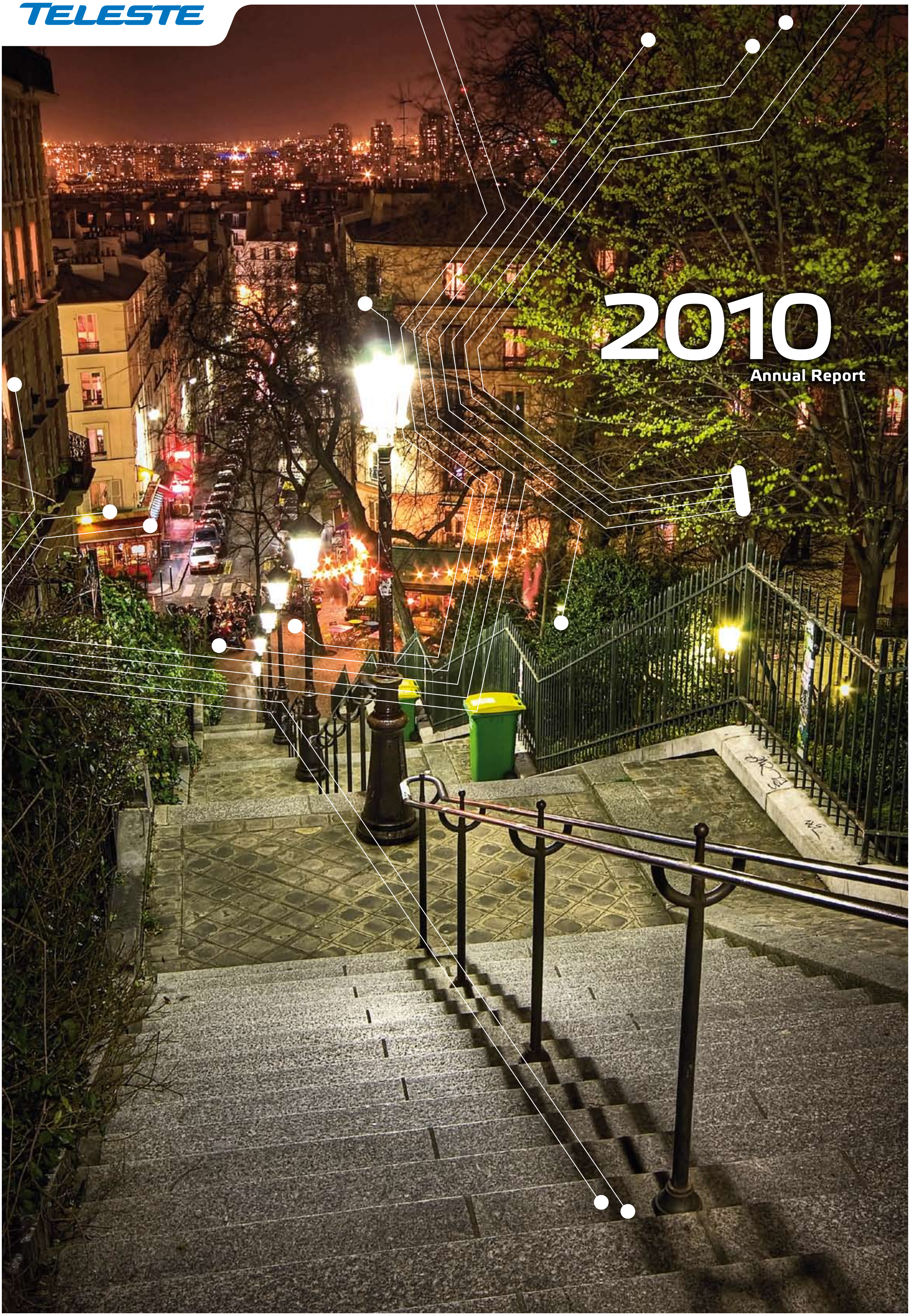
TELESTE



# 2010
Annual Report

**VIDEO AND BROADBAND SOLUTIONS**
Innovative and reliable technology solutions for the development of home information and entertainment.

**NETWORK SERVICES**
New construction, upgrading and maintenance services for cable networks.

**VIDEO NETWORKS**
A leading provider of integrated video surveillance solutions.

**TELESTE**
Year 2010 net sales amounted to EUR 168 million and operating profit grew significantly. At the year-end the Group employed 1 233 persons.

**THE REVOLUTION IN COMMUNICATIONS**
as well as new digital content and services will change the world.

**WE ARE CONSTANTLY WORKING TO IMPROVE**
our understanding of our customers' needs to be able to produce more innovative, value-added technology solutions.



## Annual Report 2010



## Information for the Investors

**Annual General Meeting**
Teleste Corporation's Annual General Meeting will be held on Friday, 8 April 2011, 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 Ltd no later than Tuesday, 29 March 2011.

Shareholders wishing to attend the Annual General Meeting must inform the specified company no later than Thursday, 31 March 2011 by 4 p.m.

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

**A Holder of Nominee Registered Shares**
A holder of nominee registered shares is advised without delay to request necessary instructions regarding the registration in the shareholders' register of the Company, the issuing of powers of -attorney and the registration for the Annual General Meeting from his/her custodian bank. The account management organization of the custodian bank will register a holder of nominee registered shares, who wants to participate in the Annual General Meeting, to be temporarily entered in the shareholders' register of the Company at the latest 5 April 2011 at 10 a.m.

**Proposal for Distribution of Dividend 2010**
The Board of Directors proposes that a dividend of EUR 0.12 per share for the financial year 2010 will be paid to free-floating shares. The dividend will be paid to shareholders who are registered on the record date of 13 April 2011 on the company's Shareholder List, which is kept by Euroclear Finland Ltd.

**Publication of Financial Information in 2011**
Interim Report, January–March .................................. 27.4.2011
Interim Report, January–June ........................................3.8.2011
Interim Report, January–September........................26.10.2011
Financial Statements ......................................................1.2.2012

More information on pages 84–91.

Founded in 1954, Teleste became listed on the current NASDAQ OMX Helsinki Oy in 1999. Teleste is an international high-technology and network services company the strategy of which is to create increased added value to our solutions by continuously improving our understanding of the operators' business, applications and needs. Our expertise is based on product solutions and services for the processing, networking, transmission and management of video and data for operators and public authorities.

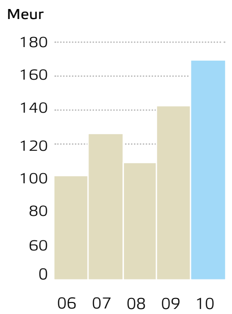
Since acquisitions carried out in 2009 and 2010 the company has two equally large, mutually supportive businesses. At that time, by net sales, Network Services rose to the level of Video and Broadband Solutions.

Our businesses are linked by shared customer base as well as video and broadband technology. Video and Broadband Solutions business segment has its emphasis on product solutions for broadband access networks, video service platforms and video surveillance applications. Our Network Services business provides operators in selected markets with comprehensive network-related technical services.

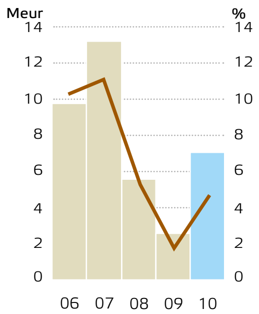
## Key Figures

| | 2010 | 2009 | Change, % |
|---|---|---|---|
| Orders received, Meur | 167.2 | 151.0 | 10.7 |
| Net sales, Meur | 167.8 | 141.7 | 18.5 |
| Operating profit, Meur | 7.4 | 2.5 | 194.5 |
| Profit for the financial period, Meur | 4.8 | 0.4 | |
| Earnings per share, eur | 0.27 | 0.02 | |
| Shareholder´s equity per share, eur | 2.90 | 2.68 | |
| Return on capital employed, % | 10.2 | 3.3 | |
| Share trade, % of share capital | 17.4 | 44.0 | |

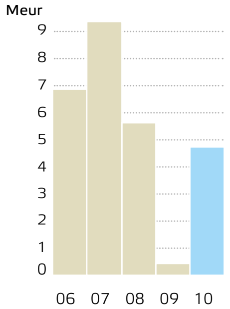
Net Sales



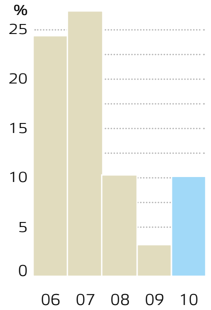

Operating Profit



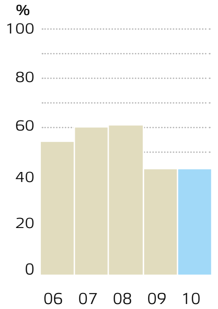

Profit for the Financial Period



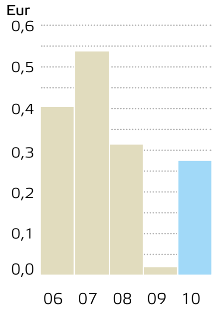

Return on Capital Employed




Equity Ratio




Earnings per Share






## Global Presence – Local Relevance

Central Europe, covered by our densest network of agencies, constitutes our main market. The number of Teleste offices around the world is more than 30.

For contact information please access the company website at www.teleste.com

Teleste headquarters in Turku region, Littoinen

Teleste Netherlands

Teleste Sweden

Teleste UK

## Business Areas


### Video and Broadband Solutions

The Teleste Video and Broadband Solutions business units aim to promote the business of operators and public authorities who provide a variety of video-related information, entertainment and security services to end-users. The business segment has its emphasis on product solutions for broadband access networks, video service platforms and video surveillance applications.

In the area of broadband access networks, our focus is on delivering Hybrid Fibre-Coaxial (HFC) network solutions, including Deep Fibre, and other advanced fibre-rich network solutions for Cable TV and next generation network operators. In the area of video service platforms, we deliver product solutions for digital video processing and distribution applications, such as cable TV and IP TV headend solutions. For video surveillance applications, we deliver advanced professional network solutions – mainly to public authorities – for processing, transmission and management of real-time video, data and audio.

### Network Services

The Network Services Business provides network-related technical services to operators in selected markets. The development of the business unit has taken place through a mix of organic growth and focused acquisitions. Our offering consists of network design and planning, turn-key projects, new construction, rebuilding, upgrading and maintenance services of cable and FTTx networks. A core area of our service offering is Network planning & Technical management services, with over 70 dedicated planning and engineering professionals. We are well placed to provide operators with the resources they need to carry out any detailed network design on time. Currently, we have service operations in Germany, UK, Belgium and Finland, with focus on the leading operators at each country.

| Video and Broadband Solutions | 2010 | 2009 | Change, % |
|---|---|---|---|
| Orders received, Meur | 86.5 | 81.6 | 6.0 |
| Net sales, Meur | 82.0 | 76.3 | 7.5 |
| Operating profit, Meur | 6.3 | –0.7 | |
| Operating profit, % | 7.7 | –0.9 | |

| Network Services | 2010 | 2009 | Change, % |
|---|---|---|---|
| Orders received, Meur | 80.7 | 69.4 | 16.2 |
| Net sales, Meur | 85.9 | 65.4 | 31.3 |
| Operating profit, Meur | 1.1 | 3.2 | |
| Operating profit, % | 1.3 | 4.9 | |

Business segments from 1 January, 2010.

The global economic situation showed gradual improvement, which began to be reflected in the operators' investment behavior in 2010. Nevertheless, the company still continued its streamlining measures in material procurement and by adapting the need for labour by the prevailing situation.

In terms of figures, year 2010 can be seen economically successful; net sales increased by 18.5% to EUR 167.8 million and operating profit improved significantly. It may be pointed out that in Q4 Teleste's orders received reached the all-time high.

Acquisitions were continued in 2010 as in April Teleste made an opening gambit in the Swiss services market by acquiring local services company Freycom S.A. focusing on network maintenance and upgrading. In the autumn, the company acquired the Polish system integrator Satlan Sp. z o.o.

## Chairman of the Board

> Currently, Teleste's industry is right in the middle of an upheaval, which is why it has been so very interesting to be involved in the company's development. We have come out of a severe economic crisis having intensified our operations at the same time. Now we are pondering what kind of impact the coming significant industry breakthroughs in the video distribution and broadband technology will have on Teleste's long-term business.

Marjo Miettinen Teleste Corporation, Chairman of the Board



## Heading for Lean Production

In 2010, Teleste continued with lean manufacturing and increasing the efficiency of its production according to the company's production strategy. At the beginning of the year, in the end of January, the new module manufacturing plant built next to the Littoinen headquarters was introduced. New premises enabled pulling all manufacturing activities taking place in Finland together into one single plant. That meant, that nearly 90 persons changed office from Nousiainen to Littoinen. Concentrating the manufacturing to Littoinen was a major logistical and environmental reform, which reduced the processing of materials and semi-finished goods, minimized transportation time and enabled reduction in work in progress. Employees welcomed the change and the move of module manufacturing activities carried out in stages was finished swiftly in less than a week.

New module plant

In addition to consolidation of our manufacturing operations, we invested in 2010 heavily in the development of logistics operations of the Littoinen plant. With the new premises we introduced a storage location system integrated in our ERP system and a new pull-controlled picking storage. The layout and component placement of the new picking area was implemented by optimizing picking routes, which enabled a reduction both in terms of picking distance and time. As part of the development of our logistics functions we also introduced a new lean dispatch center.

In 2010 we continued to develop our final production by switching over to the pull-controlled cell-based manufacturing, which enables a customer-oriented, efficient and flexible method of production. This Lean Production -project will continue in 2011 with a special focus to improve production control and supply chain management in line with the LEAN principles.

New pull-controlled picking warehouse

New production cell

New lean shipping department

New pallet storage and loading area

## Significant Events

### Q1

At the end of January Teleste Video Service Platforms (VSP) launched a Partner Program for Video Service Platforms Partners (=key customers). The goal with the Partner Programs is to increase both Teleste's and our Partners' sales and business profitability by working more closely together.

The VSP Partner Program was launched with a Partner Meeting held in Teleste HQ in Turku. The agenda of the meeting included both technical and sales training, furthermore we had one-to-one discussions with our Partners about current and near future business cases. The participants came mainly from Europe and especially Central and Eastern Europe. The visitors came from Serbia, Hungary, Bulgaria, Romania, Poland, Switzerland, Sweden, Italy and the United Arab Emirates.

### Q2

In Spring the Finnish cable operator Turku Cable TV launched a new Cable Video-on-Demand (VOD) service which works on the Teleste-developed MyCast-application platform. The Video-on-Demand service will significantly change viewing habits over the next few years, as more and more consumers appreciate the opportunity to choose their own program content and the time to view it. Cable Video-on-Demand is an easy and affordable option, as the services work on customer's existing cable receivers (set-top-boxes).


In April Teleste entered the Swiss services market by acquiring a local services company specialising in network maintenance and upgrades. The company in question is Freycom S.A. with its business area in upgrades and maintenance of cable and house networks. In Switzerland, penetration of cable networks is one of the highest in Europe with about 250 local operators in the business.

### Q3

In July Teleste was awarded a contract to supply, together in partnership with IBM France, who is acting as the prime integrator, to SNCF (French National Railway Corporation) a centralized recording solution to be used for their video surveillance infrastructure. The centralized recording system in question has capacity to record 8 300 surveillance camera streams simultaneously, expandable to 35 000 cameras, which is one of the largest single recording platforms in use globally in video surveillance systems.

In August Teleste was chosen as an exclusive FTTx-equipment supplier for HOT Telecom in Israel. The large-scale Fttx upgrade deployment program of HOT Telecom cable networks, covering two million Homes Passed, will start by changing the architecture from HFC towards very deep fibre to enable higher capacity for new services up to 100 Mb/s high speed data, VOD, telephony and HDTV.

In September Teleste acquired a Polish system integrator Satlan Sp. z o.o. The company delivers IP video and broadband solutions for Polish operators and service providers. Through this acquisition, Teleste further expands its market presence as a video services solution partner for cable operators, broadcasters and IPTV service providers.

### Q4

In October Teleste's subsidiary Cableway AG signed a three-year contract extension with Kabel Deutschland on the upgrading and maintenance services of cable networks. In terms of net sales, the estimated annual value of this frame agreement equals approximately EUR 50 million. Cableway is by far the largest service provider in Germany focusing on cable networks with every major German cable operator included in its clientele. Kabel Deutschland is the largest cable operator in Germany with approximately 9 million connected households today.

Further in October Teleste undersigned an agreement with INEO (GDF Suez Group) to provide a video surveillance system for Paris police organisation (Paris Préfecture de Police). The system will manage directly more than 1 100 cameras within Paris territory, and will interconnect with other security networks across Paris metropolitan area, in total covering more than 10 000 cameras: railways, underground, city of Paris traffic control, large Parisian malls, etc.

# Leader in Broadband Video

The world is at the brink of digital revolution. The changes in communications are going to change the world. Digital video will be everywhere. People want to see their favourite content wherever they want and whenever they want. Networks must evolve to make it all possible.

We at Teleste are ready to transform these challenges into opportunities, based on our strong knowhow and competence backed by over 50 years of industry experience. We do this by developing innovative solutions and services to build the future.

## Core Competence, Values and Vision

**CORE COMPETENCE**
Transformation of awareness about customer needs and technology into fully optimised end-to-end broadband and video solutions for operators

Video processing and transmission technology (RF, IP)

**VISION**
Leading provider of broadband video technology and services for operators

**VALUES**

- Customer centricity
- Respect
- Reliability
- Result orientation

**We continue to focus on product solutions and services for processing, networking, transmission and management of video and data for operators and public authorities.**

## Strategic Directions

### Video and Broadband Solutions

Our strategic development focuses on innovative and more value creating product solutions for broadband and access networks, TV headends (video processing) and professional video surveillance applications with increasing interest in network management.

We will continue our strong local presence in our target markets (Europe and selected other markets) and will continue to utilise and strengthen our deep understanding of the needs of our customers for offering optimised solutions. Technology will remain at the core of our activities.

### Network Services

Our strategic development focuses on comprehensive and high added value network service solutions for cable networks in selected markets.

We will continue strengthening our strong local entrepreneurship, our operational excellence and technology understanding. We aim to become the most preferred Pan-European service provider for cable operators.



## Key Strategy Areas

| At Teleste we have defined three key objective areas where we will take strategic steps: | |
|---|---|
| Customer Satisfaction | • Comprehensive application understanding. We offer solutions<br>• More value by innovations (improving ARPU, reducing OPEX)<br>• Local presence, channel partners, new customer base (telecoms, ISP's) |
| Technology Leadership | • Number one in European cable access networks<br>• Innovative broadband solutions (e.g. Fibre-to-the-Home)<br>• Best mid-segment TV headend solutions<br>• Managed professional surveillance systems |
| Pan-European Services | • The most preferred Pan-European service provider for cable operators<br>• Entrepreneurship combined with operational excellence and technology understanding<br>• High added value services |

We are a high technology company with customer oriented technology development as our main approach. By utilising the synergy of our product solutions, we are investing also for the development of the second pillar of Teleste – services business. We will be the winning Pan-European service provider for operators offering top service quality.

We do this by expanding our best practises, increasing our knowledge based services, moving fast, trusting on local entrepreneurship and understanding well the specific customer needs. We work towards understanding even better the operator's business, application, their needs and underlying drivers, to be better able to create value by innovations.

Teleste is number one European provider of HFC (hybrid fibre-optic and coax network), including deep fibre networks, and we are working towards increasing our market share. We are challenging the residential data market with our advanced next generation network solutions, which include our optimised offering for migrating HFC towards more fibre-rich networks (FTTx). We continue developing comprehensive DVB and IP based products and systems to improve our strong position in cable TV and IPTV headend and video management business, as well as widening our product range and competence through strategic partnering. In video surveillance business, we are focusing on large integrated systems, customization capability and total network and management solutions.

## Service and Network Requirement Are Changing…

The revolution in communications as well as new digital content and services will change the world. We will communicate with people and devices/machines in new ways, and consume new content in new ways; wherever and whenever we want, with whatever device we have for the purpose.

HDTV, IPTV, 3DTV, YouTube, up/downloading, social media, WebTV, gaming, smart phone and tablet PC's, mini laptops, mobile TV, Security & surveillance all around you… this is just the beginning!

All this means more bandwidth requirements. Actually, we will need more bandwidth/speed tomorrow than we can imagine today. In spite of, and especially because of the fast evolution in mobile communications, the need for expanded physical access will increase, generating new uses. Actually, for high-speed connections, i.e. up to 1 000 Mbps or higher, physical network is so far the only cost-efficient solution. The existing hybrid fibre coaxial (HFC) networks already provide very high capacity, and they will continue their evolution towards fibre-rich networks (FTTx).

# 2010 – Year of Good Recovery

Recovery of the global economy from the deep economic crisis of 2008–2009 has been relatively slow. This has, of course, also had its implications for Teleste's success in 2010. Yet, thanks to our acquisitions, own efficiency measures and the moderate pick-up in the demand for solutions of our product business area, we can look back to 2010 as a financially successful year. Both net sales and operating profit increased significantly compared with the previous fiscal year.

We managed to achieve considerable cost savings by increasing the efficiency of our material procurement and by adjusting our need for labor to the prevailing challenging market conditions. Satisfactory economic development could also be seen in our product business, where the sales of network technology, video processing solutions and video surveillance systems were picking up slightly. These measures and developments also affected Teleste's key figures. Net sales increased by 18.5% amounting to EUR 167.8 million (141.7). Operating profit increased by 195.0% standing at EUR 7.4 million (2.5). Undiluted result per share equaled EUR 0.27 per share (0.02) and return on capital employed was 10.2% (3.3%). This positive trend was also reflected in orders received, which rose by 10.7% to EUR 167.2 (151.0).

## Network Evolution Continues

The developed world is undergoing a great digital transition. In particular, the use of moving images across multiple channels and devices continues to grow strongly. Yet the breakthrough of ubiquitous video unrestricted by time or space makes high demands on the network and video processing technology. Moreover, the ways of distributing the wide variety of video services are looking for their well-established commercial forms.

The progress of technological evolution is positive news for Teleste Video and Broadband Solutions, which is a major player in modern broadband subscriber networks, video-on-demand platforms and video surveillance systems in the European market. Teleste is the leading European company in the hybrid fibre-coaxial (HFC) networks used, in particular, by the cable operators. These advanced networks allow the operators to provide the end-users with a wide range of services including high-definition broadcasts, IPTV options, VoD and 3D services, and high-speed internet connections.

A gradual improvement in the general economic situation began to show in the operators' investment behavior in 2010. Similarly, exacerbation in the global security situation together with increasing numbers of passenger was positively reflected in the sale of solutions provided by our product business. Signs of recovery were particularly seen in the demand for optical network solutions, Luminato headends and our video surveillance and recording systems.

A concrete manifestation of this was the EUR 16 million frame agreement signed in July with HOT Telecom. The conventional cable networks of the Israeli company will be upgraded to a deep fiber solution, which enables high-speed data as well as the future services of video-on-demand, high-definition television and telephony.

Our long-term cooperation with the French national railway company SNCF continued in July, when we secured the order for the centralized storage solution for video surveillance. The centralized system delivered together with IBM France will simultaneously record digital content supplied by 8 300 surveillance cameras monitoring traffic on the rails.

In October, another handsome entry could be added to our prominent track record in video surveillance in France, when Teleste signed a contract of almost EUR 7 million with the Paris metropolitan police organization. The video surveillance solution for downtown Paris delivered together with Ineon is designed to facilitate traffic management, maintenance of order, rescue work and prevention of crime and terrorism. The system includes an active video network equipment, recording infrastructure, software applications and systems management.

In the autumn, we strengthened our position in Poland's rapidly emerging markets by acquiring the entire share capital of the major systems integrator Satlan Sp. z o.o.. Satlan supplies IP video and broadband solutions to Polish cable operators and service providers.

Video and Broadband Solutions' net sales in 2010 amounted to EUR 82.0 million (76.3), an increase of 7.5%. The impact on net sales of the Satlan acquisition was 3.6 million. Operating profit of our product division increased significantly to EUR 6.3 million (0.7).

## German Services Operations Reorganized

Teleste's services business area Network Services focused on supporting the operations of Europe's largest cable operators. In practical terms this involves services related to design, construction, upgrading and maintenance of cable networks. An increasing number of operators outsource their technical services to specialist firms as the system becomes more complex and the costs of the network maintenance increase. This, of course, opens up opportunities for the sales of Teleste's own product solutions.

Our strategic acquisitions carried out in 2009 in the most valuable European cable networks market of Germany had a key impact on the profit from our services business in 2010. Reorganizations of our German operations such as merging of companies, elimination of overlaps, geographical clarification and temporary use of contractors took longer than expected, which slowed down the development in net sales. Moreover, deliveries mainly involved simple services like cable modem installations, which brought down the level of financial performance. Nevertheless, the three-year services contract signed with Kabel Deutschland at the end of the year secures our leading position in the German services market enabling a long-term development of the business.

Besides Germany Teleste also runs active services business elsewhere in Central and Northern Europe and Great Britain and these are all areas with a very high cable penetration. In Switzerland we invested in a relatively small services company to get established in the French-speaking region of the country. In Belgium and Finland Teleste continued deliveries of network design services to the leading cable operators in these countries. Similarly, in the UK our planning and projecting services remained at a satisfactory level.

Net sales of Network Services increased by 31.0% to EUR 85.5 million (65.4). Part of the increase in net sales was due to acquisitions. Operating profit stood at EUR 1.1 million (EUR 3.2 million).

## Streamlined Cost Structures

In 2010, Teleste continued to lighten the costs to the level required by the market situation. 24 people were made redundant as agreed in the co-determination process and the personnel in Finland continued on rotating layoffs. Savings were achieved also in material procurement. In production, lean manufacturing was developed further. Towards the year-end, expansion measures were launched to concentrate Teleste's Finnish operations in to the Littoinen plant.

The impact of the effective cost adaptation measures were felt in Teleste's result. Difficult projects were carried out through good co-operation with the personnel. Team Spirit was in the focus of training provided in our special Forward Together Year. This was a campaign for the development of leadership and team skills, and introduction of new methods drawing on the expertise of the personnel.

Teleste's competence lies in its state-of-the-art technical expertise. Thus, our R&D efforts were maintained on a high level given the size of the company. Our investments in R&D amounted to EUR 10.3 million (10.8). The key development items included the Luminato headend system, our modular optical node, and the video surveillance management system VMX.

## Outlook 2011

Teleste is operating in growth areas of the future such as network technologies and services as well as processing and video surveillance systems. Convergence in the provision of services by the cable and telecom operators, toughening competition and the growing threats of the general security situation create conditions, which promote demand for our product and service solutions.

Nevertheless, I expect the growth in 2011 to be just moderate. Teleste is a strong player, especially in Europe, where the market recovery is seen to continue relatively subdued. I believe that the gradual revival in our target markets will, however, continue. The cold winter in Europe will, in its part, affect our operations in the first quarter of 2011. Demand for the services provided by our Network Services is likely to remain relatively stable.

While posing a challenge, the calmness in the markets also provides us with an opportunity. We will continue determinedly the implementation of our strategy with our goal set on profitable growth. Our offering of products and services is competitive, and our well-known track record of customers will strengthen the sales of Teleste products.

I would like thank everyone at Teleste for the cooperation and team spirit shown in a truly challenging year. As to Teleste's other stakeholders including customers, partners and shareholders, I thank you for your continued support and commitment.

Jukka Rinnevaara
President and CEO

Convergence in the provision of services by the cable and telecom operators, toughening competition and the growing threats of the general security situation create conditions, which promote demand for our product and services solutions.


**THE DIGITAL FUTURE** – The changes in communications will impact the whole world. Digital video and data will be everywhere. People want to enjoy their favourite content wherever they want, whenever they want and with the device they prefer. We at Teleste supply solutions to make that change possible.

# Our Businesses

In Teleste's two business areas, **Video and Broadband Solutions** and **Network Services**, we focus on product and service solutions for the processing, transmission and management of video and data for operators and public authorities who provide a variety of video-related information, entertainment and security services to end-users.

**VIDEO AND BROADBAND SOLUTIONS** is organized into business units with emphasis on product solutions for broadband access networks, video service (headend) platforms and video surveillance applications. With broadband access and Cable TV & IPTV headend solutions we are paving the way towards a new, more interactive world of media. We do this by making future TV quality and data transfer rates available today. In Video Surveillance, our aim is to help improving the safety and efficiency of society.

**NETWORK SERVICES** delivers comprehensive network service solutions, including network design and planning, rebuilding, updating and maintenance services for cable and FTTx network operators. This allows the operators to keep a step ahead with their infrastructures to make digital revolution possible.

**MISSION**
To enable the development of home entertainment by providing innovative and reliable technology solutions.

**KEY MARKETS**
Europe and selected markets in Asia.

**OUR VISION**
The leading technology partner to the cable operators.

**SOLUTION**
HFC access network and integrated video headend solutions.

**PRIMARY CLIENTELE**
Cable operators, telephone operators and system integrators.

# Video and Broadband Solutions

## TV Distribution Businesses

Teleste Video and Broadband Solutions provides access network products, headends and on-demand video solutions to cable and telecom operators of all sizes.

### Our Business

Teleste is the leading supplier of access networks to European cable operators. Our offering includes all components of the HFC network from fibre-optic solutions to field amplifiers and all the way to house network amplifiers and passive components. Teleste's key competitive edge is our ability to respond to the needs of the large operators by modifying our provision of products to solve the customers' challenges.

Teleste goes back a long time as a supplier of headends. Our focus has shifted from analogue headends to fully digital ones to be complemented by our next generation IPTV product range. In this segment we have expanded our market area especially in Eastern Europe and in selected Asian markets, with new expansion focusing in Spain and Latin America.

The significance of support systems is growing rapidly as the technologies and systems get increasingly complex. In our product business we focus on the provision of consultancy services related to system design and system verification, maintenance services for the supplied systems as well as training.

### Customers and Markets

The traditional backbone of Teleste's clientele is formed by largest European cable operators. Today's cable operators provide the households with all the essential telecommunication services: TV programming, telephony and broadband access to Internet. For the operators to maintain and strengthen their competitive edge they need to invest continually in increasing access network capacity and in solutions allowing them to launch to the market new innovative services.

The operator world is experiencing a major disruption when the traditional broadcast TV distribution is evolving to on-demand service delivery. For the first time, the incumbent telecom operators are in a position to start winning significant market share in TV distribution market. This may open new business opportunities for Teleste's DVB head-end offering as well as associated optical transmission equipment for distribution of the TV programs to consumers. Such solutions have already been supplied by Teleste to TeliaSonera for their TV distribution service in Finland.

Teleste's latest generation of headend solutions is designed for small and medium sized networks. Alongside with small independent operators this also allows the large cable operators – who apply Teleste's solution to their regional networks – to use our products. In order to reach the small and medium operators Teleste has focused particularly on building up distribution channels especially in Central and Eastern Europe. With the target to reach overseas markets, Teleste has established OEM arrangements with branded vendors who have existing sales channels in markets such as Middle-East, Spain, Russia and Americas.

### Highlights 2010

Year 2010 was characterized by continuation of economic depression, which started in 2009. This recession continued to affect network investments by some cable operators. Due to the picking up of investments during Q4, the sales reached modest growth.

The main investment in 2010 was the acquisition of Satlan Sp. z o.o.. Satlan is a system integrator in Poland, with significant market share in the digital head-end market in Poland. The target is to further grow the Satlan system integration business, with particular focus on Video on Demand solutions, leveraging Teleste MyCast software platform. Furthermore, the target is to leverage Satlan presence in Poland to win market share in the HFC market.

A major win worth noting was HOT Telecom agreement which opened our sales into Israel. Another significant new market entry has been the roll-out of RF overlay solution for TeliaSonera in Finland, helping TeliaSonera promote its TV services to a much wider subscriber base in major cities in Finland. Fibre optic segmentation projects generated sales in Benelux, Nordic countries, France, Germany and UK. Eastern European market has been more active as well.



### Customer Cases

#### Numericable – DVB-C and DVB-T service delivery in cable TV network

**Numericable** is a part of **Altice Group** and the largest cable TV operator in France with 97% market share and coverage of nearly 10 million homes. Their network consists of tens of regional hubs knitted together by nationwide IP backbone.

Due to gradual discontinuation of analogue TV broadcasting during 2010 and 2011, Numericable was looking for an advanced solution to turn traditional analogue TV services to digital. In addition to providing TV services received via the IP backbone, Numericable wanted to complement the service selection with local terrestrial TV services received at each of the local headend. All the services were to be broadcasted with both DVB-T and DVB-C standards into Numericable cable TV network.

Teleste Luminato platform was shortlisted for negotiations and it appeared to be appealing to Numericable both technically and commercially. The main advantages were modularity and density of Teleste Luminato, meaning in practise that each Numericable headend required only one Luminato chassis to receive the TV services from the specified sources and ingest them to Numericable network in the required formats. Luminato redundancy features and ease of use were considered outstanding as well, all resulting to high reliability and cost savings which were well appreciated by Numericable.

#### TeliaSonera Finland – Cost-effective Distribution of TV Services by Means of Teleste's Product Solutions

**TeliaSonera** is an International telecom group that offers both fixed and mobile network telecommunications services to enterprise and consumer customers. TeliaSonera offers services in 20 markets in the Nordic and Baltic countries, the emerging markets of Eurasia - including Russia and Turkey - as well as in Spain.

For years TeliaSonera Finland has been building up a fiber-optic network in numerous Finnish cities to span the last mile. This has provided a good starting point for offering households both TV and broadband services.

TV services are delivered via TeliaSonera's own national IP backbone network in several towns in which the services are transferred through fiber-optic network to households. Teleste's equipment deliveries related to fiber-optic network began in late 2009. The deliveries included Edge-QAM headends and optical transmitters, light amplifiers and real estate receivers of the optical transmission system.

All delivered system components are also connected to a network monitoring system via TeliaSonera's network management. For TeliaSonera comprehensive monitoring of network elements is an important function to ensure the quality of networks. TeliaSonera will continue to build new networks based on the same technology.

In 2010 we continued our strong sales growth of the Luminato headend system. We have received orders from major cable operators like Numericable in France, as well as through our sales partners in Eastern Europe and China. Towards the end of the year, a strategic collaboration agreement was completed with Ikusi in Spain, with the target to grow Luminato sales in Spain and Latin America, using Ikusi's strong presence in those markets.

### The Steps to Follow

As to the HFC network, we will especially focus on fibre-optic solutions. Main emphasis is on flexible optical nodes allowing operator to optimize its network investments, using flexible, future proof product platform. We are continuously developing our Fibre to the Home solution for cable operators, using Radio Frequency over Glass (RFoG) technology. We are constantly looking for new innovations allowing the operating expenses to be minimised either by automating field work or by replacing it with remote network management.

The optical access network and the passive products market provide opportunities for growth in which Teleste's traditional strengths can be put to excellent use. Furthermore, in in-home networks there is need for new technical innovations allowing interactive video to be distributed to various devices in households.

On sales development area, we will further evaluate sales opportunities to telecom operators, with main focus being in Europe.

We will continue in developing the Teleste Partner Program designed to ensure our resellers' ability to develop the sales of Teleste products while providing professional maintenance services.

**OUR 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.

**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.

**SOLUTION**
Extensive networked video monitoring solutions.

**PRIMARY CLIENTELE**
The systems developed by Teleste are supplied mainly to the public sector. Teleste delivers its solutions to the end-clients for the most part through system integrators.

# Video and Broadband Solutions

## Video Networks

Teleste Video Networks delivers all-inclusive CCTV applications. We focus on demanding targets requiring video surveillance that allow the end-user to benefit from networking together cameras, recorders and workstations across a number of locations into one unified CCTV system.

### Our Business

Teleste Video Networks makes available comprehensive CCTV solutions, which consist 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 linked up with other systems like traffic management systems, alarm & crisis management systems etc.

Through its own offices, Teleste Video Networks is present locally in all the major geographical markets: Europe, North-America and Southeast Asia. End-users are reached mainly through channel partners.

### 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 city centre monitoring, and authorities in charge of rail, road and air transport. As to the private sector applications, the primary end-user segments include business running critical infrastructure as well as utilities. These target market segments demand advanced video surveillance systems requiring high-quality and real-time video, audio and data networking, including tools to analyse and process the recorded video material.

Our customers wish to use the same CCTV system for a number of purposes. For instance, the video monitoring system at an airport can be used by airlines, retailers at the airport, guardian and security service providers, police and border guard, to name a few. This allows for maximum utilisation of the made investment. For these complex demands, the end-customers are looking for partners who can deliver customised solutions including maintenance and operation of the relevant infrastructure.

The long-term market outlook for IP based video surveillance is positive – in the coming years the current analogue 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.

### Highlights 2010

The global recession made its mark also on the video surveillance market, with some customer segments or markets facing downturn. Investments were slow e.g. in banking, retail and traffic monitoring applications. Similarly, public deficits impacted negatively public sector investments e.g. in Spain and UK. On the other hand, investments targeting enhancements in homeland security continued on a strong level. Additionally, markets like China and France experienced healthy growth.

Major customer wins in 2010 included a contract to deliver a world-class centralized recording platform for French National Railway Company SNCF. This project was won together with IBM, who provides the technology platform to SNCF as a hosted service. This platform provides a single recording entity with initial capacity to handle 8 000 video streams. The previously contracted deliveries to SNCF continued on a steady level. In the rail segment Teleste also completed deliveres to Chicago Transit Authority, covering recording solutions for 144 stations.

In city surveillance segment, Teleste secured a position as the technology supplier for the winning consortium to supply Préfecture de Police in Paris metropolitan area state-of-the-art video surveillance platform. The consortium is lead by Ineo, part of GDF Suez group in France. The project deliveries, valued at almost EUR 7 million, take place in 2011–2013.

The first system to Queensland State Gatton prison was completed. This project was delivered in collaboration with Saab Security as the prime integrator. Also further expansions of the CCTV platforms in Capetown, South Africa, are worth a mention.

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.

### The Steps to Follow

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.

The video surveillance industry has adopted a strong agenda to reach interoperability across products used to build CCTV systems. Teleste is in favour of these standardisation initiatives and is committed to adopt ONVIF standard for relevant products. During 2010 first implementations of ONVIF interfaces have been done. In conjunction with this, video standard H.264 is rapidly gaining ground in the video surveillance applications. The VMX video control and recording software by Teleste already support the H.264 standard. This development will be complemented with launching of field hardened encoders supporting the H.264 standard to the market during 2011.

The VMX video control and recording software is being developed in two respects. First, the video recording capacity will be increased so that the software can be applied to create the world's most heavy-duty centralised recording systems with top-notch reliability. Second, the software will be made more integration-friendly by adopting, for instance, Web Services technologies in the user interface development.

Teleste Video Networks is continuously expanding its network of channel partners in order to address new markets and to maximise 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 fully digital video surveillance systems will be demanding integration competences from the IT domain.



### Customer Cases

#### Southern Queensland Correctional Precinct

**The State Government of Queensland**, Australia is constructing a new Correctional Precinct at Gatton in Southern Queensland. A 300-bed high security correctional centre is currently being constructed as part of the first stage of the precinct development and SAAB Security Pty Ltd are the electronic security solution provider. The CCTV solution was designed to utilise both the VMX management products, and the MPX edge devices from Teleste Video Networks. The equipment was delivered through our Australian partner company Optical Solutions Australia.

The Saab Group serves the global market with world-leading products, services and solutions from military defence to civil security. With operations on every continent, Saab continuously develops, adapts and improves new technology to meet customers' changing needs. It's most important markets today are Europe, South Africa, Australia and the US. Saab has in excess of 13 000 employees globally, and approximately 400 in Australia. To adapt to the new conditions in the global Defence market, SAAB reorganised earlier in 2010 into five business areas: Aeronautics, Dynamics, Electronic Defence Systems, Security and Defence Solutions, and Support and Services. It is the Security and Defence Solutions business unit (Saab Security Pty Ltd.), headquartered in Adelaide, South Australia, which Teleste is co-operating with, in the correctional facilities market.

Optical Solutions Australia is a supplier to the fiber optic industry, and the distribution partner of Teleste Corporation Australia. They are distributors of a select collection of products from world leading manufacturers, as well as their own manufactured items. They have 6 offices dispersed around the country, servicing government, mining and transportation clients in New South Wales, Queensland, Victoria, Western Australia and the Australian Capital Territory.

The three entities all brought their 'best game' to the effort, to ensure that the end customer received a standards based, future proof, flexible, robust and fully integrated security system. Saab, Optical Solutions Australia and Teleste, designed and developed the closed circuit television segment of a comprehensive security system. The Saab product is the integrated security management platform, which delivers the unified user interface for all the disparate parts, which include intercommunications and public address, access control, perimeter fence alarms, CCTV and others.

The task required Teleste to develop their software decoding engine to be embedded within the Saab platform, as well as, offer an open technical support service to enable Saab to construct the programmes that allow their product, to accurately direct the VMX utilities to respond to commands to transmit, display, store and retrieve voice and video data, from any location to any location.

Optical Solutions Australia was also responsible for designing and supplying the data network for the whole facility, and additionally took on the role as the conduit through which the IP camera vendor, Pelco, had their products integrated into VMX.

As far as robustness is concerned the customer, quite correctly, demanded multiple layers of redundancy. That is why the VMX solution has been implemented with the usual collection of automated failover systems for the servers, and recording devices.

The CCTV element of the security solution comprises a hybrid collection of analogue and IP cameras, more than 400 in total. The video data is displayed in multiple control rooms, as well as being recorded simultaneously with the audio devices in use. The system includes more than 375 TBytes of online video storage.

As mentioned in the introduction, this is the first phase of construction at this precinct, which will continue to be developed to meet the increasing demand for secure correctional accommodation, and is expected to finally be approximately seven or eight times as large as the present system.

**SOLUTIONS**
New construction, upgrading and maintenance services for cable networks.

**PRIMARY CLIENTELE**
Our main customers include cable operators providing end-users with TV channels, telephone connections and broadband data communications.

**OUR VISION**
To be the leading provider of network services to cable operators in the entire Europe.

**KEY MARKETS**
Northern and Central Europe.

# Network Services

The year 2010 was twofold; the first half was characterized by a stillness in the market and hence a low volume of services, whereas in the end of the year even noticeable capacity constraints in the implementation of the services became evident.

## Business Description

The primary clientele of Network Services business area consists of cable operators providing their end-users with three main basic services: TV channels, telephone connections and broadband data communication services.

Services provided by this business area include planning, new construction, upgrading and maintenance of cable networks. The implementation and scope of the relevant services varies by client ranging from stand-alone applications to integrated turnkey deliveries. In addition to operating and consulting services we also offer Teleste's own product solutions.

Our know-how in services covers all the sectors related to the cable network technology from installation and maintenance of headends to upgrading of house networks. Parts of the projects are carried out by our subcontractor network.

Our main market includes Northern and Central Europe with Germany being the single biggest market area. In addition to Germany the business unit is currently engaged in local operations in the United Kingdom, Belgium, Switzerland and Finland.

## Customers and Markets

The primary client group of the business area consists of the largest European cable operators. A great deal of the operators intends to ensure their competitiveness by providing their clientele with new and increasingly more efficient services. These services are designed to decrease churn among the clients and, on the other hand, to increase the average revenue per user (ARPU). Internally, the operators are increasingly focusing on their own cost structure. Operations related to the technical management and hardware solutions of the cable network are, to an ever-increasing degree, outsourced or transferred over to the suppliers.

The main markets for the services include Central Europe and United Kingdom, where cable penetration is very high. In these countries, the cable networks enable a very high-speed capacity access for the households and in recent years the cable operators have been able to turn this online feature into a successful service. Today, cable operators typically provide their broadband customers with 20 to 50 megabit speeds at a very affordable price.

## Highlights 2010

The first half of 2010 was characterized by a stillness in the market and hence a low volume of services, whereas the latter part showed sizeable capacity constraints in the implementation of the services.

Mainly this dichotomy related to the timing of our German main customer's marketing efforts and it had an impact on the pace of broadband access construction. In the early spring the customer's marketing efforts concerning networks were small so the number of network upgrade projects carried out on the turnkey principle in our service areas was also small. At the end of the second quarter and in the third quarter the decline in volume and the fact that the service mainly involved simple cable modem installations resulted in a lower level of income. Towards the year-end, the volume level, however, rose, but continued to focus on simple cable modem installations performed in households.

Operation of our other major German customers continued by and large on the level similar to 2009. For example, the number of turnkey FTTH projects remained at the previous year's level.

To organize our German operations and to simplify their structure one of the four acquired companies was merged with the three remaining ones. Organization and the companies' operations were re-arranged better to support regional operation close to the customer. Moreover, geographic regions of the different companies were specified and the regional organizations were reorganized better to meet the needs for service coverage. The role of the centralized organization came to include the control and support functions of the business. Business operations were decentralized into three regional companies. The number of office workers was reduced whereas the number of field personnel was increased to ensure sufficient capacity in the end of the year. At the end of 2010, the number of personnel in our German operations amounted to 594, out of which 370 worked in the field installations.



## Customer Cases

### EBL Telecom

**EBL Telecom** is a daughter company of EBL, a Swiss utility company operating in electricity, heat and telecommunications businesses. EBL Telecom provides modern triple-play services to its customers in Northwest parts of Switzerland and in the area of Romandie. EBL's network consists of a combination of HFC-infrastructure and fibre based connections, catering both for private and corporate customers. As part of their commitment to the region, EBL has acquired several networks in their geographical area and has invested in the upgrades of these networks.

Teleste strengthened its' position in the Swiss market by adding a local installation company, Freycom, to the group in April 2010. EBL Telecom chose to work together with Teleste and Freycom, both in the field of network maintenance and upgrades. The upgrade and modernisation co-operation projects include both planning and implementation. Teleste's target is to be the preferred partner for EBL also in the future and therefore Teleste is investing in technical training of the staff as well as has brought in technical and management personnel with industry specific background.

**CTO, Roberto Pellizzon:**

"Teleste Network Services, represented by Freycom SA in Switzerland, is our main partner in the field of network operation, maintenance and extensions of our broadband networks in Romandie area (French speaking part of Switzerland). Furthermore the partnership includes also the upgrade of additional networks we're acquiring in this area.

EBL will strongly follow its strategy to invest in the expansion of the cable business for the next years because strong synergies with the other activities have been identified. This will be done by maintaining the principle of outsourcing network construction, operation and maintenance to qualified, reliable and future-oriented partners.

Those requisitions where fulfilled by Teleste and their local company Freycom SA. Although the several challenging processes faced in the projects, EBL and Teleste/Freycom have build-up a prosperous partnership based on mutual trust and understanding."

### Network Design Services at Telenet

**Telenet** is a leading provider of broadband cable services in Belgium. Telenet provides cable television, high speed internet and telecom services, primarily to residential customers in Flanders and Brussels. Under the brand name Telenet Solutions, it also provides services for companies in Belgium and Luxembourg. Telenet has about 2,8 million homes passed in their combined networks and over 1,1 million broadband internet customers, and is listed on the Euronext Brussels stock exchange.

In the beginning of 2010, Telenet chose to work together with Teleste Belgium in the area of detailed network design, in their Pulsar upgrades programme. The programme lasts for several years and includes capacity upgrades and segmentations in their network, to cater for the growing bandwidth demand among Telenet's customers. Teleste's network designers are carrying out design tasks and are interfacing with Telenet's own personnel, as well as with other contractors. Teleste's designers and coordinators are working in close co-operation with Telenet, in order a cost-effective and fast delivery from high level network design to actual realisation in the network. Key reasons for Telenet's decision to choose Teleste were Teleste's extensive application know-how, references and strong presence in Belgium.

In the UK our cooperation with customers developed positively in the first half. We achieved the status of a major service partner and in the first half of the year our volume of services rose steadily in the planning and projecting services. In the third quarter there was a sharp decline in demand, which in total terms also led to a decrease in the services delivered by Teleste. However, we managed to keep the level good throughout the year and in November we saw the volume to turn upward again and to develop very positively.

In Switzerland, we acquired a relatively small service company to kick off the services business in the French-speaking region of the country. The acquired company has two major customers, and a few smaller local service relationships. At the end of 2010, the company was reorganized better to respond to future needs. Efforts were also made to develop key customer quality. Earlier in the spring when the service company was acquired a five-year extension of contract was signed with the main customer of the region.

In Belgium, the network planning service offered to the country's leading cable operator at the end of 2009 was extended with additional volume, so that we currently have 11 people to implement network planning for the customer in question. In addition to this, at the end of 2010 we started upgrading the distribution network amplifiers for the same customer. Recruitment for assignments involving installation operations will continue in 2011.

In the Finnish cable network market we continued to offer our network planning service for the major cable operators. In addition, we negotiated with a number of operators about the possibility to take in charge of their cable networks maintenance and upgrades. We expect to see the results of these negotiations in the first half of 2011.

## The Steps to Follow

The main priority for 2011 will continue to be the development of profitability of the Germany volume business. We will push through two major development programs, the first of which relates to automating and streamlining of our resource management in the field installation service and the second involves development of quality of service in partnership with our main customer. With the first program we will introduce new software to optimize resource planning and to organize the fieldwork. The key activities of the second program include targeted field staff training programs for both the subcontractors' personnel and that of our own. In addition to these programs we will continue to shape our nationwide organization to better meet the local service needs, and we will invest in the reporting and material management systems.

In the UK we will continue to focus on profitable growth. Our goal is to expand the key customerships so that at the end of 2011 we would have at least 2-3 significant new customers. In 2011 the number of UK personnel will break the limit of 100 people.

In the smaller service countries we will continue to ramp-up the business in line with country-specific plans. We will focus on recruitment and ensure the profitability of the business right from the beginning. There are no planned acquisitions for 2011.


**DURING THE YEAR,** improvement in management & leadership, competencies and communications has taken place. Trained participative methods have been introduced and utilized really extensively throughout the organization the whole year around. It has been gratifying to see the wide and varied application of participative methods in projects as well as in the development of daily work and activities - in meetings for example.

# Personnel and Environment

As an innovative technology group Teleste's expertise and competitive edge are based on motivated and professional personnel. The conducted internal personnel surveys have long indicated our strengths to lie in openness, appreciation and encouragement of responsibility. We are determined both to maintain and develop these strengths by encouraging and supporting personnel's initiative and by improving the opportunities to get involved.

**OUR VISION**
Flexible, innovative and learning organization in support of Teleste's strategy.

**MISSION**
HR aim at satisfied, committed and skilled personnel.

**SOLUTIONS**
Good governance, open and inclusive work culture and functional HR processes.

**THE THEME FOR THE YEAR 2010**
Forward Together

# Personnel

Teleste is an innovative technology group, the expertise and competitive edge of which are based on motivated and professional personnel. At the end of 2010, the number of Teleste's employees stood at 1233.

## HR Vision, Goals and Strategy

In terms of our vision concerning HR, the company is in possession of a flexible, innovative and learning organisation, which supports the corporate strategy.

The objective with HR is satisfied, committed and competent personnel supported by good leadership, open and participatory work culture as well as functional HR processes.

Strategic focus areas in 2010 included:

- Participatory dialog between the employees and management implemented during the strategy drive and which enabled a broader understanding concerning interdependencies between the strategies of different units.
- Leadership training with the focus on personal and team leadership, innovation skills, and their management, as well as participatory methods.
- Personnel survey exploring the views of the entire staff.
- Launch of the development of the remuneration policies.

## Forward Together Theme Year 2010

Like many other companies operating in the export and technology industry Teleste has also struggled with recession. On the part of the personnel, the recent years have necessitated a high degree of flexibility, for instance, in the form of layoffs. The conducted internal personnel surveys have long indicated Teleste's strengths to lie in openness, appreciation, encouragement and encouragement of responsibility. Despite the recession we were determined both to maintain and develop these strengths by announcing 2010 our Forward Together Theme Year. Objectives of the Theme Year were:

- To be ready for the next economic boom
- To raise the company spirit and to support participatory culture
- To improve our own practices in order to strengthen our international competitiveness
- To build a solid ground for our future success through new business innovations
- To have shared goals and to build interorganizational culture.

The project has been instrumental in engaging Teleste's personnel in the construction of organization's innovation culture.

During the Theme Year we focused on developing leadership, expertise and internal communications. We encouraged and supported our personnel in taking initiative by improving further the opportunities for participation by setting up preparatory leadership training for the supervisors and innovation skills geared to the development of work community skills for the personnel. In this training we have also learned and practiced activating and participatory methods of working.

Training all supervisors simultaneously has helped greatly in putting the new skills and working procedures into use. Participatory methods have been introduced and utilized truly extensively across the organization and throughout the year. It has been gratifying to see these participatory methods to be applied widely and variedly both in projects (Strategic Projects), development of daily work and operations and in meeting situations (everyday innovations). Also the top management is committed to the introduction of new practices. Methods have been utilized, for example, in developing the procedures of the Board of Directors and the Management Group as well as in the participatory communications strategy of our entire personnel.

Joint generation of ideas and the introduction of participatory approaches have greatly increased collaboration both within the units as well as between them. Shared events have increased awareness of the work of others, and pushed back interdepartmental barriers. During the project, participants from different functions have been grouped for further processing of the generated ideas, which ensures that different needs and views will be included. Understanding diversity and increased cooperation have contributed positively to our whole working community by increasing job satisfaction and the experience of the meaningfulness of work.

## Reward and Encouragement

At Teleste, systems related to payment and encouragement are based on profitability both at the company and personal level. The deployed incentives include systems of bonuses and payment by results as well as those involving share bonus schemes and options. A working group was established to refine the ideas related to rewarding that have come about during the Theme Year.

## Well-being at Work

We at Teleste believe that a good climate and work motivation affect well-being at work and that a healthy work community sends out a positive image of the company and contributes to the willingness to stay of competent employees.

At Teleste, the well-being at work can be seen in terms of low figures for days lost through sickness and long years in service. In 2010, 55 of our staff were celebrating their 10th anniversary at Teleste (compared to 32 in the previous year), whereas 8 were celebrating their 20th year at Teleste's service (21) and five of us had been in the house for no less than 30 years (2).

Together with the occupational health services, to support the efforts by Teleste's supervisors on managing the well-being at work we drew up and introduced the Early Support approach designed to identify problems posing a risk to the ability to work and to come up with the correct solutions as early as possible. The supervisors have been broken into this approach with practical exercises.

Our leisure committee called Vapari is selected annually from amongst the Teleste staff. This body is in charge of organising summer and Christmas parties and various events related to physical exercise. The company promotes many types of physical activities by the staff through financial support. This support was sustained even in 2010 in spite of the challenging financial circumstances.

## 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. By this means we have managed to create a flexible atmosphere of cooperation, which allowed us to adapt rapidly to the changed market situation.

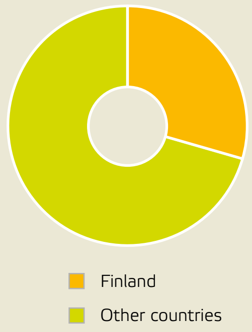
Joint discussions started in late 2008 ended on January 22, 2010. These negotiations involved the entire personnel of Teleste Corporation.

## Co-operation with Universities and Third Parties

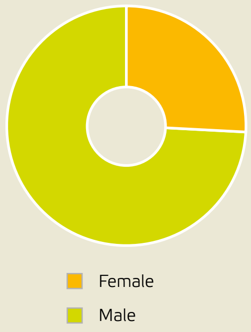
We have continued co-operation with universities and other educational establishments to promote the image of a positive workplace for the future professionals. This process has taken forms such as research collaboration, patronage, and Teleste's representation in various bodies of universities and educational 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. Teleste is also a representation of the Turku Chamber of Commerce, law, education and labor committees.

### Personnel

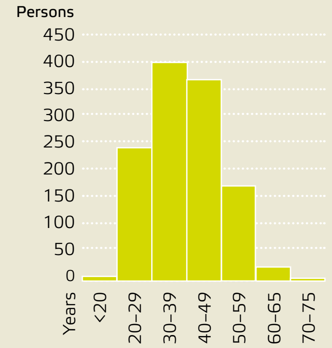
**Geographic Distribution**




**Sex Distribution**




**Age Distribution**




| Personnel on December 31 | 2010 | 2009 |
|---|---|---|
| Total | 1 233 | 1 260 |
| Research and Development | 119 | 135 |
| Operations | 946 | 964 |
| Sales and marketing | 123 | 115 |
| Admin & IT | 45 | 46 |
| Finland | 364 | 403 |
| Other countries | 869 | 857 |
| Female | 320 | 335 |
| Miehet | 913 | 925 |

**AMONG THE PERSONNEL** we have carried out a survey, which has focused on issues related to the work process and management. When employees' opinions are taken into account and everyone is allowed to join in implementing the change, the end result will be improved.

**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.

# Concern for the Environment

In environmental issues we at Teleste proceed responsibly 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 burden created by 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. We at Teleste keep an 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 employee.

## Minor Environmental Impact from Production and Operations

At Teleste, the environmental burden caused by the manufacturing of our physical products 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. Primary causes of environmental load related to Teleste's operative activities currently include generation of waste, energy consumption and transport. Furthermore, Teleste is a significant producer of software applications the environmental impact of which is very limited.

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. In 2010, of all electric energy consumed by Teleste Corporation in Finland 68.7% was produced by renewable energy sources, 17.1% by nuclear power and 14.2% by fossil sources.

We further reduce the environmental load caused by duty travel by increasing access to modern IT facilities such as teleconferencing.

## 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. Currently, environmental issues form a part of assessment involving suppliers and sub-suppliers, and Teleste requires commitment to continuous improvement in the field of environmental issues.

When it comes to minimising the products' environmental impact, product development provides a tool of great importance. 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. In recent years particular attention has been paid to this aspect.

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.

## Reducing the Environmental Impact in 2010

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



**IN 2010**, centralization of the Finnish manufacturing operations to Littoinen had a key role in the drive for reducing our environmental impact. In line with our specified environmental goals, this move into one place has significantly reduced the energy consumption in Teleste's properties and the need for internal transportation.

| 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 |

**Highlights 2010**

- In Finland improvements have been made on transport logistics in such a way that one less full-time truck is needed to carry out the transportation duties. This will, among other things, contribute to reducing greenhouse gas emissions.
- By developing and re-planning the demand-supply process between our factories in China and in Finland there has been a significant reduction in air freight. This, too, contributes to reducing greenhouse gas emissions.
- Packages of our three largest volume products have been redesigned. As a result, usage of space in transportation has been improved by about 20% with respect to the relevant products.
- The so-called client packages of our passive products have been revised so that the white cardboard container has been replaced by an unbleached brown carton. In addition, packages of some passive products have been modified so that they now include more products than previously – an improvement in the usage of space in transportation.
- Power consumption of our AC volume products has been reduced.
- Printed manuals of all our AC volume products previously supplied to customers have been replaced instructions for use available on the extranet and/or the Internet.

**CONSUMPTION OF VIDEO SERVICES** expands to new consumer platforms and is independent of time and place. Features related to flexible selection of time of viewing video are increasing and distribution of video services is expanding to new platforms in addition to traditional television sets. Teleste MyCast IPTV platform enables timeshift related features and receiving of video services to other consumer platforms in addition to television sets.

# Corporate Governance Statement

The Corporate Governance Statement report has been drawn up on the basis of Chapter 2 Section 6 of the Securities Markets Act and of the recommendation 54 specified in the Finnish Corporate Governance Code 2010.

Teleste abides by the Securities Market Act, rules and regulations for the public companies issued by the NASDAQ OMX Helsinki Oy, including the Finnish Corporate Governance Code, and rules and regulations issued by the Financial Supervisory Authority.

# CORPORATE GOVERNANCE STATEMENT 2010

This Corporate Governance Statement report has been drawn up on the basis of Chapter 2 Section 6 of the Securities Markets Act and of the recommendation 54 specified in the Finnish Corporate Governance Code 2010 available in the Securities Market Association website at www.cgfinland.fi. The Corporate Governance Statement will be issued separate from the Annual Report.

## 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 (hereafter Stock Exchange). The company abides by the Securities Market Act, rules and regulations for the listed companies issued by the Stock Exchange, including the Finnish Corporate Governance Code, and rules and regulations issued by the Financial Supervisory Authority. Since 1 March 2000 Teleste complies with the insider guidelines issued by the Board of Directors of the Stock Exchange in their valid form at any given time. These insider guidelines are complemented by Teleste's internal guidelines. The company has confirmed the set of applied key values.

## Annual General Meeting

The Annual General Meeting (hereafter AGM) of Teleste Corporation is the highest decision-making body of the company. It is held at least once a year by the end of June as specified in the Articles of Association. The AGM is held in Helsinki in the customary manner, and it 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 of 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. Teleste Corporation's Annual General Meeting shall be convened by the Board of Directors.

## Board of Directors

**Rules of Procedure**
It is the function of Teleste Corporation's Board of Directors to carry out any administrative duties in accordance with the law, statutory regulations, Articles of Association and decisions taken by the General Meeting. The operating procedures and main duties of the Board of Directors have been specified in the Board's Rules of Procedure. The Board shall resolve any 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 is also carrying out the duties of the Audit Committee.

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 General Meeting 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**
According to the Articles of Association, the Board consisting of a minimum of three and a maximum of eight members will be elected annually the Annual General Meeting. Members shall hold office until the end of the next AGM. On April 9, 2010 the AGM elected Chairman of the Board, but the same General Meeting also approved the amendment to the Articles of Association by which the Board of Directors will elect Chairman of the Board from among its members. This amendment to the Articles of Association was entered into the Trade Register on May 5, 2010.

In its meeting held on April 9, 2010 the AGM elected the following six persons to the Board of Directors of Teleste Corporation:

- Marjo Miettinen, Chairperson,
  b. 1957, M.Sc. (Ed.), EM Group Oy, CEO
- Pertti Ervi, Member of the Board,
  b. 1957, B.Sc. (Eng.), Independent Consultant
- Tero Laaksonen, Member of the Board,
  b. 1946, M.Sc. (Math.), Professional Board Member
- Pertti Raatikainen, Member of the Board,
  b. 1956, Dr. Sc. (Technology), VTT ICT, Director Technology
- Kai Telanne, Member of the Board,
  b. 1964, M.Sc. (Econ.), Alma Media Corporation, CEO
- Petteri Walldén, Member of the Board,
  b. 1948, M.Sc. (Eng.)

The Members of the Board are not employed by the company, and are in line with the issued Finnish recommendations independent of the company and any significant shareholders of it with the exception of Chairperson Marjo Miettinen, who is CEO of EM Group Oy, a significant shareholder.

In 2010, the Board of Directors of Teleste Corporation had 12 meetings. The attendance of the Directors at the Board meetings was 96%. 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 April 9, 2010 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 2010 to the Board of Directors were as follows:

- Marjo Miettinen, EUR 47,000 including 3521 Teleste shares
- Pertti Ervi, EUR 30,500 including 2201 Teleste shares
- Tero Laaksonen, EUR 30,250 including 2201 Teleste shares
- Pertti Raatikainen, EUR 30,500 including 2201 Teleste shares
- Kai Telanne, EUR 30,250 including 2201 Teleste shares
- Petteri Walldén, EUR 30,250 including 2201 Teleste shares

## President and CEO

The Company's CEO is in charge of the Group's business operations and corporate governance in line with the law, Teleste Corporation's Articles of Association as well as instructions and regulations 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, b. 1961, M.Sc. (Econ.), assumed his present responsibilities on November 1, 2002. The CEO is assisted by the Corporate Management Group.

The Company Board of Directors decides on the salary, fees and other benefits received by the President and CEO. Salary, remuneration and other benefits paid in 2010 to the CEO of Teleste Corporation totaled EUR 498,931. 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 55,289, 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. The Group's Management Group currently consists of seven Members including CEO, to whom the Management Group members report. Members of the Management Group consist of the directors of Teleste's business areas and the Group Management. Most of the subsidiaries are operating as parts of the business areas.

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

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 decides on the remuneration, and in March 2010 it made a decision on a new executive incentive scheme (Teleste Management Oy) for the Members of the Teleste Management Group. For more information on this new scheme see Teleste's Annual Report 2010, see Notes section: Related party transactions.

**Management Interest**
Teleste Management Oy is in possession of 381,000 Teleste Corporation's shares. CEO's holding in the Teleste Management shares stands at 34.4% while the ownership by other Members of Teleste Corporation's Management Group equals to 65.6%.

**Share Ownership and Options of the Management Group**
With the exception of the CEO, other Members of Teleste Corporation's Management Group were not in the possession of Teleste Corporation shares on December 31, 2010. The holding by other Members of the Management Group in Teleste Management Oy set up as an executive incentive scheme was, in total, 65.6%.

On 31 December 2010, in addition to CEO's stock options, Members of Teleste Corporation's Management Group owned a total of 255,000 Teleste 2007 options.

For details related to option specifics see Teleste's Annual Report 2010, Notes section: Share-based payments. For holdings and stock options of the President and CEO and the Management Group see Notes section: Related party transactions.

## 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 April 9, 2010 Teleste AGM selected Authorized Public Accountants KPMG Oy Ab for the company auditor. The Company's Chief Auditor is Esa Kailiala, KHT auditor (authorised public accountant). 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 2010, Teleste Group's auditing expenses totaled EUR 200 000 in which the share of KPMG was EUR 164,000. Moreover, auditing units of KPMG have supplied Teleste Group companies with other consultation worth, in total, EUR 44,000 and other than KPMG auditors for EUR 21,000.

## Insider Register

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

# INTERNAL SUPERVISION, RISK MANAGEMENT AND INTERNAL AUDITING

## Internal Supervision

Teleste's internal supervision is designed to support the implementation of the strategy and to ensure the achievement of the specified goals, compliance with the regulations as well as reliability and correctness of the conducted financial reporting. Internal supervision is based on Teleste's values and corporate culture as well as on mutually supporting structures and processes on the Group and operational levels. Management of the Group and the business units monitor the internal supervision as part of their normal managerial duties while the Board evaluates and ensures its correctness and efficiency. Supported by Teleste's centralised controller function, management of the relevant business unit in both business units answers for the compliance with the internal supervision principles on every level of the unit in question.

## Risk Management

Group risk policy with the relevant principles and objectives are subject to approval by the Teleste Board of Directors. Risk management is based on the specified business objectives of the Teleste Group. Risk management aims to ensure achievement of operational goals so that essential risks affecting the business operation and posing a threat to its objectives are identified and that these will be monitored and valued at all times. The risk management methods are specified and the implementation of risk prevention is attempted 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 most significant risks and exercising control in a cost-effective manner are emphasized. Risk management supports the business activity and generates added value, assisting decision-making for the management in charge of business. A part of the risk management system is monthly reporting by which the development of the orders received, turnover, order backlog, deliveries, trade receivables and cash flow is monitored and, through the same, the profit development of the entire Teleste Group.

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

- operational prerequisites
- personnel risks
- property and business interruption risks
- interest groups
- economic risks
- strategic risks

## Internal Auditing

Internal auditing unit is in charge of the internal auditing of Teleste Corporation and its subsidiaries. The results are reported to the appointed Member of the Board. The internal auditing evaluates business operations, any 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 other relevant bodies as needed. Furthermore, the internal auditing carries out any special assignments issued by the Management. The internal auditing covers all levels of the organisation. Internal auditing is reported to the Teleste Corporation Board of Directors twice a year. External auditor participates in the selection of the priorities for the internal auditing.

## Key features of the Internal Auditing and Risk Management Systems Related to the Financial Reporting Process

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

Internal supervision related to the financial reporting process has been created by describing the reporting process, surveying its relevant risks and by defining the control points on the basis of the conducted risk assessment. Results from the risk and control assessment have been reported to the Board. The entire reporting process from the accounting by the subsidiaries to monthly, quarterly and annual reporting is covered by these controls. There are inbuilt controls in the reporting systems, or they can involve, for instance, matching, inspections conducted by the Management or specified procedures or policies. CFO is responsible for it that for each control there is a separately defined person in charge who answers for the implementation and efficiency of the control in question. Standards for the financial reporting are specified in the Group Accounting Manual. Financial reports due for publishing will be processed by the Management Group and the Board prior to their publication. Correctness of the external annual financial reporting is verified by the External auditor.

**Marjo Miettinen**

M.Sc. (Ed.), born in 1957
Chairman of the Board 7.4.2009–
EM Group Oy is a significant shareholder of Teleste

**Principal occupation:**
EM Group Oy, CEO 2006–

**Primary working experience:**
Ensto Oy, Chairman of the Board 2002–2006
Ensto Oy, managerial positions 1989–2001

**Other elected positions of trust:**
Componenta Oyj, Member of the Board 2004–
Efla Oy, Chairman of the Board 2007–
EM Group Oy, Member of the Board 2005–
Ensto Oy, Member of the Board 1999–
Technology Industries of Finland, Member of the Board 2005–

**Pertti Raatikainen**

Dr. Sc. (Technology), born in 1956
Member of the Board since 2003–
Independent of Teleste and its significant shareholders

**Principal occupation:**
VTT ICT, Director Technology 2009–

**Primary working experience:**
VTT Information Technology, Research professor, 1998–2008
Helsinki University of Technology, Docent 2002–
University of Jyväskylä, Docent 1998–
Helsinki University of Technology professor (fixed term) 1997

**Pertti Ervi**

B.Sc. (Eng.), born in 1957
Member of the Board 7.4.2009–
Independent of Teleste and its significant shareholders

**Principal occupation:**
Independent Consultant

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

**Other elected positions of trust:**
Aldata Solution Oyj, Member of the Board 2010–
Efecte Oy, Member of the Board 2009– ,
Chairman of the Board 2011–
Forte Netservices/Groupservices Oy, Member and Chairman of the Board 2000–
F-Secure Corporation, Member of the Board 2003– ,
Chairman of the Audit Committee 2006–
Inventure Oy, Chairman of the Board 2005–
Ixonos Plc, Vice Chairman of the Board and Chairman of the Audit Committee 2009–
Nevtor Oy, Chairman of the Board 2008–
OpusCapita Oy, Member of the Board 2010–

**Kai Telanne**

M.Sc. (Econ.), born in 1964
Board Member since 2008–
Independent of Teleste and its significant shareholders

**Principal occupation:**
Alma Media Corporation, CEO 2005–

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

**Other elected positions of trust:**
Confederation of Finnish Industries, Member of the Board 2010–
Federation of the Finnish Media Industry,
Chairman of the Board 2007–
The Central Chamber of Commerce of Finland,
Member of the Board 2007–
The Finnish News Agency (STT), Member of the Board 2008–
Talentum Oyj, Deputy Chairman 2010–
Tampereen Lääkärikeskus Oy (Tampere Private Clinic),
Member of the Board 2009
Varma Mutual Pension Insurance Company,
Member of the Board 2009–

**Tero Laaksonen**

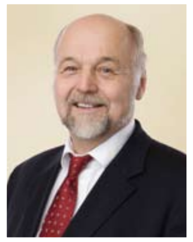
M.Sc. (Math.), born in 1946
Member of the Board 1999–
Independent of Teleste and its significant shareholders

**Principal occupation:**
Professional Board Member

**Primary working experience:**
Comptel Corporation, CEO 2002–2004
Telia Finland Oy, CEO 1998–2001
Nokia Telecommunication Oy, SVP 1995–1998

**Other elected positions of trust:**
Ixonos Plc, Chairman of the Board 2005–
Tieto-X Plc, Member of the Board 2004–2005

**Petteri Walldén**



M.Sc. (Eng.), born in 1948
Member of the Board 7.4.2009–
Independent of Teleste and its significant shareholders

**Principal occupation:**
M.Sc. (Eng.)

**Primary working experience:**
Alteams Oy, CEO 2007–1/2010
Onninen Oy, CEO 2001–2005
Ensto Oy, CEO 1996–2001

**Other elected positions of trust:**
Comptel Corporation, Member of the Board 2009–
eQ Bank Ltd, Member of the Board 2005–
Kuusakoski Group Oy, Member of the Board 2007–
Mesera Group Oy, Member of the Board 2010–
Nokian Tyres plc, Chairman of the Board 2006–
Tikkurila Oy, Member of the Board 2008–



**Jukka Rinnevaara**

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

Joined Teleste in 2002

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

**Other elected positions of trust:**
Salcomp Plc, Member of the Board 2009–
Ventilation Holding Finland Oy, Member of the Board 2008–

**Johan Slotte**

LL.M, EMBA, born in 1959
Deputy CEO

Joined Teleste in 1999

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

**Erja Saarikoski**

Business school graduate, born in 1953
CFO

Joined Teleste in 1984

**Hanno Narjus**

M.Sc. (Econ.), born in 1962
Video and Broadband Solutions,
Senior Vice President

Joined Teleste in 2006

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

**Juha Järvenreuna**

M.Sc. (Eng.), born in 1964
Network Services,
Senior Vice President

Joined Teleste in 2004

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

**Esko Myllylä**

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

Joined Teleste in 1994

**Markus Mattila**

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

Joined Teleste on Feb. 4, 2008

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

**WE AT TELESTE** intend to adopt an overall approach in support of sustainable development. For example, the environmental impact of our manufacturing and other operational activities is relatively minor.

# Financial Statements 1.1.–31.12.2010

# Report of the Board of Directors

Founded in 1954, Teleste is a technology company consisting of two business areas: Video and Broadband Solutions and Network Services. In line with its strategy, Teleste continues to focus on the chosen product and technology segments as well as services business.

## Business Description and Overview

Video and Broadband Solutions' net sales and profitability improved over the year of comparison. In 2010 the business area continued to exercise its cost adaptation (rotating lay-offs in Finland).

Network Services' year-on-year net sales increased mainly due to changes in the Group structure on July 1, 2009 (we acquired a 100% holding of AVC's shares, while at the same time raising our ownership in Cableway to 75%). In Germany, streamlining of service processes was running, but no impact on profitability was achieved in 2010. Profitability was additionally weakened by the severe weather conditions in the main market in Q1 and Q4.

## Net Sales and Profitability

Teleste's net sales totaled EUR 167.8 (141.7) million, an increase of 18.5% over the previous year. Owing to the general tight situation in the financial market, our main customers, i.e. the European cable operators, have been fairly cautious about their network investments. Concerning growth in net sales, EUR 20.4 million, or 12.2%, were due to changes in Group structure.

Operating profit stood at EUR 7.4 (2.5) million making 4.4% (1.8%) of the net sales. The year-on-year growth in operating profit was due to an increase in Video and Broadband Solutions' net sales, efficient control over the material costs and cost adaptation.

Year-on-year orders received by the Group improved by 10.7% standing at EUR 167.2 (151.0) million. The impact of the change in the Group structure on the increased orders received was EUR 20.4 million. At the year-end, the order backlog stood at EUR 17.0 million. The order of EUR 12.0 million received in the summer of 2008 from India was written off from the order backlog.

Profit after financial items totaled EUR 6.7 (1.4) million while the net profit equalled EUR 4.7 (0.4) million. Undiluted result per share for the Group stood at EUR 0.27 (EUR 0.02). The return on capital employed was 10.2% (3.3%) and the return on equity was 9.9% (0.9%).

## BUSINESS AREAS

### Video and Broadband Solutions

This business area focuses on broadband subscriber networks, video services platforms and CCTV applications. Major clientele of the business area consists of cable operators but includes also resellers and public sector organizations. The main market of the business area is Europe. In 2010, we strengthened our expertise in IP video technology and presence in the Polish market through the Satlan acquisition. The business area has 23 offices of its own and a number of retail and integration partners. Outside Europe, Video and Broadband Solutions has offices of its own located in the United States, Australia, China and India.

The R&D effort of the business area focused on the video surveillance transfer system based on standard H.264. The continued R&D efforts included the Internet protocol-based video processing system (Luminato product range), amplification technology (Access product range), optical transmission system for the HFC network (HDO product range) and the video surveillance management system (VMX).

Orders received totaled EUR 86.5 (81.6) million, while the order backlog amounted to EUR 17.0 (28.6) million. The order of EUR 12.0 million received in the summer of 2008 from India was written off from the order backlog.

Net sales grew by 7.5% over the year of comparison amounting to EUR 82.0 (76.3) million. The impact of the Satlan acquisition on net sales for 2010 was EUR 3.6 million.

Operating profit stood at EUR 6.3 (-0.7) million making 7.7% (-0.9%) of the net sales. The improvement in the year-on-year operating profit was brought about by increased net sales, controlled material costs and cost adaption. In 2010, the business area's Finnish personnel were on a rotating layoff.

### Network Services

The clientele of Teleste's Network Services business mainly consists of large European cable operators. The services provided by this business area include planning, new construction, upgrading and maintenance of cable networks. Implementation and scope of the relevant services vary by client ranging from standalone applications to integrated turnkey deliveries. Most deliveries are based on frame agreements. The services also include Teleste's own product solutions. Our know-how in services covers all the sectors related to the cable network technology from installation and maintenance of headends to upgrading of house networks. Services are also provided through a network of subcontractors.

Orders received totaled EUR 80.7 (69.4) million. Net sales amounted to EUR 85.8 (65.4) million. As to the increased net sales and orders received, EUR 14.8 million was due to changes in Group structure dated on 1st July 2009 (AVC and Cableway). The impact of the acquisition of Freycom on net sales was EUR 2.0 million. Operating profit amounted to EUR 1.1 (3.2) million. The weakening in the operating profit was caused by the delivered services having included more basic items of a lower price and margin bracket. Additionally, our deliveries of services was aggravated by severe weather.

## R&D and Investments

R&D expenditure for the period under review totaled EUR 10.3 (10.8) million making 6.1% (7.6%) of net sales. Teleste's R&D expenditure focused on the business area of Video and Broadband Solutions, the R&D expenses of which amounted to 12.6% (14.2%) of the net sales.

Some 60% (60%) of the R&D expenses involved continued development of product platforms currently in production and their maintenance as well as customer-specific product applications. Activated R&D inputs totaled EUR 1.7 (1.6) million. Depreciation on activated R&D expenses amounted to EUR 2.4 (2.5) million.

At the end of the financial period, 9.7% (10%/2009, 25%/2008) of the Group personnel were working in R&D related duties. A number of Teleste's projects involved co-operation with Finnish universities and research institutes.

Investments for the period under review totaled EUR 3.8 (25.2) million making 2.2% (17.8%) of net sales. The most significant investment involved the Polish Satlan Sp. z o.o. acquired for EUR 6.3 million (including the estimated additional purchase price). In Switzerland, Freycom SA was acquired for EUR 0.6 million. Direct costs resulting from acquisitions have been entered under expenses, and their impact on other operating expenses is insignificant. The estimated additional purchase price for the German acquisitions in the last quarter of 2009 was largely unrealized, so an item of EUR 5.8 million has been recorded in the fiscal year 2010 as a deduction under investments. Product development investments totaled EUR 1.7 (1.6) million. As to investments, EUR 0.1 (0.2) million was implemented by means of financial leasing. The last phase of the Littoinen extension project was launched at the end of the year involving product development facilities. The investment amounts to approximately EUR 1.0 million and is expected to be completed in June 2011.

## Financing

Liquidity of the Group remained good throughout the year. Operating cash flow stood at EUR 5.4 (9.8) million. Accounts receivable caused no credit losses. At the end of the period, the amount of unused binding stand-by credits amounted to EUR 13.5 (18.5) million. The current binding stand-by credits of EUR 40.0 million run till November 2013. The Group's equity ratio equaled 43.6% (43.6%) and net gearing 25.5% (22.0%). Interest bearing debt on 31 December 2010 stood at EUR 28.0 (22.8) million.

## Personnel and Organization

In 2010, the Group employed an average of 1215 people (1103/2009, 702/2008). At the year-end, the figure totaled 1231 (1260/2009, 677/2008) of which 70% (68%/2009, 33%/2008) were stationed overseas. Employees stationed outside Europe accounted for less than 5% of the Group's personnel. Expenditure on employee benefits amounted to EUR 50.8 (44.6/2009, 33.2/2008) million. The increase in employee benefits was mainly due to the change in the Group structure.

As part of the cost-structure adaptation measures required by the general market situation, the Finnish personnel have been on a rotating layoff. The co-determination procedure was concluded on January 22, 2010. In Finland, the measures agreed in the co-determination procedure continued until the end of 2010. The operational efficiency drive involving the sales organization abroad continued also.

## Group Structure

The Polish Satlan was acquired on September 1, 2010 to strengthen Video and Broadband Solutions' integration expertise. The price of EUR 2.8 million at the conclusion of the deal was paid in cash. The total purchase price is estimated at EUR 6.3 million, depending on the development in profitability of the acquired company within the next two years. In these financial statements the acquisition cost for Satlan is presented as preliminary since there are grounds for viewing the information concerning its profitability in a longer perspective given the moderately high conditional purchase price. An acquisition in Switzerland for Freycom SA was carried out on April 4, 2010 by the Network Services business area. The purchase price of EUR 0.6 million was paid in cash. The direct costs related to the acquisition of both companies have been entered under the Group's other operating expenses.

With the ownership arrangements Teleste's holding in the German Cableway AG rose to 100% when a Cableway minority interest was bought for EUR 0.4 million. The effect of Satlan on Teleste's net sales for 2010 was EUR 3.6 million and on profit EUR 0.7 million, respectively. Freycom's effect on net sales stood at EUR 2.0 million with no impact on profit.

The branch office in Spain was closed and the Slovak subsidiary dissolved. Teleste Kaurakatu Oy was merged into Ortikon Interactive Oy, which changed its name to Teleste Kaurakatu Oy. Teleste Video Networks AB and Teleste Försäljning AB were merged into Teleste Sweden AB. Young-Net GmbH was merged into Cableway Mitte GmbH and DINH Vlaanderen NV into DINH Telecom S.A.

Parent company Teleste has branch offices in Australia, the Netherlands, China and Denmark with subsidiaries in 12 countries outside Finland.

## Essential Risks of Business Areas

Founded in 1954, Teleste is a technology and service provider consisting of two business areas: Video and Broadband Solutions and Network Services. With Europe as the main market area, our most significant clients include European cable operators and specified organizations in the public sector.

Concerning Video and Broadband Solutions, integrated deliveries of solutions create favourable conditions for growth, even if the involved resource allocation and technical implementation pose a challenge involving, therefore, also reasonable risks. The still ongoing difficult market situation may delay the implementation of investment plans among the clientele. Network investments carried out by the clients vary based on their need for upgrading and their capital structure. Much of Teleste's competition comes from the USA so the exchange rate of euro up against the US dollar affects our competitiveness. Teleste hedges against short-term currency exposure by means of forward contracts. Correct technological choices and their timing are vital for our success.

Net sales for Network Services comes, for the most part, from a small number of large European customers, so a significant change in the demand for services by any one of them is reflected in the actual deliveries. To ensure quality of services and cost-efficiency, along with an efficient service process management, customer satisfaction requires innovative solutions in terms of processes, products and logistics. Smooth operation of the cable networks requires effective technical management and functional hardware solutions. This, in turn, means that the skill levels of our subcontractors and their personnel needs continuous and determined development. In addition, availability of capacity in our network of subcontractors may limit our ability to supply.

It is equally important for our business areas to take into account any market developments such as consolidations taking place among the clientele and competition. Weather conditions affect the supply conditions of products and services of our business areas.

The Board of Directors annually reviews any essential risks related to the company operation and the management thereof. Risk management constitutes an integral part of the strategic and operative practices of our business areas. Risks and their probability are reported to the Board by regular monthly reports.

The company has covered major risks of damage through insurance policies. These insurances do not include credit loss risks. In the period under review, no such risks materialized, and no legal proceedings or judicial procedures were pending that would have had any essential significance for the Group operation.

## Decisions by the Annual General Meeting (AGM)

The Annual General Meeting of Teleste Corporation on April 9, 2010 confirmed the financial statements for 2009 and discharged the Board of Directors and the CEO from liability for the financial period. The AGM confirmed the dividend of EUR 0.08 per share proposed by the Board. The dividend was paid out on April 21, 2010.

Composition of the Board remained unchanged. Marjo Miettinen was appointed Chairman while the appointed Board Members include Pertti Ervi, Tero Laaksonen, Pertti Raatikainen, Kai Telanne and Petteri Walldén.

Authorised Public Accountants KPMG Oy Ab continue as the auditor until the next AGM. Accountant authorised by the Central Chamber of Commerce of Finland Esa Kailiala was chosen auditor-in-charge.

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 1,779,985 company's own shares. The AGM also authorised the company Board to issue 10,000,000 new shares. Pursuant to the special rights provided by the company, the maximum number of significant shares is 5,000,000; these special rights are included in the authorisation to issue 10,000,000 new shares.

The authorizations are valid until the Annual General Meeting of Shareholders for year 2011. The Board has not exercised these rights.

## Shares and Changes in Share Capital

On 31 December 2010, EM Group Oy was the largest single shareholder with a holding of 21.02%.

In the period under review, the lowest company share price was EUR 3.63 (2.25) and the highest was EUR 5.33 (4.30). Closing price on 31 December 2010 stood at EUR 4.41 (3.72). According to Euroclear Finland Ltd the number of shareholders at the end of the period under review was 5,184 (5,440). Foreign ownership accounted for 8.38% (9.69%). From 1 January to 31 December 2010, trading with Teleste share at NASDAQ OMX Helsinki amounted to EUR 14.2 (28.5) million. In the period under review, 3.2 (7.8) million Teleste shares were traded on the stock exchange.

In March 2010, Teleste Board of Directors decided on a directed share issue of 381,000 shares to Teleste Management Oy established by the Management Team of Teleste Corporation. This directed share issue was authorized by the AGM on 7 April 2009.

At the end of December 2010, the number of own shares in the Group possession stood at 760,985 (379,985) out of which parent company Teleste Corporation had none (0) while other Group or controlled companies had 760,985 shares, respectively. At the end of the period, the Group's holding of the total amount of shares amounted to 4.18% (2.13%).

Based on the rights of options, the company amount of shares may increase by 840,000 shares equaling to 4.41% of all shares and votes.

On 31 December 2010, the registered share capital of Teleste stood at EUR 6,966,932.80 divided in 18,186,590 shares.

## Ownership by Management and Members of the Governing Bodies on 31 December 2010

On the balance sheet date, CEO and the Members of the Board owned 98,482 Teleste Corporation shares equalling to 0.54% of all shares and votes.

Based on Teleste 2007 stock option rights, CEO was entitled to subscribe 120,000 shares. On the balance sheet date, the ownership including rights of options by the CEO and the Board amounted to 218,482 shares, which is equal to 1.15% of all shares and votes. On 31 December 2010, other members of the Management Team were not in the possession of Teleste Corporation shares. On 31 December 2010, Teleste Management Oy (a company incorporated for the management incentive scheme) was in the possession of 381,000 Teleste Corporation shares. CEO's holding in the Teleste Management shares stands at 34.4% while the ownership by other members of Teleste Corporation's Management Group equals 65.6%. On 31 December 2010, in addition to CEO's stock options, members of Teleste Corporation's Management Team owned a total of 255,000 Teleste 2007 options.

Teleste Corporation complies with the Finnish Corporate Governance Code, which was issued by the Securities Market Association on 15 June 2010, and entered into force on 1 October 2010. The Corporate Governance Statement will be issued separately from the Company's Annual Report, and it will be available on Teleste's website under Investors. Since 1 March 2000, Teleste complies with the insider guidelines issued by the NASDAQ OMX Helsinki Oy in their valid form at any given time.

## Outlook for 2011

In 2011, deliveries of equipment and solutions by Video and Broadband Solutions to its customer base of operators in our target markets will at least achieve the level of 2010. European telecom operators are about to launch their TV distribution investments, and we believe that our video headend and optical network products are competitive in this new emerging market. Deliveries related to security and traffic control will grow from the 2010 level.

Demand for services provided by Network Services will remain relatively stable on the annual basis. We believe that in Germany, our main market, profitability will improve from the 2010 level thanks to the ongoing streamlining measures. This improvement in profitability will, in our estimation, mainly be seen in the second half of 2011.

Teleste expects to maintain its strong market position in its core markets. Severe weather conditions in Central Europe and the low order backlog of the early year may hold back our deliveries in the first quarter of 2011.

We believe the net sales for the entire 2011 to increase slightly and the operating profit to improve somewhat over the 2010 level.

## Board of Directors' Proposal for Dividends

The parent company's distributable equity at the balance sheet date equals EUR 30.6 million.

Regarding the Annual General Meeting scheduled for 8 April 2011, the Board proposes that a dividend of EUR 0.12 (EUR 0.08) per share would be paid for the outstanding shares for the year 2010.

1 February 2011

| | |
|---|---|
| TELESTE CORPORATION<br>Board of Directors | Jukka Rinnevaara<br>President and CEO |



## Financial Statements 1.1.–31.12.2010

# Consolidated Income Statement

| 1 000 euros | Note | **1.1.–31.12.2010** | 1.1.–31.12.2009 | Change, % |
|---|---|---|---|---|
| **Net sales** | 1 | 167 836 | 141 651 | 18.5 |
| Other operating income | 2 | 1 460 | 3 124 | –53.3 |
| Raw material and consumables used | | –82 054 | –69 962 | 17.3 |
| Employee benefits expense | 3 | –50 824 | –44 584 | 14.0 |
| Depreciation and amortisation expense | 4 | –5 896 | –5 582 | 5.6 |
| Impairment of goodwill | 4 | 0 | –800 | n/a |
| Other operating expenses | 5 | –23 090 | –21 323 | 8.3 |
| **Operating profit** | | **7 432** | **2 524** | **194.5** |
| Financial income | 6 | 84 | 105 | –20.0 |
| Financial expenses | 7 | –773 | –710 | 8.9 |
| Share of profit of associates | | 0 | –544 | n/a |
| **Profit before taxes** | | **6 743** | **1 375** | **390.4** |
| Income tax expense | 8 | –1 959 | –959 | 104.3 |
| **Profit for the financial period** | | **4 784** | **416** | **1050.1** |
| Attributable to: | 9 | | | |
| Equity holders of the parent | | 4 784 | 416 | 1050.1 |
| Earnings per share for profit of the year attributable to the equity holders of the parent | | | | |
| (expressed in € per share) | | | | |
| Basic | | 0.27 | 0.02 | 1037.2 |
| Diluted | | 0.27 | 0.02 | 1019.9 |
| Total comprehensive income for the period (tEUR) | | | | |
| Net profit | | 4 784 | 416 | 1050.1 |
| Translation differences | | 277 | 189 | 46.6 |
| Fair value reserve | | –70 | –116 | –39.7 |
| Total comprehensive income for the period | | 4 991 | 489 | 920.7 |
| Attributable to: | | | | |
| Equity holders of the parent | | 4 991 | 489 | 920.7 |

# Consolidated Balance Sheet



| 1 000 euros | Note | **31.12.2010** | 31.12.2009 | Change, % |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 10 | 8 836 | 9 960 | –11.3 |
| Goodwill | 11 | 30 959 | 31 657 | –2.2 |
| Other intangible assets | 11 | 6 709 | 7 664 | –12.5 |
| Available-for-sale investments | 12 | 713 | 713 | 0.0 |
| | | 47 217 | 49 994 | –5.6 |
| **Current assets** | | | | |
| Inventories | 14 | 21 000 | 20 682 | 1.5 |
| Trade and other receivables | 15 | 32 819 | 26 884 | 22.1 |
| Cash and cash equivalents | 16 | 15 203 | 12 518 | 21.4 |
| | | 69 022 | 60 084 | 14.9 |
| **Total Assets** | | **116 239** | **110 078** | **5.6** |
| **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 | | –95 | –372 | –74.5 |
| Invested nonrestricted equity | | 2 737 | 2 737 | 0.0 |
| Other reserves | | –186 | –116 | 60.3 |
| Retained earnings | | 39 183 | 35 949 | 9.0 |
| Share of non controlling interest | | 292 | 0 | n/a |
| | | 50 402 | 46 669 | 8.0 |
| **Non-current liabilities** | | | | |
| Interest-bearing liabilities | 18 | 11 847 | 12 237 | –3.2 |
| Other liabilities | | 3 865 | 6 461 | –40.2 |
| Deferred tax liabilities | 13 | 511 | 265 | 92.8 |
| Provisions | 19 | 657 | 513 | 28.0 |
| | | 16 880 | 19 476 | –13.3 |
| **Current liabilities** | | | | |
| Trade and other payables | 20 | 30 161 | 32 372 | –6.8 |
| Current tax payable | 21 | 1 240 | 0 | n/a |
| Provisions | 19 | 1 313 | 1 026 | 28.0 |
| Interest-bearing liabilities | 18 | 16 243 | 10 535 | 54.2 |
| | | 48 957 | 43 933 | 11.4 |
| **Total liabilities** | | **65 837** | **63 409** | **3.8** |
| **Total equity and liabilities** | | **116 239** | **110 078** | **5.6** |

# Consolidated Cash Flow Statement

| 1 000 euros | Note | **1.1.–31.12.2010** | 1.1.–31.12.2009 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the period | | 4 784 | 416 |
| Adjustments for: | | | |
| Non-cash transactions | 23 | 6 143 | 6 666 |
| Interest and other financial expenses | | 773 | 710 |
| Interest income | | –72 | –95 |
| Dividend income | | –12 | –10 |
| Income tax expense | | 1 959 | 959 |
| Changes in working capital and provisions | | | |
| Increase in trade and other receivables | | –4 650 | 12 008 |
| Increase in inventories | | 1 265 | –384 |
| Increase in trade and other payables | | –3 942 | –7 702 |
| Decrease in provisions | | 431 | –92 |
| Paid interests and dividends | | –565 | –1 042 |
| Received interests and dividends | | 84 | 105 |
| Paid taxes | | –786 | –1 708 |
| **Net cash from operating activities** | | **5 412** | **9 831** |
| **Cash flows from investing activities** | | | |
| Acquisition of subsidiary, net of cash acquired | | –3 643 | –10 281 |
| Purchases of property, plant and equipment (PPE) | | –1 022 | –3 272 |
| Proceeds from sales of PPE | | 306 | 500 |
| Purchases of intangible assets | | –1 499 | –1 327 |
| Proceeds from sale of shares | | 0 | 0 |
| Purchases of shares | | 0 | –10 |
| **Net cash used in investing activities** | | **–5 858** | **–14 390** |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 5 520 | 20 542 |
| Repayments of borrowings | | –966 | –9 921 |
| Payment of finance lease liabilities | | –596 | –702 |
| Dividends paid | | –1 394 | –2 035 |
| Purchases of own shares | | 0 | –264 |
| Proceeds from issuance of ordinary shares | | 289 | 0 |
| **Net cash used in financing activities** | | **2 853** | **7 620** |
| **Change in cash** | | | |
| Cash and cash equivalents at 1 January | | 12 518 | 9 268 |
| Effect of currency changes | | 277 | 189 |
| Cash and cash equivalents at 31 December | | 15 203 | 12 518 |

# Consolidated Statement of Changes in Equity



| | Attributable to equity holders of the parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1 000 euros | Share capital | Share premium | Translation differences | Retained earnings | Invested non-restricted equity | Other reserves | Total | Non controlling interest | Total equity |
| **At 1 January 2009** | 6 967 | 1 504 | –561 | 37 284 | 1 451 | | 46 645 | 0 | **46 645** |
| Total comprehensive income for the period | | | 189 | 416 | | –116 | 489 | 0 | **489** |
| Total recognised income and expense for the year | 0 | 0 | 189 | 416 | 0 | –116 | 489 | 0 | **489** |
| Dividends | | | | –2 035 | | | –2 035 | | **–2 035** |
| Equity-settled share-based payments | | | | | 1 286 | | 1 286 | | **1 286** |
| Used share options | | | | 284 | 0 | | 284 | | **284** |
| | 0 | 0 | 0 | –1 751 | 1 286 | 0 | –465 | 0 | **–465** |
| **At 31 December 2009** | **6 967** | **1 504** | **–372** | **35 949** | **2 737** | **–116** | **46 669** | **0** | **46 669** |
| Total comprehensive income for the period | | | 277 | 4 784 | | –70 | 4 991 | | 4 991 |
| Total recognised income and expense for the year | 0 | 0 | 277 | 4 784 | | –70 | 4 991 | | **4 991** |
| Issue of new shares* | | | | | | | | 289 | **289** |
| Dividends | | | | –1 424 | | | –1 424 | 30 | **–1 394** |
| Changes in subsidiary interest | | | | –373 | 0 | | –373 | –27 | **–400** |
| Equity-settled share-based payments | | | | 247 | 0 | | 247 | | **247** |
| | 0 | 0 | 0 | –1 550 | 0 | 0 | –1 550 | 292 | **–1 258** |
| **At 31 December 2010** | **6 967** | **1 504** | **–95** | **39 183** | **2 737** | **–186** | **50 110** | **292** | **50 402** |

* Part of Teleste management incentive program

# 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 Video and Broadband Solutions and Network Services; in both fields, we are among the global leaders. Video is at the core of our business activities, with a focus on the processing, transmission and management of video and data for operators and public authorities who provide multiple video-related information, entertainment and security services to end-users. Video and Broadband Solutions business segment has the emphasis on product solutions for broadband access networks, video service platforms and video surveillance applications. Network Services segment deliver comprehensive network service solutions including new construction, rebuilding, upgrading, planning and maintenance services of cable networks. The parent company of Teleste Group, Teleste Corporation, has operations in Australia, China, Denmark, the Netherlands and a subsidiary in twelve countries outside Finland. Teleste Corporation has been listed on the Helsinki Stock Exchange since 1999.

A copy of the consolidated financial statements can be obtained either from Teleste's website www.teleste.com or from the parent company's head office, the address of which is mentioned above.

## Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) in force as at 31 December 2010. 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 IFRSs as from 1 January 2005. Prior to IFRSs 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 IFRSs was 1 January 2004.

The Group has applied the following new and revised standards and interpretations as of 1 January 2010:

Revised IFRS 3 Business Combinations (effective for financial year beginning on or after 1 July 2009). The revised standard includes significant changes for the Group's point of view. According to the revised standard, business combinations are still accounted for using the acquisition method, although the standard has been significantly revised compared to the prior IFRS 3. For example, the consideration transferred in a business acquisition is measured at fair value at the acquisition date, and some contingent considerations classified as liabilities are subsequently measured at fair value and recognised in other comprehensive income. After each acquisition, the Group chooses whether to measure the share of non-controlling interests at fair value or based on a proportional value of the net assets of the acquired company. All costs related to the acquisition are expensed as incurred. Consequently, the amendments affect the amount of goodwill recognised on an acquisition, as well as the gains on disposal of businesses. The amendments also have an impact on items recognised in profit or loss on both the acquisition period and on reporting periods during which contingent consideration is transferred or further acquisitions are executed. According to the transitional provisions of the standard, business combinations are not adjusted if the acquisition date is earlier that the effective date of the revised standard.

Amended IAS 27 Consolidated and Separate Financial Statements (effective for financial year beginning on or after 1 July 2009). According to the amended standard, if the parent company retains control, impacts of changes in the ownership interest in a subsidiary are recognised directly within Group's equity. If control of a subsidiary is lost, any investment retained is measured at its fair value through profit and loss. Similar accounting policy is applied also to associated companies (IAS 28) and joint ventures (IAS 31). As a result of the amendments, losses of a subsidiary may be allocated to non-controlling interests even if the losses exceed the invested amount of non-controlling interests.

Amendment to IAS 39 Financial instruments: Recognition and measurement – Designation of items as hedged items (effective for financial year beginning on or after 1 July 2009). The amendments relate to hedge accounting. They specify the guidance of IAS 39 on hedging against one-sided risks and inflation risk when items of financial assets or liabilities are in question.

IFRIC 17 Distributions of Non-cash Assets to Owners (effective for financial year beginning on or after 1 July 2009). The interpretation provides guidance on the accounting for distribution of non-cash dividends to owners and for distribution of dividends when the owners have an option to choose between cash and non-cash dividends.

IFRIC 18 Transfers of assets from customers (effective for financial year beginning on or after 1 July 2009). The interpretation clarifies the requirements for agreements in which an entity receives from a customer an item of property, plant, and equipment or cash that must be used to acquire that item of property, plant and equipment and the entity must then use the item to either connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or both.

Improvements to IFRS (April 2009, mainly effective for financial year beginning on or after 1 January 2010). Annual improvements procedure gathers all minor and less urgent amendments into one collection that is implemented once a year. The annual amendments concern 12 standards and the effects of the amendments vary between different standards.

Amendment to IFRS 2 Share-based Payment – Intra-group cash-settled share-based payment transaction (effective for financial year beginning on or after 1 January 2009). The purpose of the amendments is to clarify that an entity that receives goods or services from the supplier of those goods or services has to apply IFRS 2 even if it does not have an obligation to make necessary cash-settled share-based payment transactions.

## Basis of Preparation

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

## Use of Estimates

The preparation of financial statements in conformity with IFRSs requires management to make estimates and assumptions that affect the contents of the financial statements as well as use judgement when applying accounting principles. The estimates and assumptions are based on the management's current best knowledge reflecting historical experience and other reasonable assumptions. Actual results may differ from these estimates. Accounting estimates mainly relate to goodwill, obsolete inventories 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. At the end of the reporting period the Group had no investments in associates.

## Joint Ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's proportionate share of the joint ventures' assets, liabilities, revenue and expenses on a line by line basis, from the date that joint control commences until the date that joint control ceases. At the end of the reporting period the Group had no interests in joint ventures.

## Principles of Consolidation

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

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

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

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

Land is not depreciated.

## Leases

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

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

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

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

## Intangible Assets

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

**Goodwill**
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 applied only for interest swap contracts for specific loans. IFRS 7 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. Financial assets and liabilities at fair value through profit or loss are recognised on the balance sheet using trade date accounting. They are measured at their fair values, which is the bid price at the balance sheet date based on published price quotations in an active market. Both financial assets held for trading and other financial assets maturing in 12 months after the balance sheet date are included in the current assets. A gain or loss arising from a change in the fair value, realised or unrealised, is recognised in the income statement as incurred.

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

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

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

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

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

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

## Interest and Dividend Income

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

## Income Taxes

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

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

## Accounting Policies Requiring Management's Judgement and Key Sources of Estimation Uncertainty

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

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

## Application of New and Revised Ifrs Standards

IASB has published the following new or revised standards and interpretations that the Group has not yet adopted. The Group will adopt these standards as of the effective date of each of the standards, or if the effective date is not the first day of the reporting period, as of the beginning of the next reporting period following the effective date.

Revised IAS 24 Related Party Disclosures (effective for financial year beginning on or after 1 January 2011). The definition of a related party is clarified and certain disclosure requirements for government related entities are changed.

IFRS 9 Financial Instruments (effective for financial year beginning on or after 1 January 2013). IFRS 9 is the first phase of an extensive project to replace IAS 39 with a new standard. Different measurement methods are retained but they have been simplified. Financial assets are divided into two classifications based on their measurement: financial assets measured at amortised cost and financial assets measured at fair value. The classification depends on entity's business model and the contractual provisions of the instrument. Guidance of IAS 39 on impairment and hedge accounting remains effective. Figures of prior reporting period do not need to be adjusted if the standard is adopted on a reporting period beginning before 1 January 2012. The standard has not yet been endorsed by the European Union.

Improvements to IFRS (May 2010, mainly effective for financial year beginning on or after 1 July 2010). Annual improvements procedure gathers all minor and less urgent amendments into one collection that is implemented once a year. The effects of the amendments vary between different standards but the amendments will not have any major effects on the consolidated financial statements. The amendments have not yet been endorsed by the European Union.

Improvement to IAS and IFRS standars and IFRIC interpretation are estimated not to have significant impact on Teleste's reporting.

Amendments to IFRS 7 Financial Instruments: Disclosures (effective for financial year beginning on or after 1 July 2011).

Amendment to IAS 32 Financial Instruments: Presentation – Classification of rights issues (effective for financial year beginning on or after 1 February 2010).

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for financial year beginning on or after 1 July 2010).

Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement (effective for financial year beginning on or after 1 January 2011).

Amendments to IAS 12 - Defered Tax: Recovery of Underlying Asset (effective for financial year beginning on or after 1 January 2012).

# Segment Reporting

Teleste Group is organised in two reporting segments. These segments are based on the Group's organisational and internal reporting structure. The Group has adopted IFRS 8 since 1 January 2009.

## Business Segments

The Group comprises two business segments that are Networks Services and Video and Broadband Solutions. They have been introduced on 1 January 2010.

Video and Broadband Solutions business segment has the emphasis on product solutions for broadband access networks, video service platforms and video surveillance applications. Major clientele of the business area consists of cable operators but includes also resellers and public sector organizations. The main market of the business area is Europe.

Network Services segment deliver comprehensive network service solutions including new construction, rebuilding, upgrading, planning and maintenance services of cable networks. The clientele consists mainly of large European cable operators. Implementation and scope of the relevant services vary by client ranging from standalone applications to integrated turnkey deliveries. Most deliveries are based on frame agreements. The services also include Teleste's own product solutions. Our know-how in services covers all the sectors related to the cable network technology from installation and maintenance of head ends to upgrading of house networks. Services are also provided through a network of subcontractors.

## Geographical Division

The two segments operates in four geographical areas:

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

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

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

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

## Unallocated Items

Unallocated income statement items include costs and incomes which follow earnings after depreciations. Assets not allocated to the segments represent cash. Unallocated liabilities are interest bearing liabilities and tax liabilities.



## Business Segments

| **2010** | 1 000 euros | Video and Broadband Solutions | Network Services | Group |
|---|---|---|---|---|
| External sales | | | | |
| Services | | 3 379 | 85 829 | 89 208 |
| Goods | | 78 628 | 0 | 78 628 |
| Total external sales | | 82 007 | 85 829 | 167 836 |
| Operating profit of segments | | 6 345 | 1 087 | 7 432 |
| Operating profit | | | | 7 432 |
| Financial items | | | | –689 |
| Shares of associates | | | | 0 |
| Profit before taxes | | | | 6 743 |

| 2009 | 1 000 euros | Video and Broadband Solutions | Network Services | Group |
|---|---|---|---|---|
| External sales | | | | |
| Services | | 3 449 | 65 371 | 68 820 |
| Goods | | 72 831 | 0 | 72 831 |
| Total external sales | | 76 280 | 65 371 | 141 651 |
| Operating profit of segments | | –692 | 3 216 | 2 524 |
| Operating profit | | | | 2 524 |
| Financial items | | | | –605 |
| Shares of associates | | | –544 | –544 |
| Profit before taxes | | | | 1 375 |
| Impairment of goodwill | | 800 | 0 | 800 |

**Geographical division**

| **2010** | 1 000 euros | Finland | Nordic countries | Other Europe | Others | Group |
|---|---|---|---|---|---|---|
| Sales by origin | | 11 272 | 17 932 | 129 512 | 9 120 | 167 836 |
| Assets | | 29 877 | 7 922 | 77 272 | 1 168 | 116 239 |
| Capital expenditure | | 2 190 | 25 | 1 511 | 25 | 3 751 |

| 2009 | 1 000 euros | Finland | Nordic countries | Other Europe | Others | Group |
|---|---|---|---|---|---|---|
| Sales by origin | | 11 630 | 17 964 | 107 011 | 5 046 | 141 651 |
| Assets | | 32 611 | 11 843 | 64 547 | 1 077 | 110 078 |
| Capital expenditure | | 4 611 | 20 | 20 580 | 30 | 25 241 |

**Major customer**
Revenues from one customer of the Group's Network Services segment represents approximately 51.6 Meur in 2010 (33.6 Meur in 2009), which is 30.7% (23.7%) of Group net sales.

# Business Combinations Acquired During 2010 and 2009

At 14 April 2010 Networks Services segment was strengthened by acquiring 100% of shares of a Swiss company Freycom S.A. The company's business area is in upgrading and maintenance of cable and house networks.

At 1 September 2010 Video and Broadband solution segment was strengthened by acquiring 100% of shares of Polish company Satlan Sp. z o.o, a system integrator focusing on IP video and broadband solutions for Polish operators and service providers.

The acquisitions resulted in EUR 1 228 thousand of intangible assets, which was allocated to trade marks, customer relationships. Teleste personnel increased with 52 persons. The goodwill, amounted EUR 5 103 thousand, is mainly due to future revenue expectation. The goodwill include estimated amount of the conditional supplementary contract price for Satlan. Total consideration is estimated to be EUR 6 330 thousand depending on the profitability development during next two years. The fair value of Satlans trade receivables EUR 1 305 thousand were EUR 109 thousand less than the total value based on agreements. The difference is expected to realize as credit losses. All costs related to the acquisitions, EUR 94 thousand, are expensed in other operating expenses. The goodwill is mainly due to expected return in the future.

The ownership in Cableway AG rose in August 2010 to 100%.

The impact of the acquisition of Freycom on Teleste's net sales during the period 14.4.2010–31.12.2010 was EUR 1 970 thousand and on the profit EUR 24 thousand. If Freycom would have been consolidated since 1 January 2010, the Group revenue would have been EUR 605 thousand higher and the Group profit would have decreased EUR 230 thousand.

The impact of the acquisition of Satlan on Teleste's net sales during the period 1.9.2010–31.12.2010 was EUR 3 631 thousand and on the profit EUR 656 thousand. If Satlan would have been consolidated since 1 January 2010, the Group revenue would have been EUR 3 707 thousand higher and the Group rprofit would have increased EUR 82 thousand.

The range of products and services of Network Services was strengthened by acquisition of 100% of shares of German companies, Antel GmbH, MKS and Young-Net GmbH was purchased at 1 January 2009. At 1 July 2009 100% of shares in AVC Systemhaus GmbH was purchased. With these purchases Teleste ownership in Cableway AG increased to 75%. The purchase prices amounted totally EUR 10 954 thousand and was paid in cash.

The acquisition resulted in EUR 2 977 thousand of intangible assets, which was allocated to trade marks, customer relationships and tehnology. Teleste personnel increased with 624 persons. The goodwill, amounted EUR 15 260 thousand, is mainly due to future revenue expectation and to personnel synergy effects in the future. The goodwill include estimated amount of the conditional supplementary contract price.

The impact of the acquisition on Teleste's net sales during the period 1.1.2009–31.12.2009 was EUR 62 271 thousand and on the net profit EUR 1 431 thousand. If Cableway and AVC Systemhaus had been consolidated since 1 January 2009, the Group net sales would have been EUR 14 750 thousand higher and the Group net profit would have decreased EUR 537 thousand.

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.

**CALCULATION OF RECOGNISED FAIR VALUES ON ACQUISITION**

| 1 000 euros | |
|---|---|
| **Fair values used in consolidation** | |
| Trade marks (inc. in intangible assets) | 43 |
| Customer relationship (inc. in intangible assets) | 188 |
| **Book values used in consolidation** | |
| Tangible assets | 107 |
| Inventories | 280 |
| Other receivables | 217 |
| Liquid funds | 340 |
| Total assets | 1 175 |
| Book values used in consolidation | |
| Deferred tax liabilities | 60 |
| Other liabilities | 914 |
| Total liabilities | 974 |
| Net identifiable assets and liabilities | 201 |
| Total consideration | 571 |
| Goodwill on acquisition | 370 |
| Consideration paid in cash | –571 |
| Cash and cash equivalents in acquired subsidiary | 197 |
| Total net cash outflow on the acquisition | –374 |

**PRELIMINARY CALCULATION OF RECOGNISED FAIR VALUES ON ACQUISITION OF SATLAN**

| 1 000 euros | |
|---|---|
| **Fair values used in consolidation** | |
| Trade marks (inc. in intangible assets) | 154 |
| Customer relationship (inc. in intangible assets) | 843 |
| Inventories | 1 314 |
| Trade receivables | 1 305 |
| **Book values used in consolidation** | |
| Tangible assets | 51 |
| Other receivables | 219 |
| Liquid funds | 333 |
| Total assets | 4 219 |
| **Book values used in consolidation** | |
| Deferred tax liabilities | 259 |
| Other liabilities | 2 363 |
| Total liabilities | 2 622 |
| Net identifiable assets and liabilities | 1 597 |
| Total consideration | 6 330 |
| Goodwill on acquisition | 4 733 |
| Consideration paid in cash | –2 780 |
| Cash and cash equivalents in acquired subsidiary | 333 |
| Total net cash outflow on the acquisition | –2 447 |



# Notes to the Consolidated Income Statement and Balance Sheet

**1 CONSTRUCTION CONTRACTS**

Group revenue includes EUR 2 708 thousand in 2010 (EUR 2 911 thousand in 2009 ) of income from construction contracts.

Revenue recognised in the consolidated income statement from construction contracts in progress amounted to EUR 412 thousand (EUR 434 thousand). No advance payments included to balance sheet at the closing time.

| 1 000 euros | **2010** | 2009 |
|---|---|---|
| **2 OTHER OPERATING INCOME** | | |
| Government grants related to development costs | 1 148 | 1 602 |
| Rental income | 59 | 117 |
| Government grants | 253 | 1 405 |
| **Total** | **1 460** | **3 124** |
| **3 EMPLOYEE BENEFITS** | | |
| Wages and salaries | –39 425 | –35 015 |
| Pension expenses | | |
| Defined contribution plans | –7 412 | –6 581 |
| Other post employment benefits | –4 387 | –3 190 |
| Activated R&D salaries and social costs | 647 | 486 |
| Equity-settled share-based transactions | –247 | –284 |
| **Total** | **–50 824** | **–44 584** |
| Information on the remuneration of (and loans to) the Group management is presented in the note Related party transactions. | | |
| The average number of employees during the financial year | 1 215 | 1 103 |
| **4 DEPRECIATION, AMORTISATION AND IMPAIRMENT** | | |
| Depreciation and amortisation by asset type: | | |
| Tangible assets | | |
| Buildings | –348 | –211 |
| Machinery and equipment | –1 302 | –1 539 |
| Other tangible assets | –618 | –347 |
| **Total** | **–2 268** | **–2 097** |
| Intangible assets | | |
| Capitalised development expenses | –2 379 | –2 367 |
| Other intangible assets | –1 249 | –1 118 |
| **Total** | **–3 628** | **–3 485** |
| Impairment losses | | |
| Goodwill | 0 | –800 |
| **Total** | **0** | **–800** |
| **5 OTHER OPERATING EXPENSES** | | |
| Rental expenses | –4 237 | –3 485 |
| External services | –2 889 | –2 228 |
| Other variable costs | –3 975 | –4 222 |
| Travel and IT costs | –4 736 | –4 371 |
| R&D costs | –3 187 | –3 103 |
| Other expenses | –4 066 | –3 914 |
| **Total** | **–23 090** | **–21 323** |
| **Audit expenses** | | |
| **KPMG** | | |
| Auditing assignments | –164 | –165 |
| Tax consultancy | –27 | –43 |
| Other assignments | –17 | –23 |
| **Other auditors** | | |
| Auditing assignments | –36 | –23 |
| Other assignments | –21 | –37 |

| 1 000 euros | **2010** | 2009 |
|---|---|---|
| **6 FINANCIAL INCOME** | | |
| Interest income | 72 | 64 |
| Dividend income | 12 | 10 |
| Other financial income | 0 | 31 |
| **Total** | **84** | **105** |
| **7 FINANCIAL EXPENSES** | | |
| Interest expenses | –659 | –526 |
| Exchange losses | –36 | 0 |
| Other financial expenses | –78 | –184 |
| **Total** | **–773** | **–710** |

Other financial expenses includes interests from financial leasing expenses during the period 36 teur (120 teur in 2009).

Losses from forward exchange contratcs are included in operating profit.

**8 INCOME TAXES**

| | | |
|---|---|---|
| Recognised in the income statement | | |
| Current tax expense | | |
| Current year | –1 764 | –923 |
| Adjustments for prior years | –230 | –76 |
| Deferred tax expense | 35 | 40 |
| **Total** | **–1 959** | **–959** |

Reconciliation of the tax expense, EUR –1 959 thousand,
calculated using the Teleste Group's domestic corporation 26% tax rate:

| | | |
|---|---|---|
| Profit before tax | 6 743 | 1 375 |
| Income tax using the domestic corporation tax rate (26%) | –1 753 | –357 |
| Effect of tax rates in foreign jurisdictions | –86 | –194 |
| Tax exempt revenues | 0 | 0 |
| Tax debt increase related to balance sheet items | 35 | 40 |
| Non-deductible expenses | –76 | –436 |
| Taxes from previous year | –230 | –76 |
| Effect of tax losses utilised | 150 | 64 |
| **Income tax income/expense reported in the consolidated income statement** | **–1 959** | **–959** |

**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.



| | **2010** | 2009 |
|---|---|---|
| Profit for the year attributable to equity holders of the parent (1 000 euros) | 4 784 | 416 |
| Weighted average number of ordinary shares outstanding during the financial year (1 000 shares) | 17 425 | 17 229 |
| Basic earnings per share (euros/shares) | 0.27 | 0.02 |
| Weighted average number of ordinary shares outstanding during the financial year (1 000 shares) | 17 425 | 17 229 |
| Effect of share options on issue (1 000 shares) | 268 | 78 |
| Weighted average number of ordinary shares outstanding during the financial year (diluted) (1 000 shares) | 17 693 | 17 307 |
| Diluted earnings per share (euros/share) | 0.27 | 0.02 |

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

**10 PROPERTY, PLANT AND EQUIPMENT**

| 1 000 euros | Land areas | Buildings | Machinery and equipment | Other tangible assets | **Total** |
|---|---|---|---|---|---|
| Balance at 1.1.2010 | 153 | 8 900 | 19 373 | 4 583 | **33 009** |
| Additions | 0 | 209 | 578 | 222 | **1 009** |
| Acquisitions through business combinations | 0 | 19 | 116 | 0 | **135** |
| Balance at 31.12.2010 | 153 | 9 128 | 20 067 | 4 805 | **34 153** |
| Depreciation and impairment losses | | | | | |
| Balance at 1.1.2010 | 0 | –3 490 | –15 835 | –3 724 | **–23 049** |
| Depreciation charge for the year | 0 | –348 | –1 302 | –618 | **–2 268** |
| Balance at 31.12.2010 | 0 | –3 838 | –17 137 | –4 342 | **–25 317** |
| Carrying amounts at 1.1.2010 | 153 | 5 410 | 3 538 | 859 | **9 960** |
| Carrying amounts at 31.12.2010 | 153 | 5 290 | 2 930 | 463 | **8 836** |

| 1 000 euros | Land areas | Buildings | Machinery and equipment | Other tangible assets | **Total** |
|---|---|---|---|---|---|
| Balance at 1.1.2009 | 176 | 5 843 | 17 289 | 4 017 | **27 325** |
| Additions | 0 | 3 184 | 1 070 | 566 | **4 820** |
| Acquisitions through business combinations | 0 | 105 | 1 014 | 0 | **1 119** |
| Disposals | –23 | –232 | 0 | 0 | **–255** |
| Balance at 31.12.2009 | 153 | 8 900 | 19 373 | 4 583 | **33 009** |
| Depreciation and impairment losses | | | | | |
| Balance at 1.1.2009 | 0 | –3 279 | –14 296 | –3 377 | **–20 952** |
| Depreciation charge for the year | 0 | –211 | –1 539 | –347 | **–2 097** |
| Balance at 31.12.2009 | 0 | –3 490 | –15 835 | –3 724 | **–23 049** |
| Carrying amounts at 1.1.2009 | 176 | 2 564 | 2 993 | 640 | **6 373** |
| Carrying amounts at 31.12.2009 | 153 | 5 410 | 3 538 | 859 | **9 960** |
| Carrying amount of production machinery and equipment at 31.21.2010 | | | 2 930 | | |
| Carrying amount of production machinery and equipment at 31.21.2009 | | | 3 145 | | |

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

| 1 000 euros | Machinery and equipment |
|---|---|
| 31.12.2010 | |
| Historical cost | 2 606 |
| Cumulative depreciation | –1 797 |
| Carrying amount at 31.12. | 809 |
| 31.12.2009 | |
| Historical cost | 3 605 |
| Cumulative depreciation | –2 333 |
| Carrying amount at 31.12. | 1 272 |

| 1 000 euros | Goodwill | Development costs | Other intangible assets | **Total** |
|---|---|---|---|---|
| **11 INTANGIBLE ASSETS** | | | | |
| Balance at 1.1.2010 | 32 457 | 12 029 | 6 002 | **50 488** |
| Additions | 5 103 | 1 742 | 1 160 | **8 005** |
| Disposals | –5 801 | 0 | –229 | **–6 030** |
| Balance at 31.12.2010 | 31 759 | 13 771 | 6 933 | **52 463** |
| Amortisation and impairment losses | | | | |
| Balance at 1.1.2010 | –800 | –8 193 | –2 174 | **–11 167** |
| Amortisation for the year | 0 | –2 379 | –1 249 | **–3 628** |
| Balance at 31.12.2010 | –800 | –10 572 | –3 423 | **–14 795** |
| Carrying amounts at 1.1.2010 | 31 657 | 3 836 | 3 828 | **39 321** |
| Carrying amounts at 31.12.2010 | 30 959 | 3 199 | 3 510 | **37 668** |

| 1 000 euros | Goodwill | Development costs | Other intangible assets | **Total** |
|---|---|---|---|---|
| Balance at 1.1.2009 | 13 865 | 10 432 | 2 915 | **27 212** |
| Additions | 18 592 | 1 597 | 3 087 | **23 276** |
| Balance at 31.12.2009 | 32 457 | 12 029 | 6 002 | **50 488** |
| Amortisation and impairment losses | | | | |
| Balance at 1.1.2009 | 0 | –5 825 | –1 056 | **–6 881** |
| Amortisation for the year | –800 | –2 368 | –1 118 | **–4 286** |
| Balance at 31.12.2009 | –800 | –8 193 | –2 174 | **–11 167** |
| Carrying amounts at 1.1.2009 | 13 865 | 4 607 | 1 859 | **20 331** |
| Carrying amounts at 31.12.2009 | 31 657 | 3 836 | 3 828 | **39 321** |

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 31.0 million at 31 December 2010. Goodwill has been allocated to the following cash-generating unit (Meur):

| | |
|---|---|
| Video and Broadband Solutions | 23.2 |
| Network Services | 7.8 |

The recoverable amount of the segments is based upon value-in-use calculations. Those calculations use cash flow projections based upon the strategy and budgets approved by the management. Calculations are prepared covering a 10 years' period, the cash flow for both segments covers the five first years and is extrapolated using a 5 per cent growth rate (Video and Broadband Solutions first 2 years is based on 0 growth rate and during the next 3 years the expected growth rate is 5 per cent and for Network Services first 5 years is based on 5 per cent yearly growth rate). The expected future cash flows for a further 5 year period are extrapolated using a 5 per cent (2 per cent) growth rate.

Management's view on the cash flows is cautious as the changes of the industry are difficult to foresee. A discount rate of 12.7 per cent (12.3 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. The impairment test process included the sensitivity analysis of the segment or a cash generating unit (CGU) in the segment, in which the specific yearly cash flow estimates were reduced by 1–3 percentage units and the discount interests were increased by 1–2.3 percentage units. Based on the sensitivity analysis, no potential future impairment losses have been foreseen in the Network Services segment.

For Video and Broadband Solutions an impairment loss is possible if the estimated growth rate doesnt realize for one CGU. The allocated goodwill for this CGU stood at EUR 1 807 thousand at 31 Dec. 2010.

The Group received a grant amounting to EUR 1.4 million from Tekes (National Technology Agency of Finland) towards development costs in 2010 (2009: EUR 2.0 million). From the grant received EUR 0.22 million (2009: EUR 0.36 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 | **2010** | 2009 |
|---|---|---|
| **12 AVAILABLE-FOR-SALE INVESTMENTS** | | |
| Unlisted shares | 713 | 713 |
| Total | 713 | 713 |



| 1 000 euros | 1.1.2010 | Recognised in the income statement | 31.12.2010 |
|---|---|---|---|
| **13 DEFERRED TAX ASSETS AND LIABILITIES** | | | |
| Movements in temporary differences during 2010 | | | |
| Deferred tax assets: | | | |
| Effects of consolidation and eliminations | 1 698 | –804 | 894 |
| Unused tax losses | 0 | 333 | 333 |
| Provisions | 244 | 0 | 244 |
| Other items | 41 | 31 | 72 |
| Cumulative depreciation difference | 442 | –172 | 270 |
| **Total** | **2 425** | **–612** | **1 813** |
| Deferred tax liabilities: | | | |
| Capitalisation of intangible assets | –991 | 160 | –831 |
| Fair value adjustments to intangible and tangible assets on acquisition | –1 160 | 247 | –913 |
| Cumulative depreciation difference | –256 | –77 | –333 |
| Other taxable temporary differences | –283 | 36 | –247 |
| **Total** | **–2 690** | **366** | **–2 324** |

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

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

| 1 000 euros | 1.1.2009 | Recognised in the income statement | 31.12.2009 |
|---|---|---|---|
| Movements in temporary differences during 2009 | | | |
| Deferred tax assets: | | | |
| Effects of consolidation and eliminations | 737 | 961 | 1 698 |
| Provisions | 244 | 0 | 244 |
| Other items | 0 | 41 | 41 |
| Cumulative depreciation difference | 388 | 54 | 442 |
| **Total** | **1 369** | **1 056** | **2 425** |
| Deferred tax liabilities: | | | |
| Capitalisation of intangible assets | –1 197 | 206 | –991 |
| Fair value adjustments to intangible and tangible assets on acquisition | –444 | –716 | –1 160 |
| Cumulative depreciation difference | –285 | 29 | –256 |
| Other taxable temporary differences | –402 | 117 | –283 |
| **Total** | **–2 328** | **–364** | **–2 960** |

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

At 31 December 2010 the Group had unused tax losses in subsidiaries amounting EUR 1,185 thousand (31 December 2009: EUR 1,855 thousand). Deferred tax asset of EUR 333 thousand has been recognised as the Group can utilise the benefit. The Group has also deferred tax asset abroad EUR 378 thousand (31 December 2009: EUR 448 thousand). These are not included in the calculations due to the unceraintity if Group can utilise them.

No deferred tax liability has been provided for the undistributed profits of the foreign subsidiaries amounting to EUR 3,105 thousand at 31 December 2010 (31 December 2009: EUR 4,314 thousand). This is because the parent company 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 | **2010** | 2009 |
|---|---|---|
| **14 INVENTORIES** | | |
| Raw materials and consumables | 3 963 | 4 156 |
| Work in progress | 11 398 | 11 651 |
| Finished goods | 5 639 | 4 875 |
| **Total** | **21 000** | **20 682** |

The amount of the impairment losses of inventories to the net realisable value recognised as an expense during the financial period is EUR 700 thousand. At the end of the financial year EUR 5,152 thousand was deducted from the inventory value to the net realisable value (31 December 2009: EUR 6,152 thousand).

| 1 000 euros | 2010 | 2009 |
|---|---|---|
| **15 TRADE AND OTHER CURRENT RECEIVABLES** | | |
| Trade receivables | 28 082 | 22 144 |
| Accrued income and prepayments | 2 070 | 2 280 |
| Other receivables | 2 667 | 2 460 |
| **Total** | **32 819** | **26 884** |
| **16 CASH AND CASH EQUIVALENTS** | | |
| Cash at bank and in hand and call deposits | 15 203 | 12 518 |
| **Total** | **15 203** | **12 518** |
| Cash and cash equivalents in the statement of cash flows | 15 203 | 12 518 |

**17 CAPITAL AND RESERVES**

| 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, 1000 euros | Reserve fund, 1000 euros |
|---|---|---|---|---|---|
| At 1.1.2009 | 17 039 | 766 | 17 805 | 6 967 | 1 504 |
| Share options exercised by employees | 0 | 0 | 0 | 0 | 0 |
| Own shares purchased | –78 | 78 | 0 | 0 | 0 |
| Own shares sold | 465 | -465 | 0 | 0 | 0 |
| At 31.12.2009 | 17 426 | 379 | 17 805 | 6 967 | 1 504 |
| Issue of new share (Teleste Management) | 0 | 381 | 381 | 0 | 0 |
| Share options exercised by employees | 0 | 0 | 0 | 0 | 0 |
| Own shares purchased | 0 | 0 | 0 | 0 | 0 |
| Own shares sold | 0 | 0 | 0 | 0 | 0 |
| At 31 December 2010 | 17 426 | 760 | 18 186 | 6 967 | 1 504 |

The number of Teleste Oyj shares was 18,186,590 at 31 December 2010 (31 December 2009 17,805,590 shares). All shares issued have been fully paid.

The Annual General Meeting of Teleste Oyj held on 9 Arpril 2010 decided to authorize the Board of Directors to repurchase Company's own shares in accordance with the proposal of the Board of Directors. Based on the authorization, the Board of Directors may repurchase a maximum of 1,400,000 own shares of the Company otherwise than in proportion to the holdings of the shareholders by using the non-restricted equity at the market price prevailing at the time of the acquisition in NASDAQ OMX Helsinki Ltd.

Based on the authorization, a maximum of 10,000,000 new shares may be issued and a maximum of 1,779,985 of own shares held by the Company may be conveyed. The number of shares to be issued to the Company itself together with the shares repurchased to the Company on the basis of the authorization to repurchase own shares shall be at the maximum 1,400,000 shares. The maximum number of new shares that may be subscribed and own shares held by the Company that may be conveyed by virtue of the special rights granted by the Company is 5,000,000 shares in total which number shall be included in the above maximum numbers of new shares and own shares held by the Company. On the basis of authorization granted by the Annual General Meeting of Shareholders of Teleste on 7 April 2009, the Board of Directors of Teleste decided on a share issue against payment directed to Teleste Management to be formed. In the share issue, a total of 381,000 new shares in Teleste was offered for subscription by Teleste Management, in derogation from the shareholders' pre-emptive subscription rights.

At the end of December 2010, the number of own shares in the Group possession stood at 760,985.

The annual general meeting of Teleste Oyj held on 7 April 2009 authorised the Board to acquire the maximum of 900,000 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 Board to issue 10,000,000 new shares. Pursuant to the special rights provided by the company, the maximum number of significant shares is 5,000,000; these special rights are included in the authorisation to issue 10,000,000 new shares.

On 10 June 2009, the number of company's own shares conveyed by authorisation granted by the Annual General Meeting of 2009 for the additional purchase price of DINH Telecom acquired on 2 April 2007 was 464,736, making 2.61% of the share capital. In the review period 78,530 (421,470) shares were purchased. At the end of December, the number of own shares in the Group possession stood at 379,985. The minority share from acquisitions in Germany is not calculated due to the fact that equity is negative.

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 (2009 EUR 0.08 per share) was proposed by the Board of Directors.



**17 SHARE-BASED PAYMENTS**

Teleste Corporation had two option schemes in operation during the period: Stock Options 2004 and Stock Options 2007. The schemes were approved by Teleste annual general shareholders' meetings in 2004 and in 2007. The stock options have an average maturity of 6 years from the plan launch including a waiting period and a two-year share subscription period. Under the schemes outstanding at the end of the period the annual general meeting of shareholders has authorized Teleste board of directors to grant up to 1 140 000 options to the Group key employees or to Teleste subsidiary, which may be authorized to grant options further to the Group key personnel. The options are forfeited if the employee leaves the Group before the options vest. The options expire unless not distributed or exercised by the end of the share subscribtion period. Dilution effect of the new shares potentially subscribed with the outstanding stock options the after share capital increase currently amount to 4%, at maximum. Key characteristics and terms of the Teleste option schemes in operation at the end of the period are listed in the table below.

| Basic information | Stock Options 2004 | | Stock Options 2007 | | Total |
|---|---|---|---|---|---|
| 2010 | 2004B | 2007A | 2007B | 2007C | |
| 31.12.2010 | | | | | |
| Annual General Meeting date | 16.3.2004 | 3.4.2007 | 3.4.2007 | 3.4.2007 | |
| Grant date(s) | 15.6.2004<br>4.4.2006<br>15.11.2004 | 24.8.2007 | 15.10.2008 | 21.9.2009 | |
| Maximum number of stock options | 300 000 | 280 000 | 280 000 | 280 000 | 1 440 000 |
| The number of shares subscribed by one option | 1 | 1 | 1 | 1 | |
| Initial exercise price*, EUR | 6.59 | 12.89 | 6.94 | 3.57 | |
| Dividend adjustment | Yes | Yes | Yes | Yes | |
| Exercise price 31.12.2008 | 5.87 | 12.45 | 6.70 | – | |
| Exercise price 31.12.2009 | 5.75 | 12.33 | 6.58 | 3.57 | |
| Exercise price 31.12.20010 ** | 5.67 | 12.25 | 6.50 | 3.49 | |
| Beginning of exercise period (vesting) | 1.4.2008 | 1.4.2010 | 1.4.2011 | 1.4.2012 | |
| End of excercise period (expiration) | 30.4.2010 | 30.4.2012 | 30.4.2013 | 30.4.2014 | |
| Maximum contractual life, years | 6.1 | 5.1 | 6.1 | 7.1 | |
| Remaining contractual life, years | expired | 1.3 | 2.3 | 3.3 | |
| Number of persons 31.12.2010 | vested | vested | 33 | 41 | |
| Vesting conditions | Employment<br>Share ownership requirement (for the management)<br>Performance criteria (order intake, EBIT, ROCE and EPS) | Employment until beginning of exercise period | | | |

* Share subscription price is the trade volume weighted average quotation of the Teleste share on the Helsinki Exchanges during and April 2005 for the stock options 2004B, respectively. Share subscription price for stock options 2007 is the volume weighted average price plus 10% of Teleste share in NASDAQ OMX Helsinki Ltd during April 2007, April 2008 and April 2009 for the stock options 2007A, 2007B and 2007C, respectively.

** Share subscription price at the expiration if the stock options expired during the period.

| Changes during the period 2010 | Stock Options 2004 | | Stock Options 2007 | | | | |
|---|---|---|---|---|---|---|---|
| | 2004B | Weighted average exercise price in euros | 2007A | 2007B | 2007C | Weighted average exercise price in euros | Weighted average remaining life, years |
| **1.1.2010** | | | | | | | |
| Outstanding at the beginning of the period | 253 900 | 5.75 | 239 000 | 263 000 | 268 000 | 7.32 | |
| Changes during the period | | | | | | | |
| Granted | 0 | – | 0 | 0 | 0 | – | |
| Forfeited | 0 | – | 15 000 | 23 000 | 0 | 8.77 | |
| Exercised | 0 | – | 0 | 0 | 0 | – | |
| Expired | 253 900 | 5.67 | 0 | 0 | 0 | – | |
| Weighted average share price, euros *** | 4.32 | | 4.56 | – | – | | |
| **31.12.2010** | | | | | | | |
| Outstanding at the end of the period | 0 | – | 224 000 | 240 000 | 268 000 | 7.16 | 2.39 |
| Exercisable at the end of the period | 0 | – | 0 | 0 | 0 | – | |

*** weighted average price for Teleste share during the time that particular option could have been exerciced.



| Changes during the period 2009 | Stock Options 2004 | | Stock Options 2007 | | | | |
|---|---|---|---|---|---|---|---|
| | 2004B | Weighted average exercise price in euros | 2007A | 2007B | 2007C | Weighted average exercise price in euros | Weighted average remaining life, years |
| **1.1.2009** | | | | | | | |
| Outstanding at the beginning of the period | 253 900 | 5.57 | 251 000 | 275 000 | 0 | 9.44 | |
| Changes during the period | | | | | | | |
| Granted | 0 | – | 0 | 0 | 268 000 | 3.57 | |
| Forfeited | 0 | – | 12 000 | 12 000 | 0 | 9.46 | |
| Exercised | 0 | – | 0 | 0 | 0 | – | |
| Expired | 0 | 5.14 | 0 | 0 | 0 | – | |
| Weighted average share price, euros *** | 3.63 | | – | – | – | | |
| **31.12.2009** | | | | | | | |
| Outstanding at the end of the period | 253 900 | 5.75 | 239 000 | 263 000 | 268 000 | 7.32 | 2.62 |
| Exercisable at the end of the period | 253 900 | 5.75 | 0 | 0 | 0 | – | |

*** weighted average price for Teleste share between 1 January and 30 April 2009 for stock options 2004A and between 1 January and 31 December 2009 for stock options 2004B, respectively.

The fair value of options have been determined at grant date and the fair value is expensed until vesting. The fair value of stock options have been determined by using Black–Scholes valuation model. No new options were granted during the period 2010. The effect of all options on the Group's earnings during the period was EUR 0.244 million. The pricing of the options granted during the period was determined by the following inputs:

| **Options** | Granted in 2009 | Granted in 2008 |
|---|---|---|
| Share price, euros | 4.21 | 3.50 |
| Exercise price, euros | 3.57 | 6.70 |
| Expected volatility, %* | 43 | 32 |
| Maturity, years | 4.6 | 4.5 |
| Risk-free rate, % | 2.5 | 3.9 |
| Expected dividends, euros | 0 | 0 |
| Valuation model | BS | BS |
| Expected forfeitures, % | 10 | 14 |
| Fair value, euros | 454 791 | 101 816 |

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

| 1 000 euros | **2010** | 2009 |
|---|---|---|
| **18 INTEREST-BEARING LIABILITIES** | | |
| Non-current | | |
| Loans from financial institutions | 11 515 | 11 500 |
| Finance lease liabilities | 332 | 737 |
| **Total** | **11 847** | **12 237** |
| Current | | |
| Loans from financial institutions | 15 629 | 9 908 |
| Finance lease liabilities, current portion | 614 | 627 |
| **Total** | **16 243** | **10 535** |

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 | **31.12.2010** | 31.12.2009 |
|---|---|---|
| EUR | 11 847 | 12 237 |
| | 11 847 | 12 237 |
| Group long-term interest-bearing liabilities – interest rates are as follows: | | |
| Bank loans | 1.2% | 2.6% |
| Finance lease liabilities | 3.9% | 4.3% |
| The currency mix of the Group short-term interest-bearing liabilities: | | |
| EUR | 100% | 100% |
| | 100% | 100% |
| Group short-term interest-bearing liabilities – interest rates are as follows: | | |
| Bank loans | 1.8% | 2.0% |
| Finance lease liabilities | 3.9% | 4.3% |
| Finance lease liabilities of the Group are payable as follows: | | |
| Minimum lease payments | | |
| Less than one year | 645 | 678 |
| Between one and five years | 340 | 792 |
| Total | 985 | 1 470 |
| Present value of minimum lease payments | | |
| Less than one year | 614 | 627 |
| Between one and five years | 332 | 737 |
| Total | 946 | 1 364 |
| Future finance charges | 39 | 106 |
| Total finance lease liabilities | 985 | 1 470 |



| 1 000 euros | Warranties | **Total** |
|---|---|---|
| **19 PROVISIONS** | | |
| Balance at 1.1.2010 | 1 539 | **1 539** |
| Provisions made during the year | 431 | **431** |
| Balance at 31.12.2010 | 1 970 | **1 970** |

| | **2010** |
|---|---|
| Non-current | 657 |
| Current | 1 313 |
| **Total** | **1 970** |

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 | **2010** | 2009 |
|---|---|---|
| **20 TRADE AND OTHER CURRENT LIABILITIES** | | |
| Current | | |
| Trade payables | 11 048 | 9 493 |
| Personnel, social security and pensions | 5 465 | 5 493 |
| Accrued interest expenses and other financial items | 78 | 51 |
| Other accrued expenses and deferred income | 8 717 | 6 664 |
| Advances | 748 | 2 937 |
| Other liabilities | 4 105 | 7 734 |
| **Total** | **30 161** | **32 372** |
| Non current | | |
| Other liabilties | **3 865** | **6 461** |

**21 INCOME TAX PAYABLE FOR THE PERIOD**

At the end of the period there was income tax payable EUR 1,240 thousand on the profit for the period (31 December 2009 there was no tax payable).

# Financial Risk Management

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

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

The hedge accounting principles as defined in IAS 39 are applied in Teleste only for hedging the interest risk for specific long term loans. Financial risks comprise market, credit, liquidity and cash flow interest rate risk, which are discussed more in detail below. The Group's exposure to price risk is low.

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

**Currency risk**
Transaction risk
The Group's currency position is divided into the transaction position and net investments in foreign operations. Foreign exchange exposures of the Group's units arise from receivables and accounts payables denominated in foreign currency, sales and purchase contracts and from forecast sales and purchases. Major part of the Group's sales is in Euro. The most significant non-euro sales currencies are US dollar (accounts for 4 per cent of the net sales), Swedish and Norwegian crowns (9 per cent) and UK pound sterling (5 per cent). Significant part of expenses, 80 per cent, arise in euro and in US dollar almost 12 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:

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | USD | SEK | NOK | GBP | USD | SEK | NOK | GBP |
| Current assets | 770 | 1 596 | 1 450 | 1 275 | 1 040 | 1 232 | 1 478 | 3 333 |
| Current liabilities | 1 389 | 894 | 367 | 228 | 1 401 | 931 | 1 782 | 463 |

Cash flow hedges at 31.12.2010:

| Currency position | | | | | |
|---|---|---|---|---|---|
| Currency | Exposure | Hedge | Net | Hedge instrument | Hedge |
| USD | 1 089 | 1 149 | 60 | Forward exchange contract | 105% |
| SEK | 866 | 759 | 107 | Forward exchange contract | 88% |
| NOK | 2 025 | 1 487 | 538 | Forward exchange contract | 73% |
| GBP | 1 776 | 753 | 1 024 | Forward exchange contract | 42% |

Cash flow hedges at 31.12.2009:

| Currency position | | | | | |
|---|---|---|---|---|---|
| Currency | Exposure | Hedge | Net | Hedge instrument | Hedge |
| USD | 1 066 | 938 | 128 | Forward exchange contract | 88 % |
| SEK | 1 531 | 1 502 | 29 | Forward exchange contract | 98 % |
| NOK | 1 883 | 1 566 | 317 | Forward exchange contract | 83 % |
| GBP | 3 383 | 3 019 | 364 | Forward exchange contract | 89 % |



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

At the year-end 2010 the fair value of currency derivatives amounted to EUR 8.3 million (31. December 2009: EUR 8.0 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 2010 the total non-euro-denominated equity of the Group's foreign subsidiaries amounted to EUR 3.0 million (31 December 2009: EUR 4.3 million).

Sensitivity to market risk

| Sensitivity to market risks arising from financial instruments as required by IFRS 7 | **2010** Profit or Loss | 2009 Profit or Loss |
|---|---|---|
| +–10% change in EUR/USD exchange rate | +–6 | +13 |
| +–10% change in EUR/SEK exchange rate | +–11 | +–3 |
| +–10% change in EUR/NOK exchange rate | +–54 | +–32 |
| +–10% change in EUR/GBP exchange rate | +–102 | +–36 |

**Fair value interest rate risk and cash flow interest rate risk**
Teleste's interest rate risk mainly comprises cash flow interest rate risk that arises from the interest-bearing liabilities. The Group can have floating or fixed interest loans and use interest swap contracts to achieve financial objectives. At the end of the reporting period EUR 15,144 thousand have short-term interest as a reference rate. The interest period is of less than one year. During 2009 the group withdrew a 3-year loan of EUR 11,500 million to finance the acquisitions in Germany. For this loan which is hedged by a 3 years interest swap contract, 2.6%, hedge accounting is applied. The change in the fair value of this hedging instrument, EUR –70 thousand, is recognised in equity. The fair value of the interest swap contract is EUR –256 thousand. All Group loans are denominated in euro. In 2010, the average interest rate of the loan portfolio was 1.8% per cent. All finance lease agreements are fixed-rate.

The Group does not hedge the risk position resulting from the fair value interest rate risk as the position is small. The average balances of the variable rate loans realized during the period have been used in calculating the sensitivity analysis required by IFRS 7. At the closing date 31 December 2010, the effect on variable rate interest-bearing liabilities on profit before taxes would have been EUR +–150 thousand had the interest rate increased or decreased by 1 percentage point.

| 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 | | | | |
| Loans from financial institutions | 15 144 | | | **15 144** |
| Financial instruments with fixed interest rate | | | | |
| Financial liabilities | | | | |
| Loans from financial institutions | | 11 500 | | **11 500** |

**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 expenses.

| | **2010** | | | 2009 | | |
|---|---|---|---|---|---|---|
| Analysis of trade receivables by age | Gross | Impairment loss | **Net** | Gross | Impairment loss | **Net** |
| Undue trade receivables | 21 155 | | 21 155 | 16 551 | | 16 551 |
| 1–30 days | 4 330 | | 4 330 | 3 704 | | 3 704 |
| 31–60 days | 1 412 | | 1 412 | 807 | | 807 |
| Over 60 days | 3 109 | –1 923 | 1 186 | 2 468 | –1 386 | 1 082 |
| **Total** | **30 005** | | **28 082** | **23 530** | | **22 144** |

| The maximum exposure to credit risk at the reporting date was: | **2010** | 2009 |
|---|---|---|
| Loans and receivables | 32 756 | 26 884 |
| Available for sale financial assets | 713 | 713 |

**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 2010 the Group's cash reserves totaled EUR 15.2 million and its interest-bearing net debt EUR 28.1 million. The Group administration raises the Group's interest-bearing debt centrally. At 31 December 2010 Teleste had committed and available credit facilities as well as other agreed and undrawn loans amounting to EUR 40 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 2010, the contractual maturity of interest-bearing liabilities was as follows:

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Loans from financial institutions | 15 433 | 138 | 11 501 | | |
| Trade payables | 11 048 | | | | |
| Finance lease liabilities | 645 | 170 | 161 | 10 | |
| Forward exchange contracts | | | | | |
| Outflow | –8 283 | | | | |
| Inflow | 7 990 | | | | |
| Other | 78 | | | | |

As of 31 December 2009, the contractual maturity of interest-bearing liabilities was as follows:

| | **2010** | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Loans from financial institutions | 10 941 | 301 | 301 | 11 502 | |
| Trade payables | 9 493 | | | | |
| Finance lease liabilities | 678 | 461 | 164 | 157 | 10 |
| Forward exchange contracts | | | | | |
| Outflow | –8 043 | | | | |
| Inflow | 7 802 | | | | |
| Other | 51 | | | | |



**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 2010 and 2009 was as follows:

| | **2010** | 2009 |
|---|---|---|
| Total borrowings | 28 090 | 22 772 |
| Cash and cash equivalents | 15 203 | 12 518 |
| Interest-bearing net debt | 12 887 | 10 254 |
| Total equity | 50 402 | 46 669 |
| Interest-bearing net debt and total equity | 63 289 | 56 923 |
| Leverage ratio | 20.4% | 18.0% |

## 22 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

**Derivative instruments**

Teleste uses forward exchange contracts to hedge its balance sheet items against transaction risk. The changes in the fair values of forward exchange contracts designated as hedging instruments are fully recognised through profit and loss. The fair value changes of forward exchange contracts amounted to EUR –293 thousand in 2010 (2009: EUR –228 thousand) and they are recognised as adjustements to sales. Long term bank loans are hedged by a interest swap contract. For this interest swap contract Teleste apply hedge accounting. The fair value changes of interest swap contracts amounted to EUR –256 thousand of which EUR –70 thousand is entered in the total comprehensive income. The currency exchange contracts and interest swap contracts are in level 2.

**Available-for-sale financial assets**

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

**Finance lease liabilities**

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

**Trade and other payables or receivables**

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

Following discount rates were used for determining fair value:

| | **2010** | 2009 |
|---|---|---|
| Finance lease liabilities | 3.9% | 4.3% |

**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 |
|---|---|---|---|---|---|---|---|
| 2010 Balance item | | | | | | | |
| **Non-current financial assets** | | | | | | | |
| Other financial assets | 12 | | | 713 | | 713 | 713 |
| **Current financial assets** | | | | | | | |
| Trade and other receivables | 15 | | 28 082 | | | 28 082 | 28 082 |
| **Carrying amount by category** | | 0 | 28 082 | 713 | 0 | 28 795 | 28 795 |
| **Non-current financial liabilities** | | | | | | | |
| Interest-bearing liabilities | 18 | 332 | | | 11 515 | 11 847 | 11 847 |
| **Current financial liabilities** | | | | | | | |
| Interest-bearing liabilities | 18 | 614 | | | 15 629 | 16 243 | 16 243 |
| Forward exchange contracts | 25 | 293 | | | | 293 | 293 |
| Interest swap contracts | 25 | 256 | | | | 256 | 256 |
| Trade and other payables | 20 | | | | 11 048 | 11 048 | 11 048 |
| Other current liabilities | 20 | | | | 78 | 78 | 78 |
| **Carrying amount by category** | | 1 495 | 0 | 0 | 38 270 | 39 765 | 39 765 |
| 2009 Balance item | | | | | | | |
| **Non-current financial assets** | | | | | | | |
| Other financial assets | 12 | | | 713 | | 713 | 713 |
| **Current financial assets** | | | | | | | |
| Trade and other receivables | 15 | | 22 144 | | | 22 144 | 22 144 |
| **Carrying amount by category** | | 0 | 22 144 | 713 | 0 | 22 857 | 22 857 |
| **Non-current financial liabilities** | | | | | | | |
| Interest-bearing liabilities | 18 | 737 | | | 11 500 | 12 237 | 12 237 |
| **Current financial liabilities** | | | | | | | |
| Interest-bearing liabilities | 18 | 627 | | | 9 908 | 10 535 | 10 535 |
| Forward exchange contracts | 25 | 228 | | | | 228 | 228 |
| Interest swap contracts | 25 | 157 | | | | 157 | 157 |
| Trade and other payables | 20 | | | | 9 493 | 9 493 | 9 493 |
| Other current liabilities | 20 | | | | 51 | 51 | 51 |
| **Carrying amount by category** | | 1 769 | 0 | 0 | 30 952 | 32 721 | 32 721 |



| 1 000 euros | **2010** | 2009 |
|---|---|---|
| **23 ADJUSTMENTS TO CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Non-cash transactions: | | |
| Depreciation and amortisation | 5 896 | 5 582 |
| Impairment loss | 0 | 800 |
| Employee benefits | 247 | 284 |
| **Total** | **6 143** | **6 666** |
| **24 OPERATING LEASES** | | |
| Group as lessee | | |
| Minimum lease payments on non-cancellable operating leases are payable as follows: | | |
| Less than one year | 653 | 898 |
| Between one and five years | 1 601 | 1 345 |
| **Total** | 2 254 | 2 243 |

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. From 2009 figures leasing liabilites for machines have been deducted.

The Group has sublet part of its production and office property in Finland to an external company. The agreeement is valid until further notice. In 2010 the lease payments in respect of this part of property amounted to EUR 54 thousand (2009: EUR 117 thousand).

| 1 000 euros | **2010** | 2009 |
|---|---|---|
| **25 COMMITMENTS AND CONTINGENCIES** | | |
| Collateral for own commitments | | |
| Other commitments | 640 | 120 |
| Rental and leasing liabilities | | |
| Rental liabilities | 2 254 | 2 243 |
| Lease liabilities | 4 227 | 3 773 |
| Currency derivatives | | |
| Value of the underlying forward contracts | 8 283 | 8 043 |
| Market value of the forward contracts | –293 | –228 |
| Interest swap contracts | | |
| Value of the underlying interest swap contracts | 11 500 | 11 500 |
| Market value of intersest swap contracts | –256 | –157 |

**26 RELATED PARTY TRANSACTIONS**

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

| Companies owned by the Group and parent company | Group holding, % | Group voting, % |
|---|---|---|
| Parent company Teleste Oyj, Turku, Finland | 100 | 100 |
| Cableway Süd GmbH (former Antel GmbH), Munchen, Germany | 100 | 100 |
| Cableway Mitte GmbH ( former AVC Systemhaus GmbH) Cottbus, Germany | 100 | 100 |
| Cableway AG, Bergisch Gladbach, Germany | 100 | 100 |
| DINH TechniCom S.A., Herstal, Belgium | 100 | 100 |
| DINH TeleCom S.A., Herstal, Belgium | 100 | 100 |
| Flomatik A/S, Porsgrun, Norway | 100 | 100 |
| Flomatik Network Services Ltd, Fareham, UK | 100 | 100 |
| Freycom S.A., Yverdon, Switzerland | 100 | 100 |
| Kaavisio Oy, Turku, Finland | 100 | 100 |
| Cableway Nord GmbH (former MKS MediaKom GmbH), Bergisch Gladbach, Germany | 100 | 100 |
| Cableway Nord GmbH & Co. KG (former MKS Nord GmbH & Co. KG), Bergisch Gladbach, Germany | 100 | 100 |
| Cableway Nord West GmbH & Co.KG (former MKS West GmbH & Co. KG), Bergisch Gladbach, Germany | 100 | 100 |
| Cableway Mitte GmbH & Co.KG (former MKS Mitte GmbH & Co. KG), Bergisch Gladbach, Germany | 100 | 100 |
| Cableway Cyber Optic GmbH & Co. KG (former MKS Cyber Optic GmbH & Co. KG), Bergisach Gladbach, Germany | 100 | 100 |
| Cableway Management GmbH (former MKS Management GmbH), Bergiscg Gladbach, Germany | 100 | 100 |
| Promacom AB, Tukholma, Sweden | 100 | 100 |
| Satlan Sp. z o.o., Wroclaw, Poland | 100 | 100 |
| Suomen Turvakamera Oy, Vantaa, Finland | 100 | 100 |
| Teleste India Ptv. Mumbai, India | 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) Co., Ltd, Shuzhou, China | 100 | 100 |
| Teleste France SAS, Paris, France | 100 | 100 |
| Teleste GmbH, Hannover, Germany | 100 | 100 |
| Teleste Kaurakatu Oy, Turku, Finland | 100 | 100 |
| Teleste LLC, Georgetown Texas, USA | 100 | 100 |
| Teleste Services GmbH, Hildesheim, Germany | 100 | 100 |
| Teleste Sweden AB (former Flomatik AB), Stockholm, Sweden | 100 | 100 |
| Teleste UK Ltd, Cambridge, UK | 100 | 100 |
| Teleste Video Networks Sp. z o.o. (former S-Link ssp), Krakova, Poland | 100 | 100 |

The key management personnel compensations

| 1 000 euros | **2010** | 2009 |
|---|---|---|
| CEO | | |
| Salaries and other short-term benefits | 499 | 311 |

During 2010 no options were granted to the management of Teleste (2009: 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 2010 management had 120 000 (2009: 160 000) options, of which 0 were exercisable (2009: 0). Management of the parent company has 0,54% or 98 482 of the parent company's shares (2009: 0,56% or 98 956 shares). CEO's holding in the Teleste management stands at 34.4%.

A voluntary pension fee for CEO amounted EUR 56 thousand (EUR 71 thousand in 2009).



| 1 000 euros | **2010** | 2009 |
|---|---|---|
| Remuneration to Board members and Managing Director | | |
| Chairman of the Board | 47 | 38 |
| Members of the Board | 152 | 123 |
| CEO | 499 | 311 |
| **Total** | **698** | **471** |

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

No cash loans were granted to nor commitments assumed or collaterals given regarding CEO or the members of the Board of Directors in 2010 and 2009.

The Board of Directors of Teleste Corporation decided 3 March 2010 on a new incentive plan directed to the members of the Teleste Management Group. The purpose of the plan is to commit the members of the Management Group to Teleste Corporation ("Teleste") by encouraging them to acquire and hold Teleste's shares and this way increase Teleste's shareholder value in the long run. Through this incentive plan, the members of the Management Group personally invest a considerable amount of their own funds in Teleste's shares. The directors finance their investments partly themselves and partly by a loan provided by Teleste. The actual owner risk will be carried out personally by the directors for the part of their personal investment in the plan. For the purpose of the share ownership, the members of the Management Group established a limited company named Teleste Management Oy ("Teleste Management"), whose entire share capital they own. Teleste Management acquired a total of 381,000 Teleste's shares from Teleste. The share acquisition was financed by capital investments in Teleste Management by the members of the Management Group, in the maximum total amount of approximately EUR 290 000, as well as by a loan provided by Teleste. Some of the members of the Management Group financed their capital investments in Teleste Management by selling Teleste's shares they held. After the plan was implemented in full, the members of the Management Group hold 2.1% of the Teleste's shares through Teleste Management.

**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

| 1 000 euros | Note | 2010 | 2009 |
|---|---|---|---|
| **Net sales** | 1 | **55 451** | **50 403** |
| Change in inventories of finished goods | | 817 | –2 348 |
| Other operating income | 2 | 3 668 | 4 649 |
| Materials, supplies and services | 3 | –23 140 | –18 648 |
| Wages, salaries and social expenses | 4 | –18 015 | –17 826 |
| Depreciation and amortisation | 5 | –709 | –764 |
| Other operating expenses | | –13 216 | –15 926 |
| **Operating profit** | | **4 858** | **–459** |
| Financial income and expenses | 6 | 3 722 | 357 |
| **Profit before extraordinary items** | | **8 580** | **–102** |
| **Extra ordinary items** | 7 | –761 | –450 |
| **Profit before taxes** | | **7 819** | **–552** |
| Appropriations | 8 | –220 | –49 |
| Direct taxes | 9 | –1 414 | –103 |
| **Profit for the financial period** | | **6 185** | **–703** |

# Balance Sheet



| 1 000 euros | Note | 2010 | 2009 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | 5 342 | 5 771 |
| Long-term receivables | 11 | 26 822 | 24 726 |
| Investments | 12 | 24 760 | 21 319 |
| | | **56 925** | **51 817** |
| **Current assets** | | | |
| Inventories | 13 | 4 959 | 4 208 |
| Trade and other receivables | 14 | 14 063 | 11 687 |
| Cash and cash equivalents | 15 | 9 841 | 5 315 |
| | | **28 863** | **21 210** |
| **Total assets** | | **85 789** | **73 028** |
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' equity** | | | |
| Share capital | 16 | 6 967 | 6 967 |
| Share premium | 16 | 1 504 | 1 504 |
| Invested non-restricted equity | 16 | 4 185 | 2 736 |
| Retained earnings | 16 | 20 257 | 22 384 |
| Profit for the financial period | 16 | 6 185 | –703 |
| | | **39 097** | **32 888** |
| **Appropriations** | 8 | **722** | **502** |
| **Provisions** | 17 | **949** | **759** |
| **Liabilities** | | | |
| Long-term liabilities | 18 | 11 500 | 11 500 |
| Short-term liabilities | 19 | 33 521 | 27 379 |
| | | **45 021** | **38 879** |
| **Total equity and liabilities** | | **85 789** | **73 028** |

# Cash Flow Statement

| 1 000 euros | **2010** | 2009 |
|---|---|---|
| **Cash flow from operations** | | |
| Operating profit | 4 858 | –459 |
| Adjustments to operating profit | 899 | 668 |
| Change in net working capital | –1 866 | 11 986 |
| Interest income | 1 128 | 823 |
| Interest expenses | –648 | –556 |
| Dividend income | 2 255 | 877 |
| Paid group contribution | –761 | –450 |
| Other financial items | 236 | 12 |
| Taxes paid | –257 | 223 |
| **Cash flow from operations** | **5 843** | **13 124** |
| **Investments** | | |
| Payment of other tangible assets | –1 064 | –3 021 |
| Sale of other tangible assets | 262 | 500 |
| Sale of shares | 0 | 0 |
| Long term receivables | –2 096 | –21 796 |
| Investments in subsidiary shares | –3 442 | –605 |
| **Cash flow from investments** | **–6 340** | **–24 922** |
| **Cash flow before financing** | **–497** | **–11 798** |
| **Financing** | | |
| Short-term liabilities | 5 000 | 1 000 |
| Long-term liabilities | 0 | 11 500 |
| Paid dividends | –1 424 | –2 035 |
| Purchases of own shares | 0 | –264 |
| Other reserves | 1 160 | 0 |
| Share issue | 287 | 0 |
| **Financing total** | **5 023** | **10 201** |
| **Change in liquid funds** | **4 526** | **–1 598** |
| Liquid funds 1.1. | 5 315 | 6 913 |
| Liquid funds 31.12. | 9 841 | 5 315 |



# 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, 20060 Littoinen.

## Foreign Currency Transactions

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

## Derivatives

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

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

## Valuation of Fixed Assets

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

Intangible assets ................................................................ 3 years
Goodwill ............................................................................ 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.

# Notes to the Parent Company Income Statement and Balance Sheet

| 1 000 euros | **2010** | 2009 |
|---|---|---|
| **1 NET SALES** | | |
| **Net sales by segments** | | |
| Video and Broadband Solutions | 55 451 | 50 403 |
| Network Services | 0 | 0 |
| **Total** | **55 451** | **50 403** |
| **Net sales by market area** | | |
| Finland | 10 497 | 9 826 |
| Nordic countries | 8 355 | 9 758 |
| Other Europe | 27 479 | 25 773 |
| Others | 9 120 | 5 046 |
| **Total** | **55 451** | **50 403** |
| **2 OTHER OPERATING INCOME** | | |
| R&D subvention and others | 3 668 | 4 649 |
| **Total** | **3 668** | **4 649** |
| **3 MATERIALS, SUPPLIES AND SERVICES** | | |
| Purchases | 22 928 | 17 496 |
| Change in inventories | –65 | 1 191 |
| | **22 863** | **18 687** |
| Purchased services | 277 | –39 |
| **Total** | **23 140** | **18 648** |
| **4 PERSONNEL EXPENSES** | | |
| Wages and salaries | 14 783 | 14 650 |
| Pension costs | 2 452 | 2 151 |
| Other personnel costs | 780 | 1 026 |
| **Total** | **18 015** | **17 826** |
| Remuneration to Board members and Managing Directors | 698 | 471 |

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

| | | |
|---|---|---|
| Year-end personnel | 366 | 399 |
| Average personnel | 378 | 421 |
| **Personnel by function at the year-end** | | |
| Research and Development | 102 | 117 |
| Production and Material Management | 210 | 228 |
| Sales and marketing | 29 | 26 |
| Administration | 25 | 28 |
| **Total** | **366** | **399** |



# Notes to the Parent Company Income Statement and Balance Sheet

| 1 000 euros | **2010** | 2009 |
|---|---|---|
| **5 DEPRECIATION ACCORDING TO PLAN** | | |
| Other capitalized expenditure | 243 | 323 |
| Buildings | 291 | 173 |
| Machinery and equipment | 174 | 215 |
| Goodwill on consolidation | 0 | 52 |
| **Total** | **708** | **764** |
| **6 FINANCIAL INCOME AND EXPENSES** | | |
| Interest income | 40 | 11 |
| Interest income from Group companies | 1 089 | 811 |
| Interest expenses | –540 | –452 |
| Interest expenses to Group companies | –108 | –104 |
| Loss on investment | 0 | –800 |
| Currency differences | –44 | 26 |
| Other financial income and expenses | 281 | –13 |
| Dividend income from Group companies | 2 996 | 876 |
| Dividend income | 9 | 2 |
| **Total** | **3 723** | **357** |
| **7 EXTRA ORDINARY ITEMS** | | |
| Paid group contribution | 761 | 450 |
| **8 APPROPRIATIONS AND DEFERRED TAX ASSETS AND LIABILITIES IN THE PARENT COMPANY** | | |
| **Change in accumulated depreciation difference** | | |
| Buildings | –220 | –49 |
| Other capitalized expenditure | 0 | 0 |
| **Total** | **–220** | **–49** |
| Accumulated depreciation in excess of plan | 722 | 502 |
| **9 INCOME TAXES** | | |
| Direct taxes | 1 157 | 27 |
| Taxes from previous years | 257 | 76 |
| **Total** | **1 414** | **103** |

**10 TANGIBLE AND INTANGIBLE ASSETS**

| | | Tangible assets | | | | |
|---|---|---|---|---|---|---|
| | Intangible rights | Land | Buildings | Machinery | Other capitalized expenditure | **Total** |
| Acquisition cost 1.1. | **7 579** | 99 | 8 036 | 8 669 | 3 713 | **20 517** |
| Increases | 0 | 0 | 448 | 82 | 0 | **530** |
| Decreases | 0 | 0 | –251 | 0 | 0 | **–251** |
| Acquisition cost 31.12. | **7 579** | 99 | 8 233 | 8 751 | 3 713 | **20 796** |
| Accumulated depreciation 1.1. | **7 579** | 0 | 3 020 | 8 372 | 3 354 | **14 746** |
| Depreciation | 0 | 0 | 291 | 174 | 243 | **708** |
| Accumulated depreciation 31.12. | **7 579** | 0 | 3 311 | 8 546 | 3 597 | **15 454** |
| **Book value 31.12.2010** | **0** | **99** | **4 922** | **205** | **116** | **5 342** |

| | |
|---|---|
| Book value of machinery and equipment 31.12.2010 | 120 |
| Book value of machinery and equipment 31.12.2009 | 149 |

| 1 000 euros | 2010 | 2009 |
|---|---|---|
| **11 LONG-TERM RECEIVABLES** | | |
| Subordinated loan from group company | 1 200 | 1 600 |
| Other long term receivables from group companies | 25 455 | 23 126 |
| Other long term receivables | 167 | 0 |
| **Total** | **26 822** | **24 726** |

**12 INVESTMENTS**

| Parent Company | Shares in group companies | Shares others | Total |
|---|---|---|---|
| Acquisition cost 1.1. | 22 090 | 714 | 22 804 |
| Increase | 3 441 | 0 | 3 441 |
| **Acquisition cost 31.12.** | **25 531** | **714** | **26 245** |
| Accumulated depreciation 1.1. | –1 485 | 0 | –1 485 |
| Impairment | 0 | 0 | 0 |
| **Accumulated depreciation 31.12.** | **–1 485** | **0** | **–1 485** |
| **Book value 31.12.2010** | **24 046** | **714** | **24 760** |

| **13 INVENTORIES** | 2010 | 2009 |
|---|---|---|
| Raw materials and consumables | 1 010 | 1 075 |
| Work in progress | 3 001 | 2 290 |
| Finished goods | 948 | 842 |
| **Total** | **4 959** | **4 208** |
| **14 CURRENT ASSETS** | | |
| Accounts receivables | 7 904 | 8 373 |
| Accounts receivables from Group companies | 5 111 | 2 071 |
| Other receivables from Group companies | 5 | 170 |
| Accrued income | 1 043 | 1 073 |
| **Total** | **14 063** | **11 687** |
| **15 LIQUID FUNDS** | | |
| Cash and cash equivalents | **9 841** | **5 315** |
| **16 CHANGES IN SHAREHOLDERS' EQUITY** | | |
| Share capital 1.1. | 6 967 | 6 967 |
| Share capital 31.12. | 6 967 | 6 967 |
| Share premium fund 1.1. | 1 504 | 1 504 |
| Share premium fund 31.12. | 1 504 | 1 504 |
| Invested non-restricted equity 1.1. | 2 737 | 1 450 |
| Share issues | 0 | 0 |
| Purchases of own shares | 0 | –264 |
| Own share | 1 448 | 1 550 |
| Invested non-restricted equity 31.12. | 4 185 | 2 736 |
| Retained earnings 1.1. | 21 681 | 24 419 |
| Dividends | –1 425 | –2 035 |
| Retained earnings 31.12. | 20 257 | 22 384 |
| Profit for the financial period | 6 185 | –703 |
| Accumulated profit 31.12. | 26 441 | 21 681 |
| **Total** | **39 097** | **32 888** |
| Company's distributable equity 31.12. | 30 626 | 24 418 |

Company's registered share capital consists of one serie and is divided into 18,186,590 shares at 1 vote each.



| 1 000 euros | 2010 | 2009 |
|---|---|---|
| **17 OBLIGATORY PROVISIONS** | | |
| Provision for guarantees | **949** | **759** |
| **18 LONG TERM LIABILITIES** | | |
| Bank loans | **11 500** | **11 500** |
| **19 SHORT TERM LIABILITIES** | | |
| Bank loans | 15 000 | 10 000 |
| Advance payments received | 422 | 0 |
| Accounts payables | 4 099 | 2 950 |
| Accounts payables from Group companies | 999 | 980 |
| Other current liabilities | 1 513 | 340 |
| Other current liabilities from Group companies | 6 081 | 7 090 |
| Accrued liabilities | 5 408 | 6 019 |
| **Total** | **33 521** | **27 379** |
| **20 CONTINGENT LIABILITIES AND PLEDGED ASSETS** | | |
| **Leasing liabilities** | | |
| For next year | 663 | 784 |
| For later years | 542 | 854 |
| **Total** | **1 205** | **1 638** |
| **Rental liabilities** | **1 635** | **1 832** |
| **Liabilities on own behalf** | | |
| Bank guarantees | 0 | 0 |
| Guarantees given on behalf of subsidiaries | 0 | 0 |
| **21 CURRENCY DERIVATES** | | |
| Value of underlying forward contracts | 5 195 | 6 815 |
| Market value of forward contracts | –277 | –266 |

Forward contracts are used only for hedging currency exchange risks.

| | Group's share, % | Parent company's share, % |
|---|---|---|
| **22 COMPANIES OWNED BY THE GROUP AND PARENT COMPANY** | | |
| Cableway Süd GmbH (former Antel GmbH), Munchen, Germany | 100 | 0 |
| Cableway Mitte GmbH (former AVC Systemhaus GmbH) Cottbus, Germany | 100 | 0 |
| Cableway AG, Bergisch Gladbach, Germany | 100 | 12.5 |
| DINH TechniCom S.A., Herstal, Belgium | 100 | 1 |
| DINH TeleCom S.A., Herstal, Belgium | 100 | 0 |
| Flomatik A/S, Porsgrun, Norway | 100 | 100 |
| Flomatik Network Services Ltd, Fareham, UK | 100 | 100 |
| Freycom S.A., Yverdon, Switzerland | 100 | 100 |
| Kaavisio Oy, Turku, Finland | 100 | 100 |
| Cableway Nord GmbH (former MKS MediaKom GmbH), Bergisch Gladbach, Germany | 100 | 0 |
| Cableway Nord GmbH & Co. KG (former MKS Nord GmbH & Co. KG), Bergisch Gladbach, Germany | 100 | 0 |
| Cableway Nord West GmbH & Co. KG (former MKS West GmbH & Co. KG), Bergisch Gladbach, Germany | 100 | 0 |
| Cableway Mitte GmbH & Co. KG (former MKS Mitte GmbH & Co. KG), Bergisch Gladbach, Germany | 100 | 0 |
| Cableway Cyber Optic GmbH & Co. KG (former MKS Cyber Optic GmbH & Co. KG), Bergisach Gladbach, Germany | 100 | 0 |
| Cableway Management GmbH (former MKS Management GmbH), Bergiscg Gladbach, Germany | 100 | 0 |
| Promacom AB, Stockholm, Sweden | 100 | 100 |
| Satlan Sp. z o.o., Wroclaw, Poland | 100 | 100 |
| Suomen Turvakamera Oy, Vantaa, Finland | 100 | 100 |
| Teleste India Ptv., Mumbai, India | 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) Co., Ltd, Shuzhou, China | 100 | 100 |
| Teleste France SAS, Paris, France | 100 | 100 |
| Teleste GmbH, Hannover, Germany | 100 | 100 |
| Teleste Kaurakatu Oy, Turku, Finland | 100 | 100 |
| Teleste LLC, Georgetown Texas, USA | 100 | 100 |
| Teleste Services GmbH, Hildesheim, Germany | 100 | 100 |
| Teleste Sweden AB (former Flomatik AB), Stockholm, Sweden | 100 | 100 |
| Teleste UK Ltd, Cambridge, UK | 100 | 100 |
| Teleste Video Networks Sp. z o.o. (former S-Link ssp), Krakov, Poland | 100 | 100 |

**23 OWN SHARES**

| | Number of shares | Nominal value, EUR | Percentage of share capital and votes |
|---|---|---|---|
| Teleste Oyj owns own shares 31.12.2010 | 0 | 0 | 0.00 |

**24 SHARES AND OWNERS**

| | Number of shares | Percentage of share capital and votes |
|---|---|---|
| **Major shareholders 31.12.2010** | | |
| EM Group Oy | 3 822 813 | 21.02 |
| Mandatum Life | 1 679 200 | 9.23 |
| Ilmarinen Mutual Pension Insurance Company | 936 776 | 5.15 |
| Kaleva Mutual Pension Insurance Company | 824 641 | 4.53 |
| Op-Suomi Small Cap | 545 925 | 3.00 |
| Varma Mutual Pension Insurance Company | 521 150 | 2.87 |
| State Pension Fund | 500 000 | 2.75 |
| Aktia Capital Mutual Fund | 450 000 | 2.47 |
| Skagen Vekst Verdipapierfond | 437 000 | 2.40 |
| Teleste Management Oy | 381 000 | 2.09 |



**Shareholders by number of shares 31.12.2010**

| Sector Dispersion of Shareholders | Number of shareholders | Percentage of total shares | Number of shares | Percentage of total shares |
|---|---|---|---|---|
| Corporations | 316 | 6.09 | 5 824 703 | 32.02 |
| Financial and insurance corporations | 12 | 0.23 | 3 760 250 | 20.67 |
| Public institutions | 9 | 0.17 | 2 325 976 | 12.78 |
| Non-profit organizations | 35 | 0.67 | 384 611 | 2.11 |
| Private individuals | 4 775 | 92.11 | 4 366 549 | 24.00 |
| Foreign and nominee-registered | 37 | 0.71 | 1 524 501 | 8.38 |
| **Total** | **5 184** | **100.00** | **18 186 590** | **100.00** |

| Number of shares | Owners | % | Shares | % |
|---|---|---|---|---|
| 1–100 | 1 151 | 22.20 | 79 858 | 0.43 |
| 101–1 000 | 3 030 | 58.44 | 1 264 333 | 6.95 |
| 1 001–10 000 | 907 | 17.49 | 2 511 430 | 13.80 |
| 10 001–100 000 | 77 | 1.48 | 1 834 252 | 10.08 |
| 100 001–1 000 000 | 17 | 0.32 | 6 994 704 | 38.46 |
| 1 000 001– | 2 | 0.03 | 5 502 013 | 30.25 |
| **Total** | **5 184** | **100.00** | **18 186 590** | **100.00** |

**Management interest**

| | Number of shares | Percentage of shares | Percentage of votes |
|---|---|---|---|
| CEO and Board Members | 98 482 | 0.54 | 0.54 |

**Option programs**

Number of shares entitled to subscribe with options

| | Number of shares | Number of shares and votes after exercised options, % |
|---|---|---|
| CEO | 120 000 | 0.63 |
| Other option holders | 616 000 | 3.24 |
| 2007 program warrants hold by the group | 104 000 | 0.55 |
| **Total** | **840 000** | **4.41** |

| **Audit expenses** | **2010** | 2009 |
|---|---|---|
| Auditing assignments | 44 | 39 |
| Tax consultancy | 27 | 43 |
| Other assignments | 8 | 36 |

# Proposal for the Distribution of Earnings

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

The parent company's distributable equity as of 31 December 2010 stood at EUR 30,625,114.11.

As to the Annual General Meeting scheduled for 8 April 2011, the Board proposes that a dividend of EUR 0.12 per share be paid for the outstanding shares for the year 2010.

Helsinki 1 February 2011

Teleste Corporation
Board of Directors

| | | |
|---|---|---|
| Marjo Miettinen<br>Chairman | Pertti Ervi<br>Member | Tero Laaksonen<br>Member |
| Pertti Raatikainen<br>Member | Kai Telanne<br>Member | Petteri Walldén<br>Member |

Jukka Rinnevaara
CEO

## The Auditor's Note

Our auditors report has been issued today.

Helsinki 1 February 2011

Esa Kailiala
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 31 December, 2010. The financial statements comprise the consolidated statement of financial position, (income statement), statement of comprehensive income, statement of changes in equity and statement of cash flows, 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.

## Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view 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 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 express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about 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 of the parent company and the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act or the articles of association of the company.

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, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. 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.

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 and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position 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 1.2.2011

KPMG OY AB

Esa Kailiala
Authorised Public Accountant

| Financial Indicators 2006–2010 | IFRS 2010 | IFRS 2009 | IFRS 2008 | IFRS 2007 | IFRS 2006 |
|---|---|---|---|---|---|
| **Profit and loss account, balance sheet** | | | | | |
| Net sales, Meur | 167.8 | 141.7 | 108.7 | 125.1 | 101.8 |
| Change % | 18.5 | 30.3 | –13.1 | 22.9 | 23.2 |
| Sales outside Finland, % | 93.3 | 91.8 | 90.2 | 91.2 | 90.6 |
| Operating profit, Meur | 7.4 | 2.5 | 5.6 | 13.2 | 9.8 |
| % of net sales | 4.4 | 1.8 | 5.2 | 10.5 | 9.6 |
| Profit after financial items, Meur | 6.7 | 1.4 | 5.1 | 12.7 | 9.3 |
| % of net sales | 4.0 | 1.0 | 4.7 | 10.1 | 9.1 |
| Profit before taxes, Meur | 6.7 | 1.4 | 5.1 | 12.7 | 9.3 |
| % of net sales | 4.0 | 1.0 | 4.7 | 10.1 | 9.1 |
| Profit for the financial period, Meur | 4.7 | 0.4 | 5.5 | 9.4 | 6.9 |
| % of net sales | 2.8 | 0.3 | 5.1 | 7.5 | 6.8 |
| R&D expenditure, Meur | 10.3 | 10.8 | 13.5 | 13.1 | 9.8 |
| % of net sales | 6.1 | 7.6 | 12.4 | 10.5 | 9.7 |
| Gross investments, Meur | 3.8 | 25.2 | 3.9 | 12.3 | 6.2 |
| % of net sales | 2.2 | 17.8 | 3.6 | 9.8 | 6.1 |
| Interest bearing liabilities, Meur | 28.1 | 22.8 | 11.0 | 9.5 | 8.0 |
| Shareholder's equity, Meur | 50.4 | 46.7 | 46.6 | 46.7 | 37.7 |
| Total assets, Meur | 116.2 | 110.1 | 75.5 | 77.9 | 68.2 |
| **Personnel and orders** | | | | | |
| Average personnel | 1 215 | 1 103 | 702 | 681 | 608 |
| Order backlog at year end, Meur | 17.0 | 33.1 | 24.0 | 21.5 | 28.1 |
| Orders received, Meur | 167.2 | 151.0 | 118.6 | 118.5 | 107.2 |
| **Key metrics** | | | | | |
| Return on equity, % | 9.9 | 0.9 | 11.8 | 22.2 | 19.7 |
| Return on capital employed, % | 10.2 | 3.3 | 10.4 | 27.1 | 24.3 |
| Equity ratio, % | 43.6 | 43.6 | 61.7 | 60.2 | 55.3 |
| Gearing, % | 25.5 | 22.0 | 3.6 | 3.8 | 3.2 |
| Earnings per share, EUR | 0.27 | 0.02 | 0.32 | 0.55 | 0.41 |
| Earnings per share fully diluted, EUR | 0.27 | 0.02 | 0.32 | 0.52 | 0.38 |
| Shareholders equity per share, EUR | 2.90 | 2.68 | 2.74 | 2.69 | 2.22 |
| **Teleste share** | | | | | |
| Highest price, EUR | 5.33 | 4.30 | 7.49 | 12.34 | 12.75 |
| Lowest price, EUR | 3.64 | 2.25 | 1.90 | 6.47 | 6.46 |
| Closing price, EUR | 4.41 | 3.72 | 2.24 | 6.71 | 11.63 |
| Average price, EUR | 4.49 | 3.62 | 4.52 | 10.10 | 9.83 |
| Price per earnings | 16.3 | 154.1 | 7.0 | 12.3 | 28.6 |
| Market capitalization, Meur | 80.2 | 66.2 | 39.9 | 118.6 | 202.2 |
| Stock turnover, Meur | 14.2 | 28.5 | 51.1 | 72.4 | 138.9 |
| Turnover, number in millions | 3.2 | 7.8 | 11.5 | 7.2 | 14.2 |
| Turnover, % of capital stock | 17.4 | 44.0 | 64.6 | 40.5 | 81.4 |
| Average number of shares | 18 093 689 | 17 805 590 | 17 708 782 | 17 494 435 | 17 363 102 |
| Number of shares at the year-end | 18 186 590 | 17 805 590 | 17 805 590 | 17 671 305 | 17 389 302 |
| Average number of shares, diluted w/o own shares | 17 693 605 | 17 229 154 | 17 372 555 | 17 971 752 | 18 022 505 |
| Number of shares at the year-end, diluted w/o own shares | 17 693 605 | 17 425 605 | 17 039 399 | 17 972 785 | 18 034 752 |
| Paid dividend, Meur | * 2.1 | 1.4 | 2.0 | 4.2 | 3.4 |
| Dividend per share, EUR | *0.12 | 0.08 | 0.12 | 0.24 | 0.20 |
| Dividend per net result, % | 43.7 | 331.3 | 37.4 | 43.9 | 49.1 |
| Effective dividend yield, % | 2.7 | 2.2 | 5.4 | 3.6 | 1.7 |

* The Board's proposal to the AGM



## Calculation of Key Figures

Return on equity:
$$\frac{\text{Profit/loss for the financial period}}{\text{Shareholders' equity (average)}} \times 100$$

Return on capital employed:
$$\frac{\text{Profit/loss for the period after financial items + financing charges}}{\text{Total assets – non-interest-bearing liabilities (average)}} \times 100$$

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

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

Earnings per share:
$$\frac{\text{Profit for the period attributable to equity holder of the parent}}{\text{Weighted average number of ordinary shares outstanding during the period}}$$

Earnings per share, diluted:
$$\frac{\text{Profit for the period attributable to equity holder of the parent (diluted)}}{\text{Average number of shares – own shares + number of options at the period-end}}$$

Equity per share:
$$\frac{\text{Shareholders' equity}}{\text{Number of shares – number of own shares at year-end}}$$

Price per earnings (P/E):
$$\frac{\text{Share price at year-end}}{\text{Earnings per share}}$$

Effective dividend yield:
$$\frac{\text{Dividend per share}}{\text{Share price at year-end}}$$

**THE PETRONAS TOWERS**, or Twin Towers, a world famous landmark of Kuala Lumpur, Malaysia, were the tallest buildings in the world from 1998 to 2004. The construction of Tapei 101 meant that the claim to fame is now revised to be the world's tallest twin buildings. The buildings were completed in 1998 after a seven year build, which was undertaken as a construction 'race' between a Japanese and two South Korean companies. The South Koreans, who started second, won the race by completing Tower 2 before the Japanese.

The building has 88 floors, and was designed to reflect Malaya's Muslim roots, with a facade of Islamic motifs. The concrete construction has, at 120 meters, the world's deepest foundations. The two storey bridge between the two towers is retractable in adverse weather. Given the height of the buildings it will not surprise you to know that the curvature of the earth results in the distance between the towers at ground level, being less than it is at the top.

The security system, which includes CCTV, was installed as a star network into a number of control rooms. These control rooms are then interconnected over fibre optics by a multi-channel CFO700 system. Sadly obsolete now in this digital age, CFO700 was THE vehicle that transported Teleste Video Networks from a peripheral CCTV player, to a global influence that we are today.

# Shares and Shareholders

Teleste's shares are listed on the NASDAQ OMX Helsinki. The company has one series of shares. On December 31, 2010 the number of registered shareholders was 5 184.

# Shares and Shareholders

## Investor Relations

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

## Objectives and Principles

Our communication aims at providing all the market participants with equally correct and relevant information, which supports the value formation of the company share. The principles guiding Teleste's disclosure policy include up-to-dateness, truthfulness and simultaneity. Corner stones of our regular financial communications also include coherence of the released information and continuity. For all meetings, any specified information involving corporate strategy and development is based on previously published data.

Teleste has formulated a Diclosure Policy, approved by the Board of Directors, which defines the principles and procedures by which Teleste Corporation communicates with the capital market.

## Contact Information

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Email: investor.relations@teleste.com

## Share Basics

Teleste Corporation is listed on the NASDAQ OMX Helsinki Oy in the Information Technology sector. In 2010, the company was included in the small cap segment. The company shares are included in the book-entry securities system.

**Facts about the share:**

Listed on....30.3.1999
ISIN code.... FI0009007728
Trading code....TLT1V
Reuter's ticker symbol ....TLT1V. HE
Bloomberg ticker symbol....TLT1V FH

12 months high .... 5.33
12 months low .... 3.63
All-time high (7.9.2000).... EUR 39.00
All-time low (12.12.2008) .... EUR 1.90

## Financial Information

Annually, Teleste releases the Financial Statement bulletin, Annual Report and three Interim Reports. Teleste meets investors, analysts and representatives of the media in news conferences set up in connection with releases of financial reports.

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.

**Financial Releases in 2011:**

Interim report January to March....27.4.2011
Interim report January to June .... 3.8.2011
Interim report January to September .... 26.10.2011
Financial Statements .... 1.2.2012

These publications including the stock exchange releases are available in Finnish and English at the company website.

Publications may be subscribed to at Teleste's website or via the company's investor relations, investor.relations@teleste.com, tel. +358 2 2605 611.

The company announcements are available for subscription by direct email at the Company website.

## Changes in Shareholders' Contact Information

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

In the event Euroclear Finland Oy acts as the account operator, any changes should be notified to the address:
Euroclear Finland Oy
P.O. Box 1110
FI-00101 Helsinki FINLAND
Street address: Urho Kekkosen katu 5 c
Telephone: +358 20 770 6000
Email: info.finland@euroclear.eu

## Analyst Coverage

According to information available to us, analysts listed below (the list may not be exhaustive) monitor Teleste's performance on their own initiative publishing investment analyses about us. Teleste takes no responsibility for the opinions expressed by analysts or for any evaluations presented by them.

For analyst contact information visit our company website.
Carnegie Investment Bank Ab, Ilkka Haavisto
SEB Enskilda Equities, Artem Beletski
Handelsbanken Capital Markets, Karri Rinta
Danske Markets Equities, Ilkka Rauvola
Nordea Markets, Martti Larjo
Pohjola Pankki Oyj, Hannu Rauhala
Swedbank, Pekka Rouhiainen
Ålandsbanken Equities, Matti Riikonen



## Annual General Meeting

Teleste Corporation's Annual General Meeting (AGM) will be held on Friday, 8 April 2011, commencing at 3 p.m., in Helsinki Hall at Finlandia Hall in Helsinki, 13 e Mannerheimintie. Registration and distribution of voting tickets begins at 2 p.m.

## Right to Participate and Registration

Shareholders registered on the list of shareholders with Euroclear Finland Oy on Tuesday, 29 March 2011 are entitled to participate in the Annual General Meeting. A shareholder whose shares have been registered on his/her personal Finnish book-entry securities account has been entered into the list of company shareholders.

Shareholders wishing to attend the Annual General Meeting must sign up with the company no later than by 4 p.m. on Thursday, 31 March 2011. Sign up to the AGM by one of the following:

**Such notice can be given:**
by email investor.relations@teleste.com;
by telephone +358 2 2605 611;
by telefax +358 2 2605 812; or
by regular mail to the address Teleste Corporation,
Tiina Vuorinen, P.O. Box 323, FI-20101 Turku, Finland.

The registration notice must be delivered before the deadline stated above. Please specify your name, person ID, address, telephone number and the name and person ID of assistant or representative, if any. Personal information provided by the shareholder to Teleste Corporation will be used only for the AGM and the related necessary registration purposes.

## Use of Representative and Proxies

A shareholder is entitled to attend the AGM and exercise his/her rights at it through a representative.

The appointed representative of this shareholder must produce a dated proxy, or by other reliable means confirm his/her authorisation for the representation of the shareholder. Should a shareholder participate in the meeting by means of several authorized representatives representing the shareholder with shares in different book-entry accounts, the shares by which each authorized representative represents the shareholder shall be identified in connection with the registration.

Possible powers of attorney should be delivered in originals to the address Teleste Corporation, Tiina Vuorinen, P.O. Box 323, FI-20101 Turku, Finland by Thursday, 31 March 2011 at 4 p.m. at the latest.

## Holder of Nominee-registered Shares

The owner of nominee-registered shares is entitled to attend the meeting by virtue of the shares pursuant to which he would be entitled to be registered with Euroclear Finland Oy's shareholder register on 29 March 2011. Participation also requires that the shareholder of the relevant shares has been entered temporarily in the shareholder register maintained by Euroclear Finland Oy no later than 5 April 2011 at 10:00 a.m. For nominee registered shares, this shall be deemed as registration for the meeting.

A holder of nominee-registered shares is advised to request the necessary instructions regarding temporary registration in the company's shareholder register, the issuing of proxy documents and registration for the General Meeting from his/her custodian bank well in advance. The account management organisation of the custodian bank must have the holder of a nominee-registered share who wishes to participate in the AGM to be temporarily entered in the shareholder register no later than the deadline specified above.

## Other Information

Shareholders attending the AGM are entitled, as specified under the Companies Act section 5 paragraph 25, to put forth questions regarding issues dealt with in the Meeting.

On the date of this notice of meeting, the total number of shares and votes in Teleste Corporation is 18,186,590.

## Dividend Policy

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

## Proposal for Distribution of Dividend 2010

The Board of Directors proposes to the Annual General Meeting that, based on the adopted balance sheet, a dividend of EUR 0.12 per share be paid for shares other than those in company possession for the fiscal year that ended on 31 December 2010. The dividend will be paid to shareholders who on the record date, 13 April 2011, have been entered in the Company's Shareholder List, which is kept by Euroclear Finland Oy. This dividend will be paid on 20 April 2011.

## Payment of Dividend in 2011

Annual General Meeting .... 4.8.2011
Dividend ex date.... 11.4.2011
Dividend record date.... 13.4.2011
Payment of dividend.... 20.4.2011

**Dividend history, EUR**

| 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 0.10 | 0.12 | 0.16 | 0.08 | 0.08 | 0.12 | 0.16 | 0.20 | 0.24 | 0.12 | 0.08 | 0.12* |

* Proposal by the Board

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

Minutes of the Annual General Meeting will be available at Teleste's website no later than 23 April 2011.

## Shareholders

According to the Finnish Central Security Depository the number of shareholders at the end of the period under review was 5,184 (5,440). Foreign ownership accounted for 8.38% (9.69%). For more information on shareholders and shares see the parent company notes 24.

## Price Development and Trading in 2010

As to the company share price in 2010, the low was EUR 3.63 (2.25) and the high EUR 5.33 (4.30). Closing price on 31 December 2010 stood at EUR 4.41 (3.72). From 1 January to 31 December 2010, trading with Teleste share at NASDAQ OMX Helsinki amounted to EUR 14.2 (28.5) million. In the period under review, 3.2 (7.8) million Teleste shares were traded on the stock exchange.

Market capitalization at the year-end stood at EUR 80,202,862 (2009: 66,236,795).

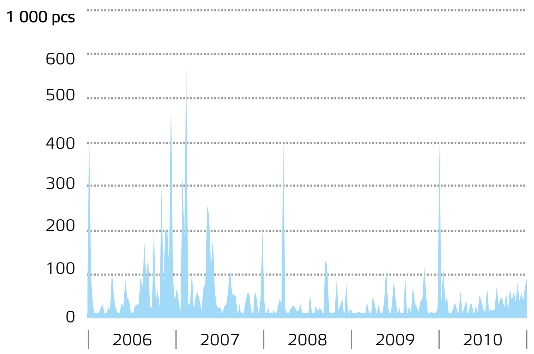
## Share Capital and the Number of Shares

Teleste has one series of shares. In Annual General Meeting each share carries one vote and confers an equal right to a dividend.

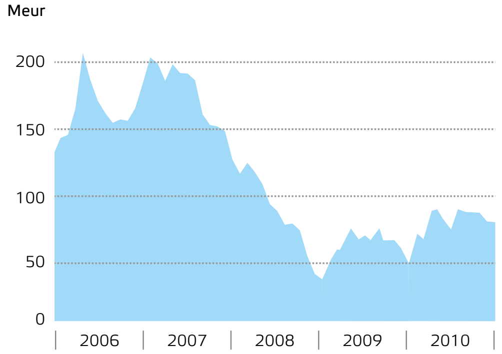
On 31 December 2010, the registered share capital of Teleste stood at EUR 6,966,932.80 divided in 18,186,590 shares.

In the period under review Teleste received no flagging notifications pursuant to Section 2, Paragraph 9, of the Securities Market Act.

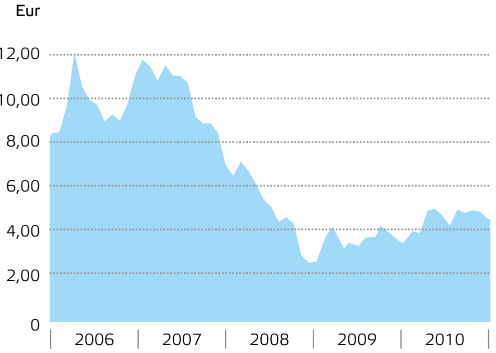
Share Turnover 2006–2010



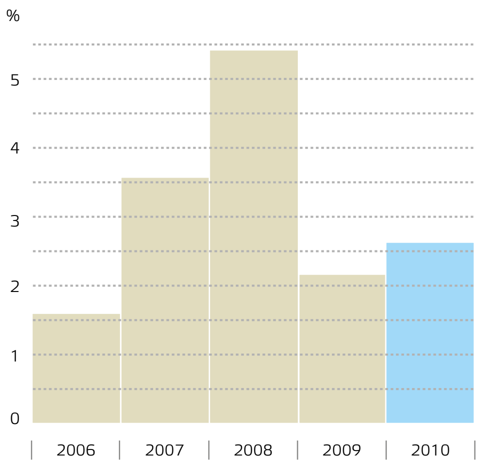

Market Value Development 2006–2010



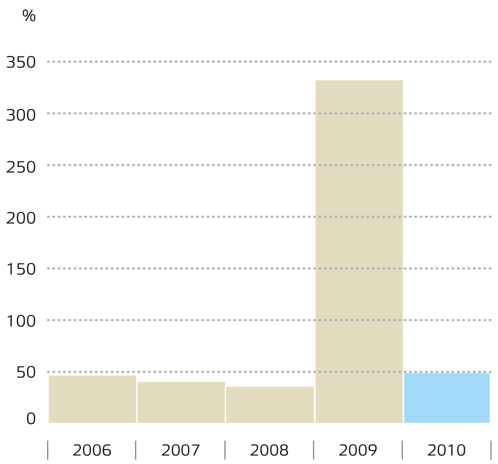

Share Price Development 2006–2010




Effective Dividend Yield




Dividend per Net Result






| Key Figures per Share | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Earnings per share, eur | 0,27 | 0,02 | 0,32 | 0,55 | 0,41 |
| Earnings per share fully diluted, eur | 0,27 | 0,02 | 0,32 | 0,52 | 0,38 |
| Shareholders equity per share, eur | 2,90 | 2,68 | 2,74 | 2,69 | 2,22 |
| Dividend distribution, Meur | 2,1* | 1,4 | 2,0 | 4,2 | 3,4 |
| Dividend per share, eur | 0,12* | 0,08 | 0,12 | 0,24 | 0,20 |
| Dividend per net result, % | 43,7 | 331,3 | 37,4 | 43,9 | 49,1 |
| Effective dividend yield, % | 2,7 | 2,2 | 5,4 | 3,6 | 1,7 |
| Closing price, eur | 4,41 | 3,72 | 2,24 | 6,71 | 11,63 |
| Price per earnings (P/E) | 16,3 | 154,1 | 7,0 | 12,3 | 28,6 |
| Market capitalisation, Meur | 80,2 | 66,2 | 39,9 | 118,6 | 202,2 |
| Turnover, Meur | 14,2 | 28,5 | 51,1 | 72,4 | 138,9 |
| Turnover, number in millions | 3,2 | 7,8 | 11,5 | 7,2 | 14,2 |
| Turnover, % of share capital | 17,4 | 44,0 | 64,6 | 40,5 | 81,4 |
| Average number of shares | 18 093 689 | 17 805 590 | 17 708 782 | 17 494 435 | 17 363 102 |
| Number of shares at the year-end | 18 186 590 | 17 805 590 | 17 805 590 | 17 671 305 | 17 389 302 |

* The Board's proposal to the Annual General Meeting

## A Summary of Teleste Corporation's Stock Exchange Releases and Announcements During 2010

The releases can be viewed at: www.teleste.com/Investors > Stock Exchange Releases

Some of the information included in the releases might be out of date.

**January 04** A summary of Teleste´s stock exchange releases in 2009.

**January 22** The results of Teleste´s co-determination negotiations. During the negotiations it was agreed to terminate employment contracts with 8 white collar and 16 blue collar employees.

**February 3** Financial Statement of Teleste Corporation 1 January to 31 December 2009.

**March 3** Notice to the Annual General Meeting of Teleste Corporation to be held on April 9, 2010.

**March 3** The Board of Directors of Teleste Corporation decided on a new incentive plan directed the members of the Teleste Management Group.

**March 18** Announcement that Teleste´s Annual Report 2009 has been published.

**March 24** Teleste Corporation approved share subscription of the directed share issue related to the management incentive plan. A total of 381 000 new shares were subscribed.

**March 31** New shares subscribed in the share issue, in total 381 000 shares, have been entered into the Trade Register and will be applied for public trading on Nasdaq OMX Helsinki Ltd on April 1, 2010.

**April 6** Teleste published the new reclassification of financial information as of January 1, 2010. The new reporting units are Video and Broadband Solutions and Network Services.

**April 9** Decisions of the Annual General Meeting (AGM) were published. The AGM resolved to distribute a dividend of EUR 0.08 per share for year 2009. Mrs. Marjo Miettinen was re-elected as the Chairman of the Board of Directors and Mr. Pertti Ervi, Mr. Tero Laaksonen, Mr. Pertti Raatikainen, Mr. Kai Telanne and Mr. Petteri Walldén were re-elected as members of the Board of Directors.

**April 15** Investor News
Teleste has entered the Swiss services market by acquiring a local services company, Freycom S.A., specialising in network maintenance and upgrades of cable and house networks.

**April 28** Teleste Corporation Interim Report 1.1.–31.3.2010.

**July 1** Teleste won an order from IBM to build video surveillance centralised recording solution for French National Railways. Value of the order exceeds EUR one million.

**July 21** Teleste Corporation Interim Report 1.1.–30.6.2010.

**August 2** Teleste signed a four year frame agreement with HOT Telecom from Israel. Order value was estimated to EUR 16 million.

**September 1** Teleste entered the Polish system integrator market of IP video solutions through acquiring the total share capital of Satlan Sp. z o.o..

**September 27** Teleste published the financial calendar for year 2011.

**October 25** Teleste´s subsidiary Cableway AG signed a three year contract extension with Kabel Deutschland. The estimated annual value of this frame agreement equals approximately EUR 50 million.

**October 27** Teleste Corporations Interim Report 1.1.–30.9.2010.

**October 29** Teleste undersigned an agreement with INEO (GDF Suez Group) to provide a video surveillance system for Paris police organisation.Value of the order is approximately EUR 6.9 million.

Notes

**Teleste Corporation**
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Telefax: +358 2 2605 812
**www.teleste.com**

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