi, Pertti 1/1 (100%), member until 22 April 2020
- Fagerholm, Jannica 1/1 (100%), Chair until 22 April 2020
- Himanen, Jussi 7/7 (100%), member from 22 April 2020
- Korpimies, Vesa 8/8 (100%), member
- Leino-Haltia, Mirel 7/7 (100%), Chair from 22 April 2020

According to the Rules of Procedure of the Audit Committee, the responsibilities of the Audit Committee include:

- monitoring of Teleste Corporation's economic and financial situation, taxation position as well as the financial statement reporting process
- monitoring and assessment of the financial reporting system
- supervision of compliance with the accounting policies for consolidated financial statements and with the IFRS
- reviewing interim reports and financial statements and giving recommendations to the Board of Directors before the publication of stock exchange releases on interim reports and financial statements
- assessment of the use and presentation of alternative performance measures
- processing of the statement of non-financial information
- assessment of the efficiency of the company's internal supervision and risk management systems
- monitoring of significant economic, financial and tax risks
- supervision of compliance with policies and principles confirmed by the Board as well as internal auditing
- processing of the Corporate Governance Statement
- monitoring of the company's information management strategy and data security-related policies
- monitoring of the statutory audit of the financial statements and consolidated financial statements
- evaluation of the independence of the statutory auditor
- monitoring of the additional services provided by the audit firm
- preparation of a proposal to the Annual General Meeting on the election of auditor and communication with the auditor
- definition of principles applicable to the monitoring and assessment of related party transactions
- assessment of legal and regulatory compliance processes, and
- performing other tasks assigned to the committee by the Board of Directors.

The Rules of Procedure of the Audit Committee are available in their entirety on Teleste's website at: **www.teleste.com/investors/corporate-governance/committees/rules-procedure-audit-committee**

PRESIDENT AND CEO

The company's CEO is in charge of the Group's business operations and corporate governance in accordance with the law, Teleste's Articles of Association and the instructions and regulations issued by the Board.

The detailed terms of employment of the CEO are specified in a separate contract approved by the Board of Directors. The CEO is not a member of Teleste's Board of Directors. Teleste's current President and CEO, Jukka Rinnevaara, b. 1961, M.Sc. (Econ.), started as CEO on 1 November 2002. The CEO is assisted by the Management Group.

The company's Board of Directors decides on the salary, remuneration and other benefits received by the CEO. Salary, remuneration and fringe benefits paid to Teleste's CEO in 2020 totalled EUR 396,908. In addition to the salary, remuneration and fringe benefits, an additional pension payment of EUR 97,405 and a capital redemption policy payment of EUR 76,987 were paid to the CEO in 2020.

CEO Jukka Rinnevaara is entitled to retire after turning 60 years old. A contributory additional pension is included in the CEO's contract. 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 basic pay, excluding bonuses. Payment under the capital redemption policy is subject to the same adjustment procedure as the CEO's basic pay excluding bonuses.

The contract of CEO Rinnevaara 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.

Teleste has published the Remuneration Report 2020 on company´s website at www.teleste.com/investors/corporate-governance/remuneration-statement.

MANAGEMENT GROUP

On 31 December 2020, the Group's Management Group consisted of eight members including the CEO, to whom the members of the Management Group report. The members of the Management Group are directors representing Teleste's business areas and units and directors representing the Group management. The subsidiaries operate as part of the business areas. Teleste's Management Group is chaired by the CEO who reports to the Board of Directors. The Management Group has no authority under law or the Articles of Association.

On 31 December 2020, Teleste's Management Group consisted of the following members:

- Rinnevaara Jukka, born 1961, M.Sc. (Econ.), President and CEO. Is in charge of the Group's business operations and corporate governance in accordance with the law, Teleste's Articles of Association and the instructions and regulations issued by the Board
- Slotte Johan, born 1959, LL.M, EMBA, Deputy CEO Regional Director of Network Services business in Switzerland and Austria, Head of corporate business development and legal affairs
- Hyytiäinen Juha, born1967, M.Sc. (Econ.), CFO Area of responsibility: finance and IT
- Narjus Hanno, born 1962, M.Sc. (Econ.), Senior Vice President, Area of responsibility: Network Products business unit
- Harju Esa, born 1967, M.Sc. (Eng.), Senior Vice President Area of responsibility: Video Security and Information business unit
- Järvenpää Pasi, born 1967, M.Sc. (Eng.), Head of R&D Area of responsibility: Teleste's research and development
- Mattila Markus, born 1968, M.Sc. (Eng.), Senior Vice President, Operations, Area of responsibility: Teleste's Operations
- Vanne Tuomas, born 1979, M.Sc. (Military Science), Head of HR, Area of responsibility: HR

The Management Group handles the main issues related to managing the company, such as matters related to strategy, budgets, interim reports and acquisitions, and prepares investments for approval by the Board of Directors. As a rule, the Management Group meets once a month and at other times when necessary.

The Board of Directors decides on the management's incentive and remuneration systems on the basis of the CEO's proposal.

The salary of all Management Group members consists of a fixed basic salary and a performance-based bonus. The amount of performance-based bonus depends on the performance of the company and the business area in question, as well as the achievement of other key operative objectives.

The Management Group, including the CEO, has a group pension plan, and payment is based on the annual pay of the insured person, excluding bonuses. The payment is 25 per cent of the above pay.

INCENTIVE SCHEMES AND OWNERSHIP BY THE MANAGEMENT

Management Group's shareholding and share-based entitlements

On 31 December 2020, Management Group members and their controlled entities held shares in Teleste Corporation and other companies included in the Teleste Group as follows:

- Rinnevaara Jukka .... 107 697 shares
- Slotte Johan .... 12 607 shares
- Hyytiäinen Juha .... 9 262 shares
- Narjus Hanno .... 7 481 shares
- Harju Esa .... 12 562 shares
- Järvenpää Pasi .... 5 041 shares
- Mattila Markus .... 11 633 shares
- Vanne Tuomas .... 900 shares

On 31 December 2020, Teleste did not have any running stock option programmes, and the CEO, the members of the Management Group or their controlled entities did not hold any Teleste options or other share-based entitlements.

Share-based incentive programme LTI 2015

On 5 February 2015, Teleste's Board of Directors decided on the establishment of a new long-term share-based incentive programme to be offered to Teleste's key employees (hereafter "LTI 2015"). The objective of LTI 2015 is to align the key employees' interests with those of Teleste's shareholders by creating a long-term equity interest for the key employees and, consequently, to increase the company's value in the long term and to drive a performance culture, retain key employees and offer the key employees competitive compensation for excellent performance.

LTI 2015 consists of three annually commencing plans with three main elements: an investment in Teleste shares that is required for a key employee to be included in the LTI 2015 programme; a matching share plan with a three-year vesting period that is based on the above investment; and a performance matching plan with a three-year performance period. The commencement of each plan and the inclusion of eligible participants were subject to a specific approval by Teleste's Board of Directors.

The matching share plan includes the investment of an individual participant in Teleste's shares and the delivery of matching shares as a long-term incentive reward against the invested shares. After the three-year vesting period, the key employee receives one matching share for each invested share free of charge.

The performance matching plan includes a three-year performance period. The potential share rewards will be delivered if the performance targets set by the Board of Directors are achieved.

The performance criterion applied to all the three plans alike is the total shareholder return (TSR) of Teleste's share in the three-year performance period. The above investment in Teleste's shares was the requirement for an individual key employee to be included in the plan. The Board of Directors approved 37 key employees as eligible to participate in the first plan 2015–2017 of LTI 2015, and 42 key employees as eligible to participate in the second plan 2016–2018 and 40 key employees as eligible to participate in the third plan 2017–2019.

The gross quantity of matching shares delivered under the 2015–2017 plan ending in April 2018 was 47,250 shares, and the gross quantity of performance matching shares was 39,724 shares. A net quantity of 42,771 shares were delivered to the key employees entitled to reward through a directed share issue on 6 April 2018.

The gross quantities of shares delivered under the 2016–2018 plan that ended in April 2019 were 35,438 shares and 0 performance matching shares. A net quantity of 22,361 shares were delivered to the key employees entitled to reward through a directed share issue on 5 April 2019.

The gross quantities of shares delivered under the 2017–2019 plan that ended in April 2020 were 35,201 shares and 0 performance matching shares. A net quantity of 22,402 shares were delivered to the key employees entitled to reward through a directed share issue on 23 April 2020.

Share-based incentive programme LTI 2018

On 7 February 2018, Teleste's Board of Directors decided on the establishment of a new long-term share-based incentive programme to be offered to Teleste's key employees (hereafter "LTI 2018"). The objective of LTI 2018 is to align the key employees' interests with those of Teleste's shareholders by creating a long-term equity interest for the key employees and, consequently, to increase the company's value in the long term and to drive a performance culture, retain key employees and offer the key employees competitive compensation for excellent performance. LTI 2018 consists of three annually commencing plans with the following main elements: an investment in Teleste shares as a precondition for the key employee's participation in the individual plan, a matching share plan with a three-year vesting period based on the individual investment and a performance share plan with a three-year performance period.

The first plans within the programme are the matching share plan 2018–2020 and the performance share plan 2018–2020. The commencement of each new plan, its eligible participants and the matching ratio and performance targets applied to the individual plan is subject to a separate approval of Teleste's Board of Directors in each case. The matching share plan 2018–2020 comprises the individual key employee's investment in Teleste's shares and the delivery of a specific number of matching shares without consideration as a share reward based on the share investment after the three-year vesting period. The matching shares are delivered according to a fixed matching ratio determined by the Board of Directors for each individual plan. The matching ratio applied to the matching share plan 2018–2020 is one matching share for each two shares invested. The gross quantity of matching shares that may be delivered on the basis of the matching share plan 2018–2020 is approximately 13,963 shares. The performance share plan 2018–2020 comprises a three-year performance period. The potential share rewards will be delivered if the performance targets set by the Board of Directors are achieved. The performance measure applied in the performance share plan is the total shareholder return (TSR) of Teleste share. The above investment in Teleste's shares is the requirement for an individual key employee to be included in the plan. If all the eligible key employees participate in the plan by fulfilling the investment precondition and the performance targets set for this performance share plan are fully achieved, the gross number of shares that may be delivered under the performance share plan 2018–2020 is 248,400 shares. Applicable withholding tax is deducted from the gross quantities before paying the share reward. The Board of Directors approved 35 key employees as eligible to participate in the plans beginning in 2018. At the end of 2020, altogether 24 key employees were approved as eligible to participate in the plan.

Other plans to be implemented within the programme are the matching share plan 2019–2021 and the performance share plan 2019–2021, and the plans to be implemented within the third programme are the matching share plan 2020–2022 and the performance share plan 2020–2022. These programmes correspond to the terms and conditions of the programmes during 2019–2021. The gross quantity of matching shares payable under the matching share plan 2019–2021 is 18,087 shares and under the performance share plan at maximum 281,220 shares. The Board of Directors approved 33 key employees as eligible to participate in the plans beginning in 2019. At the end of 2020, altogether 25 key employees were approved as eligible to participate in the plan. The gross quantity of matching shares payable under the matching share plan 2020–2022 is 19,201 shares and under the performance share plan at maximum 290,700 shares.

The Board of Directors approved 33 key employees as eligible to participate in the plans beginning in 2020. At the end of 2020, altogether 28 key employees were approved as eligible to participate in the plan.

AUDITING, REVISIONS AND REMUNERATION OF THE AUDITOR

The term of office of Teleste's auditor expires at the closing of the first Annual General Meeting following the election.

On 22 April 2020, Teleste's AGM elected Authorised Public Accountants KPMG Oy Ab the company's auditor. The auditor in charge was Petri Kettunen, APA.

In addition to their statutory duties, the auditors report their observations to Teleste Corporation's Board of Directors and Audit Committee and attend at least one Board meeting each year.

In 2020, Teleste Group's auditing expenses totalled EUR 253,000, with KPMG accounting for EUR 140,000. In addition, Teleste Group companies have received other consultation services from various units of KPMG for a total of EUR 49,000 and from other than KPMG auditors for EUR 64,000.

INSIDER MANAGEMENT

Since 1 March 2000, Teleste complies with the insider guidelines issued by the Board of Directors of Nasdaq Helsinki Oy in their valid form at any given time. These insider guidelines are complemented by Teleste's internal guidelines.

The Market Abuse Regulation ((EU) No. 596/2014, "MAR") entered into force on 3 July 2016. As a result of the MAR regulation, Teleste no longer has public insiders. The last date of updating the public insider register was 2 July 2016.

Teleste maintains a permanent insider register and project-specific insider lists prepared specifically for each project as needed. The permanent insider register includes the persons who are always up-to-date with all insider information concerning Teleste.

Project-specific insider lists include the persons who work for Teleste under an employment contract or other agreement and receive insider information concerning an individual project, as well as any other persons to whom Teleste discloses insider information concerning an individual project. 'Project' refers to an identifiable arrangement or set of procedures which is being prepared at Teleste in strict confidence and which, when disclosed, could materially affect the value of Teleste's financial instrument. The CEO evaluates each case to determine whether a set of procedures or an arrangement is considered as a project.

Persons discharging managerial responsibilities at Teleste with the obligation to notify are the Board members, the CEO, the Deputy CEO and the CFO. They and persons closely associated with them shall notify Teleste and the Finnish Financial Supervisory Authority of any transactions they conduct in Teleste's financial instruments. Teleste informs about transactions reported to it in a specific stock exchange release. It is recommended for persons discharging managerial responsibilities at Teleste to time their trading activities involving financial instruments issued by Teleste in such a manner that as accurate as possible information affecting the value of the share is available in the market.

The persons discharging managerial responsibilities at Teleste and anyone participating in the preparation of interim reports and/or financial statement releases are not permitted on their own account or on behalf of others, directly or indirectly, to trade in financial instruments issued by Teleste during the "closed window" period, that is, for thirty (30) days prior to the publication of an interim report and financial statement release. The persons participating in the preparation of interim reports and/or financial statement releases include the rest of Teleste's Management Group, the person in charge of investor relations and the controllers participating in the management's reporting.

Teleste's insider administration supervises compliance with the insider guidelines and maintains insider lists as well as a list of persons discharging managerial responsibilities and persons closely associated with them. Teleste's Deputy CEO is in charge of insider issues.

People employed by Teleste may report any suspected violations of rules and regulations concerning the financial markets through an independent channel within the company.

RELATED PARTY TRANSACTIONS, INTERNAL SUPERVISION, RISK MANAGEMENT AND INTERNAL AUDITING

Related party transactions

Teleste assesses and monitors related party transactions in accordance with the Corporate Governance and Teleste's internal guidelines. Teleste strives to ensure that any conflicts of interest are taken into account in the decision-making process. The main rule is that all related party transactions always relate to Teleste's normal business and are in line with the company's purpose and conducted on normal commercial terms. In 2020, no related party transactions were reported to Teleste that would have been of material importance for Teleste, deviated from normal business or been carried out on other than ordinary market terms.

Information on related party transactions are provided in the notes of the financial statements in section "Related party transactions".

Internal supervision

Teleste's internal supervision is designed to support the implementation of the strategy and to ensure the achievement of the specified goals, compliance with the regulations as well as the reliability and accuracy of financial reporting. Internal supervision is based on Teleste's values and corporate culture, as well as Group- and operational-level structures and processes that support each other. The management of the Group and the business units are responsible for the internal supervision as part of their normal managerial duties, while the Board evaluates and verifies the appropriateness and efficiency of the supervision. In each of the two business areas, the management of the business unit, supported by Teleste's centralised business controller function, is responsible for compliance with the principles of internal supervision on all levels of the areas.

Risk management

Risk management is based on the strategic and business goals of Teleste Group. The principles and objectives of the Group's risk management are subject to approval by Teleste's Board of Directors. Risk management aims to ensure the achievement of business goals, so that any material risks affecting business operations and posing a threat to the achievement of goals are identified and continuously monitored and evaluated. The company has risk management methods in place to prevent the materialisation of risks. In addition, insurance is used to cover financial risks and other risks that are reasonably insurable. Regular, cost-efficient evaluation and management of risks are emphasised in Teleste's risk management policy. Risk management supports the business operations and generates added value that promotes decision-making and goal-setting by the management in charge of business operations. Monthly reporting constitutes part of the internal supervision and risk management system. In particular, it is used for the monitoring of the development of orders received, net sales, order backlog, deliveries, trade receivables and cash flow and, consequently, the development of Teleste Group's performance. 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.

Teleste's risk management system covers the following risk categories, among others:

- strategic risks
- operational risks
- financial risks
- hazard risks

Internal auditing

Internal auditing includes evaluating the efficiency of processes related to risk management, supervision, management, administration and selected functions, as well as making proposals for their improvement. Internal auditing functions under the authority of the Board's Audit Committee and the CEO. A director appointed by the CEO is responsible for the implementation of the auditing, and the expertise of bodies external to the auditing unit is used where needed. In addition, internal auditing may carry out special tasks assigned by the Audit Committee. Internal auditing covers all the organisational levels. Internal auditing also coordinates priorities together with the external auditor.

Key features of the internal supervision and risk management systems related to the financial reporting process

Internal supervision and risk management of the financial reporting process are based on the general principles of internal supervision and risk management described above. The CFO is responsible for the systems of internal supervision and risk management related to the financial reporting process.

Internal supervision of the financial reporting process was created by describing the reporting process, surveying its relevant risks and specifying the control points on the basis of the conducted risk assessment. The controls cover the entire reporting process from accounting by subsidiaries to monthly, quarterly and annual reporting. Controls are built into reporting systems, or controls may involve balancing, inspections carried out by the management, or specified procedures or policies. The CFO is responsible for ensuring that there is a designated person responsible for the implementation and efficiency of each control. The Group Accounting Manual specifies the standards for financial reporting. Financial reports to be published are reviewed by the Management Group, the Audit Committee and the Board of Directors prior to their publication. Auditor reviews the correctness of the financial statements.

Shareholders' nomination board

The Annual General Meeting of Teleste Corporation resolved in 2020 to establish a Nomination Board for Teleste, the responsibility of which is annually to prepare proposals on the election and remuneration of the members of the Board of Directors to the Annual General Meeting and for ensuring that the Board of Directors and its members have sufficient competence and experience to meet the needs of Teleste. At that meeting the Annual General Meeting also resolved to approve the charter for the Nomination Board.

The Nomination Board consists of three (3) members having been nominated by Teleste's three largest shareholders, calculated on the basis of the votes conferred by all the shares in Teleste on August 30 preceding the next Annual General Meeting. The Nomination Board's term of office shall continue until a new Nomination Board is elected.

Teleste's three largest shareholders that on August 30, 2020 were registered in the shareholders register held by Euroclear Finland Oy are: Tianta Oy, Mandatum Henkivakuutusosakeyhtiö and Keskinäinen Eläkevakuutusyhtiö Ilmarinen.

At the time of the publication of this evaluation, the composition of Teleste's Nomination Board is the folowing:

- Timo Luukkainen, nominated by Tianta Oy
- Patrick Lapveteläinen, nominated by Mandatum Henkivakuutusosakeyhtiö
- Esko Torsti, nominated by Keskinäinen Eläkevakuutusyhtiö Ilmarinen

Timo Luukkainen has acted as chairman of the Nomination Board.

The Nomination Board of year 2020 has convened three times. The Nomination Board has reviewed the size of Teleste's Board of Directors, its composition and diversity as well as the competence areas that it deems to benefit the company most. The Nomination Board also reviewed the remuneration of the members of the Board of Directors. In addition, the Nomination Board familiarized itself with and discussed about the results of the self-evaluation conducted by the Board of Directors.

The Nomination Board gave its proposals on 18 February 2021 to the Annual General Meeting of Teleste, scheduled to be held on April 7, 2021. The proposals were published as a stock exchange release available on Teleste´s website at: https://www.teleste.com/stock-exchange-releases-and-investor-news

Key figures 2016–2020

	IFRS 2020	IFRS 2019	IFRS 2018	IFRS 2017	IFRS 2016
Profit and loss account, balance sheet					
Net sales, Meur	145.0	235.5	250.3	234.6	259.5
Change %	-38.4	-5.9	6.7	-9.6	4.8
Sales outside Finland, %	92.8	93.3	93.9	94.3	93.3
Operating profit, Meur	4.5	0.8	9.7	-7.5	15.6
% of net sales	3.1	0.3	3.9	-3.2	6.0
Profit after financial items, Meur	3.7	0.4	9.1	-8.5	14.8
% of net sales	2.5	0.2	3.6	-3.6	5.7
Profit before taxes, Meur	3.7	0.4	9.1	-8.5	14.8
% of net sales	2.5	0.2	3.6	-3.6	5.7
Profit for the financial period, Meur	-8.0	-1.7	6.8	-9.1	11.8
% of net sales	-5.5	-0.7	2.7	-3.9	4.6
R&D expenditure, Meur	10.8	13.5	12.5	12.1	11.1
% of net sales	7.4	5.7	5.0	5.1	4.3
Gross investments, Meur	6.6	13.0	7.0	7.5	5.5
% of net sales	4.5	5.5	2.8	3.2	2.1
Interest bearing liabilities, Meur	31.0	33.0	26.8	33.2	30.6
Shareholder's equity, Meur	63.1	72.8	77.2	71.4	84.4
Total assets, Meur	133.0	149.6	159.0	153.5	162.1
Personnel and orders					
Average personnel	856	1 363	1 393	1 492	1 514
Order backlog at year end, Meur	77.1	73.2	71.0	57.4	26.9
Orders received, Meur	148.8	237.6	264.0	262.9	244.3
Key metrics					
Return on equity, %	-11.8	-2.2	9.2	-11.7	14.6
Return on capital employed, %	-4.5	1.6	9.3	-6.6	14.8
Equity ratio, %	48.8	49.5	51.7	48.3	52.5
Net gearing, %	17.0	34.1	5.9	16.8	25.0
Earnings per share, euro	-0.43	-0.07	0.38	-0.50	0.65
Earnings per share fully diluted, euro	-0.43	-0.07	0.38	-0.50	0.65
Shareholders equity per share, euro	3.46	4.00	4.25	3.94	4.66

	IFRS 2020	IFRS 2019	IFRS 2018	IFRS 2017	IFRS 2016
Alternative performance measures					
Adjusted operating profit	5,066	8,832	9,721	-7,549	15,635
Adjusted earnings per share, EUR	-0.06	0.31	0.38	-0.50	0.65
Bridge of calculation					
Operating profit, continued operations	4,516	1,890	9,721	-7,549	15,635
Cost item caused by a crime	0	6,942	0	0	0
Business reorganization	550	0	0	0	0
Adjusted operating profit, continued operations	5,066	8,832	9,721	-7,549	15,635
Net profit/loss to equity holder	-7,827	-1,327	6,975	-9,106	11,820
Outstanding shares during the quarter	18,204	18,181	18,122	18,202	18,169
Earnings per share, basic	-0.43	-0.07	0.38	-0.50	0.65
Operating profit	-7,827	-1,327	6,975	-9,106	11,820
Cost item caused by a crime	0	6,942	0	0	0
Business reorganization	550	0	0	0	0
Business disposals, discontinued operations	6,106	0	0	0	0
Outstanding shares during the quarter	18,204	18,181	18,122	18,202	18,169
Adjusted earnings per share, EUR	-0.06	0.31	0.38	-0.50	0.65

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

Calculation of key figures

Return on equity:	Profit/loss for the financial period / Shareholders' equity (average)	x 100
Return on capital employed:	Profit/loss for the period after financial items + financing charges / Total assets - non-interest-bearing liabilities (average)	x 100
Equity ratio:	Shareholders' equity / Total assets - advances received	x 100
Gearing:	Interest bearing liabilities - cash in hand and in bank – interest bearing assets / Shareholders' equity	x 100
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	
Osakekohtainen oma pääoma:	Shareholders' equity / Number of shares – number of own shares at year-end	
Price per earnings (P/E):	Share price at year-end / Earnings per share	
Efektiivinen osinkotuotto:	Dividend per share / Trading price at the end of the period	

Shares and shareholders

INVESTOR RELATIONS

CFO, Mr. Juha Hyytiäinen is in charge of investor relations. In addition to the CFO, the top management of the company is committed to serving various participants of the capital market.

OBJECTIVES AND PRINCIPLES OFCOMMUNICATION

Our communication aims at providing all the market participants with equally correct and relevant information, which supports the value formation of the company share. The principles guiding Teleste's disclosure policy include up-to-dateness, truthfulness and simultaneity.

Teleste adheres to the EU and Finnish legislation, the rules and guidelines of NASDAQ Helsinki Ltd as well as the regulations and guidelines of The European Securities and Markets Authority (ESMA) and the Financial Supervisory Authority. In accordance with the Finnish Securities MarketsAct, EU regulations, Stock Exchange rules and the regulations and guidelines issued by ESMA and the Financial Supervisory Authority, Teleste publishes information on its financial position on a regular basis in its Interim and Half-Year Reports, Financial Statements Bulletin and FinancialStatements.

As per the Market Abuse Regulation, MAR, Teleste shall publish the inside information concerning the company as soon as possible, or delay such disclosure in accordance with the MAR provided, that the following criteria are met:

- Immediate disclosure is likely to prejudice the legitimate interests of Teleste;
- delay of disclosure is not likely to mislead the public; and
- Teleste is able to ensure the confidentiality of that information.

Additionally Teleste will regularly publish investor news and press releases of news in relation to its business and to orders received that are deemed to interest the company's stakeholders, but do not fulfil the criteria for a stock exchange release.

CONTACT INFORMATION

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Hannele Ahlroos, Investor Relations and Press Office
Phone +358 2 2605 611
Email: investor.relations@teleste.com

SHARE BASICS

Teleste Corporation is listed on the Nasdaq Helsinki Oy in the Technology sector and in small cap segment.

Facts about the share:

Listed on	30.3.1999
ISIN code	FI0009007728
Trading code	TLT1V
Reuter's ticker symbol	TLT1V. HE
Bloomberg ticker symbol	TLT1V FH
12 months high	5.78
12 months low	3.51
All-time high (7.9.2000)	39.00
All-time low (12.12.2008)	1.90

FINANCIAL INFORMATION

Financial releases in 2021

Interim report January–March	6.5.2021
Half year financial report January–June	12.8.2021
Interim report January–September	4.11.2021

Teleste meets investors, analysts and representatives of the media in news conferences set up in connection with releases of financial reports.

Silent period

Silent period begins 30 calendar days before the publishing of the Interim Reports, Half Year Financial Report, and Financial Statement Release and lasts until the publishing of the Releases mentioned. During silent periods, Teleste's spokespersons refrain from discussing and commenting on issues related to the company's financial performance or meeting with capital market representatives.

CHANGES IN SHAREHOLDERS' CONTACT INFORMATION

The company shares are included in the book-entry securities system. The shareholder register is maintained by Euroclear Finland Oy.

Shareholders should notify the particular register holding their Book Entry Account about changes in address or account numbers for payment of dividends and other matters related to their holdings in the share.

ANNUAL GENERAL MEETING

Teleste Corporation's Annual General Meeting (AGM) will be held on 7 April 2021 at 14:00. The meeting will be held under special arrangements without shareholders' or their proxy representatives' presence in the company's headquarters, at the address Telestenkatu 1, 20660 Littoinen. The Board of Directors of the company has resolved on an exceptional meeting procedure based on the temporary legislation approved by the Finnish Parliament on 15 September 2020. In order to limit the spread of the COVID-19 pandemic, the Annual General Meeting will be held without shareholders' or their proxy representatives' presence at the meeting venue. This is necessary in order to organize the General Meeting in a predictable way while taking into account the health and safety of the company's shareholders, personnel and other stakeholders.

More information

- www.teleste.com/AGM,
- or by e-mail investor.relations@teleste.com

DIVIDEND POLICY

Teleste wishes to be an attractive investee corporation in which the investment's increase in value and the dividend yield form a competitive combination. The annual proposal for the dividend is validated by the Board in consideration of profitability, financial situation and needs for investment necessitated by profitable growth.

Proposal for Distribution of Dividend 2020

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.12 per share be paid based on the adopted balance sheet for the financial period that ended on 31 December 2020 for shares other than those held by the Company. The dividend will be paid to a shareholder who on the record date of dividend payment 9 April 2021 is registered in the Company's shareholders' register maintained by Euroclear Finland Ltd. The dividend will be paid on 16 April 2021.

Payment of divided

Annual General Meeting	7.4.2021
Divided ex date	8.4.2021
Dividend record date	9.4.2021
Payment of dividend	16.4.2021

Dividend history, eur

2014	2015	2016	2017	2018	2019	2020
0,20	0,23	0,25	0,10	0,20	0,10	0,12*

** Proposal by the Board*

For proposals by the Board for the General Meeting and other additional information about the AGM is available at Teleste's website: **www.teleste.com/AGM**

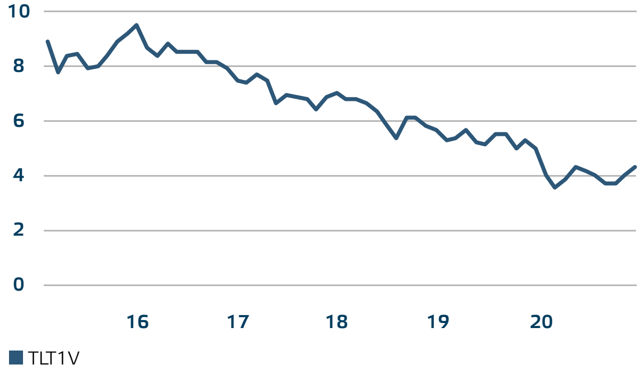
Minutes of the Annual General Meeting will be available at Teleste's website no later than 21 April 2021.

Teleste share

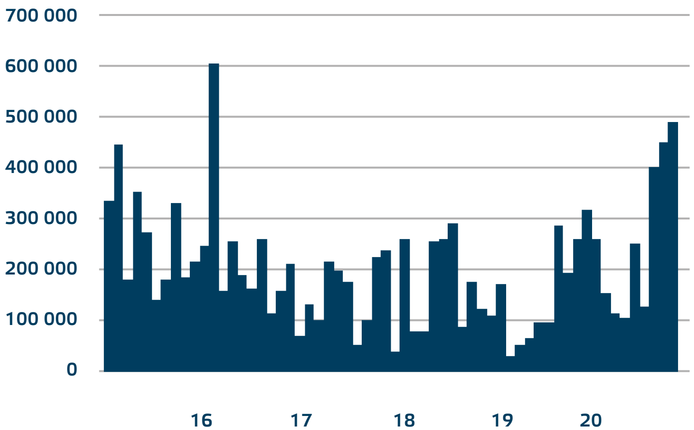
	2020	2019	2018	2017	2016
Highest price, euro	5.78	6.80	7.58	9.62	10.24
Lowest price, euro	3.51	5.04	5.12	6.51	7.29
Closing price, euro	4.49	5.34	5.26	6.68	8.86
Average price, euro	4.40	5.72	6.72	8.19	8.69
Price per earnings	-10.4	-73.2	13.8	-13.3	13.6
Market capitalization, Meur	85.2	101.4	99.9	126.8	160.6
Stock turnover, Meur	13.8	9.2	13.3	16.8	30.6
Turnover, number in millions	3.1	1.6	2.0	2.0	3.5
Turnover, % of share capital	16.5	8.5	10.4	10.8	18.5
Average number of shares	18,985,588	18,985,588	18,985,588	18,985,588	18,985,588
Number of shares at the year-end	18,985,588	18,985,588	18,985,588	18,985,588	18,985,588
Average number of shares, diluted w/o own shares	18,220,370	18,181,177	18,168,088	18,202,396	18,169,002
Number of shares at the year-end, diluted w/o own shares	18,218,503	18,207,708	18,155,300	18,172,350	18,216,369
Paid dividend, Meur	2.2	1.8	3.6	1.8	4.5
Dividend per share, euro	0.12*	0.10	0.20	0.10	0.25
Dividend per net result, %	neg.	neg.	53.1	neg.	38.3
Effective dividend yield, %	2.7	1.9	3.8	1.5	2.8

** Proposal by the Board*

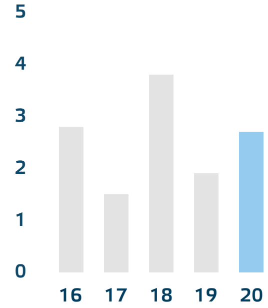
Share price development 2016–2020, €



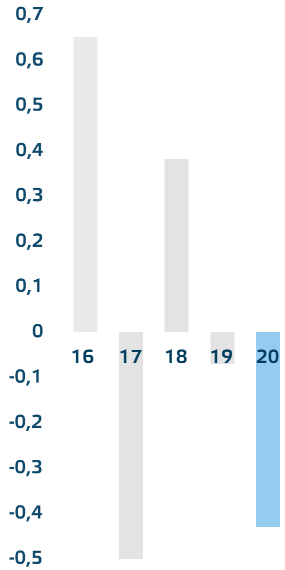
Share monthly turnover 2016–2020, pcs



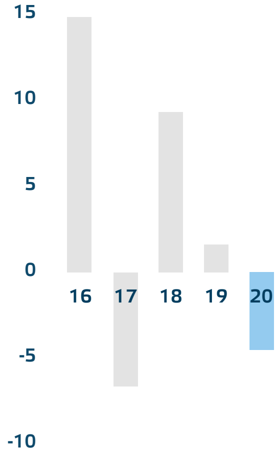
Effective dividend yield, %



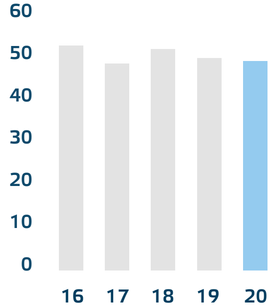
Earnings per share, adjusted, €



Return on capital employed, %



Equity ratio, %



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