YEAR 2017

WE ARE BUILDING A SMART, SAFE AND SMOOTH FUTURE

TELESTE

CONTENTS

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Teleste's Annual Report 2017 is an interactive pdf. The contents list and footer's navigation contains links to the page, where information is located. The different features are explained below.

← → Previous / Next page

↑ Return to the Content

CONTENTS

TELESTE´S YEAR

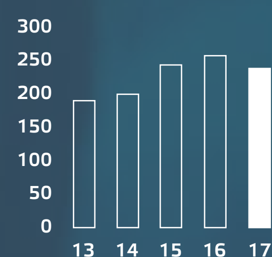
Difficult year

- Net sales decreased by 9.6 per cent to EUR 234.6 million (259.5).
- The operating result amounted to EUR -7.5 (15.6) million. Underlying the steep decline of the operating result were the restructuring provisions and the goodwill impairment for the services business in Germany, totalling EUR 10.1 million.
- The biggest challenges of the year were related to the poor profitability of the service business in Germany, and considerable measures were taken to improve it.
- Another concern was the low net sales in Video Security and Information solutions.

Signs of a turn for the better:

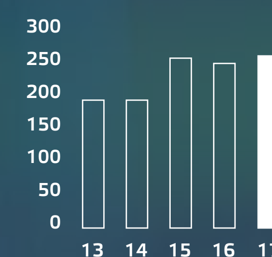
- Measures to introduce access network products to the US market proceeded as planned.
- The volume of orders received strengthened towards the end of the year. Year-end order backlog increased, reaching the highest level in Teleste's history.

Net sales, MEUR



Operating profit, MEUR

Orders received, MEUR



Profit for the year, MEUR

TELESTE offers an integrated product and service portfolio that makes it possible to build and run a better networked society. Our solutions bring television and broadband services to your home, secure your safety in public places and guide your 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. We connect with our customers through a global network of offices and partners. In 2017, Teleste has approximately 1,500 employees on average. Teleste is listed on Nasdaq Helsinki. See more information on www.teleste.com and follow Teleste on Twitter @telestecorp.

CEO'S REVIEW

A year full of work behind us, light in sight

We expected 2017 to be a gap year in more ways than one. A long period of profitable growth is behind us, and good future performance will require enhancement of operations as well as investment in product development and new markets. Our expectations for 2017 were fairly accurate, albeit still too optimistic. We faced big challenges along the way. Despite them, we worked hard and continued to implement the planned measures, trusting the future. Now, we are starting the year 2018 with a more positive outlook in many ways.

Our net sales decreased by 9.6 per cent to EUR 235 million (2017: EUR 260 million), and our operating result was in the red, standing at EUR -7.5 million (2016: EUR 15.6 million). A significant proportion of the loss was generated by the goodwill impairment of EUR 7.7 million related to the services business in Germany and the restructuring costs of EUR 1.6 million. Because of the low profitability, we were forced to reduce personnel also in Finland.

A sign of better times ahead is the number of orders received, which increased to EUR 263 million (2016: EUR 244 million), or 7.6 per cent year-on-year. The order backlog reached the highest level in Teleste's history.

UNEXPECTED DIFFICULTIES IN GERMANY

The profitability of the services business in Germany has been unsatisfactory for quite some time, and we have made many efforts to improve its efficiency. Despite this, profitability continued to decrease, and the extent of the problems was unexpected. Our main challenge has been the dependence of our business on the frame agreement signed with our most important customer. It covers a significant amount of special excavation work for the building of networks, purchased by Teleste from subcontractors. High demand in the market has pushed the costs of excavation above the level of the frame agreement. Therefore, we have engaged in negotiations with the customer to sign a new agreement. We aim to complete the negotiations during the first quarter of 2018. In other markets, services business developed favourably.

Demand for access network products was on a par with the reference year, even though our operator customers' ability and need to upgrade their networks increased. A slowdown in investment decisions could be seen in the market, probably resulting from increasing interest in transferring to distributed access architecture. The introduction of new technology in the market will mark a historically significant change within the next few years, resulting in increasingly high investments in networks. Teleste has actively developed distributed architecture and products for it. Already in 2017, we launched the first standard-compliant Remote PHY solutions.

Video security and rail industry passenger information solutions started the year with a relatively low order backlog, but we won a number of new orders in 2017. These projects often run for several years. One third of the deliveries of our current orders will take place after 2018. Therefore, their effect will be seen in net sales this year and later. We strengthened our position in passenger information solutions with many important railway carriage manufacturers. In addition, we enhanced our offering by acquiring iqu Systems GmbH, the German company specialising in intelligent passenger information systems. In video security solutions, we aim to transfer from video surveillance solutions to increasingly intelligent security systems and comprehensive situation awareness systems. Providers of situation awareness systems, which require a high level of expertise, are still scarce in the market.

PROGRESS IN AMERICA

For a few years now, we have been studying the American market for access network technology. The interest of potential customers in technology used in Europe, particularly the upcoming distributed architecture, has increased confidence in our expectations of considerable market potential. Now we are going west at speed. In 2017, we entered into a joint venture with the American company Antronix. Antronix is a company with an excellent reputation among potential customers. Our product ranges complement each other, which is why we believe that our collaboration will lead to success and new commercial openings already this year.

ONWARD, STRONGER THAN EVER

In 2018, we will continue investing strongly in new markets, product development and the efficiency of our operations. We aim to return to a profitable growth track. Distributed architecture and the American market provide us with enormous opportunities. In product development, the launching of access network products designed for the DOCSIS 3.1 standard in Europe is almost complete, so now we can allocate our resources to products suitable for the American market and to the next generation architecture. In services business, we expect greatly improved productivity in Germany and increased interest among customers in higher added value services. Our market position is very strong in many areas of expertise, and we work closely with our customers. Through our brand project, we have learned to work even better together to achieve our joint targets. Also the order backlog in the beginning of the year is significantly higher than previous year. Therefore, the year 2018 is looking much brighter than 2017.

I would like to thank all Teleste employees for the good work we have done together. As a result of the improvements implemented in 2017, this year we can expect success and progress. I would also like to thank our customers, partners and shareholders for their trust in Teleste. In particular, I would like to thank the Board of Directors, which has actively supported our work in challenging times.

In 2017, Finland celebrated a century of independence. Teleste is one of the many Finnish companies with modest beginnings that have gradually grown into internationally significant players in their respective fields. In honour of Finland’s 100 years of independence, I would also like to thank our society for providing us with the opportunity for creating a successful business.

Jukka Rinnevaara
CEO

> "Distributed architecture and the American market provide us with significant opportunities.

EVENTS AND NEWS

Teleste Intercept LLC participated in the SCTE-ISBE Cable-TEC Expo 2017, which was held in October in Denver, where it launched the ICON9000 fiber node for distributed access architecture.

Accessing North America with Antronix

Teleste invests in the growing North American broadband market by entering into a joint venture with Antronix. The objective of the joint venture, Teleste Intercept LLC, is to promote the sales of each company's broadband network products in North America, the world's largest cable operator market. Teleste owns 60 per cent of the joint venture, which was launched in 2017. Net sales are expected to be generated from 2018 onwards and grow significantly over the next few years.

ADVANCED PRODUCTS

The joint venture builds on Teleste's strong technology expertise and leading access network offering as well as on Antronix's well-established position as a technology vendor for the major cable operators in the United States. Teleste and Antronix have complementary product lines, and the companies expect to generate positive synergies by promoting them together.

As a forerunner in its industry, Teleste has developed a broadband network offering for the European market that complies with the DOCSIS 3.1 standard and covers the needs of the entire network. Similar product development is currently being carried out to respond to the needs of the North American market. Antronix is an important designer and manufacturer of fibre-optic products for cable broadband networks.

SIGNIFICANT MARKET POTENTIAL

The North American cable TV and broadband markets are going through a technological transition. Their considerable growth potential opens opportunities for new products and vendors. Teleste's innovations and intelligent network solutions designed for the highly advanced European market provide operators with a great competitive edge. Therefore, they also attract North American operators. ■

Expansion of the Helsinki subway network

In November 2017, Helsinki City Transport (HKL) opened the new subway extension from Ruoholahti to Matinkylä. In this connection, the subway video security system was also extended with more than a thousand cameras by integrating the old and new sections of the subway into one system. At the same time, the system was upgraded to Teleste's new S-VMX 3.1/VMX 7.2 video security system. The system will be expanded in the near future, as the video security solutions of the older subway stations will be upgraded to the same level with the new stations. ■

iqu Systems became part of Teleste

In October 2017, Teleste announced having acquired iqu Systems GmbH. The German provider of intelligent passenger information systems will strengthen Teleste´s offering in the public transport market, which is one of the company's key focus areas.

Founded in 2004, iqu´s business consists of leading passenger information software solutions, displays and related services. iqu has a solid customer base in Germany, Poland, Austria and Switzerland.

The company employs about 20 people and it will be a part of Teleste's Video Security and Information business unit. By joining their expertise and experience, Teleste and iqu Systems can provide the market with solutions that enable advanced management and availability of information at stations and platforms. ■

Stofa to upgrade its network

Stofa, the second-largest cable and fibre-based TV and consumer broadband company in Denmark, will upgrade its cable network to respond to future needs. Stofa chose Teleste as its partner for the extensive project. The companies have been cooperating for a long time in network equipment. In addition to products, the new frame agreement covers design services for a large project to upgrade Stofa's cable network to the DOCSIS 3.1 technology. The value of the two-year agreement is expected to exceed EUR 7 million.

The upgrade will considerably increase Stofa's network capacity, enabling Stofa to deliver 1 Gbit/s network speeds. This will provide customers with an easy and reliable access to all video and TV services on the Internet. ■

Safety and smooth service at airports

Teleste's video security and information systems have a key role at airports in ensuring the safety and smooth service for passengers. The system can also be used for improving the efficiency of the operations of the airport, such as luggage handling.

Teleste's video security and information management system includes a number of advanced features, such as automatic real-time alarms that also enable more extensive situation awareness. The use of the system can be adapted to the needs of different users at the airport, and other airport systems can be connected to it as needed.

Furthermore, we provide airports with smart display solutions both indoors and outdoors: parking garages, check-in desks and luggage pick-up areas. Mitron displays can be used for showing both passenger information and commercial content. ■

EVENTS AND NEWS

Teleste and Cisco have interoperable products

The Remote PHY technology plays a significant role in the development of the cable industry. The technology and the distributed network architectures that it embraces enable cable operators to provide consumers with increased network capacity and seamless access to streaming video and TV services. At the same time, operators' overall costs of network ownership decrease.

In order for cable operators to be able to exploit the entire potential of Remote PHY, technology vendors must ensure the interoperability of the devices and the core. Teleste has tested its Remote PHY technology in cooperation with Cisco. In the tests, the interoperability of Teleste's Remote PHY-enabled node, AC9100 Neo RPD, was demonstrated alongside Cisco's cBR8 CCAP Core. ■

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Taking steps for a better tomorrow: improving recycling process at Littoinen factory

In October 2017, Teleste took into use a redesigned drop-off zone at the Littoinen factory that provides a clean and simple layout for sorting recyclables. The aim of the renewal was to rise environmental awareness among the personnel and grow the amount of recycled materials by making recycling easily accessible.

All containers in the drop-off zone are now labelled clearly with explicit lists of materials allowed in each of them, and there are separate containers for, e.g., paper, energy waste, metal, batteries, aluminium, copper, circuit boards, cables, strip lights and much more. To make the zone more easily accessible for the personnel it was even moved to another location. As part of the renewal, the personnel was also given the opportunity to enhance environmental awareness through training provided by Teleste's local waste logistics partner.

Reforming the recycling practices generated awareness of the importance of recycling and how to do it right. In addition, improving the waste logistics process reduced recycling costs and increased the amount of recycled materials. We are proud to say that in October 2017, Teleste's recycling rate reached 87%. ■

Advanced Network Services

Teleste offers a broad portfolio of Advanced Network Services, encompassing consulting, planning, implementation and operations for broadband, communication and entertainment platforms.

With exponential rises in data consumption, European Service Providers are actively upgrading to higher performing infrastructures. New fibre networks offer increased network speed, capacity and reliability, and are cheaper to operate. Whilst fibre is already commonplace within core networks, cellular and access networks are increasingly leveraging this technology.

Teleste has developed several market-leading offerings to support the growing fibre-to-the-X (FTTX) market. In the United Kingdom, in particular, just 3% of households and business premises are currently equipped with a true fibre connection. An active market, Virgin Media, TalkTalk and CityFibre (in partnership with Vodafone) are three of Teleste's larger clients, each undertaking well-publicised fibre-to-the-premise projects over the coming years.

With a bespoke planning automation toolchain, Teleste provides high volumes of customised, cost-optimised and quality assured plans. Supported by new talent and near-shoring, a lean, scalable solution has been established that delivers in excess of 500,000 homes FttX, and over one million metres of trunk and backhaul fibre design each year. ■

Alstom as key customer

Our cooperation with Alstom started already in 2012, when Alstom chose Teleste as its partner for an important project. Our job was to develop and deliver passenger information and video security systems for the Coradia Meridian train. At the same time, a long-term frame agreement was signed on the delivery of Teleste's onboard rail system for over 100 trains in Italy. The agreement confirmed the rules of the cooperation for many years to come. The cooperation with Alstom intensified quickly, and the partners shared their expertise in order to speed up development and ensure a high quality standard.

NEW ROLE AS A PLATFORM SUPPLIER

In 2014, Alstom launched a number of new rail platform projects. One of these was the Citadis Spirit light rail platform for the North American market. Teleste was chosen as the provider of on-board passenger information (PIS) and video security (CCTV) solutions. The project was based in Ottawa, Canada.

In 2015, Alstom launched its Road 22 development programme and chose Teleste as a partner from among 10,000 vendors. As a result, the co-operation expanded into the development of operational activities, while the focus had previously been on the integration of logistic operations.

At the beginning of 2017, a new frame agreement was prepared, including the delivery of rail platform for over 100 Alstom trains in the European public transport market. In the same year, Alstom again chose Teleste as a system vendor for the Citadis Spirit rail platform, with deliveries being made to Toronto and Ottawa.

REACHING THE NEXT LEVEL

The cooperation with Alstom has taught us that the wheels of development will never stop. The best ideas of the Road 22 projects have been implemented in practice, and new ideas and innovations are being developed and honed. We have had the opportunity to enjoy the journey with a demanding and highly professional key customer. We are working hard to be able to experience new moments of victory together, time after time. ■

MEGA-
TRENDS

Megatrends behind the strategy

Teleste's most important megatrends can be identified in everyday life. The Internet is growing in importance every day. Video and electronic data transfer increase and expand into new areas. In fact, most of the content published on the Internet is already in video format. Traffic increases due to rapidly progressing urbanisation, but the negative consequences of it must be reduced to curb climate change. Therefore, the popularity of public transport is increasing. People's needs for security and information are also growing. A fourth factor driving the market is new technologies enabling the development of more intelligent solutions.

INCREASING USE OF VIDEO AND DATA

Internet use is growing rapidly and the need for network capacity doubles every 18 months or so. People's needs and quality requirements are increasing, and the use of video in particular requires high network capacity and quality. There is a vast amount of video content available, and most of the content on the Internet is already in video format. People consume the content of their choice any time, anywhere and on many different devices. Responding to the wishes of Internet users requires operators to invest, meaning increasingly efficient and high-quality broadband networks, which in turn allow for a wider service offering.

INCREASED SAFETY BY VIDEO SECURITY

More than ever, video technology is also needed to ensure safety. As the number of various threats increases, they are controlled more cost-effectively by means of video security. Globalisation, urbanisation and political interferences are increasing the need for security, yet at the same time, the focus of such security has shifted from national borders to cities.

SMOOTH TRAFFIC FLOW AND CLEANER TRANSPORTATION

Globalisation and urbanisation are also reflected in the strong growth in traffic volumes. To curb climate change, we must further reduce traffic emissions and focus on increasing the share of public transport. As for their transportation, people look for its smooth flow and safety, and these can be increased by means of stricter video security and passenger information.

RAPIDLY DEVELOPING TECHNOLOGY

Video and data transfer technologies continue to develop swiftly. New technologies enable a better user experience, but they also create new ways to deploy and use networks. Networks are equipped with smart technology that can enhance capacity use and improve the quality experienced by the user. In the network, smart features are coming closer to the user. Devices are also developing rapidly. They talk to each other and with their users. Interactivity generates new kinds of commercial activity and earning models. ■

TELESTE´S STRATEGY

VISION

Best partner
for networked society.

MISSION

We make your everyday life
smart, safe and smooth.

STRATEGY

- Close to the customer and keeping promises
- Strengthening innovative services for access networks
- The search for new growth areas
- Strengthening end-to-end solutions in video security and passenger information
- Developing a competitive product offering in access networks
- Improving the productivity of our own operations

VALUES

Customer-centricity,
respect, reliability,
result orientation

STRATEGY UP TO 2020

As a leader in its field, Teleste is building a modern networked world by means of its new broadband and video solutions. Teleste develops and provides video and broadband technologies and services for cable and telecommunications operators and the public sector. The core of our business is video – the processing, transfer and management of video and data. Teleste's vision is to be the best partner in building a networked society. To achieve this goal, we have created a strategy with six specific priorities.

CLOSE TO THE CUSTOMER AND KEEPING PROMISES

Teleste is a well-known player in all of its business areas, with a particularly strong market position in Europe. It operates globally, but part of the offering is aimed exclusively at certain areas, so geographical expansion creates opportunities for growth. In the years to come, progress is expected in the North American market in particular, for which access network products have already been developed. The marketing measures taken there have proved market interest in Teleste's offering.

Teleste's operations are based on strong customer orientation, which is reflected in keeping the promises given, meeting high quality requirements and the continuous development of operations. Teleste's customer relationships are usually long and the cooperation with the customers is close. Growth potential is provided by offering an increasingly broad range of products and services to existing customers and expanding the company's customer base from cable operators to telecom operators.

THE SEARCH FOR NEW GROWTH AREAS

In addition to new geographical growth areas, Teleste is continuously exploring new areas of expertise to expand its offering. Our customer base shows an increasing need for comprehensive solutions and services. Continuous technological development also provides new growth opportunities. We can extend our product offering based on our own product development in cooperation with our partners or by obtaining new areas of expertise or technologies through acquisitions.

DEVELOPING A COMPETITIVE PRODUCT OFFERING IN ACCESS NETWORKS

Building the capacity and improving the quality of networks continue to drive the demand for technology, and in this business technologies are developing fast. Teleste is a pioneering developer of technologies used for access networks, and we continue to invest in products and services needed by our customer base.

The functionality of networks combining conventional coaxial cable and optical fibre can be improved by adding intelligent features to them. We also pursue the development of new technologies, such as distributed architecture, which enables high-speed data services over the coaxial network. New access network solutions add to the intelligence of devices close to the end-users, and it is this added intelligence that makes it possible to cost-effectively increase network capacity and improve quality.

Teleste is a pioneer in offering DOCSIS 3.1-compliant access network products. We now offer over 100,000 products designed for the European market, satisfying all the needs of the access network. In the coming year, Teleste will invest in developing similar products satisfying the needs of the North American market. Its purpose is to strengthen its technological lead.

STRENGTHENING INNOVATIVE SERVICES FOR ACCESS NETWORKS

Teleste's competitive advantage in access network services is based on a comprehensive offering as well as strong customer relationships, technological know-how, installed base and local presence. The demand for services is growing thanks to outsourcing becoming increasingly popular among customer segments and customers showing a growing interest in concentrating their purchases.

Teleste seeks to develop its portfolio to meet the needs of the customers even more accurately. The aim is to emphasise high-yield value-added services in the offering, such as analysis, design and consultancy. Advanced services allow the customers to guarantee the high-quality operation of networks while reducing their operating costs. The value provided by the services to the customer can thus be considered in their pricing.

IMPROVING THE PRODUCTIVITY OF OUR OWN OPERATIONS

Teleste aims to provide value to all of its stakeholders, taking their needs into consideration. Maintaining competitiveness is ensured by continuously monitoring the cost-effectiveness of our own operations. A unified operating culture, high well-being at work, the best possible tools and best practices maintain productivity. Flexible production helps us tackle the seasonal variations in demand that are typical of our industry. Teleste complies with strict principles of corporate responsibility, ethical guidelines and environmental management systems.

In the coming years, we will continue to closely monitor profitability and increase the efficiency of operations following the principles of continuous development. In particular, measures to improve productivity will be continued in the service business in Germany, where profit-making ability has been soft.

STRENGTHENING END-TO-END SOLUTIONS IN VIDEO SECURITY AND PASSENGER INFORMATION

Teleste offers comprehensive solutions to its customers, using both its own and third-party products. Its product range includes video security and passenger information solutions for the public transport segment and video management software for the other customer segments. Significant growth opportunities can be achieved by combining video security and information products in our sales and supply. Our product development, therefore, focuses on wireless solutions, mobile applications, display technology and the creation of software linking different systems.

In the future, the priority in the development of the offering will be on increasing the smart features in video security and elevating passenger information solutions up to a world-class level. The objective is to provide customers with solutions for the overall management of the situation, not merely monitoring it. Expanding the offering into new customer segments also provides clear growth potential.

TECHNOLOGY AND SOLUTIONS

Smarter products

At Teleste, technological development is based on the development of products and product features in accordance with customers' needs. New products and product features help Teleste's customers to enhance their offering and respond to the increasing efficiency and quality requirements of the market. The key areas of technological development are the efficiency of products or solutions, quality-related features, modularity, smartness, processability, recyclability and cost of use. Product development is often triggered by new technology or standards introduced in the industry, or the need to modify the product offering for a new market. In addition, Teleste designs manufacturing equipment for in-house use. Understanding the customer's problems and needs and converting them into the desired product features requires a thorough understanding of the customer's industry, in addition to technological expertise. Teleste's strengths include strong and versatile technological expertise and good customer relations. The product development function works in close co-operation with customers as well as Teleste's production and sales functions. These functions are also physically located on the same premises for cable network products as well as video security and passenger information products. This promotes seamless communication. Teleste's customer-driven approach to new innovations and the quick productisation of them provide the company with a clear competitive edge.

TECHNOLOGICAL CHOICES ACCORDING TO TRENDS

The technologies used in the industries of Teleste's customers are evolving at a rapid pace. As Teleste works on a number of different technologies, it has to choose the architectures, technologies and areas of expertise that will be the most important in the future and use its resources for their development. The other necessary elements are then covered by means of a partner network, such as universities, universities of applied sciences and other research institutes.

ACCESSING NEW MARKETS

In 2017, product development at Teleste focused on the development of solutions complying with the DOCSIS 3.1 standard for the US market, the development of applications for broadband networks and the development of increasingly smart video security and information solutions. The most important product launches were the remote optical node, ICON9000, for the cable channel market, and Luminato 2.0, a more advanced version of a modular digital headend platform. Product development-related costs totalled EUR 12.1 million, representing 8.5 per cent of the net sales of Teleste's product business.

PROTECTION OF INNOVATIONS

Continuous development and innovation are part of Teleste's policy, and the entire personnel are encouraged to adopt this approach. Our achievements in product development are protected by patents. Teleste's entire extensive patent portfolio is the result of our in-house product development. The technologies related to the building of cable networks are largely patented. In passenger information solutions, on the other hand, the solutions are new, which is why we actively protect them. Players in Teleste's field of industry and market areas have traditionally respected intellectual property rights. However, our expansion into new market areas calls for increasingly careful risk management. Therefore, we have paid extra attention to patents in 2017.

INCREASED INTELLIGENCE

The proportion and importance of various software tools used in the products, solutions and services provided by Teleste is continuously increasing. In addition to software expertise, mastering the DOCSIS and IP protocols is even more important than before when migrating to distributed access networks. Similarly, product platforms and product concept development will become more common. ■

ICON9000 – smart remote PHY node

Teleste developed a smart 1.2 GHz node, ICON9000, for the North American broadband market. The new optical node was designed to match the standards and requirements of distributed access architecture. It provides operators with all the benefits of Teleste's intelligent networks, while enabling seamless, flexible transit to digital fibre-based solutions. ICON9000 supports bidirectional communication and provides network operators with a number of tools for the maintenance of an intelligent network. Remote controllability decreases the need for manual maintenance, which in turn reduces network maintenance costs. ICON9000 was introduced for the first time in October at SCTE-ISBE Cable-TEC Expo 2017, a telecommunications industry event held in Denver, North America.

Over the past ten years, Teleste has been utilizing smart technologies for the development of solutions and products for broadband networks and their maintenance. Today, Teleste's intelligent fibre nodes are used by all large operators in nearly all European countries. Teleste has delivered a great number of 1.2 GHz appliances to operators since 2014. Now, Teleste is enhancing its offering, aiming to gain a foothold also in the North American market. New solutions, such as the ICON™ platform, help operators to streamline their operations and improve their customer service. ICON™ is a trademark of Teleste Corporation. ■

Management of Intellectual Property Rights (IPR)

Teleste's intellectual property rights comprise a set of various rights, such as trademarks, patents and copyrights. Protection of these intellectual property rights is essential for any company developing state-of-the-art technology. Its importance is particularly emphasised in new markets. Teleste manages its intellectual property rights carefully, paying particular attention to IPR protection when entering new markets.

In 2017, Teleste carried out an internal project to review the state of intellectual property rights and enhance IPR management. We used external experts for the review. They examined Teleste's IPR strategy, product development projects and inventions, patent applications and third-party IPR risk management. They carried out a survey to determine whether the strategy and practices are up-to-date and in compliance. On the basis of the answers to the survey, the strategy and practices were updated and the distribution of information was activated. In addition, Teleste hired a person who is in charge of IPR matters and launched internal training within the Group. ■

TECHNOLOGY AND SOLUTIONS

Teleste on-board solutions

Teleste's Rail on-board solution comprises of several subsystems: Public Address, Passenger Information management, Video Surveillance, Displays, Audio and phone system and Connectivity solutions. The subsystems are put together of products that are designed for demanding operating environment. The industry's expectations for reliability, quality and useful life are extremely high taking into account that the systems are information technology. Although majority of business volume is coming from products, the software is in the key role, when building the functionality for passenger experience.

Majority of on-board business is for new vehicles. There are only several rolling stock manufacturers in the world. They are setting high targets for their suppliers. The performance of on-time deliveries and quality are monitored monthly and cost competitiveness in every project. The on-board solution is a rather visible element for passengers and thus the reliability is of high importance.

LONG-TERM COMMITMENT

Starting a business partnership with a rolling stock manufacturer means long–term commitment for both sides. The projects are typically continuing years. In the beginning, the system functionality is developed to meet the requirements of the project and after that, serial production starts. The longest project – Stadler project to NSB in Norway – started in 2010 and the serial production continues at least until 2019. There are already more than 100 Stadler trains using our systems in Norway. There are typically system deliveries every month or bi-weekly in serial production phase.

Long-term commitment is an industry expectation. According to standards, the technology must be supported minimum 30 years. As the information technology evolves over the years, obsolescence management is a demanding but mandatory activity in our industry. On the other hand, continuous R&D to keep the system technology viable provides also an opportunity to improve the performance and competitiveness of our products.

SERVING CUSTOMERS WITH WORLD-CLASS KNOW-HOW

In a typical project, the development phase takes 6-9 months and the serial production 2-3 years. However, trains are designed to operate for 30 years or more. Over the years, different needs occur for developing the passengers' travel experience and for securing high availability of systems. Therefore, the capability to provide services for the installed base is extremely important to secure customer satisfaction.

Majority of the services are related to spare parts, repairs and field maintenance. However, over the years we have gained experience from our installed base to provide more expertise related services like software upgrades, product refurbishments, functional extensions and performance monitoring. In general, the life-cycle cost management is becoming more and more important within the industry, and our wide installed base provides Teleste the opportunity to develop the company into an expert service provider. ■

Security is enabled by surveillance

The megatrends affecting Teleste's operating environment define the framework for the development of operations. They influence our choice of strategic priorities and the preparation of action plans. Monitoring of trends constitutes part of Teleste's strategic enterprise resource planning process, which ensures the company's competitiveness now and in the future. Skilled and highly motivated personnel plays the key role in the development of products and services in order to respond to the needs of the changing operating environment even better. The most important trends that affect the operations of the VIS business unit include:

SECURITY IN PUBLIC PLACES
Smart and safe cities and their development constitute a worldwide megatrend which creates demand for new generation security solutions. Teleste's video security and information solutions can help to build smart urban environments where people can safely move around and use public transport.

SAFE AND SMOOTH PUBLIC TRANSPORT. EFFICIENT MOBILITY FOR PEOPLE
Urbanisation increases the number of passengers using public transport. This also increases the importance of a smooth flow of crowds. The growth of public transport creates demand for passenger information solutions. Teleste's video security and information solutions can provide passengers with safer and more efficient public transport services.

CYBERSECURITY THREATS IN PUBLIC STRUCTURES AND SERVICES
The increasing cybersecurity requirements create demand for products that can help to ensure data security in connection with any threats concerning public structures and services. Teleste's video security and information solutions have been designed for demanding use. They include advanced state-of-the-art solutions and features for ensuring data security in any circumstances. ■

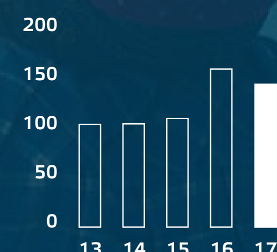
Esa Harju was appointed to the position of Senior Vice President of Teleste´s Video Security and Information -business unit on 1 December 2016. He had already gained good knowledge on Teleste´s business operations in his previous role as a member of Teleste Board of Directors.

VIDEO AND BROADBAND SOLUTIONS

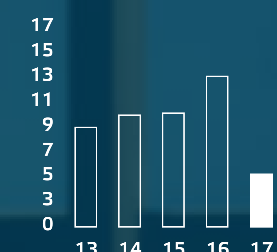
Orders received increased

The net sales of Video and Broadband Solutions decreased by 13.5 per cent to EUR 142.1 (164.2) million. The soft development was particularly due to the low order backlog of video security and information solutions during the first half of the year. The decrease in net sales, restructuring expenses and investments in new markets were reflected in the operating profit, which stood at EUR 4.9 (16.5) million. The orders received began to strongly increase during the second half of the year. The business area employed 729 (747) people on average.

VBS net sales, MEUR



VBS operating profit, MEUR



Share of net sales

61%

Share of personnel

34%

Network Products

Network Products provides access networks, video headends and video-on-demand solutions and related services to cable operators. In access network products, Teleste is the market leader in Europe, and it is a globally significant supplier of video headends. The access networks product range contains all components from optical fibre solutions to amplifiers and passive components, such as antenna sockets. In video headends, the emphasis is on completely digital solutions. The services related to our product operations consist of systems design, quality-assurance consulting, maintenance of delivered systems, and training.

Video security and information solutions

Teleste delivers comprehensive modular video security and information solutions to the public sector, railway carriage manufacturers and traffic operators. Teleste's own products cover transmission, recording and management of video as well as passenger information solutions. Teleste's applications are often joined together with other systems, such as traffic control, alarm and crisis management systems. Teleste has a strong market position in demanding video security projects and among the leading carriage manufacturers and traffic operators. Teleste's main market areas are in Europe, North America and the Middle East.

NETWORK PRODUCTS

Investments in new markets

> Migration to distributed access networks creates new opportunities.

Network investments by operators progressed slowly during the first part of the year, but demand picked up towards year-end. However, sales of access network products decreased year-on-year, despite the fact that the order backlog reached a high level by the end of 2017. Lower net sales also had a negative effect on profitability. The long downward trend in amplifier sales prices came to an end, and Teleste signed new contracts at slightly higher prices, as customers noticed the difference in product quality. In optics, the price level remained stable. Operators still needed to augment capacity and enhance the features of their access networks in order to ensure a positive customer experience. Customers' financial situation also enabled investments. However, their decision-making was slow, which was possibly partly attributable to their plans to migrate to distributed access networks.

Our position as a pioneer in products complying with the DOCSIS 3.1 standard and our good reputation have strengthened Teleste's market position in the European market. In 2016, we signed an important co-operation agreement with Huawei to upgrade the broadband network of the Danish TDC Group. The production work at Teleste was carried out quickly, and the majority of the next-generation amplifiers were delivered in 2017. When completed, the cable network upgrade project will be the first network transformation that is performed to the DOCSIS 3.1 standard and utilizes distributed access architecture. The upgrade enables TDC to deliver speeds of 1 Gbit/s on a large scale.

JOINT VENTURE IN NORTH AMERICA

Teleste's strong market position in Europe and advanced product range have attracted interest in North America, the world's largest market for cable infrastructure. In recent years, Teleste has developed products to meet the needs of this market and carried out studies of the market. In 2017, Teleste and Antronix, a company based in North America, established Teleste Intercept LLC, a joint venture to promote sales of both companies' broadband products in North America. Antronix has a strong foothold as a technology supplier to North America's largest cable operators. Therefore, the joint venture provides a good basis for accessing the market. Discussions with potential customers are already well underway.

DISTRIBUTED ACCESS ARCHITECTURE MAKES PROGRESS

Product development focused on products and solutions designed for distributed access networks and the DOCSIS 3.1 standard. Development of access networks has rapidly moved from traditional 1.0 GHz HFC networks to more efficient 1.2 GHz networks. The next step will be networks that are based on distributed access architecture. Distributed access architecture provides many advantages, such as better scalability, capacity and maintenance efficiency as well as a smaller need for space for equipment. A distributed access network is very suitable for IP traffic, in which the share of video is continuously increasing.

Migration to distributed access networks creates new opportunities. For suppliers, it also revolutionises the offering and competition. Product development focusing on service platforms and, in particular, investment in software are necessary for the development of architecture that complies with the standard. Such investments, in turn, require high volumes. Therefore, solutions will become increasingly global, and country-specific tailoring will become less common. Teleste has been active in promoting the development of distributed access networks, and in 2017 it launched its first products: the Remote PHY and Remote MACPHY nodes. Product development will continue, and new solutions will be launched in 2018.

DEMAND FOR NEW SOLUTIONS

Concerning access networks, Teleste will focus on distributed access architecture and conquest of America. The joint venture has had a very promising start, but the development of a sales network and enhancement of Teleste's visibility will still require effort. However, according to market forecasts, it can be expected that operators in both Europe and America will upgrade to distributed access networks within the next few years. ■

VIDEO SECURITY AND INFORMATION

Towards smarter solutions

> "The importance of software expertise is increasing in the development of solutions.

The development of the operating environment for video security and information solutions was twofold. Demand was strong for passenger information solutions, while the video security market was inactive and new competitors boosted the price competition. In passenger information solutions, Teleste received important orders from railway carriage manufacturers, and the order book increased towards the end of the year. Net sales did not reach the previous year's level, which also had a negative impact on the operating result. In 2017, the development of operations progressed at a brisk pace in many areas. The new organisation was launched in January, enabling the company to run of the different functions and product areas in a more consistent manner. The change in the ways of working was also reflected on customers, as a person in charge was assigned for our major customers. At the same time, the sales personnel were provided with a more extensive product range to offer to customers. In addition, we enhanced the co-operation between marketing and the other functions. With these measures, we aim to streamline and further intensify our collaboration with customers and to ensure that skilled, highly motivated Teleste people are always close to the customer.

INVESTMENT IN QUALITY

Deviations in quality, detected in some passenger information products, contributed to the negative development of profitability. The problems resulted partially from components supplied by subcontractors and partially from our in-house production. A number of measures were launched to improve quality, and the results are continuously monitored. Keeping our value promise to the customers is paramount for Teleste.

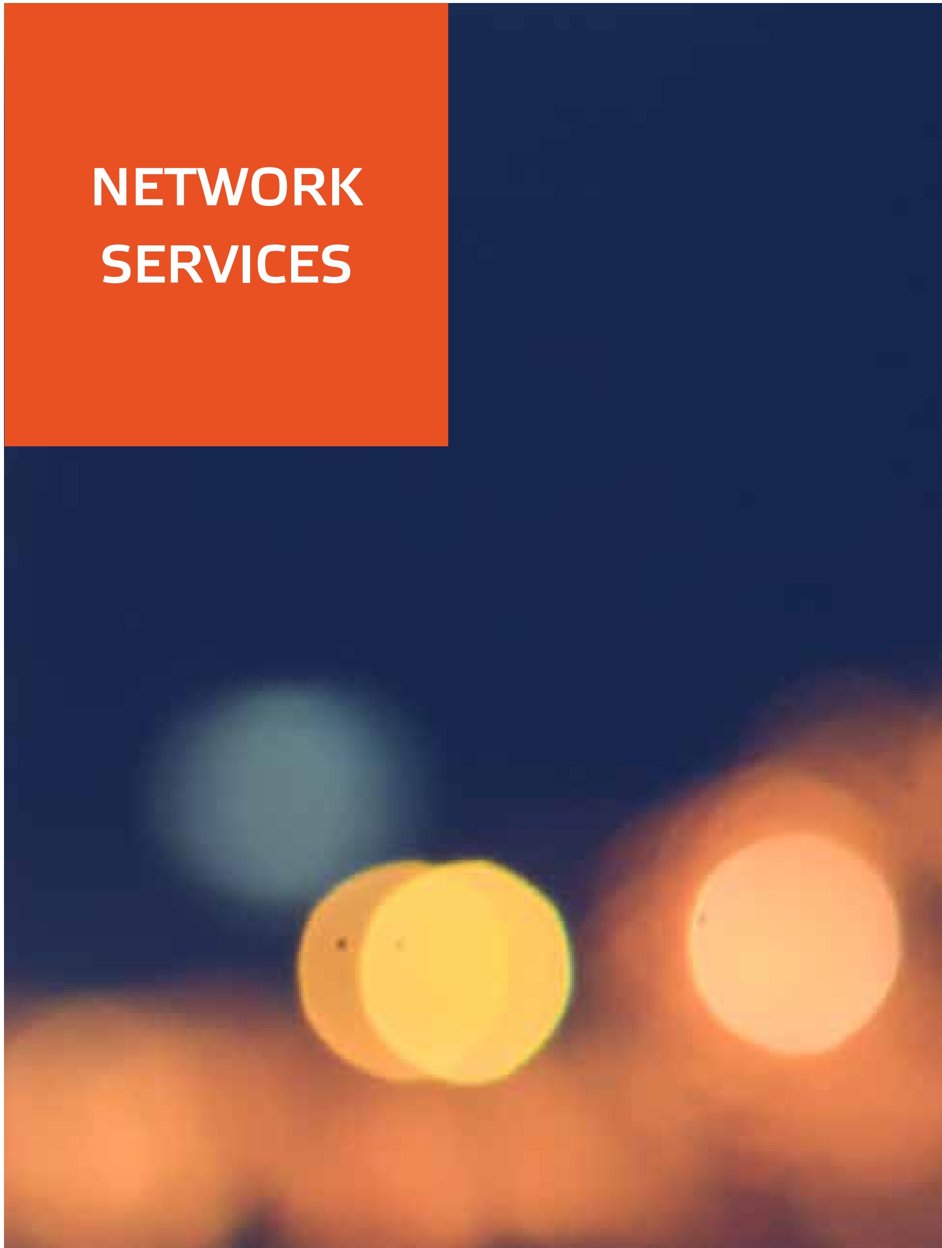
MORE INTELLIGENCE

Advanced video security systems are evolving into situation awareness systems, while passenger information solutions are becoming increasingly modular. In both areas, we are heading towards smarter systems, which means that software expertise is becoming more and more important in the development of solutions. Teleste's software expertise was enhanced by the acquisition made in October. Teleste acquired iqu Systems GmbH, a German company specialising in intelligent passenger information systems and software. The business of iqu Systems consists of software solutions, displays and related services that complement Teleste's offering. In addition, iqu Systems is well positioned in the German, Polish, Austrian and Swiss public transport markets, helping Teleste strengthen its presence in important markets. The acquisition increased the number of experts in the unit by approximately 20 people.

STRONG POSITION

The order book increased considerably in the last part of the year. This gives an excellent start for 2018, as the orders will be delivered this year and over the next few years. The market outlook is also mainly positive. The importance of efficient public transport and systems that increase security will continue to increase in the future. Teleste has also strengthened its market position further. Railway carriage manufacturers in particular have consolidated into larger units. The requirements they set for their partners' production volumes, security of supply and operating methods are often too high for smaller suppliers. We still have a lot of work to do. We aim to expand our customer base to cover all areas of public transport. We also aim to expand the customer base geographically and to include new customer segments within the scope of our video security services. In the production of passenger information systems, we look for even greater volumes with higher quality requirements. Our partner network will be strengthened as part of the quality improvement process. In addition, we must efficiently ensure our own expertise. We need new talented professionals, particularly for product development. ■

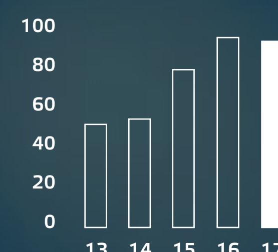
NETWORK SERVICES



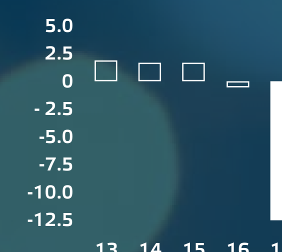
Challenges in Germany

In the summer, there was a goodwill impairment relating to the services business in Germany, and a restructuring provision for improving profitability was made. These had a negative impact of EUR 9.3 million on the result. The objective of the restructuring is to achieve a positive operating result in 2018. Our performance in the second largest geographical area of the services business, the UK, fell slightly short of the targets, while our net sales and operating profit developed favourably in the other countries. The business area employed 446 people on average.

NS net sales, MEUR



NS operating profit, MEUR



Share of net sales

39%

Share of personnel

66%

In Germany, services are provided by Teleste's subsidiary, Cableway. Its services consist mainly of installation and maintenance. Customer relationships are long-lasting and stable. The profitability of the operations has remained at an unsatisfactory level for years, and efforts have been made to improve it with various enhancement measures. Part of the negative development in 2017 resulted from the inefficiency of operations, but the main reason was the increase in the costs of subcontracted excavation work.

CORRECTIVE ACTIONS

The excavation market in Germany is overheated, and the strict regulation makes it difficult to attract new players to the field. In order to rectify the situation, Teleste launched negotiations with its most important customer on the renewal of the frame agreement, so that the compensations received by Teleste can be brought to a level that matches the costs. In addition, productivity was improved by streamlining our ways of working and processes as well as through organisational changes. We also aim to improve our customer structure by acquiring new customers, as the largest customer accounts for a significant share of net sales. The measures to improve profitability will continue in 2018. In the other countries – Switzerland, Belgium and Finland – demand remained stable. In these markets, the focus is on higher added value services, such as design, construction and consulting. Our offering was further developed towards more advanced services, and we organised our operations by creating customer teams that specialise in selling these services.

TOWARDS VALUE-BASED PRICING

The services business market remains relatively stable at the annual level. Significant growth can be achieved through new services and improvement of the market share. The tough price competition in the industry means that services must be produced efficiently in order to ensure profitable business. Teleste's objective is to invest in services and tools that produce high added value for customers and reduce the costs of networks across their life span. The pricing of these services can emphasise their benefits for the customer, not only the cost of producing the service. ■

Network Services

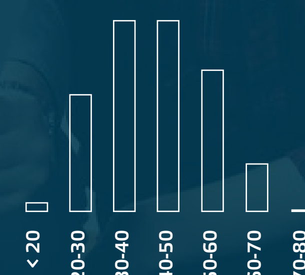
Network Services offers network design, installation, and maintenance as well as professional services for cable and telecom operators across Europe. Our customers are often the leading players in their countries, and they aim to make available new services, such as high-speed Internet access, pay TV, video-on-demand, and telephony to their subscribers. Network Services operates in Germany, UK, Finland, Switzerland, and Belgium.

PERSONNEL

One Teleste – common values

Teleste's competitiveness is largely based on motivated and skilled personnel. 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 a good work–life balance. At the end of 2017, Teleste had 1,446 employees (2016: 1,511). Teleste's field of operations is very international and the company has offices in 20 countries. In terms of the number of employees, the largest Teleste countries are Finland (35%) and Germany (37%).

Personnel by age range



Personnel by location

Teleste's mission is to build a networked society to make life smarter, smoother and safer for people. Teleste employees represent different backgrounds, countries and cultures, but we all share the same values: customer centricity, respect, reliability and result orientation. Teleste engages in building a networked society in co-operation with others, creating a dialogue between personnel and stakeholders.

The One Teleste project, launched in 2016 to promote Teleste's unity and refresh the visual look, continued in 2017: Mitron was kept as a product name and the company's name was changed to Teleste Information Solutions.

> Due to Teleste's global business environment, international activities are part of Teleste employees' day-to-day work.

TOGETHER, PROMOTING DIALOGUE

One of Teleste's main themes in 2017 was the enhancement of dialogue. The theme was implemented through means such as the Building successful dialogue manager coaching programme, related to target setting, and the development of the new interactive eLearning portal for online learning. In addition, we started the design and preparation of a global personnel survey in 2017. We decided to promote dialogue by carrying out Teleste's personnel survey for 2018 through a number of short pulse questionnaires.

In 2017, we also implemented smaller local projects to promote dialogue among Teleste employees. Various theme days were arranged to encourage employees to discuss positive factors associated with their workplace and ways in which everyone can promote workplace and job satisfaction. The performance appraisal discussion procedure was also revised by encouraging managers and employees to engage in more frequent, continuous dialogue and by introducing new themes in discussions, associated with being a member of the workplace community and making Teleste's values visible in our day-to-day work and interaction.

LOCAL INTERNATIONAL PLAYER

Teleste is an international technology company that takes local requirements into account. Due to Teleste's global business environment, international activities are part of Teleste employees' day-to-day work. In addition, compliance with the standards and quality requirements of HR activities is assessed by annual audits.

Co-operation within the HR Community, the company's internal network for global HR management, was further enhanced in 2017 as we prepared for the EU Data Protection Regulation and developed key performance indicators. The network connects the offices to each other and creates a framework for joint development of HR activities.

FOCUS ON TRAINING AND DIALOGUE

The development of technologies, products and services, as well as continuous improvement of the efficiency of our operations, require solid expertise from our personnel. In addition to a number of job-specific training events, we promoted expertise through personnel group-specific coaching. In Finland, the Lean-based method was extended in 2017 from production workers to office workers in the form of coaching.

In order to improve and support managerial work and leadership, Teleste continues its group-level Teleste leadership programme. The objective of the leadership programme is to improve managerial practices and promote dialogue at Teleste, and also to share best practices among managers. The leadership programme consists of topical themes related to the work of line managers. In 2017, in accordance with the dialogue promotion theme, coaching in successful dialogue related to goal-setting was arranged for managers. Furthermore, we used global theme-specific chat clinics to support managerial work.

PREFERRED EMPLOYER

Teleste has a good reputation as an employer. Potential applicants are particularly interested in Teleste's technological expertise and international business environment as well as the opportunity to develop with it. Our close co-operation with educational institutions is designed to increase the company's visibility among potential employees, which ensures the availability of employees also in the future. For young people, we offer summer jobs, work placements and topics for theses.

On average, employees stay with Teleste for a long time. A motivating job promotes commitment to the employer, and long careers develop solid expertise and knowledge. Careers will become even longer in the future. We take this into account by promoting well-being at work, enhancement of expertise and a good work–life balance.

Teleste's incentive systems are based on the results achieved, measured on the company and personal level. Teleste uses bonus and performance-based systems as well as share-based incentive schemes. In 2017, Teleste revised its bonus system to make it more motivating and comprehensible and more strongly dependent on the company's financial performance. The bonus and performance-based systems support the company strategy with targets that are naturally integrated into the work of teams and individual employees.

In the latter part of the year, Teleste initiated co-determination negotiations. As a result of the negotiations, which ended in December, the company reduced the number of employees in Finland by 24 persons. The reductions were carried out through termination of employment, long-term lay-offs and individual solutions. The reduction concerned all personnel groups. ■

RESPON-SIBILITY

Building a networked world

Teleste is involved in building a networked world, improving its safety and developing more efficient public transport. Corporate responsibility is at the core of Teleste's work, and it is reflected in the company's vision, mission and strategy. Day-to-day work at Teleste is guided by the company's ethical guidelines. In 2017, the importance of corporate responsibility was also emphasised because of the new Accounting Act. Pursuant to the Act, companies must report non-financial information on matters such as corporate responsibility-related procedures and achievements. Therefore, Teleste expanded its set of non-financial indicators to apply to the entire company.

Impact on society

Personnel expenses	Corporate taxes	Dividends for shareholder
69.9 MEUR	0.7 MEUR	1.8 MEUR

Teleste's values – customer centricity, respect, reliability and result orientation – constitute the foundation for corporate responsibility. Teleste follows the UN Association of Finland's division of corporate responsibility into economic, environmental and social components. Economic responsibility is addressed through customer centricity and result orientation. We observe the operating environment, and we are open and proactive. We are close to the customer, now and in the future. Result orientation is ensured by making timely decisions, setting challenging goals, communicating the goals clearly and carrying matters through. Environmental responsibility involves considering the environmental impacts of products throughout their life cycle and monitoring the development with indicators. Environmental responsibility is a particularly important aspect of the reliability of products. Social responsibility is addressed in ethical guidelines and by ensuring fair working conditions and practices. Respect for all people is included in the basics of social responsibility.

LONG-LASTING PRODUCTS

Environmental friendliness is reflected in the energy consumption, durability and serviceability of products. The environmental perspective is taken into consideration in product design, and recyclable materials are used where possible. The environmental impacts of the products mainly consist of energy consumption during use as well as space and cooling-related requirements. Taking environmental aspects into account throughout the chain ensures environmentally friendly products for customers.

EFFECTS OF OUR OWN OPERATIONS

Economic and environmental responsibility are associated with Teleste's own energy and water consumption as well as our efforts to reduce them. In 2017, Teleste Group consumed 4.1 GWh of power and 27,000 m3 of water. Water consumption consists entirely of service water, as the manufacturing process does not use any water. Teleste's environmental management system is ISO14001:2004-certified, and it will be updated to comply with the certificate's new version, ISO14001:2015.

RISKS UNDER CONTROL

Risk assessment and preparedness are important contributors to financial success. Twice a year, Teleste carries out an assessment of risks and opportunities covering the entire company. Risks are defined and their significance is rated for each business unit. A contingency plan is prepared and immediate measures to be taken are specified for significant risks. A timetable is prepared and a person in charge designated for each measure. Teleste carries out an annual internal audit to evaluate the efficiency of processes related to risk management, control, leadership, administration and selected functions. The audit also includes making proposals for the improvement of these processes and functions. In addition, internal auditing carries out special tasks assigned by the management. ■

> "Environmental friendliness is reflected in the energy consumption, durability and serviceability of products.

DESIGN

Product development plays a key role in our consideration of the environmental impact during the product life. Decisions made at the design stage have great significance for the entire product life cycle, as they cover the entire supply chain from the procurement of raw materials to the removal of the product from the market. A design-stage environmental assessment was added to Teleste's design process at the end of 2016. It focuses on reviewing the environmental friendliness of the products in respect of material choices and life cycle management. The designers, project manager, quality manager and supervisors participate in the assessment. The first environmental assessment was performed on the product AC9200. According to the assessment, the product contains 93.2% of recyclable material, and 6.4% of the material in the product is energy waste that will be burned. Modularity is an important aspect in product design, and nearly all of the HFC access network products are modular. The Luminato digital headend platform is also a modular product platform. The benefits of modularity are reflected in the serviceability of the products and the versatility of the platform. Environmentally conscious product design aims to reduce material volumes, cut energy consumption and improve product quality:

Quantitative perspective
- Efficient use of materials
- Minimisation of energy consumption
- Extension of the service lives of products
- Improvement of product usability
-

Qualitative perspective
– minimisation of negative impacts
- Quality of inputs (materials and energy)
- Quality of emissions (production, use, waste disposal)

Environmental assessments cover the following:
- Improvement of the efficiency of material use
- Minimisation of energy consumption
- Extension of the product life cycle
- Recyclability
- Reduction of the use of hazardous substances.

SOURCING

Teleste's global supplier network cosists of suppliers from more than 20 countries. In direct purchases, 20 per cent of suppliers account for 80 per cent of the whole spend. Co-operation with suppliers is based on annual contracts and a long-term approach. The co-operation is steered and monitored through the Code of Conduct, guidelines concerning functions such as logistics and order processing, supplier evaluations, supplier self-evaluations, meetings and audits.

The direct procurement consists of different categories: components, products and services we offer to our customers. The indirect procurement consists of goods and services we buy to run our business. When choosing suppliers, we ensure that they meet Teleste's criteria. Most suppliers have undertaken to follow Teleste's ethical guidelines, which include respect for human rights and prevention of corruption and bribery. The objective for 2018 is that all of our suppliers undertake to follow our ethical guidelines.

Teleste always strives to ensure that materials come from ethically and environmentally responsible sources. The company uses a third-party service to maintain and improve the necessary information pertaining to the legitimate trade of natural resources and supply chains in line with sustainable development. The third-party service provider monitors the origin of the raw materials used in standard components (conflict minerals, 3TG). For more information, see the next double-page spread.

PRODUCTION

Teleste's most significant sources of environmental impacts are energy consumption and the waste generated by the company's operations. Teleste's production operations consist of the manufacturing, assembling and testing of electronics. All of these processes are environmentally safe.

Production efficiency is maintained by using the lean approach. One aspect of quality development in production is the use of continuous improvement boards (JAPA boards). In addition, Teleste applies the 5S method in its production. This method focuses on the organisation of workplaces and standardisation of working methods. The objective of the method, developed in Japan, is to improve the productivity of work. This is pursued by avoiding any type of waste, eliminating non-value adding activities, improving quality and safety and creating a visually attractive, efficient workplace. The progress of continuous improvement and the agreed development projects is regularly monitored in meetings.

The Recycling section includes more details about the sorting of waste.

DISTRIBUTION AND SERVICES

Our logistics management takes into account environmental questions and cost-efficiency alike. The carbon footprint arising from transport results mainly from transport of materials and finished products. It is reduced by applying a forecasting process, prioritising land and sea transport over air cargo in customer deliveries and finding the shortest possible transport routes. In 2017, we delivered 1,184,500 kg of products. We decreased the quantity of air cargo, particularly in the transport of materials. In 2018, we will enhance our measurement activities, aiming to obtain information about all transports.

The space taken up by packages and packaging materials also contribute to the environmental load of distribution. The need for space has been reduced by using packages that can be stacked on top of each other, and packages have been made more environmentally friendly by replacing chipboard with cardboard as box cover material. Cardboard covers are lightweight and easy to recycle.

In the service business, the main source of environmental load is CO2 emissions from driving related to installation and servicing. Vehicle choices and route planning are used for reducing CO2 emissions. CO2 emissions have remained at a stable level for many years, thanks to low-emission vehicles and careful route planning.

USE

Teleste's products are safe throughout their production process and service life. The design of products takes into account the full product life cycle, including availability, service life and serviceability. The upgradeability of products with long life spans is part of the environmental perspective. Customer satisfaction is guaranteed by long-lasting and serviceable products with energy consumption matching the set targets.

Teleste continuously develops its access network products to allow its customers (operators) to reduce their network electricity consumption relative to the amount of data transmitted. The general measurement used in the industry is W/bit, which is the amount of energy consumed to transmit one bit of data on the network. New DOCSIS 3.1 devices with an extended frequency range provide operators with the opportunity to achieve a better efficiency ratio.

In 2017, we have started manufacturing new E-series products that will replace the old 862 MHz devices. A better bit per watt figure will be achieved with the new E-series products.

RECYCLING

Teleste processes and recycles its waste appropriately. In 2017, the amount of waste was as follows: energy waste 44.6 tons, mixed waste 16.7 tons, paper 8.84 tons, board 53.87 tons, e-waste 13,501 tons, battery waste 24 kilograms, data security material 5,300 tons and hazardous waste 113 kilograms. Waste handling guidelines and sorting of waste have reduced the amount of waste. The waste recycling rate at Teleste Corporation in 2017 was 63%.

In 2017, Teleste arranged a competitive tendering process for providers of waste logistics services in Finland. At the same time, Teleste launched environmental training courses and also improved its internal waste logistics management. Teleste reports its waste recycling rate each month.

Environmental training for the production personnel constituted an important part of the project.

Sourcing as a competitive factor for Teleste

Suppliers are crucially important for Teleste. Our global supplier network consists of suppliers from more than 20 countries. In direct purchases, 20 per cent of suppliers account for 80 per cent of the whole spend. Cooperation with suppliers is based on annual contracts and a long-term approach. It is steered and monitored with the Code of Conduct, guidelines concerning, for instance, logistics and order processing, supplier evaluations, supplier self-evaluations, meetings and audits.

Teleste's procurement is divided into strategic sourcing and operational purchasing. Strategic sourcing selects suppliers, negotiates contracts and is responsible for supplier relationship management. Operational purchasing places orders with suppliers and is responsible for daily supplier interaction. The sourcing organisation actively develops operations by harmonising ways of working and by sharing information throughout the organisation.

PRECISE SELECTION CRITERIA

Supplier selections are based on Teleste's values: customer centricity, respect, reliability and result orientation. When selections are made, the aspects evaluated include, among other things, technological know-how, the quality of products and deliveries, delivery reliability, operational ethics and cost efficiency. Teleste categorises suppliers into key, preferred, approved and new suppliers. Key suppliers and preferred suppliers are evaluated annually, approved suppliers at three-year intervals and new suppliers at the beginning of the customer relationship. The evaluation model is updated when necessary.

COMPREHENSIVE SELF-EVALUATION

Each new supplier fills in Teleste's comprehensive self-evaluation that consists of approximately 100 questions about corporate governance, information security, occupational safety, responsibility and compliance with law and environmental regulations and also about the organisation and its competency and ability to innovate. The objective for 2018 is that all of our suppliers undertake to follow our ethical guidelines.

In 2017, the self-evaluation template was updated and the questions related to risk management were grouped into a section of their own. What is important in the answers is not only how the supplier describes their operations and what kind of evidence they provide but also how the supplier's supply chain works, how they steer it and how this steering can be verified.

COMPONENTS, PRODUCTS AND RAW MATERIALS

The direct procurement consists of different categories: components, products and services we offer to our customers. The indirect procurement consists of goods and services we buy to run our business.

The typically long life cycle of Teleste's products sets high requirements for components with regard to their life cycle, life cycle costs and delivery agility, among other things. Teleste strives to always ensure that materials are from ethically and environmentally responsible sources. The company uses a third-party service to maintain the necessary information pertaining to the legitimate trade of natural resources and supply chains in line with sustainable development. The third-party service monitors the origin of the raw materials used in standard components (conflict minerals, 3TG).

Supplier selections are based on Teleste's values: customer centricity, respect, reliability and result orientation.

Teleste only purchases components that fulfil the requirements of the RoHS directive. There are also counterfeit components available on the market. Teleste promotes anti-counterfeiting by committing to four basic principles (Teleste's Anti-Counterfeiting Statement) and by requiring that its suppliers also promote these principles through their own actions.

DELIVERY TIMES AS A CHALLENGE

In 2017, a major challenge was the fact that component delivery times became longer due to the production capacity of their manufacturers being fully utilised. In addition, some manufacturers gave up the production of certain semiconductor components. The availability of passive and semiconductor components is expected to continue to be difficult until the end of 2018.

SOURCING AS A COMPETITIVE ASSET FOR TELESTE

In August 2017, Teleste organised an event, led by **Kari Iloranta** D.Sc. (Tech.), on the management of the company's external resources. This work was continued with an action plan with four focus areas.

1. The Spend under management programme analyses both indirect and direct sourcing globally. Teleste's growth through company acquisitions has led to the situation that there are different sourcing processes within Teleste. The purpose of the programme is to identify differences and best practices, harmonise guidelines and improve cost efficiency.
2. The goal of the Competent organisation programme is to increase procurement competency globally. Training has been divided into four levels. The first level is part of the induction for new Teleste employees, the second and the third levels are intended for those making indirect and direct purchases and the fourth level is manager-level training for those who are responsible for the sourcing of a certain category or subcategory in its entirety. In the manager-level training, Teleste has co-operated for years with the TSE Exe unit of Turku School of Economics.
3. Under the Category work programme, pilot projects were launched in October, to create operating models and tools for sourcing category work carried out jointly by different functions. Both business operations and product development provide equally strong contributions to this work. A clearer global category structure for indirect and direct sourcing is also being developed.
4. The goal of the New product development – early purchasing involvement programme is to allocate the organisation's resources more efficiently and bring more know-how into the organisation. The starting point is good, as Teleste's sourcing and product development operate in the same premises and communication between the teams is smooth.

Sourcing tools include:

- Code of Conduct
- Supplier evaluation and development
- Supplier self-evaluation (supplier questionnaire)
- Meetings with suppliers
- Audits
- Supplier guidelines (e.g. the logistics contract and the order processing instructions)

BOARD OF DIRECTORS

Pertti Ervi selected as the new Chairman of the Board

PERTTI ERVI

B.Sc. (Eng.), born in 1957
Chairman of the Board 4.10.2017–
Member of the Board 2009–2017

Independent of Teleste and its significant shareholders

Principal occupation:
Independent Consultant

Primary working experience:
Computer 2000, Co-President until 2000
Computer 2000 Finland Oy, MD until 1995

Other elected positions of trust:
Efecte Oy, Member of the Board 2009– , Chairman of the Board 2011–
F-Secure Corporation, Member of the Board 2003– , Chairman of the Audit Committee 2006–

TIMO MIETTINEN

M.Sc. (Eng.), born in 1955
Chairman of the Board 2016–2017

Tianta Oy is a significant shareholder of Teleste (stock exchange release 2 Jan 2017)

Principal occupation:
EM Group Oy, Member of the Board 2014–, Chairman of the Board 2017–

Primary working experience:
EM Group Oy, Chairman of the Board 2005–2013
Ensto Oy, CEO 1993–1995, Chairman of the Board 2006–2013, Member of the Board 2014–2017
Lännen Tehtaat Oyj (current Apetit Oyj), Chairman of the Supervisory Board 2011–2013

Other elected positions of trust:
Ensto Invest Oy, Member of the Board 2017–
Alvar Aalto Foundation, Member of the Board 2014–
Deutsche Bibliotheks Verein in Finnland, Chairman of the Board 2014–

JANNICA FAGERHOLM

M.Sc. (Econ.), born in 1961
Member of the Board since 2013–

Independent of Teleste and its significant shareholders

Principal occupation:
Signe and Ane Gyllenberg Foundation, Managing Director 2010–

Primary working experience:
SEB Gyllenberg Private Bank, Managing Director 1999–2010
Handelsbanken Liv, Country Manager, Life Insurance business in Finland 1998-1999
Sampo Group, Investment Director Life Insurance 1996–1998
Sampo Group, various posts in Asset Management 1990–1996

Other elected positions of trust:
Kesko Corporation, Member of the Board 2016–
Sampo plc, Member of the Board 2013–
Hanken School of Economics, Member of the Board,
Chair of Investment Committee 2010–
Veritas Pension Insurance Company, Member of the Board of Supervisors 2010–

TIMO LUUKKAINEN

M.Sc. (Econ.), M.Sc.(Eng.), MBA, born in 1954
Member of the Board 2016–

Independent of Teleste and its significant shareholders

Principal occupation:
Board professional

Primary working experience:
Ensto Oy, Managing Director 2009–2016
Evervent Oy, CEO 2007–2009
In France, England and in Switzerland during 1992–2008:
Member of the Management Group of French subsidiary of General Motors
EMEA director of Hyster ja Mouvex -consortiums CEO of Irrifrance CEO of ABB subsidiaries 1985–1992
CEO of UPM Kymmene subsidiaries 1981–1985

Other elected positions of trust:
Varuboden-Osla, Deputy Chairman of the Board 2016–2017

The Board held
12 meetings
in 2017

KAI TELANNE

M.Sc. (Econ.), born in 1964
Member of the Board since 2008–

Independent of Teleste and its significant shareholders

Principal occupation:
Alma Media Corporation, CEO 2005 -

Primary working experience:
Kustannus Oy Aamulehti, Managing Director 2001–2005
Kustannus Oy Aamulehti, Deputy MD 2000–2001

Other elected positions of trust:
Altia Group, Member of the Board 2016–
Varma Mutual Pension Insurance Company, Member of the Board 2009–, Vice Chairman of the Board 2017–
Tampere Chamber of Commerce and Industry, Member of the Board 2018–

MANAGEMENT GROUP

JUKKA RINNEVAARA

President and CEO
M.Sc. (Econ.), Born in 1961

Joined Teleste in 2002

Primary working experience:
ABB Installaatiot Oy, President 1999–2001
ABB Building Systems, Group Senior Vice President 2001–2002

Other elected positions of trust:
Ventilation Holding Finland Oy, Member of the Board 2008–
Turku Chamber of Commerce, Chairman of the Board 2012–2015, Vice Chairman 2016–

JOHAN SLOTTE

Deputy CEO
LL.M, EMBA, Born in 1959

Regional Director of corporate operations in Germany, Austria and Switzerland
Head of corporate business development and legal affairs

Joined Teleste in 1999

Member of the Management Group since 1999–

Primary working experience:
Uponor Group, Various directorial positions 1989–1999

JUHA HYYTIÄINEN

CFO
M.Sc. (Econ.), Born in 1967

Joined Teleste in November 2013

Member of the Management Group since 2013–

Primary working experience:
OMG Kokkola Chemicals Oy, Financial Manager 1994–1998
Ensto Saloplast Oy, Financial Manager 1998–2000
Nokia Corporation, Business Controller and Director positions in Finance and Control 2000–2013

HANNO NARJUS

Network Products, Senior Vice President
M.Sc. (Econ.),Born in 1962

Joined Teleste in 2006

Member of the Management Group since 2007–

Primary working experience:
Teleste Corporation, Director, Sales/Continental Europe 1989–1996
Nokia Corporation, Various managerial positions 1996–2006

ESA HARJU

Video Security and Information, Senior Vice President
M.Sc.(Eng.), Born in 1967

Joined Teleste in 2016

Member of the Management Group since 2016–

Primary working experience:
Independent Consultant 2015–2016
Ixonos Plc, President and CEO 2013–2015
Nokia Siemens Networks Finland Oy, CEO 2012
Nokia Siemens Networks, Head of Nordic & Baltic Region 2010–2012
Employment by Nokia and Nokia Siemens Networks since 1991

Other elected positions of trust:
Teleste Corporation, Member of the Board 2012–1.12.2016
Taiste Oy, Chairman of the Board 2016–

PASI JÄRVENPÄÄ

Research and Development, Senior Vice President
M.Sc. (Eng.), Born in 1967

Joined Teleste in 1994

Member of the Management Group since 2013–

Primary working experience:
Joined Teleste in 1994

MARKUS MATTILA

Operations, Senior Vice President
M.Sc. (Eng.), Born in 1968

Joined Teleste in 2008

Member of the Management Group since 2008–

Primary working experience:
Nokia Mobile Phones/Nokia Corporation, Manager and Director positions in Operations, Logistics and Sourcing 1993–2008

INFORMATION FOR SHARE-HOLDERS

TELESTE SHARE

Teleste Corporation is listed on Nasdaq Helsinki in the Technology sector and is quoted in the mid cap segment. The company shares are included in the book-entry securities system. The company has one series of shares. In Annual General Meeting each share carries one vote and confers an equal right to a dividend.

On 31 December 2017 Teleste's registered share capital stood at EUR 6,966,932.80 divided in 18,985,588 shares.

As to the company share price in 2017, the low was EUR 6.51 (7.29) and the high EUR 9.62 (10.24). Closing price on 31 December 2017 stood at EUR 6.68 (8.86).

Trading code TLT1V
Listed on 30.3.1999
Listing price 8.20 EUR
ISIN code FI0009007728
Reuter's ticker symbol TLT1V.HE
Bloomberg ticker symbol TLT1VFH

FINANCIAL INFORMATION

Teleste´s disclosure policy complies with Finnish legislation and the guidelines of the stock exchange and the Finnish Financial Supervisory Authority concerning disclosure obligations and the handling of undisclosed information (inside information).

Additionally Teleste publishes 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.

FINANCIAL RELEASES IN 2018

January–March 3.5.2018
Half year financial report 9.8.2018
January–September 8.11.2018
Financial Statement Release 7.2.2019

Publications are available on Teleste's website both in English and in Finnish.

CHANGES IN SHAREHOLDERS' CONTACT INFORMATION

The shareholder register is maintained by Euroclear Finland Oy. Shareholders are kindly requested to inform the custodian of their book-entry account of any changes in contact details.

ANNUAL GENERAL MEETING

Teleste Corporation's Annual General Meeting will be held on Thursday, 5 April 2018, commencing at 4 p.m., in B Hall at Finlandia Hall in Helsinki, Mannerheimintie 13. Registration and distribution of voting tickets begins at 3 p.m. Shareholders registered on the list of shareholders with Euroclear Finland Oy on Monday, 22 March 2018 are entitled to participate in the Annual General Meeting.

A shareholder who wants to participate in the meeting shall register no later than Friday 28 March 2018 at 4 p.m.

SIGN UP TO THE AGM:

a) Company website at:
www.teleste.com/AGM
b) investor.relations@teleste.com;
c) phone +358 2 2605 611
Monday–Friday between
09:00–16:00 EET
d) regular mail: Teleste Corporation,
Tiina Vuorinen, P.O. Box 323,
FI-20101 Turku, Finland.

PROPOSAL FOR DISTRIBUTION OF DIVIDEND 2017

The Board of Directors proposes to the AGM that, based on the adopted balance sheet, a dividend of EUR 0.10 per share be paid for the fiscal year that ended on 31 December 2017.

- Dividend ex date 6.4.2018
- Dividend record date 9.4.2018
- Payment of dividend 16.4.2018

More information: www.teleste.com/AGM

MORE INFORMATION: WWW.TELESTE.COM/AGM

Investor Information on Teleste's website includes e.g.:

- Financial reports and stock exchange releases
- Monthly updated information on our major shareholders
- Share trading information and investment calculator
- Information on the shareholder meeting

FINANCIAL STATEMENT 2017

WE ARE BUILDING A SMART, SAFE AND SMOOTH FUTURE

TELESTE

Dear reader,

Teleste's Annual Report 2017 is an interactive pdf. The contents list and footer's navigation contains links to the page, where information is located. The different features are explained below.

Previous / Next page

Return to the Contents

CONTENT

Report of the Board of Directors

OVERVIEW

Teleste is an international technology company that develops and offers video and broadband technologies and related services. Our supply of technology contributes to the convenience and safety of daily living. Our core business is video – the processing, transfer and management of video and data. Our customer base consists of cable and telecom operators, as well as public sector organizations. Our business is 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.

The year 2017 was exceptionally difficult for Teleste. Our main challenges were related to the low net sales in video security and information solutions and the low profitability of the services business in Germany. We were forced to reduce personnel in order to cut costs and improve the efficiency of business. Business area trends and the market outlook are still favourable, which is why we will continue investing in new advanced video security and information solutions, product development in distributed network architecture and winning new clients in the US cable operator market. The objective of the restructuring of our services business in Germany is to achieve a positive operating result in 2018 and renew the most important frame agreements. We start the year 2018 with a considerably higher order backlog than a year ago, which provides a good foundation for achieving our annual targets.

NET SALES AND PROFITABILITY

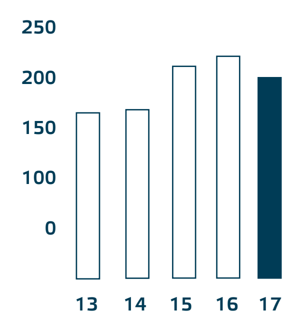
Orders received by the Group increased by 7.6% to EUR 262.9 (244.3) million, the highest level in Teleste's history. Net sales decreased by 9.6%, amounting to EUR 234.6 (259.5) million. Operating result was in the red by EUR 7.5 million. Operating result in the reference period was EUR 15.6 million. Operating result represented -3.2% (6.0%) of net sales. A significant proportion of the decrease in result was generated by the goodwill impairment of EUR 7.7 million related to the services business in Germany and the restructuring provisions of EUR 2.4 million in Germany and Finland. The operating result was also decreased by the lower net sales in Video and Broadband Solutions. Expenses for material and production services decreased by 6.9% to EUR 127.7 (137.1) million. Personnel expenses decreased by 4.4% and were EUR 69.4 (72.6) million. The 1.4 per cent reduction in personnel, the amount of performance-based bonuses paid out and the restructuring expenses contributed to the reduction in personnel expenses. Depreciation, amortisation and other operating expenses increased by 3.4% to EUR 38.9 (37.6) million. Taxes for the Group amounted to EUR 0.7 (3.0) million. Undiluted earnings per share were EUR -0.50 (0.65).

BUSINESS AREAS

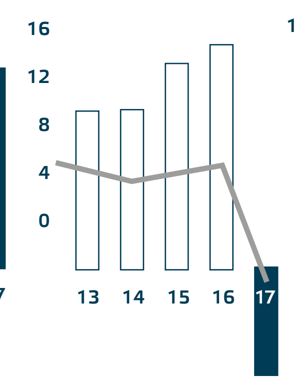
Video and Broadband Solutions

Video and Broadband Solutions focuses on access network products as well as video security and information solutions. Its main customer base comprises cable operators 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 is also present in North America, among other places. Teleste develops, designs and manufactures most of its products. In-house manufacturing is mainly carried out in Finland. In addition, Teleste supplements its product portfolio with products developed by third parties.

Net sales,
Meur



Operating profit,
Meur % of Net Sales



Video and Broadband Solutions has 33 offices of its own and a number of retail and integration partners. Outside Europe, it has subsidiaries and offices in the United States, Australia, China and the United Arab Emirates.

Orders received increased by 14.3% year-on-year to EUR 170.4 (149.0) million. The increase in orders received was seen in video security and information solutions. Net sales decreased by 13.5% to EUR 142.1 (164.2) million. Net sales decreased the most in video security and information solutions. Operating result decreased by 70.3% and was EUR 4.9 (16.5) million, representing 3.4% (10.0%) of net sales. The operating result was decreased by the lower net sales and the EUR 0.8 million restructuring provision related to the reduction of personnel. The operating result for the reference period included EUR 2.3 million of other income resulting from reversed provision for earn-out related to a prior acquisition.

R&D expenses amounted to EUR 12.1 (11.1) million, representing 8.5% (6.8%) of net sales. Product development projects focused on distributed access architecture, network products complying with the DOCSIS 3.1 standard (including solutions designed for the US market), video security and information solutions and customer-specific projects. Capitalised R&D expenses amounted to EUR 3.5 (2.5) million and depreciation on capitalised R&D expenses to EUR 1.5 (1.2) million.

Network Services

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. Our competence in services encompasses all the sectors related to cable network technology from the installation and maintenance of headends to the upgrading of house networks. Services are also provided through a network of subcontractors. Teleste engages in services business in the markets of Germany, England, Switzerland, Finland, Belgium and Poland.

Orders received and net sales decreased by 2.9% to EUR 92.5 (95.3) million. Net sales decreased in Germany and England. Operating result was negative by EUR 12.4 million, while operating result in the reference period was negative by EUR 0.8 million. The principal reasons for the negative operating result were operational problems in Germany, the goodwill impairment of EUR 7.7 million related to the services business in Germany, and the provision of EUR 1.6 million for a restructuring programme that progress in stages and continue in the first half of 2018.

INVESTMENTS

Investments by the Group totalled EUR 7.5 (5.5) million, equal to 3.2% (2.1%) of net sales. Of the investments, EUR 3.5 (2.5) million were made in product development and EUR 2.1 (0.0) million in an acquisition. Other investments involved information systems, machinery and equipment. Of the investments, EUR 0.4 (0.6) million were carried out under financial lease arrangements.

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

FINANCING AND CAPITAL STRUCTURE

Cash flow from operations was EUR 19.3 (8.8) million. Cash flow was improved by decreased working capital and, particularly, by new, shorter payment terms for clients through a supplier financing programme.

In August, Teleste Corporation signed new credit and loan facilities with a total value of EUR 50.0 million. The new financing agreements replaced the previous ones. The financing agreements include a five-year loan of EUR 30.0 million and a three-year credit facility of EUR 20.0 million. The credit facility involves a 1+1-year extension option. At the end of the period under review, the amount of unused binding credit facilities was EUR 20.0 (19.0) million. On 31 December 2017, the Group's interest-bearing debt stood at EUR 33.2 (30.6) million. The Group's equity ratio was 48.3% (52.5%) and net gearing 16.8% (25.0%).

SOCIAL RESPONSIBILITY AND TELESTE'S PERSONNEL

In the period under review, the average number of people employed by the Group was 1,492 (1,514/2016, 1,485/2015); of these, 763 (747) were employed by Video and Broadband Solutions and 729 (767) by Network Services. At the end of the review period, the Group employed 1,446 people (1,511/2016, 1,506/2015), of whom 65% (66%/2016, 68%/2015) were stationed abroad. Approximately 2% of the Group's employees were working outside Europe.

Personnel expenses decreased by 4.4% year-on-year and were EUR 69.4 (72.6/2016, 70.5/2015) million. The decrease in personnel expenses was due to a lower number of personnel and lower amount of performance-based bonuses paid out. The average number of personnel decreased by 1.4%. The number of personnel decreased in the Network Services business area.

Social responsibility is closely related to the company's employees and their working conditions. Development of leadership is one the areas of HR management that Teleste focuses on. Development needs of teams and the organisation are identified and the personnel's well-being and commitment are monitored through personnel feedback surveys.

Equal treatment, non-discrimination and gender equality are part of Teleste's value base. Teleste does not discriminate against anyone on the basis of gender, age, ethnic or national origin, language, religion, beliefs, opinions, health, injury, sexual orientation, or any other personal characteristics or conditions. Teleste does not tolerate harassment at the workplace. Every employee has the right to report harassment and the company will always intervene in cases reported to it.

It is the duty of every employee in the Group to act in a manner that does not place anyone in an unequal position. Teleste aims to systematically promote equality between its female and male employees through means such as paying attention to equal distribution of work, career progress and diversifying of job contents.

Teleste manages its social and HR responsibility by monitoring a number of indicators relating to matters such as the development, equality, safety, working ability, well-being at work and commitment of employees. Appraisal discussions are held with all Teleste employees (GRI G4-LA11). The appraisal discussion process is a management tool. The discussions, carried out at least once a year, guide the assessment of performance and leadership and development at work. In 2017, 75 per cent of personnel were men and 25 per cent women. Of employees in supervisory positions, 84 per cent were men and 16 per cent women. Altogether 85.9 per cent of personnel had an indefinite employment contract. The average age of personnel was 41 years (GRI G4-10). In 2017, Teleste hired 108 new employees with indefinite contracts. Of the new employees, 76 per cent were men and 24 per cent women (GRI G4-LA1). Personnel turnover rate was 11 per cent. Workplace accident frequency rate was 5.6 per one million working hours in 2017. No cases of occupational diseases were diagnosed at Teleste in 2017, and no employees died in accidents (GRI G4-LA6). Personnel's absence rate due to illness in 2017 was 4.3.

Teleste respects and follows internationally recognised human rights, such as those specified in the UN Declaration and ILO Convention. Suppliers are also required to respect and follow these rights and, for their part, to ensure that they are not in any way involved in violation of human rights.

Teleste, its employees and suppliers are committed to integrity, honesty and fairness in internal and external collaboration alike. Teleste does not allow, tolerate, encourage or, directly or indirectly, promote any illegal or unethical activity, such as bribery, or other acts that can be interpreted as corrupt, illegal or unethical. Teleste's employees must not, directly or indirectly, receive, request or offer bribes, grease payments or any other benefits, even under illegal pressure.

Teleste's Management Group specifies the targets and uses the annual calendar to monitor the achievement of targets related to HR matters, social matters, respect of human rights and prevention of corruption and bribery, as well as the environmental targets. In addition, audits in accordance with Teleste's certified quality system promote continuous improvement of operating methods. No discrepancies were reported in audits performed in 2017.

ENVIRONMENTAL ISSUES

For Teleste, environmental protection is a choice that supports our strategy and risk management in line with our financial and qualitative objectives. Teleste's environmental system has been awarded the ISO 14001:2004 certificate, which provides the basis for our operational development, following the principles of continuous improvement. In 2017, the company launched a project to upgrade the environmental system to comply with ISO 14001:2015.

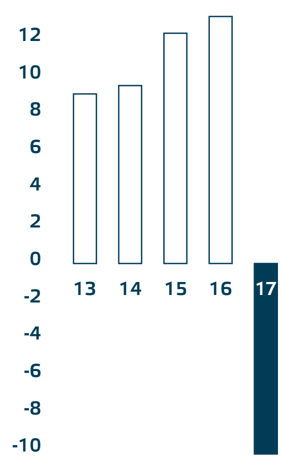
The greatest environmental impact from Teleste's products arises from their run-time energy consumption and their space and cooling requirements. Teleste's products consist mainly of recyclable materials. Cable network and video security equipment and systems are relatively long-lasting, serviceable and upgradeable, enabling their useful life to be extended. Product development plays a key role in our consideration of the product life cycle environmental impact. Environmental review is part of the design process of products.

The environmental impact of Teleste's operations is primarily brought about by our energy use, waste generation and logistics. Our production encompasses the manufacture, assembly and testing of electronics modules and products. All of the processes are environmentally safe. We apply Lean principles in our production. The processing of waste has been enhanced. The environmental load of developing and manufacturing software products and equipment is low. Teleste strives to ensure that the materials it uses originate from ethically and environmentally responsible sources. To maintain and improve our information about the legitimate trade of natural resources and supply chains that support sustainable development, we rely on a third-party service that monitors the origin of raw materials used in standard components (conflict minerals, 3TG).

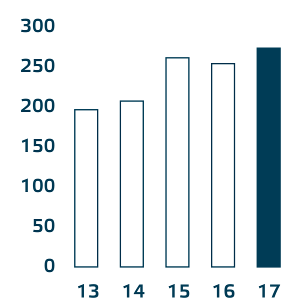
In our services business, the main source of environmental load is CO2 emissions from installation and maintenance runs. To reduce its environmental impact, Teleste pays attention to the CO2 emissions of maintenance vehicles, develops new intelligent network solutions to enable remote fault repair and optimises the routing of field work performed by technicians. Our installation and packaging materials are recycled in cooperation with local operators.

The Group consumed 4.1 GWh of power (GRI 302-1) and 27,000 m3 of water (GRI 303-1). The amount of waste

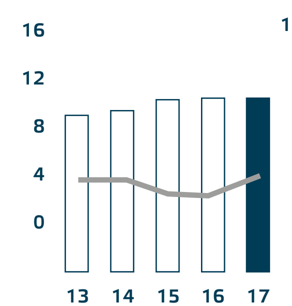
Profit for the financial period
Meur



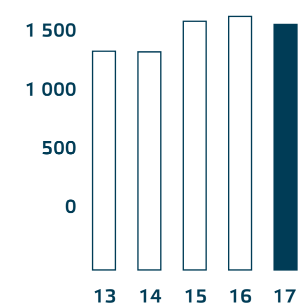
Orders received
Meur



R&D expenditure
Meur % of Net Sales



Average Personnel



in 2017 was as follows: energy waste 44.6 tons, mixed waste 16.7 tons, paper 8.8 tons, board 53.9 tons, e-waste 2.7 tons, battery waste 24 kilograms, data security material 5.3 tons and hazardous waste 113 kilograms (GRI 306-2).

GROUP STRUCTURE

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

On 30 October 2017, Teleste acquired iqu Systems GmbH, the German company specialising in intelligent passenger information systems and software. Through the acquisition, Teleste will complement its offering of passenger information solutions for public transport, one of the company's key areas. Iqu Systems employs approximately 20 people. It will be part of Teleste's Video Security and Information business unit. Net sales of the acquired company from 30 October to 31 December 2017 amounted to EUR 0.7 million, and its balance sheet total was EUR 1.0 million. Teleste Group recognised a goodwill of EUR 1.5 million on the balance sheet.

KEY RISKS FACED BY THE BUSINESS AREAS

Founded in 1954, Teleste is a technology and services company consisting of two business areas: Video and Broadband Solutions and Network Services. With Europe as the main market and business area, the company is expanding its business outside Europe. Teleste's customers include cable operators, public transport operators, train manufacturers and specified organisations in the public sector.

In Video and Broadband Solutions, customer-specific and integrated deliveries of solutions create favourable conditions for growth. On the other hand, the allocation of resources to the deliveries and the technical implementation are demanding tasks, which is why there are also risks involved. Our operator customers' network investments vary according to the development of technology, customer´s need to upgrade and their financial structure. End-to-end deliveries of video security and information solution systems may be large in size, setting high demands for the project quotation calculation and management and, consequently, involving risks. Increased competition created by new service providers may undermine the cable operators' ability to invest. Correct technological choices, product development and their timing are vital to our success. Various technologies are used in our products and solutions, and the intellectual property rights associated with the application of these technologies can be interpreted in different ways by different parties. Such difficulties of interpretation may lead to costly investigations or court proceedings. Customers have very high requirements for the performance of products, their durability in demanding conditions and their compatibility with the other components of integrated systems. Regardless of careful planning and quality assurance, complex products may fail in the customer's network and lead to expensive repair obligations. The consequences of natural phenomena or accidents, such as fire, may reduce the availability of components in the order-delivery chain of the electronics industry or suspend our own manufacturing operations. Many competitors in the business area come from the USA, which is why the exchange rate of the euro against the US dollar has an effect on our competitiveness. The development of the exchange rates of the US dollar and the Chinese renminbi against the euro influences our product costs. The company hedges against short-term currency exposure by means of forward exchange contracts.

Net sales of Network Services come mainly from a small number of large European customers. Therefore, a significant change in the demand for our services by any one of them is reflected in the actual deliveries and profitability. The improvement of customer satisfaction and productivity requires efficient service process management, as well as innovative process, product and logistics solutions to ensure the quality and cost-efficiency of services. The smooth functioning of cable networks requires efficient technical management of the networks and suitable equipment solutions in accordance with contractual obligations. This, in turn, requires continuous and goal-directed development of the skills and knowledge of our personnel and subcontractors. In addition, the sufficiency and usage rates of our personnel and subcontractor network influence the company's delivery capacity and profitability. Subcontractors' costs may increase faster than it is possible for Teleste to increase the prices of its services to its own customers. In larger projects with overall responsibility, tender calculation and project management are complex tasks that involve risks. Severe weather conditions may affect our ability to deliver services.

Teleste's strategy involves risks and uncertainties: new business opportunities may fail to be identified or successfully exploited. The business areas must take into account market movements, such as consolidations among our customers and competitors. Periods of technological transition, such as operators migrating to distributed access architecture, may significantly change the competitive positions of the current suppliers and attract new competitors to the market. Intensified competition may decrease the prices of products and solutions faster than we are able to reduce our products' manufacturing and delivery costs.

Various information systems are critical to the development, manufacture and supply of products to our customers. The maintenance of information systems and deployment of new systems involve risks that may affect our ability to deliver products and services. Information systems may also be exposed to external threats and we need to protect them. Recruiting and maintaining skilled personnel requires encouragement, development and recruitment efforts, which can fail.

The Board of Directors annually reviews essential business risks and their management. Risk management constitutes an integral part of the strategic and operational activities of the business areas. Risks are reported to the Board on a regular basis.

On 23 December 2016, a competitor of Teleste filed two complaints against Teleste Limited, demanding damages from the company for the infringement of two patents. Teleste has denied the patent infringements. The litigation is still pending. According to the assessment by Teleste's management, the results of these litigations are not expected to have material effect on Teleste's financial position.

DECISIONS BY THE ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) of Teleste Corporation held on 6 April 2017 adopted the financial statements for 2016 and discharged the Board of Directors and the CEO from liability for the financial period 2016. The AGM confirmed the dividend of EUR 0.25 per share as proposed by the Board. The dividend was paid on 19 April 2017 on shares other than own shares held by the Company.

The AGM decided that the Board of Directors shall consist of five members. Pertti Ervi, Jannica Fagerholm, Timo Miettinen, Timo Luukkainen and Kai Telanne were re-elected as members of Teleste Corporation's Board of Directors. Timo Miettinen was elected Chair of the Board in the organising meeting held on 6 April 2017 after the AGM. In its meeting held on 4 October 2017, Teleste's Board of Directors elected Pertti Ervi as the new Chair of the Board. Timo Miettinen continued as a member of the company's Board of Directors.

The AGM decided to choose one auditor for Teleste Corporation. Authorised public accountant firm KPMG Oy Ab was chosen as the company's auditor. The auditor has appointed Petri Kettunen, APA, as the auditor in charge.

The Annual General Meeting decided to authorise the Board to decide on the purchase of the company's own shares. According to the authorisation, the Board of Directors may acquire 1,200,000 own shares of the company otherwise than in proportion to the holdings of the shareholders with unrestricted equity through trading on the regulated market organised by Nasdaq Helsinki Ltd at the market price of the time of the purchase. This authorisation is valid for 18 months from the date of the AGM's decision. The authorisation overrides any previous authorisations to purchase the company's own shares.

The Annual General Meeting decided to authorise the Board of Directors to decide on issuing new shares and/or transferring the Company's own shares held by the Company and/or granting special rights referred to in Chapter 10, section 1 of the Limited Liability Companies Act in accordance with the Board's proposal. Under the authorisation, the Board of Directors has the right to decide on issuances of new shares and/or transferring the Company's own shares held by the Company, so that the maximum total number of shares issued and/or transferred is 2,000,000. The total number of new shares to subscribe for under the special rights granted by the Company and own shares held by the Company to be transferred may not exceed 1,000,000 shares, which number is included in the above maximum number concerning new shares and the Group's own shares held by the Company.

The authorisations are valid for 18 months from the date of the AGM's decision.

SHARES AND CHANGES IN SHARE CAPITAL

On 31 December 2017, Tianta Oy was the largest single shareholder with a holding of 23.2%.

In the period under review, the lowest company share price was EUR 6.51 (7.29) and the highest was EUR 9.62 (10.24). Closing price on 31 December 2017 stood at EUR 6.68 (8.86). According to Euroclear Finland Ltd, the number of shareholders at the end of the period under review was 5,618 (5,923). Foreign and nominee-registered holdings accounted for 6.6% (5.2%) of the holdings. The value of Teleste's shares traded on the Nasdaq Helsinki from 1 January to 31 December 2017 was EUR 16.8 (30.6) million. In the period under review, 2.0 (3.5) million Teleste shares were traded on the stock exchange. Teleste's share is quoted on Nasdaq Helsinki, the Mid-Cap segment.

On 31 December 2017, the Group held 863,953 of its own shares, all held by the parent company Teleste Corporation. At the end of the period, the Group's holding of the total number of shares amounted to 4.6% (4.6%).

On 31 December 2017, 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 6 October 2018.

OWNERSHIP BY MANAGEMENT AND MEMBERS OF THE GOVERNING BODIES ON 31 DECEMBER 2017

On the balance sheet date, the CEO and Members of the Board owned 148,089 (140,091) Teleste Corporation shares equal to 0.78% (0.74%) 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 CEO and the members of the Management Group or entities under their control owned 53,686 (37,253) Teleste Corporation shares equal to 0.28% (0.20%) 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.

OUTLOOK FOR 2018

The business objective of Video and Broadband Solutions is to maintain its strong market position in Europe and to strengthen this market position in selected new markets outside Europe. In particular, investments in the North American market will continue in 2018.

Network capacity will continue to grow, with operators responding to consumers' new and expanding broadband and video service needs. Teleste's entire access network product portfolio has been renewed in accordance with the DOCSIS 3.1 standard, and our offering allows cable operators to increase their network capacity competitively. In 2018, two network upgrade projects will be completed that are significant on the European scale. Operators will launch new upgrade projects. However, the timing of the projects is uncertain, as operators are already considering next-generation distributed access architecture solutions. We expect that new investment projects that are based on distributed access architecture will be launched in Europe and, in particular, in North America in 2018. The change in access network technology has also an effect on suppliers' competitive position. Teleste continues investing in distributed access- architecture technology and access network products that are suitable for new markets. In addition, the target of the subsidiary established in the US is to promote the sales of broadband network products to cable network operators in North America. The objective of these investments is the long-term increase in sales. We estimate that net sales from access network products in 2018 will reach the level of 2017.

The improvement of safety in city environments, the increase of public transport services and the increasing popularity of smart systems for smoother life provide a foundation for new business opportunities. Demand for video security solutions for public spaces continues worldwide, but competition in the industry has increased considerably and price erosion in the traditional video security equipment market continues. Video security solutions are becoming increasingly smart, including pattern recognition and artificial intelligence. Furthermore, a need is arising in the market for more comprehensive situation awareness systems that include management of other censor-level data flows in addition to video image. New innovations and solutions are also changing the public transport passenger information solution business. Supply of real-time information for passengers is essential for safe and flexible public transport. It is necessary to improve the productivity and cost-efficiency of traditional business. The improvement of competitiveness requires R&D investments in new intelligent solutions. Although the orders received in 2017 for video security and information solutions increased, a significant proportion of the deliveries is scheduled for the coming years. We estimate that net sales for 2018 will increase clearly from the previous year.

As to Network Services, our business objective is to further develop operational efficiency and increase the share of those services that provide our customers with higher added value. The programme to improve profitability of the services business in Germany will be continued in 2018, and we expect the measures taken to show results during the first half of 2018. In addition, we are engaging in negotiations to renew an important frame agreement with a customer. We estimate that net sales for 2018 will increase from the previous year.

Teleste expects the company's net sales to increase in 2018 compared with 2017 (EUR 234.6 million). Operating result is expected to be clearly positive. However, due to the ongoing investments, it will not yet reach the record level of 2016 (EUR 15.6 million).

PROPOSAL FOR THE DISTRIBUTION OF EARNINGS

Teleste Corporation's distributable equity on the date of the financial statements equalled EUR 48,805,574.20.
The Board of Directors proposes to the Annual General Meeting of 5 April 2018 that a dividend of EUR 0.10 per share be paid to outstanding shares for the year 2017.

Signatories to the Annual Report and the Financial Statements

7 February 2018

Pertti Ervi, COB	Jannica Fagerholm, MOB	Timo Luukkainen, MOB
Timo Miettinen, MOB	Kai Telanne, MOB	
Jukka Rinnevaara, CEO		

The Auditor's Note
Our auditors' report has been issued today.

7 February 2018
KPMG OY AB

Petri Kettunen
Authorised Public Accountant

Statement of comprehensive income

1,000 €	Note	1.1.–31.12.2017	1.1.–31.12.2016	Change %
Net sales	1	234,589	259,528	-9.6 %
Other operating income	2	1,531	3,372	-54.6 %
Material and services		-127,673	-137,078	-6.9 %
Employee benefits expense	3	-69,406	-72,566	-4.4 %
Depreciation and amortisation	4	-5,263	-4,934	6.7 %
Impairment on goodwill	4	-7,705	0	n/a
Other operating expenses	5	-33,623	-32,687	2.9 %
Operating profit		**-7,549**	**15,635**	**-148.3 %**
Financial income	6	537	1,224	-56.1 %
Financial expenses	7	-1,458	-2,038	-28.4 %
Profit before taxes		**-8,470**	**14,821**	**-157.0 %**
Income tax expense	8	-675	-3,001	-77.5 %
Profit for the financial period		**-9,145**	**11,820**	**-177.4 %**
Profit attributable to:	9			
Equity holders of the parent		-9,106	11,820	-177.0 %
Non-controlling interests		-40	0	n/a
		-9,145	11,820	-177.4 %
Earnings per share for profit of the year attributable to the equity holders of the parent (expressed in € per share)				
Basic		-0.50	0.65	-177.0 %
Diluted		-0.50	0.65	-176.9 %
Total comprehensive income for the period (tEUR)				
Net profit		-9,145	11,820	-177.4 %
Items that may be reclassified to profit or loss:				
Translation differences		-423	-879	n/a
Fair value reserve		58	-135	n/a
Total comprehensive income for the period		-9,511	10,806	-188.0 %
Total comprehensive income attributable to:				
Owners of the parent company		-9,432	10,806	-187.3 %
Non-controlling interests		-78	0	n/a
		-9,511	10,806	-188.0 %

Statement of financial position

1,000 €	Note	31.12.2017	31.12.2016	Change, %
Assets				
Non-current assets				
Property, plant and equipment	10	9,637	11,325	-14.9 %
Goodwill	11	30,814	37,374	-17.6 %
Other intangible assets	11	9,469	7,171	32.0 %
Available-for-sale investments	12	693	693	0.0 %
Deferred tax assets	13	2,061	1,833	12.5 %
		52,674	58,396	-9.8 %
Current assets				
Inventories	14	33,689	33,544	0.4 %
Trade and other receivables	15	45,520	60,269	-24.5 %
Tax receivables	21	362	407	-11.1 %
Cash and cash equivalents	16	21,230	9,496	123.6 %
		100,801	103,716	-2.8 %
Total Assets		**153,475**	**162,112**	**-5.3 %**
Equity and Liabilities				
Equity attributable to equity holders of the parent				
Share capital	17	6,967	6,967	0.0 %
Share premium	17	1,504	1,504	0.0 %
Translation differences		-1,404	-978	43.6 %
Fair value reserve and other reserves		3,062	3,004	1.9 %
Retained earnings		60,593	73,924	-18.0 %
Equity holders of the parent company		**70,723**	**84,422**	**-16.2 %**
Non-controlling interests		**630**	**0**	
Total equity		**71,352**	**84,422**	**-15.5 %**
Non-current liabilities				
Interest-bearing liabilities	18	28,394	28,036	1.3 %
Other liabilities	20	1,159	135	755.6 %
Deferred tax liabilities	13	1,429	1,630	-12.3 %
Provisions	19	619	1,081	-42.8 %
		31,601	30,882	2.3 %
Current liabilities				
Trade and other payables	20	43,763	41,900	4.4 %
Current tax payable	21	719	1,477	-51.3 %
Provisions	19	1,186	858	38.3 %
Interest-bearing liabilities	18	4,853	2,573	88.6 %
		50,522	46,808	7.9 %
Total liabilities		**82,123**	**77,691**	**5.7 %**
Total Equity and Liabilities		**153,475**	**162,112**	**-5.3 %**

Consolidated cash flow statement

1,000 €	Note	**1.1.–31.12.2017**	1.1.–31.12.2016
Cash flows from operating activities			
Profit for the period		-9,145	11,820
Adjustments for::			
Non-cash transactions	23	13,233	2,924
Interest and other financial expenses		1,458	2,038
Interest income		727	-1,224
Dividend income		-6	-2
Income tax expense		675	3,001
Changes in working capital and provisions			
Increase/decrease in trade and other receivables		14,749	-110
Increase/decrease in inventories		-145	-884
Increase/decrease in trade and other payables		260	-4,810
Increase/decrease in provisions		134	-24
Paid interests and other financial expenses		-1,458	-2,038
Received interests and dividends		537	1,224
Paid taxes		-1,765	-3,151
Net cash from operating activities		**19,254**	**8,765**
Cash flows from investing activities			
A conditional supplementary contract price for prior subsidiary acquisition		0	-485
Purchases of property, plant and equipment (PPE)		-1,975	-1,410
Proceeds from sales of PPE		210	43
Purchases of intangible assets		-3,123	-2,507
Acquisition of subsidiary, net of cash acquired		-996	0
Net cash used in investing activities		**-5,884**	**-4,359**
Cash flows from financing activities			
Proceeds from borrowings		4,000	4,170
Repayments of borrowings		-1,138	-6,099
Payment of finance lease liabilities		-638	-611
Dividends paid		-4,530	-4,168
Capital investment by non-controlling interests		708	0
Net cash used in financing activities		**-1,598**	**-6,708**
Change in cash			
Cash and cash equivalents at 1 January		9,496	12,677
Effect of currency changes		-38	-879
Cash and cash equivalents at 31 December		**21,230**	**9,496**

Consolidated statement of changes in equity

1,000 €	Share capital	Share premium	Translation differences	Retained earnings	Invested non-restricted equity	Other reserves	Total	Non controllng interest	Total equity
	Attributable to equity holders of the parent								
At 1 January 2016	6,967	1,504	-99	66,034	3,140	0	77,545	0	**77,545**
Total comprehensive income for the period			-879	11,820		-135	10,806	0	10,806
Total recognised income and expense for the year	0	0	-879	11,820		-135	10,806	0	**10,806**
Dividends				-4,168			-4,168	0	-4,168
Excercised share options				235	0		235	0	235
	0	0	0	-3,932	0		-3,932	0	-3,932
At 31 December 2016	6,967	1,504	-978	73,922	3,140	-135	84,422	0	**84,422**
Total comprehensive income for the period			-427	-9,065		58	-9,434	-77	-9,511
Total recognised income and expense for the year	0	0	-427	-9,065		58	-9,434	-77	**-9,511**
Dividends				-4,530			-4,530	0	-4,530
Excercised share options				265	0		265	0	265
Changes in non-controlling interest			0	0	0		0	707	**707**
	0	0	0	-4,265	0	0	-4,265	707	**-3,558**
At 31 December 2017	**6,967**	**1,504**	**-1,404**	**60,592**	**3,140**	**-77**	**70,722**	**630**	**71,352**

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 Australia and 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 2017. 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 2017 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 2017.

- Amendments to IAS 7 Disclosure Initiative (effective for financial years beginning on or after 1 January 2017). The changes were made to enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments have an impact on the disclosures in the Group's consolidated financial statements.
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (effective for financial years beginning on or after 1 January 2017). The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments have no impact on the Group's consolidated financial statements.
- Amendments to IFRS 12*, Annual Improvements to IFRSs (2014-2016 cycle) (effective for financial years beginning on or after 1 January 2017). 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 have no impact on the Group's consolidated financial statements.

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

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 no interests in joint ventures.

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

Group as lessee

Leases of property, plant and equipment where substantially all the risks and rewards incidental to ownership have been transferred to the Group are classified as finance leases. These assets are capitalised and are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease less cumulative depreciation and any impairment losses. The associated lease liabilities are included in interest-bearing liabilities in accordance with their maturity.

These assets acquired under finance leases are depreciated as comparable owned assets over the shorter of the useful lives disclosed above for property, plant and equipment or lease period and are adjusted for impairment charges, if any. Lease payments are apportioned between the reduction of the outstanding lease liability and finance charge. In respect of finance leases, the depreciation on the leased assets and the financial charge on the lease liability are shown in the income statement. The financial charge is allocated to the income statement so as to achieve a constant interest rate on the outstanding liability during the lease term.

An operating lease is a lease of property, plant and equipment where the lessor retains significant risks and rewards incidental to ownership. Payments made thereunder are charged to the income statement as rental expense on a straight-line basis over the lease term.

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.

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

In Teleste hedge accounting as defined under IAS 39 is applied only for interest swap contracts for specific loans

Financial assets are classified into categories as follows: financial assets at fair value through profit or loss, held-to-maturity assets, loans or receivables (assets) and available-for-sale assets. Financial assets are classified when initially acquired based on their purpose of use. In the case of a financial asset not measured at fair value through profit or loss, transaction costs are included in the acquisition cost. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. All purchases or sales of financial assets are recognised or derecognised using trade date accounting.

A financial asset is derecognised when the Group has lost its contractual rights to the cash flows from the financial asset or when it has transferred substantially all the significant risks and rewards of ownership of the financial asset to an external party.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either classified as held for trading, or they are designated by the Group as at fair value through profit or loss upon initial recognition. A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of short-term profit taking from changes in market prices or it is a derivative that does not qualify for hedge accounting. Financial assets and liabilities at fair value through profit or loss are recognised on the balance sheet using trade date accounting. They are measured at their fair values, which is the bid price at the balance sheet date based on published price quotations in an active market. Both financial assets held for trading and other financial assets maturing in 12 months after the balance sheet date are included in the current assets. A gain or loss arising from a change in the fair value, realised or unrealised, is recognised in the income statement as incurred.

Derivatives and hedge accounting

Derivatives, including embedded derivatives, are included in the financial assets at fair value through profit or loss. They are recognised on the balance sheet at cost, equivalent to the fair value, and are subsequently fair valued at each balance sheet date. The Group uses forward exchange agreements and the Group's hedging policy is to cover all material currency risks at least six months ahead. Hedge accounting is applied for interest swap contracts hedging the interest risk for specific loans. Changes in fair value of instruments designated as hedging instruments are recognised in profit or loss. Gains and losses arising from changes in fair value are included in operating profit unless the hedged item relates to financing when fair value changes are recognised in financial income or expenses. Fair values are determined utilising public price quotations and rates as well as generally used valuation models. The data and assumptions used in the valuation model are based on verifiable market prices. Derivatives that mature within 12 months after the balance sheet date are included in current assets or liabilities. Derivatives are not used for speculative purposes. Changes in the fair values of derivative instruments, for which hedge accounting is applied and which are effective hedging instruments, are recognised in profit or loss in congruence with the hedged items.

On initial designation of the hedge, the Group documents the relationship between the hedged item and hedging instrument, and the risk management objectives and strategy in undertaking the hedge transaction. The Group documents and assesses both at the inception of the hedge relationship and at least at each reporting date, the effectiveness of the hedging relationship by monitoring the ability of the hedging instrument to offset the changes in the fair value or cash flows of the respective hedged item. The interest element of interest rate swaps used to hedge variable rate loans is recognised in profit or loss within financial items and the change in the fair value of the hedging instrument is recognised in equity.

Cash flow hedge

The effective portion of the changes in the fair values of derivatives designated as and qualifying for cash flow hedges is recognized in other comprehensive items in the fair value reserve under equity. The gain or loss relating to the ineffective portion is recognized in profit or loss. The fair value changes accumulated in equity are recognized in profit or loss in the same period when the hedged item affects profit or loss.

When a hedge no longer qualifies for hedge accounting, or the hedging instrument initially recognized as a cash flow hedge matures or is sold, the cumulative gains or losses currently included in equity are recognized in profit or loss during the lifetime of the hedging instrument in question. When an anticipated transaction is no longer expected to occur, the cumulative gain or loss included in equity is recognized in profit or loss.

Available-for-sale assets

This category comprises those non-derivative financial assets that are designated as available for sale or are not classified into other categories. In Teleste available-for-sale investments consist of holdings in listed and unlisted companies and they are normally measured at their fair value. Investments in listed companies are measured at the bid price at the balance sheet date based on published price quotations in an active market. Such unlisted shares whose fair value cannot be reliably determined, are measured at cost. Unrealised changes in value of available-for-sale investments, net of tax, are recognised in the comprehensive income and in equity in fair value reserve. Cumulative fair value changes are released to the income statement when the investment is sold or disposed of. Such significant impairment losses for which there is objective evidence, are recognised in the income statement immediately. Normally available-for-sale investments are included in non-current assets unless the Group has the intention to hold them for less than 12 months after the balance sheet date.

Loans and receivables

Financial assets that belong to this category meet the following criteria: they are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group does not hold them for trading purposes either. Loans and receivables arise when money, goods or services are delivered to a debtor. They are included in current or non-current assets in accordance with their maturity. Loans granted by the Group are measured at cost. An impairment loss is recognised on loan receivables if their carrying amount exceeds their recoverable amount.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity. They are stated at amortised cost less impairment losses and presented within non-current assets. At the end of the reporting period the Group had no assets classified as held-to-maturity investments.

Financial liabilities

Financial liabilities are classified either as financial liabilities at fair value through profit or loss or as other liabilities. Teleste only has liabilities classified to the latter category. On initial recognition a loan is measured at its fair value that is based on the consideration received. Subsequent to initial recognition, these liabilities are stated at amortised cost calculated using the effective interest method. Interest expenses are recognised in the income statement over the term of the loan using the effective interest method.

Trade receivables

Trade receivables are recognised at the original invoice amount to customers and stated at their cost less impairment losses, if any. The amount of doubtful receivables and assessment of a potential impairment is based on risk of individual receivables. Trade receivables are measured at their probable value at the highest. An impairment loss is recorded when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Bad debts recognised in the income statement are included in other operating expenses.

Cash and cash equivalents

Cash and cash equivalents comprises cash balances, call deposits and other short-term highly liquid investments with original maturities of three months or less from the date of acquisition. Bank overdrafts, if any, are included within current liabilities.

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 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.

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

= operating 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 comprehensive 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.

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 2017.

- IFRS 9 Financial Instruments (effective for financial years beginning on or after 1 January 2018): IFRS 9 replaces the existing guidance in IAS 39. The new standard includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The impacts of IFRS 9 on the Group's consolidated financial statements have been assessed and the expect impacts are not significant.
- IFRS 15 Revenue from Contracts with Customers, Effective date of IFRS 15 and Clarifications to IFRS 15 (effective for financial years beginning on or after 1 January 2018): The new standard replaces current IAS 18 and IAS 11 -standards and related interpretations.

  In IFRS 15 a five-step model is applied to determine when to recognise revenue, and at what amount. Revenue is recognised when (or as) a company transfers control of goods or services to a customer either over time or at a point in time. The standard introduces also extensive new disclosure requirements. The impacts of IFRS 15 on the Group's consolidated financial statements have been assessed as follows:
- Key concepts of IFRS 15 for the Group are variable considerations (volume discounts), contract costs and when a revenue is recognized, at a point in time or over time.
- The Group will record the cumulative effect of initially applying the new standard as an adjustment to the opening balance of equity at the date of initial application
- The expect impacts are minor as the Groups accounting rules are already in line with IFRS 15.
- IFRS 16 Leases (effective for financial years beginning on or after 1 January 2019): The new standard replaces the current IAS 17 –standard and related interpretations. IFRS 16 requires the lessees to recognise the lease agreements on the balance sheet as a right-of-use assets and lease liabilities. The accounting model is similar to current finance lease accounting according to IAS 17. There are two exceptions available, these relate to either short term contacts in which the lease term is 12 months or less, or to low value items i.e. assets of value about USD 5 000 or less. The lessor accounting remains mostly similar to current IAS 17 accounting. The impacts of IFRS 16 on the Group's consolidated financial statements have been assessed as follows:
- Key concepts of IFRS 16 for the Group is right-of-use the asset as a lessee. For the Group this means lease agreements for offices, productions machines and equipment and cars and vans.
- The Group continue to examine the effect of the impact of IFRS 16 during 2018. Based on current estimate the expected impacts are an increase of 5 per cent of the 2017 closing balance sheet.
- IFRIC 23 Uncertainty over Income Tax Treatments* (effective for financial years beginning on or after 1 January 2019). The interpretation brings clarity to the accounting for income tax treatments that have yet to be accepted by tax authorities. The key test is whether the tax authority will accept the company's chosen tax treatment. When considering this the assumption is that tax authorities will have full knowledge of all relevant information in assessing a proposed tax treatment. The interpretation has no impact on the Group's consolidated financial statements.
- Amendments to IFRS 9: Prepayment Features with Negative Compensation* (effective for financial years beginning on or after 1 January 2019). The amendments enable entities to measure at amortised cost some prepayable financial assets with so-called negative compensation. The amendments have no impact on the Group's consolidated financial statements.
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures* (effective for financial years beginning on or after 1 January 2019). The amendments clarify that a company applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The amendments have no impact on the Groups's consolidated financial statements.
- Annual Improvements to IFRSs (2015-2017 cycle)* (effective for financial years beginning on or after 1 January 2019). 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 relate to IFRS 3, IFRS 11, IAS 12 and IAS 23. . The amendments have no impact on the Group's consolidated financial statements.

Segment reporting

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

BUSINESS SEGMENTS

The Group comprises two business segments that are Networks Services and Video and Broadband Solutions.

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.

GEOGRAPHICAL DIVISION

The two segments operates in four geographical areas:

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

The main market area of Video and Broadband Solutions is Europe where the business unit is present with its 23 dedicated offices supported by several support and integration partners. Apart from Europe, offices have been established in Australia,China, India and USA.

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. Assets not allocated to the segments represent cash. Unallocated liabilities are interest bearing liabilities and tax liabilities.

Business segments

2017 1,000 €	Video and Broadband Solutions	Network Services	Group
External sales			
Services	7,567	92,507	100,074
Goods	134,515	0	134,515
Total external sales	142,082	92,507	234,589
Operating profit of segments	4,888	-12,437	-7,549
Operating profit			-7,549
Financial items			-921
Profit before taxes			-8,470
Non-current assets of segment	47,655	2,958	50,613

2016 1,000 €	Video and Broadband Solutions	Network Services	Group
External sales			
Services	6,813	95,297	102,110
Goods	157,418	0	157,418
Total external sales	164,231	95,297	259,528
Operating profit of segments	16,482	-847	15,635
Operating profit			15,635
Financial items			-814
Profit before taxes			14,821
Non-current assets of segment	44,127	12,436	56,563

Geographical division

2017 1,000 €	Finland	Nordic countries	Other Europe	Others	Group
Sales by origin	13,296	28,634	179,884	12,774	234,589
Assets	43,806	154	6,398	255	50,613
Capital expenditure	4,168	80	3,101	134	7,482

2016 1,000 €	Finland	Nordic countries	Other Europe	Others	Group
Sales by origin	17,398	22,483	202,063	17,584	259,528
Assets	42,570	97	13,679	217	56,563
Capital expenditure	4,122	37	1,312	17	5,488

Major customer

Revenues from one common customer of the Group's Video and Broadband Solution and Network Services segment represents approximately 62.1 Meur in 2017 (61.1 Meur in 2016), which is 26.5% (23.5%) of Group net sales.

Business combinations acquired during 2017 and 2016

During 2017 Video and Broadband Solutions segment was strengthened by acquiring 100% of shares of iqu Systems GmbH, the German company specialised in intelligent passenger information systems and software. Through the acquisition, Teleste will complement its offering of passenger information solutions for public transport, one of the company's key focus areas.

The acquisitions resulted in 444 thousand of intangible assets, which was allocated to customer relationships, trademark and technology . The goodwill, amounted 1,459 thousand euro, is mainly due to new information management solutions for city trafic segment and synergies in the logistics. The goodwill include estimated amount of the conditional supplementary contract price for iqu. Total consideration is estimated to be 2,050 thousand euro depending on the profitability development during the next year. The total unpaid contract price of 1,050 thousand euro was booked in non current other liabilities and are classified as fair value level 3. The unpaid contract price is discounted and the difference is booked as a finacial expense in profit and loss statement. The final unpaid contract price is estimated to be between 0.3 and 1.0 Million euro. Teleste personnel increased with 20 persons. All costs related to the acquisitions, 30 thousand euro, are expensed in other operating expenses.

The impact of the acquisition on Teleste's net sales during the period 1.11.2017 - 31.12.2017 was 696 thousand euro and on the net profit 70 thousand euro. Iqu's net sales 1.1.2017 - 31.12.2017 was 2,364 thousand euro and profit 32 thousand euro.

During 2016 there were no acquisitions. A conditional supplementary contract price from Mitron acquisition of 485 thousand euro was paid during 2016. Unpaid supplemenetray price 2,245 thousand euro was de-recogniced in other operating income during 2016.

The fair values determined in the business combination are based on the following estimates:

- The fair value of acquired trade marks is determined to equate with the discounted royalties, which have been managed to be avoidable by owing the trademarks in question. A reasonable royalty per cent, that an external party would pay for a licensing agreement, has been estimated when determining the fair values.
- The fair value of acquired technology is determined to equate with the discounted product development costs, which have been managed to be avoidable by owing the technology in question.
- Determination of fair value of the customer relationships is based on the estimated life time of the customer relationships and the discounted cash flows to be derived from the existing customerships.

The following assets are liabilities were preliminary recognised in the acquisition iqu Systems GmbH:

1,000 €	Recognised fair values on acquisition
Fair values used in consolidation	
Trade marks (inc. in intangible assets)	82
Customer relationship (inc. in intangible assets)	146
Technology (inc. in intangible assets)	216
Inventories	267
Trade receivables	376
Book values used in consolidation	
Tangible assets	107
Intangible assets	5
Other receivables	8
Cash and cash equivalents	4
Total assets	1,211
Book values used in consolidation	
Interest-bearing liabilities	243
Trade payables	271
Deferred tax liabilites	89
Other liabilities	17
Total liabilities	620
Net identifiable assets and liabilities	591
Total consideration	2,050
Goodwill on acquisition	**1,459**
Consideration paid in cash	-1,000
Cash and cash equivalents in acquired subsidiary	4
Total net cash outflow on the acquisition	-996

Notes to the Consolidated Financial Statements

1. CONSTRUCTION CONTRACTS

Amount of project revenue recognised during the period 133 thousand euros (1,946 thousand euros in 2016). Cumulative expenses and income recognised by the end of the period 17,025 thousand euros (16,892 thousand euros in 2016).

2. OTHER OPERATING INCOME

1,000 €	2017	2016
Government grants related to development costs	453	130
Gain on disposals of non-current assets	93	43
De-recognised supplementary contract price	0	2,245
Other income	985	954
Total	**1,531**	**3,372**

3. EMPLOYEE BENEFITS EXPENSE

Wages and salaries	-57,196	-57,126
Pension expenses		
Defined contribution plans	-10,581	-11,425
Other post employment benefits	-4,184	-5,857
Activated R&D salaries and social costs	2,820	2,078
Equity-settled share-based transactions	-265	-235
Total	**-69,406**	**-72,566**

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	1,492	1,514

4. DEPRECIATION, AMORTISATION AND IMPAIRMENT

1,000 €	2017	2016
Depreciation and amortisation by asset type:		
Tangible assets		
Buildings	-395	-390
Machinery and equipment	-2,207	-2,240
Other tangible assets	-216	-223
Total	**-2,818**	**-2,853**
Intangible assets		
Capitalised development expenses	-1,492	-1,160
Other intangible assets	-953	-921
Total	**-2,445**	**-2,081**
Depreciation and amortisation total	-5,263	-4,934
Impairment		
Impairment on goodwill	-7,705	0
Total amortisation and impairment	**-12,968**	**-4,934**

5. OTHER OPERATING EXPENSES

Rental expenses	-4,488	-4,414
External services	-5,755	-5,158
Other variable costs	-8,700	-8,055
Travel and IT costs	-5,510	-5,005
R&D costs	-1,239	-1,135
Other expenses	-7,932	-8,920
Total	**-33,623**	**-32,687**

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

Audit expenses

1,000 €	2017	2016
KPMG		
Auditing assignments	-144	-168
Tax consultancy	-53	-15
Other assignments	-32	-29
Other auditors		
Auditing assignments	-10	-12
Other assignments	-42	-31

Other assignments than audit assignments during year 2017 by KPMG Oy Ab amounted 85 thousand euro. These assignments consisted of tax consultancy (53 thousand euro) and other assignments (32 thousand euro)

6. FINANCIAL INCOME

1,000 €	2017	2016
Interest and other financial income	61	102
Foreign exchange gain	470	1,120
Dividend income	6	2
Total	**537**	**1,224**

7. FINANCIAL EXPENSES

Interest expenses	-417	-372
Foreign exchange loss	-838	-1,515
Other financial expenses	-203	-151
Total	**-1,458**	**-2,038**

Other financial expenses includes interests from financial leasing expenses during the period 16 thousand euro (16 thousand euro in 2016).

Losses from forward exchange contracts are included in operating profit.

8. INCOME TAXES

1,000 €	2017	2016
Current tax expense		
Current year	-1,106	-3,010
Adjustments for prior years	-86	33
Change in deferred tax liabilities and tax assets	517	-24
Total	**-675**	**-3,001**

Reconciliation of the tax expense, EUR -675 thousand, calculated using the Teleste Group's domestic corporation 20.0 % tax rate.

1,000 €	2017	2016
Profit before tax	-8,470	14,821
Income tax using the domestic corporation tax rate (20.0 %)	1,694	-2,964
Effect of tax rates in foreign jurisdictions	26	-421
Tax debt increase related to balance sheet items	22	-7
Changes in conditional supplementary contract price	0	449
Impairment of goodwill	-1,540	0
Non-deductible expenses	-147	-91
Loss for the period, for which no deferred tax asset is recognized	-644	0
Taxes from previous year	-86	33
Income tax income/expense reported in the consolidated income statement	-675	-3,001

9. EARNINGS PER SHARE

The basic earnings per share is calculated as follows:

$$\frac{\text{Profit for the year attributable to equity holders of the parent}}{\text{Weighted average number of ordinary shares outstanding during the financial year}}$$

The number of ordinary shares outstanding excludes the treasury shares.

The diluted earnings per share is calculated as follows:

$$\frac{\text{Profit for the year attributable to equity holders of the parent (diluted)}}{\text{Weighted average number of ordinary shares outstanding during the financial year (diluted)}}$$

The changes in the number of the shares are presented in the note 17 Capital and reserves.

	2017	2016
Profit for the year attributable to equity holders of the parent, (1,000 €)	-9,106	11,820
Weighted average number of ordinary shares outstanding during the financial year (1,000)	18,122	18,122
Basic earnings per share (€)	-0.50	0.65
Weighted average number of ordinary shares outstanding during the financial year (1,000)	18,122	18,122
Effect of share options on issue (1,000)	80	47
Weighted average number of ordinary shares outstanding during the financial year (diluted) (1,000)	18,202	18,169
Diluted earnings per share (€)	-0.50	0.65

The share options granted by the Group have a dilutive effect, i.e. they increase the number of the ordinary shares when their subscription price is below the fair value of the share. The dilutive effect equals the number of the shares gratuitously 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 exercise of the options.

10. PROPERTY, PLANT AND EQUIPMENT

1,000 €	Land areas	Buildings	Machinery and equipment	Other tangible assets	Advance payments	**Total**
Balance at 1 January 2017	54	7,488	17,639	2,988	423	**28,592**
Translation difference +-		-18	-74	-13		**-105**
Acquisitions through business combinations			125	3		**128**
Additions		124	1,467	34	0	**1,625**
Disposals		-7	-3,506	-643		**-4,156**
Transfer between classes		0	0	0	-343	**-343**
Balance at 31 December 2017	54	7,587	15,651	2,369	80	**25,741**
Depreciation and impairment losses						
Balance at 1 January 2017		-2,639	-12,055	-2,576		**-17,270**
Cumulative depreciation on disposals		4	3,355	614		**3,973**
Depreciation charge for the year		-395	-2,207	-216		**-2,818**
Balance at 31 December 2017	0	-3,023	-10,907	-2,178	0	**-16,108**
Carrying amounts at 1 January 2017	54	4,850	5,585	412	423	**11,325**
Carrying amounts at 31 December 2017	54	4,565	4,745	191	80	**9,637**

1,000 €	Land areas	Buildings	Machinery and equipment	Other tangible assets	Advance payments	**Total**
Balance at 1 January 2016	54	7,323	15,837	2,781	70	**26,066**
Translation difference +-		-91	0	1		**-89**
Additions		256	2,002	225	353	**2,835**
Disposals		0	-200	-19		**-219**
Balance at 31 December 2016	54	7,488	17,639	2,988	423	**28,592**
Balance at 1 January 2016		-2,249	-9,815	-2,353		**-14,417**
Depreciation charge for the year		-390	-2,240	-223		**-2,853**
Balance at 31 December 2016	0	-2,639	-12,055	-2,576	0	**-17,270**
Carrying amounts at 1 January 2016	54	5,074	6,022	428	70	**11,648**
Carrying amounts at 31 December 2016	54	4,850	5,585	412	423	**11,325**

Property, plant and equipment include assets leased under financial leases as follows:

1,000 €	Machinery and equipment
Balance at 1 January 2017	5,601
Additions	386
Disposals	-3,165
Balance at 31 December 2017	2,822
Cumulative depreciation on disposals	3,165
Cumulative depreciation	-3,500
Depreciation charge for the year	-622
Carrying amount at 31 December 2017	1,865

1,000 €	Machinery and equipment
Balance at 1 January 2016	4,968
Additions	633
Balance at 31 December 2016	5,601
Cumulative depreciation	-2,905
Depreciation charge for the year	-595
Carrying amounts at 31 December 2016	2,101

11. INTANGIBLE ASSETS

1,000 €	Goodwill	Development costs	Other intangible assets	Shares available for sale, unlisted	**Total**
Balance at 1 january 2017	38,174	18,745	11,585	1,117	**69,620**
Translations differences	-314	0	-45	0	**-359**
Acquisitions through business combinations			6		**6**
Additions	1,459	3,525	1,146		**6,130**
Disposals		-11,677			**-11,677**
Transfer between classes	0	0	110		**110**
Balance at 31 December 2017	39,319	10,593	12,802	1,117	**63,830**
Amortisation and impairment losses					
Balance at 1 January 2017	-800	-13,909	-9,251	-423	**-24,383**
Cumulative amortisations on disposals		11,678			**11,678**
Amortisation for the year	0	-1,492	-953		**-2,445**
Impairments	-7,705		0		**-7,705**
Balance at 31 December 2017	-8,505	-3,723	-10,204	-423	**-22,855**
Carrying amounts 1 January 2017	37,374	4,836	2,334	693	**45,239**
Carrying amounts 31 December 2017	30,814	6,870	2,598	693	**40,976**

1,000 €	Goodwill	Development costs	Other intangible assets	Shares available for sale, unlisted	**Total**
Balance at 1 January 2016	38,649	16,238	11,493	1,127	**67,506**
Translations differences	-475	0	-3	-10	**-488**
Additions	0	2,507	95		**2,602**
Balance at 31 December 2016	38,174	18,745	11,585	1,117	**69,620**
Amortisation and impairment losses					
Balance at 1 January 2016	-800	-12,749	-8,330	-423	**-22,302**
Amortisation for the year	0	-1,160	-921		**-2,081**
Balance at 31 December 2016	-800	-13,909	-9,251	-423	**-24,383**
Carrying amounts at 1 January 2016	37,849	3,489	3,163	703	**45,206**
Carrying amounts at 31 December 2016	37,374	4,836	2,334	693	**45,238**

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. During 2017 a goodwill impairment of 7,7 million euro was booked for the services business in Germany.The aggregate goodwill amount totalled 30.8 million euro at 31 December 2017. Goodwill has been allocated to the following cash-generating unit:

	Meur
Video and Broadband Solutions	30,4
Network Services	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 2018 according the business plan. From 2019 onwards the cash flows are calculated with 2% (2%) annual growth rate. Cash flow from the Network Services business is based on a successful implementation of the profitability improvement program in 2017 budget for Germany. Management's view on the cash flows is cautious as the changes of the industry are difficult to foresee. A discount rate of 9.74% is used in VBS and 9.19% in NS segment (9,86% in VBS segment and 9.61% in NS segment) has been used in discounting the projected cash flows. The terminal value of the segments is calculated by using a growth rate of 2%. The impairment test process included the sensitivity analysis of the segment or a cash generating unit (CGU) in the segment.

Assumption used in 2017 and 2016 impairment tests.

	2017		2016	
%	VBS	NS	VBS	NS
Yearly growth in cash flow years 1–5	2	2	2	2
Yearly growth in cash flow years 6–10	2	2	2	2
WACC (after tax)	9.74	9.19	9.86	9.61

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

Impairment test Meur	2017	2016
VBS	26,8	29,8
NS Switzerland	1,6	3,0

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

	2017	2016
VBS	-25%	-28%
NS Switzerland	-61%	-10%

Increase in discount rate

	2017	2016
VBS	2.6%	2.9%
NS Switzerland	9.5%	0.8%

The Group received a grant amounting to 0.5 million euro from Tekes (National Technology Agency of Finland) towards development costs in 2017 (2016: 0.1 million euro). From the grant received 0,0 million euro (2016: 0.04 million euro) has been recognised to deduct the carrying amount of the asset.

The grant has the condition, according to which 10 % of the total costs of the project have to be incurred through subcontracting work in Finnish small and medium-sized companies.

12. AVAILABLE-FOR-SALE INVESTMENTS

1,000 €	2017	2016
Unlisted shares	693	693
Total	693	693

13. DEFERRED TAX ASSETS AND LIABILITIES

1,000 €	Balance 1. Jan. 2017	Recognised in the income statement	Business combinations	Balance 31 Dec. 2017
Movements in temporary differences during 2017				
Deferred tax assets				
Effects of consolidation and eliminations	446	-3		443
Unused tax losses	651	382		1,033
Provisions	735	-151		584
Total	**1,833**	**228**	**0**	**2,061**
Deferred tax liabilities:				
Capitalisation of intangible assets	-669	-27		-696
Fair value adjustments to intangible and tangible assets on acquisition	-825	287	-88	-626
Cumulative depreciation difference	-136	29		-107
Total	**-1,630**	**289**	**-88**	**-1,429**

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 €	Balance 1. Jan. 2016	Recognised in the income statement	Business Combinations	Balance 31 Dec. 2016
Movements in temporary differences during 2016				
Deferred tax assets				
Effects of consolidation and eliminations	476	-30		446
Unused tax losses	772	-121	0	651
Provisions	567	168		735
Fair value adjustments to intangible and tangible assets on acquisition	27	-27		0
Total	**1,843**	**-10**	**0**	**1,833**
Deferred tax liabilities				
Capitalisation of intangible assets	-540	-129		-669
Fair value adjustments to intangible and tangible assets on acquisition	-970	145		-825
Cumulative depreciation difference	-152	16		-136
Total	**-1,662**	**32**	**0**	**-1,630**

At 31 December 2017 the Group had unused tax losses in subsidiaries amounting 10,229 thousand euro (31 Dec. 2016: 3,254 thousand euro). A tax asset has been booked from 1,033 thousand euro as this loss will not expire .

No deferred tax liability has been provided for the undistributed profits of the foreign subsidiaries amounting to 19,209 thousand euro at 31 Dec. 2017 (31 Dec. 2016: 20,797 thousand euro). This is because the realization of this tax liability is unlikely in the near future.

14. INVENTORIES

1,000 €	2017	2016
Raw materials and consumables	8,455	10,632
Work in progress	12,783	14,416
Finished goods	12,451	8,496
Total	**33,689**	**33,544**

The amount of the impairment losses of inventories to the net realisable value recognised as an expense during the financial period is 377 thousand euro. At the end of the financial year 5,625 thousand euro was deducted from the inventory value to the net realisable value (31 Dec. 2016: 6,002 thousand euro).

15. TRADE AND OTHER CURRENT RECEIVABLES

1,000 €	2017	2016
Trade receivables	39,785	53,992
Accrued income and prepayments	4,999	5,652
Other receivables	736	625
Total	**45,520**	**60,269**

16. CASH AND CASH EQUIVALENTS

Cash at bank and in hand and call deposits	21,230	9,496
Total	**21,230**	**9,496**
Cash and cash equivalents in the statement of cash flows	21,230	9,496

17. Share based incentives

Performance Share Plan 2015

The Board of Directors of Teleste Corporation has approved the establishment of a new long-term share-based incentive programme to be offered to the key employees of Teleste (below LTI 2015).

The objective of LTI 2015 is to align the interests of the key employees with those of Teleste's shareholders by creating a long-term equity interest for the key employees and, thus, to increase the company value in the long term as well as to drive performance culture, to retain key employees and to offer the key employees with competitive compensation for excellent performance in the company.

LTI 2015 consists of three annually commencing plans with three main elements: an investment in Teleste shares as a precondition for the key employee's participation in LTI 2015, a matching share plan with a three-year vesting period based on the above investment and a performance matching plan with a three-year performance period. The commencement of the subsequent new plans after 2015 and their eligible participants will be subject to a separate approval of Teleste's Board of Directors.

The share investment and the matching share plan

The matching share plan comprises the individual key employee's investment 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. At the year-end 2017 the maximum gross amount of matching shares were 47,250 shares for vesting period 2015-2017, 35,438 shares for the vesting period 2016-2018 and 39,876 shares for the vesting period 2017-2019.

The performance matching plan

The performance matching plan comprises a three-year performance period. The potential share rewards will be delivered if the performance targets set by the Board of Directors are attained. The performance measure applied in the first three-year plan is the total shareholder return (TSR) of Teleste's share in the three-year performance period. A precondition for an individual key employee's participation in the performance matching plan is the above mentioned investment in Teleste's shares.

At the year-end 2017 the maximum gross amount of performance shares were 189,000 shares for the vesting period 2015-2017, 141,752 shares for the vesting period 2016-2018 and 159,504 shares for the vesting period 2017-2019.

Long-term share-based incentive programme 2015	LTI 2015	LTI 2015	LTI 2015
Type	Share	Share	Share
	2017-2019	2016-2018	2015- 2017
Initial amount, pcs *	291,500	268,000	325,000
Initial allocation date	01 July 2017	01 July 2016	01 July 2015
Vesting date	30 April 2020	30 April 2019	30.4.2018
Maximum contractual life, yrs	2.83	2.77	2.83
Remaining contractual life, yrs	2.3	1.3	0.3
Number of persons at the end of the reporting year	34	32	31
Payment method	Cash & Equity	Cash & Equity	Cash & Equity

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

Long-term share-based incentive programme 2015	Changes during 2017*	Changes during 2016*
1 January		
Outstanding at the beginning of the reporting period, pcs	435,440	268,750
Reserve at the beginning of the reporting period	435,440	268,750
Changes during the period		
Granted	199,380	191,190
Forfeited	22,000	24,500
Invalidated during the period	0	0
Excercised	0	0
Expired	0	0
31 December		
Excercised at the end of the period	612,820	435,440
Outstanding at the end of the period	612,820	435,440

** Consists of the gross reward given as shares before the deduction of the applicable taxes.*

Effect of Share-based Incentives on the result and financial position during year 2017, 1,000 €

Expenses for the financial year, share-based payments	156
Expenses for the financial year, share-based payments, equity-settled	265
Liabilities arising from share-based payments 31 December 2017	1,116

Effect of Share-based Incentives on the result and financial position during year 2016, 1,000 €

Expenses for the financial year, share-based payments	251
Expenses for the financial year, share-based payments, equity-settled	235
Liabilities arising from share-based payments 31 December 2016	718

17. 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 €
At 1 January 2017	18,122	864	18,986	6,967	1,504
Change in own shares	0	0	0	0	0
At 31 December 2017	18,122	864	18,986	6,967	1,504

The number of Teleste Oyj shares was 18,985,588 at 31 December 2017 (31 Dec. 2016 18,985,588 shares). All shares issued have been fully paid.

The Annual General Meeting of Teleste Oyj held on 6th of April 2017 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 7th of April 2016 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 2017, the Group held 863,953 of its own shares. Shares subscribed for pursuant to the share option plans will entitle to dividend when the increase of the share capital is registered with the Finnish trade register. Voting and other shareholder rights will commence on the date on which the increase of the share capital is registered with the Finnish trade register.

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 0.10 euro per share (2016 0.25 euro per share) was proposed by the Board of Directors.

18. INTEREST-BEARING LIABILITIES

1,000 €	**2017**	2016
Non-current		
Loans from financial institutions	27,138	26,468
Finance lease liabilities	1,256	1,568
Total	**28,394**	**28,036**
Current		
Loans from financial institutions	4,240	2,008
Finance lease liabilities, current portion	613	565
Total	**4,853**	**2,573**

Interest-bearing loans from financial institutions are carried at amortised cost and finance lease liabilities are carried at fair value.

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

1,000 €	**31.12.2017**	31.12.2016
EUR	28,394	28,036
	28,394	28,036
Group long-term interest-bearing liabilities - interest rates are as follows:		
Bank loans	0.8 %	0.9 %
Finance lease liabilities	1.0 %	1.1 %
The currency mix of the Group short-term interest-bearing liabilities:		
EUR	100 %	100 %
Group short-term interest-bearing liabilities - interest rates are as follows:		
Bank loans	0.8 %	0.9 %
Finance lease liabilities	1.0 %	1.1 %
Finance lease liabilities of the Group are payable as follows:		
Minimum lease payments		
Less than one year	627	583
Between one and five years	1,269	1,593
Total	1,896	2,176
Present value of minimum lease payments		
Less than one year	613	565
Between one and five years	1,256	1,568
Total	1,869	2,133
Future finance charges	27	43
Total finance lease liabilities	1,896	2,176

19. PROVISIONS

1,000 €	Warranty provision	Other provisions	Total
Balance at 1 January 2017	1,757	182	**1,939**
Provisions made during the year	-262	128	**-134**
Balance at 31 December 2017	1,495	310	**1,805**

A liability for personnel reduction-related restructuring costs is shown in other liabilities.

1,000 €	**2017**	2016
Non-current	619	1,081
Current	1,186	858
Total	1,805	1,939

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.

20. TRADE AND OTHER CURRENT LIABILITIES

1,000 €	**2017**	2016
Current		
Trade payables	18,420	18,769
Personnel, social security and pensions	6,223	6,870
Accrued interest expenses and other financial items	70	123
Other accrued expenses and deferred income	11,606	14,623
Personnel reduction-related restructuring liability	1,453	0
Advances	5,723	1,239
Other liabilities	269	276
Total	**43,763**	**41,900**
Includes the income tax payable for the period.		
Non current		
Other liabilties	1,159	135

21. INCOME TAX PAYABLE FOR THE PERIOD

At the end of the period there was income tax receivable 362 and tax payable 719 thousand euro on the profit for the period (31 Dec. 2016 there was 407 thousand euro tax receivables and 1,477 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 as defined in IAS 39 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 (8 per cent), PLN (accounts for 5 per cent of the net sales), Swedish and Norwegian crowns (5 per cent) and US dollars (3 per cent). Significant part of expenses, 57 per cent, arise in euro and in US dollar almost 37 per cent and Chinese CNY 1 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:

	2017					2016				
	USD	SEK	NOK	GBP	PLN	USD	SEK	NOK	GBP	PLN
Current assets	1,385	1,514	2,260	9,625	5,641	1,826	622	859	7,511	3,725
Current liabilities	1,670	575	704	2,697	3,937	4,170	771	835	1,969	2,733

Cash flow hedges at 31 Dec 2017

Currency position

Currency	Exposure	Hedge	Net	Hedge Instrument	Hedge%
USD	16,142	13,000	2,807	Forward exchange contract	81 %
CNY	12,220	9,800	502	Forward exchange contract	80 %
GBP	2,795	2,410	578	Forward exchange contract	86 %
PLN	4,022	3,310	227	Forward exchange contract	82 %
NOK	9,725	12,300	153	Forward exchange contract	126 %
SEK	7,800	6,300	1,500	Forward exchange contract	81 %

Cash flow hedges at 31 Dec 2016

Currency position

Currency	Exposure	Hedge	Net	Hedge Instrument	Hedge%
USD	14,002	11,194	2,807	Forward exchange contract	80 %
CNY	2,838	2,336	502	Forward exchange contract	82 %
GBP	2,972	2,394	578	Forward exchange contract	81 %
PLN	1,156	930	227	Forward exchange contract	80 %
NOK	747	594	153	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 2017 the fair value of currency derivatives amounted to 23.2 million euro (31. Dec 2016: 22.6 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 2017 the total non-euro-denominated equity of the Group's foreign subsidiaries amounted to 14.5 million euro (31 Dec. 2016: 11.7 million euro).

Sensitivity to market risk

	2017	2016
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	+-314	+-280
+-10 % change in EUR/CNY exchange rate	+-242	+-50
+-10 % change in EUR/GBP exchange rate	+-38	+-58

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 31,379 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 for 10,000 thousand euro of the loans. The change in the fair value of this hedging instrument, 58 thousand euro, is recognised in profit and loss as other comprehensive income. The fair value of the interest swap contract is -78 thousand euro. All Group loans are denominated in euro. In 2017, the average interest rate of the loan portfolio was 0.8 per cent. All finance lease 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 2017, the effect on variable rate interest-bearing liabilities on profit before taxes would have been +-214 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		21,379		**21,379**
Financial instruments with fixed interest rate				
Financial liabilities				
Loan from financial institutions		10,000		**10,000**

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 5 Other operating expenses.

	2017			2016		
Analysis of trade receivables by age	Gross	Impairment loss	**Net**	Gross	Impair-ment loss	**Net**
Undue trade receivables	26,903		26,903	41,254		41,254
1–30 days	6,584		6,584	8,998		8,998
31–60 days	1,419		1,419	1,908		1,908
Over 60 days	6,071	193	4,878	2,704	-872	1,832
Total			**39,785**			**53,992**

The maximum exposure to credit risk at the reporting date was:	**2017**	2016
Loans and receivables	45,520	60,269
Available for sale financial assets	693	693

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 2017 the Group's cash reserves totaled 21.2 million euro and its interest-bearing net debt 33.2 million euro. The Group administration raises the Group's interest-bearing debt centrally. At 31 December 2017 Teleste had committed and available credit facilities as well as other agreed and undrawn loans amounting to 20 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 2017, the contractual maturity of interest-bearing liabilities was as follows:

	2018	2019	2020	2021	2022
Loans from financial institutions	3,205	3,184	3,163	3,141	18,077
Trade payables	18,420				
Finance lease liabilities	632	604	474	155	76
Forward exchange contracts					
Outflow	-23,446				
Inflow	22,830				
Other	33	33	33		

As of 31 December 2016, the contractual maturity of interest-bearing liabilities was as follows:

	2017	2018	2019	2020	2021
Loans from financial institutions	2,218	26,504			
Trade payables	18,769				
Finance lease liabilities	623	557	532	414	50
Forward exchange contracts					
Outflow	-22,160				
Inflow	22,550				
Other	34	34	34	33	

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 2017 and 2016 was as follows:

	2017	2016
Total borrowings	33,248	30,609
Cash and cash equivalents	21,230	9,496
Interest-bearing net debt	12,017	21,113
Total equity	71,352	84,422
Interest-bearing net debt and total equity	83,370	105,535
Leverage ratio	14.4%	20.0%

22. 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, 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 -204 thousand euro in 2017 (2016: 334 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 -78 thousand euro. The change in fair value 58 thousand euro is entered in the total comprehensive income. The currency exchange contracts and interest swap contracts are in level 2.

Available-for-sale financial assets

Available-for-sale 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:

	2017	2016
Finance lease liabilities	1.0%	1.1%

Carrying amounts of financial assets and liabilities by measurment categories

	Financial assets and liabilities at fair value through income statement	Loans and receivables	Available for sale financial assets	Financial liabilities measured at amortized cost	Carrying amount by balance sheet item	Fair Value	Note
2017 Balance item							
Non current financial assets							
Other financial assets			693		693	693	12
Current financial assets							
Trade and other receivables		39,785			39,785	39,785	15
Carrying amount by category	**0**	**39,785**	**693**	**0**	**40,478**	**40,478**	
Non-current financial liabilities							
Interest-bearing liabilities	1,256			27,138	28,394	28,394	18
Current financial liabilities							
Interest-bearing liabilities	613			4,240	4,853	4,853	18
Forward exchange contracts	204				204	204	25
Interest swap contracts	78				78	78	25
Trade and other payables				18,420	18,420	18,420	20
Other current liabilities				70	70	70	20
Carrying amount by category	**2,151**	**0**	**0**	**49,869**	**52,020**	**52,020**	

	Financial assets and liabilities at fair value through income statement	Loans and receivables	Available for sale financial assets	JFinancial liabilities measured at amortized cost	Carrying amount by balance sheet item	Fair Value	Note
2016 Balance item							
Non current financial assets							
Other financial assets			693		693	693	12
Current financial assets							
Trade and other receivables		53,992			53,992	53,992	15
Forward exchange contracts	334				334	334	25
Carrying amount by category	**334**	**53,992**	**693**	**0**	**55,019**	**55,019**	
Non-current financial liabilities							
Interest-bearing liabilities	1,568			26,468	28,036	28,036	18
Current financial liabilities							
Interest-bearing liabilities	565			2,008	2,573	2,573	18
Forward exchange contracts	135				135	135	25
Trade and other payables				18,769	18,769	18,769	20
Korkovelat ja muut rahoitusvelat				123	123	123	20
Carrying amount by category	**2,268**	**0**	**0**	**47,368**	**49,636**	**49,636**	

23. ADJUSTMENTS TO CASH FLOWS FROM OPERATING ACTIVITIES

1,000 €	2017	2016
Non-cash transactions:		
Depreciation and amortisation	5,263	4,934
Impairment on goodwill	7,705	0
Employee benefits	265	235
Changes in conditional supplementary contract price	0	-2,245
Total	**13,233**	**2,924**

24. OPERATING LEASES

Group as lessee

Minimum lease payments on non-cancellable operating leases are payable as follows:

1,000 €	2017	2016
Less than one year	913	600
Between one and five years	1,873	1,462
More than five years	913	1,193
Total	**3,699**	**3,255**

The Group leases factory and office facilities outside Finland under operating leases. The leases typically run for a period of 2-5 years, normally with an option to renew the lease after that date. According to the index clauses of the leases lease payments are increased every two years.

25. COMMITMENTS AND CONTINGENCIES

1,000 €	2017	2016
Rental and leasing liabilities		
Rental liabilities	3,699	3,971
Lease liabilities	4,656	5,173
Currency derivatives		
Value of the underlying forward contracts	23,169	22,550
Market value of the forward contracts	-204	334
Interest swap contracts		
Value of the underlying interest swap contracts	10,000	10,000
Market value of intersest swap contracts	-78	-135
Other liabilities		
Guarantees	4,479	5,275

On 23 December 2016, a competitor of Teleste filed two complaints against Teleste Limited, demanding damages from the company for the infringement of two patents. Teleste denies patent infringement in both cases. According to the assessment by Teleste's management, the results of said litigations are not expected to have material effect on Teleste's financial position.

26. RELATED PARTY TRANSACTIONS

Identity of related parties
Teleste Group has related party relationships with its Board members and CEO.

Companies owned by the Group and parent company	Group holding, (%)	Group voting, (%)
Parent company Teleste Oyj, Turku, Finland		
Asheridge Investments Ltd, Chesham, UK	100	100
Cableway AG, Bergisch Gladbach, Germany	100	100
Cableway Management GmbH, Bergisch Gladbach, Germany	100	100
Cableway Nord GmbH, Bergisch Gladbach, Germany	100	100
Cableway Süd GmbH & Co. KG , München, Germany	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
Iqu Systems GmbH, Hannover, Germany	100	100
Kaavisio Oy, Turku, Finland	100	100
Mitron Group Oy Ltd, Forssa, Finland	100	100
Teleste Information Systems GmbH, Bergisch Gladbach, Germany	100	100
Teleste Information Systems Sp. Zoo	100	100
Teleste Information Solutions Oy, Forssa, Finland	100	100
Satlan S.p.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 FZ LLC, Fujairah, UAE	100	100
Teleste GmbH, Hildesheim, Germany	100	100
Teleste India Ptv. Mumbai, India	100	100
Teleste Intercept, LLC, Dover DE, USA	60	60
Teleste LLC, Georgetown Texas, USA	100	100
Teleste Ltd, Chesham, UK	100	100
Teleste Networks Services S.A. Yverdon, Switzerland	100	100
Teleste Services GmbH, Hildesheim, Germany	100	100
Teleste SP z.o.o, Wroclaw, Poland	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, Krakow, Poland	100	100

The key management personnel compensations

1,000 €	**2017**	2016
CEO		
Salaries and other short-term benefits	465	579

During 2017 no options were granted to the management of Teleste (2016: 0 options). At 31 December 2017 management did not have any options (2016: no options of which 0 were exercisable).

Management of the parent company has 0,78 % or 148,089 of the parent company's shares (2016: 0,74% or 140,091 shares).

A voluntary pension fee for CEO amounted 95 thousand euro (80 thousand euro in 2016), which amount is not included in the paid salary and remuneration.

The key management personnel compensations 1,000 €	**2017**	2016
Pertti Ervi, Chairman of the Board from 4th Oct 2017	40	28
Timo Miettinen, Chairman of the Board until 4th Oct 2017	40	40
Jannica Fagerholm, Member of the Board	32	28
Esa Harju, Member of the Board until 30th Nov 2016	0	28
Timo Luukkainen, Member of the Board	32	28
Kai Telanne, Member of the Board	32	28
Jukka Rinnevaara, CEO	465	579
Total	**601**	**759**

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 six (6) months in case the President and CEO decides to withdraw, and eighteen (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 2017 and 2016.

There is no restrictions according IFRS 12.

27. 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.–31.12.2017

1,000 €	Notes	2017	2016
Net sales	1	**93,890**	**102,622**
Change in inventories of finished goods		546	-1,227
Other operating income	2	3,337	2,253
Material and services	3	-51,312	-52,954
Personnel expenses	4	-24,080	-23,702
Depreciation and amortisation	5	-895	-770
Other operating expenses		-17,165	-17,735
Operating profit		**4,320**	**8,489**
Financial income and expenses	6	-3,545	4,670
Profit before extraordinary items		**775**	**13,159**
Appropriations			
Change in cumulative accelerated depreciation	7	-52	-30
Group Contribution	7	-3,700	0
Income taxes			
Taxes for current and prior periods	8	-198	-1,733
Profit for the financial period		**-3,176**	**11,397**

Balance sheet 31.12.2017

1,000 €	Note	**2017**	2016
Non-current assets			
Intangible assets	9	1,445	1,213
Property, plant and equipment	9	3,871	4,755
Long-term receivables	10	23,327	20,052
Investments	11	39,266	43,265
		67,910	**69,285**
Current assets			
Inventories	12	11,431	13,275
Trade and other receivables	13	24,457	28,152
Cash and cash equivalents	14	13,785	6,061
		49,673	**47,487**
Total assets		**117,582**	**116,772**
Equity and liabilities			
Share capital	15	6,967	6,967
Share premium	15	1,504	1,504
Invested non-restricted equity	15	3,704	3,704
Retained earnings	15	48,277	41,410
Profit for the financial period	15	-3,176	11,397
		57,276	**64,982**
Appropriations	7	**477**	**424**
Provisions	16	**918**	**1,127**
Liabilities			
Long-term liabilities	17	27,000	26,000
Short-term liabilities	18	31,912	24,239
		58,912	**50,239**
Total equity and liabilities		**117,582**	**116,772**

Cash flow statement

1,000 €	**2017**	2016
Cash flow from operations		
Profit before extraordinary items	775	13,159
Adjustments		
Depreciations according plan	895	770
Financial income and expenses	3,545	-4,670
Cashflow before changes in working capital	5,215	9,259
Changes in working capital		
Increase (-) /decrease(+) in trade and other receivables	1,361	-522
Increase (-) / decrease (+) in inventories	1,843	-379
Increase (+) / decrease (-) in trade payables	1,077	-2,259
Change in provisions	-209	-293
Loans granted	-3,486	3,079
Cashflow before financial items and taxes	5,802	8,885
Paid interests	-933	-447
Interests and dividends received	3,436	5,377
Income taxes paid	-839	-1,044
Cash flow from operations	**7,466**	**12,771**
Investments		
Payment of other tangible assets	-243	-786
Investments in subsidiary shares	-1,001	-485
Change group cashpool	1,351	-1,461
Cash flow from investments	**107**	**-2,732**
Financing		
Short-term liabilities	30,000	4,000
Long-term liabilities	-26,000	-6,000
Change in trade payables group	4,235	-3,777
Paid dividends and other profit distribution	-4,530	-4,168
Group contribution received and paid	-3,700	0
Cash flows from financing activities	**5**	**-9,945**
Change in liquid funds	**7,578**	**94**
Liquid funds 1.1	6,061	6,002
Effects of exchange rate fluctuations on cash held	146	-34
Liquid funds 31.12	13,785	6,061

Accounting principles

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 Financial Statement

1. NET SALES

1,000 €	2017	2016
Net sales by segments		
Video and Broadband Solutions	91,411	100,695
Network Services	2,479	1,927
Total	**93,890**	**102,622**
Net sales by market area		
Finland	10,822	12,397
Nordic countries	17,108	5,801
Other Europe	54,276	70,430
Others	11,684	13,994
Total	**93,890**	**102,622**

2. OTHER OPERATING INCOME

R&D subvention and others	3,337	2,253
Total	**3,337**	**2,253**

3. MATERIAL AND SERVICES

Purchases	-48,722	-53,597
Change in inventories	-2,389	1,605
	-51,111	**-51,992**
Purchased services	-201	-962
Total	**-51,312**	**-52,954**

4. PERSONNEL EXPENSES

1,000 €	2017	2016
Wages and salaries	-19,605	-19,336
Pension costs	-3,661	-3,286
Other personnel costs	-814	-1,080
Total	**-24,080**	**-23,702**
Remuneration to Board members and Managing Directors		
Timo Miettinen, Chairman of the Board until 4th Oct 2017	-40	-40
Pertti Ervi, Chairman of the Board from 4th Oct 2017	-40	-28
Jannica Fagerholm, Member of the Board	-32	-28
Kai Telanne, Member of the Board	-32	-28
Timo Luukkainen, Member of the Board	-32	-28
Esa Harju, Member of the Board until 30th Nov 2016	0	-28
Jukka Rinnevaara, CEO	-465	-579
Total	**-641**	**-759**

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

Year-end personnel	372	375
Average personnel	374	386

Personnel by function at the year-end

Research and Development	81	80
Production and Material Management	203	219
Sales and marketing	49	48
Administration	39	28
Total	**372**	**375**

5. DEPRECIATION ACCORDING TO PLAN

1,000 €	2017	2016
Other capitalized expenditure	0	-34
Buildings	-310	-305
Machinery and equipment	-167	-156
Goodwill	-275	-275
Other intangible rights	-143	0
Total	**-895**	**-770**

6. FINANCIAL INCOME AND EXPENSES

Interest income	26	42
Interest income from Group companies	811	785
Interest expenses	-385	-314
Interest expenses to Group companies	-77	-92
Impairment of investments	-5,000	0
Currency differences	-369	-424
Other financial income and expenses	-103	-8
Dividend income from Group companies	1,545	4,679
Dividend income	6	2
Total	**-3,545**	**4,670**

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

Change in accumulated depreciation difference		
Buildings	85	63
Machines and equipment	-27	-89
Intangible assets	-110	-4
Total	**-52**	**-30**
Group contribution	-3,700	0
Total	-3,752	-30
Accumulated depreciation in excess of plan	477	424

8. INCOME TAXES

Direct taxes	-128	-1,694
Taxes from previous years	-71	-39
Total	**-198**	**-1,733**

9. TANGIBLE AND INTANGIBLE ASSETS

	Intangible assets	Goodwill	Total	Buildings	Machinery	Other capitalized expenditure	Total
Acquisition cost 1.1.	7,619	2,197	**9,816**	8,903	9,115	4,483	**22,501**
Increases	543	0	**543**	2	41	107	**151**
Transfer between items	96	0	**96**	-3	0	-201	**-204**
Acquisition cost 31.12.	8,257	2,197	**10,454**	8,902	9,156	4,390	**22,448**
Accumulated depreciation 1.1.	-7,619	-984	**-8,603**	-5,032	-8,678	-4,390	**-18,100**
Depreciation and amortisation	-143	-275	**-418**	-310	-167	0	**-477**
Accumulated depreciation 31.12.	-7,762	-1,258	**-9,021**	-5,341	-8,846	-4,390	**-18,577**
Advances 1.1	0	0	**0**	0	0	354	**354**
Increases	10	0	**10**	0	0	0	**0**
Activations	0	0	**0**	0	0	-354	**-354**
Advances 31.12	10	0	**10**	0	0	0	**0**
Book value 31.12.2017	**505**	**939**	**1,444**	**3,561**	**310**	**0**	**3,871**

10. LONG TERM RECEIVABLES

1,000 euroa	2017	2016
Subordinated loan from group company	2,427	466
Other long term receivables from group companies	20,900	19,586
Total	**23,327**	**20,052**

11. INVESTMENTS

Parent company	Shares in group companies	Shares others	Total
Acquisition cost 1.1.	51,469	1,121	52,590
Increase	1,001	0	1,001
Acquisition cost 31.12.	**52,470**	**1,121**	**53,591**
Accumulated depreciation 1.1.	-8,897	-428	-9,325
Impairment	-5,000	0	-5,000
Accumulated depreciation 31.12.	**-13,897**	**-428**	**-14,325**
Book value 31.12.2017	**38,573**	**693**	**39,267**

12. INVENTORIES

1,000 €	2017	2016
Raw materials and consumables	4,020	6,408
Work in progress	400	2,934
Finished goods	7,012	3,932
Total	**11,431**	**13,275**

13. CURRENT ASSETS

Accounts receivables	13,414	15,325
Accounts receivables from Group companies	9,090	8,116
Other receivables from Group companies	630	2,993
Other receivables	290	264
Accrued income	1,033	1,455
Total	**24,457**	**28,152**

14. LIQUID FUNDS

Cash and cash equivalents	**13,785**	**6,061**

15. CHANGES IN SHAREHOLDERS' EQUITY

1,000 €	2017	2016
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	7,516
Proceeds from issuance of ordinary shares	0	-3,812
Invested non-restricted equity 31.12.	**3,704**	**3 ,704**
Retained earnings 1.1.	52,807	45,703
Dividends	-4,530	-4,293
Retained earnings 31.12.	48,276	41,410
Profit for the financial period	-3,176	11,397
Accumulated profit 31.12.	45,101	52,807
Total	**57,276**	**64,982**
Companys distributable equity 31.12.	48,805	56,511

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

16. OBLIGATORY PROVISIONS

1,000 €	2017	2016
Guarantee provisions	613	1,127
Other provisions	305	0
Yhteensä	**918**	1,127

17. LONG TERM LIABILITIES

Bank Loan	**27,000**	**26,000**

18. SHORT TERM LIABILITIES

Loan from others	3,000	0
Accounts payables	7,687	7,572
Accounts payables from Group companies	2,523	1,039
Other current liabilities	510	1,217
Other current liabilities from Group companies	11,914	7,678
Accrued liabilities	6,278	6,734
Total	**31,912**	**24,239**

19. CONTINGENT LIABILITIES AND PLEDGED ASSETS

1,000 €	2017	2016
Leasing liabilities		
For next year	1,211	1,144
For later years	1,883	2,177
Total	**3,094**	**3,321**
Rental liabilities		
Less than one year	92	92
Between one and five years	276	276
More than five years	913	1,005
Total	**1,281**	**1,373**
Liabilities on own behalf		
Bank guarantees	98	3,348
Guarantees given on behalf of subsidiaries	2,261	1,927

20. CURRENCY DERIVATES

Value of underlying forward contracts	23,169	22,550
Market value of forward contracts	-204	334
Interest rate swap	10,000	10,000
Market value of interest rate swap	-97	-169

Negative fair values have been booked as cost in profit and loss statement.

21. COMPANIES OWNED BY THE GROUP AND PARENT COMPANY

	Group holding share %	Parent company's share %
Asheridge Investments Ltd, Chesham, UK	100	0
Cableway AG, Bergisch Gladbach, Germany	100	0
Cableway Management GmbH, Bergisch Gladbach, Germany	100	0
Cableway Nord GmbH, Bergisch Gladbach, Germany	100	0
Cableway Süd GmbH & Co. KG , München, Germany	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
Iqu Systems GmbH, Hannover, Saksa	100	100
Kaavisio Oy, Turku, Finland	100	100
Mitron Group Oy Ltd, Forssa, Finland starting from 7.1.2015	100	100
Teleste Information Systems GmbH, Bergisch Gladbach, Germany	100	0
Teleste Information Systems Sp. Zoo, Warsaw, Poland	100	0
Teleste Information Solutions Oy, Forssa, Finland	100	0
Satlan S.p.zoo, Wroclaw, Poland	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 FZ LLC, Fujairah, UAE	100	100
Teleste GmbH, Hildesheim, Germany	100	0
Teleste India Ptv., Mumbai, India	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 Services GmbH, Hildesheim, Germany	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

Teleste Ltd. (02704083) and Asheridge Investments Ltd. (05418313) have taken advantage of the audit exemption provisions under sction 479A of the Companies Act 2016 in the UK relating to subsidiary companies.

22. OWN SHARES

	Number of shares	Percent-age of share capital and votes, %
Teleste Oyj owns own shares 31.12.2017	863,953	4.55

23. SHARES AND OWNERS

Management interest

	Number of shares	Precent-age of share capital, %	Percent-age of votes, %
CEO and Board Members	148,089	0.78	0.78

Audit expenses	**2017**	2016
Auditing assignments	-39	-50
Tax consultancy	-53	-15
Other assignments	-32	-29
Total	**-124**	**-94**

24 SHARES AND SHAREHOLDERS

Major shareholders 31 December 2017	Shares	%
Tianta Oy	4,409,712	23.2
Mandatum Life Insurance Company Limited	1,679,200	8.8
Ilmarinen Mutual Pension Insurance Company	1,084,475	5.7
Teleste Oyj	863,953	4.6
Kaleva Mutual Insurance Company	824,641	4.3
Varma Mutual Pension Insurance Company	521,150	2.7
The State Pension Fund	500,000	2.6
Sijoitusrahasto Taaleritehdas Mikro Markka	238,109	1.3
Ingman Finance Oy Ab	235,000	1.2
Mariatorp Oy	225,000	1.2
Total (10)	**10,581,240**	**55.73**

Sector Dispersion 31 December 2017	Shareholders	%	Shares	%
Households	5,267	93.8	4,572,771	24.1
Public sector institutions	4	0.1	2,115,725	11.1
Financial and insurance institutions	20	0.4	4,551,632	24.0
Corporations	259	4.6	7,545,734	39.7
Non-profit institutions	26	0.5	82,385	0.4
Foreign	42	0.7	117,341	0.6
Total	**5,618**	**100.0**	**18,985,588**	**100.0**
Of which nominee registered	9	0.2	1,137,630	6.0

Holding Dispersion 31 December 2017	Shareholders	%	Shares	%
1–100	1,509	26.9	91,554	0.5
101–500	2,400	42.7	643,713	3.4
501–1,000	766	13.6	616,911	3.2
1,001–5,000	756	13.5	1,660,943	8.7
5,001–10,000	83	1.5	604,724	3.2
10,001–50,000	74	1.3	1,476,509	7.8
50,001–100,000	9	0.2	657,755	3.5
100,001–500,000	13	0.2	2,750,333	14.5
500,001–	8	0.1	10,483,146	55.2
Total	**5,618**	**100.0**	**18,985,588**	**100.0**
Of which nominee registered	9	0.2	1,137,630	6.0

Proposal for the distribution of earnings

THE BOARD OF DIRECTORS PROPOSAL

Teleste Corporation's distributable equity on the date of the financial statements equalled EUR 48,805,574.20.

The Board of Directors proposes to the Annual General Meeting of 5 April 2018 that a dividend of EUR 0.10 per share be paid to outstanding shares for the year 2017.

Signatories to the Annual Report and the Financial Statements

7 February 2018

Pertti Ervi,
COB

Timo Miettinen,
MOB

Jannica Fagerholm,
MOB

Timo Luukkainen,
MOB

Kai Telanne,
MOB

Jukka Rinnevaara,
CEO

The Auditor's Note

Our auditors' report has been issued today.

7 February 2018
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 2017. 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 Board of Directors.

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 the 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 5 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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
Impairment of goodwill (EUR 30.8 million) (Refer to accounting principles for the consolidated financial statements and note 11)	
• In recent years the Group has expanded its operations through acquisitions. As a consequence the goodwill balance in the consolidated statement of financial position is significant. Under IFRS standards goodwill is not amortised, but it is tested for impairment at least annually. For testing purposes Teleste has allocated goodwill to cash-generating units. There is a risk that the acquired businesses may not trade in line with initial expectations and forecasts and therefore that, the carrying value of a cash-generating unit may exceed its recoverable amount and result in an impairment. In the financial year 2017, an impairment loss of EUR 7.7 million was recorded in the Network Services business area on the goodwill of the German services business. • Teleste determines recoverable amounts of the cash-generating units based on the value-in-use method. Value in use is calculated using discounted cash flow forecasts. The underlying key assumptions used to support the calculations require management judgement regarding net sales growth rate, profitability, discount rate and long-term growth rate, among others. Due to the fact that forecasts and estimates involve judgements and the significance of the carrying value involved, impairment of goodwill is considered a key audit matter.	• We assessed the grounds for the impairment loss recognised on goodwill, the Group's process for preparing cash flow forecasts and key assumptions used in the calculations, such as net sales growth rate, profitability and discount rate, by reference to the budgets 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. • In addition, we considered the appropriateness of the notes to the consolidated financial statements on goodwill and impairment testing.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Accuracy of net sales (EUR 234.6 million) (Refer to accounting principles for the consolidated financial statements and note 1)	
• Net sales 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. • 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 data analyses to identify and analyse divergent sales transactions.
Valuation of inventories (EUR 33.7 million) (Refer to accounting principles for the consolidated financial statements and note 14)	
Valuation of inventories is considered a key audit matter due to the following factors: • Inventories represent approximately 22 percent of the consolidated total assets as at 31 December 2017. • 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 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 on 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the 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 our 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 15 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 7 February 2018
KPMG OY AB

PETRI KETTUNEN
Petri Kettunen, Authorised Public Accountant, KHT

CORPORATE GOVERNANCE STATEMENT 2017

Corporate Governance Statement 2017

This Corporate Governance Statement has been prepared pursuant to Chapter 7, section 7 of the Securities Markets Act and the Finnish Corporate Governance Code 2015 issued by the Securities Market Association on 1 October 2015. The Corporate Governance Code is available on the Securities Market Association's website at http://cgfinland.fi/en/. The Corporate Governance Statement is issued separately from the Board of Directors' Report, and the provided data are based on the situation as at 31 December 2017.

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 Securities Markets Act, the rules and regulations for listed companies issued by the Stock Exchange, including the Finnish Corporate Governance Code 2015, 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, held 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 AGM is held in Helsinki according to the established custom.

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 among others 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. The Board shall resolve any matters that are of great importance to the Group when taking into account the scope and extent of the Group's operations. The Board oversees and assesses the work of the CEO and the Management Group. The Board decides on the criteria of the company's compensation system and makes decisions on other issues of great importance related to the personnel.

According to the view of Teleste's Board of Directors, the work of the Board is carried out in the most efficient way without formation of specific committees, by involving the entire Board in the so-called committee work instead. The Board of Directors is also responsible for carrying out the duties of the Audit Committee.

The Board shall conduct an annual evaluation of its performance and working methods. The Board has adopted the Rules of Procedure, according to which the essential duties of the Board include the following:

- confirming the company's business strategy and revising it at regular intervals to ensure that it is kept up-to-date,
- approving annual budgets and supervising their implementation,
- deciding on individual major investments and divestments,
- reviewing and approving financial statements and interim reports,
- appointing the CEO and discharging them from their duties and specifying their responsibilities and terms and conditions of employment,
- deciding on incentive and bonus schemes for the management and personnel and, as necessary, presenting related proposals to the General Meeting,

- annually assessing the essential risks related to the company's operations and the management of such risks,
- confirming the company's values and policies.

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. Their term of office lasts until the end of the next Annual General Meeting. The Board shall elect a Chairman of the Board from among its members.

The Annual General Meeting held on 6 April 2017 elected the five persons specified below to Teleste's Board of Directors. Timo Miettinen was elected Chairman on 6 April 2017 by the members of the Board. Timo Miettinen decided to step down as Chairman of the Board and Pertti Ervi was elected Chairman on 4 October 2017 by the members of the Board.

- Timo Miettinen, Chairman from 6 April 2017 until 3 October 2017 and member of the Board from 4 October 2017 onwards, b. 1955, M.Sc. (Eng.), Board professional, Board member since 2016
- Pertti Ervi, member of the Board from 6 April 2017 until 3 October 2017 and Chairman from 4 October 2017 onwards, b. 1957, B. Sc. (Eng.), independent consultant, Board member since 2009
- Jannica Fagerholm, member of the Board, b. 1961, M.Sc. (Econ.), Signe and Ane Gyllenberg Foundation, Managing Director, Board member since 2013
- Timo Luukkainen, member of the Board, b. 1954, B.Sc. (Econ.), M.Sc. (Eng.), MBA, Board professional, Board member since 2016
- Kai Telanne, member of the Board, b. 1964, M.Sc. (Econ.), Alma Media Corporation, CEO, Board member since 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 and its significant shareholders, with the exception of Board member Timo Miettinen who has a control over Tianta Oy, a significant shareholder.

On 2 January 2017, Teleste announced in a stock exchange release that it had received a notification from Timo Miettinen, then Chairman of Teleste's Board of Directors, on the same date, stating that EM Group Oy has demerged into three new companies through a full demerger, the ownership in Teleste Corporation of EM Group Oy, now ceased as a result of the demerger, has been transferred to Tianta Oy as of 1 January 2017 in connection with the demerger, and Timo Miettinen has acquired a control over Tianta Oy (60% of its shares and voting rights).

On 31 December 2017, Board members and their controlled entities held shares in Teleste Corporation and other companies included in the Teleste Group as follows:

- Timo Miettinen .... 4 013 shares, controlled entity Tianta Oy ....4 409 712 shares
- Pertti Ervi ....15 151 shares
- Jannica Fagerholm .... 9 627 shares
- Timo Luukkainen .... 2 736 shares
- Kai Telanne...21 147 shares

On 31 December 2017, Board members or their controlled entities held no share-based entitlements in Teleste Corporation or other companies included in the Teleste Group.
In 2017, Teleste's Board of Directors held 12 meetings.
The Board members attended the meetings as follows:

- Timo Miettinen 11/12
- Pertti Ervi 12/12
- Jannica Fagerholm 12/12
- Timo Luukkainen 11/12
- Kai Telanne... 12/12

In addition to the Board members, meetings of the Board were attended by the CEO, the Deputy CEO, the CFO, and 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.

Teleste does not have a separate nomination committee. According to the normal procedure, the major shareholders prepare a proposal to the General Meeting on the composition of Teleste's Board of Directors, and the proposal is sent to Teleste for information. In practice the major shareholders may already in the reparatory phase be in contact with the Chairman of the Board.

The Annual General Meeting held on 6 April 2017 elected five members to the Board of Directors, four men and one woman. The Board members had a technical or business degree. Further, the other above factors and characteristics relevant to diversity were also represented in the Board of Directors in 2017.

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 6 April 2017 decided on the following remunerations for Board service until the next AGM: the Chairman of the Board will be paid EUR 48,000 a year and each member EUR 32,000 a year. Of the specified annual amount, 40 per cent will be used to purchase Teleste's shares for Board members and the rest will be paid in cash.

Salaries, remuneration and fringe benefits paid to the Board of Directors in 2017 were as follows:

- Timo Miettinen .... EUR 48,000, including 2,182 Teleste shares (Chairman of the Board until 3 October 2017 and member of the Board after 4 October 2017)
- Pertti Ervi .... EUR 48,000, including 1,454 Teleste shares (Member of the Board until 3 October 2017 and Chairman of the Board after

4 October 2017)
- Jannica Fagerholm ....EUR 32,000, including 1,454 Teleste shares
- Timo Luukkainen .... EUR 32,000, including 1,454 Teleste shares
- Kai Telanne.. EUR 32,000, including 1,454 Teleste shares

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 written 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 2017 totalled EUR 464 871. In addition, there was an additional pension payment of EUR 94 985 in the financial year.

The contractual retirement age of CEO Jukka Rinnevaara is 60 years. The CEO's pension plan was changed from a defined benefit plan to a defined contribution plan in December 2017. 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. Payment under the capital redemption policy in 2017 was EUR 71,500. It is not included in the remuneration or additional pension payment reported above.

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 a compensation corresponding to eighteen (18) months of service without benefits.

Management Group

On 31 December 2017, the Group's Management Group consisted of seven 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 2017, Teleste's Management Group consisted of the following members:

- Jukka Rinnevaara, born in 1961, M.Sc. (Econ.), 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
- Johan Slotte, born in 1959, LL.M., EMBA, Deputy CEO, is in charge of the Germany, Austria and Switzerland areas including CEO of the Cableway companies, as well as the development and legal affairs related to Teleste Group's business operations
- Juha Hyytiäinen, born in 1967, M.Sc. (Econ.), CFO, is in charge of Finance, HR and ICT
- Hanno Narjus, born in 1962, M.Sc. (Econ.), Senior Vice President in charge of Network Products business unit
- Esa Harju, born in 1967, M.Sc. (Eng.), Senior Vice President in charge of Video Security and Information business unit
- Pasi Järvenpää, born in 1967, M.Sc. (Eng.), Senior Vice President in charge of Teleste's Research and Development
- Markus Mattila, born in 1968, M.Sc. (Eng.), Senior Vice President in charge of Teleste's Operations

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. In December 2017, the company terminated the Management Group's defined benefit pension plan. It was replaced with a defined contribution additional 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 2017, Management Group members and their controlled entities held shares in Teleste Corporation and other companies included in the Teleste Group as follows:

- Jukka Rinnevaara .... 95 415 shares
- Johan Slotte ....8 107 shares
- Juha Hyytiäinen...5 550 shares
- Hanno Narjus..4 598 shares
- Esa Harju .... 10 765 shares
- Pasi Järvenpää ....4 889 shares
- Markus Mattila ....6 777 shares

On 31 December 2017, 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.

For shareholdings of the CEO and Management Group members, see Notes section: the Related party transactions.

In 2017, Teleste was not involved in any related party transactions that would have been of material importance for Teleste and deviated from normal business or been carried out on other than ordinary market terms.

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 a 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 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 attained.

The performance criterion applied to the all three plans alike is the total shareholder return (TSR) of Teleste's share in the three-year performance period. A precondition for an individual key employee's participation in the plan was the above mentioned investment in Teleste shares.

If all the eligible key employees participate in the plan by meeting the investment precondition, the aggregate number of matching shares that may be delivered on the basis of their investment is in maximum approximately 65,000 shares under the plan that commenced in 2015, 53,600 shares under the plan that commenced in 2016 and 58,300 shares under the plan that commenced in 2017; and the total number of shares that may be delivered under the performance matching plan is in maximum approximately 260,000 shares for the plan that commenced in 2015, in maximum 214,400 shares for the plan that commenced in 2016 and in maximum 233,200 shares for the plan that commenced in 2017. The above figures are gross figures before the deduction of the applicable taxes. The remaining net quantity is delivered to the participants as Teleste's shares.

The Board of Directors approved 37 key employees as eligible to participate in the first, 42 key employees as eligible to participate in the second and 40 key employees as eligible to participate in the third three-year plan of LTI 2015.

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 6 April 2017, Teleste's AGM elected Authorised Public Accountants KPMG Oy Ab for the company's auditor. The principally responsible auditor is Petri Kettunen, APA.

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

In 2017, Teleste Group's auditing expenses totalled EUR 153 773, of which the amount of KPMG was EUR 143 589. In addition, units of KPMG have supplied Teleste Group companies with other consultation worth total EUR 84 932 and other than KPMG auditors for EUR 41 972.

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 the company'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, 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 list includes the persons who are always up-to-date with all insider information concerning Teleste. There are no persons mentioned in the said insider list.

Project-specific insider list includes the persons who work for Teleste under an employment contract or other agreement and receive insider information concerning an individual project, as well as 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 an arrangement or a set of procedures is considered as a project.

The persons discharging managerial responsibilities at Teleste with the obligation to notify are Board members, CEO, Deputy CEO and CFO. They and persons closely associated with them have the obligation notify Teleste and the Finnish Financial Supervisory Authority of transactions conducted with Teleste's financial instruments. Teleste announces the 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 with financial instruments issued by Teleste at such times 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 statements are forbidden on their own account or on behalf of others, directly or indirectly, to trade with 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 statements. The persons participating in the preparation of interim reports and/or financial statements include the rest of Teleste's Management Group, the person in charge of investor relations and the controllers.

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 suspected violations of rules and regulations concerning the financial markets through an independent channel within the company.

INTERNAL SUPERVISION, RISK MANAGEMENT AND INTERNAL AUDITING

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 and correctness of the conducted financial reporting. Internal supervision is based on Teleste's values and corporate culture, as well as on mutually supporting structures and processes within the Group and operational levels. The management of the Group and the business units monitor the internal supervision as part of their normal managerial duties, while the Board evaluates and verifies the appropriateness and efficiency of the internal supervision. In both business areas, the management of the business unit, supported by Teleste's business controlling function, is responsible for compliance with the principles of internal supervision on all levels of the areas.

Risk management

The Group's risk policy and its principles and objectives are subject to approval by Teleste's Board of Directors. Risk management is based on the strategic and business goals of Teleste Group. Risk management aims to ensure the achievement of business goals, so that material risks affecting business operations and posing a threat to the achievement of goals are identified and continuously monitored and evaluated. The risk management methods are specified and the implementation of risk prevention is attempted through the same. In addition, any risks that for economic or other reasons are reasonable to insure, are aimed to be covered by insurance. In risk management, the regular evaluation of most significant risks and exercising control thereof in a cost-effective manner are emphasized. 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 risk management system. A part of the risk management system is monthly reporting by which, in particular, the development of the orders received, turnover, order backlog, deliveries, trade receivables and cash flow is monitored and, through the same, the profit development of the entire Teleste Group. 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 units. 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
- interest group risks
- personnel risks
- property and business interruption risks

Internal auditing

The internal auditing unit is in charge of the internal auditing of Teleste and its subsidiaries. The results are reported to the designated member of the Board. In addition, the summary of the internal audit report is presented to Teleste's Board of Directors twice a year. Internal auditing evaluates the efficiency of the processes regarding risk management, supervision, management and selected functions, and makes proposals for their improvement. The expertise of bodies external to the auditing unit is used in the implementation of auditing as needed. In addition, internal auditing carries out special tasks assigned by the management. Internal auditing covers all the organisational levels. The external auditor participates in the choosing of the priorities of internal auditing and the assessment of results.

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 matching, inspections carried out by the management, or specified procedures or policies. The CFO is responsible for ensuring that there is a separately designated person for each control responsible for the implementation and efficiency of the control in question. The Group Accounting Manual specifies the standards for financial reporting. Financial reports to be published are reviewed by the Management Group and the Board of Directors prior to their publication. The external auditor checks the correctness of the external annual financial reporting.

Key figures 2013–2017

	IFRS 2017	IFRS 2016	IFRS 2015	IFRS 2014	IFRS 2013
Profit and loss account, balance sheet:					
Net sales, Meur	234.6	259.5	247.8	197.2	192.8
Change %	-9.6	4.8	25.7	2.3	-0.6
Sales outside Finland, %	94.3	93.3	95.1	92.5	93.2
Operating profit, Meur	-7.5	15.6	14.3	11.1	11.0
% of net sales	-3.2	6.0	5.8	5.6	5.7
Profit after financial items, Meur	-8.5	14.8	13.9	10.8	10.7
% of net sales	-3.6	5.7	5.6	5.5	5.5
Profit before taxes, Meur	-8.5	14.8	13.9	10.8	10.7
% of net sales	-3.6	5.7	5.6	5.5	5.5
Profit for the financial period, Meur	-9.1	11.8	11.0	8.5	8.1
% of net sales	-3.9	4.6	4.4	4.3	4.2
R&D expenditure, Meur	12.1	11.1	11.0	10.3	10.0
% of net sales	5.1	4.3	4.4	5.2	5.2
Gross investments, Meur	7.5	5.5	16.9	3.7	6.3
% of net sales	3.2	2.1	6.8	1.9	3.3
Interest bearing liabilities, Meur	33.2	30.6	33.0	24.4	24.3
Shareholder's equity, Meur	71.4	84.4	77.5	70.7	65.6
Total assets, Meur	153.5	162.1	164.5	132.5	124.3
Personnel and orders:					
Average personnel	1,492	1,514	1,485	1,302	1,306
Order backlog at year end, Meur	57.4	26.9	42.2	15.2	13.1
Orders received, Meur	262.9	244.3	251.3	199.3	188.9
Key metrics:					
Return on equity, %	-11.7	14.6	14.9	12.5	12.9
Return on capital employed, %	-6.6	14.8	14.2	12.2	13.0
Equity ratio, %	48.3	52.5	48.3	53.4	52.7
Gearing, %	16.8	25.0	26.3	9.5	13.8
Earnings per share, euro	-0.50	0.65	0.61	0.48	0.47
Earnings per share fully diluted, euro	-0.50	0.65	0.61	0.48	0.46
Shareholders equity per share, euro	3.94	4.66	4.28	3.94	3.73

Calculation of Key Figures

Return on equity:

$$\frac{\text{Pro t/loss for the nancial period}}{\text{Shareholders' equity (average)}} \times 100$$

Return on capital employed:

$$\frac{\text{Pro t/loss for the period after nancial items + nancing charges}}{\text{Total assets – non-interest-bearing liabilities (average during the nancial year)}} \times 100$$

Equity ratio:

$$\frac{\text{Shareholders' equity}}{\text{Total assets – advances received}} \times 100$$

Gearing:

$$\frac{\text{Interest bearing liabilities – cash in hand and in bank – interest bearing assets}}{\text{Shareholders' equity}} \times 100$$

Earnings per share:

$$\frac{\text{Pro t for the period attributable to equity holder of the parent}}{\text{Weighted average number of ordinary shares outstanding during the period}}$$

Earnings per share, diluted:

$$\frac{\text{Pro t for the period attributable to equity holder of the parent (diluted)}}{\text{Average number of shares – own shares + number of options at the period-end}}$$

Equity per share:

$$\frac{\text{Shareholders' equity}}{\text{Number of shares – number ofown shares at year-end}}$$

Price per earnings (P/E):

$$\frac{\text{Share price at year-end}}{\text{Earnings per share}}$$

E ective dividend yield:

$$\frac{\text{Dividend per share}}{\text{Trading price at the end of the period}}$$

SHARES AND SHARE-HOLDERS

Shares and Shareholders

INVESTOR RELATIONS

CEO, Mr. Jukka Rinnevaara is in charge of investor relations. In addition to the CEO, the top management of the company is committed to serving various participants of the capital market.

OBJECTIVES AND PRINCIPLES OF COMMUNICATION

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-todateness, truthfulness and simultaneity.

Teleste´s disclosure policy complies with Finnish legislation and the guidelines of the stock exchange and the Finnish Financial Supervisory Authority concerning disclosure obligations and the handling of undisclosed information (inside information).

CONTACT INFORMATION

Jukka Rinnevaara, CEO
Tiina Vuorinen, 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 mid 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	9.62
12 months low	6.51
All-time high (7.9.2000)	39.00
All-time low (12.12.2008)	1.90

FINANCIAL INFORMATION

Annually, Teleste releases the Financial Statement bulletin, Annual Report, two Interim Reports and a Half Year Financial Report.

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

Additionally Teleste publishes 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.

Financial releases in 2018

Interim report January–March	3.5.2018
Half year financial report January–June	9.8.2018
Interim report January–September	8.11.2018
Financial statement	7.2.2019

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 will be held on Thursday, 5 April 2018, at 4:00 p.m., in Helsinki Hall of Finlandia Hall at the address of Mannerheimintie 13 e, Helsinki, Finland. The reception of persons who have registered for the meeting will commence at 3:00 p.m.

RIGHT TO PARTICIPATE AND REGISTRATION

Each shareholder, who is registered on Thursday, 22 March 2018 in the shareholders' register of the Company maintained by Euroclear Finland Ltd, has the right to participate in the Annual General Meeting. A shareholder, whose shares are registered on his/her personal Finnish book-entry account, is registered in the shareholders' register of the Company.

A shareholder, who wants to participate in the Annual General Meeting, shall register for the meeting no later than Wednesday 28 March 2018 at 4 p.m. by giving a prior notice of participation to the Company.

Such notice can be given

- through Company's website at www.teleste.com/AGM
- by email investor.relations@teleste.com;
- by telephone +358 (0)2 2605 611, from Monday to Friday between 9 a.m. and 4 p.m.; or
- by regular mail to the address Teleste Corporation, Tiina Vuorinen, P.O.Box 323, FI-20101 Turku, Finland.

The notice of participation shall be delivered to the Company before the deadline for registration. In connection with the registration, a shareholder shall notify his/her name, personal identification number, address, telephone number and the name of a possible assistant or proxy representative and the personal identification number of the proxy representative. The personal data given to Teleste Corporation is used only in connection with the Annual General Meeting and with the processing of thereto related necessary registrations.

Use of Representative and Proxies

A shareholder may participate in the Annual General Meeting and exercise his/her rights at the meeting by way of proxy representation.

A proxy representative shall produce a dated proxy document or otherwise in reliable manner demonstrate his/her right to represent the shareholder. Should a shareholder participate in the meeting by means of several proxy representatives representing the shareholder with shares in different book-entry accounts, the shares by which each proxy representative represents the shareholder shall be identified in connection with the registration.

Possible proxy documents should be delivered in originals to the address Teleste Corporation, Tiina Vuorinen, P.O. Box 323, FI-20101 Turku, Finland by Friday 28 March 2018 at 4 p.m. at the latest.

Holders of nominee registered shares

A holder of nominee registered shares has the right to participate in the Annual General Meeting by virtue of such shares, based on which he/she on the record date of the Annual General Meeting, i.e. on 22 March 2018, would be entitled to be registered in the shareholders' register of the Company held by Euroclear Finland Ltd.

The right to participate in the Annual General Meeting requires, in addition, that the shareholder on the basis of such shares has been temporarily registered into the shareholders' register held by Euroclear Finland Ltd. at the latest by 29 March 2018, by 10 a.m. As regards nominee registered shares this constitutes due registration for the Annual General Meeting.

A holder of nominee registered shares is advised without delay to request necessary instructions regarding the temporary registration in the shareholders' register of the Company, the issuing of proxy documents and the registration for the Annual General Meeting from his/her custodian bank. The account manager of the custodian bank has to register a holder of nominee registered shares, who wants to participate in the Annual General Meeting, to be temporarily entered in the shareholders' register of the Company at the latest by the time stated above.

OTHER INFORMATION

Pursuant to Chapter 5, Section 25 of the Finnish Companies Act, a shareholder who is present at the shareholders' meeting has the right to request information with respect to the matters to be considered at the meeting.

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 2017

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.10 per share be paid based on the adopted balance sheet for the financial period that ended on 31 December 2017 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 2018 is registered in the Company's shareholders' register maintained by Euroclear Finland Ltd. The dividend will be paid on 16 April 2018.

Payment of divided

Annual General Meeting	5.4.2018
Divided ex date	6.4.2018
Dividend record date	9.4.2018
Payment of dividend	16.4.2018

Divided history, eur

2011	2012	2013	2014	2015	2016	2017
0.14	0.17	0.19	0.20	0.23	0.25	0.10 *

**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/Annual General Meeting.

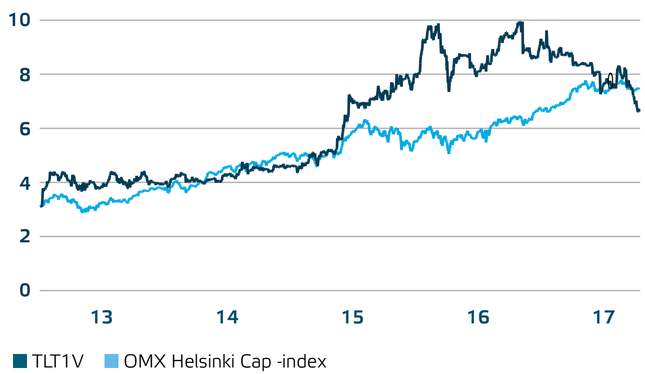
Minutes of the Annual General Meeting will be available at Teleste's website no later than 19 April 2018.

Teleste share

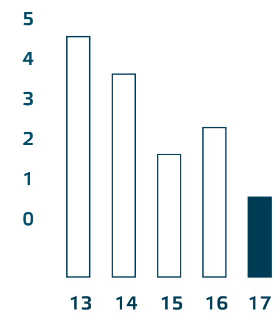
	2017	2016	2015	2014	2013
Highest price, euro	9.62	10.24	9.88	5.29	4.47
Lowest price, euro	6.51	7.29	5.32	4.25	3.78
Closing price, euro	6.68	8.86	9.80	5.27	4.25
Average price, euro	8.19	8.69	7.42	4.67	4.17
Price per earnings	-13.3	13.6	16.1	11.0	9.1
Market capitalization, Meur	126.8	160.6	177.6	98.7	79.6
Stock turnover, Meur	16.8	30.6	24.6	10.9	9.2
Turnover, number in millions	2.0	3.5	3.3	2.3	2.2
Turnover, % of capital stock	10.8	18.5	17.5	12.5	11.7
Average number of shares	18,985,588	18,985,588	18,985,588	18,918,869	18,743,507
Number of shares at the year-end	18,985,588	18,985,588	18,985,588	18,985,588	18,816,691
Average number of shares, diluted w/o own shares	18,202,396	18,169,002	18,036,667	17,729,215	17,513,799
Number of shares at the year-end, diluted w/o own shares	18,172,350	18,216,369	18,121,635	17,795,934	17,838,599
Paid dividend, Meur	1.8	4.5	4.2	3.6	3.3
Dividend per share, euro	0.10*	0.25	0.23	0.20	0.19
Dividend per net result, %	neg.	38.3	37.7	41.7	40.8
Effective dividend yield, %	1.5	2.8	2.3	3.8	4.5

** The Board's proposal to the AGM*

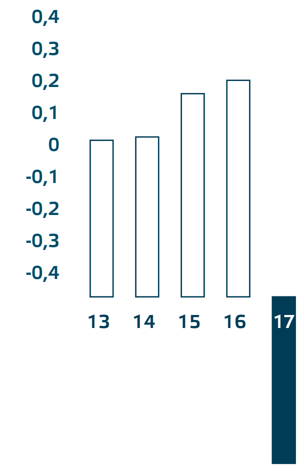
Share price development 2013-2017
Eur



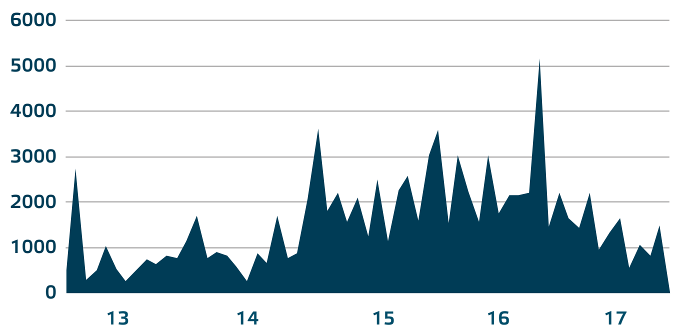
Effective dividend yield,
%



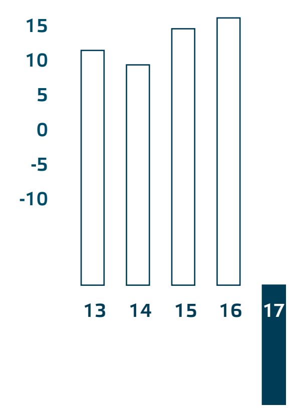
Dividend per net result,
Eur



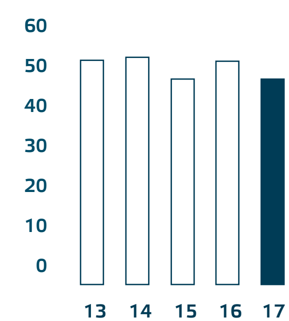
Share monthly turnover 2013-2017
EUR 1 000

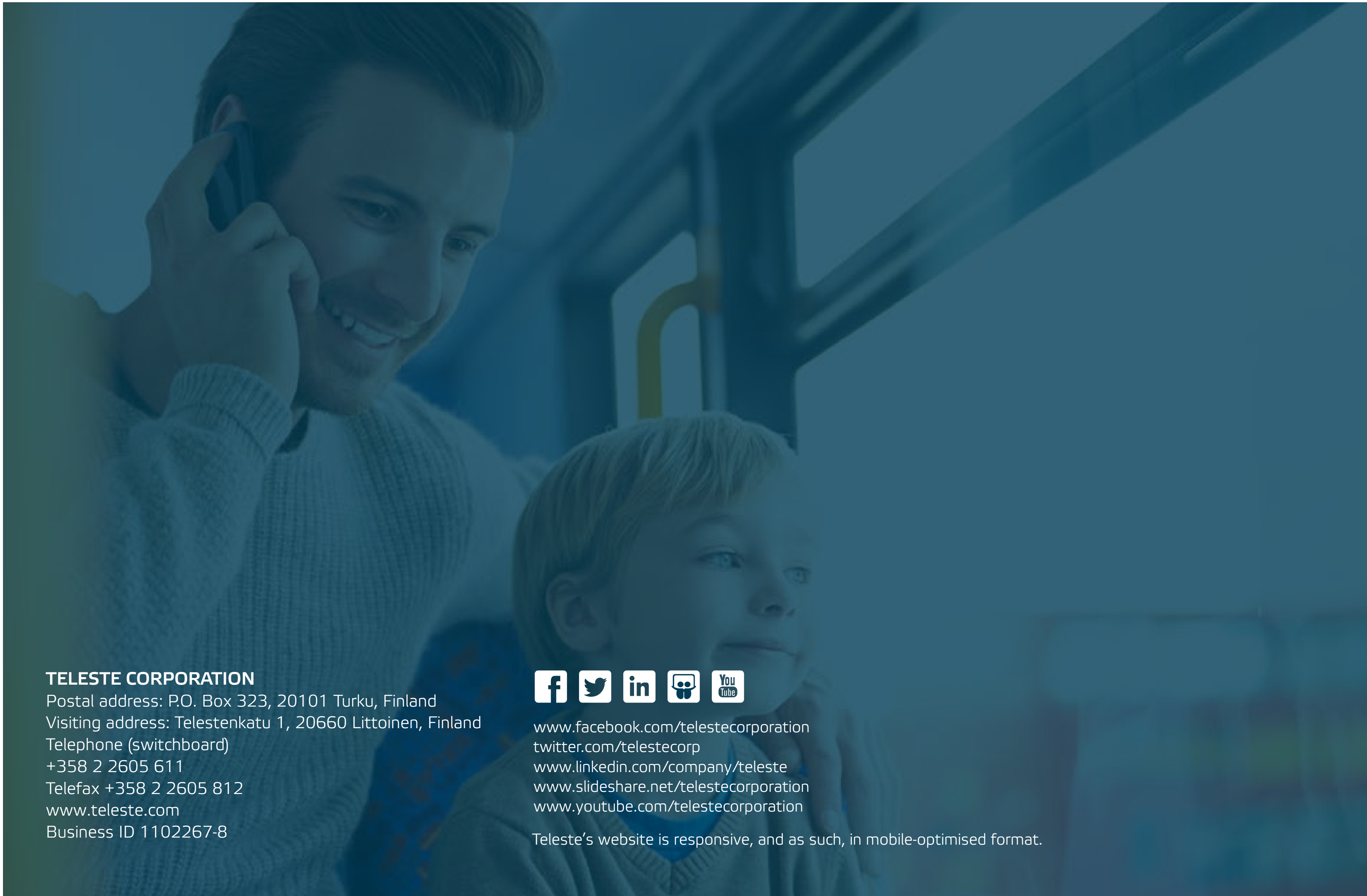


Return on capital employed
%



Equity ratio
%





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www.linkedin.com/company/teleste
www.slideshare.net/telestecorporation
www.youtube.com/telestecorporation

Teleste's website is responsive, and as such, in mobile-optimised format.