TELESTE

# Annual Report 2008


## Broadband Cable Networks

Broadband Cable Networks delivers equipment, systems and services related to data communication networks. The business unit specialises in broadband coaxial and fibre-optic networks as well as processing of analog, digital and IP-based video signal.

## Video Networks

Video Networks supplies integrated CCTV systems for professional applications. The business unit has high-quality expertise in analog, digital and IP-based solutions, that require networking of cameras, recorders and monitoring stations from a number of points-of-service.

"Our competitive edge comes from combining latest innovations with deep understanding of customer needs."

# **Teleste** – The leading provider of broadband video technology and services

## Our Vision

The digital world is changing rapidly. TV and Internet industries are converging and video will be everywhere from television sets to mobile devices to surveillance cameras. For Teleste, this change represents a huge opportunity as we have a unique position on the border of video and data as we have a long history in both broadcast and broadband technologies. From this unique position, our goal is to become the leading provider of broadband video technology and services for operators.

For Teleste, being the leading provider means that we are a major player in all our markets. Being the leader also means customer driven technology leadership – combining the latest technology with deep understanding of customer needs. Video will continue to be at the heart of everything we do. To complement our high quality products, we are extending our service offering to create end-to-end solutions to all operators offering video related services – from cable operators to telcos and from hotel integrators to public authorities.

## Our Values

**CUSTOMER CENTRICITY** We monitor our business environment and operate proactively. We understand the customer's overall needs and meet them together. We are close to the customer – now and in the future. Customer centricity also involves the understanding and appreciation of internal customer relationships.

**RESPECT** We respect people and treat them with equal human dignity. We give recognition, listen and be fair and just. We communicate openly and give constructive feedback. We encourage trust and an open, relaxed atmosphere.

**RELIABILITY** We do what we promise and follow jointly established procedures. We proceed in a responsible manner. We are all responsible for Teleste's success and each employee is entitled to good leadership.

**RESULT ORIENTATION** We set challenging goals, communicate them clearly and complete tasks we set out to accomplish. We act promptly. We are open to change. We renew and develop ourselves in order to grow profitably.

"Investing in the services business, which is less sensitive to market fluctuations, constitutes a deliberate step in line with our strategy. In addition, services business provides a natural sales channel for Teleste's network products."

| Year 2008 in Brief | | | |
|---|---|---|---|
| | 2008 | 2007 | Change, % |
| Orders received, Meur | 118.6 | 118.5 | 0.1 |
| Net sales, Meur | 108.7 | 125.1 | –13.1 |
| Operating profit, Meur | 5.6 | 13.2 | –57.3 |
| Profit for the financial period, Meur | 5.5 | 9.4 | –41.5 |
| Earnings per share, eur | 0.32 | 0.55 | –41.4 |
| Shareholder´s equity per share, eur | 2.74 | 2.69 | 1.9 |
| Return on capital employed, % | 10.4 | 27.1 | –61.6 |
| Turnover, % of share capital | 64.6 | 40.5 | 59.5 |



# CEO's Letter

In 2008, Teleste came to face the same realities of global economy as almost every other company operating in the international market. Uncertainty with the downward trend that started early in the year were accompanied by powerful fluctuations of the exchange rates and followed by the credit crunch in the autumn led to a year-on-year fall in Teleste's net sales and operating profit.

Regardless of the downturn, our business areas and markets show many positive characteristics. I base my view evenhandedly on generally recognised trends of our business and some cold figures.

Teleste's High End products provide strong positions regarding definite growth platforms of the near future: broadband and video processing technology as well as CCTV networks. Our significant opening gambit completed in June in the growing cable TV market of India and acquisitions of cable network services companies prepared at the very end of the year in Germany create well-founded confidence in the future. Furthermore, our order backlog grew by approximately one fifth over the previous year.

## Orders – A Beam of Light

In many ways, 2007 was Teleste's most successful year on record. Considering the exceptional situation of the world economy in 2008, a drop from the figures of that record year may not have been entirely unexpected. Net sales amounted to EUR 108.7 (125.1) million, a fall of 13.1% over the year of comparison. Similarly, operating profit stood at EUR 5.6 (13.2) million, a fall of 57.3% over the previous year. Undiluted result per share ended at EUR 0.32 (0.55). Return on investment amounted to 10.4% (27.1%) while return on equity was 11.8% (22.2%).

In spite of the market situation, orders received by Teleste showed a positive development in 2008. The number of orders rose right up to the previous year's level of EUR 118.6 (118.5). Order backlog grew by 11.6% amounting to EUR 24.0 (21.5) million at the year-end.

## Single Biggest Order on Record from India

The primary business of Broadband Cable Networks, Teleste's largest unit, involves providing cable operators with systems and equipment related to signal processing and data communication networks. In the past few years, the market for this business unit has been growing strongly as the operators upgrade their networks in preparation for higher capacity broadband connections, digital television and IPTV functionality based on the Internet Protocol. There is a clear tendency among the operators to focus on their own core business while creating new service concepts. At the same time they are outsourcing their technical operations to expert companies like Teleste.

The main reason for Teleste to fall short of its growth targets for 2008 was the fact that the cable operators became more cautious with regard to their investment policies. As the capital market became tighter and the economic uncertainty gained ground, some of our key customers pushed back their procurements including deliveries based on framework agreements made earlier. The decline was particularly noticeable in the significant segment of amplifier deliveries.

Regardless of the general caution in the market, we achieved some outstanding commercial successes. One item I wish to highlight in particular is the single biggest order secured by Teleste in India. In 2009 to 2010 we will provide Digicable Network with an IP-based digital television system worth EUR 12 million. This order, based on our new Luminato headend technology, will put Teleste among the significant players in the developing Indian cable television market, which provides ample opportunities. In addition, we have strengthened our presence in India by establishing a new subsidiary in Mumbai.

Other commercial highlights involve the noteworthy three-year distribution and spur feeder amplifier order for Cableway, a company serving the German cable operators. Cooperation with the French Altice Group was continued by a new contract involving modernisation of broadband networks by AC8000 optical node receivers, whereas the coaxial network of the Belgian cable operator Telenet will be upgraded using fibre-optics from Teleste, more specifically by means of equipment related to the HDO and AC product families.

In 2008, net sales of Broadband Cable Networks equaled EUR 92.6 (108.2) million, a drop of 14.4% over the previous year. Operating profit totaled EUR 6.1 (12.8) million, a year-on-year decrease of 52.4%.

## Commercializing Promising Products

In the medium term, prospects for the Broadband Cable Networks business unit seem good. In combined coaxial and fibre-optic networks, Teleste is the leading company and technical pioneer in Europe. Entirely automatic and intelligent broadband amplifiers of the AC product family have met with an interested reception especially for their user-friendliness. For advanced markets we supply distribution networks based on technologies such as EttH (Ethernet to the Home) and FttH (Fiber to the Home). The data transfer capacity of solutions based on the FttH, providing the last mile solution, can get as high as 1,000Mbps.

In 2008, Teleste began deliveries of the Luminato headend based on the IP technology. This compact and energy-efficient solution combines and effectively transfers analog, digital and IP-based video signals. This year our product development continues and we will introduce new features in Luminato. The IPTV system Teleste MyCast provides us new opportunities to expand our clientele among the telephone and energy companies as well as the hospitality solutions providers. Companies in the specified lines of business are highly interested in the interactive television services enabled by systems like MyCast.

## Improved Safety for Railway Stations in France

Teleste's other business unit, Video Networks, specialises in the delivery of large-scale integrated CCTV systems. Our main emphasis here involves networks that combine cameras, recorders and monitoring workstations of several points-of-service. Great majority of our customers stand for public sector organisations, but also energy companies and heavy industry provide an interesting potential.

Professional CCTV applications are shifting from analog solutions to digital systems based on the use of IP networks. Here, too, in terms of growth our medium term outlook appears promising. Moreover, our product development provides savings and synergic benefits since both of our business units are capable of drawing on a common body of competence.

In 2008, Video Networks secured two considerable orders from the French National Railway Authority SNCF. The first order involves delivery of a high-quality recording and management system for 50 intercity railway stations all over France. The second order complements the Paris metropolitan area CCTV system delivered earlier by Teleste. The system involved is one of the largest in the world encompassing more than 200 stations and 5,000 cameras. Cooperation going back several years and the follow-on-orders are tell-tale signs of satisfaction on the part of SNCF with the solutions and services Teleste can provide.

In 2008, net sales of Video Networks amounted to EUR 16.1 (16.9) million, a fall of 4.8% over the year of comparison. Operating result ended at EUR 0.5 million in the red. The loss was caused by decreased net sales and slow elasticity of the relevant cost-structures.

## New Markets Through Acquisitions, Efficiency By Enhanced Production

In February 2008, Teleste acquired the entire share capital of the Finnish software company Ortikon Interactive. Ortikon applications and Teleste products and services complement one another in an excellent manner. Our new IPTV system, Teleste MyCast, is based on a suite of software applications developed by Ortikon. With the advanced MyCast, Teleste's offering, especially for the telephone operators, will be stronger than ever.

Right in the last days of the past year we prepared a set of contracts by which Teleste acquired – on 1 January 2009 – three German companies specialising in technical services for the cable network industry. The combined net sales of the relevant companies, MKS, Young-Net, and Antel, amount to approximately EUR 30 million. Following the transactions, Teleste is one of the most significant services companies in the largest European cable network markets. Investing in the services business, which is less sensitive to market fluctuations, constitutes a deliberate step in line with our strategy. It is likely that with growing demands for achieving savings and increased complexity, operators continue to outsource their technical services. In addition, services business provides a natural sales channel for Teleste's network products.

Internally, we pressed on with streamlining our production and bringing our processes on a more efficient level. One of our outstanding decisions was to relocate our Finnish production from Nousiainen to Littoinen, which means centralising and expanding our premises in Littoinen. In manufacturing process we put a strong emphasis on the introduction of the Lean manufacturing. The Lean manufacturing aims at increased customer satisfaction and achieving cost-cuts by eliminating any unnecessary waste and non-value adding activities.

Consistency of our product-creation process was developed further. This means a mode of operation, which enables controlled decentralisation between several actors involved in large product development projects. This will improve Teleste's ability to respond to new technologies and changing market situations. Our R&D expenses for the financial period stood at EUR 13.5 million, and 25% of our personnel worked on assignments involving product development. Moreover, we continued networking with our competent technology partners, Finnish universities and research institutes in a number of projects.

Teleste went on with its determined program designed to increase cost-effectiveness and profitability. At the end of the review period, co-determination negotiations were initiated to bring our level of costs in line with the changed market situation. As a result, a decision concerning lay-off of our personnel working in Finland was reached. An average lay-off period is two weeks. Negotiations involving further lay-offs will be continued as required by the market situation.

## Focus on 2009

I wish to emphasise that at the time this is being written, there is a lot of uncertainty concerning the depth of the global downturn. In my estimation economic uncertainty factors and disturbances caused by the credit crunch will also be reflected in Teleste's key figures as the operators proceed with their network investments with accentuated caution. We should be careful regarding estimates for 2009, but investments in the services business will make the cyclic pattern of the investment-driven product and solutions business smoother.

Our investments carried out through acquisitions in the services business in Germany – the largest European cable market – will start to give results right in the current year. Even if a large number of new investments would fail to materialise, current networks will have to be maintained and repaired – in other countries as well. Increasing our services business constitutes an essential priority in line with our strategy.

Export business in a number of markets accounts for more than 90% of Teleste's net sales. The prevailing general downturn in the global economy does not affect all regions with equal severity. Global pressurez towards increased broadband capacity, digitalisation of television services and introduction of the IPTV format will bring Teleste significant contracts also in this year. I expect growth especially in the developing markets such as India but also in countries more advanced in terms of network technology such as the United Kingdom.

Our customers for the CCTV segment mainly represent the public sector. It is only commonsense to assume that the market situation will not affect their investments in such a straightforward manner as it hits the private sector. Actually, the economic recovery measures taken by governments often involve modernisation of traffic routes, which provide typical examples of projects in which Teleste's high-quality expertise in video surveillance is required.

Nevertheless, in this uncertain market situation we must prepare for a diminishing market demand for our lines of business. Delays in network investments may lead to weakened net sales and profitability at least as far as the first half of 2009 is concerned.

Finally, I wish to express my heartfelt thanks to all who have helped Teleste to succeed in the challenging year. Much of the credit is due to our competent personnel. I thank our customers and partners for good cooperation, and shareholders for their genuine interest and confidence. I invite all our stakeholders to join the on-going change and cooperation by which we turn Teleste into a leading provider of video technology driven by broadband applications.

Teleste Corporation
CEO Jukka Rinnevaara

# Shares and Shareholders

## Annual General Meeting

Teleste Corporation's Annual General Meeting will be held on Tuesday, 7 April 2009, commencing at 3 p.m., at Finlandia Hall in Helsinki, Mannerheimintie 13 e. Registration begins at 2 p.m.

Shareholders wishing to attend the Annual General Meeting must be registered on the list of shareholders kept by Euroclear Finland Oy (former Finnish Central Securities Depository Ltd) no later than Friday, 27 March 2009. Shareholders wishing to attend the Annual General Meeting must inform the specified company no later than 31 March 2009 by 4 p.m.

## Registration

E-mail: investor.relations@teleste.com
Post: Tiina Vuorinen, Teleste Corporation,
P.O. Box 323, FI-20101 Turku, Finland
Telephone: +358 2 2605 611, fax: +358 2 2605 812

## Proxies

Attendance information must be delivered before the deadline specified above. Please indicate any use of proxy upon the registration procedure. In such event, the relevant document should be delivered to the company before expiry of the registration period.

## Dividend Policy

Teleste intends to be an interesting 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 2008

The Board of Directors proposes that a dividend of EUR 0.12 per share for the financial year 2008 will be paid to free-floating shares. The dividend will be paid to shareholders who are registered on the record date of 27 March 2009 on the company's Shareholder List, which is kept by Euroclear Finland Oy.

Annual General Meeting ................................................. 7.4.2009
Dividend ex date.............................................................. 8.4.2009
Dividend record date......................................................14.4.2009
Dividend payment date..................................................21.4.2009

**Dividend history, eur**

| 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008* |
|---|---|---|---|---|---|---|---|---|---|
| 0.10 | 0.12 | 0.16 | 0.08 | 0.08 | 0.12 | 0.16 | 0.20 | 0.24 | 0.12 |

* Board proposal

For more information on the Annual General Meeting see page 28.

## Publication of Financial Information in 2009

Teleste releases annually a Financial Statements bulletin, Annual Report and three Interim Reports. These publications including the stock exchange releases are available in Finnish and English on the corporate Website under Investors. You can also subscribe to the reports and releases on the Teleste Website under Investors by accessing News Service under Stock Exchange Releases.

Printed Annual Report will be delivered to all shareholders with their relevant contact information in the registry kept by Euroclear Finland Oy.

Interim Report, January–March ....................................22.4.2009
Interim Report, January–June .......................................22.7.2009
Interim Report, January–September ............................7.10.2009
Financial Statements ....................................................... 3.2.2010

Teleste exercises a Silent Period of two weeks preceding publication of Financial Statements and Interim Reports. During these periods Teleste will not participate in any meetings with investors or analysts and Group representatives are not allowed to comment upon company results.

## Share Register

Shareholder postings are carried out based on the information in the shareholder's register kept by Euroclear Finland Oy. Shareholders are kindly requested to inform the custodian of their book-entry account of any changes in contact details. In the event Euroclear Finland Oy acts as the account operator, any changes will be notified to the address:
Euroclear Finland Oy, P.O. Box 1110, FI-00101 Helsinki, Finland.

## Investor Relations

Teleste CEO Jukka Rinnevaara is in charge of dissemination of corporate information. In addition to the CEO, the top management of the company is committed to serving various parties of the capital market. Teleste Corporation aims at open communication. The basic principles guiding our relevant policies include truthfulness, consistency, timeliness and balanced approach. For all events, any specified information involving corporate strategy and development is based on previously published data.

## Contact Information

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Tiina Vuorinen, Investor Relations and Press Office
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E-mail: investor.relations@teleste.com

## Share Basics

Teleste Corporation is listed on the NASDAQ OMX Helsinki Oy in the Information Technology sector. In 2008, the company was included in the small cap segment.

Teleste has one series of shares. In Annual General Meeting each share carries one vote and confers an equal right to a dividend. Regulation concerning nominal value of the share was deleted from the Articles of Association in compliance with decision taken by the Annual General Meeting on 3 April 2007. The company shares have been included in the book-entry securities system.

Listed on........30.3.1999
ISIN code........FI0009007728
Trading code........TLT1V
Reuters ticker symbol........TLT1V.HE
Bloomberg ticker symbol........TLT1V FH
12 months high........7.49
12 months low........1.90
All-time high (7.9.2000)........eur 39.00
All-time low (12.12.2008)........eur 1.90

## Share price and trading

In terms of the company share price in 2008, the low was EUR 1.90 (6.47) and the high EUR 7.49 (12.34), respectively. Closing price at the end of the year stood at EUR 2.24 (6.71). In 2008, 11.5 (7.2) million shares standing for 64.6% (40.5%) of the share capital were traded on NASDAQ OMX Helsinki.

Market capitalization at the year-end stood at EUR 39,884,522 (2007: 118,574,457).

## Share capital and the number of shares

At the balance sheet date, the company's registered share capital equalled EUR 6,966,932.80. The number of shares was 17,805,590.

In the review period, 134,285 new shares were subscribed by Teleste 2002B options.

In May 2008, the Board of the company decided to launch a repurchase program of own shares based on authorisation granted by the Annual General Meeting. In compliance with the Board's decision, in the review period 421,470 shares were purchased out of the total amount of 500,000; the purchase price averaged EUR 3.29 per share. At the end of December, the number of own shares in the Group possession stood at 766,191 (352,482) out of which Teleste Corporation had 266,191 shares and the subsidiary Teleste Incentive Oy had 500,000 shares, respectively. The Group's holding of the total amount of shares at the end of the period amounted to 4.3% (1.9%).

In the period under review, 7,761 own shares were conveyed to the Management Team share bonus scheme. This equals 0.04% of the total number of shares. On 22 December 2008, 500,000 own shares were transferred to Teleste Incentive Oy owned 100% by Teleste Corporation.

## Flagging notifications

On behalf of their customers, Schroder Investment Management Limited flagged their holding of Teleste to have decreased below five per cent by transactions performed on 22 July 2008.

**Subscriptions for Options in 2008**

In the period under review, 134,285 shares were subscribed using 2002B options.

| Date of registration | Stock option | Number of new shares | New total number of shares |
|---|---|---|---|
| 10.3.2008 | 2002B | 3 900 | 17 675 205 |
| 12.5.2008 | 2002B | 10 300 | 17 685 505 |
| 14.7.2008 | 2002B | 3 250 | 17 688 755 |
| 8.9.2008 | 2002B | 15 889 | 17 704 644 |
| 16.10.2008 | 2002B | 100 946 | 17 805 590 |

Period for subscription of Teleste Corporation 2002A stock options expired 1 October 2007.
Period for subscription of Teleste Corporation 2002B stock options expired 1 October 2008.

## Listed options:

2004A
2004A options were listed on NASDAQ OMX Helsinki Oy on 24 August 2007.
Period for subscription of 2004A stock options expires on 30 April 2009.
On 31 December 2008, subscription price of Teleste Corporation share with 2004A stock option stood at EUR 5.26 per share.

2004B
The 2004B options distributed to Teleste key personnel were listed on NASDAQ OMX Helsinki Oy on 1 April 2008.
Period for subscription of 2004B stock options expires on 30 April 2010.
On 31 December 2008, subscription price of Teleste Corporation share with 2004B stock option stood at EUR 5.87 per share.

Annually paid cash dividends will be deducted from the share subscription prices on the dividend record date following the Annual General Meeting.



New holding at the moment of flagging was 4.96% of the company share capital and 4.42% of the votes.

After the review period, with the share transactions carried out on 14 and 29 January 2009, EM Group Oy flagged their holding of Teleste to have increased up to 5.04% and 10.57%, respectively.

With the share transaction carried out on 10 February 2009, Reima Kuisla flagged his holding of Teleste to have increased up to 5.59%.

On 26 February 2009 Reima Kuisla flagged his holding of Teleste to have decreased down to 0%.

On 26 February 2009 EM Group Oy flagged their holding of Teleste to have increased up to 20.32%.

## Authorisations to the Board

On 1 April 2008, the Annual General Meeting authorised the Board to acquire the maximum of 1,400,000 of the company's own shares and to convey the maximum of 1,744,721 company's own shares. The Annual General Meeting also authorised the company to issue 5,000,000 new shares. The maximum number of shares that may be subscribed with the special rights granted by the Company is 2,000,000. These authorisations will be valid until the Annual General Meeting due to be held in 2009. No special rights were drawn upon.

## Share-based incentive schemes

Teleste's system of payroll and incentives is designed to support the corporate business strategy. Incentive schemes are designed to promote performance on both a company and individual levels. Incentives used by Teleste include bonus pay, payment by results and share-based schemes.

The Annual General Meeting held on 3 April 2007 approved of a share option plan involving key personnel. According to this, 840,000 new shares may be subscribed; the plan's possible dilution effect might be 4.6%.

In 2008, the target payment of the company Management Group included no share bonus element.

In 2008, the number of Teleste Corporation's own shares conveyed in the context of the 2007 share bonus scheme of the Management Group was 7,761.

The company has surveyed new, alternative types of incentive schemes, and based on this, own shares have been conveyed unrequited to Teleste Incentive Oy.

On the balance sheet day, the Parent Company Management had a holding of 163,891 parent company shares (0.92%).

## Insider Register

Teleste complies with insider regulations conforming to insider regulations approved by NASDAQ OMX Helsinki (revised on 2 June 2008). These regulations have been supplemented by company internal specifications. Membership in the Teleste permanent inner circle is based on position. Thus, the group consists of members of the Board of Directors, CEO and the auditors. Furthermore, the extended inner register includes members of the Management Group and the CEO's assistant.

The permanent members of Teleste's insider register are obliged by the so-called Silent Period during which trading on company shares is banned completely for 14 days preceding publication of Interim Reports and the Financial Statements.

In addition to this, the project-specific insider register includes personnel who, based on their position, have access to company-related information, which upon publication may affect formation of value of the company's share. Persons included in a project-specific inside circle are not allowed to trade on company shares from the date of publication of the relevant project to its expiration. The CEO will assess, on a case-by-case basis, whether an issue or arrangement under preparation will be defined as a project.

The company insider administration is included in the SIRE system of Euroclear Finland Oy.

## Liquidity providing

The agreement made in August 2005 between Teleste Corporation and Kaupthing Bank on Liquidity Providing (LP) involving Teleste Corporation's share expired on 22 October 2008. The contractual liquidity providing was discontinued on 9 October 2008 following the announcement by Kaupthing Bank of the termination of its brokering authorisation and the contract was not renewed.

## Analyst Coverage

According to our information, analysts listed below monitor Teleste's performance on their own volition (the list may be incomplete). Teleste takes no responsibility for opinions or forecasts presented by them.

Carnegie Investment Bank Ab, Ilkka Haavisto
Enskilda Securities, Antti Karessuo
eQ Bank Ltd, Antti Saari
EVLI, Mikko Ervasti
FIM, Mark Mattila
Handelsbanken Capital Markets, Karri Rinta
Kaupthing Bank, Mika Metsälä
Danske Markets Equities, Ilkka Rauvola
Nordea Markets, Martti Larjo
Pohjola Bank plc, Hannu Rauhala

**Stock Option Plans**

| Date of Annual General Meeting | Stock option program | Number of shares | Subscription period | Subscription price 31.12.2008 | Period of subscription price |
|---|---|---|---|---|---|
| 16.3.2004 | 2004A | 300 000 | 1.4.2007–30.4.2009 | 5.50 | 1.–30.4.2004 |
| | 2004B1 | 150 000 | 1.4.2008–30.4.2010 | 6.11 | 1.–30.4.2005 |
| | 2004B2 | 150 000 | 1.4.2008–30.4.2010 | 6.11 | 1.–30.4.2005 |
| 3.4.2007 | 2007A | 280 000 | 1.4.2010–30.4.2012 | 12.69 | 1.–30.4.2007 |

Terms and subscription forms for share option plans with valid subscription period are available at Teleste Website.

| Public Insider Register with Share Holding and Stock Options on 31 December 2008 | | | |
|---|---|---|---|
| | Basis | Shares | Options |
| **The Board of Directors** | | | |
| Hintikka Tapio | Chairman of the Board of Directors | 14 353 | - |
| Laaksonen Tero | Member of the Board of Directors | 23 152 | - |
| Raatikainen Pertti | Member of the Board of Directors | 7 543 | - |
| Telanne Kai | Member of the Board of Directors | 1 819 | - |
| Toivila Timo | Member of the Board of Directors | 54 293 | - |
| Vennamo Pekka | Member of the Board of Directors | 12 374 | - |
| Total | | 113 534 | |
| **Management** | | | |
| Rinnevaara Jukka | President and CEO | 50 357 | 160 000 |
| Järvenreuna Juha | Other criteria for disclosure requirement | 1 942 | 70 000 |
| Kinnunen Esa | Other criteria for disclosure requirement | 1 310 | 30 000 |
| Mattila Markus | Other criteria for disclosure requirement | - | 15 000 |
| Myllylä Esko | Other criteria for disclosure requirement | 4 441 | 47 000 |
| Narjus Hanno | Other criteria for disclosure requirement | - | 30 000 |
| Saarikoski Erja | Other criteria for disclosure requirement | 5 158 | 60 000 |
| Slotte Johan | Other criteria for disclosure requirement | 3 535 | 70 000 |
| Vuorinen Tiina | Other criteria for disclosure requirement | 330 | 500 |
| Total | | 67 073 | 482 500 |
| **Auditors** | | | |
| Nyman Sixten | Chief auditor | - | - |
| Kailiala Esa | Deputy auditor | - | - |

For presentation of the Members of the Board of Directors see page 30. For presentation of the company Management Group see page 29.

**Distribution of Ownership**

At the end of 2008, the number of Teleste shareholders totalled 5,532, the comparable figure for 2007 being 5,270. At the same time, foreign and nominee-registered holding accounted for 11.18%, while the corresponding figure for 2007 was 20.51%.

| Sector Dispersion on 31 December 2008 | | | | |
|---|---|---|---|---|
| Shareholders | Number of shareholders | Percentage of shareholders | Number of shares | Percentage of shares |
| Corporations | 321 | 5.80 | 2 989 398 | 16.79 |
| Financial and insurance institutions | 23 | 0.42 | 4 674 291 | 26.25 |
| Public bodies | 12 | 0.22 | 2 879 657 | 16.17 |
| Non-profit organisations | 47 | 0.85 | 773 431 | 4.34 |
| Households | 5 084 | 91.90 | 4 499 012 | 25.27 |
| Foreign and nominee register accounts | 45 | 0.81 | 1 989 801 | 11.18 |
| Total | 5 532 | 100.00 | 17 805 590 | 100.00 |
| **Holding Dispersion** | | | | |
| Number of shares | Number of shareholders | Percentage of shareholders | Shares | Percentage of shares |
| 1–100 | 1 225 | 22.14 | 87 389 | 0.49 |
| 101–1 000 | 3 279 | 59.27 | 1 357 341 | 7.62 |
| 1 001–10 000 | 912 | 16.49 | 2 585 456 | 14.52 |
| 10 001–100 000 | 86 | 1.55 | 2 192 222 | 12.31 |
| 100 001– | 30 | 0.54 | 11 583 182 | 65.05 |
| Total | 5 532 | 100.00 | 17 805 590 | 100.00 |
| Nominee registration | | | 1 066 885 | 5.99 |
| Total | | | 17 805 590 | 100.00 |

| Largest Shareholders on 31 December 2008 | | | |
|---|---|---|---|
| | | Shares | Percentage of shares |
| 1. | Mandatum Life | 1 679 200 | 9.43 |
| 2. | Ilmarinen Mutual Pension Insurance Company | 894 776 | 5.03 |
| 3. | EM Group Oy | 887 000 | 4.98 |
| 4. | Kaleva Mutual Insurance Company | 798 541 | 4.48 |
| 5. | Varma Mutual Pension Insurance Company | 521 150 | 2.93 |
| 6. | Teleste Incentive Oy | 500 000 | 2.81 |
| 7. | The State Pension Fund | 500 000 | 2.81 |
| 8. | Aktia Capital Mutual Fund | 487 200 | 2.74 |
| 9. | Alfred Berg Finland Sijoitusrahasto | 458 828 | 2.58 |
| 10. | Skagen Vekst Verdipapierfond | 437 000 | 2.45 |
| 11. | FIM Fenno Mutual Fund | 401 342 | 2.25 |
| 12. | Op-Suomi Pienyhtiöt | 311 016 | 1.75 |
| 13. | Odin Finland | 266 270 | 1.50 |
| 14. | Alfred Berg Small Cap Sijoitusrahasto | 258 940 | 1.45 |
| 15. | Teleste Corporation | 257 191 | 1.44 |
| 16. | Mutual Insurance Company Pension-Fennia | 220 000 | 1.24 |
| 17. | Landskapet Ålands Pensionsfond | 190 221 | 1.07 |
| 18. | Sr Danske Invest Suomi Kasvuosake | 186 613 | 1.05 |
| 19. | Pension Insurance Company Veritas | 175 000 | 0.98 |
| 20. | Alfred Berg Optimal Sijoitusrahasto | 157 279 | 0.88 |

The provided data is based on the company shareholders' register kept by Euroclear Finland Oy.

## Redemption obligation

Teleste Corporation's Articles of Association include a clause related to redemption obligation. This article stipulates that a shareholder, whose proportional holding of all Company shares, either individually or jointly with other shareholders, as defined hereinafter, is equal to or exceeds 33 1/3 per cent or 50 per cent (shareholder subject to redemption obligation) as defined hereinafter, is obliged, on demand by other shareholders (shareholders with rights of redemption), to redeem such shareholders' shares, and securities giving entitlement to them under the Companies Act, in the amount so demanded by the shareholders with rights of redemption and in the manner stipulated in this Article. This clause involving the redemption obligation has been specified in detail in the Articles of Association.

| Key Figures per Share | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| Earnings per share, eur | 0.32 | 0.55 | 0.41 | 0.35 | 0.23 |
| Earnings per share fully diluted, eur | 0.32 | 0.52 | 0.38 | 0.33 | 0.22 |
| Shareholders equity per share, eur | 2.74 | 2.69 | 2.22 | 1.92 | 1.65 |
| Dividend distribution, Meur | 2.0 | 4.2 | 3.4 | 2.7 | 2.0 |
| Dividend per share, eur | 0.12* | 0.24 | 0.20 | 0.16 | 0.12 |
| Dividend per net result, % | 37.4 | 43.9 | 49.5 | 45.7 | 52.2 |
| Effective dividend yield, % | 5.4 | 3.6 | 1.7 | 2.1 | 2.0 |
| Closing price, eur | 2.24 | 6.71 | 11.63 | 7.45 | 6.02 |
| Price per earnings (P/E) | 7.0 | 12.3 | 28.6 | 21.0 | 25.8 |
| Market capitalisation, Meur | 39.9 | 118.6 | 202.2 | 129.2 | 101.4 |
| Turnover, Meur | 51.1 | 72.4 | 138.9 | 75.3 | 74.2 |
| Turnover, number in millions | 11.5 | 7.2 | 14.16 | 10.8 | 12.3 |
| Turnover, % of share capital | 64.6 | 40.5 | 81.4 | 62.3 | 70.9 |
| Average number of shares | 17 708 782 | 17 494 435 | 17 363 102 | 17 339 752 | 17 334 235 |
| Number of shares at the year-end | 17 805 590 | 17 671 305 | 17 389 302 | 17 339 752 | 17 339 752 |

* The Board's proposal to the Annual General Meeting

## Stock Exchange Releases

During year 2008 Teleste published in all 34 releases.
The releases can be viewed at:
www.teleste.com / Investors > Stock Exchange Releases

**21.1.2008** Teleste received an additional order worth over one million euros from Germany's largest cable operator Kabel Deutschland AG (KDG).

**29.1.2008** Teleste Corporation's Financial Statement for year 2007. Net sales amounted to EUR 125.1 million and operating profit 13.2 million.

**31.1.2008** Teleste was chosen for the primary equipment supplier for Cableway AG, one of the main cable network turnkey service companies in Germany. In 2008–2011 the agreement will bring Teleste sales of minimum EUR 15 million.

**31.1.2008** Teleste Corporations' Annual Summary of stock exchange releases during year 2007.

**4.2.2008** Disposal of company shares in accordance with the incentive plan determined by the Board of Directors.

**6.2.2008** Investor news: Teleste acquires the entire share capital of the Finnish software and video service solution provider Ortikon Interactive Ltd.

**7.2.2008** Teleste signed an one year contract with Finnish Elisa Corporation concerning product deliveries for both new build and upgrade of Elisa's existing cable networks.

**25.2.2008** Teleste received an order from a major Russian MSO worth EUR 1.4 million. The order consists of Teleste's Deep Fiber Solutions and Video headend products.

**4.3.2008** Notice of Annual General Meeting of Teleste Corporation to be held in Finlandia Hall on April 1, 2008.

**10.3.2008** Notice of share subscription with Teleste 2002B stock options.

**19.3.2008** Teleste signed an EUR 3 million frame agreement with Ypso, a member of Altice Group, concerning deliveries of Fttx equipment.

**26.3.2008** Teleste Corporation applies for listing of the stock options 2004B on the OMX Nordic Exchange Helsinki.

**1.4.2008** Decisions of the Annual General Meeting (AGM) of Teleste Corporation held on April 1, 2008. The AGM resolved to distribute a dividend of EUR 0.24 per share for 2007.

**22.4.2008** Teleste Corporation's Interim Report 1.1.–31.3.2008. Net sales amounted to EUR 27.2 million and operating profit 0.9 million.

**12.5.2008** Notice of share subscription with Teleste 2002B stock options.

**20.5.2008** Based on the decision of Annual General Meeting of Teleste Corporation held on April 1 2008, the Board of Directors resolved to repurchase a maximum of 500 000 company's own shares.

**11.6.2008** Teleste signed a two-year contract with Finnish DNA concerning deliveries of cable TV equipment and services. The contract value was approximately EUR 2.6 million.

**12.6.2008** Teleste signed a frame agreement with the French National Railway Organisation (SNCF) concerning the installation of video surveillance systems in the major railway stations of France. The contract value is estimated to exceed two million euros.

**25.6.2008** Teleste received an additional order from SNCF, the French National Railways Company. The order value exceeds one million euros.

**26.6.2008** Teleste received an order from Digicable Network in India worth EUR 12 million. The solution provided by Teleste is based on the recently launched Luminato IP headend technology.

**14.7.2008** Notice of share subscription with Teleste 2002B stock options.

**15.7.2008** Teleste Corporation's Interim Report 1.1.–30.6.2008. Net sales amounted to EUR 56.5 million and operating profit 2.6 million.

**5.8.2008** Announcement in accordance with section 10 of chapter 2 of the Finnish Securities Market Act: Schroder Investment Management Limited on behalf of its clients notified Teleste that as a result of share transactions the holdings has decreased representing now 4.96% of the share capital and 4.42% of the voting rights of Teleste Corporation. Former holding being 5.01% of Teleste's share capital and voting rights.

**6.8.2008** Teleste receives an order from Ziggo in the Netherlands, worth approximately EUR one million.

**23.8.2008** Teleste signed a significant frame agreement with Belgian Telenet worth several million euros. The project duration is 4–5 years and the first delivery is scheduled for the 3rd quarter of 2008.

**8.9.2008** Notice of share subscription with Teleste 2002B stock options.

**30.9.2008** Teleste Corporation's financial information in 2009.

**16.10.2008** Notice of share subscription with Teleste 2002B stock options.

**17.10.2008** Teleste received an order from Switzerland worth EUR 1.3 million.

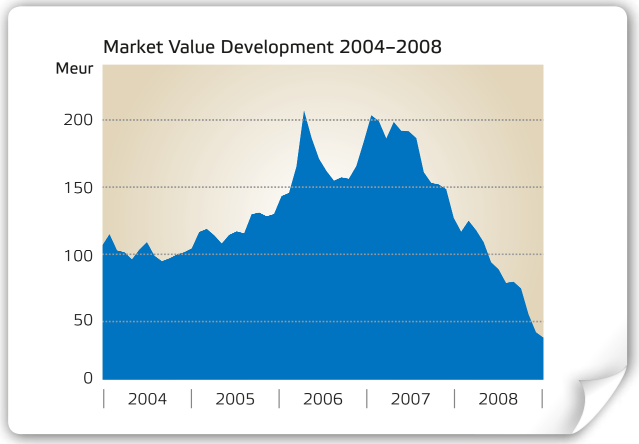
**21.10.2008** Teleste Corporation Interim Report 1.1.–30.9.2008. Net sales stood at EUR 80.6 million and operating profit 4.1 million.

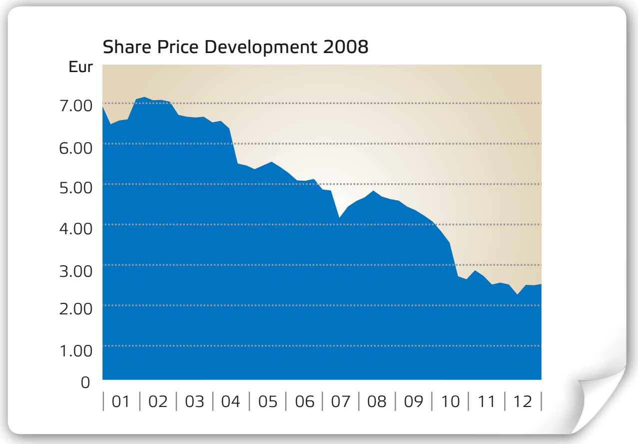
**22.10.2008** Teleste notified that the liquidity providing for company's share has ended.

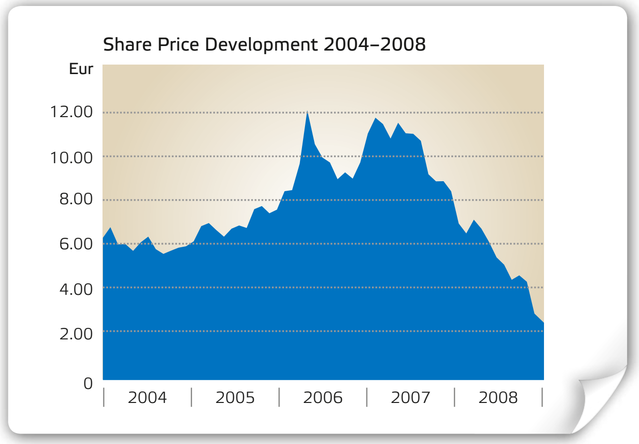
**14.11.2008** Teleste commences co-determination negotiations for finding measures to adapt the corporate operations to the tough-to-predict market situation while simultaneously aiming to ensure the company's good growth possibilities.

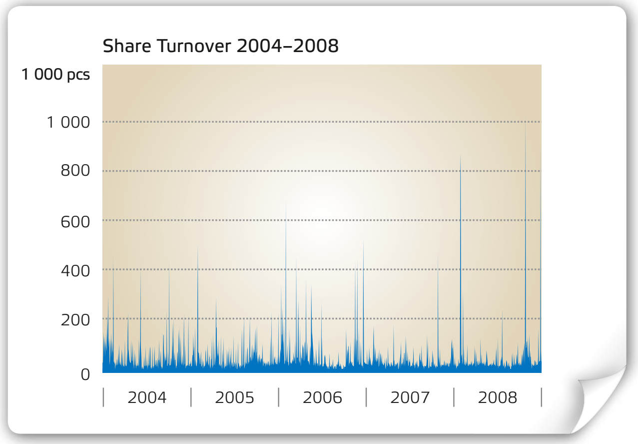
**2.12.2008** The results of Teleste's co-determination negotiations.

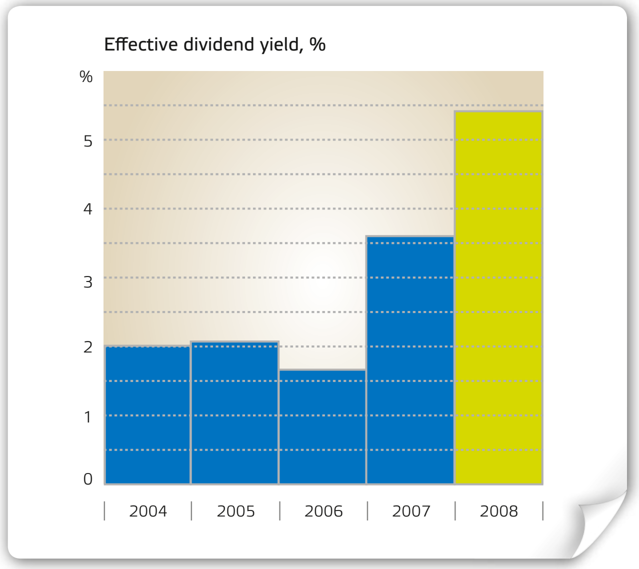
**31.12.2008** Teleste moves ahead by acquisitions in network service market by acquiring three German cable network service companies.

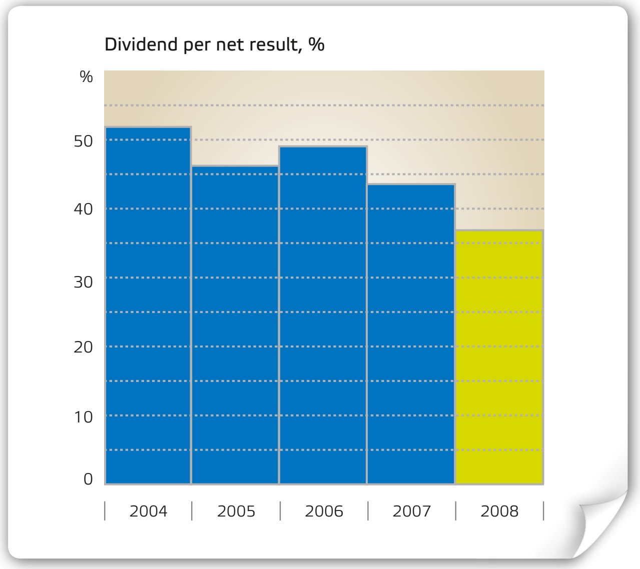
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The Annual Report can be downloaded as PDF-file from the corporate website: www.teleste.com
The publication is available in Finnish and English.

# Concern for the Environment

We at Teleste act responsibly in environmental issues intending to adopt an overall approach in support of sustainable development. Based on continuous improvement, and in line with our environmental policy, we are committed to reduce the environmental impacts of our own operations. Teleste Corporation has received the ISO 14001 Environmental Management System Certificate.

Teleste complies with environmental legislation and regulations in all of its operations. Product-driven environmental policies of the EU have shifted the focus of legislation from the conventional regulation of production to addressing the environmental impact of the product life-cycle as a whole. In the past few years the electrical and electronics industry has faced some considerable legislative changes. The legislation is designed to contribute to proper recycling of electrical and electronic equipment as well as to remove any hazardous substances from the relevant material. In terms of environmental regulation the latest addition is REACH, the new EU chemicals legislation, which has an impact on the electrical and electronics industry.

Statutory development is becoming increasingly product-driven across the board. We at Teleste keep a keen eye on developments in different markets and any implications thereof to our operations.

Teleste is guided by its environmental policy, which has been communicated to each member of the work community and is subject to regular reviews.

## Minor Environmental Impact from Production and Operations

At Teleste, the environmental load caused by our production process is relatively low compared to the impact of the product life-cycle as a whole. Our production is based on the assembly of printed circuit boards and electronic equipment that bring about no significant discharges. Teleste is one of the pioneers of lead-free production: our production adopted lead-free wave soldering as early as in 1999. With the coming into effect of the RoHS legislation, Teleste's production has entered a completely lead-free era. Primary causes of environmental load related to Teleste's operative activities currently include generation of waste, energy consumption and transport.

Teleste aspires to reduce the generation of waste in all its operations. All waste is sorted and most of it is recycled or used for energy. Currently, only a small fraction of the waste ends up as landfill. The amount of hazardous waste is very small and most of it can be recycled further.

Items consuming energy include heating and power for production facilities, testing equipment and office equipment. Our policy concerning procurement of electricity is based on sustainable development and we do our bit for the prevention of climate change. In 2008 the electrical power used by Teleste Corporation in Finland was produced exclusively by means of renewable sources of energy with no carbon dioxide emissions loading the atmosphere. In comparison with the power supply produced on general, non-renewable sources of energy environmental load of our company is, as far as this particular issue is concerned, considerably lower.

We aim to reduce the environmental load caused by duty travel by increasing access to modern IT facilities such as telephone and videoconferencing. In 2008, a significant reduction in travel between the places of business was achieved, which can be contributed to the use of electronic communications.

Here at Teleste we encourage personnel to use a bicycle for short daily journeys to work and back instead of commuting by car. Our annual cycling competition has persuaded the participants to leave the car at home. In 2008 the competition was participated by 91 people (20% of Teleste's personnel in Finland) who in the course of the competition period commuted, in total, no less than 46,000 km. This is more than the girth of the globe. When comparing with driving a petrol-driven passenger car, which consumes on average 8 litres per 100 km, this action brought in, on average, a reduction in $CO_2$ emissions of 8,832 kg. $CO_2$ is one of the most potent compounds contributing to the greenhouse effect.

At Teleste, environmental issues have been included in the assessment of suppliers and sub-suppliers and we require commitment to continuous improvement in the field of environmental issues.

## Minor Environmental Load Caused by Products

At Teleste, management of environmental issues is focused on environmental impact control encompassing the product's life-cycle as a whole. This puts more emphasis on the significance of cooperation with our suppliers, sub-suppliers and customers. Product development provides a great tool for minimising the environmental impact of a given product.

Currently, our final products mainly consist of recyclable materials like metals. Cable network equipment and video surveillance systems represent relatively long-term investments in comparison with, for instance, consumer electronics. Moreover, they are maintainable as well as upgradable, which means that their life-cycle can be extended even more. This is to say that the single most significant environmental aspect related to our products is the power they consume.

| Teleste Environmental Policy |
|---|
| We understand environmental protection as a strategic choice that is in harmony with Teleste's economic and qualitative objectives. |
| We recognize the value of environmental responsibility and we are committed to sustainable development, prevention of pollution and reduction of resource consumption. |
| We comply with relevant environmental legislation, regulations and other requirements to which we subscribe. |


At Teleste, we also pay particular attention to the end-product packaging and their environmental friendliness. The relevant materials are mainly fibrous and, thus, easily recyclable.

In our product development we take environmental aspects into account within the range of possibility. Luminato, the IP-based headend video centre introduced to the market in 2008, provides a good case in point of the benefits involved in the Design for the Environment. Measured by energy efficiency it clearly outperforms any conventional similar product and the amount of materials used in it is significantly smaller. Compared with the previous generation of comparable products Luminato features the following improvements:

- Cuts power consumption by no less than 70%, which significantly decreases heat production and the related need for cooling
- Up to 85% less need for rack space
- Up to 90% less need for cabling

## Measures taken to reduce the environmental impact in 2008

Regarding its operations Teleste has defined long-term environmental objectives, which are subject to annual specification by way of more detailed environmental goals.

| Teleste Environmental Objectives |
|---|
| Promotion of product-driven environmental thinking |
| Reducing the amount of waste |
| Reduction in energy consumption |
| Continuous environmental improvement in logistics and transport |
| Promotion of environmentally conscious thinking in supply chain |
| Increasing environmental awareness among staff |

In 2008, the measures carried out to reach the specified environmental objectives included the following:

- Improvements brought about in the utilisation of information obtained from the suppliers.
- Electronic tools of communication were introduced, which contributed to the considerable reduction in flight travel undertaken by our personnel between our different places of business. In terms of flight travel, this brought in a 17% reduction in $CO_2$ emissions over 2007.
- A training course in Quality and Environment issues was set up in Finland participated by 32 persons.
- Implications for Teleste of the REACH legislation were outlined and preparations including personnel training were made for the obligations brought about by the new regulations.

| Statutory requirements relevant to the electronics industry: | |
|---|---|
| EU WEEE Directive | WEEE stands for Waste Electronic and Electrical Equipment |
| | Governs processing and recycling of disposed of electrical and electronic material. |
| EU RoHS Directive | RoHS stands for Restriction of the Use of Hazardous Substances |
| | Limits the use of certain hazardous substances in electrical and electronic equipment. |
| China RoHS Legislation | Applies to the same hazardous materials as the EU RoHS. Additionally requirements involving markings to be made on the relevant equipment. |
| EU chemical regulation REACH | REACH = Regulation concerning Registration, Evaluation, Authorisation and Restriction of Chemicals |

Our potential customers include all types of operators offering video related services, with cable and CCTV operators being the major customer groups.



# Our Business Units

Teleste's business is focused on the processing, transmission and management of video, data and audio, with video at the core of our activities. Our competitive edge comes from combining latest innovations with deep understanding of customer needs. Teleste is organized into three business units: HFC Networks and Services, Digital Video and Broadband Solutions, and Video Networks. The business units provide hardware, software and services, such as design, planning, implementation, maintenance, integration, operation and training, to build fully optimized end-to-end network solutions. Our customers include all types of operators offering video related services, with cable and CCTV operators being the major customer groups.

HFC Networks and Services business unit delivers hardware, software and services to cable operators for building combined fibre-optic and coax cable networks. These networks contain both stand-alone applications and integrated turnkey network deliveries. The business unit is the market leader in Europe. With video becoming more and more common, the demand for broadband data is skyrocketing. Cable networks are an extremely cost-efficient way of bringing high speed data connections to end-users. Teleste helps customers in every step of building the most reliable and cost-efficient network solutions.

Digital Video and Broadband business unit delivers products and solutions for digital video and broadband distribution networks. The business unit is facing a huge market opportunity as the TV and internet industries are converging and end-users can receive video, voice and data from the same connection. This provides the business unit with a significant opportunity. Teleste provides operators solutions for delivering broadband data, cable TV, and IP TV and transitioning smoothly to the new IP world.

Teleste Video Networks Business unit delivers professional video surveillance networks mainly to public authorities for road, rail and security applications, helping improve the safety and efficiency of society. We offer end to end solutions for processing, transmission and management of video, data and audio. The surveillance market is undergoing a major change as technology is moving towards IP, which in essence means that monitoring can be efficiently centralised and low-cost IP equipment makes remote monitoring and surveillance more popular. Teleste Video Networks has a long tradition of highest reliability and is an ideal partner for customers moving towards an IP based world.

| **Broadband Cable Networks** | | | | |
|---|---|---|---|---|
| | 2008 | 2007 | | Change |
| Net Sales | 92.6 Meur | 108.2 Meur | | –14.4% |
| Order Intake | 101.4 Meur | 101.4 Meur | | 0% |
| | | | Export sales share | |
| Net sales | 2008 | 2007 | 2008 | 2007 |
| Finland | 6.7 Meur | 8.0 Meur | | |
| Export | 85.9 Meur | 100.2 Meur | 93.0% | 93.0% |
| Total | 92.6 Meur | 108.2 Meur | | |

| **Video Networks** | | | | |
|---|---|---|---|---|
| | 2008 | 2007 | | Change |
| Net Sales | 16.1 Meur | 16.9 Meur | | –4.8% |
| Order Intake | 17.2 Meur | 17.1 Meur | | 1.0% |
| | | | Export sales share | |
| Net sales | 2008 | 2007 | 2008 | 2007 |
| Finland | 4.0 Meur | 3.0 Meur | | |
| Export | 12.1 Meur | 13.9 Meur | 75.0% | 82.0% |
| Total | 16.1 Meur | 16.9 Meur | | |

# Business Unit HFC Networks and Services

## Business Description

Clientele of Teleste's Hybrid Fiber Coax Networks and Services (HFCNS for short) business unit consists of cable operators and distributors providing services to cable operators. The cable operators, in turn, provide their end-users with three main basic services: TV channels, telephone connections and broadband data communication services.

The HFCNS business unit offers hardware and software alike for the construction of combined fibre-optic and coax cable networks, as well as services related to the building and maintenance thereof. These solutions contain both stand-alone applications and integrated network deliveries.

Transfer network refers to solutions for transfer of signal in both fibre-optic and copper cabling. The actual transfer technology involves both digital and analogue broadband technology.

Our main market area is Europe, where the business unit currently has 19 offices in addition to a number of retail sales partners.

## Customers and Markets

Primary client group of the business unit includes the largest European cable operators. These operators pursue to make available increasingly competitive services for their clients, which in practise means focusing on ever more powerful data transfer networks. Current competition for network end-users is tough and for this purpose the hardware suppliers attempt to create various new technical and commercial solutions.

The main issue here involves increasing the cable network capacity. This will be achieved either by widening the available radio frequency band and/or by dividing the cable network structure into smaller cell service areas. The first option requires technical solutions covering a wider RF bandwidth, while the latter one necessitates cost-effective fibre-optic and amplifier solutions adapted specifically to small-scale cell areas. An exclusive fibre-optic system with no remaining coaxial sections can be considered the ultimate end-point in HFC network development.

Pure fibre-optic network solutions as subscriber lines are neither commercially viable nor cost-effective solution for the cable operators. This is because in such a case investments per end-user would get considerably higher compared to those using the copper-based coaxial network infrastructure. Indeed, the cable operators tend to, as a rule, make use of the existing coaxial network as long as this will be technically possible. The existing cable network will be gradually replaced by a fibre-optic network, even if the time span for this change is long.

One of the most important current objectives for the operators involves increasing the average revenue per user (ARPU) by introducing new services. Resources and cost-structure of organisations is under constant examination. Increased focus on core business describes the situation in the industry well. Operations involving technical network management and hardware solutions are either outsourced or handed increasingly over to the suppliers.

Ownership rearrangements among the operators continue, even if the situation has calmed down a lot from the previous years. The beginning of the current economic downturn in the second half of 2008 changed the situation especially in the Eastern Europe, where some international operators have made significant acquisitions in the past few years. Now is the time to keep an eye on the market and see how it develops; any acquisitions will be made significantly more cautiously.

HFCNS business still considers the Eastern European market as one strategic growth area, even if the recession is, in a short time span, likely to have its greatest impact particularly in this area. In addition to this, the developed and in terms of cable networks dense and large Western European market enables strong momentum for the business. As the largest single market Germany is in the period of transition whereby, in addition to the fibre-optical segment, the main emphasis in cable network upgrading is about to shift over to the so-called house networks. This trend is expected to remain strong for at least the next five years. The Nordic countries represent technically the most advanced area accommodating new innovative solutions but where new data transfer technologies are capturing markets from the HFC technology.

Operators in all of the above markets are particularly looking for solutions allowing the cost structure related to the cable network maintenance to be lightened. What is involved here includes increasingly high-quality technical solutions for remote control and reliability enhancement of the network. To a degree the operators are prepared to outsource operations related to the upgrading and maintenance of their networks, and this, in turn creates new demand for services in line with our business strategy.

The most noteworthy competing network technologies include the IP-based – short for Internet Protocol – data network solutions offered by the city carriers. Compared to the aforementioned networks the greatest benefit provided by the cable network technology is its ability to provide ample capacity for the transfer of analogue and digital video. All currently available telecommunication services can be supplied to the private households through this type of network.

## Strategic Priorities

The HFCNS business unit will proceed in line with its chosen strategy.

This technological strategy is increasingly based on the use of fibre-optical transfer in cable networks and, because of this, less on coaxial transfers. Nodes between fibre-optical and coaxial segments as well as the actual fibre-optical transfer require a number of technical applications, such as transmitter/receiver solutions. The business unit's current competence profile, product solutions and the company image support this change in Europe superbly.




In our technological and services strategy, internal cable networks of buildings and households make up one priority area. As to equipment, the required solutions for house networks are often somewhat simpler, but we expect them to provide good potential for business in Europe also in the coming years. Strategically, we are looking for potential clients among operators for whom house network forms a significant part of their entire business and who seek to optimise the operation of these house networks using their own architectural innovations.

In line with our strategy, we will continue to strengthen our local offering of services for the European operators. Particular emphasis will be put on services and their provision related to upgrading and maintenance of cable networks. The target market here is Central Europe with particular emphasis on Germany, the United Kingdom, and the Nordic countries. Concerning the provision of services, above all, Teleste's strengths involve technological expertise and strong practical know-how in the field.

## R&D

Development of equipment and solutions related to the HFC network has been part of our core competence since decades. We will continue to promote our expertise in the field because this particular area represents the single biggest group in our product development. The software component in our solutions keeps on gaining in significance to ensure the user friendliness of the equipment and because of increased degree of automation. In addition to broadband technology and electronics, know-how involving software has indeed become one of the major factors supporting our HFC product development. The strategic objective involving house network solutions necessitates commitment to R&D expertise concerning cost-effective series of high-volume.

## Highlights 2008

The year 2008 was characterised in particular by upgrading projects involving fibre-optic transfer solutions. In the specified year, new framework agreements were made and negotiated in the most important market areas of the business unit including Belgium, Germany and the Netherlands. These so-called network segmentation projects span several years, and here, the pace of upgrading by the operators is slower than that in projects involving upgrading of amplifiers representing conventional technology.

Some large-scale equipment delivery projects slowed down towards the end of the year. The most important among these included deliveries of amplifiers to Germany and France. Both of these cases involved partial delays of investments by the operators. Regardless of the slowing down of the relevant projects, the business unit was able to secure several smaller projects in other countries. The general economic uncertainty began to show in the number of orders right in the beginning of the year. New ground was broken particularly in Russia and Poland.

In 2008, our new amplifier product family AC3000 created a lot of positive interest right across the operator field. A number of pilot projects were completed and in these projects the business unit continued, without exception, as the main provider of amplifiers carrying the new product family.

In the UK the network design company continued to make steady progress in terms of net sales and operating profit throughout the year. Towards the end of the year, growth in operations was promoted by allocating resources and intensifying sales and projecting. Results are expected to emerge in 2009.

In the German services market, acquisitions in line with the strategy were prepared; the relevant purchases involved three local companies specializing in maintenance of cable networks. The relevant companies form a part of the Cableway consortium, which by its market share is one of the largest players in the German cable network business. The acquisitions were carried on 1 January 2009, and with the relevant transactions Teleste became one of the most significant companies operating in the fields of house and HFC network upgrade and maintenance. The clientele consists of the largest operators in the business.

| **HFCNS Business Unit** | |
|---|---|
| Vision | To be the leading supplier of HFC solutions in the world |
| Mission | To enable enhanced entertainment content to households via innovative and reliable network solutions and services |
| Solution | Wide-ranging and innovative product portfolio supported with strong local services |
| Key markets | Europe |
| Primary clientele | Cable operators and of cable network equipment distributors |

# Business Unit Digital Video and Broadband Solutions

## Business Description

The Teleste business unit Digital Video and Broadband Solutions (DVBS) delivers turnkey solutions for video signal processing and broadband distribution networks. The business is organised in three sections each complementing one another.

Our video business focuses on delivery of head-end systems combining analog, digital and IP technology solutions tailored to customer-specific requirements. Our comprehensive system deliveries enable rapid introduction to the market of interactive services within a short timeframe while supporting their further development on a customer-specific basis.

Our broadband business delivers next generation access networks especially for developed markets characterised by high requirements both in terms of transfer capacity and quality. The chosen technologies involve EttH (short for "Ethernet to the Home") providing a means to bring Ethernet signal to households, and FttH ("Fiber to the Home") allowing optical signal transferred through fibre-optic cable to be accessed by households. On coaxial networks, the data transfer rate of EttH reaches up to 100Mbps while the capacity of FttH-based fibre-optic networks is 1Gbps. From the end-user's perspective, in majority of applications the most critical requirement involves real-time transfer of video signal, which is highly sensitive to interference and capacity restraints.

In our operation related to services, we support rapid introduction of the above product solutions and reliable maintenance, which constitutes a key competitive factor in our customers' business operations.

Teleste's comprehensive experience in development and delivery of turn-key network solutions tailored to the customer enable cost-efficiency and favourable development in our customers' business.

## Customers and Markets

Our clientele consists of cable operators, telephone companies, hospitality system providers and energy companies running their own broadband access networks. Our main markets are in Europe and, increasingly, in Asia.

2008 was strongly characterised by the arrival of digital television services, particularly in Europe. For the end-user, digital television services mean improved picture and audio quality. Besides, they also make available all-round possibilities for using video services at times most convenient for each individual user. In global terms, the degree of digitalisation in television services is approximately at 25%, a figure which is estimated to get up to 50% in 2012.

Another significant change in the market involves the expansion of telephone companies into the sphere of television services dominated previously by the cable operators. Even power companies are now entering the same market, although often in cooperation with specialised service operators. The third growing group of customers consists of hospitality service providers, whose business focuses on integration of data transfer systems and television services at hotels.

The technological solution regarding these television services, chosen by our new customers such as telephone companies, involves almost invariably IPTV – Internet Protocol Television – which supports interactive services. This preferred technology will also point conventional cable operators towards increased investments in new technologies, and a wider selection of services that comes with them, in order to succeed in the toughening competition.

Even if video processing and broadband access can be viewed as two separate markets and business operations, they are linked by a number of customer requirements and the related available options. They also have a positive effect on one another. Increased video processing and transfer of rapidly changing video necessitate ever higher real-time transfer rates and increased capacity in multi-form broadband access networks.

Since the need for high-capacity transfer of video and data is growing all the time, we believe that an increasing number of operators will adopt the EttH technology Teleste can provide. Introduction of these new services will be significantly speeded up by exploitation of the existing coaxial networks, which will also bring in considerable savings in terms of cost-efficiency when put against an all-out reconstruction of the access network cabling.

In the future, the FttH technology is expected to reach a significant market share in new access networks. Solutions based on fibre-optic cabling are particularly competitive in new residential constructions, where the cabling is built up from the scratch anyhow.

We expect the above trends to continue in the coming years. This will improve prospects for the DVBS business in the specified technologies and the related value-added services. Geographically, Europe will remain a strong market, whereas major developing countries in Asia, such as India and China, provide excellent opportunity to strengthen our market position globally.

## Strategic Priorities

As to our video business, in the next few years our focus will be on IP-based digital headends and follow-on deliveries involving digital headends to our current clientele. In 2008, Teleste started deliveries of its new IP-based Luminato headend to the European and Asian markets.

Teleste's IPTV system – Teleste MyCast – is based on the software application suite developed by Ortikon Interactive Oy, a company acquired by Teleste in early 2008. Our IPTV system deliveries are complemented by special products related to each customer application. These special products, in turn, are provided by our extensive partner network in Europe and the United States.

In broadband business, our primary objective is to support the leading cable MSO's and other operators with an access to cable infrastructure in their controlled and cost-effective migration to the next-generation broadband networks. Our EttH product range provides our customers with a cost-effective network solution designed to introduce to the market rapid data transfer services. These type of network solutions are required in a number of applications including transfer of high-definition television images to private households. Parallel to the EttH product range, we bring the expanding FttH selection, which is based on our own product development and complemented by special products made by our cooperation partners in Europe and Asia.

Main emphasis in our services business will continue to involve development so that our services will meet requirements set by our customers in an increasingly competitive manner both in terms of know-how and cost-effectiveness. An essential component in our overall offering of services is the service personnel training program with its emphasis on the special features inherent in IP technology constituting an integral part of the cable network solutions.

As to all of the specified products and services, given the current world economic situation, we will focus increasingly on cost-efficiency designed to promote favourable development of profitability. The importance of cost-efficiency in the selection process of suppliers is especially emphasized by our customers in Asia. Another priority is to deepen our knowledge of business operations of our new clientele such as telephone companies. The third area specified as a wide-ranging and long-term area requiring development involves promotion of professional skills among our personnel.

## R&D

On the whole, the business of DVBS is very R&D intensive. Our ranges of products include RF components and fibre-optic technology complemented by software applications that require comprehensive expertise in all of the above areas. Our international partner network provides strong support for our R&D efforts.

As for the video solutions, in 2009 our R&D efforts focus on the introduction, in several steps, of new features of our IP-based headend Luminato. At the same time, we will continue the product development of our IPTV system solution, Teleste MyCast, currently in deliveries.

Concerning our EttH product range, the focus has moved towards maintenance and development of client-specific versions within a specified delivery schedule. EttH technology will be applied both as a standalone solution and as part of the development path of the new FttH architecture marking a shift towards fully fibre-optic broadband access.

## Highlights 2008

Teleste expanded its product range by IPTV system deliveries by acquiring Ortikon Interactive Oy in early 2008.

India become one of our most significant markets, and a contract of EUR 12 million was made with Digicable Network India for deliveries of digital headend solutions.

At the Amsterdam IBC fair, Teleste launched the IPTV product family known by its marketing name Teleste MyCast.

In the Nordic Countries, deliveries of high-capacity broadband systems continued to develop favourably.

| DVBS Business Unit | |
|---|---|
| Vision | Global leadership in deliveries involving headend systems for cable networks and the next-generation broadband solutions |
| Mission | Improving competitive edge of the operators by making available innovative solutions for video and broadband applications |
| Solution | High-quality and cost-effective headend and broadband solutions |
| Key markets | Europe and selected markets in Asia |
| Key clientele | Cable operators, smaller telephone companies, hospitality system providers and energy companies running their own broadband access networks |

# Business Unit Video Networks

## Business Description

Teleste Video Networks delivers comprehensive CCTV applications. The business unit focuses on targets requiring video surveillance that allow the end user to benefit from bringing together cameras, recorders and monitoring workstations from a number of locations into one unified CCTV system.

Teleste offers total CCTV solutions, consisting of a combination of state-of-the-art products and technologies, complemented with professional services ranging from system design through project deployment to system maintenance and training. In system integration projects, CCTV is combined with other systems like traffic management systems and alarm & crisis management systems. Our System Integration skills are used to offer such integration services.

Through a network of own offices Teleste Video Networks is present in all the major geographical markets including Europe, North-America and Southeast Asia. The end-users are typically reached through channel partners, the only exception being Finland, where the end-users are approached directly by Teleste Video Networks, through our subsidiary Suomen Turvakamera.

## Customers and Markets

Teleste Video Networks is focusing on end-user segments requiring large-scale systems with a wide range of advanced features. The most significant segments stand for the public sector, such as local police for urban area surveillance, and authorities in charge of rail, road and air transport. As to the private sector applications, the focus end-user segments represent process industries as well as utilities. These target market segments demand advanced video surveillance systems requiring high-quality and real-time video, audio and data transmission, networking including processing of the recorded video material.

These are highly specialised segments distinct from the mainstream video surveillance market by the level of the technological excellence required. With the adoption of digital video and IP networking, the CCTV systems are becoming increasingly complex to design, implement and maintain. Parallel to this, the end-customers are looking for comprehensive integrated solutions to an increasing degree. Major corporations and public authorities are looking for increased efficiencies and improving their security levels through centralising and automating the work of security professionals. To reach this, individual sites will be networked together and the monitoring work will migrate from small sites to centralised monitoring centres.

For these complex demands, the end-customers are looking for partners who can deliver customised solutions including maintenance and operation of the relevant infrastructure. For this purpose, Teleste Video Networks has established a Services and Integration unit with highly skilled team of digital video and IP networking professionals.

The long-term market outlook for IP based video surveillance is positive – in the coming years the current analog systems will be replaced by full-digital systems and any new constructions will rapidly move over to IP based solutions in all the market areas. As to the short-term markets, the financial crisis evolved in 2008 may have a negative impact on some end-user segments, but for the market segments chosen by Teleste, i.e. the public sector, there is no significant negative impact in sight.

## Direction and the Steps to be Taken

Teleste Video Networks is focusing business development on three areas: Products & Systems offering; further expansion of our Services and Integration business and expanding our sales of IP-based solutions through go-to-market partnerships with system integrators from IT and telecoms background.

Products and Systems portfolio is comprised of a comprehensive range of products needed between the camera and the control room. In general, our extensive expertise on technology, combined with our insight concerning end-user requirements, provide us with a competitive edge in the market. Regarding offering of systems we particularly focus on making the work of security business professionals more effective. Teleste's VMX software allows the security organisations of public authorities to speed up and streamline their operational procedures significantly. As for new technologies, Teleste is focusing on the implementation of the H.264 video standard, automatic object identification and wireless techniques. It is also essential to create user-friendly systems enabling complex technology to be utilised by means of a simple and straightforward user interface.

The demand for professional services is growing rapidly powered by the increasing number of systems built on digital video, routed over IP networks. The all-digital systems, built on IP networking infrastructure, are significantly more complex to design and deploy. Compared to the traditional analogue video systems, they also require new expertise to maintain them using baseband video transmission. Similarly, maintenance of the relevant system requires new facilities and resources. At the same time, there is shortage of competences on the market, with expertise on both video surveillance end-user needs as well as on IP networking technologies. Teleste Video Networks is addressing this demand through offering high-level professional services and system integration, ranging from system design and consultancy all the way to maintenance and operating services. On top of all this, learning solutions are offered ranging from comprehensive system administrator level to training the security professionals to execute their tasks efficiently, using the surveillance system as a daily tool.

Teleste Video Networks is continuously expanding its network of channel partners in order to address new markets and maximising our reach to end-users. Our aim is to establish long-term partnerships through promotion of mutually profitable growth. Key development is to win new channel partners with IT or Telecoms system integration background, as the all-digital video surveillance systems will be demanding integration competences from the IT domain.

## R&D

The video surveillance market is in the phase of transitioning from analogue video to all-digital video surveillance systems, built on generic IP networking infrastructure. The focus in R&D has shifted towards application software development, as well as implementing new system level functionality, encompassing both video encoding, recording and client application. As the complexity of the systems increases, it is vital to be able to commoditize, test and maintain products, which are guaranteed to be mutually compatible.

With the complexity of the systems growing, it is of paramount importance to have strategic partnerships in place to complement one's own resources and capabilities. The main areas of partnering for Teleste Video Networks are image analysis technologies as well as wireless transmission. These are new competence areas where Teleste is focusing on adapting the use of such technologies to high-end video surveillance applications, but not investing in the core technologies themselves.

In the course of 2008, significant standardising projects evolved aiming at creating a standardised interface between the various key components of the CCTV systems. Teleste is very much in favour of the standardising projects in the industry and has, consequently, joined two of the internationally most significant standardising bodies: ONVIF and Cenelec. In its products Teleste is committed to implement any standardised interfaces, because the benefits involved are indisputable, especially in large-scale systems involving equipment from a number of suppliers.

## Highlights 2008

In 2008, Teleste secured two important orders from the French National Railway Authority SNCF. With these projects Teleste will deliver IP based video surveillance solutions to major intercity train stations all over France. Additionally, the Paris metropolitan area CCTV solution delivered earlier has been extended by including new stations in the system and by adding the number of cameras. This video surveillance network will be one of the largest in the world encompassing more than 200 railway stations in the Paris metropolitan area with over 5,000 cameras.

In cooperation with Teleste, Redcare Alarm Systems of the British Telecom secured an order placed by the Sussex Police Authority. The project involves creating a unified video surveillance solution by bringing together through a network the most important command and control centers for city monitoring and police stations in the county. The objective is to enhance and speed up significantly the processes of safety authorities by making use of the cutting edge IP-based recording and networking technologies.

Teleste complemented its clientele in the airport segment by securing orders from Finavia for the modernisation of the Helsinki-Vantaa Airport video surveillance and by delivering systems to several Polish airports including Balice Airport Krakow.

Another significant new area includes two important customerships from the defence sector to which Teleste will deliver a major number of video encoders.

In addition to these significant projects, we have continued and expanded our businesses in the existing market areas of Australia, the Near East, South Africa, Europe and the USA.

Teleste Video Networks continued its efforts for focusing on the development of our all-digital systems offering, comprised of MPX video encoding and networking products as well as the VMX software suite designed for management, recording and monitoring. To complement this product portfolio we have launched cooperation schemes with key manufacturers of IP cameras such as Sony. In 2009, these efforts will be continued including essentially a solution optimised for large-scale systems in compliance with the H.264 standard. The CFO fibre modem system will be kept competitive by upgrading the current products and by complementing the product portfolio in compliance with the market requirements.

| **Video Networks Business Unit** | |
|---|---|
| Vision | A leading provider of integrated video surveillance solutions |
| Mission | Enable high-quality and efficient work of security professionals through provision of video surveillance technologies |
| Solution | All-digital video surveillance solutions between the camera and control room |
| Key markets | The business focus is on high-quality video surveillance networks for road, rail and public places monitoring and corporate security systems on a global scale |
| Primary clientele | The systems developed by Teleste are supplied mainly to the public sector. Teleste delivers its solutions to the end-clients mostly through system integrators. |

# Personnel

As an innovative technology group Teleste's expertise and competitive edge are based on motivated and professional personnel. At the end of 2008, the number of Teleste employees was 677. The corresponding figure for the previous year was 672. Moreover, in 2008 Teleste hired, on average, 29 temporary employees assigned mainly to production. Towards the end of the year, with the worsening in the market situation the number of temporary employees was considerably reduced.

## Reforming the Personnel Strategy and policy

In spring 2008, the current status of Teleste's personnel strategy and policy was surveyed by using indicators of the Investors in People Standard. The survey was conducted by interviewing personnel, superiors and management as well as by assessing the existing and documented processes, procedures and instructions.

In the light of the findings made in this survey, strengths of Teleste's personnel policy include openness, respect, support and encouragement for taking responsibility. Personnel and superiors alike experience that their work contribution is appreciated and recognised. The open working environment promotes individual efforts for the improvement in one's personal performance as in that of one's colleagues.

A workgroup consisting of representatives from Teleste's business and support functions was set up for the development of personnel strategy and policy. This team will participate in the planning of the personnel strategy and specify the key development projects related to HR in the coming years. Management and development of strategic competence were singled out as top priorities along with leadership.

## Development of Personnel and Competence

In autumn 2008, the workgroup for personnel strategy selected the key strategic competence areas from amongst the existing business strategies. In spring 2009, the specified competence areas will be put in use to steer the appraisal discussions and the detailed performance reviews including drafting of personal development plans designed to be carried out in this context. Another reform undertaken by the workgroup in the early 2009 involved the specification of guidelines for the appraisal discussions and the related questionnaire adapted better to meet the current business requirements.

In the past year, basic skills among the staff were developed at a number of levels. Training courses were set up to promote and maintain professional competence in areas involving products, technology, financing and quality control. Additionally, training was provided in general computing skills and in the development of knowledge of languages. The "Leading Excellence" training program was continued. This tailored program going back years went on jointly with two other high technology companies. The team having started their training program spanning one calendar year in autumn 2007 completed the course in autumn 2008. The main objective with this training is to promote managerial skills and all-round business thinking. The participants chosen in the program include people who will be key players in Teleste's future. The program is designed to support the company's future potential of success and to secure the commitment of our key personnel segments. Planning for a new supervisor training program was launched upon the completion of the course.

Leadership work was developed by enhancing communication related to human relations training for the managers and by increasing the number of courses provided in-house for the superiors. The discussed topics included relevant personnel management issues such as labor legislation and change management.

The number of new competence taken in through recruitment decreased over the previous years. In 2008, the number of recruits amounted to 40. In terms of expertise areas and geographical distribution alike, the recruitment was targeted in line with Teleste's strategic objectives. With regard to recruitments and employment relationships, one of Teleste's principles is to provide its personnel with an opportunity to job rotation. Open positions are sought to be filled through internal transfers to the degree possible. Teleste provides a significant number of summer jobs. 70 successful summer stand-ins were selected from among more than 200 applicants. Furthermore, Teleste provided several talented young people with internship related to their education.

## Reward and Encouragement

At Teleste, systems related to payroll and incentivess are based on profitability both at the company and personal level. Personal goals are specified in uppraisal discussions designed for profitability. Besides option-linked incentive schemes, our methods for encouragement include systems of bonus as well as payment by results. These schemes have been – and will continue to be – developed to enhance the influence of units, teams and individuals along with establishing a closer linkage between personal goals, performance, and the company strategic goals.

Teleste annually participates in various wage comparison surveys. In 2008, in addition to the wage comparison survey, Teleste joined a project coordinated by the Research on Reward Practices Program of Helsinki University of Technology, which focused on the evaluation of, and development options provided by, the reward practices of companies and organizations in Finland. Through this type of research information is obtained for the development of the relevant system of rewards and incentives.

## Well-being at Work

We at Teleste believe that a good climate and work motivation affect well-being at work and that, in addition to sending out a positive image of the company and contributing to the willingness to stay of competent employees, a healthy work community is more productive both in terms of quality and quantity. By cooperating with the occupational health services we plan and develop well-being at work in regular meetings. This is exemplified by initiatives like ASLAK rehabilitation launched in the autumn. At Teleste, the favourable working climate is manifested by the low figures for sick leaves. Similarly, our extended careers in terms of years in service are indicative of a positive working climate. In 2008, 18 of our staff were celebrating their 10th anniversary at Teleste (compared to 5 in the previous year), whereas 10 were celebrating their 20th year at Teleste's service (29) and one of us had been in the house for no less than 30 years.

Our free-time committee, Vapari, elected annually from among Teleste personnel, went on actively organizing a variety of parties, cultural events and sporting competitions. Our company also continued its support to the all-round provision of opportunities for physical exercise. In the autumn, an afternoon of open doors was set up at plants in both Littoinen and Nousiainen allowing the staff to invite family members, relatives and friends. Before Christmas the entire staff with their families was called to joint Christmas matins.

## Co-operation

Continuous interaction and communication between the personnel and the company is ensured by way of monthly meetings between the representatives of the employer and the employees. Interaction between the management and personnel is also maintained by setting up joint meetings participated by the management group and the union representatives. This way we have succeeded in establishing a flexible mode of collaboration, which allows us quickly to adapt to both quiet spells and peaks in demand alike. Acceptable policies regarding the use of temporary labour in production have been subject of mutual understanding so that we can respond to market fluctuations by adjusting the available capacity.

In the last quarter of 2008, joint discussions were initiated designed to anticipate the effect on personnel of the changes having taken place in the market situation. These negotiations involved the entire Finnish personnel of Teleste Corporation. As a result, the Finnish staff of Teleste was laid off for two weeks, on average, at the turn of 2008/2009. This lay-off involved 430 persons.

## Co-operation with Universities and Third Parties

We have continued our co-operation with universities and other educational establishments to promote our image of a positive workplace for future top professionals. This co-operation has taken different forms such as collaboration in the fields of testing and research, or Teleste's representation in various bodies of universities and educational institutes. This activity is designed to ensure the utilisation of top expertise of the scientific community and the taking into account of Teleste's strategic needs in the learning programs of the relevant educational establishments. The on-going effort of building a positive employer image for the future top professionals has included participation in recruitment fairs and providing groups of students with opportunities for getting familiar with Teleste and its operation. The number of groups having seized this opportunity in the review period amounted to eight.


| Personnel on December 31 | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| Total | 677 | 672 | 621 | 557 | 513 |
| | | | | | |
| Research and Development | 172 | 158 | 146 | 127 | 130 |
| Operations | 281 | 289 | 282 | 286 | 256 |
| Sales and marketing | 186 | 186 | 159 | 114 | 101 |
| Admin & IT | 38 | 39 | 34 | 30 | 26 |
| | | | | | |
| Finland | 452 | 443 | 435 | 408 | 401 |
| Other Countries | 225 | 229 | 186 | 149 | 112 |
| | | | | | |
| Female | 218 | 226 | 208 | 194 | 180 |
| Male | 459 | 446 | 413 | 363 | 333 |

# Corporate Governance

Teleste Corporation aims at organising its management in a consistent and functional manner. The governance is based on the Finnish Companies Act and Teleste Articles of Association. Teleste shares are listed on the NASDAQ OMX Helsinki Oy. The company complies with the rules and regulations for listed companies as laid down by the NASDAQ OMX. As of 1 March, 2000, the company has followed the insider regulations drawn up by the Board of Directors of the NASDAQ OMX (revised 01.01.2006 and 02.06.2008). These regulations have been supplemented by the Company's internal guidelines. In 2008, Teleste has complied with the valid recommendation for the system of governance and management control for listed companies issued by the Exchanges, the Central Chamber of Commerce and the Confederation of Finnish Industry and Employers in December 2003. Any possible changes required by the Corporate Governance Code recommendations of the Finnish listed companies, effective as of 1 January 2009, issued by the Securities Market Association will be implemented in Teleste's corporate governance in financial period 2009. The company has confirmed the set of applied key values.

## Annual General Meeting

The Annual General Meeting of Teleste Corporation is the highest decision-making body of the company. The Annual General Meeting is held at least once a year. The General Meeting shall be held annually by the end of June. The Annual General Meeting is held in Helsinki in the customary manner. The Annual General Meeting decides on any specified tasks in compliance with the Finnish Companies Act. Issues decided by the AGM include approval of the financial statement, allocation of profit shown in the balance sheet, discharge from liability to the Board of Directors and the Managing Director, and the election of the members of the Board of Directors and the auditor.

Responsibilities of the AGM also include making amendments to the Articles of Association, decision-making concerning share issues, granting of entitlements to options and other special rights, procurement and redeeming of company's own shares and reduction of share capital.

Notice of the Annual General Meeting shall be announced in a newspaper as determined by the Board of Directors or verifiably delivered, in writing, to each shareholder using the address marked in the register of shareholders, no earlier than two months and no later than 17 days prior to the meeting.

## Board of Directors

**Rules of Procedure**

It is the function of Teleste Corporation's Board of Directors to carry out the administrative duties in accordance with the law, statutory regulations, Articles of Association and resolutions of the General Meeting. The operating procedures and main duties of the Board of Directors have been specified in the Board's Rules of Procedure.

The Board shall resolve matters of great importance in terms of scope and magnitude to the group's operation. The Board oversees and assesses the operation of the CEO and the Management Group. The Board decides on the criteria of the company's compensation system and makes decisions on any other far-reaching issues related to personnel.

In line with the view adopted by the Board of Teleste Corporation, the proceedings of the Board will be carried out in an optimum way without formation of separate committees but by involving the entire Board in the so-called committee proceedings. The Board shall conduct an annual evaluation of its performance and working methods.

The Board of Teleste Corporation has laid down rules of procedure according to which the essential duties of the Board include the following:

- Provision for the company business strategy and its revision at regular intervals
- Approval of annual budgets and supervision of their implementation
- Decisions concerning major investments and divestments
- Handling and approval of annual financial statements and interim reports
- Appointment of the President and CEO and discharging him from his duties and specification of his responsibilities and conditions of work
- Decisions concerning incentive and bonus systems involving management as well as staff and presentation of any related proposals to the AGM as required
- Annual revision of any essential risks related to the company operation and management thereof
- Laying down the company values and policies.

**Election and Term of Office of the Board of Directors**

The Chairman and other members of the Board of Directors are elected by the Annual General Meeting. According to the Articles of Association the Board of Directors shall have a minimum of three and a maximum of eight members. In its meeting held on 1 April 2008, the Annual General Meeting elected six members to the Board of Directors of Teleste Corporation for a term of one year.

The Teleste Corporation Board of Directors: Tapio Hintikka, Chairman of the Board, Tero Laaksonen, Member of the Board, Pertti Raatikainen, Member of the Board, Kai Telanne, Member of the Board, Timo Toivila, Member of the Board, and Pekka Vennamo, Member of the Board.

With the exception of the Member of the Board of Directors Pertti Raatikainen (expert member of the steering group in charge of the company technological development) the Members of the Board are not employed by the company and can be considered independent in line with the Finnish recommendations.

In 2008, the Board of Directors of Teleste Corporation had ten meetings. The attendance of the Directors at the Board meetings was 95%. In addition to the Members of the Board the meetings were attended by the CEO, the deputy CEO and concerning interim reports also the CFO and persons invited separately as required.

**Remuneration for the Members of the Board**

The remuneration of the members of the Board of Directors is decided on by the Annual General Meeting. On 1 April 2008 the AGM decided that the Chairman of the Board be paid annually EUR 40,000 and each Member will receive EUR 25,000 a year. Attendance allowance, which is paid separately, stands at EUR 250 per meeting. Remuneration for the Members of the Board will be paid so that 40% of the specified annual amount will be company shares and the rest will be remitted in money.



Salaries, remuneration and other benefits paid in 2008 to the Board of Directors were as follows:

- Tapio Hintikka 43 thousand euros including 2,910 Teleste shares
- Tero Laaksonen 28 thousand euros including 1,819 Teleste shares
- Pertti Raatikainen 28 thousand euros including 1,819 Teleste shares
- Kai Telanne 26 thousand euros including 1,819 Teleste shares
- Timo Toivila 28 thousand euros including 1,819 Teleste shares
- Pekka Vennamo 28 thousand euros including 1,819 Teleste shares.

## CEO

The scope of duties of the Teleste Corporation CEO is determined by the law, the Articles of Association and instructions issued by the Board. Detailed terms of employment of the CEO are specified in a separate contract subject to the Board approval. CEO is not a member of Teleste's Board of Directors.

The current CEO of Teleste, Jukka Rinnevaara, assumed his present responsibilities on 1 November 2002. Salary, fees and other benefits received by the CEO are determined by the company Board of Directors. Salary, remuneration and other benefits entered in 2008 for the CEO of Teleste Corporation totalled EUR 419 thousand.

The contractual age of retirement of CEO Jukka Rinnevaara is 60. The insurance premium of the voluntary retirement insurance policy of the Managing Director was EUR 60,000, which amount is not included in the paid salary and remuneration. As to the contract of CEO Rinnevaara, 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.

## Management Group

The Teleste Corporation Management Group is chaired by the CEO who reports to the Board of Directors. Members of the management group consist of the directors of Teleste Corporation business sectors and the group management. The Management Group handles the issues that concern managing the company, such as issues related to strategy, budget, interim reports and corporation deals, and prepares investments for approval by the Board of Directors.

The Management Group meets once a month or at other times, as required.

Salary for all Members of the Management Group consists of a fixed basic salary and a results-based bonus. The amount of results-based bonus is determined by the company performance, the business area in question and other key operative objectives. The Board is in charge of bonus systems applied to the Management Group. For details related to option specifics see page 11 of Teleste's Annual Report 2008. For holdings and stock options of the President and CEO and the Management Group see page 12.

## Auditing and Revisions

The term of office of Teleste Corporation auditor expires at the closing of the first Annual General Meeting following the election. On 1 April 2008, the Teleste AGM selected KPMG Oy Ab as the company auditor and decided that the auditor's fee will be paid as invoiced. The company's chief auditor is Sixten Nyman.

In addition to their statutory duties the auditors report to the Teleste Corporation Board of Directors and attend the Board meeting at least once a year.

In 2008, Teleste Corporation's auditing expenses totalled EUR 63 thousand in which the share of KPMG was EUR 39 thousand. Moreover, auditing units of KPMG have supplied Teleste Corporation companies with other consultation worth total EUR 124 thousand and other than KPMG auditors for EUR 10 thousand.

## Internal Auditing

Teleste has an internal auditing unit, which is in charge of internal auditing for Teleste Corporation and its subsidiaries, reporting to the specified Member of the Board. The internal auditing evaluates business operations, the related processes, their involved risks and efficiency of the conducted supervision while making suggestions for developmental measures. These activities are performed in cooperation with controllers and any other relevant bodies. Furthermore, the internal auditing carries out any special assignments issued by the Management. The internal auditing covers all organisational levels. Internal auditing is reported to the Teleste Corporation Board of Directors twice a year.

## Risk Management

Risk management is designed to ensure that Teleste Group achieves its operational goals and that the essential risks impacting business activity are recognized and followed up appropriately. The risk management methods are specified and the implementation of risk prevention is carried out through the same. Moreover, any risks that for economic or other reasons are reasonable to insure, are aimed to be covered.
In risk management, the regular evaluation of more significant risks and exercising control in a cost-effective manner are emphasised. Risk management departs from the specified business objectives of the Teleste Group. Risks posing potential threats to the set goals will be identified and kept under constant monitoring and assessment.

Teleste's risk management system covers, for instance, the following classes of risk:

- Operational prerequisites
- Personnel risks
- Property and business interruption risks
- Interest groups
- Operational organisation
- Economic risks.

Risk management supports the business activity and generates added value, assisting decision-making for the management in charge of business. The risk management system is based on monthly reporting by which the development of the orders received, turnover, order backlog, trade receivables and cash flow is monitored and, through the same, the profit development of the entire Teleste Group.

## Insider Register

As of 1 March, 2000, the company has followed the insider regulations approved by the Board of Directors of the NASDAQ OMX Helsinki Oy (revised 01.01.2006 and 02.06.2008). These regulations have been supplemented by the Company's internal guidelines.

Membership in the Teleste Corporation permanent inner circle is based on position. Thus, the group consists of members of the Board of Directors, CEO and the auditors. Furthermore, the extended inner register includes members of the Management Group and the CEO's assistant.

Moreover, insider rules and regulations include provisions concerning temporary commercial activities. Project-specific insider register includes personnel who, based on their position, have access to company-related information, which upon publication may affect the value formation of the company's share. The CEO will assess, on a case-by-case basis, whether an issue or arrangement under preparation will be defined as a project.
It is recommendable for those included in the insider register to time any intended trading involving company shares and derivatives in such a manner that optimum information affecting the value of the shares is available in the market at the time. The permanent members of Teleste Corporation's insider register are obliged by the so-called Silent Period during which trading on company shares is banned completely for 14 days preceding publication of interim reports and the financial statements. During the specified period Teleste Corporation will not engage in any meetings with investors or analysts and no Teleste Group representative is allowed to comment upon company results. The company insider administration is included in the SIRE system of Euroclear Finland Oy (formerly the Finnish Central Securities Depository).

## The Board of Directors

**Tapio Hintikka** 1

M.Sc. (Eng.), born in 1942
Chairman 2003–
Vice Chairman 2001–2002
Board Member 2001–

**Primary working experience:**
TeliaSonera AB (publ), Chairman 2002–2004
Sonera Corporation, Chairman 2001–2002
Hackman Oyj Abp, CEO 1997–2002
**Other elected positions of trust:**
Aina Group Plc, Chairman 2006–
CapMan Plc, Board Member 2004–
Emtele Oy, Chairman 2005–
Evli Bank Plc, Board Member 2003–2004, Vice Chairman 2005–

**Tero Laaksonen** 2

M.Sc. (Math.), born in 1946
Board Member 1999–

**Primary working experience:**
Comptel Corporation, CEO 2002–2004
Telia Finland Oy, CEO 1998–2001
Nokia Telecommunications Oy, SVP 1995–1998
**Other elected positions of trust:**
Ixonos Oyj, Chairman 2005–
Tieto-X Plc, Board Member 2004–2005, Chairman 2005–

**Pertti Raatikainen** 3

Dr. Sc. (Technology), born in 1956
Board Member 2003–

**Primary working experience:**
VTT Information Technology, Research professor 1998–
Helsinki University of Technology, Professor (fixed term) 1997
Helsinki University of Technology, Docent 2002–
University of Jyväskylä, Docent 1998–

**Kai Telanne** 4

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

**Primary working experience:**
Alma Media Corporation, CEO 2005–
Kustannus Oy Aamulehti, Managing Director 2001–2005
Kustannus Oy Aamulehti, Deputy Managing Director 2000–2001
**Other elected positions of trust:**
Varma Mutual Pension Insurance Company, Board Member
The Finnish News Agency (STT), Chairman
Federation of the Finnish Media Industry, Chairman
The Central Chamber of Commerce of Finland, Board Member
Ministry of Transport and Communications, Communications Administration Advisory Board Member

**Timo Toivila** 5

M.Sc. (Eng.), born in 1950
Board Member 2003–
Chairman 1996–1997
Board Member 1995–1997

**Primary working experience:**
Teleste Corporation, CEO 1996–2002
Sponsor Oy, Director 1994–1997
Huurre Group, Managing Director 1994–1995
**Other elected positions of trust:**
Tecnomen Corporation, Board Member 2001–

**Pekka Vennamo** 6

Student in technology, born in 1944
Board Member 2000–
Chairman 2000–2001

**Primary working experience:**
Sonera Corporation, CEO 1998–1999
Suomen PT Oy, CEO 1994–1998
**Other elected positions of trust:**
Isolta Oy, Board Member 2008–
Sijoitus Oy, Chairman and CEO 1998–
Soprano Group, Chairman 2000–



## Management Group

**Jukka Rinnevaara** 1

M.Sc. (Econ.), born in 1961
President and CEO
Joined Teleste in 2002

**Primary working experience:**
ABB Installaatiot Oy, President 1999–2001
ABB Building Systems, Group Senior Vice President 2001–2002
**Other elected positions of trust:**
Perlos Corporation, Board Member 2006–2007
Ventilation Holding Finland Oy, Board Member 2008–

**Johan Slotte** 2

LL.M, EMBA, born in 1959
Deputy CEO
Joined Teleste in 1999

**Primary working experience:**
Uponor Poland, Managing Director 1995–1999

**Erja Saarikoski** 3

Business school graduate, born in 1953
CFO
Joined Teleste in 1984

**Juha Järvenreuna** 4

M.Sc. (Eng.), born in 1964
HFC Networks and Services, Senior Vice President
(as of 1.1.2009 Network Services)
Joined Teleste in 2004

**Primary working experience:**
Teleste Corporation, Product Operations, Director 1998–2003
Nokia Networks, Quality Director 2003–2004

**Esa Kinnunen** 5

M.Sc. (Econ.), B.Sc. (Eng.), born in 1967
Digital Video and Broadband Solutions, Senior Vice President
(as of 1.1.2009 Access Networks)
Joined Teleste in 2006

**Primary working experience:**
Nokia Networks, Director 1994–2005
Solectron Corporation, Vice President 2005–2006

**Hanno Narjus** 6

M.Sc. (Econ.), born in 1962
Video Networks, Senior Vice President
(as of 1.1.2009 Video Solutions)
Joined Teleste in 2006

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

**Markus Mattila** 7

M.Sc. (Eng.), born in 1968
Operations, Senior Vice President
Joined Teleste on 4 February 2008

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

**Esko Myllylä** 7

B.Sc. (Eng.), CBA, born in 1966
Research and Development, CTO
Joined Teleste in 1994




# Report of the Board of Directors

## Overview

Due to the rapid weakening in the global economy, strong fluctuations in the exchange rates and the tightening in the financial markets Teleste's business environment became increasingly uncertain and harder to predict towards the end of the year. The changes in the business environment made our clientele increasingly cautious regarding their investment plans, and the relevant projects were partially pushed back. Similarly, year-on-year framework deliveries were reduced. On the other hand, the developing Indian market was active and Teleste managed to secure the largest single order on record of EUR 12.0 million from Digicable Networks PVT Ltd for delivery of IP-headends.

Measures designed to increase flexibility in the cost structure were initiated in the second half of the year. Sufficient financing was secured by way of binding credit limits agreed with two separate banks. These limits amount to EUR 40 million in total and remain valid until November 2013.

Product development efforts continued on a par with last year. The most important project involved the video processing system making use of the IP-based technology.

## Events after the End of the Period under Review

The services business was strengthened right in the beginning of January 2009 by acquiring three German companies providing network maintenance services to German operators. In 2009, the acquisitions will increase Teleste's net sales by approximately EUR 30 million. The relevant acquisition cost calculation will be completed by the release of the interim report for Q1 of 2009.

With the share transactions carried out on 14 and 29 January 2009, EM Group Oy flagged their holding of Teleste to have increased up to 5.04% and 10.57%, respectively.

## Net Sales and Profitability

Teleste net sales totaled EUR 108.7 (125.1) million, a decrease of 13.1% over the previous year. Net sales in Q4 amounted to EUR 28.1 (31.1) million.

Operating profit stood at EUR 5.6 (13.2) million making 5.2% (10.5%) of the net sales. Operating profit for Q4 stood at EUR 1.6 (3.0) million making 5.6% (9.8%) of the net sales.

Orders received by the Group equaled last year's level, i.e. EUR 118.6 (118.5) million. Order accrual weakened for the amplifier solutions included in frame agreements, especially in the second half-year. Orders received in Q4 stood at EUR 25.3 (29.7) million. Teleste's order backlog grew by 11.6% amounting to EUR 24.0 (21.5) million at the year-end. This increase in order backlog was mainly attributable to the significant contract of EUR 12 million secured in June by Broadband Cable Networks in India. Orders worth EUR 7.5 million entered in 2006 and 2007 have been taken away from the order backlog as the relevant deliveries have been estimated uncertain.

Profit after financial items totaled EUR 5.1 (12.7) million while the net profit after taxes equaled EUR 5.5 (9.4) million. Accounting period taxes include a tax refund of EUR 1.3 million. The relevant adjustment applied to the tax deductibility of specific items for 2004 to 2006. Undiluted result per share for the Group stood at EUR 0.32 (EUR 0.55). Return on capital employed amounted to 10.4% (27.1%) and return on equity was 11.8% (22.2%).

## R&D and Investments

R&D expenditure for the period under review totalled EUR 13.5 (13.1) million making 12.4% (10.5%) of net sales. The most significant R&D effort involved further development of the so-called Luminato video processing system based on Internet protocol. Our on-going product development efforts also included the broadband data transfer system EttH, the new generation amplifier technology Access, the high-density optics solution HDO, video surveillance transfer system MP-X and the CCTV management system VMX. Specification of the Gateway involved in the last mile system FttX and the selection of partners for the implementation stage were successfully completed.

Some 60% (40%) of product development expenses involved further development of product platforms currently in production and their maintenance as well as customer-specific product applications. Activated product development expenses stood at EUR 2.5 (2.7) million. This capitalization mainly involved the IP-headend, EttH, and MP-X. Depreciation on activated R&D expenses amounted to EUR 2.2 (1.4) million. The R&D expenditure in Q4 amounted to EUR 3.4 (3.5) million.

A number of Teleste's projects involved co-operation with Finnish universities and research institutes. 25% of Teleste's personnel (23%/2007, 22%/2006) worked in R&D related assignments.

Investments for the period under review totalled EUR 3.9 (12.3) million making 3.6% (9.8%) of net sales. Investments of EUR 2.5 million involved product development while EUR 0.7 million included acquisitions. As to investments for the period, EUR 0.2 (1.8) million was carried out by financial leasing.

## Financing

Liquidity of the Group remained good throughout the year. Operating cash flow stood at EUR 9.7 (12.0) million. At the end of the period, the amount of unused binding stand-by credits amounted to EUR 31.0 (23.0) million. The current binding stand-by credits of EUR 40.0 million run till November 2013. The Group's equity ratio was 61.7% (60.2%) and gearing 3.6% (3.8%). Interest bearing debt on 31 December 2008 was EUR 11.0 (9.5) million.

## Personnel and Organisation

In 2008, the Group employed, on average, 702 people (681/2007, 608/2006). At the year-end, the figure totaled 677 (672/2007, 621/2006) of which approximately 33% (34%/2007, 30%/2006) were stationed overseas. The stated number of personnel does not include temporary labor averaging 29 (64) persons in the financial period. The number of temporary labor at the year-end was 8 (36).

Employees stationed outside Europe accounted for less than 10% of the Group's personnel. Expenditure on employee benefits amounted to EUR 33.2 (31.5/2007, 27.1/2006) million.

In the co-determination negotiations concluded in December, temporary lay-off of the personnel was agreed upon as part of the cost structure adaptation procedures required by the market situation. Additional lay-offs involving personnel will be continued in a flexible manner as required by the market situation.

## Description of Business Areas and the Involved Key Risks

Founded in 1954, Teleste is a technology company currently running the business units of Broadband Cable Networks and Video Networks. In line with its strategy Teleste continues to focus on the chosen product and technology segments as well services business. Integrated deliveries of solutions create favorable conditions for growth even if the involved resource allocation and technical implementation pose a challenge involving, therefore, also reasonable risks. The current difficult situation in the financial market may slow down implementation of investment plans among the clientele. The way customers proceed with their investments follows a typically cyclic pattern. In compliance with its strategy, by increasing the services business Teleste intends to smoothen this cyclic pattern in its net sales. Furthermore, the prevailing circumstances may undermine the solvency of some customers.

Correct technological choices and their timing are vital for the success of our business areas. It is equally important to take into account any developments in the market such as consolidations taking place among the clientele and competition. Much of Teleste's competition comes from the USA and, therefore, strong euro up against the US dollar erodes the company competitiveness. Teleste hedges against short-term currency exposure by means of forward contracts.

The Board of Directors annually reviews any essential risks related to the company operation and management thereof. Risk management has been integrated into the strategic and operative practices of our business areas. Risks and their probability are reported to the Board with regular monthly reporting.

The company has covered risks related to damage in operative functions of the business areas mainly by insurance policies. These insurances do not include credit loss risks. No such risks materialized in 2008, and no legal proceedings or judicial procedures were pending that would have had any essential significance for the Group operation.

## Broadband Cable Networks

Broadband Cable Networks provides its main clientele of cable operators with equipment and systems designed for the construction of transmission network and signal processing. Deliveries include individual pieces of equipment and turnkey networks alike. Increasingly the business also makes available a number of services related to the maintenance and engineering of network infrastructure.

The main market area of Broadband Cable Networks is Europe, which business area involves 21 own sales offices supported by a number of retail and integration partners. Outside Europe, Broadband Cable Networks has own offices located in China and India. Acquired in February 2008, Ortikon Interactive Oy strengthens the provision of IPTV solutions for the business area.

The product development efforts of the business area focused, in particular, on further development of the IP-based headend system Luminato, the broadband data transfer system EttH, the new generation amplifier technology presented by Access and the high-definition fibre-optic solution HDO.

Orders received by Broadband Cable Networks were level with the year of comparison standing at EUR 101.4 (101.4) million. The order backlog was strengthened by the order of EUR 12.0 million received from India in June for the Luminato headend solution. The related deliveries are expected to start towards the end of first half of 2009.

Net sales fell by 14.4% (+26.5%) standing at EUR 92.6 (108.2) million. This reduction in net sales was mainly caused by a decrease in amplifier deliveries based on the frame agreements.

Operating profit decreased by 52.4% (+41.7%) standing at EUR 6.1 (12.8) million. Weakening in the operating profit was mainly due to diminished net sales.

At the year-end, order backlog stood at EUR 21.0 (19.7) million. Orders worth EUR 7.5 million entered in 2006 and 2007 have been deleted from the order backlog as the relevant deliveries have come to be deemed uncertain.

Orders received in the last quarter of the period under review remained at EUR 19.7 (25.2) million. The decrease in the order accrual for Q4 over the period of comparison was caused by a reduction in orders on amplifier deliveries related to frame agreements and a weakening in orders obtained from the Eastern Europe.

Net sales for Q4 amounted to EUR 23.8 (25.5) million while the operating profit stood at EUR 1.7 (2.3) million.

## Video Networks

Primary clientele of Video Networks includes public sector organizations and system integrators. The business area is specializing in high-quality video surveillance transfer and management systems carrying real-time video, audio and data. The product development efforts of the business area focused particularly on further development of IP-based video surveillance transfer systems MP-X and the CCTV management system VMX.

The business has seven sales offices in Europe with two overseas, in the United States and Australia, more specifically. Sales offices in Thailand and China were closed in 2008.

Orders received by Video Networks were level with the year of comparison amounting to EUR 17.2 (17.1) million. Net sales fell by 4.8% (+4.3%) standing at EUR 16.1 (16.9) million. Operating profit was EUR 0.5 (+0.3) million in the red. Weakened profitability was mainly caused by diminished net sales. At the year-end, order backlog stood at EUR 3.0 (1.8) million.

In the last quarter of the year under review, orders received amounted to EUR 5.6 (4.5) million with net sales equaling EUR 4.4 (5.5) million. The year-on-year decrease in the net sales is attributable to rescheduling of deliveries agreed with specific customers. Operating profit was EUR 0.1 million in the red (0.7 million in the black) due to low volume of net sales.

In 2009, price competition will continue to intensify, especially in the area of network solutions. Large companies have entered the market with determination. Moreover, technology involved in these applications is renewing rapidly.



## Business Areas by Geography

In geographical terms, the Group's business areas are divided up into Scandinavia, rest of Europe and others.
Scandinavia: Net sales in the Nordic countries amounted to EUR 32.2 (35.5) million. Investments for the area totalled EUR 3.4 (6.1) million.
Rest of Europe: Net sales for the rest of Europe stood at EUR 70.5 (78.3) million while the investments made in the area amounted to EUR 0.3 (6.1) million.
Others: Net sales amounted to EUR 5.9 (11.3) million. Investments totaled EUR 0.1 (0.1) million.

## Group Structure

In the period under review, Teleste acquired the share capital of the Finnish Ortikon Interactive Oy. The parent company of Teleste Group has branch offices in Australia, China, Denmark, France, India, the Netherlands, Russia and Spain with subsidiaries in 12 countries outside Finland.

## Decisions by the Annual General Meeting

The Annual General Meeting (AGM) on 1 April 2008 confirmed the financial statements for 2007 and discharged the Board and the CEO from liability for the financial period. The AGM confirmed the Board's proposed dividend of EUR 0.24 per share. The dividend was paid out on 15 April 2008.

The AGM decided that the Board of Directors shall consist of six members. Mr. Tapio Hintikka was re-elected Chairman of the Board whilst Mr. Tero Laaksonen, Mr. Pertti Raatikainen, Mr. Timo Toivila and Mr. Pekka Vennamo continued as members on the Board of Directors. Mr. Kai Telanne was elected new member of the Board.

Authorised Public Accountants KPMG Oy Ab continue as the auditor until the next AGM.

The AGM authorised the Board to acquire the maximum of 1,400,000 of the company's own shares and to convey the maximum of 1,744,721 company's own shares. The AGM also authorised the company to issue 5,000,000 new shares. The maximum number of shares that may be subscribed with the special rights granted by the Company is 2,000,000 shares.

These authorisations will be valid until the AGM due to be held in 2009.

## Management and the Auditors

CEO of the company has been Mr. Jukka Rinnevaara. The AGM elected KPMG Oy Ab as the auditor.

## Shares and Changes in Share Capital

At the end of 2008, Mandatum Life was the largest single shareholder with a holding of 9.43%.

In terms of the company share price in 2008, the low was EUR 1.90 (6.47) and the high EUR 7.49 (12.34), respectively. Closing price at the end of the year stood at EUR 2.24 (6.71). According to the Finnish Central Security Depository, the number of shareholders at the end of the period was 5,532 (5,270) while foreign ownership accounted for 11.18% (20.51%). Trading with Teleste share at NASDAQ OMX Helsinki Oy amounted to EUR 51.1 (72.4) million. In 2008, 11.5 (7.2) million shares standing for 64.6% (40.5%) of the shares were traded at NASDAQ OMX Helsinki Oy.

In May 2008, the Board of the company decided to launch a repurchase program of own shares based on authorisation granted by the Annual General Meeting. In compliance with the Board's decision, in the review period 421,470 shares were purchased out of the total amount of 500,000; the purchase price averaged EUR 3.29 per share. At the end of December, the number of own shares in the Group possession stood at 766,191 (352,482) out of which Teleste Corporation had 266,191 shares and the subsidiary Teleste Incentive Oy had 500,000 shares, respectively. The Group's holding of the total amount of shares at the end of the period amounted to 4.3% (1.9%).

In the period under review, 7,761 own shares were conveyed to the Management Team share bonus scheme. This equals 0.04% of the total number of shares. On 22 December 2008, 500,000 own shares were conveyed unrequited to Teleste Incentive Oy owned 100% by Teleste Corporation.

In the review period, 134,285 new shares were subscribed by Teleste 2002B options.

The 2004B options received by Teleste key personnel were listed in NASDAQ OMX Helsinki Oy on 1 April 2008.

On behalf of their customers, Schroder Investment Management Limited flagged their holding of Teleste to have decreased below five per cent by transactions performed on 22 July 2008. New holding at the moment of flagging was 4.96% of the company share capital and 4.42% of the votes.

At the balance sheet date, the registered share capital of Teleste stood at EUR 6,966,932.80 divided in 17,805,590 shares.

Other matters affecting the company governance will be stated in the Annual Report under Good Governance.

## Outlook for 2009

As the offering of services for the clientele of Broadband Cable Networks increases and becomes more versatile and with the competition intensifying, the operators will need to invest in increased network capacity and improved quality. The competitive solutions of the business area and the strengthening in the demand for the services business ensure our strong market position in the current challenging business environment.

Increased needs for security and more effective traffic infrastructure push up demand for solutions by Video Networks. We estimate the demand for Video Networks' high-quality video surveillance solutions and the systems designed for the industry to remain at a reasonable level in 2009.

In the prevailing uncertain market situation, regardless of the increasing demand by the end-users, our clientele may be cautious with their network investments, which can cause delays in the final investment decisions in the first half of 2009. We believe the market situation to normalize towards the end of the year and get back on the growth path.

Teleste will keep its strong market position in the core markets and continue to implement its strategy in a goal-directed manner while adapting its cost structure as required. In 2009, the recent strategic investments in the services business performed by Teleste cushion the cyclic pattern in the company net sales under the uncertain market conditions.

Due to the temporary delays in network investments, preparations for weakening net sales and profitability will be made in the 2009 operating plan at least for the first half of the year.

## Board of Directors' Proposal for Dividends

Regarding the Annual General Meeting scheduled for 7 April 2009, the Board proposes that a dividend of EUR 0.12 (EUR 0.24) per share would be paid for the outstanding shares for the year 2008.

3 February 2009

| | |
|---|---|
| Teleste Corporation<br>Board of Directors | Jukka Rinnevaara<br>CEO |

## Statement of Income

| 1 000 euros | Note | 1.1.–31.12.2008 | 1.1.–31.12.2007 | Change, % |
|---|---|---|---|---|
| **Net sales** | 1 | 108 695 | 125 100 | –13.1 |
| Other operating income | 2 | 1 820 | 1 772 | 2.7 |
| Changes in inventories of finished goods and work in progress | | –1 082 | –673 | 60.8 |
| Raw material and consumables used | | –48 063 | –59 692 | –19.5 |
| Employee benefits expense | 3 | –33 226 | –31 455 | 5.6 |
| Depreciation and amortisation expense | 4 | –4 705 | –3 552 | 32.5 |
| Other operating expenses | 5 | –17 811 | –18 324 | –2.8 |
| **Operating profit** | | **5 628** | **13 176** | **–57.3** |
| Financial income | 6 | 446 | 627 | –28.9 |
| Financial expenses | 7 | –979 | –1 131 | –13.4 |
| **Profit before tax** | | **5 095** | **12 672** | **–59.8** |
| Income tax expense | 8 | 433 | –3 309 | n/a |
| **Profit for the period** | | **5 528** | **9 363** | **–41.0** |
| Attributable to: | 9 | | | |
| Equity holders of the parent | | 5 528 | 9 363 | –41.0 |
| Earnings per share for profit of the year attributable to the equity holders of the parent (expressed in euros per share) | | | | |
| Basic | | 0.32 | 0.55 | –41.4 |
| Diluted | | 0.32 | 0.52 | –38.9 |

## Balance Sheet

| 1 000 euros | Note | 31.12.2008 | 31.12.2007 | Change, % |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 10 | 6 373 | 7 757 | –17.8 |
| Goodwill | 11 | 13 865 | 12 686 | 9.3 |
| Other intangible assets | 11 | 6 466 | 6 629 | –2.5 |
| Available-for-sale investments | 12 | 790 | 723 | 9.3 |
| | | 27 494 | 27 795 | –1.1 |
| **Current assets** | | | | |
| Inventories | 14 | 14 049 | 15 936 | –11.8 |
| Trade and other receivables | 15 | 24 728 | 26 455 | –6.5 |
| Cash and cash equivalents | 16 | 9 268 | 7 702 | 20.3 |
| | | 48 045 | 50 093 | –4.1 |
| **Total Assets** | | **75 539** | **77 888** | **–3.0** |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity attributable to equity holders of the parent** | | | | |
| Share capital | 17 | 6 967 | 6 967 | 0.0 |
| Share premium | 17 | 1 504 | 1 504 | 0.0 |
| Translation differences | | –561 | –53 | 958.5 |
| Invested nonrestricted equity | | 1 451 | 2 531 | –42.7 |
| Retained earnings | | 37 284 | 35 720 | 4.4 |
| | | 46 645 | 46 669 | –0.1 |
| **Non-current liabilities** | | | | |
| Interest-bearing liabilities | 18 | 1 175 | 1 700 | –30.9 |
| Other liabilities | | 66 | 0 | n/a |
| Deferred tax liabilities | 13 | 959 | 1 197 | –19.9 |
| Provisions | 19 | 314 | 425 | –26.1 |
| | | 2 514 | 3 322 | –24.3 |
| **Current liabilities** | | | | |
| Trade and other payables | 20 | 15 851 | 19 016 | –16.6 |
| Current tax payable | 21 | 113 | 580 | –80.5 |
| Provisions | 19 | 629 | 518 | 21.4 |
| Interest-bearing liabilities | 18 | 9 787 | 7 783 | 25.7 |
| | | 26 380 | 27 897 | –5.4 |
| **Total liabilities** | | **28 894** | **31 219** | **–7.4** |
| **Total equity and liabilities** | | **75 539** | **77 888** | **–3.0** |

## Cash Flow Statement

| 1 000 euros | Note | **1.1.–31.12.2008** | 1.1.–31.12.2007 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the period | | 5 528 | 9 363 |
| Adjustments for: | | | |
| Non-cash transactions | 23 | 4 955 | 4 202 |
| Interest and other financial expenses | | 979 | 1 131 |
| Interest income | | –436 | –617 |
| Dividend income | | –10 | –10 |
| Income tax expense | | –433 | 3 309 |
| Changes in working capital and provisions | | | |
| Increase in trade and other receivables | | 1 932 | –1 209 |
| Increase in inventories | | 1 887 | 1 216 |
| Increase in trade and other payables | | –3 296 | –1 414 |
| Decrease in provisions | | 0 | –332 |
| Paid interests and dividends | | –1 096 | –647 |
| Received interests and dividends | | 246 | 208 |
| Paid taxes | | –583 | –3 211 |
| **Net cash from operating activities** | | **9 673** | **11 988** |
| **Cash flows from investing activities** | | | |
| Acquisition of subsidiary, net of cash acquired | | –378 | –5 301 |
| Purchases of property, plant and equipment (PPE) | | –293 | –1 257 |
| Purchases of intangible assets | | –2 692 | –2 724 |
| Proceeds from sale of PPE | | 221 | 814 |
| Purchases of shares | | –80 | 0 |
| **Net cash used in investing activities** | | **–3 222** | **–8 468** |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 6 093 | 11 000 |
| Repayments of borrowings | | –4 596 | –11 113 |
| Payment of finance lease liabilities | | –578 | –594 |
| Dividends paid | | –4 158 | –3 413 |
| Purchases of own shares | | –1 386 | 0 |
| Proceeds from issuance of ordinary shares | | 249 | 1 630 |
| **Net cash used in financing activities** | | **–4 376** | **–2 490** |
| **Change in cash** | | | |
| Cash and cash equivalents at 1 January | | 7 702 | 6 789 |
| Effect of currency changes | | –508 | –118 |
| Cash and cash equivalents at 31 December | | 9 268 | 7 702 |

## Statement of Changes in Equity

| | Attributable to equity holders of the parent | | | | | | Total equity |
|---|---|---|---|---|---|---|---|
| 1 000 euros | Share capital | Share premium | Translation differences | Retained earnings | Invested non-restricted equity | Total | |
| **1.1.2007** | 6 955 | 1 417 | 65 | 29 224 | | 37 661 | **37 661** |
| Profit for the year | | | | 9 363 | | 9 363 | **9 363** |
| Total recognised income and expense for the year | 0 | 0 | 0 | 9 363 | | 9 363 | **9 363** |
| Dividends | | | | –3 413 | | –3 413 | **–3 413** |
| Equity-settled share-based payments | | | | 546 | 1 000 | 1 546 | **1 546** |
| Used share options | 12 | 87 | | | 1 531 | 1 630 | **1 630** |
| Exchange differences | | | –118 | | | –118 | **–118** |
| | 12 | 87 | –118 | –2 867 | 2 531 | –355 | **–355** |
| **31.12.2007** | 6 967 | 1 504 | –53 | 35 720 | 2 531 | 46 669 | **46 669** |
| Profit for the year | | | | 5 528 | | 5 528 | **5 528** |
| Total recognised income and expense for the year | 0 | 0 | 0 | 5 528 | | 5 528 | **5 528** |
| Dividends | | | | –4 158 | | –4 158 | **–4 158** |
| Equity-settled share-based payments | | | | 194 | –1 329 | –1 135 | **–1 135** |
| Used share options | 0 | 0 | | | 249 | 249 | **249** |
| Exchange differences | | | –508 | | | –508 | **–508** |
| | 0 | 0 | –508 | –3 964 | –1 080 | –5 552 | **–5 552** |
| **31.12.2008** | **6 967** | **1 504** | **–561** | **37 284** | **1 451** | **46 645** | **46 645** |

# Accounting Principles

## 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 Seponkatu 1, 20660 Littoinen.

Founded in 1954 Teleste is a technology company running its two business units Broadband Cable Networks and Video Networks. Our Broadband Cable Networks business aims at promoting the business of cable operators making up our clientele. This is achieved by making available network solutions. Our Video Networks business manufactures and delivers high-quality video surveillance network solutions for the transmission of video, data and audio with official authorities and integrators as the primary clientele. The parent company of Teleste Group, Teleste Corporation, has operations in Belgium, China, Denmark, France, India, the Netherlands, Poland and Spain, and a subsidiary in ten 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 (IFRS) in force as at 31 December 2008. 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.

Teleste adopted IFRS as from 1 January 2005. Prior to IFRS Teleste's financial statements were based on Finnish accounting standards (FAS) applicable to listed companies in Finland. IFRS 1 First-time adoption of IFRS was applied in the transition. Teleste's date of transition to IFRS was 1 January 2004.

## 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 IFRS 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 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 (together referred to as "Group" or "Teleste"). 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. As at 31 December 2008 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. As at 31 December 2008 the Group had no interests in joint ventures.

## Principles of consolidation

Acquisitions of companies are accounted for by using the purchase method. All intercompany income and expenses, receivables, liabilities and unrealised profits arising from intercompany transactions, as well as distribution of profits within the Group are eliminated as part of the consolidation process. The allocation of the profit for the period attributable to equity holders of the parent company and minority interest is presented on the face of the income statement and minority interest is also disclosed as a separate item within equity. Minority interest in the loss is recorded in the consolidated financial statements at the investment value at most.

Teleste has applied the exemption under IFRS 1 according to which the classification and accounting treatment of business combinations occurred prior to the IFRS transition date do not have to be restated but previous values under FAS are taken as a deemed cost.

## 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. Goodwill and fair value adjustments to assets and liabilities that arose on the acquisition of a foreign entity occurred prior to 1 January 2004 are translated into euro using the rate that prevailed on the date of the acquisition. Goodwill and fair value adjustments arisen on the acquisitions after 1 January 2004 are treated as part of the assets and liabilities of the acquired entity and are translated at the closing rate.

All translation differences arising from consolidation of foreign shareholdings are recognised as a separate item to equity. In accordance with the exemption included in IFRS 1 those cumulative translation differences arisen until the transition date have been reclassified to retained earnings and consequently they will not be later released in the income statement. From the transition date onwards translation differences arising on the consolidation are presented as a separate component of equity. 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 expenses are not capitalised as part of the cost of non-current assets. Ordinary maintenance, repairs and renewals are expensed during the financial period in which they are incurred. In Teleste there are no such significant inspection or maintenance costs that should be capitalised. The Group recognises in the carrying amount of an item of property, plant and equipment the subsequent costs when that cost is incurred if it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group and the cost of the item can be measured reliably. Such renewals and repairs are depreciated on a systematic basis over the remaining useful life of the related asset. Gains and losses on sales and disposals are calculated as a difference between the received proceeds and the carrying amount and are included in other operating income and expenses, respectively.

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

- Buildings 25–33 years
- Machinery and equipment 3–5 years
- Computers 0–3 years
- Software 3 years

Land is not depreciated.

## Leases

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

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

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

**Group as lessor**
Those leases under which Teleste is a lessor are classified as operating leases. Leased assets are presented in the lessor's balance sheet under property, plant and equipment according

to the nature of the asset. They are depreciated over their estimated useful lives in accordance with the depreciation policy used for comparable assets in own use. Lease income is recognised in the income statement on a straight-line basis over the lease term.

## Intangible assets

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

**Goodwill**
After 1 January 2004 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. Consequently goodwill was amortised on a straight-line basis over the expected useful life until 31 December 2003, after which the amortisation was discontinued.

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

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

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

The estimated useful lives are as follows:

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

## Non-current assets held for sale and discontinued operations

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

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

## Impairment

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

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

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

## Inventories

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

## Financial assets and liabilities

In Teleste hedge accounting as defined under IAS 39 is not applied. IAS 1 has been applied since 1 January 2007.

Since 1 January 2004 financial assets are classified into categories as follows: financial assets at fair value through profit or loss, held-to-maturity assets, loans or receivables (assets) and available-for-sale assets. Financial assets are classified when initially acquired based on their purpose of use. In the case of a financial asset not measured at fair value through profit or loss, transaction costs are included in the acquisition cost. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. All purchases or sales of financial assets are recognised or derecognised using trade date accounting.

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

**Financial assets at fair value through profit or loss**
Financial assets at fair value through profit or loss are either classified as held for trading, or they are designated by the Group as at fair value through profit or loss upon initial recognition. A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of short-term profittaking from changes in market prices or it is a derivative that does not qualify for hedge accounting. Currently Teleste does not apply hedge accounting as defined under IAS 39. Financial assets and liabilities at fair value through profit or loss are recognised on the balance sheet using trade date accounting. They are measured at their fair values, which is the bid price at the balance sheet date based on published price quotations in an active market. Both financial assets held for trading and other financial assets maturing in 12 months after the balance sheet date are included in the current assets. A gain or loss arising from a change in the fair value, realised or unrealised, is recognised in the income statement as incurred.

**Derivatives**
Derivatives, including embedded derivatives, are included in the financial assets at fair value through profit or loss. They are recognised on the balance sheet at cost, equivalent to the fair value, and are subsequently fair valued at each balance sheet date. The Group uses forward exchange agreements and the Group's hedging policy is to cover all material currency risks at least six months ahead. Since Teleste does not currently apply hedge accounting as defined under IAS 39, changes in fair value of instruments designated as hedging instruments are recognised in profit or loss. Gains and losses arising from changes in fair value are included in operating profit unless the hedged item relates to financing when fair value changes are recognised in financial income or expenses. Fair values are determined utilising public price quotations and rates as well as generally used valuation models. The data and assumptions used in the valuation model are based on verifiable market prices. Derivatives that mature within 12 months after the balance sheet date are included in current assets or liabilities. Derivatives are not used for speculative purposes.

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

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

**Held-to-maturity investments**
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity. They are stated at amortised cost less impairment losses and presented within non-current assets. As at 31 December 2008 the Group had no assets classified as held-to-maturity investments.

**Financial liabilities**
Since 1 January 2004 financial liabilities are classified either as financial liabilities at fair value through profit or loss or as other liabilities. Teleste only has liabilities classified to the latter category. On initial recognition a loan is measured at its fair value that is based on the consideration received. Subsequent to initial recognition, these liabilities are stated at amortised cost calculated using the effective interest method. Interest expenses are recognised in the income statement over the term of the loan using the effective interest method.

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

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

## Treasury shares

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

## Dividends

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

## Provisions

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

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

## Revenue recognition and net sales

Revenue from the sale of goods is recognised in the income statement when all significant risks and rewards of ownership have been transferred to the buyer, which normally takes place when a commodity is delivered. Revenue from services is recognised when the service has been performed.

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

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

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

## Other operating income

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

## Government grants

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

## Employee benefits

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

**Share-based payments**
Teleste has applied IFRS 2 Share-based payments to granted share options to the extent that such share option plans are in the scope of this standard, i.e. to those share option arrangements in which share options have been granted after 7 November 2002 that had not yet vested until 1 January 2005. The options granted before this have not been expensed in the income statement. 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. 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 31 December 2008.

## 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 equity is itself charged or credited directly to 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.

## New and amended standards and interpretations

Teleste will adopt in 2006 pronounced IFRS 8 Operating Segments in 2009. Teleste opinion is that it will not have an impact in reporting of operating segments. In 2009 the revised IAS 1 Presentation of Financial statements standard will also be adopted. This will affect the presentation of the financial statements. IFRS 3 Business combinations Standard will be adopted from 1 January 2010 onwards.

# Segment Reporting

Teleste Group is organised in the primary reporting segments that are its business segments and secondary reporting segments that are geographical segments. These segments are based on the Group's organisational and internal reporting structure.

## Business segments

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

Broadband Cable Networks segment's clientele consists almost exclusively of cable operators. Teleste supplies cable operators with equipment and systems designed to be used for building transmission networks and processing of video and data signals. Deliveries by Teleste include both individual pieces of equipment and comprehensive networks. Teleste also makes available a number of services related to the maintenance of network infrastructure.

Video Networks is in the business of manufacturing and supplying solutions for video surveillance networks between camera outputs and control rooms. The focus area is video surveillance applications requiring high-quality and real-time video, audio and data. With authorities as the main end-user group of Teleste systems, the most important applications are traffic control systems for both road and rail transport, urban surveillance systems and applications related to public safety in areas such as border control, ports and airports. One of Teleste's special know-how area is to integrate video surveillance network with hundreds cameras to one entirety.

## Geographical segments

Secondary geographical segment is divided into three geographical areas:

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

The main market area of Broadband Cable Networks is Europe where the business unit is present with its 21 dedicated offices supported by several support and integration partners. Apart from Europe, offices have been established in China and India. Through its own offices Teleste Video Networks is present locally in all the major geographical markets: Europe, America and Southeast Asia.

Sales of geographical segments are shown based on customer location. Assets and investments are presented by geographical location of assets.

There are no inter-segment sales in the Group.

## Segment assets and liabilities

Segment assets and liabilities include items directly attributable to the segment as well as those that can be allocated on a reasonable basis.

## 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

| **2008** | 1 000 euros | Broadband Cable Networks | Video Networks | Group |
|---|---|---|---|---|
| External sales | | | | |
| Services | | 5 459 | 218 | 5 677 |
| Goods | | 87 146 | 15 872 | 103 018 |
| Total external sales | | 92 605 | 16 090 | 108 695 |
| Total revenue | | 92 605 | 16 090 | 108 695 |
| Operating profit of segments | | 6 098 | –470 | 5 628 |
| Operating profit | | | | 5 628 |
| Unallocated expenses | | | | –100 |
| Profit for the period | | | | 5 528 |
| Segment assets | | 50 930 | 15 341 | 66 271 |
| Unallocated assets | | | | 9 268 |
| Total assets | | | | 75 539 |
| Segment liabilities | | 14 443 | 2 351 | 16 794 |
| Unallocated liabilities | | | | 12 100 |
| Total liabilities | | | | 28 894 |
| Capital expenditure | | 3 378 | 518 | 3 896 |
| Depreciation and amortisation | | 3 713 | 992 | 4 705 |

| 2007 | 1 000 euros | Broadband Cable Networks | Video Networks | Group |
|---|---|---|---|---|
| External sales | | | | |
| Services | | 4 681 | 363 | 5 044 |
| Goods | | 103 523 | 16 533 | 120 056 |
| Total external sales | | 108 204 | 16 896 | 125 100 |
| Total revenue | | 108 204 | 16 896 | 125 100 |
| Operating profit of segments | | 12 837 | 339 | 13 176 |
| Operating profit | | | | 13 176 |
| Unallocated expenses | | | | –3 813 |
| Profit for the period | | | | 9 363 |
| Segment assets | | 54 952 | 15 234 | 70 186 |
| Unallocated assets | | | | 7 702 |
| Total assets | | | | 77 888 |
| Segment liabilities | | 17 165 | 2 794 | 19 959 |
| Unallocated liabilities | | | | 11 260 |
| Total liabilities | | | | 31 219 |
| Capital expenditure | | 11 082 | 1 201 | 12 283 |
| Depreciation and amortisation | | 2 800 | 752 | 3 552 |

**Geographical segments**

| **2008** | 1 000 euros | Nordic countries | Other Europe | Others | Group |
|---|---|---|---|---|---|
| Sales by origin | | 32 248 | 70 522 | 5 925 | 108 695 |
| Assets | | 61 082 | 12 582 | 1 875 | 75 539 |
| Capital expenditure | | 3 448 | 330 | 118 | 3 896 |

| 2007 | 1 000 euros | Nordic countries | Other Europe | Others | Group |
|---|---|---|---|---|---|
| Sales by origin | | 35 535 | 78 260 | 11 305 | 125 100 |
| Assets | | 57 483 | 18 837 | 1 568 | 77 888 |
| Capital expenditure | | 6 113 | 6 120 | 50 | 12 283 |

# Business Combinations acquired during 2008 and 2007

The range of products and services of Broadband Cable Networks was strengthened by acquisition of 100% of shares of Finnish Ortikon Interactive Oy at 6 February 2008. The purchase price was EUR 100 thousand and paid in cash. The acquisition resulted in EUR 202 thousand of intangible assets, which was allocated to trade marks, customer relationships and technology. The goodwill, amounted EUR 605 thousand, is mainly due to synergy effects in the future. The impact of the acquisition on Teleste's net sales during the period was EUR 563 thousand and on the EBIT EUR –119 thousand.

During the second quarter of 2008 the final conditional supplementary contract price of EUR 275 thousand related to the Broadband Cable Networks' acquisition of PromaCom AB in year 2006 were recognised in the books. The conditional supplementary contract price in its entirety was booked in the goodwill.

The net profit of Ortikon Interactive Oy for the period 6 February–31 December 2008 is included in the consolidated income statement for the year 2008. If the companies had been consolidated since 1 January 2008, the Group revenue would have been EUR 0.02 million higher and the Group profit would have increased EUR 0.05 million.

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

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

The range of products and services of Broadband Cable Networks was strengthened by acquisition of 100% of shares of Belgian DINH TeleCom S.A. at 4 April 2007. The purchase price was EUR 6.1 million. Treasury shares was conveyed as a part of the payment for the consideration of EUR 1 million i.e. 92,338 numbers. The conveyance was based on authorisation granted by the annual meeting of Teleste Corporation at 3 April 2007. The shares conveyed were measured at the average trading share price quoted in OMX Helsinki Stock Exchange between 5 March and 30 March 2007, which was 10.83 EUR/share. The number of shares then conveyed accounted for 0.53 per cent of the shares of the Teleste Corporation.

The acquisition resulted in EUR 1,785 thousand of intangible assets, which was allocated to trade marks, customer relationships and technology. The goodwill, amounted EUR 460 thousand, is mainly due to synergy effects in the future. During the first quarter of 2007 the final conditional supplementary contract price of EUR 99 thousand related to the acquisition of Teleste Video Networks AB (former S-Link AB) in November 2003 were recognised in the books. The conditional supplementary contract price in its entirety was booked in the goodwill.

The net profit of DINH TeleCom S.A. for the period 4 April–31 December 2007 is included in the consolidated income statement for the year 2007. If the companies had been consolidated since 1 January 2007, the Group revenue would have been EUR 1.1 million higher and the Group profit would have increased EUR 0.1 million.

**THE FOLLOWING ASSETS AND LIABILITIES WERE RECOGNISED IN THE ACQUISITION ORTIKON INTERACTIVE OY.**

| 1 000 euros | |
|---|---|
| **Fair values used in consolidation** | |
| Trade marks (inc. in intangible assets) | 46 |
| Customer relationship (inc. in intangible assets) | 108 |
| Technology (inc. in intangible assets) | 48 |
| **Book values used in consolidation** | |
| Tangible assets | 13 |
| Trade receivables | 19 |
| Other receivables | 126 |
| Total assets | 360 |
| **Book values used in consolidation** | |
| Interest-bearing liabilities | 556 |
| Deferred tax liabilities | 53 |
| Other liabilities | 256 |
| Total liabilities | 865 |
| Net identifiable assets and liabilities | –505 |
| Total consideration | 100 |
| Goodwill on acquisition | 605 |
| Consideration paid in cash | –100 |
| Cash and cash equivalents in acquired subsidiary | 0 |
| Total net cash outflow on the acquisition | –100 |



## Notes

**1 CONSTRUCTION CONTRACTS**

Group revenue includes EUR 343 thousand (EUR 159 thousand) of income from construction contracts.

Revenue recognised in the consolidated income statement from construction contracts in progress amounted to EUR 343 thousand (EUR 159 thousand). No advance payments included to balance sheet at the closing time.

| 1 000 euros | **2008** | 2007 |
|---|---|---|
| **2 OTHER OPERATING INCOME** | | |
| Government grants related to development costs | 1 392 | 1 530 |
| Rental income | 118 | 120 |
| Government grants | 310 | 122 |
| **Total** | **1 820** | **1 772** |
| **3 EMPLOYEE BENEFITS** | | |
| Wages and salaries | –25 622 | –24 684 |
| Pension expenses | | |
| Defined contribution plans | –5 274 | –4 962 |
| Other post employment benefits | –2 805 | –2 415 |
| Activated R&D salaries and social costs | 671 | 1 030 |
| Equity-settled share-based transactions | –196 | –424 |
| **Total** | **–33 226** | **–31 455** |

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

The average number of employees in the Group during the financial year broken down by following categories

| | | |
|---|---|---|
| Research and Development | 173 | 158 |
| Production and Material Management | 302 | 305 |
| Sales and Marketing, Log. Services | 189 | 179 |
| Finance and IT | 38 | 39 |
| **Total** | **702** | **681** |

**4 DEPRECIATION, AMORTISATION AND IMPAIRMENT**

Depreciation and amortisation by asset type:

| | | |
|---|---|---|
| Tangible assets | | |
| Buildings | –392 | –298 |
| Machinery and equipment | –1 032 | –938 |
| Other tangible assets | –548 | –434 |
| **Total** | **–1 972** | **–1 670** |
| Intangible assets | | |
| Capitalised development expenses | –2 209 | –1 429 |
| Other intangible assets | –524 | –452 |
| **Total** | **–2 733** | **–1 881** |

No impairment test losses are booked to Profit and Loss Account during 2008 or 2007.

**5 OTHER OPERATING EXPENSES**

| | | |
|---|---|---|
| Rental expenses | –2 304 | –2 014 |
| External services | –1 702 | –1 335 |
| Other variable costs | –3 330 | –2 566 |
| Travel and IT costs | –4 519 | –4 726 |
| R&D costs | –3 227 | –3 174 |
| Other expenses | –2 729 | –4 509 |
| **Total** | **–17 811** | **–18 324** |
| **Audit expenses KPMG** | | |
| Auditing assignments | –39 | –49 |
| Tax consultancy | –65 | –25 |
| Other assignments | –59 | –70 |
| **Other auditors** | | |
| Auditing assignments | –24 | –45 |
| Other assignments | –10 | –0 |

| 1 000 euros | 2008 | 2007 |
|---|---|---|
| **6 FINANCIAL INCOME** | | |
| Interest income | 179 | 210 |
| Dividend income | 10 | 10 |
| Other financial income | 257 | 407 |
| **Total** | **446** | **627** |

Other financial income includes EUR 200 thousand gain from sales of other financial assets during the period (EUR 353 thousand in 2007).

**7 FINANCIAL EXPENSES**

| | | |
|---|---|---|
| Interest expenses | –592 | –701 |
| Exchange losses | –220 | –289 |
| Other financial expenses | –167 | –141 |
| **Total** | **–979** | **–1 131** |

Other financial expenses includes interests from financial leasing expensed during the period EUR 167 thousand (EUR 141 thousand in 2007).
Losses from forward exchange contracts are included in operating profit.

**8 INCOME TAXES**

| | | |
|---|---|---|
| Recognised in the income statement | | |
| Current tax expense | | |
| Current year | –869 | –3 221 |
| Adjustments for prior years | 1 440 | 21 |
| Deferred tax expense | –138 | –109 |
| **Total** | **433** | **–3 309** |

Reconciliation of the income tax income in the income statement, EUR 433 thousand, and the income tax expense calculated using the Teleste Group's domestic corporation 26% tax rate.

| | | |
|---|---|---|
| Profit before tax | 5 095 | 12 672 |
| Income tax using the domestic corporation tax rate (26%) | –1 325 | –3 295 |
| Effect of tax rates in foreign jurisdictions | –156 | –147 |
| Tax exempt revenues | 536 | 55 |
| Tax debt increase related to balance sheet items | –138 | –109 |
| Non-deductible expenses | –20 | –133 |
| Taxes from previous year | 1 440 | 21 |
| Effect of tax losses utilised | 96 | 299 |
| **Income tax income/expense reported in the consolidated income statement** | **433** | **–3 309** |

**9 EARNINGS PER SHARE**

The basic earnings per share is calculated as follows:

Profit for the year attributable to equity holders of the parent

Weighted average number of ordinary shares outstanding during the financial year

The number of ordinary shares outstanding excludes the treasury shares.

The diluted earnings per share is calculated as follows:

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

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

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

| | 2008 | 2007 |
|---|---|---|
| Profit for the year attributable to equity holders of the parent (1 000 euros) | 5 528 | 9 363 |
| Weighted average number of ordinary shares outstanding during the financial year (1 000 shares) | 17 243 | 17 117 |
| Basic earnings per share (euros/share) | 0.32 | 0.55 |
| Weighted average number of ordinary shares outstanding during the financial year (1 000 shares) | 17 243 | 17 117 |
| Effect of share options on issue (1 000 shares) | 129 | 854 |
| Weighted average number of ordinary shares outstanding during the financial year (diluted) (1 000 shares) | 17 372 | 17 971 |
| Diluted earnings per share (euros) | 0.32 | 0.52 |

The share options granted by the Group have a dilutive effect, i.e. they increase the number of the ordinary shares when their subscription price is below the fair value of the share. The dilutive effect equals the number of the shares gratuitously issued ; this difference arises when the Group can not issue the same number of shares at their fair value using the proceeds received on the exercise of the options.





| 1 000 euros | Land areas | Buildings | Machinery and equipment | Other tangible assets | Advance payments | Total |
|---|---|---|---|---|---|---|
| **10 PROPERTY, PLANT AND EQUIPMENT** | | | | | | |
| Balance at 1.1.2008 | 162 | 5 843 | 17 040 | 3 693 | 0 | **26 738** |
| Additions | 14 | 0 | 237 | 324 | 0 | **575** |
| Acquisitions through business combinations | 0 | 0 | 12 | 0 | 0 | **12** |
| Balance at 31.12.2008 | 176 | 5 843 | 17 289 | 4 017 | 0 | **27 325** |
| Depreciation and impairment losses, balance at 1.1.2008 | 0 | –2 887 | –13 264 | –2 829 | 0 | **–18 980** |
| Depreciation charge for the year | 0 | –392 | –1 032 | –548 | 0 | **–1 972** |
| Balance at 31.12.2008 | 0 | –3 279 | –14 296 | –3 377 | 0 | **–20 952** |
| Carrying amounts 1.1.2008 | 162 | 2 956 | 3 776 | 864 | 0 | **7 757** |
| Carrying amounts 31.12.2008 | 176 | 2 564 | 2 993 | 640 | 0 | **6 373** |

| 1 000 euros | Land areas | Buildings | Machinery and equipment | Other tangible assets | Advance payments | Total |
|---|---|---|---|---|---|---|
| Balance at 1.1.2007 | 108 | 5 384 | 14 419 | 2 939 | 37 | **22 887** |
| Additions | 0 | 233 | 2 385 | 754 | 0 | **3 372** |
| Acquisitions through business combinations | 54 | 200 | 227 | 0 | 0 | **481** |
| Transfers between classes | 0 | 26 | 9 | 0 | –37 | **–2** |
| Balance at 31.12.2007 | 162 | 5 843 | 17 040 | 3 693 | 0 | **26 738** |
| Depreciation and impairment losses, balance at 1.1.2007 | 0 | –2 589 | –12 326 | –2 395 | 0 | **–17 310** |
| Depreciation charge for the year | 0 | –298 | –938 | –434 | 0 | **–1 670** |
| Balance at 31.12.2007 | 0 | –2 887 | –13 264 | –2 829 | 0 | **–18 980** |
| Carrying amounts 1.1.2007 | 108 | 2 795 | 2 093 | 544 | 37 | **5 578** |
| Carrying amounts 31.12.2007 | 162 | 2 956 | 3 776 | 864 | 0 | **7 758** |
| Carrying amount of production machinery and equipment 31.12.2008 | | | 2 306 | | | |
| Carrying amount of production machinery and equipment 31.12.2007 | | | 2 906 | | | |

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

| 1 000 euros | Machinery and equipment |
|---|---|
| 31.12.2008 | |
| Historical cost | 3 405 |
| Cumulative depreciation | –1 606 |
| Carrying amount at 31.12.2008 | 1 799 |
| 31.12.2007 | |
| Historical cost | 3 205 |
| Cumulative depreciation | –917 |
| Carrying amount at 31.12.2007 | 2 288 |

| 1000 euros | Goodwill | Development costs | Other intangible assets | Total |
|---|---|---|---|---|
| **11 INTANGIBLE ASSETS** | | | | |
| Balance at 1.1.2008 | 12 686 | 7 843 | 2 935 | **23 464** |
| Additions | 575 | 2 589 | 58 | **3 222** |
| Disposals | | | –280 | |
| Acquisitions through business combinations | 604 | | 202 | **806** |
| Balance at 31.12.2008 | 13 865 | 10 432 | 2 915 | **27 212** |
| Amortisation and impairment losses, balance at 1.1.2008 | 0 | –3 616 | –532 | **–4 148** |
| Amortisation for the year | 0 | –2 209 | –524 | **–2 733** |
| Balance at 31.12.2008 | 0 | –5 825 | –1 056 | **–6 881** |
| Carrying amounts 1.1.2008 | 12 686 | 4 226 | 2 403 | **19 315** |
| Carrying amounts 31.12.2008 | 13 865 | 4 607 | 1 859 | **20 331** |

| 1 000 euros | Goodwill | Development costs | Other intangible assets | Total |
|---|---|---|---|---|
| Balance at 1.1.2007 | 12 127 | 5 107 | 775 | **18 009** |
| Additions | 99 | 2 736 | 0 | **2 835** |
| Acquisitions through business combinations | 460 | 0 | 2 160 | **2 620** |
| Balance at 31.12.2007 | 12 686 | 7 843 | 2 935 | **23 464** |
| Amortisation and impairment losses, balance at 1.1.2007 | 0 | –2 188 | –80 | **–2 268** |
| Amortisation for the year | 0 | –1 428 | –452 | **–1 880** |
| Balance at 31.12.2007 | 0 | –3 616 | –532 | **–4 148** |
| Carrying amounts 1.1.2007 | 12 127 | 2 919 | 695 | **15 741** |
| Carrying amounts 31.12.2007 | 12 686 | 4 226 | 2 403 | **19 315** |

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 EUR 13.9 million at 31 December 2008. Goodwill has been allocated to the following cash-generating units: Teleste Broadband Cable Networks EUR 7.5 million (including Flomatik AS, PromaCom AB, Teleste Electronics (SIP) Co. Ltd., DINH TeleCom S.A. and Ortikon Interactive Oy). Teleste Video Networks EUR 6.4 million (including Teleste Video Networks AB and Suomen Turvakamera Oy).

The recoverable amount of the segments is based upon value-in-use calculations. Those calculations use cash flow projections based upon the strategy approved by the management. Calculations are prepared covering a 10 years' period, the cash flow for Broadband Cable Networks covers the first 2 years and is based on the 2009 budget level, and during the next 3 years the expected growth rate is 5 per cent (20 per cent). The expected future cash flows for a further 5 year period are extrapolated using a 5 per cent (5 per cent) growth rate. The cash flow for Video Networks' segment, for the first year, is based on 2009 budget, and during the next 4 years the expected growth rate is 10 per cent (20 per cent). The expected future cash flows, for a further 5 year period are extrapolated using a 5 per cent (5 per cent) growth rate.

Management's view on the cash flows is cautious as the effect of the global turn down and changes of the industry are difficult to foresee. A discount rate of 12.7 per cent (12.6 per cent) has been used in discounting the projected cash flows. The terminal value of the segments is calculated by using a growth rate of 2 per cent.

Management is of the opinion that potential changes of any key parameters used in the calculations moderately assessed would not result in the carrying amount of the Broadband Cable Networks segment to exceed the recoverable amount. For Video Networks segment the carrying amount barely exceeds the recoverable amount. Impairment losses would occur partly on Video Networks segment, if the growth rate is not 10 per cent units on yearly basis.

The Group received a grant amounting to EUR 2.0 million from Tekes (National Technology Agency of Finland) towards development costs in 2008 (2007: EUR 2.1 million). From the grant received EUR 0.64 million (2007: EUR 0.66 million) 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.

| 1 000 euros | **2008** | 2007 |
|---|---|---|
| **12 AVAILABLE-FOR-SALE INVESTMENTS** | | |
| Unlisted shares | 790 | 723 |
| Total | 790 | 723 |





| 1 000 euros | 1.1.2008 | Recognised in the income statement | 31.12.2008 |
|---|---|---|---|
| **13 DEFERRED TAX ASSETS AND LIABILITIES** | | | |
| Movements in temporary differences during 2008 | | | |
| Deferred tax assets: | | | |
| Effects of consolidation and eliminations | 663 | 74 | 737 |
| Provisions | 231 | 13 | 244 |
| Cumulative depreciation difference | 285 | 103 | 388 |
| **Total** | **1 179** | **190** | **1 369** |
| Deferred tax liabilities: | | | |
| Capitalisation of intangible assets | –1 099 | –98 | –1 197 |
| Fair value adjustments to intangible and tangible assets on acquisition | –527 | 83 | –444 |
| Cumulative depreciation difference | –467 | 182 | –285 |
| Other taxable temporary differences | –283 | –117 | –402 |
| **Total** | **–2 376** | **50** | **–2 328** |

In the consolidated financial statements deferred tax receivables and liabilities have been offset.

The change in the balance sheet liabilities does not match the deferred tax liability recognised in the income statement. This is due to recognition of tax debt involving fair value of intangible assets and group internal eliminations.

| 1 000 euros | 1.1.2007 | Recognised in the income statement | 31.12.2007 |
|---|---|---|---|
| Movements in temporary differences during 2007 | | | |
| Deferred tax assets: | | | |
| Effects of consolidation and eliminations | 392 | 271 | 663 |
| Provisions | 306 | –75 | 231 |
| Cumulative depreciation difference | 349 | –64 | 285 |
| **Total** | **1 047** | **132** | **1 179** |
| Deferred tax liabilities: | | | |
| Capitalisation of intangible assets | –758 | –341 | –1 099 |
| Fair value adjustments to intangible and tangible assets on acquisition | –143 | 80 | –527 |
| Cumulative depreciation difference | –516 | 49 | –467 |
| Other taxable temporary differences | 3 | –286 | –283 |
| **Total** | **–1 414** | **–498** | **–2 376** |

In the consolidated financial statements deferred tax receivables and liabilities have been offset.

At 31 December 2008 the Group had unused tax losses in subsidiaries amounting to EUR 1,255 thousand. No deferred tax asset has been recognised in respect of this because it is not probable that future taxable profit will be available against which the Group can utilise the benefit therefrom.

No deferred tax liability has been provided for the undistributed profits of the foreign subsidiaries amounting to EUR 3,669 thousand at 31 Dec. 2008 (31 Dec. 2007: EUR 5,724 thousand). This is because the group has the power to decide the time when the tax obligation would realize. The realization of this tax is unlikely in the near future.

| 1 000 euros | **2008** | 2007 |
|---|---|---|
| **14 INVENTORIES** | | |
| Raw materials and consumables | 3 047 | 3 851 |
| Work in progress | 5 075 | 4 980 |
| Finished goods | 5 927 | 7 104 |
| **Total** | **14 049** | **15 936** |

The amount of the impairment losses of inventories to the net realisable value recognised as an expense during the financial period is EUR 913 thousand. At the end of the financial year EUR 5,452 thousand was deducted from the inventory value to the net realisable value (31 Dec. 2007 EUR 4,539 thousand).

| 1 000 euros | 2008 | 2007 |
|---|---|---|
| **15 TRADE AND OTHER CURRENT RECEIVABLES** | | |
| Trade receivables | 20 656 | 23 498 |
| Accrued income and prepayments | 3 458 | 2 061 |
| Other receivables | 614 | 896 |
| **Total** | **24 728** | **26 455** |
| **16 CASH AND CASH EQUIVALENTS** | | |
| Cash at bank and in hand and call deposits | 9 268 | 7 702 |
| **Total** | **9 268** | **7 702** |
| Cash and cash equivalents in the statement of cash flows | 9 268 | 7 702 |

| 1 000 euros | Number of shares, 1 000 pcs | Number of own shares, 1 000 pcs | Number of shares, total, 1 000 pcs | Share capital, 1 000 euros | Reserve fund, 1 000 euros |
|---|---|---|---|---|---|
| **17 CAPITAL AND RESERVES** | | | | | |
| 1.1.2007 | 16 934 | 455 | 17 389 | 6 955 | 1 418 |
| Share options exercised by employees | 282 | 0 | 282 | 12 | 87 |
| Own shares sold | 103 | –103 | 0 | 0 | 0 |
| 31.12.2007 | 17 319 | 352 | 17 671 | 6 967 | 1 504 |
| Share options exercised by employees | 134 | 0 | 134 | 0 | 0 |
| Own shares purchased | –422 | 422 | | | |
| Own shares sold | 8 | –8 | 0 | 0 | 0 |
| 31.12.2008 | 17 039 | 766 | 17 805 | 6 967 | 1 504 |

The number of Teleste Oyj shares was 17,805,590 at 31 December 2008 (31 Dec. 2007 17,671,305 shares). All shares issued have been fully paid.

The annual general meeting of Teleste Oyj held on 1 April 2008 authorised the Board to acquire the maximum of 1,400,000 Teleste's own shares, convey at most 1,744,721 own shares. The maximum number of shares that may be subscribed with the special rights granted by the Company is 2,000,000 shares. A maximum of 5,000,000 new shares may be issued.

In the period under review, 7,761 own shares were conveyed to the Management Team share bonus scheme. In the review period 421,470 own shares were purchased. At end of December, the number of own shares in the Group possession stood at 766,191.

A number of 134,285 new shares were subscribed by Teleste 2002B options.

The annual general meeting of Teleste Oyj held on 3 April 2007 authorised the Board to acquire the maximum of 1,290,000 Teleste's own shares, convey at most 1,730,000 own shares. The authorisations given to the Board by the annual general meeting for acquisition of own shares and increasing the share capital were not used during 2007. The number of treasury shares conveyed for the purchase price of DINH TeleCom was 92,388 shares and 10,180 shares for share payments in 2007.

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 EUR 0.12 per share (2007: EUR 0.24 per share) was proposed by the Board of Directors.





**17 SHARE-BASED PAYMENTS**

Teleste had three option schemes in operation during the period. The schemes were approved by Teleste annual general shareholders' meetings in 2002, 2004 and 2007. The annual general meeting of shareholders has authorized Teleste management board grant options to the Group key employees. The stock options have a term up to 6 years from the grant date. After expiration of a 3 to 4 year waiting period, the options may be exercised as shares. The options are forfeited if the employee leaves the Group before the options vest. The options are also subject to certain performance criteria. Key characteristics and terms of Teleste option schemes are listed in the table below. CEO and management team are involved in a share-based remuneration arrangement. Additional information abot this arrangement is presented in the Note Related Party Transactions.

Teleste has applied IFRS 2 to all grants after 7 November 2002 and that were unvested as of January 2005. The fair value of the options is determined at the grant date and expensed over the vesting period.

| Basic information | Options 2002 | | Options 2004 | | Options 2007 | | | Total |
|---|---|---|---|---|---|---|---|---|
| 2008 | 2002A | 2002B | 2004A | 2004B | 2007A | 2007B | 2007C | |
| 31.12.2008 | | | | | | | | |
| Annual General Shareholders' Meeting date | 8.4.2002 | 8.4.2002 | 16.3.2004 | 16.3.2004 | 3.4.2007 | 3.4.2007 | 3.4.2007 | |
| Grant date | 15.4.2003 | 15.4.2003 | 15.6.2004 | 15.6.2004 | 24.8.2007 | 15.10.2008 | | |
| | 15.10.2004 | 15.10.2004 | 4.4.2006 | 4.4.2006 | | | | |
| | 4.4.2006 | 4.4.2006 | 15.11.2006 | 15.11.2006 | | | | |
| Maximum number of stock options | 275 000 | 275 000 | 300 000 | 300 000 | 280 000 | 280 000 | 280 000 | 1 990 000 |
| The number of shares subscribed by one option | 1 | 1 | 1 | 1 | 1 | 1 | 1 | |
| Initial exercise price, euro | 7.55 | 2.73 | 5.98 | 6.59 | 12.89 | 6.94 | – | |
| Dividend adjustment | Yes | Yes | Yes | Yes | Yes | Yes | Yes | |
| Exercise price 31.12.2006, euro | 6.95 | 2.29 | 5.70 | 6.31 | – | – | – | |
| Exercise price 31.12.2007, euro | 6.75 | 2.09 | 5.50 | 6.11 | 12.69 | – | – | |
| Exercise price 31.12.2008, euro | expired | 1.85 | 5.26 | 5.87 | 12.45 | 6.70 | * | |
| End of exercise period, date (expiration) | 1.2.2005 | 1.2.2006 | 1.4.2007 | 1.4.2008 | 1.4.2010 | 1.4.2011 | 1.4.2012 | |
| End of exercise period, date (expiration) | 1.10.2007 | 1.10.2008 | 30.4.2009 | 30.4.2010 | 30.4.2012 | 30.4.2013 | 30.4.2014 | |
| Maximum contractual life | 5.5 | 6.5 | 5.1 | 6.1 | 5.1 | 6.1 | 7.1 | |
| Remaining contractual life 31.12.2008, years | expired | expired | 0.3 | 1.3 | 3.3 | 4.3 | 5.3 | |
| Number of persons 31.12.2008 | 0 | 0 | incon-clusive | incon-clusive | 37 | 39 | – | |

* will be determined in April 2009

| Vesting conditions | Options 2002 | | Options 2004 | | Options 2007 | | |
|---|---|---|---|---|---|---|---|
| | 2002A | 2002B | 2004A | 2004B | 2007A | 2007B | 2007C |
| | Employment until beginning of exercise period. For options granted in 2006: 9 months service required | | Employment until beginning of exercise period | | Employment until beginning of exercise period | | |
| | For options granted in 2006 performance criteria include: 2006 orders: 100 Meur 2006 earnings: 10 Meur | | For options granted in 2006 performance criteria include: 2006 orders: 100 Meur 2006 earnings: 10 Meur | | | | |
| | | | EPS | | | | |
| | | | 0.30 | 0.35 | | | |
| | | | ROCE | | | | |
| | | | 20% | 25% | | | |
| | | | Members of the top management are obliged to use 20% of the income earned by the stock options to acquire Teleste shares worth annual salary | | Members of the top management are obliged to use 20% of the income earned by the stock options to acquire Teleste shares worth annual salary | | |

| Changes during the period 2008 | Options 2002 | | Options 2004 | | Options 2007 | | | Total | Weighted average exercise price, euro |
|---|---|---|---|---|---|---|---|---|---|
| | 2002A | 2002B | 2004A | 2004B | 2007A | 2007B | 2007C | | |
| **Number of options 1.1.2008** | | | | | | | | | |
| Granted | - | 263 100 | 291 700 | 294 300 | 260 000 | 0 | 0 | 1 109 100 | 6.58 |
| Returned | - | 11 550 | 43 600 | 40 400 | 0 | 0 | 0 | 95 550 | 5.50 |
| Invalidated | - | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -- |
| Expired | - | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 6.75 |
| Exercised | - | 99 588 | 0 | 0 | 0 | 0 | 0 | 99 588 | 5.35 |
| Outstanding | - | 151 962 | 248 100 | 253 900 | 260 000 | 0 | 0 | 913 962 | 7.15 |
| Non-distributed | - | 23 450 | 51 900 | 46 100 | 20 000 | 0 | 0 | 141 450 | 6.16 |
| Exercisable | - | 175 412 | 300 000 | 300 000 | 280 000 | 0 | 0 | 1 055 412 | 7.03 |
| **Changes during the period 2008** | | | | | | | | | |
| Granted | - | 0 | 0 | 0 | 0 | 275 000 | 0 | 275 000 | 6.70 |
| Returned | - | 0 | 0 | 0 | 9 000 | 0 | 0 | 9 000 | 12.45 |
| Invalidated | - | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -- |
| Exercised | - | 134 285 | 0 | 0 | 0 | 0 | 0 | 134 285 | 1.86 |
| Weighted average price of share during the exercise period, euro | - | 5.77 * | 4.52 ** | 3.45 *** | -- | -- | -- | 0 | -- |
| Expired | - | 41 127 | 0 | 0 | 0 | 0 | 0 | 41 127 | 1.85 |
| **Number of options 31.12.2008** | | | | | | | | | |
| Granted | - | 263 100 | 291 700 | 294 300 | 260 000 | 275 000 | 0 | 1 384 100 | 6.03 |
| Returned | - | 11 550 | 43 600 | 40 400 | 9 000 | 0 | 0 | 104 550 | 5.53 |
| Invalidated | - | 0 | 0 | 0 | 0 | 0 | 0 | 0 | - |
| Expired | - | 41 127 | 0 | 0 | 0 | 0 | 0 | 41 127 | 1.85 |
| Exercised | - | 233 873 | 0 | 0 | 0 | 0 | 0 | 233 873 | - |
| Outstanding | - | 0 | 248 100 | 253 900 | 251 000 | 275 000 | 0 | 1 028 000 | 7.55 |
| Non-distributed | - | 0 | 51 900 | 46 100 | 29 000 | 5 000 | 0 | 132 000 | 7.11 |
| Exercisable | - | 0 | 300 000 | 300 000 | 280 000 | 280 000 | 0 | 1 160 000 | 7.50 |

* For 2002B options weighted average price of Teleste share during 1.1.–1.10.2008

** For 2004A options weighted average price of Teleste share during 1.1.–31.12.2008

*** For 2004B options weighted average price of Teleste share during 1.4.–31.12.2008





| Changes during the period 2007 | Options 2002 | | Options 2004 | | Options 2007 | | | Total | Weighted average exercise price, euro |
|---|---|---|---|---|---|---|---|---|---|
| | 2002A | 2002B | 2004A | 2004B | 2007A | 2007B | 2007C | | |
| **Number of options 1.1.2007** | | | | | | | | | |
| Granted | 265 100 | 263 100 | 291 700 | 294 300 | 0 | 0 | 0 | 1 114 200 | 5.35 |
| Returned | 11 550 | 11 550 | 43 600 | 28 400 | 0 | 0 | 0 | 95 100 | 5.62 |
| Invalidated | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -- |
| Exercised | 10 000 | 39 550 | 0 | 0 | 0 | 0 | 0 | 49 550 | 3.23 |
| Outstanding | 243 550 | 212 000 | 248 100 | 265 900 | 0 | 0 | 0 | 969 550 | 5.44 |
| Non-distributed | 21 450 | 23 450 | 51 900 | 34 100 | 0 | 0 | 0 | 130 900 | 5.45 |
| Exercisable | 265 000 | 235 450 | 300 000 | 300 000 | 0 | 0 | 0 | 1 100 450 | 5.44 |
| **Changes during the period 2007** | | | | | | | | | |
| Granted | 0 | 0 | 0 | 0 | 260 000 | 0 | 0 | 260 000 | 12.69 |
| Returned | 0 | 0 | 0 | 12 000 | 0 | 0 | 0 | 12 000 | -- |
| Invalidated | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -- |
| Exercised | 221 965 | 60 038 | 0 | 0 | 0 | 0 | 0 | 282 003 | 5.76 |
| Weighted average price of share during the exercise period, euro | 10.87* | 10.10** | 9.54*** | -- | -- | -- | -- | 0 | -- |
| Expired | 43 035 | 0 | 0 | 0 | 0 | 0 | 0 | 43 035 | -- |
| **Number of options 31.12.2007** | | | | | | | | | |
| Granted | 265 100 | 263 100 | 291 700 | 294 300 | 260 000 | 0 | 0 | 1 374 200 | 6.58 |
| Returned | 11 550 | 11 550 | 43 600 | 40 400 | 0 | 0 | 0 | 107 100 | 5.50 |
| Invalidated | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -- |
| Expired | 43 035 | 0 | 0 | 0 | 0 | 0 | 0 | 43 035 | 6.75 |
| Exercised | 231 965 | 99 588 | 0 | 0 | 0 | 0 | 0 | 331 553 | 5.35 |
| Outstanding | 0 | 151 962 | 248 100 | 253 900 | 260 000 | 0 | 0 | 913 962 | 7.15 |
| Non-distributed | 0 | 23 450 | 51 900 | 46 100 | 20 000 | 0 | 0 | 141 450 | 6.16 |
| Exercisable | 0 | 175 412 | 300 000 | 300 000 | 280 000 | 0 | 0 | 1 055 412 | 7.03 |

* For 2002A options weighted average price of Teleste share during 1.1.–1.10.2007

** For 2002B options weighted average price of Teleste share during 1.1.–31.12.2007

*** For 2004A options weighted average price of Teleste share during 1.4.–31.12.2007

The fair value of options have been determined at grant date and the fair value is recognised to personnel expenses during the vesting period. The fair value of stock options have been determined by using Black–Scholes valuation model. Total fair value of the options granted during the period was EUR 106,907 and the effect of all options on the Group's earnings during the period was EUR 194,268. The inputs into Black-Scholes model were as follows:

| **Options** | 2002A | 2002B | 2004A | 2004B | 2007A | 2007B |
|---|---|---|---|---|---|---|
| **Number of options granted** | **265 100** | **263 100** | **291 700** | **294 300** | **260 000** | **280 000** |
| Share price, euro | | | | | 9.03 | 3.50 |
| Exercise price, euro | 6.75 | 2.09 | 5.50 | 6.11 | 12.69 | 6.70 |
| Expected volatility * | 40%/20% | 40%/20% | 35%/20% | 30%/20% | 33,7%* | 32% * |
| Maturity in years | 4.5 | 5.5 | 4.8 | 4.9 | 4.7 | 4.5 |
| Risk-free rate | 4%/2.5% | 4%/2.5% | 4%/2.5% | 4%/2.5% | 4.2% | 3.9% |
| Expected dividends | 0 | 0 | 0 | 0 | 0 | 0 |
| Valuation model | BS | BS | BS | BS | BS | BS |
| Expected forfeitures | | | | | 0% | 10% |
| Fair value, euro | | | | | | 106 907 |
| Earnings effect, euro | | | | 60 182 | 124 800 | 9 286 |

* Expected volatility was determined by calculating the historical volatility of the Group's share using monthly observations over corresponding maturity

# Notes

| 1 000 euros | 2008 | 2007 |
|---|---|---|
| **18 INTEREST-BEARING LIABILITIES** | | |
| Non-current | | |
| Finance lease liabilities | 1 175 | 1 700 |
| **Total** | **1 175** | **1 700** |
| Current | | |
| Loans from financial institutions | 9 102 | 7 140 |
| Finance lease liabilities, current portion | 685 | 643 |
| **Total** | **9 787** | **7 783** |

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 euros | 31.12.2008 | 31.12.2007 |
|---|---|---|
| EUR | 1 175 | 1 700 |
| | 1 175 | 1 700 |
| Group long-term interest-bearing liabilities – interest rates are as follows: | | |
| Finance lease liabilities | 4.6% | 4.6% |
| The currency mix of the Group short-term interest-bearing liabilities: | | |
| EUR | 100% | 100% |
| | 100% | 100% |
| Group long-term interest-bearing liabilities – interest rates are as follow: | | |
| Bank loans | 5.0% | 4.8% |
| Finance lease liabilities | 4.6% | 4.6% |
| Finance lease liabilities of the Group are payable as follows: | | |
| Minimum lease payments | | |
| Less than one year | 746 | 723 |
| Between one and five years | 1 237 | 1 806 |
| Total | 1 983 | 2 529 |
| Present value of minimum lease payments | | |
| Less than one year | 685 | 644 |
| Between one and five years | 1 175 | 1 700 |
| Total | 1 860 | 2 344 |
| Future finance charges | 123 | 185 |
| Total finance lease liabilities | 1 983 | 2 529 |



# Notes

| 1 000 euros | Warranties | Total |
|---|---|---|
| **19 PROVISION** | | |
| 1.1.2008 | 943 | **943** |
| 31.12.2008 | 943 | **943** |

| | 2008 |
|---|---|
| Non-current | 314 |
| Current | 629 |
| **Total** | **943** |

Warranties
The Group grants 12–36 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.

| 1 000 euros | 2008 | 2007 |
|---|---|---|
| **20 TRADE AND OTHER CURRENT LIABILITIES** | | |
| Current | | |
| Trade payables | 6 579 | 7 724 |
| Personnel, social security and pensions | 3 562 | 4 159 |
| Accrued interest expenses and other financial items | 73 | 190 |
| Other accrued expenses and deferred income | 2 962 | 3 865 |
| Other liabilities | 2 788 | 3 658 |
| **Total** | **15 964** | **19 596** |

Includes the income tax payable for the period.

**21 INCOME TAX PAYABLE FOR THE PERIOD**

The item other accrued expenses includes the income tax payable, EUR 113 thousand, on the profit for the period (31 Dec. 2007: EUR 580 thousand).

# 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.

Currently the hedge accounting principles as defined in IAS 39 are not applied in Teleste as the Group's volatility has not increased to a major extent.

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 US dollar (accounts for 3 per cent of the net sales), Swedish and Norwegian crowns (14 per cent) and UK pound sterling (7 per cent). Significant part of expenses, 60 per cent, arise in euro and in US dollar almost 30 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

| | **2008** | | | | 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | USD | SEK | NOK | GBP | USD | SEK | NOK | GBP |
| Current assets | 538 | 1412 | 602 | 1481 | 313 | 2 937 | 1 341 | 2 724 |
| Current liabilities | 1 803 | 858 | 754 | 291 | 1 287 | 739 | 366 | 34 |

Cash flow hedges at 31.12.2008

| Currency position | | | | | |
|---|---|---|---|---|---|
| Currency | Exposure | Hedge | Net | Hedge Instrument | Hedge |
| USD | 2 703 | 4 023 | 1 320 | Forward exchange contract | 149% |
| SEK | 1 005 | 951 | 54 | Forward exchange contract | 95% |
| NOK | 1 678 | 1 328 | 350 | Forward exchange contract | 79% |
| GBP | 2 130 | 1 496 | 634 | Forward exchange contract | 70% |

Cash flow hedges at 31.12.2007

| Currency position | | | | | |
|---|---|---|---|---|---|
| Currency | Exposure | Hedge | Net | Hedge Instrument | Hedge |
| USD | 3 077 | 2 717 | 360 | Forward exchange contract | 88% |
| SEK | 1 643 | 1 165 | 478 | Forward exchange contract | 71% |
| NOK | 889 | 753 | 136 | Forward exchange contract | 85% |
| GBP | 3 317 | 3 052 | 265 | Forward exchange contract | 92% |

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 2008 the fair value of currency derivatives amounted to EUR 9.1 million (31 Dec. 2007: EUR 7.7 million).

**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 2008 the total non-euro-denominated equity of the Group's foreign subsidiaries amounted to EUR 4.3 million (31 Dec. 2007: EUR 5.2 million).

Sensitivity to market risk

| Sensitivity to market risks arising from financial instruments as required by IFRS 7 | **2008** Profit or Loss | 2007 Profit or Loss |
|---|---|---|
| +-10% change in EUR/USD exchange rate | +-132 | +-36 |
| +-10% change in EUR/SEK exchange rate | +-5 | +-48 |
| +-10% change in EUR/NOK exchange rate | +-35 | +-14 |
| +-10% change in EUR/GBP exchange rate | +-63 | +-27 |

**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 loans have short-term interest rate as a reference rate. The interest period is of less than one year in all the Group's interest-bearing liabilities at the year-end 2008. All Group loans are denominated in euro. In 2008, the average interest rate of the loan portfolio was 5.0% per cent. All finance lease agreements are fixed-rate.

The Group does not hedge the risk position resulting from the fair value interest rate risk as the position is small.

| Period in which repricing occurs | Within 1 year | Within 1 year–5 years | Over 5 years | **Total** |
|---|---|---|---|---|
| Financial instruments with floating interest rate | | | | |
| Financial liabilities | | | | |
| Loan from financial institutions | 9 102 | | | **9 102** |

**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. 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 exepnses.

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| Analysis of trade receivables by age | Gross | Impairment loss | **Total** | Gross | Impairment loss | **Total** |
| Undue trade receivables | 15 488 | | 15 488 | 17 353 | | 17 353 |
| Overdue trade receivables | | | | | | |
| 1–30 days | 2 352 | | 2 352 | 4 122 | | 4 122 |
| 31–60 days | 1 673 | | 1 673 | 937 | | 937 |
| Over 60 days | 2 618 | –1 475 | 1 143 | 1 728 | –642 | 1 086 |
| **Total** | **22 131** | | **20 656** | **24 140** | | **23 498** |

| The maximum exposure to credit risk at the reporting date was: | **2008** | 2007 |
|---|---|---|
| Loans and receivables | 24 728 | 26 455 |
| Available for sale financial assets | 783 | 732 |

**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 2008 the Group's cash reserves totaled EUR 9.3 million and its interest-bearing net debt EUR 10.9 million. The Group administration raises the Group's interest-bearing debt centrally. At 31 December 2008 Teleste had committed and available credit facilities as well as other agreed and undrawn loans amounting to EUR 31 million. Group's loan agreements and committed loan facilities include profitability and cash flow covenants.

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 2008, the contractual maturity of interest-bearing liabilities was as follows:

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Loans from financial institutions | 9 145 | | | | |
| Trade payables | 6 579 | | | | |
| Finance lease liabilities | 746 | 676 | 441 | 120 | |
| Forward exchange contracts | | | | | |
| Outflow | –9 094 | | | | |
| Inflow | 9 514 | | | | |
| Other liabilities | 73 | | | | |

As of 31 December 2007, the contractual maturity of interest-bearing liabilities was as follows:

| | **2008** | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| Loans from financial institutions | 7 287 | | | | |
| Trade payables | 7 724 | | | | |
| Finance lease liabilities | 720 | 653 | 653 | 393 | 110 |
| Forward exchange contracts | | | | | |
| Outflow | –8 181 | | | | |
| Inflow | 8 029 | | | | |
| Other liabilities | 190 | | | | |

**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 2008 and 2007 was as follows:

| | **2008** | 2007 |
|---|---|---|
| Total borrowings | 10 962 | 9 484 |
| Cash and cash equivalents | 9 268 | 7 702 |
| Interest-bearing net debt | 1 694 | 1 781 |
| Total equity | 46 645 | 46 669 |
| Interest-bearing net debt and total equity | 48 339 | 48 450 |
| Leverage ratio | 3.5% | 3.7% |

## 22 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

**Derivative instruments**

Teleste uses forward exchange contracts to hedge its balance sheet items against transaction risk. So far Teleste does not apply hedge accounting as defined under IAS 39 in its IFRS financial statements. Consequently the changes in the fair values of financial instruments designated as hedging instruments are fully recognised through profit and loss. The fair value changes of forward exchange contracts amounted to EUR 419 thousand in 2008 (2007: EUR –151 thousand) and they are recognised as adjustments to sales.

**Available-for-sale financial assets**

Available-for-sale financial assets comprise unlisted shares that are measured at cost. 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:

| | **2008** | 2007 |
|---|---|---|
| Finance lease liabilities | 4.6% | 4.6% |

**Carrying amounts of financial assets and liabilities by measurement categories**

| | Note | Financial assets and liabilities at fair value through income statement | Loans and receivables | Available for sale financial assets | Financial liabilities measured at amortized cost | Carrying amount by balance sheet item | Fair Value |
|---|---|---|---|---|---|---|---|
| 2008 Balance item | | | | | | | |
| **Non current financial assets** | | | | | | | |
| Other financial assets | 12 | | | 783 | | 783 | 783 |
| **Current financial assets** | | | | | | | |
| Trade and other receivables | 15 | | 24 728 | | | 24 728 | 24 728 |
| Forward exchange contracts | 25 | 419 | | | | 419 | 419 |
| **Carrying amount by category** | | 419 | 24 728 | 783 | 0 | 25 930 | 25 930 |
| **Non-current financial liabilities** | | | | | | | |
| Interest-bearing liabilities | 18 | 1 175 | | | | 1 175 | 1 175 |
| **Current financial liabilities** | | | | | | | |
| Interest-bearing liabilities | 18 | 685 | | | 9 102 | 9 787 | 9 787 |
| Trade and other payables | 20 | | | | 6 579 | 6 579 | 6 579 |
| Other current liabilities | 20 | | | | 73 | 73 | 73 |
| **Carrying amount by category** | | 1 860 | 0 | 0 | 15 754 | 17 614 | 17 614 |
| 2007 Balance item | | | | | | | |
| **Non current financial assets** | | | | | | | |
| Other financial assets | 12 | | | 732 | | 732 | 732 |
| **Current financial assets** | | | | | | | |
| Trade and other receivables | 15 | | 26 455 | | | 26 455 | 26 455 |
| **Carrying amount by category** | | 0 | 26 455 | 732 | 0 | 27 187 | 27 187 |
| **Non-current financial liabilities** | | | | | | | |
| Interest-bearing liabilities | 18 | 1 700 | | | | 1 700 | 1 700 |
| **Current financial liabilities** | | | | | | | |
| Interest-bearing liabilities | 18 | 644 | | | 7 140 | 7 784 | 7 784 |
| Forward exchange contracts | 25 | 152 | | | | 152 | 152 |
| Trade and other payables | 20 | | | | 7 724 | 7 724 | 7 724 |
| Other current liabilities | 20 | | | | 190 | 190 | 190 |
| **Carrying amount by category** | | 2 496 | 0 | 0 | 15 054 | 17 550 | 17 550 |





| 1 000 euros | **2008** | 2007 |
|---|---|---|
| **23 ADJUSTMENTS TO CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Non-cash transactions: | | |
| Depreciation and amortisation | 4 705 | 3 552 |
| Employee benefits | 250 | 541 |
| Deferred taxes | 0 | 109 |
| **Total** | **4 955** | **4 202** |

**24 OPERATING LEASES**

Group as lessee

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

| | | |
|---|---|---|
| Less than one year | 1 054 | 1 097 |
| Between one and five years | 2 645 | 1 539 |
| **Total** | 3 699 | 2 636 |

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

The Group has sublet part of its production and office property in Finland to an external company. The agreement is valid until further notice. In 2008 the lease payments in respect of this part of property amounted to EUR 118 thousand (2007: EUR 120 thousand).

| 1 000 euros | **2008** | 2007 |
|---|---|---|
| **25 COMMITMENTS AND CONTINGENCIES** | | |
| Collateral for own commitments | | |
| Guarantees | 0 | 184 |
| Other commitments | 259 | 365 |
| Rental and leasing liabilities | | |
| Rental liabilities | 2 233 | 1 112 |
| Lease liabilities | 1 466 | 1 523 |
| Currency derivatives | | |
| Value of the underlying forward contracts | 9 094 | 7 746 |
| Market value of the forward contracts | 419 | –152 |

### 26 RELATED PARTY TRANSACTIONS

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

| Companies owned by the Group and parent company | Group holding, % | Group voting, % |
|---|---|---|
| Parent company Teleste Oyj, Turku, Finland | | |
| DINH TechniCom S.A., Herstal, Belgium | 100 | 100 |
| DINH TeleCom S.A., Herstal, Belgium | 100 | 100 |
| DINH Vlaanderen NV, Herstal, Belgium | 100 | 100 |
| Flomatik A/S, Porsgrun, Norway | 100 | 100 |
| Flomatik Network Services Ltd., Fareham, UK | 100 | 100 |
| Kaavisio Oy, Turku, Finland | 100 | 100 |
| Ortikon Interactive Oy, Tampere, Finland | 100 | 100 |
| PromaCom AB, Stockholm, Sweden | 100 | 100 |
| PromaCom Intressenten AB, Stockholm, Sweden | 100 | 100 |
| Suomen Turvakamera Oy, Vantaa, Finland | 100 | 100 |
| Teleste Incentive Oy (former Suomen Yhteisantennit Oy), Turku, Finland | 100 | 100 |
| Teleste Belgium SPRL, Bryssel, Belgium | 100 | 100 |
| Teleste d.o.o., Ljutomer, Slovenia | 100 | 100 |
| Teleste Electronics (SIP), Shuzhou, China | 100 | 100 |
| Teleste France SAS, Paris, France | 100 | 100 |
| Teleste Försäljning AB, Malmö, Sweden | 100 | 100 |
| Teleste GmbH, Hannover, Germany | 100 | 100 |
| Teleste India, Mumbai, India | 100 | 100 |
| Teleste Kaurakatu Oy, Turku, Finland | 100 | 100 |
| Teleste LLC, Georgetown Texas, USA | 100 | 100 |
| Teleste s.r.o., Bratislava, Slovakia | 100 | 100 |
| Teleste Sweden AB (former Flomatik AB), Stockholm, Sweden | 100 | 100 |
| Teleste UK Ltd, Cambridge, UK | 100 | 100 |
| Teleste Video Networks AB (former S-Link AB), Täby, Sweden | 100 | 100 |
| Teleste Video Networks Sp zoo (former S-Link ssp), Krakow, Poland | 100 | 100 |

The key management personnel compensations

| 1 000 euros | **2008** | 2007 |
|---|---|---|
| CEO | | |
| Salaries and other short-term benefits | 360 | 379 |
| Performance share arrangement | 0 | 68 |
| Share-based payments | 59 | 47 |
| **Total** | **419** | **494** |

During 2008 40,000 options were granted to the management of Teleste (2007: 40,000 options). The terms of the management share option plans are similar to those of other employees' share option plans, except for the terms of 2004 and 2007 options. According to the 2004 and 2007 option terms the recipient has to subscribe Teleste shares to the amount that equals his net annual salary. At 31 December 2007 management had 160,000 (2007: 149,500) options, of which 0 were exercisable (2007: 69,500). Management of the parent company has 0,92% or 163,891 of the parent company's shares (2007: 0,67% or 118,525 shares).

A voluntary pension fee for CEO amounted EUR 60 thousand (EUR 51 thousand in 2007).





| 1 000 euros | **2008** | 2007 |
|---|---|---|
| Remuneration to Board members and Managing Director: | | |
| Chairman of the Board Tapio Hintikka | **43** | **38** |
| Members of the Board | **136** | **88** |
| Tero Laaksonen | 28 | 22 |
| Pertti Raatikainen | 28 | 22 |
| Kai Telanne | 26 | 0 |
| Timo Toivila | 28 | 22 |
| Pekka Vennamo | 28 | 22 |
| CEO Jukka Rinnevaara | **419** | **494** |
| **Total** | **597** | **620** |

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 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 2008 and 2007.

### 27 SUBSEQUENT EVENTS

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

## Statement of Income

| 1000 euros | Note | **2008** | 2007 |
|---|---|---|---|
| **Net sales** | 1 | **77 262** | **99 879** |
| Change in inventories of finished goods | | –2 782 | –1 149 |
| Other operating income | 2 | 2 175 | 2 339 |
| Materials, supplies and services | 3 | –32 479 | –47 499 |
| Wages, salaries and social expenses | 4 | –22 095 | –22 479 |
| Depreciation and amortisation | 5 | –1 763 | –1 783 |
| Other operating expenses | | –19 096 | –21 265 |
| **Operating profit** | | **1 222** | **8 043** |
| Financial income and expenses | 6 | 2 077 | 1 272 |
| **Profit before taxes** | | **3 299** | **9 315** |
| Appropriations | 7 | 595 | 75 |
| Paid group contribution | 7 | 0 | –350 |
| Direct taxes | 8 | 1 412 | –1 910 |
| **Profit for the financial period** | | **5 306** | **7 130** |

## Balance Sheet

| 1000 euros | Note | **2008** | 2007 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | 9 | 52 | 807 |
| Property, plant and equipment | 9 | 3 522 | 4 320 |
| Long-term receivables | 10 | 1 380 | 0 |
| Investments | 11 | 21 504 | 20 767 |
| | | **26 458** | **25 894** |
| **Current assets** | | | |
| Inventories | 12 | 7 746 | 10 644 |
| Trade and other receivables | 13 | 19 279 | 19 358 |
| Cash and cash equivalents | 14 | 6 913 | 2 492 |
| | | **33 938** | **32 494** |
| **Total assets** | | **60 396** | **58 388** |
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' equity** | | | |
| Share capital | 15 | 6 967 | 6 967 |
| Share premium | 15 | 1 504 | 1 504 |
| Invested non-restricted equity | 15 | 1 451 | 2 531 |
| Retained earnings | 15 | 19 113 | 16 141 |
| Profit for the financial period | 15 | 5 306 | 7 130 |
| | | **34 341** | **34 273** |
| **Appropriations** | 7 | **452** | **1 047** |
| **Provisions** | 16 | **855** | **889** |
| **Liabilities** | | | |
| Short-term liabilities | 17 | 24 748 | 22 179 |
| | | **24 748** | **22 179** |
| **Total equity and liabilities** | | **60 396** | **58 388** |

## Cash Flow Statement

| 1000 euros | **2008** | 2007 |
|---|---|---|
| **Cash flow from operations** | | |
| Operating profit | 1 222 | 8 043 |
| Adjustments to operating profit | 1 729 | 1 614 |
| Change in net working capital | 3 749 | –1 768 |
| Interest income | 211 | 223 |
| Interest expenses | –585 | –727 |
| Dividend income | 2 544 | 1 602 |
| Paid group contribution | 0 | –350 |
| Other financial items | –293 | –142 |
| Taxes paid | 880 | –2 090 |
| **Cash flow from operations** | **9 457** | **6 405** |
| **Investments** | | |
| Other tangible assets | –303 | –1 080 |
| Sale of shares | 220 | 705 |
| Long term receivables | –1 280 | 0 |
| Investments in subsidiary shares | –378 | –5 835 |
| **Cash flow from investments** | **–1 741** | **–6 210** |
| **Cash flow before financing** | **7 716** | **195** |
| **Financing** | | |
| Short-term liabilities | 2 000 | 0 |
| Paid dividends | –4 158 | –3 413 |
| Purchases of own shares | –1 386 | 0 |
| Share issue | 249 | 1 630 |
| **Financing total** | **–3 295** | **–1 783** |
| **Change in liquid funds** | **4 421** | **–1 588** |
| Liquid funds 1.1. | 2 492 | 4 080 |
| Liquid funds 31.12. | 6 913 | 2 492 |



# Accounting Principles

### Accounting Principles of Teleste Corporation

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

### Currency Derivatives

The company has no other currency derivatives except for forward exchange agreements. Exchange agreements are designed to eliminate the effect of currency exposures on the company performance and financial standing.

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 | 10 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.

Percentage of completion method: sales and anticipated profits under significant long-term engineering and construction contracts are recorded on a percentage-of-completion basis, using units of delivery (based on predetermined milestones) or the cost-to-cost method of accounting as the measurement basis. Estimated contract profits are recorded in earnings in proportion to recorded sales. In the cost-to-cost method, sales and profits are recorded after considering the ratio of accumulated costs to estimated total costs to complete each contract. In the event that the company can be held as the main contractor of a long-term delivery contract, various product expenses, including raw materials and labour costs, will be accounted for in the calculation of the completion percentage. Possible changes in the anticipated total expenses or loss related to a long-term delivery contract are expensed as incurred.

### Research and Development

R&D expenses are recorded as revenue expenditure.

### Pension Arrangements

The statutory pension liabilities of Finnish subsidiaries in the company 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.

| 1000 euros | 2008 | 2007 |
|---|---|---|
| **1 NET SALES** | | |
| Net sales by segments | | |
| Broadband Cable Networks | 67 422 | 88 067 |
| Video Networks | 9 840 | 11 812 |
| **Total** | **77 262** | **99 879** |
| Net sales by market area | | |
| Finland | 8 013 | 8 704 |
| Scandinavia | 11 332 | 14 210 |
| Other Europe | 52 990 | 71 830 |
| Others | 4 927 | 5 135 |
| **Total** | **77 262** | **99 879** |
| **2 OTHER OPERATING INCOME** | | |
| R&D subvention and others | 2 175 | 2 339 |
| **Total** | **2 175** | **2 339** |
| **3 MATERIALS AND SERVICES** | | |
| Purchases | 31 110 | 44 049 |
| Change in inventories | 118 | 708 |
| | **31 228** | **44 757** |
| Purchased services | 1 251 | 2 742 |
| **Total** | **32 479** | **47 499** |
| **4 PERSONNEL EXPENSES** | | |
| Wages and salaries | 18 366 | 18 542 |
| Pension costs | 2 483 | 2 678 |
| Other personnel costs | 1 247 | 1 261 |
| **Total** | **22 095** | **22 479** |
| Remuneration to Board members and Managing Directors | 538 | 572 |
| Cash loans, securities or contingent liabilities were not granted to the President or to the members of the Board of Directors. | | |
| Year-end personnel | 444 | 443 |
| Average personnel | 497 | 467 |
| **Personnel by function at the year-end** | | |
| Research and Development | 149 | 143 |
| Production and Material Management | 228 | 237 |
| Sales and marketing | 39 | 33 |
| Finance and IT | 28 | 30 |
| **Total** | **444** | **443** |





| 1000 euros | 2008 | 2007 |
|---|---|---|
| **5 DEPRECIATION ACCORDING TO PLAN** | | |
| Other capitalized expenditure | 411 | 392 |
| Buildings | 303 | 297 |
| Machinery and equipment | 296 | 342 |
| Goodwill on consolidation | 753 | 752 |
| **Total** | **1 763** | **1 783** |
| Change in accumulated depreciation difference | | |
| Buildings | 323 | 187 |
| Other capitalized expenditure | 272 | –112 |
| **Total** | **595** | **75** |
| **Audit expenses** | | |
| KPMG | | |
| Auditing assignments | –39 | –27 |
| Tax consultancy | –65 | –25 |
| Other assignments | –59 | –70 |
| **6 FINANCIAL INCOME AND EXPENSES** | | |
| Interest income | 89 | 108 |
| Interest income from Group companies | 122 | 115 |
| Interest expenses | –476 | –671 |
| Interest expenses to Group companies | –109 | –56 |
| Currency differences | –220 | –142 |
| Other financial income and expenses | 127 | 316 |
| Dividend income from Group companies | 2 534 | 1 592 |
| Dividend income | 10 | 10 |
| **Total** | **2 077** | **1 272** |
| **7 APPROPRIATIONS AND DEFERRED TAX ASSETS AND LIABILITIES IN THE PARENT COMPANY** | | |
| Accumulated depreciation in excess of plan | 452 | 1 047 |
| **8 INCOME TAXES** | | |
| Direct taxes | 32 | 1 966 |
| Taxes from previous years | –1 444 | –56 |
| **Total** | **–1 412** | **1 910** |

**9 TANGIBLE AND INTANGIBLE ASSETS**

| | Intangible assets | Tangible assets | | | | |
|---|---|---|---|---|---|---|
| | Intangible rights | Land | Buildings | Machinery | Other capitalized expenditure | **Total** |
| Acquisition cost 1.1. | **7 579** | 124 | 5 274 | 8 476 | 3 473 | **17 347** |
| Increases | 0 | 0 | 0 | 39 | 176 | **215** |
| Decreases | 0 | 0 | 0 | –5 | 0 | **–5** |
| **Acquisition cost 31.12.** | **7 579** | 124 | 5 274 | 8 510 | 3 649 | **17 557** |
| Accumulated depreciation 1.1. | **6 772** | 0 | 2 544 | 7 861 | 2 622 | **13 027** |
| Depreciation | 755 | 0 | 303 | 296 | 409 | **1 008** |
| **Accumulated depreciation 31.12.** | **7 527** | 0 | 2 847 | 8 157 | 3 031 | **14 035** |
| **Book value 31.12.2008** | **52** | 124 | 2 427 | 353 | 618 | **3 522** |
| Book value of machinery and equipment 31.12.2008 | | | | 268 | | |
| Book value of machinery and equipment 31.12.2007 | | | | 412 | | |

# Notes

| 1000 euros | | 2008 | 2007 |
|---|---|---|---|
| **10 LONG TERM RECEIVABLES** | | | |
| Subordinated loan from Group company | | 1 300 | 0 |
| Other long term receivables | | 80 | 0 |
| **Total** | | **1 380** | **0** |
| Parent company | Shares in Group companies | Shares others | **Total** |
| **11 INVESTMENTS** | | | |
| Acquisition cost 1.1. | 20 727 | 725 | 21 452 |
| Increase | 678 | 59 | 737 |
| Acquisition cost 31.12. | **21 405** | **784** | **22 189** |
| Accumulated depreciation 1.1. | –685 | 0 | –685 |
| **Accumulated depreciation 31.12.** | **–685** | **0** | **–685** |
| **Book value 31.12.2008** | **20 720** | **784** | **21 504** |
| **12 INVENTORIES** | | **2008** | 2007 |
| Raw materials and consumables | | 2 266 | 2 382 |
| Work in progress | | 3 160 | 3 844 |
| Finished goods | | 2 320 | 4 418 |
| **Total** | | **7 746** | **10 644** |
| **13 CURRENT ASSETS** | | | |
| Accounts receivables | | 13 737 | 12 311 |
| Accounts receivables from Group companies | | 2 133 | 4 642 |
| Other receivables from Group companies | | 877 | 797 |
| Accrued income | | 2 532 | 1 608 |
| **Total** | | **19 279** | **19 358** |
| **14 LIQUID FUNDS** | | | |
| Cash and cash equivalents | | 6 913 | 2 492 |
| **15 CHANGES IN SHAREHOLDERS' EQUITY** | | **2008** | 2007 |
| Share capital 1.1. | | 6 967 | 6 955 |
| Share issue | | 0 | 12 |
| Share capital 31.12. | | 6 967 | 6 967 |
| Share premium fund 1.1. | | 1 504 | 1 416 |
| Share issues | | 0 | 87 |
| Share premium fund 31.12. | | 1 504 | 1 504 |
| Invested non-restricted equity 1.1. | | 2 531 | 0 |
| Share issues | | 249 | 1 531 |
| Purchases of own shares | | –1 386 | 0 |
| Own share | | 56 | 1 000 |
| Invested non-restricted equity 31.12. | | 1 451 | 2 531 |
| Retained earnings 1.1. | | 23 271 | 19 435 |
| Dividends | | –4 158 | –3 413 |
| Transfer from treasury shares | | 0 | 118 |
| Retained earnings 31.12. | | 19 113 | 16 141 |
| Profit for the financial period | | 5 306 | 7 130 |
| Accumulated profit 31.12. | | 24 419 | 23 271 |
| **Total** | | **34 341** | **34 273** |
| Companys distributable equity 31.12. | | 25 869 | 25 802 |

Company's registered share capital consists of one serie and is divided into 17,805,590 shares at 1 vote each.



# Notes

| 1000 euros | 2008 | 2007 |
|---|---|---|
| **16 OBLIGATORY PROVISIONS** | | |
| Provision for guarantees | **855** | **889** |
| **17 SHORT TERM LIABILITIES** | | |
| Bank loans | 9 000 | 7 000 |
| Advance payments received | 0 | 95 |
| Accounts payables | 4 267 | 4 757 |
| Accounts payables from Group companies | 262 | 1 911 |
| Other current liabilities | 893 | 443 |
| Other current liabilities from Group companies | 5 290 | 1 691 |
| Accrued liabilities | 5 035 | 6 282 |
| **Total** | **24 748** | **22 179** |
| **18 CONTINGENT LIABILITIES AND PLEDGED ASSETS** | | |
| **Leasing liabilities** | | |
| For next year | 520 | 526 |
| For later years | 702 | 458 |
| **Total** | **1 222** | **984** |
| **Rental liabilities** | 1 792 | 268 |
| **Liabilities on own behalf** | | |
| Bank guarantees | 0 | 184 |
| Guarantees given on behalf of subsidiaries | 0 | 700 |
| **19 CURRENCY DERIVATIVES** | | |
| Value of underlying forward contracts | 7 367 | 7 746 |
| Market value of forward contracts | 424 | –112 |

Forward contracts are used only for hedging currency exchange risks.

| | Group's share, % | Parent company's share, % |
|---|---|---|
| **20 COMPANIES OWNED BY THE GROUP AND PARENT COMPANY** | | |
| DINH TechniCom S.A., Herstal, Belgium | 100 | 100 |
| DINH TeleCom S.A., Herstal, Belgium | 100 | 0 |
| DINH Vlaanderen NV, Herstal, Belgium | 100 | 0 |
| Flomatik A/S, Porsgrun, Norway | 100 | 100 |
| Flomatik Network Services Ltd., Fareham, UK | 100 | 100 |
| Kaavisio Oy, Turku, Finland | 100 | 100 |
| Ortikon Interactive Oy, Tampere, Finland | 100 | 100 |
| PromaCom AB, Stockholm, Sweden | 100 | 100 |
| PromaCom Intressenten AB, Stockholm, Sweden | 100 | 0 |
| Suomen Turvakamera Oy, Vantaa, Finland | 100 | 100 |
| Teleste Incentive Oy (former Suomen Yhteisantennit Oy), Turku, Finland | 100 | 100 |
| Teleste Belgium SPRL, Brussels, Belgium | 100 | 100 |
| Teleste d.o.o., Ljutomer, Slovenia | 100 | 0 |
| Teleste Electronics (SIP), Shuzhou, China | 100 | 100 |
| Teleste France SAS, Paris, France | 100 | 100 |
| Teleste Försäljning AB, Malmö, Sweden | 100 | 100 |
| Teleste GmbH, Hannover, Germany | 100 | 100 |
| Teleste Kaurakatu Oy, Turku, Finland | 100 | 100 |
| Teleste LLC, Georgetown Texas, USA | 100 | 100 |
| Teleste s.r.o., Bratislava, Slovakia | 100 | 100 |
| Teleste Sweden AB (former Flomatik AB), Stockholm, Sweden | 100 | 0 |
| Teleste UK Ltd, Cambridge, UK | 100 | 100 |
| Teleste Video Networks AB (former S-Link AB), Täby, Sweden | 100 | 100 |
| Teleste Video Networks Sp zoo (former S-Link ssp), Krakow, Poland | 100 | 100 |

| | Number of shares | Nominal value, euros | Percentage of share capital and votes |
|---|---|---|---|
| **21 OWN SHARES** | | | |
| Teleste Oyj owns own shares 31.12.2008 | 266 191 | 0 | 1.49 |

| | Number of shares | Percentage of share capital and votes |
|---|---|---|
| **22 MAJOR SHAREHOLDERS 31.12.2008** | | |
| Mandatum Henkivakuutusosakeyhtiö | 1 679 200 | 9.43 |
| Ilmarinen Mutual Pension Insurance Company | 894 776 | 5.03 |
| EM Group Oy | 887 000 | 4.98 |
| Kaleva Mutual Pension Insurance Company | 798 541 | 4.48 |
| Varma Mutual Pension Insurance Company | 521 150 | 2.93 |
| State Pension Fund | 500 000 | 2.81 |
| Teleste Incentive Oy | 500 000 | 2.81 |
| Aktia Capital Mutual Fund | 487 200 | 2.74 |
| Alfred Berg Finland Sijoitusrahasto | 458 828 | 2.58 |
| Skagen Vekst Verdipapierfond | 437 000 | 2.45 |





**Shareholder´s by number of shares 31.12.2008**

| Sector Dispersion of Shareholders | Number of shareholders | Percentage of owners | Number of shares | Percentage of total shares |
|---|---|---|---|---|
| Corporations | 321 | 5.8 | 2 989 398 | 16.79 |
| Financial and insurance corporations | 23 | 0.42 | 4 674 291 | 26.25 |
| Public institutions | 12 | 0.22 | 2 879 657 | 16.17 |
| Non-profit organizations | 47 | 0.85 | 773 431 | 4.34 |
| Households | 5 084 | 91.9 | 4 499 012 | 25.27 |
| Foreign and nominee -registered | 45 | 0.81 | 1 989 801 | 11.18 |
| **Total** | **5 532** | **100** | **17 805 590** | **100** |

| Shares | Owners | % | Shares | % |
|---|---|---|---|---|
| 1–100 | 1 225 | 22.14 | 87 389 | 0.49 |
| 101–1 000 | 3 279 | 59.27 | 1 357 341 | 7.62 |
| 1 001–10 000 | 912 | 16.49 | 2 585 456 | 14.52 |
| 10 001–100 000 | 86 | 1.55 | 2 192 222 | 12.31 |
| 100 001– | 30 | 0.54 | 11 583 182 | 65.05 |
| Total | 5 532 | 100.00 | 17 805 590 | 100.00 |
| Nominee registered | | | 1 066 885 | 5.99 |
| **Total** | | | **17 805 590** | **100** |

**Management interest**

| | Number of shares | Percentage of shares | Percentage of votes |
|---|---|---|---|
| CEO and Board Members | 163 891 | 0.92 | 0.92 |

**Option programs**

Number of shares entitled to subscribe with options

| | Number of shares | Number of shares and votes after exercised options, % |
|---|---|---|
| CEO | 160 000 | 0.84 |
| Other option holders | 868 000 | 4.58 |
| 2004 program warrants hold by the group | 98 000 | 0.52 |
| 2007 program warrants hold by the group | 34 000 | 0.18 |
| **Total** | **1 160 000** | **6.12** |

# Proposal for the Distribution of Earnings

## Board of Directors’ Proposal for the Distribution of Earnings

As to the Annual General meeting scheduled for 7 April 2009, the Board proposes that a dividend of EUR 0.12 per share be paid for the outstanding shares for the year 2008.

Helsinki 3 February 2009

TELESTE CORPORATION
Board of Directors

| | | |
|---|---|---|
| Tapio Hintikka<br>Chairman | Tero Laaksonen<br>Member | Pertti Raatikainen<br>Member |
| Kai Telanne<br>Member | Timo Toivila<br>Member | Pekka Vennamo<br>Member |

Jukka Rinnevaara
President and CEO

## The Auditors note

The above financial statements and the report of Board of Directors have been prepared in accordance with generally accepted accounting principles in Finland. Our auditors report have been issued today.

Helsinki 3 February 2009

KPMG OY AB

Sixten Nyman
Authorised Public Accountant

# Auditor´s Report

## To the Annual General Meeting of Teleste Oyj

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Teleste Oyj for the year ended on 31 December, 2008. The financial statements comprise the consolidated balance sheet, income statement, cash flow statement, statement of changes in equity and notes to the consolidated financial statements, as well as the parent company’s balance sheet, income statement, cash flow statement and notes to the financial statements.

## The responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the financial statements and the report of the Board of Directors and for the fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the fair presentation of the parent company’s financial statements and the report of the Board of Directors in accordance with laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company’s accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

## Auditor’s responsibility

Our responsibility is to perform an audit in accordance with good auditing practice in Finland, and to express an opinion on the parent company’s financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. Good auditing practice requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements and the report of the Board of Directors are free from material misstatement and whether the members of the Board of Directors and the Managing Director have complied with the Limited Liability Companies Act.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

The audit was performed in accordance with good auditing practice in Finland. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

## Opinion on the company’s financial statements and the report of the Board of Directors

In our opinion, the financial statements, together with the consolidated financial statements included therein, and the report of the Board of Directors give a true and fair view of the financial performance and financial position of the company in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

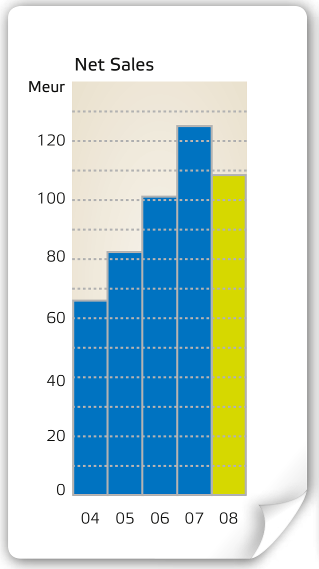
Helsinki 3 February 2009

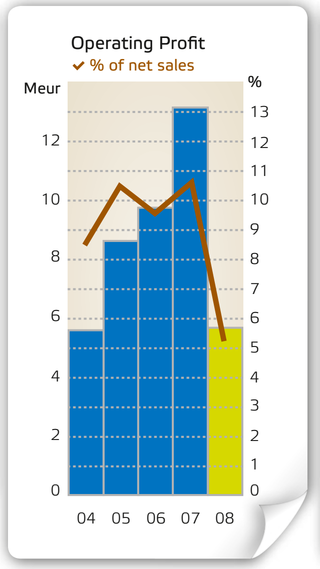
KPMG OY AB

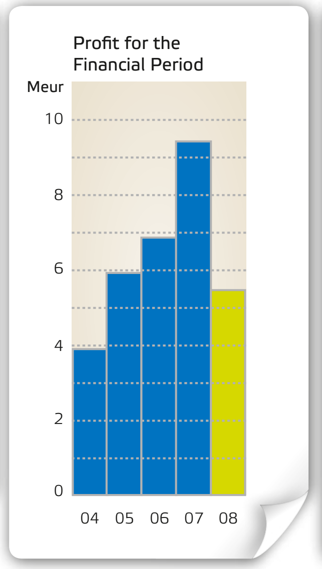
Sixten Nyman
Authorised Public Accountant

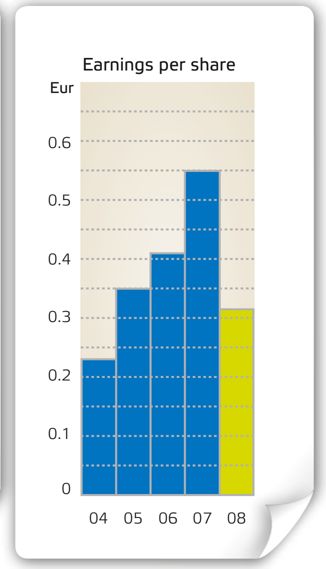
| Financial Indicators 2004–2008 | IFRS 2004 | IFRS 2005 | IFRS 2006 | IFRS 2007 | IFRS 2008 |
|---|---|---|---|---|---|
| **Profit and loss account, balance sheet** | | | | | |
| Net sales, Meur | 66.0 | 82.6 | 101.8 | 125.1 | 108.7 |
| Change, % | 21.8 | 25.1 | 23.2 | 22.9 | –13.1 |
| Sales outside Finland, % | 85.1 | 89.3 | 90.6 | 91.2 | 90.2 |
| Operating profit, Meur | 5.6 | 8.6 | 9.8 | 13.2 | 5.6 |
| % of net sales | 8.5 | 10.4 | 9.6 | 10.5 | 5.2 |
| Profit after financial items, Meur | 5.4 | 8.3 | 9.3 | 12.7 | 5.1 |
| % of net sales | 8.2 | 10.1 | 9.1 | 10.1 | 4.7 |
| Profit before taxes, Meur | 5.4 | 8.3 | 9.3 | 12.7 | 5.1 |
| % of net sales | 8.2 | 10.1 | 9.1 | 10.1 | 4.7 |
| Profit for the financial period, Meur | 3.9 | 6.0 | 6.9 | 9.4 | 5.5 |
| % of net sales | 5.9 | 7.2 | 6.8 | 7.5 | 5.1 |
| R&D expenditure, Meur | 6.9 | 8.6 | 9.8 | 13.1 | 13.5 |
| % of net sales | 10.4 | 10.5 | 9.7 | 10.5 | 12.4 |
| Gross investments, Meur | 5.4 | 4.1 | 6.2 | 12.3 | 3.9 |
| % of net sales | 8.2 | 4.9 | 6.1 | 9.8 | 3.6 |
| Interest bearing liabilities, Meur | 10.8 | 3.9 | 8.0 | 9.5 | 11.0 |
| Shareholder's equity, Meur | 27.7 | 32.4 | 37.7 | 46.7 | 46.6 |
| Total assets, Meur | 54.4 | 54.8 | 68.2 | 77.9 | 75.5 |
| **Personnel and orders** | | | | | |
| Average personnel | 492 | 546 | 608 | 681 | 702 |
| Order backlog at year end, Meur | 20.7 | 22.7 | 28.1 | 21.5 | 24.0 |
| Orders received, Meur | 80.5 | 85.4 | 107.2 | 118.5 | 118.6 |
| **Key metrics** | | | | | |
| Return on equity, % | 15.1 | 19.8 | 19.7 | 22.2 | 11.8 |
| Return on capital employed, % | 16.1 | 23.7 | 24.3 | 27.1 | 10.4 |
| Equity ratio, % | 51.1 | 59.1 | 55.3 | 60.2 | 61.7 |
| Gearing, % | –22.9 | –14.3 | 3.2 | 3.8 | 3.6 |
| Earnings per share, euro | 0.23 | 0.35 | 0.41 | 0.55 | 0.32 |
| Earnings per share fully diluted, euro | 0.22 | 0.33 | 0.38 | 0.52 | 0.32 |
| Shareholders equity per share, euro | 1.65 | 1.92 | 2.22 | 2.69 | 2.74 |
| **Teleste share** | | | | | |
| Highest price, euro | 7.06 | 8.35 | 12.75 | 12.34 | 7.49 |
| Lowest price, euro | 5.14 | 5.85 | 6.46 | 6.47 | 1.90 |
| Closing price, euro | 6.02 | 7.45 | 11.63 | 6.71 | 2.24 |
| Average price, euro | 6.03 | 6.97 | 9.83 | 10.10 | 4.52 |
| Price per earnings | 25.8 | 21.0 | 28.6 | 12.3 | 7.0 |
| Market capitalization, Meur | 101.4 | 129.2 | 202.2 | 118.6 | 39.9 |
| Stock turnover, Meur | 74.2 | 75.3 | 138.9 | 72.4 | 51.1 |
| Turnover, number in millions | 12.3 | 10.8 | 14.2 | 7.2 | 11.5 |
| Turnover, % of capital stock | 70.9 | 62.3 | 81.4 | 40.5 | 64.6 |
| Average number of shares | 17 334 235 | 17 339 752 | 17 363 102 | 17 494 435 | 17 708 782 |
| Number of shares at the year-end | 17 339 752 | 17 339 752 | 17 389 302 | 17 671 305 | 17 805 590 |
| Number of shares subscribed, not registered 31.12. | 0 | 0 | 0 | 0 | 0 |
| Average number of shares, diluted w/o own shares | 17 918 580 | 18 001 437 | 18 022 505 | 17 971 752 | 17 372 555 |
| Number of shares at the year-end, diluted w/o own shares | 17 999 752 | 18 004 752 | 18 034 752 | 17 972 785 | 17 039 399 |
| Paid dividend, Meur | 2.0 | 2.7 | 3.4 | 4.2 | 2.0 |
| Dividend per share, euro | 0.12 | 0.16 | 0.20 | 0.24 | *0.12 |
| Dividend per net result, % | 52.2 | 45.7 | 49.1 | 43.9 | 37.4 |
| Effective dividend yield, % | 2.0 | 2.1 | 1.7 | 3.6 | 5.4 |

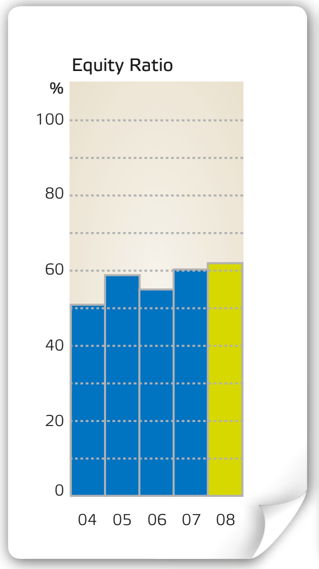
* The Board's proposal to the AGM

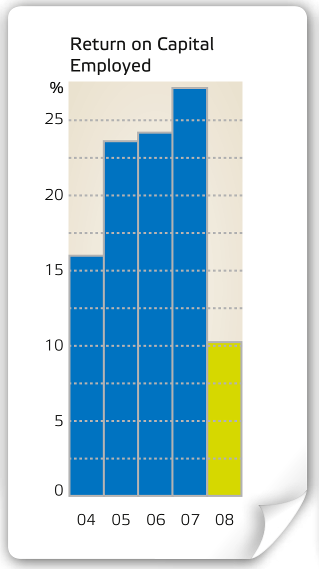


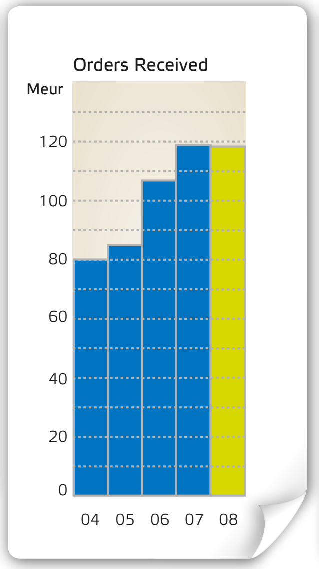



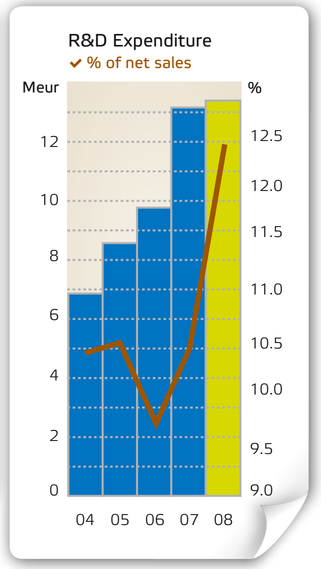



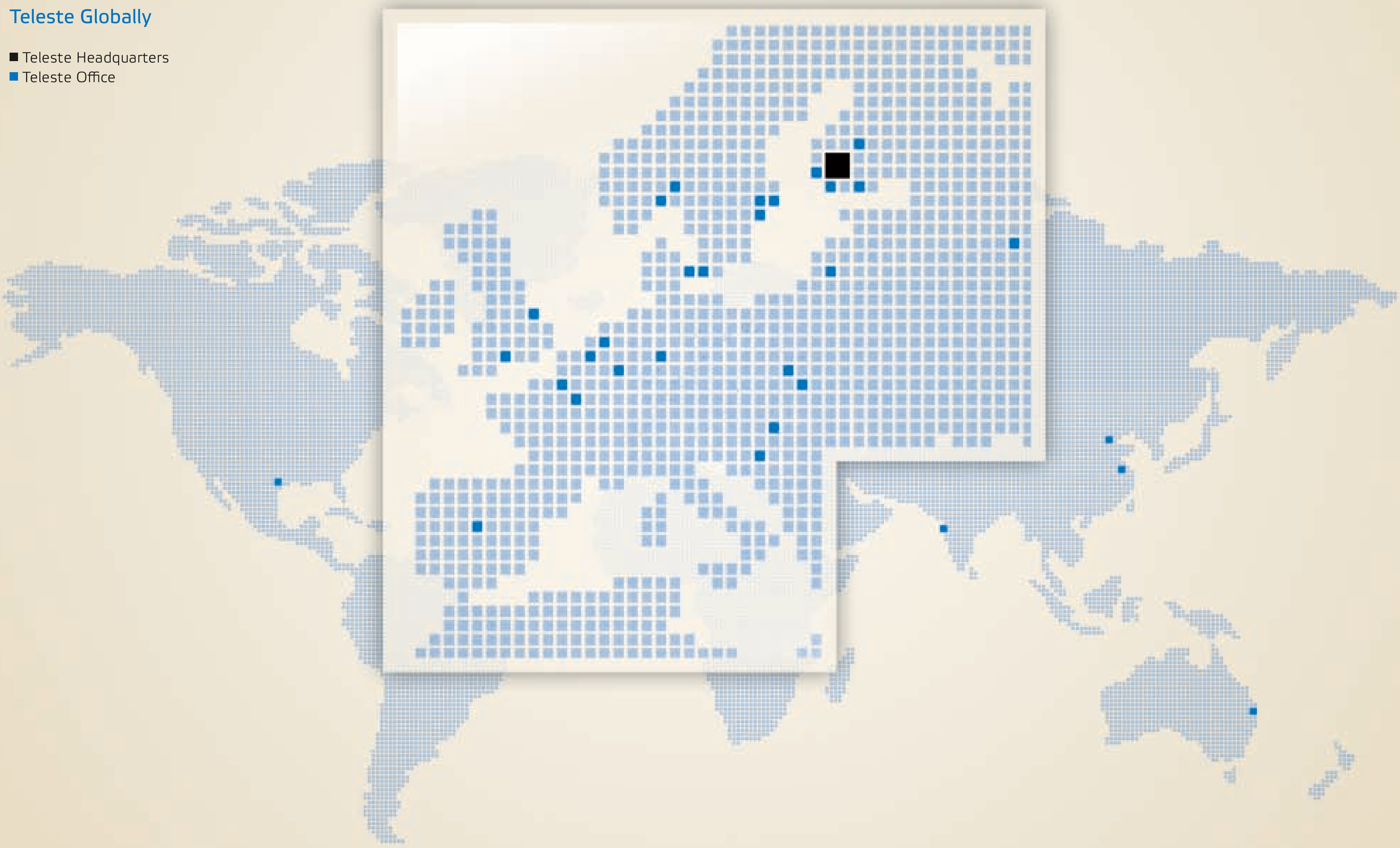




## Calculation of Key Figures

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

## Teleste Globally

■ Teleste Headquarters
■ Teleste Office



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