A Smart, Safe, Smooth Future

TELESTE

Annual Report 2019

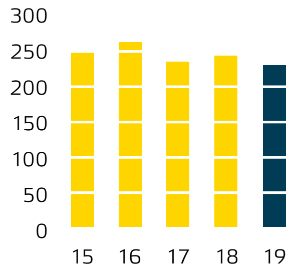
Contents

Year in brief

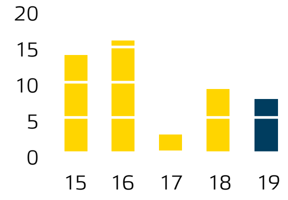
TELESTE offers an integrated product and service portfolio that makes it possible to build and run a better networked society. Our solutions bring television and broadband services to you, secure your safety in public places and guide your use of public transport. With solid industry experience and drive for innovations, we are a leading international company in broadband, security and information technologies and related services.

- Net sales decreased 5.9 per cent to EUR 235.5 (250,3) million.
- Adjusted operating result was EUR 7.7 (9.7) million.
- Earnings per share, adjusted was EUR 0.31 (0.38).
- Orders received totalled EUR 237.6 (264.0) million.
- The Board of Directors proposes a dividend of EUR 0.10 for year 2019.

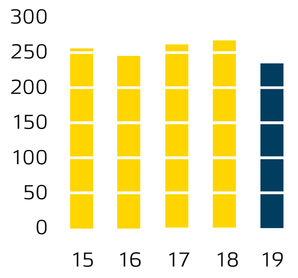
Net sales, Meur



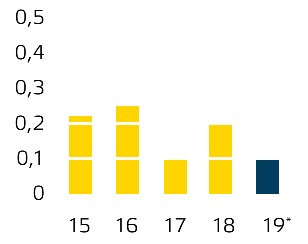
Operating result, adjusted Meur



Orders received, Meur



Dividend, Eur



*board proposal

CEO'S REVIEW

An eventful year in 2019

> Our operating environment is characterised by continuous change.

We started the year in a good position and with positive expectations. Our order backlog was high, our offering was competitive and our operational efficiency was at a good level overall. However, at the same time, we were very aware of the technological transformation of the access network market. While our success exceeded our expectations in many respects, the year also brought some unpleasant surprises.

Our net sales decreased by 5.9 per cent to EUR 235.5 million (2018: EUR 250.3 million). Our adjusted operating result was EUR 7.7 million (2018: EUR 9.7 million). At the end of the year, orders received amounted to EUR 237.6 million (2018: EUR 264.0 million).

At the beginning of March, a crime was committed against a foreign subsidiary of Teleste. Identity theft and other illegal actions resulted in the subsidiary making unwarranted payments. We had to issue a profit warning to announce that we would record non-recurring costs of approximately EUR 7 million due to the crime. The case is under investigation by the authorities and the conditions for insurance compensation are also being examined. The overall impact of the crime will only be determined when these processes have been completed.

TECHNOLOGICAL TRANSFORMATION DELAYED

There were significant differences in the development of Teleste's businesses. The net sales of the access network products business declined due to decreased investment levels among the customer base. Orders were focused on updates to traditional HFC networks and the breakthrough of distributed access architecture did not happen yet. We nevertheless maintained our leading position in the declining European access network market by a clear margin.

We made strong progress in developing our product range to ensure compatibility interoperability of products and solutions of various hardware and software providers and our negotiations with potential customers went well. Teleste is a recognised forerunner in products for distributed access architecture and a preferred partner for customers and other equipment suppliers. The upcoming significant technological transformation will change the way the industry operates. For Teleste, the transformation presents an opportunity for expansion into the world's largest cable network market in North America. I am satisfied with the position we have already achieved and our capacity to deliver products that match the requirements of the new technology. I expect that investments in distributed access architecture will gather momentum in earnest in the coming years, but the timing of commercial success this year is difficult to predict. Nevertheless, I believe that the first deliveries will take place in the latter part of the year 2020.

GROWTH IN THE PUBLIC TRANSPORT

The development of video security and information solutions was very positive and, in particular, the increased investments in the public transport among our customer base were reflected favourably in our net sales and order backlog. The growth of public transport is inevitable as urbanisation continues, and it also supports the mitigation of climate change. Video security and passenger information solutions increase the convenience and safety of public transport. This was clearly evident in the development of the business area. We expanded our production capacity and personnel resources in passenger information solutions.

Despite the intense rate of activity, we were able to maintain high quality and customer satisfaction, which were also reflected in our profitability. Our reputation grew stronger and our growth outpaced the industry. The signs suggest that the positive development will continue in 2020.

CHALLENGES IN GERMANY

The success of our service business fell short of our expectations and we faced challenges particularly in relation to the decreased sales volumes in our largest unit, in Germany. The order volumes under the service agreement with our most significant customer in Germany decreased, and no separate projects were initiated. As it was not possible to sufficiently adapt to the lower net sales in the short term, the profitability of the business area declined. The efficiency improvement measures taken in the previous years have already produced results, but we continued to implement further development measures. The contraction of the service business and the technological transformation in access network products meant that we had to issue a profit warning late in the year to reduce our guidance with regard to our net sales and result. At the same time, we achieved clear progress in the UK and Switzerland, while profitability declined in Finland and Belgium.

There are many growth opportunities on the horizon in the service business, driven by network investments and changes in the customer base. Nevertheless, the expectation is that there will be no significant changes in the business in 2020.

CONTINUOUS IMPROVEMENT

Our operating environment is characterised by continuous and rapid change. Company sizes are growing among our customer base and operating models and roles are changing. Technology life cycles are becoming shorter and new products and services are being designed at an accelerating rate. Our world is becoming increasingly complex and we are part of a broader ecosystem. In order to respond to the changes, we must anticipate future developments and have the flexibility to adapt accordingly. We test our strategy by monitoring our results. If we fail to make the desired progress, we take corrective action. Continuous improvement has always been part of our day-to-day business. We currently have projects under way to promote development in areas such as production automation and digitalisation.

We have also invested in competence development and our HR function. We take a systematic approach to anticipating our future competence needs. We assess the competencies of our personnel and build development and training programmes to ensure competence development. At the same time, we increasingly focus on maintaining a pleasant working environment.

RISKS AND OPPORTUNITIES

The start of 2020 has been characterised by uncertainty in many respects. The threat of a trade war, Brexit and the coronavirus epidemic may all influence our business in some ways. At the same time, there are many positive signals in our markets as well. I hope that the new year will be brighter for Teleste than the previous one and that we will make progress in line with our plans.

I would like to thank all Teleste employees for the good work we have done together and our Board of Directors for their support. I would also like to thank our customers, partners and shareholders for their trust in Teleste.

Jukka Rinnevaara
CEO

Events and news

Everything began literally at the foot of the Matterhorn

The collaboration between the Swiss Company Helltec Engineering AG and Teleste started with a large project shortly after it was founded in 2002. Helltec was able to land an upgrade project with the Valais cable network operator, Valaiscom AG. In October 2004, the first upgrade project was ceremonially handed over to Valaiscom at the Matterhorn in Zermatt. This was the foundation of a successful and long-lasting partnership.

THE COLLABORATION IS A SUCCESS STORY

The change processes within the Swiss cable industry at the end of the nineties prompted Franz Hellmüller to found the company in 2002. His strategy was to establish a strong enterprise within the cable industry, which would provide high-quality services and innovative quality products and solutions. At the same time, Helltec was looking for a European supplier of innovative, sustainable and qualitative products and solutions. This is how a cooperation with Teleste emerged since the very beginning of the company's history and is ongoing to this day. It was possible because the values as well as the philosophy of both companies were a perfect match. The partnership features trust and cooperation on all levels. Based on this continuity, Helltec was able to achieve a high installation base for Teleste products in the highly fragmented Swiss cable market with over 200 operators.

HELLTEC IS WELL POSITIONED IN THE FUTURE

Thanks to the consistent implementation of the strategy, Helltec has been able to develop steadily and has established a strong position in the Swiss cable market. The portfolio includes conception, project planning/design, system integration, training and documentation of cable network infrastructures. Currently, Helltec employs 35 persons and six freelancers. Franz Moritz Hellmüller has been running the company as second generation CEO since September 1st, 2019. The founder, Franz Hellmüller, is still Chairman of the Board.

Helltec will continue to pursue qualified growth in the future by investing in its employees and the infrastructure. At the same time, it is constantly expanding its portfolio and corresponding know-how. Helltec is looking forward to the future challenges and a continued successful cooperation with Teleste.

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The partnership features trust and cooperation on all levels.

Teleste's system implemented in the SkyTrain rapid transit system in Vancouver

TransLink chose Teleste's passenger information system for its SkyTrain rapid transit system in Vancouver, Canada. TransLink is in charge of Metro Vancouver's public transit, major roads, bridges and trip planning. The solution included Teleste's ETL-certified RGB LED and TFT LCD information displays as well as separate passenger information management software. Teleste's information displays and the software used to control them were installed at 33 stations in the SkyTrain rapid transit network.

Teleste's solution provides TransLink with a versatile way of integrating the control of new information displays with its existing operating systems. The new displays convey real-time information to passengers, ensuring a smooth experience on the oldest and one of the longest automated driverless rapid transit systems in the world.

Teleste's system provides transit operators and authorities with a smart, modular solution for the delivery and management of passenger information. The system is designed for the communication of passenger information and multimedia content at stations and platforms as well as through websites and social media. The solution is fully based on online technology and it uses several data sources simultaneously to ensure that passengers always have access to accurate and real-time information.

Video security for motorways in France

APRR (Autoroutes Paris Rhin Rhône) Group chose Teleste's S-VMX video security solution to upgrade its motorway safety and surveillance infrastructure in France. Teleste's S-VMX system will be in charge of monitoring and securing the East & South of France Motorways network, including the motorways as well as car parks and rest areas. The project is expected to be delivered during 2019 and 2020, and the contract scope includes a 10-year maintenance agreement.

The system will be implemented by a consortium composed of Teleste and ENGIE Ineo, which is part of the leading worldwide energy provider ENGIE Group. APRR Group, a subsidiary of Eiffage, manages 2,323 kilometres of motorways and toll structures under concessions awarded by the French State. The Group also invests heavily in improving travel conditions on the motorways and satisfying customers' new mobility requirements.

Teleste's S-VMX video surveillance and S-AWARE® situational awareness platforms enable the building of security systems that will evolve alongside the changing needs of public authorities. In addition to the powerful video core, the systems have a wide range of intelligent features and functions for monitoring road use and managing situations in real time.

STADLER

On-board solutions for Stadler's EMUs in Stockholm

Stadler chose Teleste's on-board solutions for its EMU trains (Electrical Multiple Units) to be delivered to Stockholm. Stadler's trains will operate on the Roslagsbanan route connecting the northern and eastern regions of the Swedish capital.

The deliveries started in 2019 and the deployment will consist of an on-board solution for 22 trains. The agreement also includes an option for another 45 trains and is a continuation of the long co-operation between Teleste and Stadler. Based in Switzerland, Stadler is one of the world's leading train manufacturers.

Teleste's delivery to Stadler includes LED and TFT LCD information displays, driver control panels, internal and external video surveillance systems for trains, passenger counting, public address and emergency calls as well as an Ethernet network for each of the trains. Teleste's solution also offers smooth integration between on-board and central video surveillance systems. The on-board cameras provide 24/7 real-time video streams from the trains while recorders ensure that the material is reliably stored.

The solution enables access to real-time travel information for passengers, who can then plan their journeys in the manner that suits them best.

Fluvius upgrades its cable network with Teleste's optical nodes in Belgium

In February 2019, Fluvius selected Teleste as the preferred supplier for optical nodes. The Fluvius network will be upgraded to support the delivery of high speed broadband services according to the DOCSIS 3.1 standard. The frame agreement consists of more than 750 of Teleste's AC8810 intelligent 1.2 GHz nodes and its value is estimated to be approximately EUR 1.1 million. The deliveries have started in June of 2019 and will continue until the end of 2021.

Teleste's AC8810 optical nodes provide Fluvius with fibre-level data transmission capacity, cost-effective operation and high redundancy. Fluvius' public bidding process was based on the commercial proposal and the evaluation of the technical criteria, including features such as remote ingress switching, power supply reliability as well as user-friendly configuration.

Owned by 11 intermunicipal companies, Fluvius is the largest Belgian multi-utility operator that offers its services (a.o. the distribution network for electricity and natural gas) to homes and businesses through a network of pipes and cables throughout the entire Flanders region. The cable-access network has approximately 500,000 homes passed and the cable infrastructure in now being upgraded to ensure its capability to provide high speed data transmission services to the subscribers connected to the network.

Fluvius was created in 2018 when the two main multi-utility companies in the Flanders region, Eandis and InfraX, merged. Its utility services cover all of the 300 Flemish municipalities.

The AC8810 optical node platform supports DOCSIS 3.1 frequencies and is an intelligent optical node platform with advanced technical features delivering real customer benefits in terms of capacity performance and redundancy. Besides cutting edge capacity performance, the node is also easy and economical to operate. For example, its power save technology helps operators to reduce power consumption in response to channel load changes in order to achieve lower network operating costs and a smaller CO_2 footprint.

Please visit our website for more information about the AC8810 node.

Fibre to every new Persimmon Group home

Persimmon, the largest home builder in the UK, recently formed an ISP (Internet Service Provider), FibreNest to drive home sales and incremental revenues. As a new entrant, FibreNest turned to Teleste as an established leader in FTTX.

FibreNest said "We needed a partner with broad design experience, an agile and flexible approach to working, and a clear focus on quality. Not just network design, but quality designs within rapid timescales, which we could consistently rely on to be right first time."

Using the latest QGIS technology, ANS' in-house team of specialists tailored software to produce planning documentation, comprising civils and cabling drawings, bill of materials (BOMs), premise data records and straight-line drawings (SLDs). A dedicated Planning Manager kept in constant contact with the FibreNest team, including site visits to assess and evaluate designs and reflect improvements on an ongoing basis.

To date, Teleste has delivered designs for 300 new developments nationwide, successfully providing connectivity to 47,000+ homes and remains FibreNest's sole planning partner

We are motivated by challenges and inspired by technology

MEGATREND

Megatrends guide strategy work

Teleste's strategy aims to respond to various major global patterns, in other words, megatrends. Of these megatrends, digitalisation, the fast pace of technological development, urbanisation, climate change and globalisation have the most significant impact on Teleste's business. Megatrends affect the everyday life of all of us. They promote increasing demand for Teleste's products and services. However, at the same time, there are uncertainties in the market that may have a negative effect on demand or Teleste's competitiveness. The continuously updated strategy takes into account the opportunities and threats posed by megatrends.

DIGITALISATION GAINS GROUND

Digitalisation and the accelerating development of technologies will have an important role in tomorrow's world. The internet is growing in importance every day. People's needs and quality requirements are increasing, and the ways in which it is used are changing. Video and electronic data transfer are increasing and expanding into new areas. In fact, most of the content published on the internet is already in video format. This change means that operators will have to invest in increasingly efficient high-quality broadband networks and in ensuring 24/7 service. Advanced networks also enable operators to provide a broader range of services.

RAPIDLY PROGRESSING TECHNOLOGICAL DEVELOPMENT

Technological development is changing the world at an accelerating pace and to an increasing extent, and video and data transfer technologies are also continuing to develop swiftly. New technologies, such as 5G mobile technology and distributed architecture in optical fibre and coaxial cable networks, enable a better user experience and new ways of building networks. Smart technology is added to networks to enhance capacity use and improve the quality experienced by the user. In the network, smart features are coming closer to the user.

In addition, the number of terminal devices connected to the network will increase with more diverse uses along with the Internet of Things (IoT) becoming more common. When, for instance, home electronics, industrial manufacturing equipment and nursing home monitoring systems are connected to the network, they will gather and produce an enormous amount of data, which will further increase the quality requirements set for the network. The devices also talk to each other and with their users. Interactivity generates new kinds of commercial activity and earning models.

ACCELERATING URBANISATION

The history of urbanisation is a long one, but today urbanisation is progressing at an accelerating pace. Increasingly compact urban environments contribute to expanding traffic volumes and may strengthen the feeling of insecurity caused by our individualistic society. In new urban environments, it is essential to develop public transport and ensure safety, particularly in public spaces. Public transport helps to reduce traffic emissions and, therefore, also to slow down climate change. Urbanisation and globalisation also escalate the occurrence of various disturbance factors, which increases the need for surveillance. As more and more threats and needs arise, ensuring the functioning of society will increasingly be based on situational awareness instead of surveillance.

GLOBALISATION TRANSFORMS THE MARKET

Globalisation, i.e. worldwide networking, increases interdependencies between different actors and also interactions between development trends. For a long time now, in the company sector, globalisation has intensified international competition for markets and factors of production, which can be seen as continuously increasing efficiency requirements. This trend often favours a larger company size. In economic policy, the change in regional power relationships is a notable development. Traditionally strong markets, such as Europe and North America, are levelling off, while Asia and Asian companies are on the rise. The long-continued efforts to remove barriers to trade have promoted globalisation. On the other hand, the development has recently reversed, demonstrating increased protectionism.

Teleste's strategy

VISION

BEST PARTNER FOR NETWORKED SOCIETY

MISSION

OUR MISSION:
We make your everyday life smart, safe and smooth.

STRATEGY

- Grow Distributed Access Architecture business
- Entering the US market
- Become market leader for Public Transport solutions
- Commercial success with Video Security and Situational Awareness
- Develope operational performance in services business
- Passionate professionals

PRODUCT STRATEGY

FACTORS CONNECTING BUSINESS AREAS

	Network Products	Video Security and Information	Network Services
TECHNOLOGY	•	•	
CUSTOMERS	•		•

VALUES

CUSTOMER-CENTRICITY RESPECT RELIABILITY RESULT ORIENTATION

TECHNOLOGY AND SOLUTIONS

Luminato video headend at the core of linear television

Teleste has a track record of more than 40 years in designing and manufacturing video headend products. Video headends continue to play an important role in operators broadcasting linear television channels to consumers. Over the years, Teleste's current modular Luminato video headend solution has been sold to more than 70 countries. From the beginning, the global success of Luminato has been driven by Finnish quality combined with in-house product development and the ability to recognise customer requirements as a key aspect of the arc of product development.

Over the past ten years, there has been progress on many fronts in linear TV broadcasting. The transition from standard-definition (SD) channels to high-definition (HD) channels is already well under way, with Ultra HD (UHD/4K) channels now being introduced alongside them. The improvements in picture quality have been parallelled by growth in the number of channels. The increased number of channels and improved picture quality place greater demands on the capacity of video headend architecture. At the same time, there are requirements for lower electricity consumption and reduced need for space at the operators' premises. These are among the challenges that Teleste has focused on in the renewal of the Luminato headend solution.

NEW LUMINATO 4X4 LAUNCHED

The year 2019 was a very busy period due to the launch of the new Luminato 4X4 product. The product was launched in various markets and the availability of the desired features was ensured while the production function prepared for customer deliveries. Customer deliveries began as planned in December 2019 in Europe, Latin America and China.

READY FOR DISTRIBUTED ARCHITECTURE

The transition from traditional hybrid (HFC) networks to distributed access architecture (DAA) will influence the role of video headend platforms. The common factor between different network technologies is the need for the continued provision of linear television services, which means that future compatibility with various networks will become increasingly important for video headend solutions. In the Luminato 4X4 product, these new video headend needs arising from distributed access architecture have been taken into consideration right from the start. For operators, this enables the risk-free and cost-efficient upgrading of video headend platforms from traditional HFC network solutions to distributed access architecture solutions.

Watch a video presentation of the new Luminato **here**.

TECHNOLOGY AND SOLUTIONS

Teleste participates in the LuxTurrim5G+ project

In 2019, Teleste continued the development of a smart city ecosystem in the LuxTurrim5G project driven by Nokia, which has now entered its second phase. The first phase of the LuxTurrim5G project involved the successful development of a 5G smart light pole with an integrated 5G base station as well as weather and air quality sensors, video cameras, screens and a charging unit for electric cars. The second phase of project, LuxTurrim5G+, aims to expand the smart pole concept developed in the LuxTurrim5G project to create a smart pole ecosystem.

The LuxTurrim5G+ smart pole ecosystem will consist of 15 smart poles installed in Espoo's Kera district. The smart poles form a 5G microcell network that makes it possible to develop various services driven by 5G technology and deliver them to end users. The smart pole ecosystem will also include two smart bus stops by Teleste.

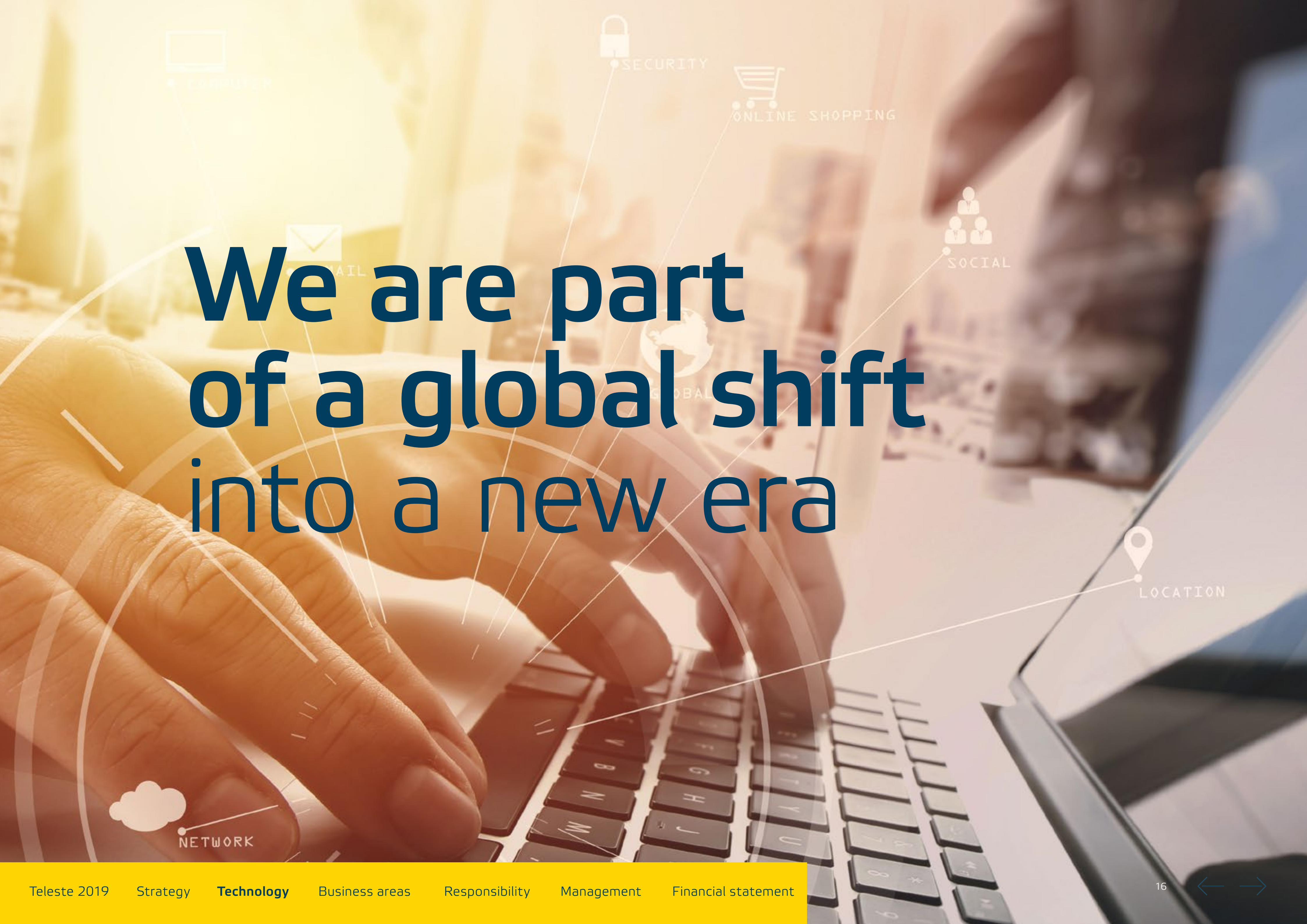
Teleste's bus stops are based on the innovative Connected Zone concept that turns bus stops into safe zones, allowing passengers to contact the control room via the Connected Zone mobile application when necessary. The situation and events at the bus stop can also be monitored in real time via the video security system integrated into the bus stop. The Connected Zone application can also be used in the LuxTurrim5G+ ecosystem outside the bus stops; for example, in individual smart poles.

In addition to applications that enhance the safety of urban environments and support smooth public transport, one of Teleste's focus areas of research in the LuxTurrim5G+ project is the use of the gigabit transfer capacity enabled by 5G technology in various information and video security solutions in public transport. The project will explore the use of gigabit transfer capacity in relation to 'Gigabit train' architecture, for instance, and in connection with the 'wireless offload' data transfer application patented by Teleste and included in the 5G standard.

The start of the LuxTurrim5G+ project coincided with the launch of the parallel Neutral Host project focused on the creation of data-driven business and services as well as issues related to the construction and operation of smart networks. The primary goal of the project is to define the service solution as well as various use cases and business models and to pilot the Neutral Host operating model in practice. Teleste plays a significant role in this joint project, particularly by enabling various services involving the use of video.

Teleste participated in several LuxTurrim5G+ events during the year, including Nokia's RadioActive!Days event and the Smart City expo in Barcelona. Teleste's ideas featured in these events have included the Smart City Dashboard concept, which illustrates what the control software for the smart city being developed in the LuxTurrim 5G+ project could look like in the future.

We are part of a global shift into a new era



VIDEO AND BROADBAND SOLUTIONS

Two-fold development

Video and Broadband Solutions business area is divided into Network Products and Video Security and Information business units. The business area's net sales rose to EUR 141.4 (138.7) million. Net sales decreased in access network products and increased in video security and information solutions. The operating result was EUR 8.1 (7.7) million, or 5.7% (5.6%) of net sales. Orders received decreased year-on-year by 5.8% to EUR 143.5 (152.3) million. Orders increased in video security and information solutions but decreased in access network products.

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 FttX 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.

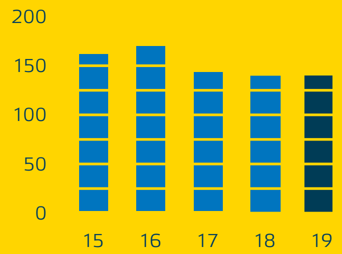
VIDEO SECURITY AND INFORMATION

Teleste delivers comprehensive modular video security and information solutions to public transport operators, train manufacturers and the public sector. Teleste's product portfolio covers a broad range of passenger information solutions, video security systems and situational awareness systems. Teleste's solutions are often joined together with other operational systems, such as traffic control, alarm and crisis management systems. Teleste has a strong market position among leading train manufacturers and public transport operators and in demanding video security projects. Teleste's main market areas are in Europe and North America.

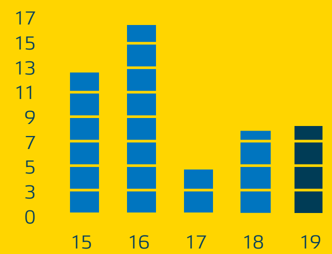
VIDEO AND BOARDBAND SOLUTIONS STRATEGY

- Growth from distributed architecture
- Entering us markets
- Profitable growth in video security and information solutions

Development of VBS net sales, Meur



VBS operating profit, Meur



VBS SHARE OF NET SALES

60.0%

VBS SHARE OF PERSONNEL

50.0%

NETWORK PRODUCTS

Technological transition delayed

The technological transition from HFC networks to the use of distributed access architecture did not happen yet during the year. While there was continued progress in the development and testing of products that represent the new technology, investments in distributed access architecture networks did not begin yet. Operator customers continued to upgrade their traditional HFC networks, but the sales volume in that category declined in line with expectations. Co-operation and discussions with the customers nevertheless strengthened the expectation that the transition to distributed access architecture will begin in the near future. For Teleste, the delays in the expected investments in distributed access architecture were reflected in a decrease in net sales in 2019, although HFC network upgrade projects continued and Teleste strengthened its market position in them. The impact of the delay in the technological transition was widely reflected throughout the industry, and Teleste came through the year more unscathed than many of its competitors. Teleste's strategy for access network products is focused on distributed access architecture solutions and entering in the North American market. The customers, namely telecommunications and cable operators, need to develop the capacity, quality and reliability of their networks in order to provide more comprehensive services and an improved user experience for their customers. Distributed access architecture enables the more cost-efficient development of an increasingly smart and powerful network.

TECHNOLOGICAL HEAD START

Teleste has been developing its expertise in distributed access architecture and related products for several years now, which gives the company a technological head start relative to the competition. The objective is to immediately achieve a strong market position when investments in the new technology begin, enter new markets and offer an increasingly comprehensive range of products to customers. Ensuring the compatibility of the products with existing network functions and devices has required a lot of work. Good progress was made in the testing and continued development of the products in 2019 with a number of operators and technology suppliers. Teleste has initiated co-operation with a growing number of potential partners, which is evidence of the substantial increase in interest in the company's products. Teleste's strong market position and reputation as a technology supplier in Europe and technological head start put the company in a good position to achieve success in the North American market. North America is home to the world's largest cable infrastructure market and network bandwidth is currently at full capacity. There is clear interest among the customer base for the adoption of distributed access architecture technology.

CHANGES AMONG CUSTOMERS AND COMPETITORS

The technological transition is also reflected among Teleste's customers and competitors. In Europe, mobile and cable operators have merged to a large extent to provide mobile services in addition to fixed network services. The adoption of distributed access architecture will enable the delivery of both services through the same optical network infrastructure, creating significant cost savings for operators. The technological transition will also bring about a change in the market by moving the intelligence of the network to Wide Area Networks, and individual players typically do not have the ability to deliver a comprehensive solution. This will lead to increasingly close co-operation between various operators - and even competitors - as well as the entry and exit of market players.

WAITING FOR INVESTMENTS

Expectations are high regarding the commencement of distributed access architecture investments within the next few years. At the same time, it is understood that projects to upgrade the traditional HFC networks are winding down. Teleste already has the capacity to deliver products that represent the new technology.

VIDEO SECURITY AND INFORMATION

A year of strong growth

The business area aims to grow at a rate that exceeds the market growth.

The strong development seen in the previous year continued in the video and information solutions business, which had a successful year in many ways. Net sales and profitability continued to improve. The order backlog remained strong throughout the year and project deliveries were executed according to plan. Thanks to the previously implemented restructuring measures related to passenger information systems functions and improving the efficiency of production, the quality and delivery reliability of the products remained good in spite of the higher production volumes. In video and situational awareness systems, progress was made according to plan and the offering was expanded to include motorway security solutions. Teleste's market position was strengthened and development in the public transport sector was particularly favourable.

Good progress was made in customer deliveries and new orders throughout the year. Growth was particularly accelerated by customers' investments in the development of public transport. In response to the strengthening of the order backlog and the positive outlook, the production capacity of passenger information devices was significantly expanded at the Forssa plant. Resources in product development and sales were also increased through recruitment. Requirements concerning system features are constantly growing and the systems are increasingly based on advanced technology and intelligent software, which means that IT and technological competencies are often emphasised in recruitment.

INNOVATION AND PROACTIVE QUALITY ASSURANCE

The business area's customers grew larger, as did the sizes of individual orders. The innovativeness and quality of products as well as Teleste's price competitiveness were highlighted in the customers' requirements. Systems feature increasingly advanced technologies that make use of real-time connections, a wide range of data and software platforms that can communicate with each other. In product development, the focus was on creating increasingly intelligent solutions. In addition to developing the offering, focus was particularly placed on proactive quality assurance, where the goal is to eliminate potential quality risks in the product design stage.

A RELIABLE PARTNER

The business area enters the year 2020 in a good position. The order backlog is high and customer interest in the offering indicates that new agreements are forthcoming. The market continues to grow and, particularly in Europe but also in North America, there is a high level of investment activity in public transport, which reduces traffic emissions and thereby helps mitigate climate change. Efficient public transport that utilises high-quality information and security systems enables safer, smoother and more eco-friendly mobility for people who live in urban areas.

Teleste has established a strong position among its customers through its innovative offering, high quality and delivery reliability. The company's good financial standing and reputation are increasingly important factors for customers in their choice of partners. The business area aims to grow at a rate that exceeds the market growth rate.

NETWORK SERVICES

Challenges in Germany

The development of the Network Services business varied between countries. In Germany, the largest country of operation, a substantial decline in net sales led to weaker profitability. The development measures previously initiated in the unit were continued, but operations could not be sufficiently adapted to the significant decline in sales, which reduced profitability. Development was favourable in the UK and Switzerland and stable in Finland, Belgium and Austria. The net sales of Network Services declined by 15.7 per cent to EUR 94.1 million (2018: 111.7). The operating result was EUR -0.3 million. The business area had 681 employees on average.

The largest units in the services business are in Germany, Switzerland and the UK. The decline in net sales in Germany was due to both a temporary reduction in work under the service agreement and the lack of separate customer projects, with there having been several project deliveries in the comparison period. In Switzerland, progress was made according to plan and profitable growth was achieved. In the UK, the decision was made to focus on the rapidly growing fibre-optic network design services and other high added-value services.

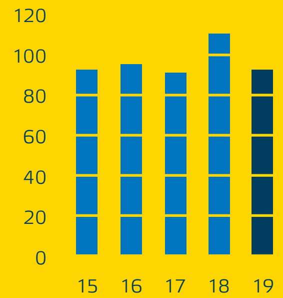
INTERNAL DEVELOPMENT PROGRAMMES

The strategic focus of the Network Services business is to improve profitability by developing the operational activities. Teleste's German subsidiary

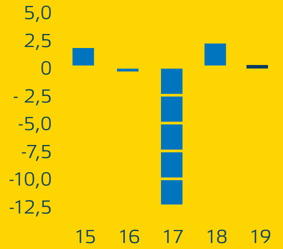
NETWORK SERVICES STRATEGY

- Improvement of productivity
- Development of innovative solutions

Development of NS net sales, Meur



NS operating profit, Meur



NS SHARE OF NET SALES

40.0%

NS SHARE OF PERSONNEL

50.0%

Cableway has had particularly significant challenges with profitability. To rectify the situation, Cableway negotiated a new three-year frame agreement in 2018 with its largest customer, Vodafone Germany, and launched extensive internal development programmes in 2017.

Progress has already been achieved by focusing on areas including real-time monitoring of efficiency and the strengthening of the organisation. Subcontracting needed for network construction has also been reduced by recruiting personnel to alleviate the situation in the overheated excavation market. Vehicle route planning has also been used to reduce fuel costs and the environmental footprint. Productivity improvement measures will continue, as cost-efficiency is still below set target levels.

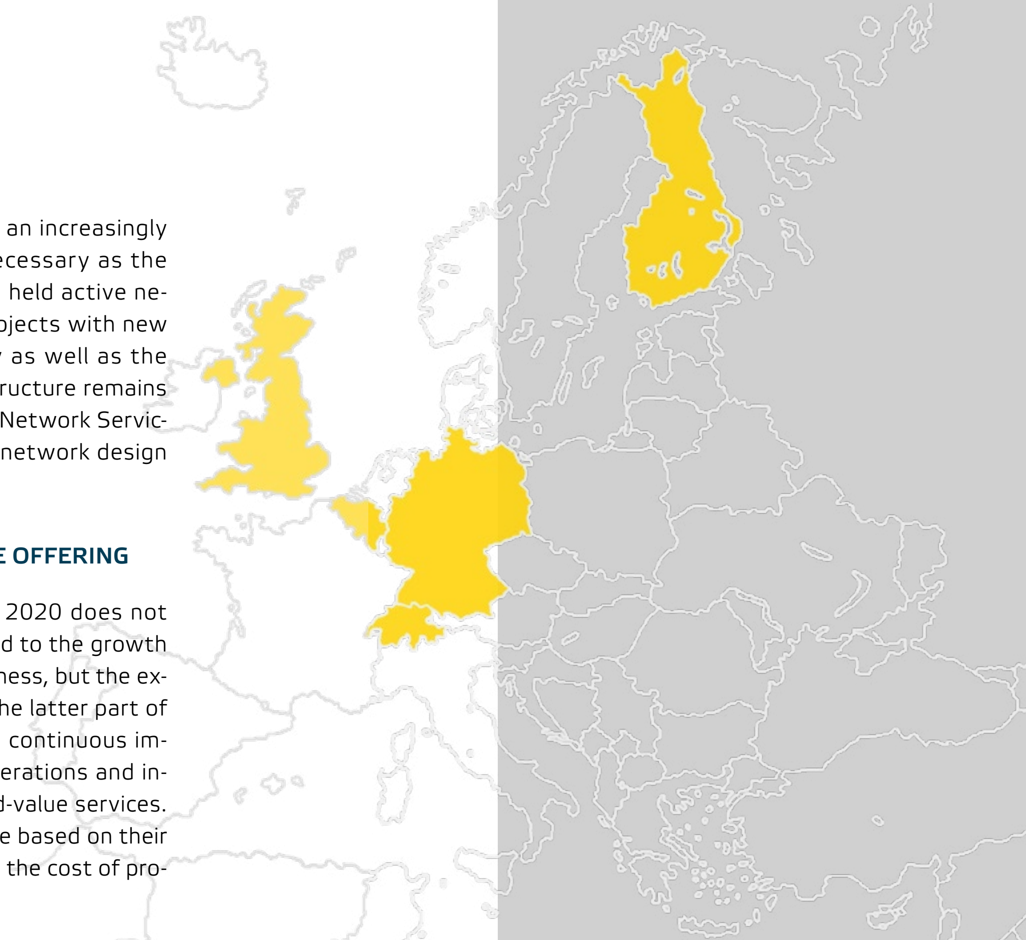
POTENTIAL FOR GROWTH IN GERMANY

While the performance in 2019 was disappointing, there is potential for growth in the German market. Vodafone's acquisition of Liberty Global's operations in Germany, which was signed in the summer, can create growth opportunities for Teleste due to its strong position as a service provider for Vodafone. Vodafone's acquisition will double its network capacity in Germany. The transaction is still pending approval by the authorities.

The need to start network investments within the coming years is also apparent in other markets, and Teleste's strong reputation supports its position in the competition for these projects. In addition to network maintenance, Teleste's service offering also covers network design and construction, which are areas where an increasingly high level of expertise will be necessary as the technology develops. Teleste has held active negotiations on fibre installation projects with new potential customers in Germany as well as the UK, where the use of fibre infrastructure remains low. Teleste's subsidiary Flomatik Network Services Ltd is a significant provider of network design services in the UK.

DEVELOPMENT OF THE SERVICE OFFERING

The outlook for the early part of 2020 does not promise a quick change with regard to the growth or profitability of the services business, but the expectations are more positive for the latter part of the year. The focus will be on the continuous improvement of the efficiency of operations and increasing the share of higher added-value services. The pricing of these services can be based on 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 operators across Europe. Our customers are often the leading players in their countries, and they aim to make new services available to their subscribers, including high-speed Internet access, pay TV, video-on-demand and telephony. Network Services operates in Germany, the UK, Finland, Switzerland and Belgium.

PERSONNEL

Employees are a key resource for Teleste

Teleste's mission is to build a networked society to make life smart, safe and smooth 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.

Employees are one of Teleste's most important resources. Investing in employees is how we ensure our competitiveness now and in the future. Teleste is an international player that offers challenging and diverse duties for its employees. The company provides its employees with the opportunity to develop their expertise among the leading professionals in their industry, both in Finland and internationally. Well-being at work springs from a pleasant working environment, meaningful tasks and a good work-life balance. At the end of 2019, Teleste had 1,330 employees (2018: 1,353). Teleste's field of operations is very international and the company has offices in 20 countries.

Teleste's HR strategy was revised in autumn 2018 and remained unchanged in 2019. The three key targets of the strategy are good leadership, skilled and motivated employees and appropriate HR tools for all Teleste employees and supervisors. A new Senior Vice President, People and Competence, was appointed to Teleste's Management Group in 2019. The aim is that the newly established position will provide even better support for the achievement of the targets of the HR strategy.

LOCAL INTERNATIONAL PLAYER

Teleste is an international technology company that takes local requirements into account. Because of Teleste's global business environment, international activities are part of Teleste employees' everyday work, and this enables the sharing of best practices. Compliance with the standards

Personnel

At the end of December 2019, Teleste had 1,330 employees (2018: 1,353). Teleste's field of operations is very international and the company has offices in about 20 countries. In terms of the number of employees, the largest Teleste countries are Germany (37%) and Finland (35%).

Personnel by location

36%	64%
IN FINLAND	IN OTHER COUNTRIES

People strategy

Focus area
Line Manager support

Goal
Excellent people leadership

Focus area
Employee experience

Goal
Competent and passionate Telestians

Focus area
Processes and performance

Goal
Smart and harmonized HR processes

and quality requirements of HR activities is assessed by annual audits.

Teleste's HR management consists of a network that is present in seven countries, providing global support for teams and supervisors in countries in which Teleste does not have very many employees. The Group-wide HR indicators have been developed further and new indicators have been created to support decision-making. The HR network connects the offices to one another and creates a framework for joint development of HR activities, taking into account local needs and the global HR strategy.

WE LISTEN TO OUR PERSONNEL

An excellent employee experience is one of the key goals of the dialogue between the company and its employees. Teleste takes an active approach to keeping employees aware of personnel-related issues by taking advantage of its extensive HR network and Intranet tools as well as daily communication. In 2019, Teleste measured the employee experience by conducting a global myPulse employee survey focused on topics such as the company culture, management, motivation and commitment. The response rate was high and the results were encouraging. Based on the results of the survey, local and global projects were initiated to pursue further progress in the relevant areas.

We organised our first Global HR Meeting during the year under review. The topics included an analysis of the results of the myPulse survey and the development of key HR processes. We have also increased our co-operation with the European Works Council through more active correspondence. To further improve dialogue, we launched a Site Manager concept in 2019. Under the concept, a Site Manager is designated for each of Teleste's business locations. The Site Manager's duties include local employee communications, promoting compliance with Teleste's values and maintaining contact with local stakeholders.

DEVELOPMENT OF EXPERTISE

The development of technologies, products and services, as well as the continuous improvement of the efficiency of our operations, require strong expertise, flexibility and a desire for continuous learning from the personnel. Teleste maintains a strong situational awareness of how its pre-defined strategic competencies correspond to its current business strategy, market requirements and the competence level of the personnel. This analysis helps determine the focus areas of competence development at the business unit level as well as the personal development plans of the company's employees.

In 2019, we launched six new online training programmes as well as product training programmes for the personnel on our eLearning platform. We also continued the Sourcing Academy programme for our sourcing professionals and facilitated the voluntary training activities of our employees at various educational institutions to increase their professional competence.

LEADERSHIP AND MANAGERIAL WORK

Good leadership and high-quality managerial work drive business success and help create a positive employee experience. Teleste aims to provide every employee with the opportunity to receive guidance in their work in accordance with the company's values and the employee's individual needs. To this end, the company carried out a project to define management principles based on the company's values. People from all levels of the organisation and several different countries participated in the effort. The aim of the definition of management principles and management training activities is to harmonise the company's global management practices. Several managerial training activities were carried out locally in 2019. Teleste's managers and supervisors also received feedback on their management performance as part of the myPulse survey.

PREFERRED EMPLOYER

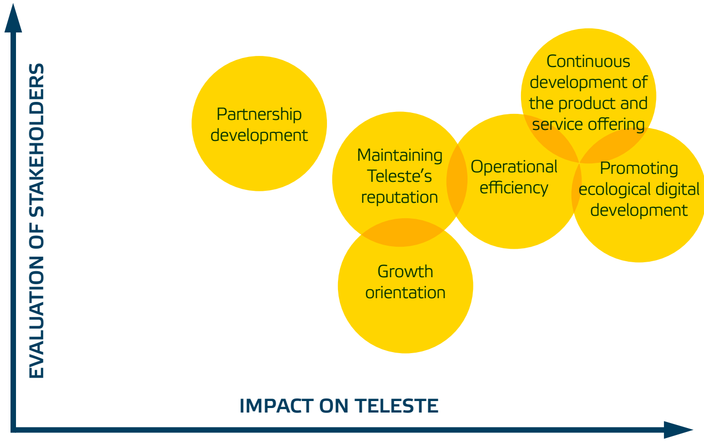
Teleste has a good reputation as an employer and potential applicants are particularly interested in Teleste's technological expertise and international business environment as well as the opportunity to develop with it. Our co-operation with educational institutions is designed to increase the company's visibility among potential employees, which ensures the availability of employees also in the future.

Teleste offers summer jobs, trainee positions and thesis writing opportunities for young people. The company has sought to increase awareness of Teleste as an employer both globally and locally by making active use of various communication channels. 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. Teleste uses performance-based and production bonus systems as well as share-based incentive schemes.

Promoting ecological and digital development

CORPORATE RESPONSIBILITY

Promoting ecological and digital development



Teleste is involved in building a networked world. The company's products and services make daily life safer, smoother, smarter and more ecological. In its own operations, Teleste adheres to its ethical guidelines and responsible operating practices. Good corporate citizenship means promoting sustainable development and increasing well-being in society.

Promoting corporate responsibility has been an ongoing process at Teleste, with a focus on various areas of responsibility, including economic, social and environmental responsibility. In 2018, the company started a process by which Teleste defined its most material themes of responsibility to enable the company to target its actions and investments in areas with the most significant impact with regard to corporate responsibility. The materiality assessment was based on a comparison of the importance of the various themes relative to the needs of Teleste's stakeholders and the future success of the company's business. The most significant themes identified in the materiality assessment were the continuous development of Teleste's products and services, promoting ecological and digital development as well as the efficiency of operations. Maintaining the company's reputation, developing partnerships and being growth-oriented were also highlighted as themes that serve Teleste's corporate responsibility goals.

Customer and user orientation, technological leadership and high quality are emphasised in Teleste's offering of products and services. The company strives to minimise the carbon footprint of its products and services, both in the production stage and over their full life cycle. The progress of digitalisation creates many opportunities for reducing environmental impacts and Teleste's offering supports the attractiveness of public transport in urban areas, for example.

Operational efficiency enables the company to observe its economic responsibility, which is ensured by maintaining Teleste's competitiveness, delivery capacity and cost-efficiency. Growth is supported by Teleste's strong brand and reputation, which are particularly important in new markets and as Teleste operates in partnership with increasingly large and international companies. Maintaining trust and co-operating with all of the company's stakeholders promotes the achievement of the shared goals.

Following the materiality assessment, the promotion of corporate responsibility will continue with the setting of targets and performance indicators as well as the creation of action plans.

Read more
https://www.teleste.com/investors/corporate-responsibility

The progress of digitalisation creates many opportunities for reducing environmental impacts.

Production process

DESIGN

Product development plays a key role in our consideration of the product life cycle environmental impact. 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. Environmentally conscious product design aims to reduce material volumes, cut energy consumption, extend the life cycle of the network infrastructure as a whole and improve product quality. Modularity is an important aspect in product design, and nearly all of the HFC access network products are modular.

The ICON9000 product designed for the North American market increases this modularity. The AC9100 NEO product can be upgraded as a distributed access architecture device by adding to the existing device a cover that introduces the new functionality. The Luminato 4X4 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, which also means a longer life cycle for the product. Teleste has also studied new power supply solutions for improved efficiency. These will be used in new distributed access architecture products. The power consumption of broadband networks increases along with the increasing capacity requirements. Operators are looking for new sustainable solutions to improve network performance and manage their power consumption. Teleste has incorporated solutions in network products that make it possible to decrease the power consumption of amplifier units when the overall load on the network decreases. In this way, network power consumption can be cut by as much as 20 per cent a year without risking the service level.

SOURCING

Teleste's international supplier network consists of suppliers from more than 20 countries. In direct purchases, 20 per cent of suppliers account for 80 per cent of all sourcing. 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.

Sourcing is divided into two main categories. Direct sourcing concerns the various components, products and services needed in the assembly of Teleste's own products. Indirect sourcing concerns goods and services that we use for our own business operations. Teleste always strives to ensure that materials come 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).

PRODUCTION

The most significant sources of environmental impacts in Teleste's manufacturing are energy consumption and the waste generated by the company's operations. Teleste's production operations consist of the manufacture, assembly 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 2018, JAPA activities were extended to cover employee processes, and the first office robotics applications have been implemented for the update of forecast and control parameters. In addition, Teleste applies the 5S method in its production. This method focuses on improving productivity by eliminating non-value-adding activities, improving quality and safety and creating a visually attractive, efficient workplace. The Recycling and reuse section includes more details about the sorting of waste.

LOGISTICS AND SERVICES

Our logistics management takes into account environmental questions and cost-efficiency alike, which are typically mutually supportive goals. Cost-efficient logistics often also results in the smallest carbon footprint. The carbon footprint arising from transport results mainly from the transport of materials and finished products. It is reduced by prioritising rail and sea transport in intercontinental logistics over air cargo and by consolidating shipments when possible. In 2019, we were able to reduce the CO2 emissions arising from air transport by as much as 29% compared to 2018.

In the service business, the main source of environmental impact is CO2 emissions from driving related to installation and servicing. The practices used by the company to reduce CO2 emissions include vehicle choices, efficient material resupply processes for installation units and route planning.

USAGE

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 bit/W, which is the amount of data transferred using one unit of energy. New DOCSIS 3.1 devices with an extended frequency range provide operators with the opportunity to achieve a better efficiency ratio.

RECYCLING AND REUSE

The sorting of waste at source is essential for efficient recycling and reuse. At Teleste, all waste generated is appropriately sorted for recycling. In 2019, the Group generated 151.7 tonnes of waste, of which 85.6 tonnes were used as material and 62 tonnes for power generation. Only 3.4 tonnes were taken to disposal sites.

Teleste's waste recycling rate decreased last year from 67 per cent to 57 per cent, but the total waste volume was reduced by 28 per cent.

Responsible supply chain

Sourcing Academy is an investment to Teleste's future.

THE AVAILABILITY OF COMPONENTS IS A CHALLENGE

In 2019, difficulties with the availability of certain passive components was a significant challenge in sourcing. The situation was caused by higher demand in the electric vehicle market and the 5G market as well as the expansion of the Internet of Things (IoT) concept to various product categories. This also led to a temporary rise in procurement prices. However, we were able to ensure the availability of components thanks to our strong supplier relationships and by seeking alternative sourcing channels. The typically long life cycles of Teleste's products nevertheless involve certain special requirements with regard to component life cycle management.

THE DIGITALISATION OF PURCHASING

Teleste uses a software robot that assists with operational purchasing and updates parameters in the ERP system without the need for routine manual tasks. This was the first step towards the digitalisation of purchasing. In 2019, Teleste continued to assess ways to automate other aspects of communication with suppliers, such as the updating of contact information, terms of delivery and various documents. The goal is to allow the sourcing team to focus more on expert work, such as serving product development and supplier development.

TRAINING PROGRAMME TO CONTINUE

The first stage of the Teleste Sourcing Academy was completed in 2019. Employees from the sourcing teams in various international subsidiaries were invited to participate in the training programme to provide all of the teams with the same level of know-how, inspire the exchange of ideas, strengthen the common operating models and promote co-operation across organisational and national boundaries. The next stage of the training programme will continue in 2020 with a special focus on supply chain management.

INTERNATIONAL SUPPLIER NETWORK

Teleste's international supplier network consists of suppliers from more than 20 countries. Co-operation with suppliers is based on annual contracts, a long-term approach and the principle of continuous improvement. The relationships with suppliers are steered and monitored by means of audits, supplier evaluations, the Teleste Supplier Code of Conduct, various guidelines concerning component logistics as well as supplier self-evaluations and meetings.

Sourcing is divided into two main categories. Direct sourcing consists of various components, semi-finished products and modules used in the production of Teleste's products. In direct purchases, 20 per cent of suppliers account for 80 per cent of all sourcing. Indirect sourcing concerns goods and services that Teleste uses for its own business operations.

Teleste's sourcing 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.

STRICT SELECTION CRITERIA

Supplier selection is based on Teleste's values: customer centricity, respect, reliability and result orientation. The aspects taken into account in supplier selection include technological know-how, the quality of products and deliveries, delivery reliability, operational ethics and cost efficiency.

Before engaging in more active co-operation, each new supplier fills in Teleste's comprehensive self-evaluation that consists of approximately 100 questions related to corporate governance, information security, occupational safety, corporate responsibility, compliance with law and environmental regulations as well as the organisation and its know-how and ability to innovate.

Teleste categorises suppliers into key, primary, approved and new suppliers. The category specifies the relationship and management model between Teleste and the supplier. Key suppliers and primary suppliers are evaluated annually, approved suppliers at three-year intervals and new suppliers at the beginning of the supplier relationship. Active evaluation of the supplier base and reviews of suppliers' business continuity plans are part of the supplier-related business continuity risk management.

ECOVADIS EVALUATES RESPONSIBILITY

Teleste always aims to ensure that all components and related materials are from responsible sources and that all suppliers observe international regulations and norms concerning human rights, corruption and bribery.

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). Teleste only purchases products and components that fulfil the requirements of the RoHS directive.

Teleste participated in the ECOVADIS business sustainability rating framework in 2019 and was awarded a silver medal in recognition of the company's achievements in the area of corporate social responsibility. The rating evaluates organisations with respect to the strength of their policies, actions and results under four themes: the environment, labour and human rights, ethics and sustainable procurement. Teleste scored particularly well in the assessment of sustainable procurement.

Board of directors

PERTTI ERVI

B.Sc. (Eng.), born in 1957
Chairman of the Board since 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–

JANNICA FAGERHOLM

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

Independent of Teleste and its significant shareholder.

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:
Sampo plc, Member of the Board 2013–, Vice Chairman of the Board 2019–

Hanken School of Economics, Member of the Board 2010–2018, Chairman of the Board 2019–

Kesko Corporation, Member of the Board 2016–

Veritas Pension Insurance Company, Member of the Board of Supervisors 2010–

JUSSI HIMANEN

M.Sc. (Industrial Engineering), born in 1972
Member of the Board since 2019

Independent of Teleste and its significant shareholders.

Principal occupation:
Ramboll Finland, Director Business Development 2018–

Primary working experience:

Comptel Corporation, Senior Vice President, Strategy 2012–2017

Nokia, Nokia Networks, Nokia Siemens, various positions 1998–2011

Sonera 1997–1998

VESA KORPIMIES

M.Sc. (Econ.), born in 1962
Member of the Board since 2019

Non-independent of a significant sharehol-ders, CEO and Board member in Tianta Oy.

Principal occupation:

EM Group Oy, CEO 2018–

Primary working experience:

Kymppi Group Oy, COO 2015–2017

Exel Composites Oyj, CEO 2008–2014

Exel Composites Oyj, several positions in Finland and in Germany 1987–2007

Main positions of trust:

Tianta Oy, CEO and Member of the Board 2019–

Efla Oy, Chairman of the Board 2018–

Meconet Oy, Member of the Board 2016–

Kymppi Group Oy, Member of the Board 2015–

Scanpole Oy, Member of the Board 2015–

TIMO LUUKKAINEN

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

Non-independent of a significant shareholders, Board member in Tianta Oy.

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:
Tianta Oy, Member of the Board 2018–

HEIKKI MÄKIJÄRVI

M.Sc. (Eng.), born in 1959
Member of the Board since 2018

Independent of Teleste and its significant shareholders.

Principal occupation:
Telia Ventures, CEO 2018–

Primary working experience:
Airbus Ventures, General Partner, 2015–2016

Deutche Telekom AG, Senior Vice President, Venture Capital & Group, Business Development and Venturing, 2011–2014

Openwave systems INC, Senior Vice President, Business Development, 2009–2011

Accel Partners, Venture Partner, 2002–2009

Cisco Systems, Technical Director & Business Development Manager, 1998–2001

Nokia, several management positions in Finland and in Germany, 1983–1998

Other elected positions of trust:
DNA Plc, Member of Board since 2017–, member of the Audit Committee since 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 Oyj, CEO 2005–

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

Kustannus Oy Aamulehti,
Deputy MD 2000–2001

Other elected positions of trust:
Tampere Chamber of Commerce and Industry, Member of the Board 2018–

Varma Mutual Pension Insurance Company,
Member of the Board 2009–,
Vice Chairman of the Board 2017–

Altia Group, Member of the Board 2016–

The management group

JUKKA RINNEVAARA

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

Joined Teleste in 2002

Primary working experience:

ABB Building Systems, Group Senior Vice President 2001–2002

ABB Installaatiot Oy, President 1999–2001

Other elected positions of trust:

Vaisala Corporation,
Member of the Board 2019–,
Member of the Audit Committee 2019–

Technology Industries of Finland,
Member of the Board 2019–

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 Network Services 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 2013

Member of the Management Group since 2013

Primary working experience:

Nokia Corporation, Business Controller and Director positions in Finance and Control 2000–2013

Ensto Saloplast Oy, Financial Manager 1998–2000

OMG Kokkola Chemicals Oy, Financial Manager 1994–1998

TUOMAS VANNE

M.Sc. (Military Science), People and Competence, Senior Vice President
Born in 1979

Joined Teleste in 2019

Member of the Management Group since 2019

Primary working experience:

Lidl Latvia and Estonia, Head of HR 2018–2019

Lidl US LLC, Senior Director – HR 2017–2018

Lidl US LLC, Director – Adminstration Organization 2016–2017

Lidl Finland Ky, Various HR related management positions 2012–2016

Finnish Defence Forces, Various officer positions 2004–2012

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:

Nokia Corporation, Various managerial positions 1996–2006

Teleste Corporation, Director, Sales/ Continental Europe 1989–1996

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

PASI JÄRVENPÄÄ

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

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 shareholders

TELESTE SHARE

Teleste Corporation is listed on Nasdaq Helsinki in the Technology sector and is quoted in the small 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 2019 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 2019, the low was EUR 5.04 (5.12) and the high EUR 6.80 (7.58). Closing price on 31 December 2019 stood at EUR 5.34 (5.26).

- Trading code TLT1V
- ISIN code FI0009007728
- Reuter's ticker symbol TLT1V.HE
- Bloomberg ticker symbol TLT1VFH

FINANCIAL RELEASES IN 2020

Teleste Corporation Financial Statement 2019 was released on 13 February 2020.

Other releases during 2020:

- Interim report January–March at 15 May 2020
- Half year financial report January–June at 13 August 2020
- Interim report January–September at 29 October 2020

Financial reports are published as stock releases. Publications are available on Teleste's website both in English and in Finnish.

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

Silent period

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

ANNUAL GENERAL MEETING

Teleste Corporation's Annual General Meeting (AGM) will be held on 22 April 2020, commencing at 4 p.m., in Helsinki Hall at Finlandia Hall in Helsinki, Mannerheimintie 13 e. Registration and distribution of voting tickets begins at 3 p.m.

Shareholders registered on the list of shareholders with Euroclear Finland Oy on 8 April 2020 are entitled to participate in the Annual General Meeting.

A shareholder who wants to participate in the meeting shall register no later than 15 April 2020 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,
e. P.O. Box 323, FI-20101 Turku, Finland.

PROPOSAL FOR DISTRIBUTION OF DIVIDEND

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 2019.

- Dividend ex date at 23 April 2020
- Dividend record date at 24 April 2020
- Payment of dividend at 4 May 2020

More information: **www.teleste.com/AGM**

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.

For more information:
www.teleste.com/investors

Teleste Corporation was listed on Nasdaq Helsinki 30 March 1999. Listing price was 8.20 EUR

Financial statements 2019

TELESTE

Contents

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, train manufacturers, public transport operators as well as public sector organisations. Our business is divided into two areas, which are Video and Broadband Solutions and Network Services. In both areas, we rank among the world's leading companies and technological forerunners.

The strategic priorities in 2020 include development of the distributed access architecture offering and launch of sales in the North American cable operator market; significant growth of net sales and continued improvement of the result of video security and information solutions; and development of operations and improved profitability in the services business in Germany. We believe that the measures we have chosen will ensure profitable growth also in the years to come.

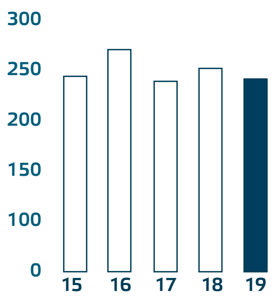
NET SALES AND PROFITABILITY

Orders received by the Group decreased by 10.0% to EUR 237.6 (264.0) million. Orders received decreased in access network products of Video and Broadband Solutions. Orders received decreased in the Network Services business area following the end of major customer projects at the end of last year. Orders received increased in passenger information solutions of Video and Broadband Solutions. The order backlog increased by 3.1% to EUR 73.2 (71.0) million. The order backlog increased in passenger information solutions of Video and Broadband Solutions. Net sales decreased by 5.9% to EUR 235.5 (250.3) million. Net sales decreased in the Network Services business area following the end of major customer projects at the end of last year.

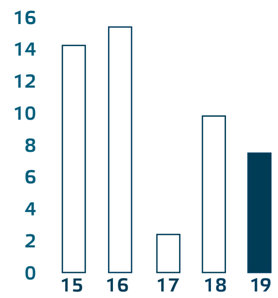
Adjusted operating result decreased by 20.7% to EUR 7.7 (9.7) million, representing 3.3% (3.9%) of net sales. Adjusted operating result decreased in access network products of Video and Broadband Solutions and following decreased net sales in the Network Services business area. Adjusted operating result increased in passenger information solutions of Video and Broadband Solutions. Operating result decreased by 92.1%, amounting to EUR 0.8 (9.7) million. The assets lost due to a crime committed against a foreign subsidiary and a provision for expenses associated with the handling of the case, totalling EUR 6.9 million, lower the operating result, but they have been eliminated from the adjusted operating result. The provision is reported as an item that is not allocated to the segments. A stock exchange release was issued regarding the crime on 6 March 2019. Some of the assets lost as a result of the crime were successfully recovered during the fourth quarter, and diverse measures to recover the lost assets and mitigate the final losses are still underway in different countries.

Expenses for material and production services decreased by 11.0% to EUR 122.8 (137.9) million. Personnel expenses increased by 0.2% to EUR 66.2 (66.0) million. Depreciation and amortization increased by 59.7% to EUR 9.6 (6.0) million. Depreciation recognised in accordance with IFRS 16, which was adopted on 1 January 2019, totalled EUR 4.3 million. The adoption of the new standard increased the operating result by EUR 0.3 million. Other operating expenses increased by 19.0% to EUR 38.7 (32.5) million. Other operating result include the above-mentioned adjustment, eliminated from the adjusted operating result. Net financial expenses decreased by 42.5% and were EUR 0.4 (0.7) million. The Group's taxes were EUR 2.0 (2.2) million. Adjusted earnings per share were EUR 0.31 (0.38) and earnings per share were EUR -0.07 (0.38).

Net sales,
Meur



Operating result, adjusted
Meur



BUSINESS AREAS

Video and Broadband Solutions

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

Video and Broadband Solutions has over 30 offices of its own and a number of retail and integration partners. Outside Europe it has subsidiaries and offices in the United States and China.

Orders received decreased year-on-year by 5.8% to EUR 143.5 (152.3) million. Orders received decreased in access network products and increased in video security and information solutions. Net sales increased by 1.9% to EUR 141.4 (138.7) million. Net sales increased in video security and information solutions, but declined in access network products. Operating result increased by 4.1% to EUR 8.1 (7.7) million and representing 5.7% (5.6%) of net sales. Operating result was improved by the increased net sales of video security and information solutions.

R&D expenses amounted to EUR 13.5 (12.5) million, representing 9.5% (9.0%) of net sales. Product development projects focused on distributed access architecture (including solutions designed for the US market), situational awareness and video security solutions, passenger information systems and customer-specific projects. Capitalised R&D expenses amounted to EUR 4.7 (4.8) million. Depreciation on capitalised R&D expenses was EUR 2.5 (2.2) 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. Teleste's competence covers an extensive range of services from cable network design, installation and maintenance to technical operation of networks. Teleste also uses its network of subcontractors to provide services. Teleste engages in services business in the markets of Germany, England, Switzerland, Finland, Belgium and Poland.

Orders received and net sales decreased by 15.7% and amounted to EUR 94.1 (111.7) million. Net sales decreased in Germany due to the end of a major customer project at the end of last year and the demand for services being lower than before. Operating result decreased by 117.5% to EUR -0.3 (2.0) million. The operating result decreased as a result of decreasing net sales in Germany but increased in England, where the focus was on higher-added-value services.

INVESTMENTS

Investments by the Group totalled EUR 13.0 (7.0) million, representing 5.5% (2.8%) of net sales. Of the investments, EUR 4.7 (4.8) million were related to product development. Other investments included EUR 2.1 million of investments in increasing service production capacity in Germany. New leases reported in accordance with IFRS 16, which was adopted on 1 January 2019, increased investments by EUR 4.3 million. Product development projects focused on distributed access architecture (including solutions designed for the US market), situational awareness and video security solutions, passenger information systems and customer-specific projects.

FINANCING AND CAPITAL STRUCTURE

Cash flow from operations was EUR 4.1 (15.0) million. Cash flow from operations was reduced by lower advance payments from customers compared with the exceptionally high level of the reference year, an increase in inventories and the loss of assets due to a crime against a foreign subsidiary.

Teleste Corporation has credit and loan facilities with a combined total value of EUR 50.0 million. The five-year loan facility of EUR 30.0 million will mature in August 2022. The loan is repaid in annual instalments of EUR 3.0 million. The EUR 20.0 million credit facility will run until the end of August 2020. At the end of the period under review, the amount of unused binding credit facilities was EUR 20.9 (20.0) million. On 31 December 2019, the Group's interest-bearing debt stood at EUR 33.0 (26.8) million.

The Group's equity ratio was 49.5% (51.7%) and net gearing ratio 34.1% (5.9%). A total of EUR 8.1 million was recognised in interest-bearing debt in accordance with the IFRS 16 standard, which was adopted on 1 January 2019. IFRS 16 had the following effect on key figures at the end of the period under review: equity ratio -2.9 percentage points and net gearing ratio +11.2 percentage points.

CORPORATE RESPONSIBILITY AND REPORTING OF NON-FINANCIAL INFORMATION

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

Teleste participated in the ECOVADIS business sustainability rating framework in 2019 and was awarded a silver medal in recognition of the company's achievements in the area of corporate social responsibility. The rating evaluates organisations with respect to the strength of their policies, actions and results under four themes: the environment, labour and human rights, ethics and sustainable procurement. Teleste scored particularly well in the assessment of sustainable procurement.

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

Social and personnel-related issues

In the period under review, the average number of people employed by the Group was 1,363 (1,393/2018, 1,492/2017); of these, 682 (700) were employed by Video and Broadband Solutions and 681 (693) by Network Services. At the end of the review period, the Group employed

1,330 people (1,353/2018, 1,446/2017), of whom 64% (65%/2018, 65%/2017) were stationed abroad. Approximately 2% of the Group's employees were working outside Europe. Personnel expenses increased by 0.2% year-on-year to EUR 66.2 (66.0/2018, 69.4/2017) million. The change in personnel expenses was attributable to a decrease in the number of personnel, wage increases and capitalisation of R&D costs. The average number of personnel decreased by 2.1%. The number of personnel decreased in both Video and Broadband Solutions and Network Services.

Operating principles

Teleste supports diversity and equality. Teleste employees represent various backgrounds, nationalities and cultures, but they share the same values: customer-centricity, respect, reliability and result orientation.

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

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

The results of adherence to the operating principles

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

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

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

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

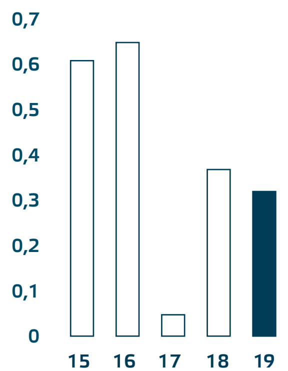
Risks

The key risks related to HR functions include ensuring the availability of professionally competent software developers and the retention of key employees as well as ensuring the competence of operations personnel. Teleste strives to minimise these risks by maintaining a positive employer image and modern recruitment practices as well as by ensuring the high-quality implementation of competence development. The operating guidelines governing the global HR functions are updated regularly and the company also monitors market practices and changes in legislation. To reduce risks related to social responsibility, Teleste ensures that its chosen partners operate responsibly and in accordance with Teleste's values and principles.

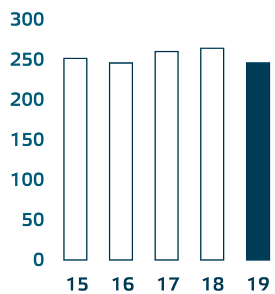
Key indicators

Teleste has Group-wide HR indicators to measure performance in areas such as well-being at work, sickness absences, costs, fluctuation and the number of measures that support the development of employee competence. Globally, the company has over 1,300 employees at more than 20 offices. In terms of the number of employees, the largest Teleste countries are Germany (38%) and Finland (36%). The average age of personnel was 41 years. Men represented 81% of Teleste's personnel and women 19%. Other key global indicators included the following: Teleste hired 118 new employees with indefinite contracts (FTE), cumulative fluctuation was 11.2%, the workplace accident frequency rate was 3.8 accidents per one million working hours and the absence rate due to illness was 3.2%.

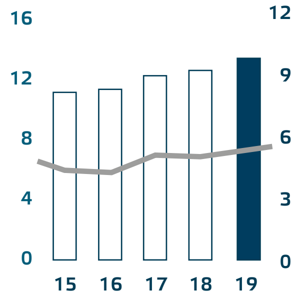
Earnings per share, adjusted
Eur



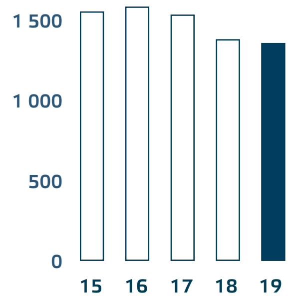
Orders received,
Meur



R&D expenditure,
Meur % of Net Sales



Average Personnel



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

Environmental issues

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

Teleste's Management Group has specified environmental targets for the years 2019 to 2021 on the basis of the environmental policy, risk assessment and environmental considerations. The targets are related to emissions from air cargo, the life cycle power consumption of products and the energy consumption of the company's own operations. Teleste's Management Group regularly monitors the achievement of the environmental targets. In 2019, environmentally favourable development was promoted by the driving route optimisation system used in the services business, carrying out maintenance actions and software updates remotely and making even more determined efforts to increase the use of remote meetings. Environmental awareness among Teleste employees has been increased by organising training on the subject.

Environmental targets and indicators

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

- include a power saving feature in 65 per cent of new network products installed outdoors [100%],
- reduce energy consumption in properties by 10 per cent compared with the 2018 level [+4%],
- reduce the carbon footprint from air cargo below the level of 2018 [-29%].

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

Energy consumption by the Group consists of the consumption of electricity and heating energy. The monitoring of energy consumption was improved during the year to cover a growing number of operating locations.

Total energy consumption increased by 4% from the previous year. Electricity consumption amounted to 4.8 GWh and heating energy consumption to 2.8 GWh. The company aims to use energy generated using renewable energy sources whenever possible. For instance, 100% of the electricity purchased for the largest office and plant is generated using wind power. The planned LED lighting of production premises will be trialled in 2020.

The CO_2 emissions of air cargo decreased by 29% compared to 2018 and amounted to 148,000 kg. The number of shipments decreased, but the company was also able to increasingly switch from air cargo to more environmentally friendly shipping methods.

Recycling and reuse in 2019

The total amount of waste generated by the Group declined by 15% from the previous year. The decrease was attributable to the material and product disposals carried out in the previous year as well as the lower production volume.

The amount of recycled material decreased, while the quantity of waste directed to energy production remained largely unchanged. The waste recycling rate decreased from 67% to 57%. The amount of waste taken to disposal sites decreased by 47%.

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

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

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

Prevention of corruption and bribery and respecting human rights

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

Everyone at Teleste must observe the company's Code of Conduct and its principles in their work. To this end, the Code of Conduct has been published in six different languages to ensure that it is easy to read and understand by all of the company's employees. Teleste introduced an online course on the updated Code of Conduct immediately after its publication. Completing the course is mandatory for all Teleste employees and the company actively monitors the relevant statistics. The goal is for every Teleste employee to have completed the online training by the end of 2020. The Code of Conduct is communicated to new employees when they join the company.

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

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

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

Risks related to human rights, corruption and bribery

Teleste has assessed the risks of its business operations, but the company has not conducted a separate risk assessment concerning corruption, bribery and human rights issues.

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

Teleste has not identified particular risks related to corruption and bribery in its normal risk management processes. Teleste has confirmed its principles and approach concerning corruption and bribery in its Code of Conduct. Teleste takes corruption and bribery seriously. New policy-level guidance will be issued in 2020, and the company will also provide training to Teleste employees belonging to risk groups in this respect.

GROUP STRUCTURE

The parent company has a branch office in the Netherlands and subsidiaries in 14 countries outside Finland.

KEY RISKS FACED BY THE BUSINESS AREAS

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

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

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

Various information systems are critical to the development, manufacture and supply of products to our customers. The maintenance of information systems and deployment of new systems involve risks that may affect our ability to deliver products and services. Information systems are also exposed to external threats and we strive to protect ourselves from these threats through technical solutions and by increasing the security competence of our personnel. Teleste Group may also be targeted by illegal activities and fraud attempts that could have a significant effect on the financial result. The Group strives to minimise these risks by continuing to develop good governance practices and increasing the security competence of its personnel. Recruiting and maintaining skilled personnel requires encouragement, development and recruitment efforts, which can fail.

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

On 23 December 2016, a competitor of Teleste filed two complaints against Teleste Limited, demanding damages from the company for the infringement of two patents. Teleste has denied the patent infringements. The disputes were resolved by court decisions issued on 29 January 2019 and 18 November 2019, which were favourable for Teleste and resulted in the annulment of the competitor's patents. Teleste's competitor has not appealed the decisions, so they are legally valid. The results of these litigations do not have a material effect on Teleste's financial position. Due to the favourable outcomes, Teleste retains its right to market and sell its products to customers in all of its market areas.

DECISIONS BY THE ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) of Teleste Corporation held on 4 April 2019 adopted the financial statements and consolidated financial statements for 2018 and discharged the members of the Board of Directors and the CEO from liability for the financial period 2018. The AGM confirmed the dividend of EUR 0.20 per share for the year 2018 as proposed by the Board. The dividend was paid on 15 April 2019 on shares other than own shares held by the company.

The AGM decided that the Board of Directors shall consist of seven members. Pertti Ervi, Jannica Fagerholm, Timo Luukkainen, Heikki Mäkijärvi and Kai Telanne were re-elected as members of Teleste Corporation's Board of Directors, and Jussi Himanen and Vesa Korpimies were elected as new Board members. Pertti Ervi was elected Chair of the Board in the organising meeting held after the AGM on 4 April 2019. Jannica Fagerholm was elected Chair of the Audit Committee, with Pertti Ervi and Vesa Korpimies elected as members.

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

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

The Annual General Meeting decided to authorise the Board of Directors to decide on issuing new shares and/or transferring the company's own shares held by the company and/or granting special rights referred to in Chapter 10, Section 1 of the Limited Liability Companies Act, in accordance with the Board's proposal. The new shares may be issued and the company's own shares held by the company may be conveyed either against payment or for free. New shares may be issued and the company's own shares held by the company may be conveyed to the company's shareholders in proportion to their current shareholdings in the company, or by waiving the shareholder's pre-emption right, through a directed share issue if the company has a weighty financial reason to do so. The new shares may also be issued in a free share issue to the company itself.

Under the authorisation, the Board of Directors has the right to decide on issuances of new shares and/or transferring the Company's own shares held by the Company, so that the maximum total number of shares issued and/or transferred is 2,000,000. The total number of new shares to subscribe for under the special rights granted by the Company and own shares held by the Company to be transferred may not exceed 1,000,000 shares, which number is included in the above maximum number concerning new shares and the Group's own shares held by the Company.

The authorisations are valid for eighteen (18) months from the resolution of the Annual General Meeting. The authorisations override any previous authorisations to decide on issuances of new shares and on granting stock option rights or other special rights entitling to shares.

SHARES AND CHANGES IN SHARE CAPITAL

On 31 December 2019, Tianta Oy was the largest single shareholder with a holding of 23.2%.

In the period under review, the lowest price of the company's share was EUR 5.04 (5.12) and the highest price was EUR 6.80 (7.58). The closing price on 31 December 2019 stood at EUR 5.34 (5.26). According to Euroclear Finland Ltd, the number of shareholders at the end of the period under review was 5,515 (5,531). Foreign and nominee-registered holdings accounted for 6.1% (6.2%) of the shares. The value of Teleste's shares traded on Nasdaq Helsinki from 1 January to 31 December 2019 was EUR 9.2 (13.3) million. In the period under review, 1.6 (2.0) million Teleste shares were traded on the stock exchange. Teleste's share is quoted in the technology section of Nasdaq Helsinki.

On 4 April 2019, Teleste Corporation's Board of Directors decided on a directed share issue without consideration, relating to the payment of the reward for the 2016-2018 performance period of Teleste Group's share-based incentive plan 2015. In the share issue, a total of 22,361 Teleste Corporation shares in the possession of Teleste Corporation were conveyed without consideration to key persons included in the share-based incentive plan, in accordance with the terms of the plan. On 31 December 2019, the Group held 798,821 (821,182) of its own shares, all held by the parent company Teleste Corporation. At the end of the review period, the Group's holding of the total number of shares amounted to 4.2% (4.3%).

On 31 December 2019, the company's registered share capital stood at EUR 6,966,932.80, divided into 18,985,588 shares.

Valid authorisations at the end of the review period:

- The Board of Directors may acquire 1,200,000 own shares of the company otherwise than in proportion to the holdings of the shareholders with unrestricted equity through trading on the regulated market organised by Nasdaq Helsinki at the market price of the time of the purchase.
- The Board of Directors may decide on issuing new shares and/or transferring the company's own shares held by the company, so that the maximum total number of shares issued and/or transferred is 2,000,000.
- The total number of new shares to subscribe for under the special rights granted by the Company and own shares held by the Company to be transferred may not exceed 1,000,000 shares, which number is included in the above maximum number concerning new shares and the Group's own shares held by the Company.
- These authorisations are valid until 3 October 2020.

OWNERSHIP BY MANAGEMENT AND MEMBERS OF THE GOVERNING BODIES ON 31 DECEMBER 2019

On the balance sheet date, the CEO and Members of the Board owned 182,853 (167,397) Teleste Corporation shares equal to 0.96% (0.88%) of all shares and votes. The CEO and the Board members did not have subscription rights based on stock options. On the balance sheet date, the members of the Management Group or entities under their control excluding the CEO owned 52,948 (43,063) Teleste Corporation shares equal to 0.28% (0.23%) of all shares and votes.

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

OPERATING ENVIRONMENT IN 2020

The business objective of Video and Broadband Solutions is to maintain its strong market position in Europe and to strengthen this market position particularly in Northern America.

Demand for broadband services by cable operators continues to grow. The capacity of household broadband services is estimated to grow by 30-40% a year. European cable operators have been able to competitively respond to the increasing demand by investing in DOCSIS 3.1 standard-compliant 1.2 GHz frequency range network upgrades. Investments in expansion of the traditional HFC network infrastructure frequency range continue, but with a lower volume. Operators are already planning investment in next-generation distributed access architecture network solutions. For years now, the cable industry, including Teleste, has been preparing for the next technology wave with which investment in cable network infrastructure can be competitively continued also in the years to come. Teleste will continue to invest in the development of expertise and new technology as well as customer projects. Operators' investments in distributed access architecture have been delayed compared with previous schedule estimates. According to our estimate, operators' distributed access architecture deployment projects will commence during the second half of 2020. Transformation to distributed architecture provides Teleste with growth opportunities, but it also involves risks. Growth is enabled by the increased value of access network optical products as well as the possibility to use the technological transformation to expand business into the North American markets. Achieving interoperability with the cable network central systems is the most significant risk. We estimate that net sales from access network products in 2020 will be on par with the previous year, including the launch of distributed architecture product sales. Net sales are estimated to decrease early in the year and begin to increase late in the year.

Ensuring safety in city environments, increase of public transport services and the increasing popularity of smart digital systems for a smoother life provide a foundation for growing business. Public transport operators and other authorities must ensure smooth operation of services and infrastructure as well as the safety of people. The public transport information systems market as well as video security and situational awareness systems market are expected to continue to grow in 2020. Public transport information systems are developing to be increasingly smart and real-time. Video security solutions are becoming increasingly smart, including pattern recognition and artificial intelligence. Furthermore, a need is arising in the market for comprehensive situational awareness systems that include management of other sensor-level data flows in addition to video image and automate operating processes in exceptional situations. Ensuring competitiveness requires Teleste to continuously make R&D investments in new intelligent solutions. In addition, it is necessary to improve the productivity and cost-efficiency of business. Teleste increased its market share in video security and information solutions during 2019, and 2020 starts with a high order backlog level. Characteristic for the business, a considerable proportion of deliveries will be distributed over several years. We estimate that net sales for video security and information solutions will continue to increase in 2020 from the previous year.

In the Network Services business area, operators' network investments are expected to also increase the demand for services in the long term. The objective is to further develop the operational efficiency of Teleste's services business and increase the share of those services that provide our customers with higher added value. In our largest market area, Germany, we will continue to improve the efficiency of operations, strengthen the capabilities of the organisation and renew the subcontractor network. In addition, we will invest in the continuous improvement of customer satisfaction. The timing of customers' projects in the biggest market, Germany, will have a particularly high impact on the net sales of the Network Services business area for 2020.

Estimating the outlook for 2020 is made more difficult by uncertainty over the timing of new distributed access architecture investments by operators and the level of the key customer's service demand in the German services business.

OUTLOOK FOR 2020

Teleste does not expect the company's net sales to deviate materially from the level of net sales for 2019 (EUR 235.5 million).

Adjusted operating result is expected to amount to EUR 6-10 million.

Proposal for the distribution of earnings

Teleste Corporation's distributable equity on the date of the financial statements amounted to EUR 48,559,168.83.

The Board of Directors proposes to the Annual General Meeting of 22 April 2020 that a dividend of EUR 0.10 per share be paid to outstanding shares for the year 2019.

Consolidated financial statement

Statement of comprehensive income

1,000 €	Note	1.1.–31.12.2019	1.1.–31.12.2018	Change, %
Net sales		235,458	250,346	-5.9
Other operating income	1	2,466	1,766	39.6
Material and services		-122,755	-137,905	-11.0
Employee benefits expense	2	-66,173	-66,014	0.2
Depreciation and amortisation	3	-9,550	-5,980	59.7
Other operating expenses	4	-38,677	-32,492	19.0
Operating profit		**769**	**9,721**	**-92.1**
Financial income	5	1,036	325	218.5
Financial expenses	6	-1,416	-986	43.6
Profit before taxes		**388**	**9,060**	**-95.7**
Income tax expense	7	-2,042	-2,219	-8.0
Profit for the financial period		**-1,653**	**6,841**	**-124.2**
Profit attributable to:	8			
Equity holders of the parent		-1,327	6,975	-119.0
Non-controlling interests		-327	-133	145.0
		-1,653	6,841	-124.2
Earnings per share for profit of the year attributable to the equity holders of the parent (expressed in € per share)				
Basic		-0,07	0,38	-119.0
Diluted		-0,07	0,38	-119.0
Total comprehensive income for the period (tEUR)				
Net profit		-1,653	6,841	-124.2
Items that may be reclassified to profit or loss:				
Translation differences		299	-241	-224.2
Fair value reserve		19	-3	n/a
Total comprehensive income for the period		-1,335	6,598	-120.2
Total comprehensive income attributable to:				
Owners of the parent company		-1,019	6,705	-115.2
Non-controlling interests		-316	-108	193.6
		-1,335	6,598	-120.2

Statement of financial position

1,000 €	Note	31.12.2019	31.12.2018	Change, %
Assets				
Non-current assets				
Intangible assets	9	12,907	11,268	14.5
Goodwill	9	30,668	30,573	0.3
Property, plant and equipment	10	17,038	8,601	98.1
Available-for-sale investments	11	645	561	14.9
Deferred tax assets	12	1,924	2,131	-9.7
		63,182	53,135	18.9
Current assets				
Inventories	13	37,409	32,833	13.9
Trade and other receivables	14	40,112	50,500	-20.6
Tax receivables	20	683	288	136.7
Cash and cash equivalents	15	8,249	22,240	-62.9
		86,452	105,861	-18.3
Total assets		**149,634**	**158,996**	**-5.9**
Equity and liabilities				
Equity attributable to equity holders of the parent				
Share capital	16	6,967	6,967	0.0
Share premium	16	1,504	1,504	0.0
Translation differences		-1,594	-1,570	1.6
Fair value reserve and other reserves		3,079	3,048	1.0
Retained earnings		62,618	66,691	-6.1
Owners of the parent company		**72,573**	**76,641**	**-5.3**
Non-controlling interests		**206**	**522**	**-60.5**
Total equity		**72,779**	**77,163**	**-5.7**
Non-current liabilities				
Interest-bearing liabilities	17	26,501	22,590	17.3
Other liabilities	19	79	81	-2.9
Deferred tax liabilities	12	1,603	1,607	-0.3
Provisions	18	93	266	-65.1
		28,275	24,545	15.2
Current liabilities				
Trade and other payables	19	39,238	51,089	-23.2
Current tax payable	20	1,283	966	32.8
Provisions	18	1,528	1,012	51.0
Interest-bearing liabilities	17	6,531	4,222	54.7
		48,579	57,288	-15.2
Total liabilities		**76,855**	**81,833**	**-6.1**
Total equity and liabilities		**149,634**	**158,996**	**-5.9**

Consolidated cash flow statement

1,000 €	Note	**1.1.–31.12.2019**	1.1.–31.12.2018
Cash flows from operating activities			
Profit for the period		-1,653	6,841
Adjustments			
Depreciation, amortisation and impairment	22	9,549	5,980
Other non-cash items		532	850
Financial income and expenses		286	662
Dividend income		-4	-4
Income tax expense		2,042	2,219
Changes in working capital and provisions			
Increase/decrease in trade and other receivables		10,388	-4,980
Increase/decrease in inventories		-4,576	857
Increase/decrease in trade and other payables		-12,039	4,514
Increase/decrease in provisions		1,637	527
Paid interests and other financial expenses		-1,416	-986
Received interests and dividends		1,036	325
Paid taxes		-1,725	-1,796
Net cash from operating activities		**4,057**	**15,009**
Cash flows from investing activities			
Purchases of property, plant and equipment (PPE)		-3,849	-825
Proceeds from sales of PPE		475	166
Purchases of intangible assets		-4,900	-4,843
Purchase of investments		-77	-143
Acquisition of subsidiaries, net of cash acquired		-1,050	0
Net cash used in financing activities		**-9,401**	**-5,645**
Cash flows from financing activities			
Proceeds from borrowings		0	4,087
Repayments of borrowings		-489	-10,009
Payment of finance lease liabilities		-4,499	-655
Dividends paid		-3,630	-1,816
Net cash used in financing activities		**-8,618**	**-8,393**
Change in cash			
Cash and cash equivalents at 1 January		22,240	21,230
Effect of currency changes		-28	39
Cash and cash equivalents 31.12.		**8,249**	**22,240**

Consolidated statement of changes in equity

	Attributable to equity holders of the parent								
1,000 €	Share capital	Share premium	Translation differences	Retained earnings	Invested non-restricted equity	Other reserves	Total	Non controlling interest	Total equity
At 1 January 2018	6,967	1,504	-1,405	60,592	3,140	-77	70,721	630	**71,352**
New standards & other changes				179			179		179
Comprehensive income			0	6,975		0	6,975	-133	6,841
Translation differences			-165	-90		-11	-266	25	-241
Cash flow hedges						-3	-3		-3
Total comprehensive income	**0**	**0**	**-165**	**6,885**		**-14**	**6,706**	**-108**	**6,598**
Dividends				-1,816			-1,816	0	-1,816
Excercised share options				850	0		850	0	850
	0	0	0	-966	0		-966	0	-966
At 31 December 2018	**6,967**	**1,504**	**-1,569**	**66,694**	**3,140**	**-92**	**76,644**	**522**	**77,163**
New standards & other changes				49			49	0	49
Comprehensive income			0	-1,327		19	-1,308	-327	-1,634
Translation differences			-25	302		11	288	10	298
Total comprehensive income	**0**	**0**	**-25**	**-1,025**		**30**	**-1,019**	**-317**	**-1,334**
Dividends				-3,628			-3,628	0	-3,628
Excercised share options				529	0		529	0	529
	0	0	0	-3,099	0	0	-3,099	0	-3,099
At 31 December 2019	**6,967**	**1,504**	**-1,594**	**62,618**	**3,140**	**-62**	**72,573**	**206**	**72,779**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING PRINCIPLES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

COMPANY PROFILE

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

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

STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) in force as at 31 December 2019. 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 2019 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 2019.

- **IFRS 16 Leases** (effective for financial years beginning on or after 1 January 2019)

The new standard replaces the former IAS 17 standard and related interpretations. IFRS 16 requires the lessees to recognise the lease agreements on the balance sheet as right-of-use assets and lease liabilities. The accounting model is similar to former 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 former IAS 17 accounting. As a result of the new IFRS 16 "Leases" standard, the Group recognised non-cancellable leases on the balance sheet. The right-of-use assets increased the balance sheet with 6.9 million euro and the interest bearing liabilities with 6.9 million euro.

A simplified method has been used for the transition, and the comparison figures from the year preceding the transition have not been adjusted. The Group made use of an easement allowed in the standard according to which short-term leases or assets with minor value do not need to be recognised on the balance sheet. Weighted average interest used at application date is 1.3%.

- **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 for accounting is the assessment of whether the tax authority will accept the entity's chosen tax treatment or not. When considering this the assumption is that tax authorities will have full knowledge of all relevant information in assessing a tax treatment proposed by the entity.

- **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.

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 clarify the following standards:

- IFRS 3: when an entity obtains control of a business that is a joint operation, it remeasures a previously held interest in that business at fair value (a business combination achieved in stages).
- IFRS 11: when an entity subsequently obtains joint control of a business that is a joint operation, it does not remeasure a previously held interest in that business.
- IAS 12: an entity accounts for all income tax consequences of dividends in the same way, regardless of how the tax arises (in profit or loss, other comprehensive income or equity).
- IAS 23: when a qualifying asset is ready for its intended use or sale, an entity treats any outstanding borrowing made to obtain the said asset as part of general borrowings.

BASIS OF PREPARATION

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

USE OF ESTIMATES

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

SUBSIDIARIES

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

ASSOCIATES

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

JOINT VENTURES

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

PRINCIPLES OF CONSOLIDATION

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

FINANCIAL STATEMENTS OF FOREIGN SUBSIDIARIES

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

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

FOREIGN CURRENCY TRANSACTIONS

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

PROPERTY, PLANT AND EQUIPMENT

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

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

- Buildings 25–33 years
- Machinery and equipment 3–5 years
- Computers 0–3 years
- Software 3 years
- Land is not depreciated.
- Leases
- Teleste has applied IFRS 16 Leases from 1 January 2019.

GROUP AS LESSEE

Group as lessee

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

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

GROUP AS LESSOR

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

INTANGIBLE ASSETS

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

Goodwill

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

Research and development costs

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

Other intangible assets

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

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

The estimated useful lives are as follows:

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

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

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

A discontinued operation is a component of the Group's business that represents a separate major line of business or a geographical area of operations or is a subsidiary acquired exclusively with a view to resale. The result of discontinued operations is presented separately on the face of the consolidated income statement.

IMPAIRMENT

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

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

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

INVENTORIES

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

FINANCIAL ASSETS AND LIABILITIES

Financial assets

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

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

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

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

Financial assets measured at amortised cost

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

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

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

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

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

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

Financial assets measured at fair value through other comprehensive income

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

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

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

Financial assets measured at fair value through profit or loss

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

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

Cash and cash equivalents

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

Recognition of final credit loss

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

Derecognition of financial assets

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

FINANCIAL LIABILITIES

Financial liabilities have been classified according to IFRS 9 into the following categories:

- financial liabilities measured at amortised cost
- financial liabilities measured at fair value through income statement.

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

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

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

Derecognition of financial liabilities

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

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

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

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

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

Other operating income

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

Government grants

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

Employee benefits

Pension arrangements

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

Share-based payments

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

Operating profit

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

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

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

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

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

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

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 2019.

- Amendments to References to Conceptual Framework in IFRS Standards (effective for financial years beginning on or after 1 January 2020)
- The revised Framework codifies IASB's thinking adopted in recent standards. The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs.
- Definition of a Business (Amendments to IFRS 3) (effective for financial years beginning on or after 1 January 2020)
- The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set is a group of assets rather than a business.
- Definition of Material (Amendments to IAS 1 and IAS 8) (effective for financial years beginning on or after 1 January 2020)
- The amendments clarify the definition of material and include guidance to help improve consistency in the application of that concept across all IFRS Standards. In addition, the explanations accompanying the definition have been improved.
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) (effective for financial years beginning on or after 1 January 2020)
- Amendments have been issued to address uncertainties related to the ongoing reform of interbank offered rates (IBOR). The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform.

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 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

2019 1,000 €	Video and Broadband Solutions	Network Services	Group
External sales			
Services	4,087	94,106	98,193
Goods	137,264	0	137,264
Total external sales	141,352	94,106	235,458
Operating profit of segment	8,056	-347	7,711
Operating profit			7,711
Non allocated item			-6,942
Financial items			-380
Profit before taxes			388
Non-current assets of segment	56,928	4,329	61,257

2018 1,000 €	Video and Broadband Solutions	Network Services	Group
External sales			
Services	4,687	111,669	116,356
Goods	133,990	0	133,990
Total external sales	138,677	111,669	250,346
Operating profit of segment	7,738	1,983	9,721
Operating profit			9,721
Financial items			-661
Profit before taxes			9,060
Non-current assets of segment	48,111	2,893	51,003

Geographical division

2019 1,000 €	Finland	Nordic countries	Other Europe	Others	Group
Sales by origin	15,799	20,607	184,232	14,820	235,458
Assets	50,776	590	9,779	112	61,257
Capital expenditure	4,632	236	7,426	685	12,980

2018 1,000 €	Finland	Nordic countries	Other Europe	Others	Group
Sales by origin	15,172	24,606	201,367	9,201	250,346
Assets	43,520	348	7,013	122	51,003
Capital expenditure	5,143	228	1,618	0	6,989

Major customer

Revenues from one common customer of the Group's Video and Broadband Solution and Network Services segment represents approximately 70.3 Meur in 2019 (72.7 Meur in 2018), which is 29.7% (29.0%) of Group net sales.

Revenue from contracts with customers

	2019	2018
Revenue from contracts with customers	235,458	250,346
All revenue streams are generated from contracts with customers		
Receivables, which are included in ”trade and other receivables” Note 14	32,124	43,984
Net assets from contracts (+assets - liabilities)		
Contract assets (+)		
Video and Broadband Solutions	2,406	1,863
Network Services	11,215	10,152
	13,621	12,015
Contract liabilities (-)		
Video and Broadband Solutions	-2,043	-1,490
Network Services	-2,822	-8,061
	-4,865	-9,551
	8,756	**2,464**
Timing of the revenue recognition		
Timing of the revenue recognition, at point in time		
Video and Broadband Solutions	133,093	134,020
Network Services	92,844	110,632
	225,936	244,652
Timing of revenue recognition, over the time		
Video and Broadband Solutions	8,259	4,658
Network Services	1,262	1,037
	9,521	5,695
	235,458	**250,346**
Revenue by category		
Goods		
Video and Broadband Solutions	137,265	133,990
Network Services	0	0
	137,265	133,990
Services		
Video and Broadband Solutions	4,087	4,687
Network Services	94,106	111,669
	98,193	116,356
Total	**235,458**	**250,346**

Order backlog

Timing of order back log

	2020	Later	Total
Order backlog end of 2019			
Video and Broadband Solutions	47,197	26,003	73,223
Network Services	0	0	0

Timing of order back log

	2019	Later	Total
Order backlog end of 2018			
Video and Broadband Solutions	51,902	19,115	71,017
Network Services	0	0	0

BUSINESS COMBINATIONS ACQUIRED DURING 2019 AND 2018

YEAR 2019

During 2019 there were no acquisitions. The conditional supplementary contract price from Igu System 6mbH acquisition of 1,050 thousand euro was paid in the beginning of the year.

YEAR 2018

During 2018 there were no acquisitions. A conditional supplementary contract price from Igu System 6mbH acquisition of 1,050 thousand euro was de-recogniced in other current liabilities and in fair value category 3 .

Notes to the Consolidated Financial Statements

1. OTHER OPERATING INCOME

1,000 €	2019	2018
Government grants related to development costs	942	545
Gain on disposals of non-current assets	145	26
Insurance compensation	858	815
Other income	521	380
Total	**2,466**	**1,766**

2. EMPLOYEE BENEFITS EXPENSE

	2019	2018
Wages and salaries	-54,309	-53,713
Pension expenses		
Defined contribution plans	-10,302	-9,937
Other post employment benefits	-5,704	-4,524
Activated R&D salaries and social costs	4,672	3,010
Equity-settled share-based transactions	-529	-850
Total	**-66,173**	**-66,014**

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

	2019	2018
The average number of employees during the financial year	1,363	1,393

3. DEPRECIATION, AMORTISATION AND IMPAIRMENT

1,000 €	2019	2018
Depreciation and amortisation by asset type:		
Tangible assets		
Buildings	-376	-377
Machinery and equipment	-1,537	-1,427
Other tangible assets	-46	-154
Total	**-1,959**	**-1,958**
Intangible assets		
Capitalised development expenses	-2,534	-2,261
Other intangible assets	-733	-1,054
Total	**-3,267**	**-3,314**
Right-of-use assets		
Land and water, right-of-use	-25	0
Buildings and structures, right-of-use	-1,606	0
Machinery and equipment, right-of-use	-2,662	-661
Intangible assets, right-of-use	**-31**	**-47**
Total	**-4,324**	**-708**
Total depreciation	**-9,550**	**-5,980**

4. OTHER OPERATING EXPENSES

1,000 €	2019	2018
Rental expenses	-720	-4,596
External services	-6,319	-6,583
Other variable costs	-7,310	-6,742
Travel and IT costs	-6,482	-5,850
R&D costs	-2,186	-1,274
Other expenses	-15,659	-7,447
Total	**-38,677**	**-32,492**

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

Audit expenses

1,000 €	2019	2018
KPMG		
Auditing assignments	-165	-167
Tax consultancy	-2	-14
Other assignments	-39	-1
Other auditors		
Auditing assignments	-33	-11
Other assignments	-36	-46

Other assignments than audit assignments during year 2019 by KPMG Oy Ab amounted 41 thousand euro. These assignments consisted of tax consultancy (2 thousand euro) and other assignments (39 thousand euro).

5. FINANCIAL INCOME

1,000 €	2019	2018
Interest and other financial income	80	62
Foreign exchange gain	952	259
Dividend income	4	4
Total	**1,036**	**325**

6. FINANCIAL EXPENSES

	2019	2018
Interest expenses	-575	-408
Foreign exchange loss	-701	-285
Loss on disposal of share	0	-155
Other financial expenses	-140	-138
Total	**-1,416**	**-986**

Other financial expenses includes interests from leasing expenses during the period 166 thousand euro (9 thousand euro in 2018). Losses from forward exchange contracts are included in operating profit.

7. INCOME TAXES

1,000 €	**2019**	2018
Recognised in the income statement		
Current tax expense		
Current year	-1,502	-2,015
Adjustments for prior years	-129	-97
Change in deferred tax liabilities and tax assets	-411	-107
Total	**-2,042**	**-2,219**

Reconciliation of the tax expense, EUR -2,042 thousand, calculated using the Teleste Group's domestic corporation 20.0% tax rate.

1,000 €	**2019**	2018
Profit before tax	388	9,060
Income tax using the domestic corporation tax rate (20.0%)	-78	-1,812
Effect of tax rates in foreign jurisdictions	192	-174
Non-deductible expenses	-197	-83
Loss for the period, for which no deferred tax asset is recognized	-1,830	-54
Taxes from previous year	-129	-97
Income tax income/expense reported in the consolidated income statement	-2,042	-2,219

8. EARNINGS PER SHARE

The basic earnings per share is calculated as follows:

Profit for the year attributable to equity holders of the parent
Weighted average number of ordinary shares outstanding during the financial year

The number of ordinary shares outstanding excludes the treasury shares.

The diluted earnings per share is calculated as follows:

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

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

	2019	2018
Profit for the year attributable to equity holders of the parent, (1,000 €)	-1,327	6,975
Weighted average number of ordinary shares outstanding during the financial year (1,000)	18,181	18,122
Basic earnings per share (€)	-0,07	0,38
Weighted average number of ordinary shares outstanding during the financial year (1,000)	18,181	18,122
Effect of share options on issue (1,000)	27	46
Weighted average number of ordinary shares outstanding during the financial year (diluted) (1,000)	18,208	18,168
Diluted earnings per share (€)	-0,07	0,38

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 gratutiously issued; this difference arises when the Group can not issue the same number of shares at their fair value using the proceeds received on the exercise of the options.

9. INTANGIBLE ASSETS

1,000 €	Develop-ment costs	Immaterial rights	Other intangible assets	Goodwill	**Total**
Cost 1.1.2018	10,594	1,081	11,369	38,518	**61,562**
Translation differences	-2	-11	-36	-193	**-241**
Additions	4,843	287	4	0	**5,134**
Business disposals	0	0	0	-48	**-48**
Cost 31.12.2018	15,435	1,363	11,332	38,277	**66,407**
Cumulative amortisation and impairment 1.1.2018	-3,724	-349	-9,666	-7,705	**-21,443**
Translation differences	0	7	35	0	**42**
Amortisation	-2,247	-313	-740	0	**-3,300**
Cumulative amortisation and impairment 31.12.2018	-5,971	-655	-10,371	-7,705	**-24,701**
Carrying amount 1.1.2018	6,870	732	1,703	30,814	**40,119**
Carrying amount 31.12.2018	9,465	708	961	30,573	**41,706**

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

Intangible assets consists of:	
- Assets owned by the Group	43,444
- Leased right of use assets	131
	43,575

For the purposes of impairment testing goodwill items of the Group have been allocated to the segments, each of which represents a separate cash-generating unit.The aggregate goodwill amount totalled 30.7 million euro at 31 December 2019. Goodwill has been allocated to the following cash-generating unit:

	million euro
Video and Broadband Solutions	30.3
Network Services, Switzerland	0.4

The recoverable amount of the segments is based upon value-in-use calculations. Those calculations use cash flow projections based upon the strategies and business plans approved by the management. Calculations are prepared covering a 10 years' period. The cash flows for the first year for both segments are based on the budget for 2020 according the business plan. From 2021 onwards the cash flows are calculated with 2% (2%) annual growth rate. Management's view on the cash flows is cautious as the changes of the industry are difficult to foresee. A discount rate of 9.48% is used in VBS and 9.91% in NS segment (10.17% in VBS segment and 9.97% 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 2019 and 2018 impairment tests are

	2019		2018	
%	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)	9.48	9.91	9.48	9.91

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

Impairment test		
Meur	**2019**	2018
VBS	17.3	19.5
NS Switzerland	1.0	1.0

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

Decline of free cash flow

	2019	2018
VBS	-18%	-21%
NS Switzerland	-46%	-45%

Increase in discount rate (after taxes)

	2019	2018
VBS	1.9%	2.3%
NS Switzerland	6.0%	6.0%

The Group received a grant amounting to 0.9 million euro from National Technology Agencies in Finland and Poland towards development costs in 2019 (2018: 0.5 million euro). From the grant received 0,0 million euro (2018: 0.3 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.

10. PROPERTY, PLANT AND EQUIPMENT

1 000 €	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and work in progress	**Total**
Cost 1.1.2018	56	7,587	9,664	2,369	80	**19,756**
Translation differences	0	-8	44	-5	0	**32**
Additions	0	88	1,237	162	-10	**1,477**
Disposals	0	0	-200	-3	0	**-204**
Cost 31.12.2018	56	7 668	10,744	2,523	71	**21,062**
Cumulative amortisation and impairment 1.1.2018	-2	-3 022	-6,784	-2,178		**-11,985**
Translation differences	0	2	11	2		**15**
Cumulative amortisation on disposals and reclassification	0	0	44	3		**47**
Amortisation		-377	-1,428	-154		**-1,958**
Cumulative amortisation and impairment 31.12.2018	-2	-3 396	-8,157	-2,327		**-13,881**
Carrying amount 1.1.2018	54	4,565	2,880	191	80	**7,771**
Carrying amount 31.12.2018	54	4,272	2,588	196	71	**7,180**

1 000 €	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and work in progress	**Total**
Cost 1.1.2019	56	7,668	10,744	2,523	71	**21,062**
Translation differences	0	34	77	2	0	**113**
Additions	0	297	3,361	53	0	**3,712**
Disposals	0	0	-581	-33	0	**-614**
Cost 31.12.2019	56	7,999	13,602	2,545	71	**24,273**
Cumulative amortisation and impairment 1.1.2019	-2	-3,396	-8,157	-2,327	0	**-130,881**
Translation differences	0	-8	-51	-4		**-63**
Cumulative amortisation on disposals and reclassifications	0	0	315	27		**342**
Amortisation	0	-376	-1,537	-46		**-1,959**
Cumulative amortisation and impairment 31.12.2019	-2	-3,780	-9,430	-2,349		**-150,562**
Carrying amount 1.1.2019	54	4,272	2,588	196	71	**7,180**
Carrying amount 31.12.2019	54	4,219	4,171	196	71	**8,711**

Intangible assets consists of:	
- Assets owned by the Group	8,711
- Leased right of use assets	8,327
	17,038

Leased assets

1,000 €	Intangible assets, right-of-use	Land and water, right-of-use	Buildings and structures, right-of-use	Machinery and equipment, right-of-use	Total
Cost 1.1.2018	328	0	0	2,823	**3,151**
Translation differences	-2	0	0	0	**-2**
Additions	19	0	0	216	**235**
Cost 31.12.2018	345	0	0	3,039	**3,384**
Cumulative amortisation and impairment 1.1.2018	-164	0	0	-957	**-1,122**
Translation differences	2	0	0	0	**2**
Amortisation	-47		0	-661	**-708**
Cumulative amortisation and impairment 31.12.2018	-210	0	0	-1,618	**-1,828**
Carrying amount 1.1.2018	164	0	0	1,865	**2,029**
Carrying amount 31.12.2018	135	0	0	1,421	**1,556**

Right-of-use assets according to IFRS 16 standard

1,000 €	Intangible assets, right-of-use	Land and water, right-of-use	Buildings and structures, right-of-use	Machinery and equipment, right-of-use	Total
Cost 1.1.2019	345	0	0	3,039	**3,384**
Effect of IFRS 16 standard	0	1,017	3,589	2,303	**6,909**
Translation differences	9	0	50	8	**67**
Additions	8	0	450	3,825	**4,284**
Disposals	-39	0	0	0	**-39**
Cost 31.12.2019	323	1,017	4,089	9,175	**14,604**
Cumulative amortisation and impairment 1.1.2019	-210	0	0	-1,618	**-1,828**
Translation differences	-5	0	-13	-6	**-24**
Cumulative amortisation on disposals and reclassifications	23	0	0	0	**23**
Amortisation	0	-26	-1,631	-2,662	**-4,318**
Cumulative amortisation and impairment 31.12.2019	-192	-26	-1,644	-4,286	**-6,147**
Carrying amount 1.1.2019	135	1,017	3,589	5,342	**10,083**
Carrying amount 31.12.2019	131	991	2,445	4,890	**8,457**

	Intangible assets, right-of-use	Tangible-assets, right-of-use	Total
	131	8,327	**8,457**

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

1,000 €	Leased cars, right-of-use
Cost 1.1.2019	0
Effect of IFRS 16 standard	2,049
Additions	3,665
Cost 31.12.2019	5,714
Cumulative amortisation and impairment 1.1.2019	0
Amortisation	-1,848
Cumulative amortisation and impairment 31.12.2019	-1,848
Carrying amount 1.1.2019	0
Carrying amount 31.12.2019	3,866

11. OTHER FINANCIAL ASSETS

1,000 €	Available for sale investments	Investment designated as at FVTOCI	Total
Cost 1.1.2018	1,117	0	1,117
Translation differences	-7	0	-7
Additions	-1	143	142
Disposals	-691	0	-691
Cost 31.12.2018	418	143	561
Cumulative amortisation and impairment 1.1.2018	-424	0	-424
Cumulative impairment on disposals and reclassifications	424	0	424
Carrying amount 1.1.2018	693	0	693
Carrying amount 31.12.2018	418	143	561

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

12. DEFERRED TAX ASSETS AND LIABILITIES

1,000 €	Balance 1. Jan. 2019	Recognised in the income statement	Balance 31 Dec. 2019
Movements in temporary differences during 2019			
Deferred tax assets:			
Effects of consolidation and eliminations	368	-237	131
Unused tax losses	1,157	3	1,160
Provisions	606	27	633
Total	**2,131**	**-207**	**1,924**
Deferred tax liabilities:			
Capitalisation of intangible assets	-1,335	-85	-1,420
Fair value adjustments to intangible assets on acquisition	-193	71	-122
Cumulative depreciation difference	-79	18	-61
Total	**-1,607**	**4**	**-1,603**

The change in liabilities doesn't match the deferred tax recognised in 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. 2018	Recognised in the income statement	Balance 31 Dec. 2018
Movements in temporary differences during 2018			
Deferred tax assets:			
Effects of consolidation and eliminations	443	-75	368
Unused tax losses	1,033	124	1,157
Provisions	584	22	606
Total	**2,061**	**71**	**2,131**
Deferred tax liabilities:			
Capitalisation of intangible assets	-696	-639	-1,335
Fair value adjustments to intangible assets on acquisition	-626	433	-193
Cumulative depreciation difference	-107	28	-79
Total	**-1,429**	**-178**	**-1,607**

At 31 December 2019 the Group had unused tax losses in subsidiaries amounting 18,259 thousand euro (31 Dec. 2018: 11,038 thousand euro). A tax asset of 1,160 thousand euro has been booked from the loss as it will not expire.

No deferred tax liability has been provided for the undistributed profits of the foreign subsidiaries amounting to 10,481 thousand euro at 31 Dec. 2019 (31 Dec. 2018: 20,149 thousand euro). This is because the realization of this tax liability is unlikely in the near future.

13. INVENTORIES

1,000 €	**2019**	2018
Raw materials and consumables	12,077	9,999
Work in progress	15,067	12,670
Finished goods	10,264	10,164
Total	**37,409**	**32,833**

The amount of the impairment losses of inventories to the net realisable value recognised as an expense during the financial period was 385 thousand euro. At the end of the financial year 4,994 thousand euro was deducted from the inventory value to the net realisable value (31 Dec. 2018: 5,379 thousand euro).

14. TRADE AND OTHER CURRENT RECEIVABLES

1,000 €	**2019**	2018
Trade receivables	32,124	43,984
Accrued income and prepayments	7,202	6,194
Other receivables	786	322
Total	**40,112**	**50,500**

15. CASH AND CASH EQUIVALENTS

Cash at bank and in hand and call deposits	8,249	22,240
Total	**8,249**	**22,240**
Cash and cash equivalents in the statement of cash flows	8,249	22,240

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

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

The potential share rewards will be delivered if the performance targets set by the Board of Directors are achieved. Investment in Teleste's shares is the requirement for an individual key employee to be included in the plan. The criteria for share-based reward are continued employment and the total shareholder return (TSR) of Teleste share during the three year vesting period. Applicable taxes are deducted from the gross quantities, and the remaining net quantity is delivered to the participants as Teleste shares.

Share-based incentive program LTI 2015

LTI 2015 consists of three annually commencing plans with three main elements: an investment in Teleste shares that is required for a key employee to be included in the LTI 2015 programme; a matching share plan with a three-year vesting period based on the above investment; and a performance matching plan with a three-year performance period.

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 Board of Directors approved 37 key employees as eligible to participate in the first LTI 2015 program on 2015–2017, 42 key employees to participate on 2016–2018 and 40 key employees to participate on 2017–2019.

The gross quantity of matching shares delivered under the 2015–2017 plan ended in April 2018 was 47,250 shares, and the gross quantity of performance matching shares was 39,724 shares. A net quantity of 42,771 shares was delivered to the key employees entitled to reward through a directed share issue on 6 April 2018. The gross quantity of matching shares delivered under the 2016–2018 plan ended in April 2019 was 35,438 shares, and the gross quantity of performance matching shares was 0 shares. A net quantity of 22,361 shares was delivered to the key employees entitled to reward through a directed share issue on 5 April 2019. The maximum gross quantities of shares to be delivered under the 2017–2019 plan starting in 2017 are 36,101 matching shares and 144,404 performance matching shares.

Share-based incentive program LTI 2018

LTI 2018 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 2018 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 new plan, its eligible participants and the matching ratio and performance targets applied to the individual plan are subject to a separate approval of Teleste's Board of Directors.

The first plans within the programme are the matching share plan 2018–2020 and the performance share plan 2018–2020. The matching share plan 2018–2020 comprises the individual key employee's investment in Teleste's shares and the delivery of a specific number of matching shares without consideration as a share reward based on the share investment after the three-year vesting period. The matching ratio applied to the matching share plan 2018–2020 is one matching share for two invested shares. The maximum aggregate gross quantity of matching shares that may be delivered on the basis of the matching share plan 2018–2020 is 15,114 shares. The performance share plan 2018–2020 comprises a three-year performance period. If all the eligible key employees participate in the plan by fulfilling the investment precondition and the performance targets set by the Board of Directors for this performance share plan are fully achieved, the maximum number of gross shares that may be delivered under the performance share plan 2018–2020 is 262,200 shares. The Board of Directors approved 35 key employees as eligible to participate in the plans beginning in 2018. At the end of 2019 27 key employees remained eligible in the programme.

The second plans within the programme are the matching share plan 2019–2021 and the performance share plan 2019–2021. The matching share plan 2019–2021 comprises the individual key employee's investment in Teleste's shares and the delivery of a specific number of matching shares without consideration as a share reward based on the share investment after the three-year vesting period. The matching ratio applied to the matching share plan 2019–2021 is one matching share for two invested shares. The maximum aggregate gross quantity of matching shares that may be delivered on the basis of the matching share plan 2019–2021 is 18,775 shares. The performance share plan 2019–2021 comprises a three-year performance period. If all the eligible key employees participate in the plan by fulfilling the investment precondition and the performance targets set by the Board of Directors for this performance share plan are fully achieved, the maximum number of gross shares that may be delivered under the performance share plan 2019–2021 is 291,120 shares. The Board of Directors approved 33 key employees as eligible to participate in the plans beginning in 2019. At the end of 2019 28 key employees remained eligible in the programme.

Plan	Performance Share Plan 2018	Performance Share Plan 2018	Performance Share Plan 2015	Performance Share Plan 2015
Type	Share	Share	Share	Share
Plan	2019–2021	2018–2020	2017–2019	2016–2018
Initial amount, pcs *	346,125	317,200	291,500	268,000
Initial allocation date	1.7.2019	02 July 2018	01 July 2017	01 July 2016
Vesting date	30 April 2022	30 April 2021	30 April 2020	30 April 2019
Maximum contractual life, yrs	2.8	2.8	2.8	2.8
Remaining contractual life, yrs	2.3	1.3	0.3	0.0
Number of persons at the end of the reporting year	28	27	31	0
Payment method	Cash & Equity	Cash & Equity	Cash & Equity	Cash & Equity

** Maximum gross reward in the beginning of each programme before deduction of applicable taxes.*

Changes during the period	Changes during 2019*	Changes during 2018*
1 January		
Outstanding at the beginning of the reporting period, pcs	671,583	612,820
Changes during the period		
Granted	309,895	295,013
Forfeited	178,327	149,276
Invalidated during the period	0	0
Excercised	35,438	86,724
Expired	0	0
31 December		
Excercised at the end of the period	767,713	671,833

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

Valuation parameters for instruments granted during period 2019 are presented in the table below. The fair value of share based incentives has been determined at grant date, when the participants confirmed their participation. Market condition, in this case Total Shareholder Return will be taken into account when determining the fair value at grant and it will not be changed during the plan according to the IFRS 2 standard. The fair value of the cost estimate will only be changed as far as service condition is concerned.

The fair value of Share-based Incentives

Share price at grant, EUR	5.50 €
Effect of the market condition in the fair value	20%
Expected dividends, EUR	0.55 €
Fair value per share at the equity-settled portion, EUR	1.21
Total fair value, 31.12.2019, EUR	342,684 €

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

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

Effect of Share-based Incentives on the result and financial position during year 2018, 1,000 €

Expenses for the financial year, share-based payments	727
Expenses for the financial year, share-based payments, equity-settled	721
Effect of IFRS 2 in equity	129
Liabilities arising from share-based payments 31 December 2018	14
Estimated tax effect on share based payments 31 December 2018	240

16. CAPITAL AND RESERVES

1,000 €	Number of shares, 1,000	Number of own shares, 1,000	Number of shares, total 1,000	Share capital, 1,000 €	Reserve fund, 1,000 €
At 1 January 2019	18,165	821	18,986	6,967	1,504
Change in own shares	22	-22	0	0	0
At 31 December 2019	18,187	799	18,986	6,967	1,504

The number of Teleste Oyj shares was 18,985,588 on 31 December 2019 (31 Dec. 2018 18,985,588 shares). All shares issued have been fully paid.

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

The Annual General Meeting of Teleste Oyj held on 5th of April 2018 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 2019, the Group held 798,821 of its own shares. (821 182 At the end of December 2018)

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 (2018 0.20 euro per share) was proposed by the Board of Directors.

17. INTEREST-BEARING LIABILITIES

1,000 €	2019	2018
Non-current		
Loans from financial institutions	21,324	21,790
Lease liabilities	5,177	800
Total	**26,501**	**22,590**
Current		
Loans from financial institutions	3,003	3,554
Lease liabilities	3,528	668
Total	**6,531**	**4,222**

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 €	31.12.2019	31.12.2018
EUR	25,059	22,590
Other	1,442	0
Group long-term interest-bearing liabilities - interest rates are as follows:		
Bank loans	1.0%	1.0%
Lease liabilities	1.3%	1.2%
The currency mix of the Group short-term interest-bearing liabilities:		
EUR	95%	100%
Other	5%	0%
Group short-term interest-bearing liabilities – interest rates are as follows:		
Bank loans	1.0%	1.0%
Lease liabilities	1.3%	1.2%
Right-of-use liabilities of the Group are payable as follows:		
Minimum lease payments		
Less than one year	3,622	677
Between one and five years	4,447	812
More than five years	896	
Total	8,965	1,489
Present value of minimum lease payments		
Less than one year	3,528	668
Between one and five years	4,287	800
More than five years	890	0
Total	8,705	1,468
Future finance charges	260	22
Total lease liabilities	8,965	1,489
Expenses not included in lease liability		
Cash outflow from leases		
Short-term rents and leases	-224	
Low-value rents and leases	-472	
	-696	

18. PROVISIONS

1,000 €	Warranty provision	Other provisions	Total
Balance at 1 January 2019	1,166	112	**1,278**
Provisions made during the year	81	262	**343**
Balance at 31 December 2019	1,247	374	**1,621**

1,000 €	2019	2018
Non-current	93	266
Current	1,528	1,012
Total	**1,621**	**1,278**

Warranties

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

19. TRADE AND OTHER CURRENT LIABILITIES

1,000 €	2019	2018
Current		
Trade payables	15,256	18,113
Personnel, social security and pensions	5,463	5,165
Accrued interest expenses and other financial items	61	63
Other accrued expenses and deferred income	12,798	15,352
Conditional purchase price	0	1,050
Advances	2,992	9,671
Other liabilities	2,669	1,675
Total	**39,238**	**51,089**
Non current		
Other liabilities	**79**	**81**

20. INCOME TAX PAYABLE FOR THE PERIOD

At the end of the period there was income tax receivable 683 and tax payable 1,283 thousand euro on the profit for the period (31 Dec. 2018 there was 228 thousand euro tax receivables and 966 thousand euro tax payables).

FINANCIAL RISK MANAGEMENT

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

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

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

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

MARKET RISK

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

CURRENCY RISK

Transaction risk

The Group's currency position is divided into the transaction position and net investments in foreign operations. Foreign exchange exposures of the Group's units arise from receivables and accounts payables denominated in foreign currency, sales and purchase contracts and from forecast sales and purchases. Major part of the Group's sales is in Euro. The most significant non-euro sales currencies are UK pound sterling (12 per cent), PLN (accounts for 4 per cent of the net sales), Swedish and Norwegian crowns (4 per cent) and US dollars (4 per cent). Significant part of expenses, 64 per cent, arise in euro and in US dollar almost 29 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

	2019					2018				
	USD	SEK	NOK	GBP	PLN	USD	SEK	NOK	GBP	PLN
Current assets	2,000	512	395	7,126	5,369	2,589	709	254	7,548	3,502
Current liabilities	2,697	495	490	2,862	3,057	2,810	422	423	2,659	2,643

Cash flow hedges at 31 Dec 2019

Currency position

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

Cash flow hedges at 31 Dec 2018

Currency position

Currency	Exposure	Hedge	Net	Hedge Instrument	Hedge%
USD	12,370	10,306	2,065	Forward exchange contract	83%
CNY	1,075	863	212	Forward exchange contract	80%
GBP	2,645	2,135	510	Forward exchange contract	81%
PLN	1,136	925	210	Forward exchange contract	81%
NOK	720	582	138	Forward exchange contract	81%
SEK	805	717	88	Forward exchange contract	89%

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 2019 the fair value of currency derivatives amounted to 21.1 million euro (31. Dec 2018: 20.7 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 2019 the total non-euro-denominated equity of the Group's foreign subsidiaries amounted to 14.1 million euro (31 Dec. 2018: 15.1 million euro).

Sensitivity to market risk

	2019	2018
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	+-162	+-207
10% change in EUR/CNY exchange rate	+-8	+-21
10% change in EUR/GBP exchange rate	+-53	+-51

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 24,639 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, 19 thousand euro, is recognised in profit and loss as other comprehensive income. The fair value of the interest swap contract is -65 thousand euro. All Group loans are denominated in euro. In 2019, the average interest rate of the loan portfolio was 1.0 per cent. All right-of-use agreements are fixed-rate.

The Group does not hedge the risk position resulting from the fair value interest rate risk as the position is small. The average balances of the variable rate loans realized during the period have been used in calculating the sensitivity analysis required by IFRS 7. At the closing date 31 December 2019, the effect on variable rate interest-bearing liabilities on profit before taxes would have been +-146 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		14,639		**14,639**
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.

Analysis of trade receivables by age	2019 Gross	Provision %	Impair-ment loss	Net	2018 Gross	Provision %	Impair-ment loss	Net
Not over due	24,840	0,3%	-75	24,766	33,431	0,3%	-100	33,331
1–30 days	3,171	2,0%	-63	3,107	5,655	2,0%	-113	5,542
31–60 days	1,503	4,0%	-60	1,443	1,898	4,0%	-76	1,822
61-90 days	1,372	6,0%	-82	1,290	314	6,0%	19	333
91-120 days	772	12,0%	-93	679	803	12,0%	-96	707
Over 120 days	1,872	20,0%	-1 032	840	2,903	20,0%	-653	2,250
Total	**33,530**		-1 405	**32,124**	**45,004**		-1 019	**43,984**

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

The maximum exposure to credit risk at the reporting date was:	**2019**	2018
Loans and receivables	40,112	50,500
Available for sale financial assets	645	561

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 2019 the Group's cash reserves totaled 8.2 million euro and its interest-bearing net debt 33.0 million euro. The Group administration raises the Group's interest-bearing debt centrally. At 31 December 2019 Teleste had committed and available credit facilities as well as other agreed and undrawn loans amounting to 20.9 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 2019, the contractual maturity of interest-bearing liabilities was as follows:

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

As of 31 December 2018, the contractual maturity of interest-bearing liabilities was as follows:

	2019	2020	2021	2022	2023
Loans from financial institutions	3,170	3,147	3,126	15,105	
Trade payables	18,113				
Lease liabilities	677	529	191	84	8
Forward exchange contracts					
Outflow	-20,415				
Inflow	20,539				
Other	57	57			

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 2019 and 2018 was as follows:

1,000 EUR	**2019**	2018
Total borrowings	33,032	26,812
Cash and cash equivalents	8,249	22,240
Interest-bearing net debt	24,783	4,572
Total equity	72,779	77,163
Interest-bearing net debt and total equity	97,562	81,735
Leverage ratio	25,4%	5,6%

21. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

All other financial assets and liabilities are measured at their fair values in the consolidated balance sheet except for the long-term bank loan, 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

-48 thousand euro in 2019 (2018: 227 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 -65 thousand euro. The change in fair value -16 thousand euro is entered in the total comprehensive income. The currency exchange contracts and interest swap contracts are in level 2.

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

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

Finance lease liabilities

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

Trade and other payables or receivables

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

Following discount rates were used for determining fair value:

	2019	2018
Lease liabilities	1.3%	1.2%

Carrying amounts of financial assets and liabilities by measurment categories

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

	Assets and liabilities at fair value through income statement	Investments designated as at fair value through other comprehnsive income (FVTOCI)	Assets and liabilities measured at amortized cost	Carrying amount by balance sheet item	Fair value	Note
2018 Balance item						
Non current financial assets						
Other financial assets	426	135	0	561	561	11
Current financial assets						
Trade and other receivables			43,984	43,984	43,984	14
Forward exchange contracts	227		0	227	227	23
Carrying amount by category	**653**	**135**	**44,211**	**44,772**	**44,772**	
Non-current financial liabilities						
Interest-bearing liabilities			22,590	22,590	22,590	17
Current financial liabilities						
Interest-bearing liabilities			4,222	4,222	4,222	17
Interest swap contracts		81	0	81	81	23
Trade and other payables			18,113	18,113	18,113	19
Other current liabilities			63	63	63	19
Carrying amount by category	**0**	**81**	**45,069**	**44,988**	**44,988**	

22. ADJUSTMENTS TO CASH FLOWS FROM OPERATING ACTIVITIES

1,000 €	**2019**	2018
Non-cash transactions:		
Depreciation and amortisation	9,550	5,980
Employee benefits	529	850
Total	**10,079**	**6,830**

23. COMMITMENTS AND CONTINGENCIES

1,000 €	**2019**	2018
Rental and leasing liabilities		
Lease liabilities	886	3,698
Currency derivatives		
Value of the underlying forward contracts	21,146	20,674
Market value of the forward contracts	-48	227
Interest swap contracts		
Value of the underlying interest swap contracts	10,000	10,000
Market value of interest swap contracts	-65	-81
Guarantees	2,197	2,812

24. RELATED PARTY TRANSACTIONS

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

Companies owned by the Group and parent company	Group holding, %	Voting, %
Parent company Teleste Oyj, Turku, Finland	100	100
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 Nord GmbH, Bergisch Gladbach, 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 Solutions Sp. Zoo, Warsow, Poland	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 GmbH, Hildesheim, Germany	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 €	**2019**	2018
CEO		
Salaries and other short-term benefits	535	490

During 2019 no options were granted to the management of Teleste (2018: 0 options). At 31 December 2019 management did not have any options (2018: no options of which 0 were exercisable). Management of the parent company has 0,96% or 182,853 of the parent company's shares (2018: 0,88% or 167,397 shares).

The CEO's pension plan is arranged through group pension insurance, payment amounted 97 thousand euro (94 thousand euro in 2018) and a capital redemtion policy, payment amounted 77 thousand euro (72 thousand euro in 2018. These payments are not included in above mentioned salaries and other short term benefits.

The key management personnel compensations

1,000 €	**2019**	2018
Pertti Ervi, Chairman of the Board, Member of the Audit Committee	66	65
Jannica Fagerholm, Member of the Board, Chairman of the Audit Committee	34	34
Jussi Himanen, Member of the Board	32	0
Vesa Korpimies, Member of the Board, Member of the Audit Committee	33	0
Timo Luukkainen, Member of the Board	32	32
Timo Miettinen, Member of the Board	0	32
Heikki Mäkijärvi, Member of the Board	32	32
Kai Telanne, Member of the Board	32	33
Jukka Rinnevaara, CEO	535	490
Total	**796**	**718**

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 2019 and 2018.

25. SUBSEQUENT EVENTS

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

Income statement of parent company

Income statement of parent company 1.1.–31.12.2019

1,000 €	Note	**2019**	2018
Net sales	1	**81,877**	**89,740**
Change in inventories of finished goods		-255	-1,993
Other operating income	2	3,444	2,867
Material and services	3	-44,135	-46,042
Personnel expenses	4	-21,825	-22,820
Depreciation and amortisation	5	-911	-927
Other operating expenses		-16,028	-14,395
Operating profit		**2,167**	**6,431**
Financial income and expenses	6	-2,408	1,519
Profit / loss before extraordinary items		**-241**	**7,950**
Appropriations	7	92	79
Group Contribution	7	0	-900
Income taxes			
Taxes for current and prior periods	8	-513	-1,259
Profit / loss for the financial period		**-663**	**5,870**

Balance sheet 31.12.2019

1,000 €	Note	2019	2018
Non-current assets			
Intangible assets	9	541	995
Property, plant and equipment	9	3,170	3,537
Long-term receivables	10	30,785	26,602
Investments	11	34,824	38,686
		69,320	**69,820**
Current assets			
Inventories	12	12,347	10,817
Trade and other receivables	13	32,668	25,941
Cash and cash equivalents	14	4,400	15,678
		49,415	**52,436**
Total assets		**118,735**	**122,257**
Shareholders' equity			
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	45,517	43,285
Profit for the financial period	15	-663	5,870
		57,029	**61,329**
Appropriations	7	**306**	**398**
Provisions	16	**467**	**606**
Liabilities			
Long-term liabilities	17	21,000	21,000
Short-term liabilities	18	39,932	38,923
		60,932	**59,923**
Total equity and liabilities		**118,735**	**122,257**

Cash flow statement

1,000 €	**2019**	2018
Cash flow from operations		
Profit before extraordinary items	-241	7,950
Adjustments		
Depreciations according plan	911	927
Financial income and expenses	2,408	-1,519
Cashflow before changes in working capital	3,078	7,357
Changes in working capital		
Increase (-) /decrease(+) in trade and other receivables	-2,592	-1,248
Increase (-) / decrease (+) in inventories	-1,530	614
Increase (+) / decrease (-) in trade payables	-2,025	1,054
Change in provisions	-139	-312
Loans granted	-99	-2,281
Cashflow before financial items and taxes	-3,307	5,185
Paid interests	-341	-370
Interests and dividends received	4,018	1,495
Income taxes paid	-1,076	-1,003
Cash flow from operations	**-706**	**5,307**
Investments		
Investments in other intangible and tangible assets	-85	-143
Investments in subsidiary shares	-2,130	0
Disposal of shares	0	112
Change in group cashpool	-7,893	-236
Investment in other financial assets	-77	-143
Cash flow from investments	**-10,184**	**-410**
Financing		
Short-term liabilities	567	3,000
Long-term liabilities	0	-9,000
Change in trade payables group	2,684	5,713
Paid dividends and other profit distribution	-3,639	-1,816
Group contribution received and paid	0	-900
Cash flows from financing activities	**-389**	**-3,003**
Change in liquid funds	**-11,279**	**1,894**
Liquid funds 1.1	15,678	13,785
Effects of exchange rate fluctuations on cash held	0	0
Liquid funds 31.12	4,400	15,678

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 specific 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 to 33 years
Machinery	3 to 5 years
Computers	0 to 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 31.12.2019

1. NET SALES

1,000 €	2019	2018
Net sales by segments		
Video and Broadband Solutions	80,482	87,184
Network Services	1,395	2,556
Total	**81,877**	**89,740**
Net sales by market area		
Finland	12,810	12,228
Nordic countries	11,284	14,319
Other Europe	50,229	58,941
Others	7,554	4,252
Total	**81,877**	**89,740**

2. OTHER OPERATING INCOME

R&D subvention and others	335	261
Insurance compensation	858	827
Others	2,251	1,780
Total	**3,444**	**2,867**

3. MATERIAL AND SERVICES

Purchases	-43,331	-44,793
Change in inventories	1,785	1,378
	-41,546	**-43,415**
Purchased services	-2,589	-2,627
Total	**-44,135**	**-46,042**

4. PERSONNEL EXPENSES

1,000 €	2019	2018
Wages and salaries	-17,728	-18,515
Pension costs	-3,471	-3,576
Other personnel costs	-627	-730
Total	**-21,825**	**-22,820**
Remuneration to Board members and Managing Directors		
Pertti Ervi, Chaiman of the Board	-66	-65
Timo Miettinen, Member of the Board	0	-32
Jannica Fagerholm, Member of the Board	-34	-34
Kai Telanne, Member of the Board	-32	-33
Timo Luukkainen, Member of the Board	-32	-32
Heikki Mäkijärvi, Member of the Board	-32	-32
Vesa Korpimies, Member of the Board	-33	0
Jussi Himanen, Member of the Board	-32	0
Jukka Rinnevaara, CEO	-535	-490
Total	**-796**	**-718**

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

	2019	2018
Year-end personnel	362	349
Average personnel	356	365
Personnel by function at the year-end		
Research and Development	89	82
Production and Material Management	182	181
Sales and marketing	55	53
Administration and IT	36	33
Total	**362**	**349**

5. DEPRECIATION ACCORDING TO PLAN

1,000 €	2019	2018
Buildings	-291	-308
Machinery and equipment	-109	-118
Goodwill	-275	-275
Other intangible rights	-237	-226
Total	**-911**	**-927**

6. FINANCIAL INCOME AND EXPENSES

1,000 €	2019	2018
Interest income	68	38
Interest income from Group companies	1,022	825
Interest expenses	-199	-273
Interest expenses to Group companies	-142	-96
Impairment of investments	-6,070	0
Gains and losses on disposals of investments	0	394
Currency differences	267	-26
Other financial income and expenses	-55	-50
Dividend income from Group companies	2,696	703
Dividend income	4	4
Total	**-2,408**	**1,519**

7. APPROPRIATIONS

	2019	2018
Change in accumulated depreciation difference		
Buildings	95	98
Machines and equipment	-20	-44
Intangible assets	16	25
Total	**92**	**79**
Group contribution	**0**	**-900**
Total	**92**	**-821**
Accumulated depreciation in excess of plan	306	398

8. INCOME TAXES

	2019	2018
Direct taxes	-464	-1,233
Taxes from previous years	-50	-27
Total	**-513**	**-1,259**

9. TANGIBLE AND INTANGIBLE ASSETS

1,000 €	Intangible assets	Goodwill	**Total**	Buildings	Machinery	**Total**
Acquisition cost 1.1.	8,319	2,197	10,516	8,931	9,218	18,150
Increases	57	0	**57**	0	33	**33**
Acquisition cost 31.12.	8,376	2,197	10,573	8,931	9,251	18,182
Accumulated depreciation 1.1.	-7,988	-1,533	**-9,522**	-5,650	-8,964	**-14,613**
Depreciation	-237	-275	**-511**	-291	-109	**-400**
Accumulated depreciation 31.12.	-8,225	-1,808	**-10,033**	-5,940	-9,073	**-15,013**
Advances 1.1	10	0	10	0	0	0
Increases	0	0	0	0	0	0
Activations	-10	0	-10	0	0	0
Advances 31.12	0	0	0	0	0	0
Book value 31.12.2019	**152**	**389**	**540**	**2,991**	**178**	**3,170**

10. LONG TERM RECEIVABLES

1,000 €	**2019**	2018
Subordinated loan from group company	6,300	2,444
Other long term receivables from group companies	24,485	24,158
Total	**30,785**	**26,602**

11. INVESTMENTS

Parent company	Shares in group companies	Shares others	Other Investments	Total
Acquisition cost 1.1.	52,422	19	143	52,583
Increase/Transfers	-3,940	0	77	-3,863
Acquisition cost 31.12.	**48,482**	**19**	**220**	**48,720**
Accumulated depreciation 1.1.	**-13,897**	**0**	**0**	**-13,897**
Accumulated depreciation 31.12.	**-13,897**	**0**	**0**	**-13,897**
Book value 31.12.2019	**34,584**	**19**	**220**	**34,823**

12. INVENTORIES

1,000 €	**2019**	2018
Raw materials and consumables	7,183	5,398
Work in progress	575	271
Finished goods	4,590	5,149
Total	**12,347**	**10,817**

13. CURRENT ASSETS

Accounts receivables	9,156	11,952
Accounts receivables from Group companies	13,550	10,462
Other receivables from Group companies	8,876	1,860
Other receivables	76	-102
Accrued income	1,009	1,769
Total	**32,668**	**25,941**

14. LIQUID FUNDS

Cash and cash equivalents	**4,400**	**15,678**

15. CHANGES IN SHAREHOLDERS' EQUITY

1,000 €	2019	2018
Share capital 1.1.	6,967	6,967
Share capital 31.12.	6,967	6,967
Share premium fund 1.1.	1,504	1,504
Share premium fund 31.12.	1,504	1,504
Invested non-restricted equity 1.1.	3,704	3,704
Invested non-restricted equity 31.12.	**3,704**	**3,704**
Retained earnings 1.1.	49,155	45,101
Dividends	-3,637	-1,816
Retained earnings 31.12.	45,517	43,285
Profit for the financial period	-663	5,870
Accumulated profit 31.12.	44,855	49,155
Total	**57,029**	**61,329**
Companys distributable equity 31.12.	48,558	52,859

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 €	2019	2018
Guarantee provisions	354	505
Other provisions	113	101
Total	**467**	**606**

17. LONG TERM LIABILITIES

Bank Loan	**21,000**	**21,000**

18. SHORT TERM LIABILITIES

Loan from others	3,567	3,000
Accounts payables	5,401	7,373
Accounts payables from Group companies	2,876	3,817
Other current liabilities	773	953
Other current liabilities from Group companies	20,311	17,627
Accrued liabilities	7,004	6,154
Total	**39,932**	**38,923**

19. CONTINGENT LIABILITIES AND PLEDGED ASSETS

1,000 €	2019	2018
Leasing liabilities		
For next year	1,140	654
For later years	868	661
Total	**2,008**	**1,315**
Rental liabilities		
Less than one year	76	92
Between one and five years	137	113
More than five years	1,113	1,145
Total	**1,327**	**1,350**
Liabilities on own behalf		
Bank guarantees	1,428	471
Guarantees given on behalf of subsidiaries	769	2,384

20. CURRENCY DERIVATES

Value of underlying forward contracts	21,146	20,674
Market value of forward contracts	-48	227
Interest rate swap	10,000	10,000
Market value of interest rate swap	-65	-101

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
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	100
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 GmbH, Hildesheim, Germany	100	100
Teleste Intercept, LLC, Dover DE, USA	60	0
Teleste LLC, Georgetown Texas, USA	100	100
Teleste Ltd, Chesham, UK	100	0
Teleste Network Services S.A., Yverdon, Switzerland	100	100
Teleste 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 UK Ltd. (02719043), 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

	Nominal value euros	Percentage of shares	and votes
Teleste Oyj owns own shares 31.12.2019	798,821	4.21%	4.21%

23. SHARES AND OWNERS

Management interest

	Number of shares	Precen-tage of share capital, %	Precen-tage of share capital, %
CEO and Board Members	182,853	0.96	0.96

Audit expenses	1,000 €	**2019**	2018
KPMG			
Auditing assignments		-46	-43
Tax consultancy		-2	-14
Other assignments		-39	-1
Total		**-87**	**-58**

24. SHARES AND SHAREHOLDERS

Major shareholders 31 December 2019	Shares	Shares, %
Tianta Oy	4,409,712	23.2
Mandatum Life Insurance Company Limited	1,683,900	8.9
Ilmarinen Mutual Pension Insurance Company	899,475	4.7
Kaleva Mutual Insurance Company	824,641	4.3
Teleste Oyj	798,821	4.2
Varma Mutual Pension Insurance Company	521,150	2.8
The State Pension Fund	500,000	2.6
Wipunen varainhallinta Oy	400,000	2.1
Mariatorp Oy	397,162	2.1
OP-Finland Small Firms Fund	260,408	1.4
Total (10)	**10,695,269**	**56.34**

Sector Dispersion 31 December 2019	Shareholders	%	Shares	%
Households	5,167	93.69	4,775,530	25.15
Public sector institutions	3	0.05	1,920,625	10.12
Financial and insurance institutions	24	0.44	4,663,318	24.56
Corporations	265	4.81	7,487,972	39.44
Non-profit institutions	22	0.4	56,685	0.3
Foreign	34	0.62	81,458	0.43
Total	**5,515**	**100**	**18,985,588**	**100**
Of which nominee registered	10	0.18	1,073,289	5.65

Holding Dispersion 31 December 2019				
1–100	1,512	27.42	88,876	0.47
101–500	2,292	41.56	615,299	3.24
501–1 000	779	14.13	629,379	3.32
1 001–5 000	744	13.49	1,649,207	8.69
5 001–10 000	78	1.41	535,194	2.82
10 001–50 000	81	1.47	1,635,773	8.62
50 001–100 000	7	0.13	507,208	2.67
100 001–500 000	15	0.27	3,358,122	17.69
500 001–	7	0.13	9,966,530	52.50
Total	**5,515**	**100.00**	**18,985,588**	**100.00**
of which nominee registered	10	0.18	1,073,289	5.65

PROPOSAL FOR THE DISTRIBUTION OF EARNINGS

PROPOSAL FOR THE DISTRIBUTION OF EARNINGS

Teleste Corporation's distributable equity on the date of the financial statements amounted to EUR 48,559,168.83.

The Board of Directors proposes to the Annual General Meeting of 22 April 2020 that a dividend of EUR 0.10 per share be paid to outstanding shares for the year 2019.

Signatories to the Annual Report and the Financial Statements

12 February 2020

Pertti Ervi, COB	Jannica Fagerholm, MOB	Jussi Himanen, MOB
Vesa Korpimies, MOB	Timo Luukkainen, MOB	Heikki Mäkijärvi, MOB
Kai Telanne, MOB		

Jukka Rinnevaara, President and CEO

The Auditor's Note

Our auditors' report has been issued today.

12 February 2020

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 2019. 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 30,7 million) (Refer to accounting principles for the consolidated financial statements and note 10)	
• 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. • 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 235,5 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. In part of product and service sales it is agreed that group companies receive prepayments from customer before delivering products and services. • Due to the variety and large number of sales transactions the accuracy of net sales is considered a key audit matter.	• We tested controls over registering sales transactions and recognising related revenue. • We assessed the appropriateness of the revenue recognition principles the Group applies by comparing to currently valid IFRS standards, the Group accounting principles and contract terms. • As part of the audit procedures made to assess the accuracy of net sales, we performed various analyses to identify and analyse divergent sales transactions.
Valuation of inventories (EUR 37,4 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 25 percent of the consolidated total assets. • Valuation of inventories requires management judgements over future sales and appropriate level of write-downs on inventory items. Demand for products may change due to customer behavior, fluctuations in market prices and technological developments.	• We analysed the inventory accounting process and tested the functionality of the related internal controls. We also tested internal controls surrounding inventory valuation and the accuracy of inventory quantities. Furthermore, we assessed the appropriateness of the company's inventory counting procedures. • In addition, we considered the appropriateness of inventory write-down principles and the adequacy of the write-downs recognised in the financial statements.

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of 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 17 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 12 February 2020
KPMG OY AB

Petri Kettunen
Authorised Public Accountant, KHT

Corporate Governance Statement 2019

This Corporate Governance Statement has been prepared pursuant to Chapter 7, section 7 of the Securities Markets Act and the Finnish Corporate Governance Code 2020 issued by the Securities Market Association, valid from 1 January 2020. 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 2019.

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 2020, and the rules and regulations of the Finnish Financial Supervisory Authority. Since 1 March 2000, Teleste complies with the insider guidelines of the Stock Exchange in their valid form at any given time. These insider guidelines are complemented by Teleste's internal guidelines. The company has confirmed the values applied to its operations.

General Meeting

Teleste's General Meeting is the highest decision-making body of the company, 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 the adoption of the financial statements, allocation of the profit shown by the balance sheet, discharge of the Board of Directors and the CEO from liability, and the 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.

According to the Board's Rules of Procedure approved on 18th of September 2018 and as amended on 18th of December 2019, the Board of Directors represents all the shareholders and always acts in the best interests of the company and its shareholders. The objective of the Board of Directors is to guide the company's business in such a manner that it provides the company's shareholders with the best possible return in the long run.

The Board of Directors regularly monitors the achievement of the company's financial and strategic targets as well as the development of the company in accordance with the long-term goals. The Board of Directors provides the company management with external opinions and support. The Board is also responsible for ensuring that accounting, financial management, and risk management in the company are appropriately organised. In addition, as applicable, the Board of Directors is responsible for matters related to the preparation of the shareholders' meeting and the implementation of its decisions.

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

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

- confirms the company's ethical values and policies and monitors their implementation
- monitors the company management's communications with shareholders and the security market and, when necessary, discusses the formation of shareholder interest and the response of the market

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

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

Members of the Board of Directors

According to the Articles of Association, the Annual General Meeting elects a minimum of three and a maximum of eight Board members each year. The Annual General Meeting decides on the number of Board members and their election. The Board elects a Chairman of the Board from among its members. A person designated by the Board of Directors acts as the secretary of the Board. The candidates for the Board of Directors are chosen in co-operation between the Chairman of the Board and the major shareholders of the company. In addition to the required experience and areas of expertise, the guidelines on the diversity of the Board are taken into account when choosing candidates. The term of office of Board members is one year, lasting until the close of the Annual General Meeting following the election. The number of terms of a Board member is not limited.

The Annual General Meeting held on 4 April 2019 elected seven persons specified below to Teleste's Board of Directors. Pertti Ervi was elected Chairman on 4 April 2019 by the members of the Board.

- Ervi Pertti, Chairman, born 1957, B.Sc. (Eng.), Independent consultant, member since 2009
- Fagerholm Jannica, Member of the Board, born 1961, M.Sc. (Econ.), Signe and Ane Gyllenberg Foundation, Managing Director, member since 2013
- Himanen Jussi, Member of the Board, born 1972, M.Sc. (Industrial Engineering), Ramboll Finland, Director Business Development, member since 2019
- Korpimies Vesa, Member of the Board, born 1962, M.Sc. (Econ.), EM Group Oy, CEO, member since 2019
- Luukkainen Timo, Member of the Board, born 1954, M.Sc. (Econ.), M.Sc.(Eng.), MBA, Board professional, 2016, member since 2016
- Mäkijärvi Heikki, Member of the Board, born 1959, M.Sc. (Eng.), Telia Ventures, CEO, member since 2018
- Telanne Kai, Member of the Board, born 1964, M.Sc. (Econ.), Alma Media Corporation, CEO, 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 following Board members:

- Luukkainen Timo – Board member in Tianta Oy since 6.4.2018. Tianta Oy is a significant shareholder of Teleste.
- Korpimies Vesa – CEO and Board member in Tianta Oy. Tianta Oy is a significant shareholder of Teleste.

On 31 December 2019, Board members and their controlled entities held shares in Teleste Corporation and other companies included in the Teleste Group as follows:

- Ervi Pertti .... 23,315 shares
- Fagerholm Jannica .... 13,709 shares
- Himanen Jussi .... 2,166 shares
- Korpimies Vesa .... 3,166 shares
- Luukkainen Timo .... 6,818 shares
- Mäkijärvi Heikki .... 4,082 shares
- Telanne Kai .... 25,229 shares

On 31 December 2019, Board members or their controlled entities held no share-based entitlements in Teleste Corporation or other companies included in the Teleste Group.

In 2019, Teleste's Board of Directors held 15 meetings. The Board members attended the meetings as follows:

- Ervi Pertti 15/15 (100%)
- Fagerholm Jannica 15/15 100%)
- Himanen Jussi 8/8 (100%), member of the Board since 4.4.2019
- Korpimies Vesa 8/8 (100%), member of the Board since 4.4.2019
- Luukkainen Timo 15/15 (100%)
- Miettinen Timo 7/7 (100%), member of the Board until 4.4.2019
- Mäkijärvi Heikki 13/15 (86,7%)
- Telanne Kai 14/15 (93,3%)

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 the 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. The candidates for the Board of Directors are chosen in co-operation between the Chairman of the Board and the major shareholders of the company. In addition to the required experience and areas of expertise, the guidelines on the diversity of the Board are taken into account when choosing candidates.

The Annual General Meeting held on 4 April 2019 elected seven members to the Board of Directors, six men and one woman. The Board members have technical or business degree. Further, the other above factors and characteristics relevant to diversity were also represented in the Board of Directors in 2019.

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 4 April 2019 decided on the following remunerations for Board service until the next AGM: The Chairman of the Board will be paid EUR 64,000 a year and each member EUR 32,000 a year. Out of the annual remuneration to be paid to the Board members, 40 per cent of the total gross remuneration amount will be used to purchase Teleste Corporation's shares for the Board members through trading on regulated market organized by Nasdaq Helsinki Ltd, and the rest will be paid in cash. If committees of the Board of Directors are established for the Company, the following meeting fees will be paid: chairman EUR 600 and each member EUR 400 per meeting of the committee.

Salaries, remuneration and fringe benefits paid to the Board of Directors in 2019 were as follows:

- Ervi Pertti, EUR 65,600, including 4,332 Teleste shares
- Fagerholm Jannica, EUR 34,400, including 2,166 Teleste shares
- Himanen Jussi, EUR 32,000, including 2,166 Teleste shares
- Korpimies Vesa, EUR 33,200, including 2,166 Teleste shares
- Luukkainen Timo, EUR 32,000, including 2,166 Teleste shares
- Mäkijärvi Heikki, EUR 32,000, including 2,166 Teleste shares
- Telanne Kai, EUR 32,400, including 2,166 Teleste shares

AUDIT COMMITTEE

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

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

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

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

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

The Board of Directors, which convened after the Annual General Meeting on 4th April 2019, decided the composition of the Audit Committee as follows: Jannica Fagerholm (Chair), Pertti Ervi and Vesa Korpimies (members).

In 2019, Teleste's Audit Committee held 4 meetings. The Audit Committee members attended the meetings as follows:

- Ervi Pertti 4/4 (100%)
- Fagerholm Jannica 4/4 (100%)
- Korpimies Vesa 3/3 (100%), member since 4.4.2019
- Telanne Kai 1/1 (100%), member until 4.4.2019

According to the Rules of procedure for the Audit Committee the responsibilities of the Audit Committee include

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

- assessment of legal and regulatory compliance processes performing
- performing other tasks assigned to the committee by the Board of Directors.

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

PRESIDENT AND CEO

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

The detailed terms of employment of the CEO are specified in a 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 2019 totalled EUR 534,516. In addition, there was an additional pension payment of EUR 97,405 and a capital redemption payment of EUR 76,987 in the financial year.

The contractual retirement age of CEO Jukka Rinnevaara is 60 years. CEO's contract includes a defined contribution supplementary pension. The CEO's pension plan is arranged through group pension insurance and a capital redemption policy. The payment level of the group pension is 25 per cent of basic pay, excluding bonuses. Payment under the capital redemption policy is subject to the same adjustment procedure as the CEO's basic pay excluding bonuses.

The contract of CEO Rinnevaara specifies that his term of notice is six (6) months in case the CEO decides to withdraw, and eighteen (18) months should the contract be terminated by the company. Upon termination of the CEO's contract by the company, the CEO will be paid compensation corresponding to eighteen (18) months of service without benefits.

MANAGEMENT GROUP

On 31 December 2019, the Group's Management Group consisted of eight members including the CEO, to whom the members of the Management Group report. The members of the Management Group are directors representing Teleste's business areas and units and directors representing the Group management. The subsidiaries operate as part of the business areas. Teleste's Management Group is chaired by the CEO who reports to the Board of Directors. The Management Group has no authority under the law or the Articles of Association.

On 31 December 2019, Teleste's Management Group consisted of the following members:

- Rinnevaara Jukka, born 1961, M.Sc. (Econ.), CEO, In charge of the Group's business operations and corporate governance in accordance with the law, Teleste's Articles of Association and the instructions and regulations issued by the Board
- Slotte Johan, born 1959, LL.M., EMBA, Deputy CEO, In charge of Network Services business in Germany, Austria, and Switzerland, Head of corporate business development and legal affairs
- Hyytiäinen Juha, born 1967, M.Sc. (Econ.), CFO, In charge of Finance and ICT
- Narjus Hanno, born 1962, M.Sc. (Econ.), SVP, Network Products, In charge of Network Products business unit
- Harju Esa, born 1967, M.Sc. (Eng.), SVP, Video Security and Information, In charge of Video Security and Information business unit
- Järvenpää Pasi, born 1967, M.Sc. (Eng.), SVP, R&D, In charge of Teleste's Research and Development
- Mattila Markus, born 1968, M.Sc. (Eng.), SVP, Operations, In charge of Teleste's Operations
- Vanne Tuomas, born 1979, M.Sc. (Military Science), SVP, People & Competence, In charge of Group HR

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

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

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

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

INCENTIVE SCHEMES AND OWNERSHIP BY THE MANAGEMENT

Management Group's shareholding and share-based entitlements

On 31 December 2019, Management Group members and their controlled entities held shares in Teleste Corporation and other companies included in the Teleste Group as follows:

- Rinnevaara Jukka.................................104,368 shares
- Slotte Johan...11,056 shares
- Hyytiäinen Juha...8,447 shares
- Narjus Hanno...6,959 shares
- Harju Esa...11,050 shares
- Järvenpää Pasi...4,637 shares
- Mattila Markus..10,799 shares
- Vanne Tuomas...No shares

On 31 December 2019, 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.

Related Party Transactions

Teleste evaluates and monitors related party transactions in accordance with the Corporate Governance Code and Teleste's internal guidelines for related party transactions. Teleste strives to ensure that possible conflicts of interest are appropriately taken into account in the decision-making process. The main principle in all related party transactions is, that such transactions shall always relate to the company's normal business operations and are in line with the purpose of the company and executed on ordinary terms and practices. According to Teleste's knowledge, in 2019 Teleste had no related party transactions, which were material and deviated from normal business or were carried out on other than ordinary market terms.

Teleste reports related party transactions in a note to financial statements in section “the Related Party Transactions”.

Share-based incentive programme LTI 2015

On 5 February 2015, Teleste’s Board of Directors decided on the establishment of a new long-term share-based incentive programme to be offered to Teleste’s key employees (hereafter ‘LTI 2015’). The objective of LTI 2015 is to align the key employees’ interests with those of Teleste’s shareholders by creating a long-term equity interest for the key employees and, consequently, to increase the company’s value in the long term and to drive a performance culture, retain key employees and offer the key employees 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. The Board of Directors approved 37 key employees as eligible to participate in the first LTI 2015 program on 2015–2017, 42 key employees to participate on 2016–2018 and 40 key employees to participate on 2017–2019.

The gross quantity of matching shares delivered under the 2015–2017 plan ending in April 2018 was 47,250 shares, and the gross quantity of performance matching shares was 39,724 shares. A net quantity of 42,771 shares was delivered to the key employees entitled to reward through a directed share issue on 6 April 2018. The gross quantity of matching shares delivered under the 2016–2018 plan ending in April 2019 was 35,438 shares, and the gross quantity of performance matching shares was 0 shares. A net quantity of 22,361 shares were delivered to the key employees entitled to reward through a directed share issue on 5 April 2019. The maximum gross quantities of shares delivered under the 2017–2019 plan starting in 2017 are 36,101 matching shares and 144,404 performance matching shares. Applicable taxes are deducted from the gross quantities, and the remaining net quantity is delivered to the participants as Teleste shares.

Share-based incentive programme LTI 2018

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

The first plans within the programme are the matching share plan 2018–2020 and the performance share plan 2018–2020. The commencement of each new plan, its eligible participants and the matching ratio and performance targets applied to the individual plan is subject to a separate approval of Teleste’s Board of Directors in each case. The matching share plan 2018–2020 comprises the individual key employee’s investment in Teleste’s shares and the delivery of a specific number of matching shares without consideration as a share reward based on the share investment after the three-year vesting period. The matching shares are delivered according to a fixed matching ratio determined by the Board of Directors for each individual plan. The matching ratio applied to the matching share plan 2018–2020 is one matching share for every two shares invested. The maximum aggregate gross quantity of matching shares that may be delivered on the basis of the matching share plan 2018–2020 is 15,114 shares The performance share plan 2018–2020 comprises a three-year performance period. The potential share rewards will be delivered if the performance targets set by the Board of Directors are achieved. The performance measure applied in the performance share plan is the total shareholder return (TSR) of Teleste share. The above investment in Teleste’s shares is the requirement for an individual key employee to be included in the plan. If all the eligible key employees participate in the plan by fulfilling the investment precondition and the performance targets set for this performance share plan are fully achieved, the maximum number of shares that may be delivered under the performance share plan 2018–2020 is 262,200 shares (gross before the deduction of the applicable taxes). The Board of Directors approved 35 key employees as eligible to participate in the plans beginning in 2018. At the end of 2019, 27 key employees remained eligible in the programme.

The second plans within the programme are the matching share plan 2019–2021 and the performance share plan 2019–2021. The matching share plan 2019–2021 comprises the individual key employee’s investment in Teleste’s shares and the delivery of a specific number of matching shares without consideration as a share reward based on the share investment after the three-year vesting period. The matching shares are delivered according to a fixed matching ratio determined by the Board of Directors for each individual plan. The matching ratio applied to the matching share plan 2019–2021 is one matching share for each two shares invested. The maximum aggregate gross quantity of matching shares that may be delivered on the basis of the matching share plan 2019–2021 is 18,775 shares. The performance share plan 2019–2021 comprises a three-year performance period. The potential share rewards will be delivered if the performance targets set by the Board of Directors are achieved. The performance measure applied in the performance share plan is the total shareholder return (TSR) of Teleste share. The above investment in Teleste's shares is the requirement for an individual key employee to be included in the plan. If all the eligible key employees participate in the plan by fulfilling the investment precondition and the performance targets set for this performance share plan are fully achieved, the maximum number of shares that may be delivered under the performance share plan 2019–2021 is 291,120 shares (gross before the deduction of the applicable taxes). The Board of Directors approved 33 key employees as eligible to participate in the plans beginning in 2019. At the end of 2019 28 key employees remained eligible in the programme.

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 4 April 2019, 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 2019, Teleste Group's auditing expenses totalled EUR 197,298, of which the amount of KPMG was EUR 164,145. In addition, units of KPMG have supplied Teleste Group companies with other consultation worth total EUR 61,561 and other than KPMG auditors for EUR 35,700.

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 to 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 persons from financial administration participating in group accounting and management reporting.

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

People employed by Teleste may report 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 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 centralized controlling function, is responsible for compliance with the principles of internal supervision on all levels of the areas.

Risk management

Risk management is based on the strategic and business goals of Teleste Group. The Group risk principles and objectives are subject to approval by Teleste's Board of Directors. 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 the most significant risks and exercising control thereof in a cost-effective manner are emphasized. Risk management supports 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 areas. Risks are reported to the Board on a regular basis.

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

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

Internal auditing

Internal auditing evaluates the efficiency of the processes regarding risk management, supervision, management, and selected functions, and makes proposals for their improvement. Internal audit acts under the supervision of the Audit Committee and CEO. The responsible person for audit is a director appointed by the CEO and the expertise of bodies external to the auditing unit is used as needed. In addition, internal auditing may carry out special tasks assigned by the Audit Committee. 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 included in 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, Audit Committee and the Board of Directors prior to their publication. The auditor checks the correctness.

Key figures 2015–2019

	IFRS 2019	IFRS 2018	IFRS 2017	IFRS 2016	IFRS 2015
Profit and loss account, balance sheet					
Net sales, Meur	235.5	250.3	234.6	259.5	247.8
Change, %	-5.9	6.7	-9.6	4.8	25.7
Sales outside Finland, %	93.3	93.9	94.3	93.3	95.1
Operating profit, Meur	0.8	9.7	-7.5	15.6	14.3
% of net sales	0.3	3.9	-3.2	6.0	5.8
Profit after financial items, Meur	0.4	9.1	-8.5	14.8	13.9
% of net sales	0.2	3.6	-3.6	5.7	5.6
Profit before taxes, Meur	0.4	9.1	-8.5	14.8	13.9
% of net sales	0.2	3.6	-3.6	5.7	5.6
Profit for the financial period, Meur	-1.7	6.8	-9.1	11.8	11.0
% of net sales	-0.7	2.7	-3.9	4.6	4.4
R&D expenditure, Meur	13.5	12.5	12.1	11.1	11.0
% of net sales	5.7	5.0	5.1	4.3	4.4
Gross investments, Meur	13.0	7.0	7.5	5.5	16.9
% of net sales	5.5	2.8	3.2	2.1	6.8
Interest bearing liabilities, Meur	33.0	26.8	33.2	30.6	33.0
Shareholder's equity, Meur	72.8	77.2	71.4	84.4	77.5
Total assets, Meur	149.6	159.0	153.5	162.1	164.5
Personnel and orders					
Average personnel	1,363	1,393	1,492	1,514	1,485
Order backlog at year end, Meur	73.2	71.0	57.4	26.9	42.2
Orders received, Meur	237.6	264.0	262.9	244.3	251.3
Key metrics					
Return on equity, %	-2.2	9.2	-11.7	14.6	14.9
Return on capital employed, %	1.6	9.3	-6.6	14.8	14.2
Equity ratio, %	49.5	51.7	48.3	52.5	48.3
Gearing, %	34.1	5.9	16.8	25.0	26.3
Earnings per share, euro	-0.07	0.38	-0.50	0.65	0.61
Earnings per share fully diluted, euro	-0.07	0.38	-0.50	0.65	0.61
Shareholders equity per share, euro	4.00	4.25	3.94	4.66	4.28

	IFRS 2019	IFRS 2018	IFRS 2017	IFRS 2016	IFRS 2015
Alternative performance measures					
Adjusted operating profit	7,711	9,721	-7,549	15,635	14,302
Adjusted earnings per share, EUR	0.31	0.38	-0.50	0.65	0.61
Bridge of calculation					
Operating profit	769	9,721	-7,549	15,635	14,302
Cost item caused by a crime[1]	6,942	0	0	0	0
Adjusted operating profit	7,711	9,721	-7,549	15,635	14,302
Net profit/loss to equity holder	-1,327	6,975	-9,106	11,820	11011
Outstanding shares during the quarter	18,181	18,122	18,202	18,169	18,037
Earnings per share, basic	-0.07	0.38	-0.50	0.65	0.61
Net profit/loss to equity holder	-1,327	6,975	-9,106	11,820	11,011
Cost item caused by a crime	6,942	0	0	0	0
Outstanding shares during the quarter	18,181	18,122	18,202	18,169	18,037
Adjusted earnings per share, EUR	0.31	0.38	-0.50	0.65	0.61

[1] Related to a crime against a foreign subsidiary, as announced 6th of March 2019, the operating result was adjusted in the first quarter for the loss of assets and for a provision associated with proceedings in the matter. 650 thousand Euros of the assets lost were recovered during the fourth quarter. Accrued costs and increased provision for proceedings in the matter were 294 thousand Euros during the fourth quarter. Diverse measures to recover the lost assets and mitigate the final losses are still underway in several countries.

Alternative performance measures

Effective from the beginning of 2019, Teleste has started to report non-IFRS alternative performance measures. The calculation of the alternative performance measures does not take into account income or expense items affecting comparability that are non-recurring or infrequently occuring and not part of the ordinary course of business. The purpose of presenting the alternative performance measures is to improve comparability, and they do not replace the performance measures and key figures presented in accordance with IFRS. The alternative performance measures reported by the Group are adjusted operating result and adjusted earnings per share. Adjusted operating result and adjusted earnings per share exclude material items affecting comparability that are not part of the ordinary course of business. The adjusted items are recognised in the income statement within the corresponding income or expense group.

Adjusted operating profit	Operating profit is adjusted with items which are non-recurring or infrequently.
Adjusted earnings per share	Adjusted profit for the period attributable to equity holder of the parent / Weighted average number of ordinary shares outstanding during the period

Calculation of Key Figures

Return on equity:	Profit/loss for the financial period / Shareholders' equity (average)	x 100
Return on capital employed:	Profit/loss for the period after financial items + financing charges / Total assets – non-interest-bearing liabilities (average during the financial year)	x 100
Equity ratio:	Shareholders' equity / Total assets – advances received	x 100
Gearing:	Interest bearing liabilities – cash in hand and in bank – interest bearing assets / Shareholders' equity	x 100
Earnings per share:	Profit for the period attributable to equity holder of the parento / Weighted average number of ordinary shares outstanding during the period	
Earnings per share, diluted:	EmProfit for the period attributable to equity holder of the parent (diluted) / Average number of shares – own shares + number of options at the period-end	
Equity per share:	Shareholders' equity / Number of shares – number of own shares at year-end	
Price per earnings (P/E):	Share price at year-end / Earnings per share	
Efective dividend yield:	Dividend per share / Trading price at the end of the period	

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-to-dateness, truthfulness and simultaneity.

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

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

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

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

CONTACT INFORMATION

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 small cap segment.

Facts about the share:

Listed on	30.3.1999
ISIN code	FI0009007728
Trading code	TLT1V
Reuter's ticker symbol	TLT1V. HE
Bloomberg ticker symbol	TLT1V FH
12 months high	6.80
12 months low	5.04
All-time high (7.9.2000)	39.00
All-time low (12.12.2008)	1.90

FINANCIAL INFORMATION

Financial releases in 2020

Interim report January–March	15.5.2020
Half year financial report January–June	13.8.2020
Interim report January–September	29.10.2020

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

Silent period

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

CHANGES IN SHAREHOLDERS' CONTACT INFORMATION

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

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

ANNUAL GENERAL MEETING

Teleste Corporation's Annual General Meeting will be held on 22 April 2020, 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 8 April 2020 in the shareholders' register of the Company main- tained 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 15 April 2020 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.

A shareholder, his/her representative or proxy representative shall, on demand, be able to prove their identity and/or right to representation at the venue.

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 15 April 2020 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 8 April 2020, 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 17 April 2020, 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.

Changes in shareholdings that take place after the record date of the General Meeting do not affect the right to participate in the General Meeting or the shareholder's share of votes.

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 2019

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 2019 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 24 April 2020 is registered in the Company's shareholders' register maintained by Euroclear Finland Ltd. The dividend will be paid on 4 May 2020.

Payment of divided

Annual General Meeting	22.4.2020
Divided ex date	23.4.2020
Dividend record date	24.4.2020
Payment of dividend	4.5.2020

Osinkohistoria, eur

2013	2014	2015	2016	2017	2018	2019
0.19	0.20	0.23	0.25	0.10	0.20	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: **https://www.teleste.com/investors/corporate-governance/annual-general-meeting**.

Minutes of the Annual General Meeting will be available at Teleste's website no later than 6 May 2020.

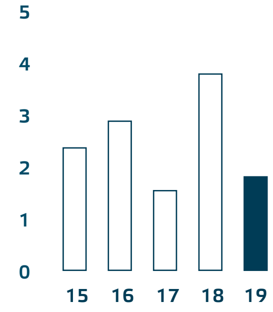
Teleste share

	2019	2018	2017	2016	2015
Highest price, euro	6.8	7.58	9.62	10.24	9.88
Lowest price, euro	5.04	5.12	6.51	7.29	5.32
Closing price, euro	5.34	5.26	6.68	8.86	9.80
Average price, euro	5.72	6.72	8.19	8.69	7.42
Price per earnings	-73.2	13.8	-13.3	13.6	16.1
Market capitalization, Meur	101.4	99.9	126.8	160.6	177.6
Stock turnover, Meur	9.2	13.3	16.8	30.6	24.6
Turnover, number in millions	1.6	2.0	2.0	3.5	3.3
Turnover, % of capital stock	8.5	10.4	10.8	18.5	17.5
Average number of shares	18,985,588	18,985,588	18,985,588	18,985,588	18,985,588
Number of shares at the year-end	18,985,588	18,985,588	18,985,588	18,985,588	18,985,588
Average number of shares, diluted w/o own shares	18,181,177	18,168,088	18,202,396	18,169,002	18,036,667
Number of shares at the year-end, diluted w/o own shares	18,207,708	18,155,300	18,172,350	18,216,369	18,121,635
Paid dividend, Meur	1.8	3.6	1.8	4.5	4.2
Dividend per share, euro	0.10*	0.20	0.10	0.25	0.23
Dividend per net result, %	neg.	53.1	neg.	38.3	37.7
Effective dividend yield, %	1.9	3.8	1.5	2.8	2.3

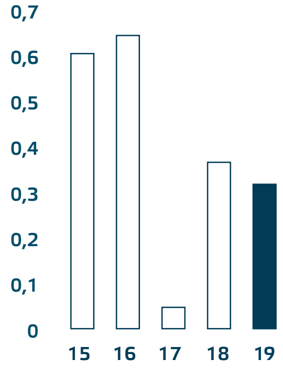
** The Board's proposal to the AGM*

Share price development 2015–2019
Eur

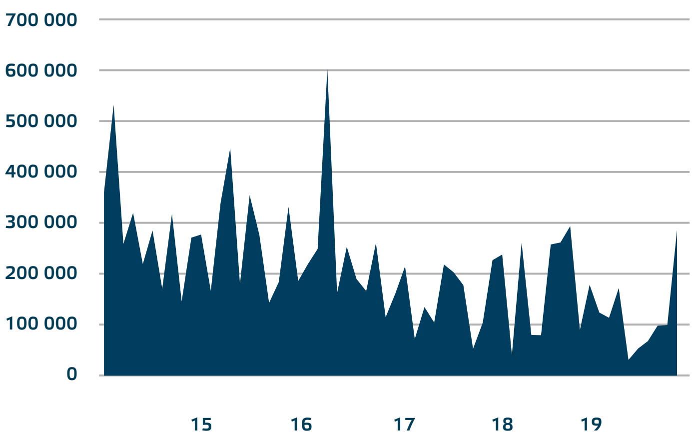
Effective dividend yield,
%



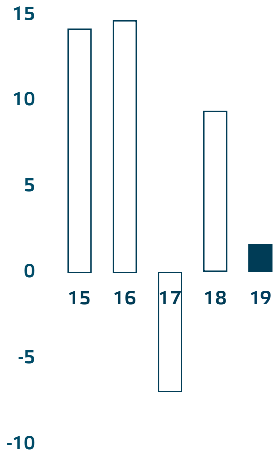
Earnings per share, adjusted
Eur



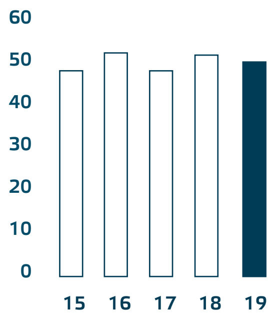
Share monthly turnove 2015–2019
1 000 Eur



Return on capital employed
%



Equity ratio
%



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

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