We **make…**

YEAR 2014

your everyday **life**

easier

safer

more efficient

CONTENTS

TELESTE IN BRIEF

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

Our business is divided into two divisions, which are Video and Broadband Solutions and Network Services. In both areas, we rank among the world's leading companies and technological forerunners.

Video and Broadband Solutions focuses on access networks and video security and information solutions. Network Services offers comprehensive services for network design, construction and maintenance.

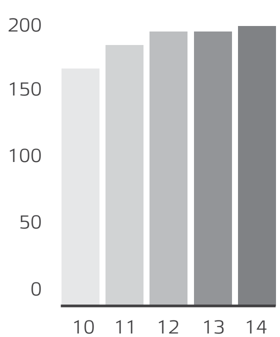
In 2014, Teleste's net sales totaled EUR 197 million, and the company employed more than 1,400 people. Teleste runs a worldwide network of offices and more than 90% of its sales are generated outside Finland.

The company is listed on the Nasdaq Helsinki. For more information see www.teleste.com.

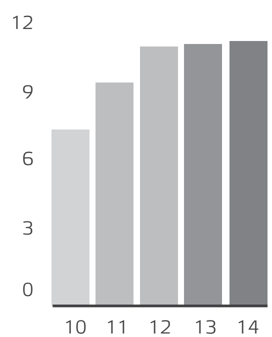
GOOD PERFORMANCE CONTINUED

- Early in the year demand was sluggish, but the second half of the year exceeded expectations.
- Full-year net sales and operating profit rose slightly from the previous year.
- Orders received increased.
- Our customers' ability to invest remained good.
- Price competition intensified further, especially in access networks products.
- We focused strongly on developing our product and service offering.
- We continued improving our competitiveness through a number of measures.
- The outlook for 2015 is mainly positive.
- Our order backlog provides a good starting point for the current year.
- The acquisition of Mitron in January 2015 strengthens our offering of video surveillance solutions.

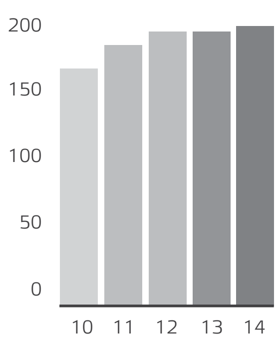
NET SALES, MEUR



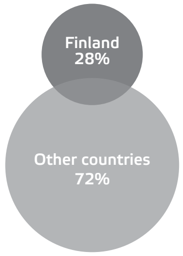
OPERATING PROFIT, MEUR



ORDERS RECEIVED, MEUR



PERSONNEL



HIGHLIGHTS

January. Teleste turned 60 on 22 January. Over the decades, Teleste has grown into one of the world's leading suppliers of access networks and video surveillance applications, products and services.

March. A Group-wide well-being survey was carried out in March. The overall result was good, and corrective measures were launched based on the areas of development identified by the survey. A Steering Group was established to monitor the progress.

July. Teleste won a public tender for delivering optical access network transmission equipment to the French authority SIEA. The system is one of the largest RFoG deployments in Europe.

August. Teleste signed a five-year frame agreement with multi-national Altice Group. This is the first mass-scale deployment of DOCSIS 3.1 capable access network in Europe.

October. Teleste signed an agreement with the French State Railways (SNCF) on maintenance of the video security solution covering the whole of France. The solution has been gradually supplied by Teleste over the past ten years.

December. Fourth-quarter net sales was the second-highest in Teleste's history and almost reached the previous year's record net sales.

ACCELERATING RATE OF DIGITISATION

The rapid progression of digitisation is changing our operating environment and ways of living at great speed. The world is becoming networked while new technologies are being developed and utilised ever more widely. Intelligence and need for information increase in our environment. Public transport, regions and borders are already being monitored and controlled by means of broadband and video solutions. Efficient dissemination of information facilitates movement of people and ensures their safety.

Smartness is also increasing in our homes. A broadband connection can be used, among others, to control electronic equipment, lighting, heating and doors and to give an alarm on any hazardous situations. This, in turn, enables the development of a number of new services, for example, to cater to the needs of older people.

We at Teleste develop technologies and solutions that promote digitisation to make people's daily life smoother, safer and more efficient.

Good Result

For Teleste, the year 2014 was, by and large, good. The typically rather sluggish market of the early year picked up towards the end. In the second half of the year, we took a clear final spurt. For the full year, our net sales amounted to EUR 197.2 million, an increase of 2.3% over 2013. Our operating profit of EUR 11.1 million reached the level of the previous year.

The demand for our products and services developed favorably. The need for access network products kept on growing, but at the same time the tough price competition, that has been felt for some time, only intensified. We, however, managed to strengthen our market position while increasing our profitability. Similarly, the sales and profitability of video surveillance solutions developed, as a whole, well. The pace of orders coming in was steady, but the year brought no large systems contracts with it. As for services, our net sales almost reached the previous year's level, whereas our profitability weakened due to the slower-than-expected progress achieved with the expansion of services in the UK.

Well-being at Work and Standards

2014 was also busy in terms of our internal development efforts. In March, we carried out the first Group-wide survey of well-being at work. In the light of the obtained results, people at Teleste enjoy their work; we tend to get inspired by our tasks and Teleste's knowhow. On the other hand, a number of deficiencies were found, and clear differences can be seen between our offices. Based on these results, we defined development targets and tackled the issues right away. We now have several global programs running, the advancement of which is monitored by steering groups. Job satisfaction is important to us because of productivity, but in particular, we want Teleste to have a nice working atmosphere.

Regarding the development of our offering, we carried out a lot of different measures paying special attention to our product and quality development, and product-specific profitability calculation. As to the product development, we continued our R&D efforts involving access networks products in line with the DOCSIS 3.1 standard. We succeeded in introducing the first upgraded products to the market, and their deliveries began in the second half of the year. Considering our extensive product offering, these upgrades will keep our product development busy for years to come. For our customers, this new standard allows for building increasingly intelligent access networks cost-effectively and, at the same time, diversification of the provided services.

Mitron Strengthens Our Expertise

At the beginning of 2015, Teleste acquired the entire share capital of the Finnish Mitron

Group Oy Ltd. Mitron delivers public transport information systems and modern display solutions. Mitron strengthens our expertise and position as a comprehensive supplier of rail traffic video security and information management solutions. In our view, this merger will create clear synergies. Along with our customer base, the news about this acquisition got a positive reception also among the personnel of both Mitron and Teleste.

Demand Sustained by Trends

We have entered into the new financial year with confidence. We believe the demand for our products and services will remain at a good level. The need for broadband continues to grow rapidly, so the operators will continue to invest in access networks in order to offer new services. The recent world political developments have only accentuated the importance of guaranteeing safety, and video security systems have been proven to be effective tools for this need. In January, the regional monitoring system delivered by Teleste to Paris in 2010 was found out to be of crucial importance because of the terrorist attacks carried out in the city in January 2015.

We see significant potential also in our services business. In recent years, our customer base has undergone a strong consolidation, and the industry now faces even bigger players who concentrate their purchasing and buy any required products and services from the same supplier. Here, Teleste has an edge over its competitors as we are better equipped to provide end-to-end solutions, especially in the European market.

There are, of course, also uncertainties in sight. Direction of the European economy is open and the exchange rate fluctuations are unpredictable. Competition in the market will only intensify, and especially the access networks products are subject to intense price pressure. Therefore, we need to take a good care of our competitiveness. In accordance with the principles of continuous improvement, we increase the efficiency of our operations in every area, we develop our know-how and cost-efficiency while expanding our markets and our customer base. We will continue our work with confidence, because we believe that Teleste has great potential for success also in the current year.

I thank our employees, customers, partners and shareholders for their trust and valuable contribution given to help us achieve our goals in the past year. The excellent conditions to continue our work from now is the consequence of our joined effort.

Jukka Rinnevaara
CEO

The need for broadband continues to grow rapidly, so the operators will continue to invest in access networks in order to offer new services.

MEGATRENDS BEHIND OUR STRATEGY

Teleste's most important megatrends can be identified in everyday life. Video and electronic data transfer are increasing and breaking over to new areas as people are using more and more video both at work and during leisure time. Similarly, the need to ensure people's safety and their needs for information are on the increase. The third factor driving the market are the new technologies and solutions.

Increasing Use of Video and Data
The amount of content available in the form of video or data is huge. People consume the content of their choice anytime and anywhere. The number of different devices used for this is also increasing. Computers, tablets and smartphones have come to existence alongside traditional TV. People's needs and quality requirements are increasing, and especially the use of Internet videos on the network requires a lot of capacity and high quality. Responding to the wishes of Internet and TV users requires investments in the network, i.e. more capacity. The need for network capacity increases two-fold in 18 months already now.

Rapid Development of Technology
Video and data transfer technologies continue to develop rapidly. New technologies enable a better user experience, but they are also creating new ways to deploy networks. The amount of smart technology in the networks is increasing. This is the way to enhance the capacity and improve the quality experienced by the end-customer. In the network, smart features are coming closer to the user.

Development of devices continues apace. These devices talk to each other and with users. Interactivity generates new kinds of commercial activity and earning models.

MEGATRENDS

Ensuring Safety by Video Security
More than ever, video technology is needed to provide a safety net. As the number of various threats increases, they are controlled more cost-effectively by means of video security.

Globalization and urbanization are increasing the need for security, yet at the same time the focus of such security has shifted from national borders to cities. The flow of traffic, too, requires more accurate information.

INCREASING USE OF VIDEO AND DATA

The capacity and quality of networks are improved

There will be new players in the market and the offering to consumers will expand

TECHNOLOGY DEVELOPMENT IS FAST

The new video and data transmission technologies will continue to develop

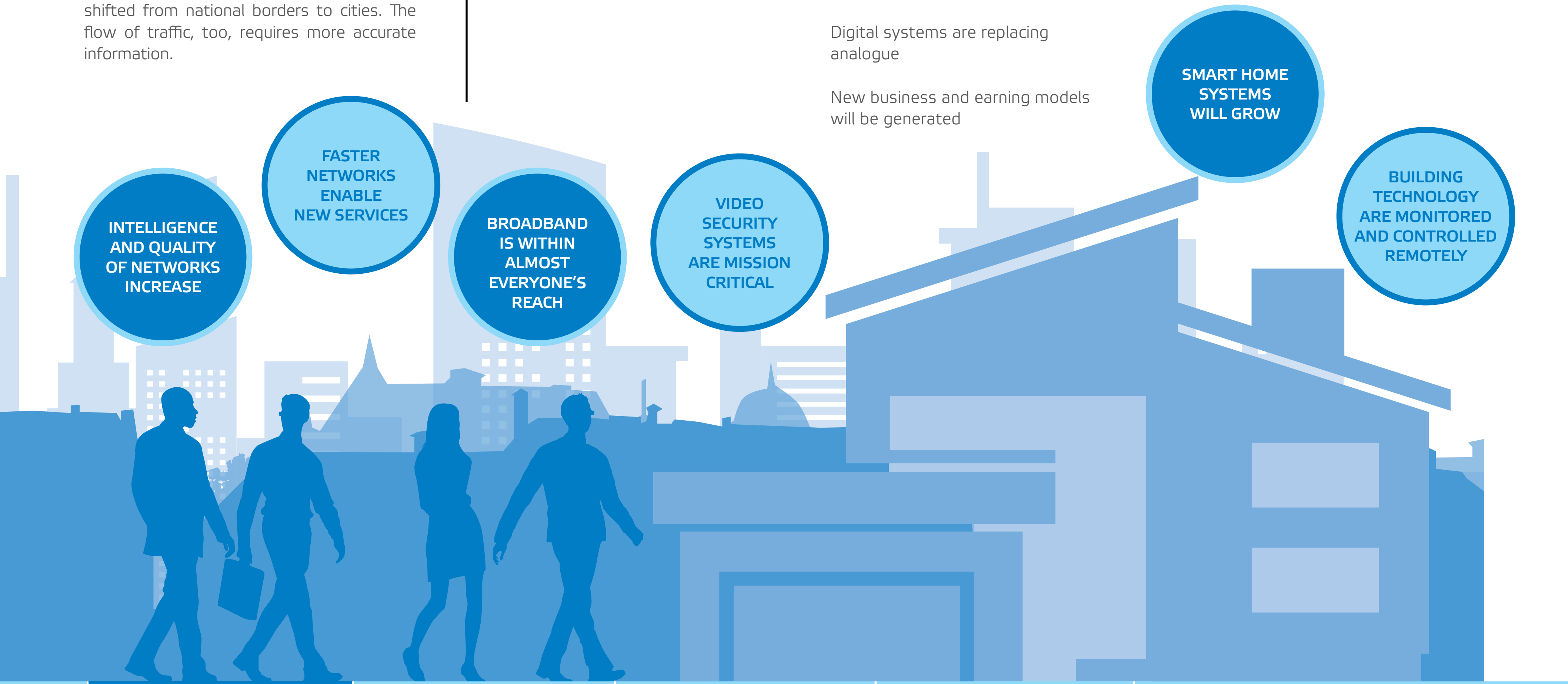
Consumer devices develop and become more diversified

Digital systems are replacing analogue

New business and earning models will be generated

PEOPLE'S NEED FOR SAFETY AND INFORMATION IS GROWING

We need reliable, smart and cost-effective security and information solutions



TELESTE'S STRATEGY UP TO 2017

As a leader in its field, Teleste is building a modern networked world by means of its new broadband and video solutions. Teleste develops and provides video and broadband technologies and services for cable operators and telecom companies and the public sector. Our core business is video: video and data processing, transfer and management.

Teleste's goal is to be a respected partner to its customers and a preferred employer, and to grow profitably. To achieve these goals, we have drawn up a five-point strategy:

1. Close to the Customer and Keeping Promises

Teleste is a well-known player in all of its business areas, and it has a particularly strong market position in Europe. The Company's area of operation covers the entire world, and we are looking for growth increasingly in the emerging markets such as China, India, the Middle East and South America. Teleste's supply also allows the expansion of its customer base from the cable operators to telecom operators.

In 2014, Teleste enhanced its sales and marketing, as well as strengthened its international partner network. In our TV distribution business we put the main emphasis on Southern Europe, while in video security we strengthened our presence in the Middle East and North America. The focus of our services business was on strengthening our market position in our existing areas of Germany, Britain, Finland, Switzerland and Belgium.

2. Development of Competitive Offering in Access Networks

Building up network capacity and bringing about qualitative improvements continue to drive the demand for technology, and in this business technologies are developing fast. Teleste is a pioneer as a developer of technology used for access networks, and it continues to invest in products and services needed by its customers. The functionality of networks combining conventional coaxial cable and optical fibre can be improved by adding intelligent features. Similarly, we press on with the development of new technologies, such as Data over Coax, which enables high-speed data services over coaxial network.

These new solutions of access networks add to the intelligence of devices close to the end-users, and it is this added intelligence that makes it possible to increase the network capacity cost-effectively in households. In 2014, our most significant R&D investments included further product development in line with the DOCSIS 3.1 standard.

3. Development of Solutions in Support of Innovative Video Services, as well as Services

As for headends, Teleste focuses completely on digital solutions. The most appropriate solutions are developed for each market. One of our priority areas of investments includes the development of an efficient and

VALUES

Customer Centricity

Respect

Reliability

Result Orientation

MISSION STATEMENT

We develop and offer video and broadband products, services and solutions for cable operators and the public sector. We make your every day life easier, safer and more efficient.

compact Luminato product range and the utilization of the BarrIER technology in Teleste's products. In addition to our comprehensive offering, Teleste's competitive advantage in services is based on our technological know-how, installed base, and local presence. The demand for online services is increased by outsourcing in the client sectors, which, in turn, is boosted by the introduction of new technology and the tight cost control. In its offering, Teleste seeks to increase the number of high-yield value-added services.

In 2014, our product offering of video headends focused on enhancing the marketing and operational efficiency, inter alia, by concentrating the distribution of products and increasing the degree of automation in our business. As to the services, we continued our profitability development. In Germany, our progress was already clear, whereas in the UK the start-up of our new function was slower than anticipated.

4. Integrated Solutions and a Wider Customer Base for Video Security

Teleste differentiates itself from its competitors by offering end-to-end solutions consisting of our own products and those of third parties. Teleste has a strong position in large custom-designed multi-site video security systems encompassing up to thousands of cameras. In the future, Teleste will invest into segment specific multi-site systems, which comprise hundreds, but not necessarily thousands, of cameras. This segment provides good growth opportunities, to which Teleste's offering can be adapted by reasonable investments. Success also requires development of video monitoring systems with a more wide-ranging field of application. Therefore, along with mobile applications, our product development focuses on the creation of software connecting various systems.

In 2014, our video security focused especially on mobile solutions and those paving the way for the Smart Home. In addition, work continued on expanding our offering to include a management platform, which gathers data from multiple subsystems and connects them into a single interface.

5. Productivity and Cost-Effectiveness of our own Operations

Teleste monitors the cost-effectiveness of its operations in order to maintain its competitive edge. The monitoring of our profitability is continuous and response to any deviations is rapid. The seasonal fluctuations typical for the industry are compensated by our flexible mode of production. In our production process we seek to take advantage of the most effective tools and best practices will be introduced throughout the organisation. Well-being at work is a major factor in maintaining productivity.

The Group-wide survey conducted in March 2014 showed that Teleste's well-being at work is, as a whole, on a good level. Clear targets for development were also found, and relevant action has been taken.

STRATEGY

We are close to our customers and we keep our promises.

We continue our strong investments into the development of access network products and services.

We develop solutions that enable innovative video services.

We focus on comprehensive and segment specific video security and information solutions.

We improve our performance and cost-efficiency.

GOALS

Be a valued partner for our customers and a preferred employer.

Profitable growth.

VISION

As a leading player in our industry we are creating the modern networked world by means of new broadband, video, and information solutions.

INNOVATION AND PRODUCT DEVELOPMENT PAVE THE WAY FOR FASTER BROADBAND

For Teleste's entire history, technical product and system innovations have provided the foundation of the company's successful product business. The company has made a long-term investment on R&D of at least 10% of the product business annual net sales, which has enabled the development of Teleste's wide-ranging and competitive product portfolio.

Teleste's R&D activities focus mainly on the so-called applied product development, the aim of which is a new product or product feature. A prerequisite for applied R&D is the development of basic technology and research, for which Teleste relies on partners specialising in these areas. The partners concerned include Universities and Polytechnics, among others.

For Teleste, the key success factors include experienced and skilled R&D personnel, and its continued development. Since technology develops at an increasing speed and Teleste operates in a number of different areas of technology, it is almost impossible to cover all the required needs for technological R&D on our own. For this reason, it is important to identify those technologies and key areas of expertise, the management of which by ourselves is essential for our success today as well as in years to come. Other required elements are, then, covered by means of a network consisting of Finnish and foreign partners.

Key Customers and Product Development

Teleste's R&D works in close interaction with our key customers. In this type of activity, Teleste's own extensive sales network plays a crucial role. "Workshops" set up with our key customers who focus on future technologies allow for testing of new ideas before the actual investment stage and, thus, limit the risk involved in development activities. This ensures that there is a real market need for the new products or features taken onboard and that the timing in relation to competition and market conditions is optimal. Our speed of commodification of new technical innovations and our customer-oriented way of operation provide Teleste with a strategic competitive advantage.

R&D Priorities

Teleste's product development efforts target the following three main areas: operators' access networks and headend video processing solutions, as well as video security solutions featuring a large number of cameras typically designed for public authorities. From the viewpoint of product development, these areas differ from each other significantly. The essence of the access networks business is the ability to design product solutions suitable for large production volumes cost-efficiently. Video processing solutions designed for the operators require development of high-quality end-to-end solutions optimised for different business environments and standards. Video security solutions, in turn, highlight our capabilities to tailor the management software to meet customer-specific needs and to integrate the various sub-systems into comprehensive solutions. As for development of profitable business, taking these differing priorities into account in the operational models of product development is a key requirement.

In 2014, the strategically most important priority area, which also received most of the R&D inputs, was the further development of access network devices to meet the requirements set by the new standard version of the DOCSIS technology, Data-Over-Cable Service Interface Specifications, for short. This new standard defines the updated key parameters (e.g. forward and return path frequency ranges) of the physical layer of the access network that will enable significantly faster broadband services for the consumers. This extensive upgrading program was launched at the end of 2013 and it will continue in 2015.

Another major priority area is based on the development of broadband technology in line with distributed architecture. This technology to be developed provides consumers with very fast broadband services based on the existing coaxial cabling. In the building, this allows for avoiding expensive optical fibre retrofit while enabling the achievement of a similar user experience to what the Fibre-to-the-Home technology offers.

The above-mentioned projects provide excellent examples of Teleste's capabilities quickly to commercialise a demanding technical concept, which also draws on work conducted by Standards Working Groups of the industry and developments taking place in the supply of components. Combined with a sound business strategy, this exceptional capability requires a high level of expertise across Teleste's entire organisation.

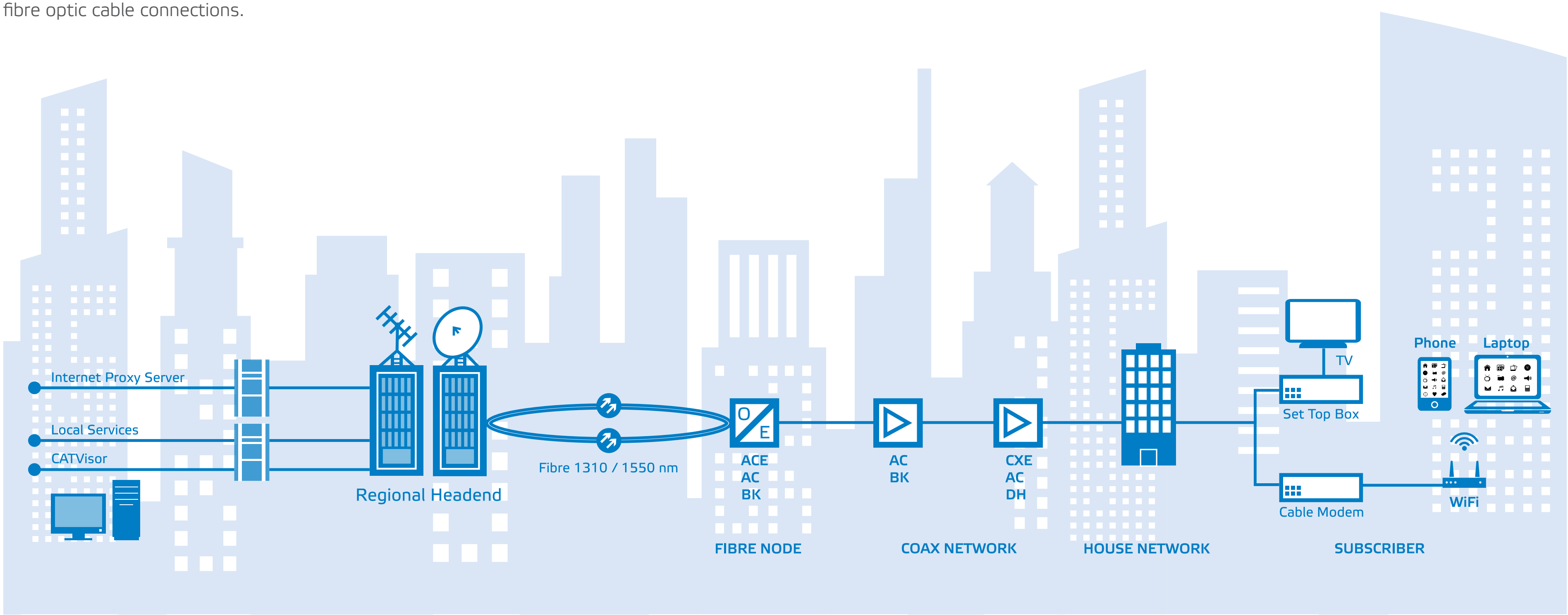
STRUCTURE OF A MULTI SERVICE NETWORK

Conventional one-way cable TV network has undergone quite a change over the last 15 years. Operators have increased their service offerings by introducing Video-on-Demand services and high-speed Internet connections alongside the traditional linear television. These new services require a two-way communication network, which is furthermore divided into smaller segments by means of fibre optic cable connections.

Such network is split into different areas in line with the example below. The core network connects the operator's individual service areas to each other, and typically these are different cities. The regional network connects all access networks of one service area into a single manageable entity. The regional network is segmented by means of fibre-optic connections into access networks so that a single optical node serves about 100 to 1,000 households.

The more versatile a product portfolio the operator wants to offer the customers, the smaller the number of connected subscribers per node must be. From the viewpoint of the services, the best option would be a Fibre-To-The-Home network (FTTH), but at least for the foreseeable future, deployment of a comprehensive fibre network is not economically feasible.

For this reason, new innovations are expected to arise especially for the ever-more efficient utilization of the legacy house network cabling.



	Customers	Offering

VIDEO AND BROADBAND SOLUTIONS

TV DISTRIBUTION BUSINESS

Customers

- All major European cable operators
- Medium-sized and small operators in Central and Eastern Europe are served through distributors
- Global supplier of headends to cable and telecom operators and to the hospitality segment, such as hotels

Offering

- All cable access network products from the headend to the household AC outlet
- The main categories include active and passive products, headends and video-on-demand solutions of access networks
- Integration and maintenance services

VIDEO SECURITY AND INFORMATION

Customers

- Mainly public institutions, such as authorities responsible for the security of urban areas as well as road, rail and air traffic
- The largest markets include Europe, North America and South-East Asia

Offering

- Comprehensive video security and information applications in which Teleste's own products cover transmission, recording and management of video as well as information solutions
- Teleste's video security application is often joined together with other systems, such as traffic control, alarm and crisis management systems

NETWORK SERVICES

Customers

- European operators providing cable-TV, broadband and telecommunications services
- Recent expansion of our Service Portfolio adds now mobile operators and OEMs to our client base
- Priority areas include Belgium, Finland, Germany, Switzerland and the United Kingdom

Offering

- End-to-End Next Generation Network services for Network Operators and their main OEM partners
- High-quality services for the design, documentation and construction as well as installation and maintenance of networks
- Consultancy, Project management and Managed services for large projects
- Shipments of components, custom assembly assignments, integration, testing, and network management over advanced Network Operations Centres (NOC)

Strengths	Market Position	Growth Opportunities
• Innovations in our product offering allow operators to provide consumers with higher-level services, as well as a more efficient way to build and maintain networks • Product portfolio optimized for the varying needs of European customers • Presence and local customer support in all major markets • Strong reputation for high quality and respected supplier	• European market leader in access network products for cable TV use • The only player who has a presence in all major European cable markets with an end-to-end product offering • A significant global player in headends	• Distribution of TV services over the Internet increases capacity needs of access networks • Integrated service platform modules allow for delivery of on-demand video services to consumers • Stronger presence of telephone operators in TV services • With the new DOCSIS 3.1 access network solutions, our market area expands beyond Europe
• Demanding video security sites in which multi-object cameras, recorders and workstations are networked into one unified video security system • Capability to technically integrate segment specific systems into end-to-end solutions • One of the world's leading reference projects	• Strong market position in very large and demanding projects • Experience also in slightly smaller multi-site systems • Long-term customer relations	• The need to ensure safety increases the use of video security • Analogue systems will be replaced by full-digital systems • Intelligence will increase in living environments and at homes • The need for end-to-end solutions is growing • The need for information is growing
• Strong technological know-how, professional project management capabilities and excellent reputation • Ability to provide, among others, innovative and new solutions for network construction and maintenance • Our long history in European equipment supplies is shown as experience, market credibility and profound technological know-how	• European-wide uniquely positioned to serve Network operators and their OEM partners across nations and geographical boundaries with a true end-to-end approach	• Broadband expansion and bandwith growth drives strong growth in our service segments • Customers are concentrating their purchases and want their products and services increasingly from the same supplier • New technologies

We make your everyday life

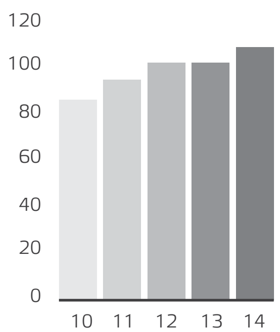
easier, safer and more efficient

VIDEO AND BROADBAND SOLUTIONS

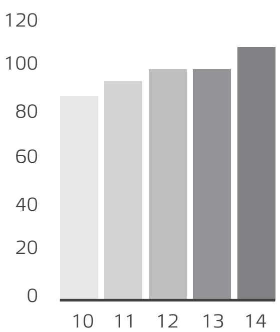
A GOOD YEAR ON THE WHOLE

Video and Broadband Solutions (VBS) provides cable and telecom operators with all the products related to access network from headends to household AC outlets and video security applications mainly to public sector organisations. Video and Broadband Solutions' net sales grew by 5.1%, rising to EUR 106.9 (101.7) million. Net sales was increased by brisk demand for access network products. Operating profit grew by 2.2% equaling EUR 9.7 (9.5) million. Profitability remained good in both video security solutions and TV distribution business, despite the fact that price erosion in access network products continued strong. The business area employed, on average, 560 people.

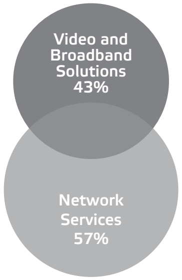
VBS NET SALES
MEUR



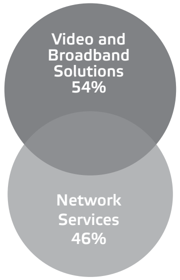
VBS ORDERS RECEIVED
MEUR



SHARE OF PERSONNEL



SHARES OF NET SALES



TV DISTRIBUTION BUSINESS

TV distribution business provides access networks, video headends and video-on-demand solutions and related services to cable operators. Concerning access networks, our product range includes all the components from the optical fibre solutions to amplifiers and passive components, such as aerial sockets. As for headends, the focus is set on fully digital solutions. Services covered by our product-related business include system design, quality assurance consultation, maintenance services for the delivered systems and training.

Digital networks allow households to enjoy better image quality, a wider provision of services to a range of terminal equipment, interaction, and higher data rates. Similarly, video security systems are increasingly moving towards fully digital network technology and more advanced automatic control applications. Digitisation of services and networks began already in the late 1990s and is still continuing strong. It is progressing deeper into the network infrastructure and, simultaneously, spreading wider geographically; in Teleste's main market areas in Europe, digitisation will still continue strong for many years and elsewhere in the world in many places it is only just beginning.

Good Pace of Growth

Favourable development of the cable operators' business maintained their ability to invest in networks. The demand for broadband services continued to grow, driven, in particular, by the rapid increase in the use of video over the Internet. Needs of the customers require from operators continuous development of network capacity, quality characteristics and reliability of operation. Similarly, solutions taking advantage of new technologies and the transition from analogue to digital broadcasting will increase the sales of Teleste's products. In Europe, only a little over half of all households enjoy digital broadcasts.

Demand for Teleste's products and services followed the usual seasonal fluctuations; sales took off after the quiet first quarter, and the autumn turned out to be busy. By the end of 2014, the level of the previous year's net sales was exceeded. Business was particularly brisk in France, Germany, Great Britain and Sweden, as well as in our new market area of Turkey. Teleste's net sales from the TV distribution business grew, even if the market remained stagnant, in other words, we improved our market share.

The competitive situation continued to be challenging. For a few years, new suppliers have entered the scene. They manufacture their products in low-cost regions including China and the Far East. This has reflected in aggressive price competition and led to a decline in the price level. Thanks to our efficient production and streamlined methods of operation, Teleste managed to remain competitive.

In 2014 Progress was Made on Many Fronts

Teleste's customer base remained largely unchanged, but our role as the most important partner to our customers was further strengthened. Consolidation in the industry has led to increasingly large customers who concentrate their purchases to their chosen partners. In 2014, we focused particularly on the development of customer loyalty and product quality assurance.

Integration of Asheridge, acquired in 2013, into Teleste's operation went according to plan. With Asheridge, Teleste's share of the passive and home networking products market increased significantly, and our presence in Spain and Portugal strengthened. The marketing of passive and house network products was streamlined and the ordering and supply chain was enhanced throughout our area of operations. The aim is to combine the products into our global offering, streamline operations and take advantage of sales and marketing automation in the form of e-commerce.

At the Forefront with New Products

As Europe's leading supplier of access network technology, Teleste was the first provider to launch new DOCSIS 3.1 compliant products. This standard allows for the implementation of higher-speed broadband at lower cost. The new standard will keep Teleste's R&D busy for years to come, because almost all of our products must be upgraded. On the other hand, the first operator has already initiated the construction of a standard-compliant network, so the demand for these products will increase.

Another item subject to product development was the distributed access network architecture with the first product – DAH100 – launched. Also deliveries of the said product started in the autumn of 2014. Distributed architecture will turn the access network more to a data network bringing the intelligence of the network closer to the consumer. Thus, architecture is responding to the change in the operating environment, since broadband service already occupies a larger proportion of the network traffic than TV broadcasts.

VIDEO SECURITY AND INFORMATION

Teleste offers comprehensive video security and information applications for customers primarily in the public sector. Our emphasis is set on demanding video security applications, where cameras, recorders and workstations from a number of sites are networked into a single system. Comprehensive solutions consist of Teleste and third-party products, system design, project implementation as well as services related to system maintenance and training.

Teleste offers comprehensive video security and information solutions mainly for public sector customers. The increasing need for security and real-time information contribute to the development of the markets. With the development of technology, there is a growing need for integrated solutions. Teleste focuses on larger, technically more challenging systems, which often require system-specific solutions.

Steady Advancement

In 2014, the need for ensuring safety kept on strengthening so the demand for video security solutions remained strong. New orders came in steadily, even if the number of large projects recorded in the order books was limited. On the other hand, the share of maintenance contracts increased. Our largest order, of approximately EUR 3.0 million, involved maintenance of the video security system for the French State Railways. The system was originally supplied by Teleste, and the maintenance contract signed in October spans three years.

Implementation of Teleste's strategy advanced significantly. Expanding our supply from the most demanding systems to slightly smaller ones requires reduction in the degree of customization and increased use of standard solutions. As part of this, we continued both our R&D efforts in wireless technology and our inputs designed to extend our security solutions to the smart home. Moreover, our work to expand Teleste's offering to the management platform went on. This system gathers data from multiple subsystems and links the feeds to a single user interface, the so-called PSIM platform. We also kept on strengthening our international sales organisation by way of looking for new partners particularly in fast-growing markets, such as India and the Middle East, where a new Teleste office was established in Dubai. Also our other marketing operations were actively carried on, and towards the end of the year Teleste organised industry conferences, for instance, in Dubai and Thailand.

Mitron Expands Teleste's Supply

In early January 2015, Teleste acquired the entire share capital of the Finnish company Mitron Group Oy Ltd. This acquisition brings Teleste significant new know-how, expands our supply and strengthens our position as a systems integrator of video security solutions to the rail transport industry. Mitron delivers public transport information systems and modern display solutions. Security solutions and data management solutions cover transfer of wireless data and real-time video between rail cars and stations including advanced rail passenger information and video security systems. The demand for such systems is expected to increase significantly as the safety and information requirements for the rail industry become more stringent. In 2014, Mitron's net sales amounted to more than EUR 22 million and the company employed 120 people.

Segment-Specific Solutions

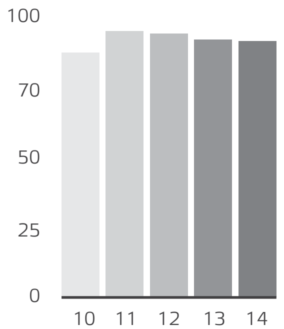
Teleste's security solutions are used in a number of applications, such as road, bus and rail services, as well as in airports and military and public areas. Since ensuring security becomes increasingly important, the demand for cost-effective and reliable video security systems is expected to keep on growing. On the other hand, in addition to security, these systems also offer other benefits that are expected to become increasingly demanded in the market. For example, the demand for passenger information on trains and buses increases rapidly. In the future, the display devices on various means of transport will provide more diverse information and also entertainment. Similarly, home security and functionality are also subject to intense development. Teleste's video security unit will continue to develop its offering to meet these new market needs as well.

NETWORK SERVICES

WIDER SERVICE OFFERING

Most of the sales of our services come from Germany and Britain. The demand for our services remained stable in Germany, whereas in the UK the market was challenging in many respects. In contrast, in Switzerland the demand increased, while in Finland and Belgium it remained stable. Network Services generated net sales of EUR 90.3 (91.0) million, a decrease of 0.9%. Net sales was diminished by divestment of unprofitable project deliveries in Germany and by weaker demand for services in the UK. Operating profit was EUR 1.5 (1.6) million, a decrease of 7.8%. In Germany, profitability improved thanks to the number of measures taken, whereas in the UK the investments made in the expansion of our services business burdened the result for the whole year. The business area employed 740 people.

NS NET SALES
MEUR



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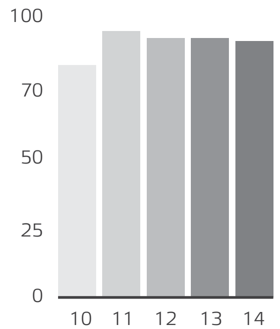
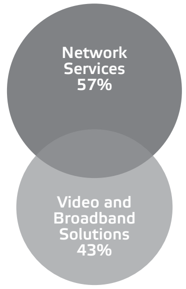
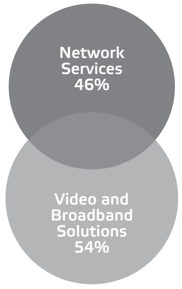


SHARE OF PERSONNEL



SHARES OF NET SALES



NETWORK SERVICES

Network Services offers network planning, high-quality installation and maintenance, as well as expert services for European cable and telecom operators. Our customers are often one of the leading players in their countries, and they aim to make available new services, such as high-speed Internet access, pay TV, video-on-demand and telephony to their subscribers. Our services network covers Europe, where our primary countries of operation are Germany and the United Kingdom.

Part of Network Services' offering consists of residential installations, where our skilled technicians configure customer devices and instruct subscribers to take advantage of their operator's premium services. In addition to technical knowhow, customer interfacing skills are also needed, and at the same time, technicians are often able to upsell additional services to customers."

Position of Teleste's services business was improved in Germany by the merger of Vodafone and Kabel Deutschland, and this was reflected as a steep rise in the installation and repair orders. In the UK, the market was challenging in many respects. Investments in the next generation mobile solutions and FTTx networks fell short of expectations. Moreover, the network development measures of Teleste's significant customer Virgin Media fell momentarily following the acquisition of Virgin Media by LGI. Teleste introduced new planning services designed to pursue a wider customer base. However, the sales of these services failed to take off at the desired speed. On the other hand, demand for fibre networks and wireless systems picked up.

In Finland, our operations continued steadily as Teleste focused on providing its contract customers with high value-added services. Our operating environment remained stable also in Belgium, whereas in Switzerland, our net sales and profitability increased significantly.

New Office in Birmingham

In 2014, Network Services carried out a number of development measures in areas such as quality, information systems and marketing. In line with our strategy, the offering was expanded, in particular, in higher value-added services. In Britain, we established a new office in Birmingham. This allows for the expansion of Teleste's offering and the strengthening of our position, particularly with regard to turnkey deliveries of the next-generation networks. Our expertise in the latest technology also enables the future expansion of our offering beyond the existing market segments and projects.

In Germany, our practices, organisation and management team have been revised in recent years to become more customer-focused. Our customer-focus is increasingly reflected in higher quality and faster deliveries. These development measures were continued based on the positive feedback received from our customers.

Significant New Customers

In 2014, Network Services received a number of new customers. These new customers include Vodafone, which is one of the UK's largest mobile operators, the globally operating equipment suppliers Alcatel Lucent and Ciena, as well as the UK's leading wireless distributor Cloud Distribution. In addition, our customer base was joined by naxoo, who chose Teleste as their partner to modernize the cable network in the Geneva region.

Growth Potential

The services market appears to be positive in many respects. The need for services is driven by solutions such as faster broadband and wireless technology, as well as Fibre-to-the-Home. The new customers gained in the UK are expected to have a positive impact on the profitability of our net sales. The investments made in the expansion of our services offering that have weakened our profitability have already begun to produce results. Similarly, cooperation with Virgin Media has already recovered and returned to its previous level. In Germany, field services are expected to grow significantly. In the coming years, significant growth potential can also be found in the deepening of partnerships with our existing customers.

The next generation AC series broadband amplifier designed for DOCSIS 3.1 network upgrades. This broadband amplifier allows for an increase of cable television network capacity by up to 50%. The broadband amplifier is based on the cutting edge Gallium Nitrite (GaN) technology that enables high performance with high energy-efficiency.

Telenet Giga network project

Telenet, the market leader in telecommunications services operating in the Flemish and Brussels regions of Belgium, launched a major investment in network upgrading designed to bring their network up to the DOCSIS 3.1 standard. The network investment is known as "de grote netwerf".

Telenet's investment will be one of the most important access network upgrade projects in the European cable industry. This network supporting the new standard makes it possible to offer consumers broadband speeds of multiple gigabits.

Following a tough competition, Telenet chose Teleste for the supplier of the access network products. The agreement signed in February 2015 contains deliveries of amplifiers in line with the DOCSIS 3.1 standard. Telenet is also intended to include Teleste's passive products into the agreement.

This agreement continues the long-standing co-operation between Teleste and Telenet. Teleste's advantages were considered products with excellent performance, competitive price, as well as its role as the trusted supplier to Telenet. Telenet focuses on TV and broadband, as well as voice services of both fixed and mobile networks.

Case

Altice to invest in high-speed broadband

Altice Group is a multinational company that offers its customers services like pay TV, broadband and mobile telephony in many European countries and in Israel. Cooperation between Altice and Teleste continues by deliveries of access network products in line with the new DOCSIS 3.1 standard. This new standard allows for construction of faster networks and provision of multi-gigabit broadband connections to subscribers. Altice is the first one in Europe to introduce, on a large scale, an access network complying with the DOCSIS 3.1 standard.

Teleste and naxoo working together to modernize the Geneva network

Naxoo is a Swiss cable television company owned by 022 Télégenève. In 2007, naxoo entered into a partnership with upc cablecom and today, as a result of the partnership, its customers in 80,000 homes in Geneva have access to the entire offering of upc cablecom: Internet, telephony and television, including a wide range of HD channels. Naxoo also offers free 2Mb/s Internet connection for its customers, although many of them choose the premium package with higher broadband speeds.

In the early 2014, naxoo was looking for a reliable partner to modernize their network in the Geneva area, and contracted Teleste for the upgrade project.

The project focuses on modernizing house networks, which in practice means that depending on the configuration in each building, cables and other house network elements need to be changed. In addition to state-of-the-art products, high quality workmanship is required to ensure that services can be provided in the extended network frequency range for the years to come. As Geneva is the hub of dozens of international organizations, the key challenge for the project is that demanding timelines must be strictly met while the work must be carried out with minimal disturbance to naxoo's customers.

Teleste provided naxoo with a dedicated project team. The project manager had extensive experience in similar projects and the whole team of skilled technicians was determined to complete the work according to naxoo's quality standards and timelines. Close collaboration with naxoo's project team was essential in ensuring the successful delivery. The delivery process included phases such as surveys of the buildings, designing network upgrade with AND software, getting approvals from naxoo and real estate owners for the design, and the actual implementation in the buildings, common areas and apartments.

So far, Teleste has realized modernization of over 200 multiple dwelling units. Naxoo is very satisfied with the success of the project, and has decided to expand it into additional areas in 2015.

Stofa:

Intelligent network run by Stofa

Stofa A/S, the second largest cable operator in Denmark, is deploying pay-TV offerings with on-demand interactive TV and VoD services and up to 300 Mbit/s Internet subscriptions on their cable TV and fiber infrastructure. Together with WebTv, WebTv To Go, up to 48 hour catch-up services as well as IP telephony services, this gives Stofa a leading service offering status in the Danish cable TV market. For years Stofa has deployed Teleste's intelligent network product concept including automated processes and remote network surveillance as well as configuration to guarantee high network availability.

The intelligent network allows Stofa to have a quick overview of the network health, and it is easy to monitor the network infrastructure. This is a valuable help in service operations and, at the same time, the network operation center receives consistent information. With the intelligent network concept Stofa is ahead of problems that might occur: any problems are quickly identified and located to a very specific geographical area or site. All in all, this reduces the meantime to repair to a minimum and strongly supports the concept of proactive maintenance.

The result is a high quality cable TV network, which allows Stofa to further develop and deploy even more innovative services in the increasingly competitive broadband environment, securing and expanding the customer base. In the end of 2014 Stofa and Teleste signed a two-year frame agreement designed to continue the good co-operation between the companies even further.

Efficient control of French railway network

SNCF, the French National Railway specializes in rail services for both passengers and freight transport in the entire country. It operates about 14,000 trains daily on its about 32,000 km long rail network. SNCF also operates TGV, the well-known high speed train. The public company SNCF employs about 180,000 people.

In 2005, SNCF selected Teleste among 25 consortiums as the supplier of video security solutions for its train stations covering the whole Paris area. "Teleste was selected for its technical skills, experience, and reliability together with adequate price", said Bertand Taquin, head of SNCF System and Applications Department.

Initially covering 120 stations, the system has since then been widely extended and today covers more than 15,000 cameras and over 500 interconnected train stations in the entire country.

The platform, based on Teleste Software, has permanently evolved its functionalities over the years. Today the system, amongst others, includes a unique recording platform that centrally manages up to 45,000 cameras.

SNCF system serves different stakeholders, such as the railway police, passenger safety unit, passenger information service and station operational command centre to name a few.

Showing almost unlimited scalability, the system is now also interconnected into the Préfecture de Police´s (Paris police authority's) video security system. It serves annually several thousand requisitions from the criminal police and delivers evidence material to the courts. The material is used in many crime investigations and it improves safety in this crowded urban environment.

Over the last 10 years, Teleste has provided SNCF with both support activities and customer service, in order to keep the system up and running in a critical environment.

The SNCF video system is used to protect and secure the 4 million daily passengers in the Paris area. The goal is to improve the safety of this very densely populated urban environment.

8,3 million households served by Kabel Deutschland

The Vodafone Company Kabel Deutschland (KD) is Germany's largest cable operator with cable networks in 13 German federal states serving approximately 8.3 million connected households. With respect to services, Kabel Deutschland and Teleste's Network Services Business in Germany, Cableway, have a long track record of cooperation. Since the time when KD outsourced its technical upgrading and maintenance services of cable networks about 7 years ago, Cableway was awarded the largest share as a provider of these services. Recently, KD and Cableway have signed a three + one year contract extension on the upgrading and maintenance services of cable networks worth approximately EUR 50 to 60 million per annum.

"While Cableway's key characteristics in the past were size, local presence across the country and a strong emphasis on ad-hoc management, we are delighted to see Cableway transforming into a professional industrial service company", describes Dr. Manuel Cubero, CEO of Kabel Deutschland, his perception of the latest developments. "With a new competent management team, a professional, customer-centric organization and streamlined processes, Cableway has evolved now to a partner whom we trust to also support us in service areas beyond the classic fields of cooperation. As a result, Cableway is now an established sales channel for us and we are expecting significant double-digit growth, profitable for both sides, to be delivered over the next years", says Burkhard Franke, Managing Director of Kabel Deutschland Field Services.

With the trust base established over the last years and a real partnership approach, we are happy to be the preferred service supplier to Kabel Deutschland. We would also like to express our appreciation to KD's management for providing us with a motivating partnering approach and a continuous professional demand specification, which enables us to streamline our operations further. This is one important fundament around which we have designed, and are constantly improving our new customer-centric service organisation.

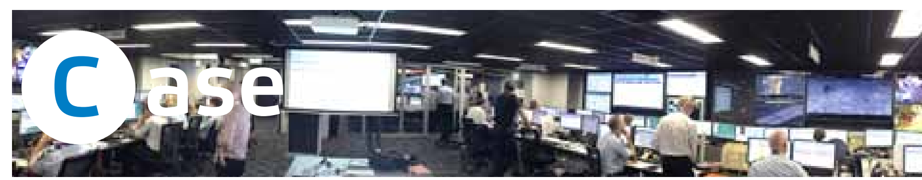
This good operational cooperation leaves room for strategic thoughts to expand the partnering even further, and we are looking forward to seeing the fruits of this over the next years to come.

IRIS – prerequisite: high quality

IRIS – International Railway Industry Standard – is the quality standard for the rail transport industry defined by the IRIS Group. IRIS Group was established in 2005 as part of UNIFE Group. This standard is designed to ensure high quality throughout the supply chain in the railway business. Currently, the global number of IRIS-certified companies is more than one thousand, of these ten are located in Finland. The IRIS standard is increasingly seen as a basic requirement for the entry in the railway business and, for example, the most notable railway wagon manufacturers only accept IRIS-certified companies for their suppliers.

In practice, IRIS is a significantly expanded version of the ISO 9001 quality standard, with the addition of requirements specific to the rail transport industry. Structurally, the IRIS standard is very similar to the corresponding standards applied to other safety-critical industries, such as the aviation and automotive industry.

Teleste has been implementing rail traffic video security solutions already for more than a decade. Our customers include the French state railway operator SNCF (Société Nationale des Chemins de Fer Français) and Chicago local transport operator CTA (Chicago Transit Authority). In recent years, rail transport has been chosen to spearhead the business strategy of Teleste's Video Networks business unit. Currently, we offer an end-to-end rail transport solution, which – in addition to security solutions – also features the passenger information systems and various wireless solutions. Our comprehensive solution covers both the rolling stock and the infrastructure of the stations. IRIS is a key part of the above-mentioned strategy, and Teleste received its IRIS certificate in May 2014, so far as the world's only supplier of video security systems. The IRIS certificate is an indication of Teleste's high quality, both as a company and as a supplier, and we believe it will further strengthen our position in the global rail transportation market.



Summit supervised through video security

In November 2014, Brisbane hosted the Group of Twenty (G20) Leaders Summit, the principal forum for international economic cooperation and decision-making. Teleste's video management system was chosen for the solution to ensure the safety of the event. This system was combined with a number of separate public space video security systems from different parts of Brisbane. The set requirement was a reliable, certified and integrated entity, which could transmit video quality images through a single interface. The system served a number of users, and the wall consisting of multiple displays was one of the largest video wall installations in Australia.

COMPETITIVENESS IS BASED ON PERSONNEL'S EXPERTISE

Teleste's offering is based on strong technological expertise. We aim to grow profitably and become one of the world's leading companies in our own sector. To achieve this ambitious objective requires continuous development of competence and competitiveness. Indeed, our personnel's expertise and motivation provide the cornerstones of Teleste's success. Teleste offers its employees challenging and varied tasks, an opportunity to develop their knowledge among the best professionals in the industry in an international setting.

At the end of the year 2014, Teleste had 1,343 employees (2013: 1,261). Teleste's field of operation is very international with offices in 20 countries. The largest number of Teleste employees work in Finland (28%), Germany (49%) and the UK (6%). Employee turnover rate is, on average, low and employment relationships at Teleste last, as a rule, long.

Technologies – the core of our know-how

From the point of view of our personnel, development of Teleste's technologies, products and services as well as the continued streamlining of our operations require solid skills, enthusiasm, and close cooperation. This rapidly changing international industry is also characterised by rapidly emerging practices. This, in turn, necessitates the ability to put up with constant change and the courage to try out new things.

Teleste carries out regular skills surveys, which are designed based on our business needs. These surveys provide the basis for preparation of competence profiles for our personnel. Such profiles are instrumental in

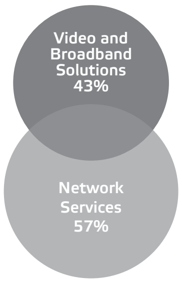
HR CORNERSTONES

Vision: Organization in support of Teleste's strategy.

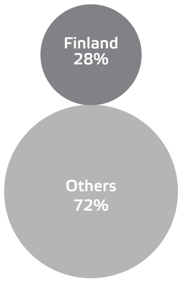
Mission: Personnel structure and expertise support the corporate strategy and objectives.

Objectives: Good governance, open and inclusive work culture, effective HR processes and satisfied, committed and skilled personnel.

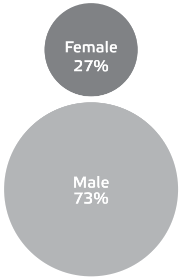
PERSONNEL BY BUSINESS AREA



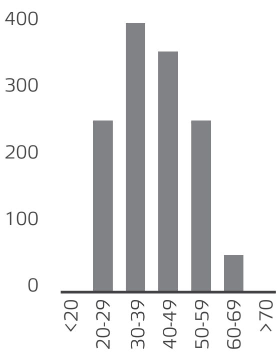
PERSONNEL BY LOCATION



PERSONNEL BY GENDER



PERSONNEL BY AGE RANGE



EWC stands for European Works Council. EWC is a co-operation body formed by representatives of employees and employer in the administration of multinational companies. The EWC must be set up if the company has at least 1,000 employees in the EU area and 150 employees in at least two EU/EEA countries. The EWC is an arrangement in which the employer and the employee representatives of multinational companies can work together to discuss any issues important for the company. Interaction between the actors from different countries helps to understand both one's own company and the way of communicating specific for different cultures. The EWC agreement, signed in March 2014, was prepared in cooperation with Teleste's management and the representatives of the EWC elected by the personnel. The first meeting was held in June at the Company's head office in Turku, Finland.

In November, an evacuation exercise was held at the Company's head office for the purpose of identifying escape routes, practice the moving to the assembly point, as well as organising into teams in preparation for any emergency situations. All in all, the exercise was participated by 80% of the personnel working in the head office. The experience gained from this exercise with the feedback provided valuable information on improving the operation and communication even further.

steering the competence development of both teams and individuals in the desired direction. These competence profiles are then used as implements in appraisal discussions. Sharing knowledge within our organisation and challenging assignments provide important means of personal professional development.

Well-being at work on good level

Teleste wants to be an innovative, flexible and open work community, where colleagues are respected and work is done in a good community spirit. Teleste's flat organisation supports smooth co-operation between our various functions and across national borders. At Teleste, well-being arises from meaningful tasks, our good working environment and the balance between work and leisure.

In March 2014, Teleste carried out, for the first time, a Group-wide well-being survey. Judging by its results, Teleste employees are motivated and enjoy their work. Their ability to work and our atmosphere were also reviewed in positive terms. Teleste's special branch and technological expertise make this work especially interesting. On the other hand, in the light of the survey, room for improvement was registered with regard to supervisory work, leading the well-being at work and job management.

Response rate and results of the survey varied from country to country. The obtained results have been carefully analyzed and based on them, a number of action plans have been prepared by teams. A wide range of development proposals at different levels are underway. Specific weight among these is given to supervisory work and leading the well-being at work. Plans are already being implemented and the relevant progress is monitored by the steering group.

At Teleste, a works council (EWC) has been operational for a year. In this council, Management and the personnel representatives discuss and develop even Group-level issues concerning well-being at work.

Preferred employer

As an employer Teleste has a good reputation, and there are plenty of candidates for almost all open positions. Potential applicants are interested in Teleste's technological know-how and the chance to learn from, and develop with, it. Our close cooperation with educational institutions aims at increasing the Company's visibility among potential employees, so as to ensure the availability of labour in the future. We also offer young people summer jobs, internships and topics for thesis works.

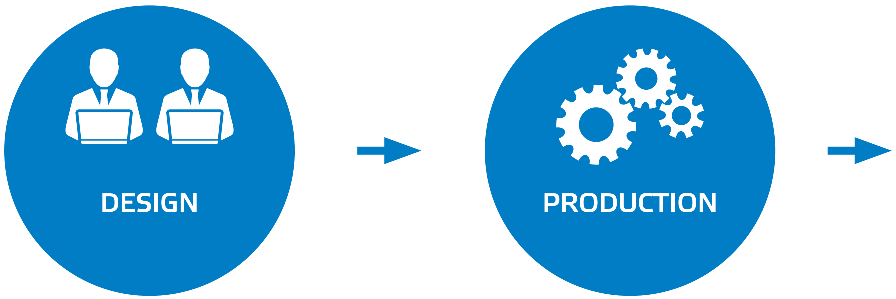
Rewards based on performance

Teleste's incentive systems are founded on actual results, which are measured both at the Company and personal level. The incentives include, among others, bonus and incentive pay schemes, as well as share-based incentive systems. These bonus and incentive pay systems are based on the Group's strategy and objectives and are, thus, linked to the work of teams and individuals in a natural way.

Mitron – new at Teleste

In early January 2015, Teleste acquired Mitron Group Oy Ltd's share capital. The company provides railway information systems and display solutions. Mitron employs 120 people. In addition to the integration of Mitron, priorities for the year 2015 include harmonization of our human resource management processes and implementation of the development plans, which are prepared based on the findings from the well-being survey. Progress will be measured by a new survey to be carried out in the course of 2016.

ENVIRONMENTALLY FRIENDLY PRODUCTS FROM DESING TO RECYCLING



Teleste's work on corporate responsibility contributes to the Group's 60-year-old corporate culture. This responsibility is defined and driven by our business needs, the Group's values, vision and strategy as well as our Code of Conduct.Teleste wishes to provide its customers with innovative solutions that work cost-effectively throughout their life-cycle. Our products are durable, upgradeable and serviceable. They mainly consist of recyclable materials, so besides their space and cooling requirements, their environmental impact is mainly brought about by the energy they consume when used.

The tightening market and world situation set demands to the whole management of the order-to-supply chain. Teleste strives to provide customers with products made of materials from ethically and environmentally responsible sources. Our aim is to support sustainable development and to build a profitable business together with our partners.

Our environmental management system is supported by Teleste's quality and risk management. Teleste has been granted the ISO 14001:2004 Environmental Management System Certificate, which serves as the framework for developing our operations in line with the principles of continuous improvement.

Design

When it comes to reducing the environmental impact, product design provides the key. As to our new product generations, Teleste seeks to reduce the environmental impacts caused by their production and the use of the systems. For the customer, introduction of new technologies is typically reflected in improved performance.

An example of our long-term R&D efforts designed to improve the overall energy efficiency is provided by the below comparison. This assessment is published once in a decade, and it presents the data transmission capacity of our amplifier product families in proportion to the electrical energy they consume. With the same power consumption, the data transmission capacity of our modern amplifiers is more than twice the one it used to be 20 years ago.

	DXE600 y 1994	AC1000 y 2004	AC1500 y 2014
Data transfer volume per power (Mbps/W)	170	240	350
Relative growth of data transfer volume (%)	-	+41%	+106%

Production

The environmental impact of Teleste's operations is primarily brought about by our use of energy, waste generation, logistics, and business travel. Our own production consists mainly of assembly of printed circuit boards and electronic components, and no emissions are released into the environment from this type of manufacture. Items consuming energy include heating, cooling, and the power used by the production facilities, testing equipment and office equipment.

For its part, Teleste wishes to ensure that the materials used come from ethically and environmentally responsible sources. To determine the origin of the materials requires a better understanding of the legitimate trade of natural resources and the sustainable supply chain. Teleste wants to monitor the origins of the raw materials of our standard components (Conflict minerals / 3TG / RoHS). We seek to prevent the use of conflict minerals by working closely with our suppliers.

Distribution and Service

The carbon footprint caused by our logistics stems from two main sources: transportation of materials and finished products. We aim to strengthen the cooperation between our European supplier partners for shorter distances and flexibility. By improving the forecast process we aim to increase the packaging efficiency of our transports, as well as to put the preference in land and sea transport.

As to our services business, the main source of our environmental load consists of CO_2 emissions from the installation and maintenance runs, and these can be changed by choices of equipment and route planning. Moreover, installation and packaging materials are recycled in co-operation with local operators.

Use

The most significant part of the environmental impact related to the use of Teleste's products comes from their consumption of energy and the systems' needs for space and cooling. Cable network and video security systems are durable, serviceable and upgradeable, so their service life can be extended even more.

The added value and overall responsibility perceived by our customers is contributed by Teleste's ability to complement its hardware solutions by making available relevant services. This creates the desired chain all the way from design to delivery and maintenance of the network. As a result, our measures of network monitoring and maintenance support the existing solutions and can be targeted to the correct items.

Recycling

We at Teleste seek to reduce the amount of waste produced while improving our recycling rate. Our products mainly consist of recyclable metals. The waste fractions from the production are sorted and can be almost entirely recycled or recovered in terms of energy. The amount of landfill and hazardous waste is limited.

Any data sensitive material is properly disposed of in co-operation with our recycling partner as part of our responsibility and risk management schemes.

LONG-TERM ENVIRONMENTAL GOALS – ACHIEVEMENTS IN 2014

As for our operations, Teleste has defined long-term environmental objectives, which are specified annually by environmental goals.

- Promotion of product-driven environmental thinking
- Reduction of waste
- Reduction of energy consumption
- Continuous environmental improvement in logistics and transport
- Promotion of environmental thinking in the supply chain
- Increasing environmental awareness among the personnel

ACHIEVEMENTS IN 2014

Power consumed by Teleste's head office and production is produced from 100% renewable sources of energy.

- The process of disposal of sensitive data has been improved and expanded.
- Scalable web pages cut down the need for printed customer material, in addition to which the amount of paper print-out produced by our head office in one year has dropped by about 40%.
- Teleste's head office has increased environmental co-operation with local schools.
- Monitoring of origins of raw materials for our standard components has been extended (Conflict minerals, 3TG: tantalum, tin, tungsten, gold).

MARJO MIETTINEN
M.Sc. (Ed.), born in 1957
Chairman of the Board since 2009 –
EM Group Oy is a significant shareholder of Teleste

Principal occupation:
Board professional

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

Other elected positions of trust:
Efore Plc, Member of the Board 2013 –
EM Group Oy, Member of the Board 2005 –
Ensto Oy, Member of the Board 2002–

PERTTI ERVI
B.Sc. (Eng.), born in 1957
Member of the Board since 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:
Comptel Corporation, Chairman of the Board 2012 –
Efecte Oy, Member of the Board 2009 –,
Chairman of the Board 2011 –
F-Secure Corporation, Member of the Board 2003 –,
Chairman of the Audit Committee 2006 –
Ixonos Plc, Chairman of the Board 2011 –
Nevtor Oy, Chairman of the Board 2008 –

JANNICA FAGERHOLM
M.Sc. (Econ.), born in 1961
Member of the Board since 2013 –
Independent of Teleste and its significant shareholders

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

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

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

ESA HARJU
M.Sc. (Eng.), born in 1967
Member of the Board since 2012 –
Independent of Teleste and its significant shareholders

Principal occupation:
Ixonos Plc, CEO 2013 –

Primary working experience:
Nokia Siemens Networks, Head of Nordic & Baltic Region 2010–2012
Employed by Nokia and Nokia Siemens Networks since 1991

No other elected positions of trust.

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

Principal occupation:
Alma Media Corporation, CEO 2005 –

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

Other elected positions of trust:
Talentum Oyj, Chairman of the Board 2011 –
Varma Mutual Pension Insurance Company, Member of the Board 2009 –

PETTERI WALLDÉN
M.Sc. (Eng.), born in 1948
Member of the Board since 2009 –
Independent of Teleste and its significant shareholders

Principal occupation:
M.Sc. (Eng.)

Primary working experience:
Alteams Oy, CEO 2007–2010
Onninen Oy, CEO 2001–2005
Ensto Oy, CEO 1996–2001
Nokia Kaapeli Oy, CEO 1990–1996
Sako Oy, CEO 1987–1990

Other elected positions of trust:
Comptel Corporation, Member of the Board 2009 –
Efla Oy, Member of the Board 2014 –
Kuusakoski Group Oy, Member of the Board 2007 –
Mesera Yhtiöt Inc., Member of the Board 2010 –
Nokia Tyres plc, Chairman of the Board 2006 –
Tikkurila Oyj, Member of the Board 2008 –

JUKKA RINNEVAARA

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

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

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

JOHAN SLOTTE

Deputy CEO, Corporate

Video Security and Information, Senior Vice President

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

Member of the Management Group since 1999 –

Primary working experience:
Uponor Group 1989–1999
various directorial positions, including MD of Uponor Poland

JUHA HYYTIÄINEN

CFO
M.Sc. (Econ.), born in 1967
Joined Teleste in 2013

Member of the Management Group since 2013 –

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

HANNO NARJUS
TV Distribution Business,
Senior Vice President
M.Sc. (Econ.), born in 1962
Joined Teleste in 2006

Member of the Management Group since 2007 –

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

ANDREE KANG
Network Services, Senior Vice President
Ph.D. (Eng.), born in 1964
Joined Teleste in 2012

Member of the Management Group since 2012 –

Primary working experience:
Emerson Network Power Germany, General Manager Power Products & Services 2010–2011
Chloride Poland, President 2009–2011
Masterguard GmbH, Managing Director 2007–2011

PASI JÄRVENPÄÄ
Research and Development,
Senior Vice President
M.Sc. (Eng.), born in 1967
Joined Teleste in 1994

Member of the Management Group since 2013 –

MARKUS MATTILA
Operations, Senior Vice President
M.Sc. (Eng.), born in 1968
Joined Teleste in 2008

Member of the Management Group since 2008 –

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

INFORMATION FOR SHAREHOLDERS

Teleste share

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

On 31 December 2014 Teleste's registered share capital stood at EUR 6,966,932.80 divided in 18,985,588 shares.

As to the company share price in 2014, the low was EUR 4,25 (3,78)) and the high EUR 5.29 (4.47). Closing price on 31 December 2014 stood at EUR 5,27 (4,25).

Trading code TLT1V
Listed on 30.3.1999
Listing price 8,20 EUR
ISIN code FI0009007728
Reuter's ticker symbol TLT1V.HE
Bloomberg ticker symbol TLT1VFH

Financial Information

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

Financial releases in 2015

Interim Reports:
January–March 30.4.2015
January–June 6.8.2015
January–September 29.10.2015
Financial Statement Release 4.2.2016

Publications can be ordered on Teleste's website or by contacting the company's IR at investor.relations@teleste.com.

Changes in shareholders' contact Information

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

Annual General Meeting

Teleste Corporation's Annual General Meeting will be held on Thursday, 9 April 2015, commencing at 3 p.m., in Helsinki Hall at Finlandia Hall in Helsinki, Mannerheimintie 13. Registration and distribution of voting tickets begins at 2 p.m.

Shareholders registered on the list of shareholders with Euroclear Finland Oy on Thursday, 26 March 2015 are entitled to participate in the Annual General Meeting.

A shareholder who wants to participate in the meeting shall register no later than Wednesday 1 April 2015 at 4 p.m.

Sign up to the AGM:

investor.relations@teleste.com,
phone +358 2 2605 611
Monday–Friday between 09:00–16:00 EET
fax +358 2 2605 812,
regular mail:
Teleste Corporation, Tiina Vuorinen,
P.O. Box 323, FI-20101 Turku, Finland.

Proposal for Distribution of Dividend 2014

The Board of Directors proposes to the AGM that, based on the adopted balance sheet, a dividend of EUR 0.20 per share be paid for the fiscal year that ended on 31 December 2014.
Dividend ex date 10.4.2015
Dividend record date 13.4.2015
Payment of dividend 20.4.2015

More information: www.teleste.com/AGM

Investor Information on Teleste´s website

The Investor section on Teleste´s website includes:

- Financial reports and stock exchange releases
- Monthly updated information on our major shareholders, Teleste insiders including their shareholding
- Share trading information and investment calculator
- Information on the shareholder meeting

TELESTE

We **make...**

FINANCIAL STATEMENTS 2014

your everyday **life** easier, safer and more efficient.

CONTENT

REPORT OF THE BOARD OF DIRECTORS

Founded in 1954, Teleste is an international technology company that develops and offers video and broadband technologies and related services. Our core business is video – image and data processing, transfer and management. Our business is divided into two divisions, which are Video and Broadband Solutions and Network Services.

NET SALES AND PROFITABILITY

Orders received increased 5.5% to EUR 199.3 (188.9) million. Net sales increased 2.3% equalling EUR 197.2 (192.8) million. Net sales by Video and Broadband Solutions increased, particularly in the access network products, as well as in passives and house network products. Operating profit reached the level of the comparative year totalling EUR 11.1 (11.0) million. Operating profit includes a supplementary contract price of an acquisition resulting from reversed provision of EUR 1.1 million entered under other income. Taxes amounted to EUR 2.4 (2.5) million and the tax rate was 21.7% (23.6%). Undiluted earnings per share increased by 2.9% to EUR 0.48 (0.47). Cash flow from operations decreased by 7.4% to EUR 9.2 (10.0). This decrease in cash flow was due to an increase in net working capital, which was mainly brought about by an increase in trade receivables.

BUSINESS AREAS

Video and Broadband Solutions

This business area focuses on broadband access networks, video service platforms as well as video surveillance and data management solutions. The most significant customer base of the business area consists of cable operators and public sector organisations. The business area's main market is Europe, but it has operations in, among others, North America and Asia.

The business area has 27 offices of its own and a number of retail and integration partners. Outside Europe, Video and Broadband Solutions has subsidiaries and offices in the United States, Australia, China, India, and in the United Arab Emirates.

Year-on-year orders received improved by 11.4% standing at EUR 109.0 (97.8) million. Net sales grew by 5.1% amounting to EUR 106.9 (101.7) million. Net sales were boosted in particular by access network products as well as passives and house network products. Operating profit increased by 2.2% standing at EUR 9.7 (9.5) million, which is 9.0% (9.3%) of net sales. The profit performance was particularly affected by the improved profitability in the IPTV headend business as well as the increased sales in the integration and maintenance services. Operating profit includes other income resulting from reversed provision of EUR 1.1 million, which relates to supplementary contract price of an earlier acquisition. Product development expenses equalled EUR 10.3 (10.0) million, in other words 9.6% (9.8%) of net sales. Capitalized R&D expenses amounted to EUR 1.1 (1.4) million. Product development projects focused on network products complying with the Docsis 3.1 standard, network management system, distributed access architecture and customer-specific projects. Depreciation on capitalized R&D expenses amounted to EUR 1.2 (1.8) million.

Network Services

The clientele of Teleste's Network Services business area 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 the installation and maintenance of headends to upgrading of house networks. Services are also provided through a network of subcontractors.

Orders received and net sales decreased by 0.9% to EUR 90.3 (91.1) million. Net sales decreased in Germany, where the number of low-profit project deliveries was reduced. Net sales increased in Switzerland and Finland. Operating profit decreased by 7.8% standing at EUR 1.5 (1.6) million, resulting in 1.6% (1.7%) operating margin. Operating profit has improved substantially in Germany, whereas investments in the expansion of our UK services business burdened the full-year operating profit.

INVESTMENTS

Investments by the Group in the period under review totalled EUR 3.7 (6.3) million accounting for 1.9% (3.3%) of net sales. Investments in the comparative period included acquisition of Asheridge. Investments in product development equalled EUR 1.1 (1.4) million. Other investments were made in information systems, machinery and equipment, as well as in saleable equity investments. Investments of EUR 0.3 (0.1) million were made under financial lease arrangements.

Product development projects focused on network products complying with the Docsis 3.1 standard, network management system, distributed access architecture and customer-specific projects.

FINANCING AND CAPITAL STRUCTURE

Operating cash flow stood at EUR 9.2 (10.0) million. This decrease in the operating cash flow was mainly due to an increase in trade receivables, not fully offset by the growth of trade payables. At the end of the period under review, the amount of unused binding credit facilities amounted to EUR 17.0 (17.0) million. These credit limits are valid until August 2015.

The Group's equity ratio equalled 53.4% (52.7%) and net gearing 9.5% (13.8%). On 31 December 2014, the Group's interest-bearing debt stood at EUR 24.4 (24.3) million.

PERSONNEL AND ORGANIZATION

In the period under review, the average number of people employed by the Group was 1,302 (1,306/2013, 1,326/2012); of these 560 (559) were employed by Video and Broadband Solutions, and 741 (747) by Network Services. At the end of the review period, the Group employed 1,343 people (1,261/2013, 1,325/2012) of whom 72% (71%/2013, 73%/2012) were stationed abroad. Approximately 3% of the Group's employees were working outside Europe.

Personnel expenses increased from the previous year by 4.5% to EUR 59.5 (56.9/2013 and 58.5/2012) million. This growth in the personnel costs was due to the increase in the number of employees abroad, performance-based bonuses paid out in the second half of the year, as well as the savings brought in by the lay-offs implemented in the comparative period. From the beginning of the reporting period, the number of employees increased by more than 80 people. This increase occurred mainly in Network Services, where the amount of subcontracting was reduced and, on the other hand, investments in new business were made in the UK.

In the first quarter of the year, personnel of the Operations unit in Finland were laid off for two weeks.

ENVIRONMENTAL FACTORS

We at Teleste understand environmental protection as a choice supporting our strategy and risk management, which is in line with our economic and qualitative objectives. Teleste has been awarded ISO 14001:2004 Environmental Management System Certificate, which provides the basis for our operational development in accordance with the principles of continuous improvement.

The greatest environmental impact is brought about by their consumption of energy when used, as well as their space and cooling requirements. Teleste's products consist mainly of recyclable materials. Cable network equipment and video surveillance systems are relatively long-lasting, serviceable and upgradeable, so their useful lives can be further extended.

Environmental effects as a result of Teleste's operation arise from generation of waste, energy consumption, material logistics and business travel. Environmental load during development and manufacturing of software products and equipment is relatively low. Our production is based on assembly of printed circuit boards and electronic components by the Lean principles, so no significant emissions are given rise to.

As to Teleste's services business, the main source of environmental pollution is the CO2 emissions produced by installation and maintenance runs. To reduce its carbon footprint, when it comes to the selection of new maintenance vehicles, Teleste pays attention to its C02 emissions, as well as to the route optimization enabled by the fault location feature of the new intelligent network solutions. Moreover, installation and packaging materials are recycled in cooperation with local operators.

Teleste wants to make sure that the used materials come from ethically and environmentally responsible sources. To improve our understanding of the legal trade in natural resources and sustainable supply chains, we have joined a 3rd party service, which monitors the origins of raw materials used in standard components (Conflict minerals, 3TG).

GROUP STRUCTURE

Parent company Teleste has branch offices in Australia, the Netherlands, and Denmark with subsidiaries in 14 countries outside Finland. Teleste Management II Oy, founded in December 2011, has been consolidated in the Teleste Group figures on account of financial arrangements. Asheridge Group has been consolidated with the Group figures as of 7 April 2013. Teleste Management Oy was merged with the parent company on 28 February 2014.

KEY RISKS FACED BY THE BUSINESS AREAS

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

As to Video and Broadband Solutions, client-specific and integrated deliveries of solutions create favourable conditions for growth, even if the concerned resource allocation and technical implementation pose a challenge involving, therefore, also reasonable risks. Our customers' network investments vary based on the relevant need for upgrading and their financial structure. Significant part of Teleste's competition comes from the USA so the exchange rate of euro up against the US dollar affects our competitiveness. The exchange rate development of the US dollar and the Chinese renminbi to the euro affects our product costs.

The company hedges against short-term currency exposure by means of forward exchange contracts. The situation in the European financial markets may slow down our customers' investment plans. Furthermore, a weakening in the consumer purchasing power in Europe could slow down the network investments by the cable operators. Competition increased by the new service providers (OTT) may undermine the cable operators' ability to invest. Availability of components is subject to natural phenomena, such as floods and earthquakes. Correct technological choices and their timing are vital for our success. Regardless of careful planning and quality assurance, complex products may fail in the customer's network and lead to expensive repair obligations.

Net sales of Network Services comes, for the most part, from a small number of large European customers, so a significant change in the demand for our services by any one of them is reflected in the actual deliveries and profitability. To ensure quality of services and cost-efficiency along with efficient service process management, customer satisfaction and improvements in productivity require innovative solutions in terms of processes, products and logistics. Smooth operation of cable networks requires effective technical management and functional hardware solutions in accordance with contractual obligations. This, in turn, demands continuous and determined development of skills and competencies in Teleste's own personnel as well as those of our subcontractors. In addition, Teleste's ability to deliver and compete may be constrained by the adequacy of our own personnel and our sub-contractor network capacity. Tender calculation and management of larger projects with overall responsibility are complex and include risks. Severe weather conditions may affect the supply conditions of our products and services.

Teleste's strategy involves risks and uncertainties: new business opportunities may fail to be identified or they cannot be acted upon successfully. It is important for our business areas to take into account any market developments such as consolidations taking place among the clientele and competition. Intensifying competition may decrease the prices of products and solutions faster than we manage to reduce our products' manufacturing and delivery costs. Various information systems are critical to the development, manufacturing and supply of products to our customers. Maintenance of information systems and deployment of new systems involve risks that may affect our ability to deliver products and services. Information systems may also be subject to external threats, from which we aim to protect ourselves. Acquisition of skilled personnel and maintenance of their competence require encouragement, development and recruitment, which can fail.

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

The company has covered any major risks of loss involving the business areas through insurance policies. Insurance will also cover credit loss risks related to sales receivables. In the period under review, no such legal proceedings or judicial procedures were pending that would have had any essential significance for the Group operation.

DECISIONS BY THE ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) of Teleste Corporation held on 1 April 2014 confirmed the financial statements for 2013 and discharged the Board of Directors and the CEO from liability for the financial period. The AGM confirmed the dividend of EUR 0.19 per share proposed by the Board. The dividend was paid out on 11 April 2014.

Ms. Marjo Miettinen, Mr. Pertti Ervi, Ms. Jannica Fagerholm, Mr. Esa Harju, Mr. Kai Telanne and Mr. Petteri Walldén continue in Teleste's Board of Directors. Ms. Marjo Miettinen was elected Chair of the Board in the organisational meeting held immediately after the AGM.

Authorized Public Accountants KPMG Oy Ab continues as the auditor until the next AGM. Mr. Esa Kailiala, accountant authorized by the Central Chamber of Commerce of Finland, was chosen auditor-in-charge.

On 1 April 2014, the Annual General Meeting decided on the following authorizations of the Board of Directors:

- Purchases of own shares: maximum of 1,200,000 shares. This authorization is valid for 18 months from the date of the decision.
- Issue of new shares: maximum of 4,000,000 shares, valid for three years from the date of the decision.
- Disposal of own shares in possession: maximum of 1,800,000 shares, valid for three years from the date of the decision.
- Based on the special rights granted by the Company, the number of shares to subscribe may not exceed 2,500,000 shares; these special rights are included in the maximum warrants concerning new shares and the Group's own shares mentioned above. This authorization will be valid for three years from the date of the decision.

SHARES AND CHANGES IN SHARE CAPITAL

On 31 December 2014, EM Group Oy was the largest single shareholder with a holding of 23.2%.

In the period under review, the lowest company share price was EUR 4.25 (3.78) and the highest was EUR 5.29 (4.47). Closing price on 31 December 2014 stood at EUR 5.27 (4.25). According to Euroclear Finland Ltd the number of shareholders at the end of the period under review was 4,962 (5,087). Foreign ownership accounted for 5.0% (5.1%). The value of shares traded on the Nasdaq Helsinki on 1 January to 31 December 2014 was EUR 10.9 (9.2) million. In the period under review, 2.3 (2.2) million Teleste shares were traded on the stock exchange.

On 31 December 2014, the Group held 1,189,654 (1,189,654) of its own shares, of which the parent company Teleste Corporation had 647,654 shares while the Group and controlled companies had 542,000 shares, respectively. At the end of the period, the Group's holding of the total amount of shares amounted to 6.3% (6.3%).

The share subscription period for stock option rights 2007C began on 1 April 2012 and ended on 30 April 2014. Stock option rights 2007C enabled subscription of 280,000 shares in total. Based on option rights 2007C, a total of 256,998 Teleste Corporation's new shares were subscribed. Those 2007C option rights that were not used before the expiry of the subscription period are null and void.

In the period, no treasury shares were conveyed or acquired.

On 31 December 2014, the registered share capital of Teleste stood at EUR 6,966,932.80 divided in 18,985,588 shares.

OWNERSHIP BY MANAGEMENT AND MEMBERS OF THE GOVERNING BODIES ON 31 DEC 2013

On the balance sheet date, CEO and the Members of the Board owned 125,652 (111,079) Teleste Corporation shares equalling to 0.66% (0.59%) of all shares and votes. The President and CEO and the members of the Board had no subscription rights based on stock options. On the balance sheet date, CEO together with other members of the Management Group owned 11,627 (23,242) Teleste Corporation shares equalling to 0.06% (0.12%) of all shares and votes.

On 31 December 2014, Teleste Management II Oy, which is a company founded for management incentive scheme, owned 542,000 (542,000) Teleste Corporation's shares. Of the Teleste Management II Oy shares, the CEO owns 31.25% while the others have a holding of 68.75%, respectively.

Teleste Corporation complies with the Corporate Governance Code, effective as of 1 October 2010 and issued by the Securities Market Association for the Finnish listed companies. 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 Board of Directors of the NASDAQ OMX Helsinki Oy in their valid form at any given time.

EVENTS AFTER THE END OF THE REVIEW PERIOD

Acquisition of Mitron

On 7 January 2015, Teleste announced that it had bought the entire share capital of Mitron Group Oy Ltd. Mitron is a Finnish provider of public transportation information systems and modern display solutions. Systems manufactured by Mitron are used on trains and railway stations, subways, airports and in urban traffic. Mitron runs its design and manufacturing operations in Forssa and Tampere with subsidiaries in Poland, Germany and Switzerland. More than 90 per cent of the company's net sales consist of exports. Mitron strengthens Teleste's position as a supplier of end-to-end video security and information management solutions for the rail segment.

This acquisition enables Teleste and Mitron to provide the rail industry with a comprehensive solution for stations and railway cars including a wireless data transmission between these two. The solution supports wireless offload from railway cars as well as real-time connectivity with live video transmission between railway cars and stations, and includes advanced passenger information and CCTV systems both on railway cars and at the station. For rail operators, the benefits of such an end-to-end solution include improved safety of operations and passengers, rapid and correct situation awareness, as well as better quality of passenger services through e.g. live onboard entertainment.

New Financing Agreements

Teleste Corporation has signed new overdraft and revolving credit facilities with a total value of EUR 45.0 million. These new financing agreements replace the previous ones. The new committed overdraft and revolving credit facilities are valid until end of March 2018.

OUTLOOK FOR 2015

The business objective of Video and Broadband Solutions is to maintain its strong market position in Europe and to strengthen this market position in selected new markets outside Europe. Network capacity will continue to increase, driven by the new broadband and video services provided by the operators. Our new products in line with the Docsis 3.1 communication standard allow the cable operators to increase their network capacity competitively. Price erosion in the market continues. Changes in the value of the euro, particularly against the US dollar and the Chinese renminbi, affect Teleste's competitiveness, on the one hand, and product manufacturing costs, on the other. The positive trend in the video surveillance and rail traffic data management market continues, but the public sector decisions concerning initiation of projects may be delayed by the current economic situation. In addition to organic growth, we estimate the Mitron acquisition to increase our net sales by more than EUR 22 million and its impact on our operating profit to be positive.

As to Network Services, our business objective is to further develop our operational efficiency and increase the share of those services that provide our customers with higher value. In line with this objective, we will continue to expand the new services business in the UK. We estimate the demand for all-inclusive network services in our key target markets to continue at least at the previous year's level.

We estimate that net sales and operating profit for 2015 will exceed the 2014 level.

PROPOSAL FOR THE DISTRIBUTION OF EARNINGS

The parent company's distributable equity as of 31 December 2013 stood at EUR 48,091,658.69.

As to the Annual General Meeting scheduled for 9 April 2015, the Board proposes that a dividend of EUR 0.20 (0.19) per share be paid for the outstanding shares for the year 2014

Teleste Corporation	Jukka Rinnevaara
Board of Directors	CEO

STATEMENT OF COMPREHENSIVE INCOME

1,000 €	Note	**1.1. - 31.12.2014**	1.1. - 31.12.2013	Change %
Net sales	1	197,176	192,775	2.3%
Other operating income	2	2,536	840	201.9%
Material and services		-97,561	-94,456	3.3%
Employee benefits expense	3	-59,497	-56,949	4.5%
Depreciation and amortisation	4	-4,211	-4,628	-9.0%
Other operating expenses	5	-27,309	-26,536	2.9%
Operating profit		**11,135**	**11,047**	**0.8%**
Financial income	6	225	162	39.5%
Financial expenses	7	-526	-548	-4.0%
Profit before taxes		**10,835**	**10,660**	**1.6%**
Income tax expense	8	-2,353	-2,513	-6.4%
PROFIT FOR THE FINANCIAL PERIOD		**8,482**	**8,147**	**4.1%**
Attributable to:	9			
Equity holders of the parent		8,482	8,147	4.1%
Earnings per share for profit of the year attributable to the equity holders of the parent (expressed in € per share)				
Basic		0.48	0.47	2.9%
Diluted		0.48	0.46	4.0%
Total comprehensive income for the period (tEUR)				
Net profit		8,482	8,147	4.1%
Items that may be reclassified to profit or loss:				
Translation differences		-465	-559	-16.8%
Fair value reserve		-25	16	n/a
Total comprehensive income for the period		7,992	7,604	5.1%
Attributable to:				
Equity holders of the parent		7,992	7,604	5.1%

STATEMENT OF FINANCIAL POSITION

1,000 €	Note	31.12.2014	31.12.2013	Change %
ASSETS				
Non-current assets				
Property, plant and equipment	10	9,627	10,499	-8.3%
Goodwill	11	33,121	33,252	-0.4%
Other intangible assets	11	3,891	4,448	-12.5%
Available-for-sale investments	12	701	294	138.3%
Deferred tax assets	13	1,698	2,002	-15.2%
		49,037	**50,494**	**-2.9%**
Current assets				
Inventories	14	20,483	19,762	3.6%
Trade and other receivables	15	44,694	38,537	16.0%
Tax receivables	15	582	307	89.5%
Cash and cash equivalents	16	17,672	15,229	16.0%
		83,430	**73,835**	**13.0%**
Total assets		**132,467**	**124,329**	**6.5%**
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		-339	126	n/a
Fair value reserve and other reserves		3,923	3,451	13.7%
Retained earnings		58,139	53,079	9.5%
Equity holders of the parent company		**70,195**	**65,127**	**7.8%**
Non-controlling interest		487	425	14.6%
Total Equity		**70,682**	**65,552**	**7.8%**
Non-current liabilities				
Interest-bearing liabilities	18	595	470	26.6%
Other liabilities		31	2,414	-98.7%
Deferred tax liabilities	13	1,327	1,293	2.7%
Provisions	19	1,238	634	95.4%
		3,192	**4,810**	**-33.6%**
Current liabilities				
Trade and other payables	20	33,536	28,130	19.2%
Current tax payable	21	793	1,206	-34.2%
Provisions	19	480	832	-42.3%
Interest-bearing liabilities	18	23,784	23,799	-0.1%
		58,593	**53,967**	**8.6%**
Total liabilities		**61,785**	**58,777**	**5.1%**
Total equity and liabilities		**132,467**	**124,329**	**6.5%**

CONSOLIDATED CASH FLOW STATEMENT

1,000 €	Note	1.1.–31.12.2014	1.1.–31.12.2013
Cash flows from operating activities			
Profit for the period		8,482	8,147
Adjustments for:			
Non-cash transactions	23	4,211	4,711
Interest and other financial expenses		542	548
Interest income		-225	-162
Dividend income		-2	-2
Income tax expense		2,353	2,513
Changes in working capital and provisions			
Increase/decrease in trade and other receivables		-6,157	1,113
Increase/decrease in inventories		-721	600
Increase/decrease in trade and other payables		3,510	-3,660
Increase/decrease in provisions		252	-41
Paid interests and other financial expenses		-526	-565
Received interests and dividends		225	162
Paid taxes		-2,717	-3,402
Net cash from operating activities		**9,227**	**9,961**
Cash flows from investing activities			
A conditional supplementary contract price for prior subsidiary acquisition		0	-2,585
Purchases of property, plant and equipment (PPE)		-1,782	-1,180
Proceeds from sales of PPE		64	0
Purchases of intangible assets		-1,077	-1,442
Purchases of available-for-sale investments		-407	0
Acquisition of subsidiary, net of cash acquired		0	-965
Net cash used in investing activities		**-3,202**	**-6,172**
Cash flows from financing activities			
Proceeds from borrowings		1,000	5,000
Repayments of borrowings		-888	-3,809
Payment of finance lease liabilities		-367	-369
Dividends paid		-3,360	-2,962
Proceeds from issuance of ordinary shares		497	270
Net cash used in financing activities		**-3,118**	**-1,870**
Change in cash			
Cash and cash equivalents at 1 January		15,229	13,880
Effect of currency changes		-465	-571
Cash and cash equivalents at 31 December		**17,672**	**15,229**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent								
1,000 €	Share capital	Share premium	Translation differences	Retained earnings	Invested non-restricted equity	Other reserves	Total	Non-controlling interest	Total equity
At 1 January 2013	6,967	1,504	685	48,007	2,737	-22	59,878	678	**60,557**
Total comprehensive income for the period			-559	8,147		16	7,604	0	7,604
Total recognised income and expense for the year	0	0	-559	8,147	0	16	7,604	0	7,604
Dividends				-3,119			-3,119	157	-2,962
Changes in non-controlling interest				43	0		43	-43	0
Excercised share options				0	270		270		270
Equity-settled share-based payments					450		450	-367	83
	0	0	0	-3,076	720	0	-2,356	-253	**-2,609**
At 31 December 2013	6,967	1,504	126	53,079	3,457	-6	65,127	425	**65,552**
Total comprehensive income for the period			-465	8,482		-25	7,992		7,992
Total recognised income and expense for the year	0	0	-465	8,482		-25	7,992		**7,992**
Dividends				-3,462			-3,462	102	-3,360
Changes in non-controlling interest				40	0		40	-40	0
Excercised share options					497		497		497
	0	0	0	-3,422	497	0	-2,925	62	**-2,863**
At 31 December 2014	**6,967**	**1,504**	**-339**	**58,139**	**3,954**	**-31**	**70,194**	**487**	**70,682**

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 Telestenkatu 1, 20660 Littoinen.

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

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

STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) in force as at 31 December 2014. International financial reporting standards, referred to in the Finnish Accounting Act and in ordinances issued based on the provisions of this Act, refer to the standards and their interpretations adopted in accordance with the procedure laid down in regulation (EC) No 1606/2002 of the EU. The notes to the consolidated financial statements also include additional information in accordance with the Finnish accounting and company legislation.

The Group has applied as from 1 January 2014 the following new and amended standards that have come into effect. These had no significant impact on the consolidated financial statements for the financial year 2014.

- IFRS 10 Consolidated Financial Statements and subsequent amendments (in the EU effective for financial years beginning on or after 1 January 2014): IFRS 10 builds on existing principles by identifying the concept of control as the determining factor when deciding whether an entity should be incorporated within the consolidated financial statements. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess. The new standard is not assessed to have a material impact on Teleste's consolidated financial statements.
- IFRS 11 Joint Arrangements and subsequent amendments (in the EU effective for financial years beginning on or after 1 January 2014): In the accounting of joint arrangements IFRS 11 focuses on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. In future jointly controlled entities are to be accounted for using only one method, equity method, and the other alternative, proportional consolidation is no longer allowed. The new standard is not assessed to have a material impact on Teleste's consolidated financial statements.
- IFRS 12 Disclosures of Interests in Other Entities and subsequent amendments (in the EU effective for financial years beginning on or after 1 January 2014): IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including associates, joint arrangements, structured entities and other off-balance sheet vehicles. The new standard will expand the notes the Group provides for its interests in other entities. The new standard is not assessed to have a material impact on Teleste's consolidated financial statements.
- IAS 27 Separate Financial Statements (revised 2011) and subsequent amendments (in the EU effective for financial years beginning on or after 1 January 2014): The revised standard includes the provisions on separate IFRS financial statements that were left after the control provisions were included in the new IFRS 10. The revised standard will not have an impact on Teleste's consolidated financial statements.
- IAS 28 Investments in Associates and Joint Ventures (revised 2011) (in the EU effective for financial years beginning on or after 1 January 2014): Following the issue of IFRS 11 the revised IAS 28 includes the requirements for joint ventures, as well as associates, to be equity accounted. The revised standard is not assessed to have a significant impact on Teleste's consolidated financial statements.
- Amendments to IAS 32 Financial Instruments: Presentation (effective for financial years beginning on or after 1 January 2014): The amendments provide clarifications on the application of presentation requirements for offsetting financial assets and financial liabilities on the statement of financial position and give more related application guidance. The amendments are not assessed to have a significant impact on Teleste's consolidated financial statements.
- Amendments to IAS 36 Impairment of Assets (effective for financial years beginning on or after 1 January 2014): The objective of the amendments is to clarify that the scope of the disclosures of information about the recoverable amount of assets, where that amount is based on fair value less costs of disposal, is limited to impaired assets. The amended standard is not assessed to have a significant impact on Teleste's consolidated financial statements.
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement (effective for financial years beginning on or after 1 January 2014): The amend-

ments made to IAS 39 provide an exception to the requirement to discontinue hedge accounting in certain circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations. The amendments are not assessed to have an impact on Teleste's consolidated financial statements.

- IFRIC 21 Levies (effective for financial years beginning on or after 1 January 2014; in the EU to be applied at the latest, as from the commencement date of its first financial year starting on or after 17 June 2014): The interpretation clarifies the accounting treatment of levies. A liability for a levy is recognised when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation is applicable to all levies other than income taxes, fines, penalties and outflows that are in scope of other standards. The interpretation had no significant impact on Teleste's consolidated financial statements.

BASIS OF PREPARATION

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

USE OF ESTIMATES

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

SUBSIDIARIES

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

ASSOCIATES

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.

FINANCIAL STATEMENTS OF FOREIGN SUBSIDIARIES

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

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

FOREIGN CURRENCY TRANSACTIONS

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

LEASES

Group as lessee

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

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

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

Group as lessor

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

INTANGIBLE ASSETS

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

Goodwill

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

Research and development costs

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

Other intangible assets

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

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

The estimated useful lives are as follows:

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

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

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

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

IMPAIRMENT

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

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

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

INVENTORIES

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

FINANCIAL ASSETS AND LIABILITIES

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

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either classified as held for trading, or they are designated by the Group as at fair value through profit or loss upon initial recognition. A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of short-term 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

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

Trade receivables

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

Cash and cash equivalents

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

TREASURY SHARES

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

DIVIDENDS

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

PROVISIONS

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

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

REVENUE RECOGNITION AND NET SALES

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

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

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

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

OTHER OPERATING INCOME

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

GOVERNMENT GRANTS

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

EMPLOYEE BENEFITS

Pension arrangements

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

Share-based payments

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

OPERATING PROFIT

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

Net sales
\+ other operating income
\- raw material and consumables used adjusted for changes in inventories of finished goods and work in progress
\- employee benefits expense
\- depreciation and amortisation expense and impairment losses
\- other operating expense
= operating profit / loss

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

BORROWING COSTS

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

INTEREST AND DIVIDEND INCOME

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

INCOME TAXES

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

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

ACCOUNTING POLICIES REQUIRING MANAGEMENT'S JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Adoption of new and amended standards and interpretations applicable in future financial years

Teleste has not yet adopted the following new and amended standards and interpretations already issued by the IASB. The Group will adopt them as of the effective date or, if the date is other than the first day of the financial year, from the beginning of the subsequent financial year.

* = not yet endorsed for use by the European Union as of 31 December 2014.

- Amendments to IAS 19 Employee Benefits – Defined Benefit Plans: Employee Contributions* (effective for financial years beginning on or after 1 July 2014): The amendments clarify the accounting treatment under IAS 19 in respect of defined benefit plans that involve contributions from employees or third parties towards the cost of benefits. The amendments are not assessed to have an impact on Teleste's consolidated financial statements.
- Annual Improvements to IFRSs (2011–2013 cycle and 2010–2012 cycle*, December 2013) (effective for financial years beginning on or after 1 July 2014): The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments cover in total four (2011–2013 cycle) and seven (2010–2012 cycle) standards. Their impacts vary standard by standard but are not significant.
- Amendment to IAS 1 Presentation of Financial Statements: Disclosure Initiative* (effective for financial years beginning on or after 1 January 2016). The amendments are designed to encourage companies to apply judgement in determining what information to disclose in the financial statements. For example, the amendments clarify the application of the materiality concept and judgement when determining where and in what order information is presented in the financial disclosures. The interpretation had no significant impact on Teleste's consolidated financial statements.
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation* (effective for financial years beginning on or after 1 January 2016): The amendments clarify IAS 16 and IAS 38 that revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in limited circumstances to amortise intangible assets. The amendments will have no impact on Teleste's consolidated financial statements.
- Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture – Bearer Plants* (effective for financial years beginning on or after 1 January 2016): These amendments require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment and included in the scope of IAS 16, instead of IAS 41. These amendments will have no impact on Teleste's consolidated financial statements.
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective for financial years beginning on or after 1 January 2016): The amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments are not assessed to have an impact on Teleste's consolidated financial statements.
- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures: Investment Entities: Applying the Consolidation Exception* (the amendments can be applied immediately; mandatory for financial years beginning on or after 1 January 2016): The narrow-scope amendments to IFRS 10, IFRS 12 and IAS 28 clarify the requirements when accounting for investment entities.

The amendments also provide relief in particular circumstances, which will reduce the costs of applying the Standards. The amendments will not have an impact on Teleste's consolidated financial statements.

- Amendments to IAS 27 Separate Financial Statements – Equity Method in Separate Financial Statements* (effective for financial years beginning on or after 1 January 2016): The amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments will not have an impact on Teleste's consolidated financial statements.
- Annual Improvements to IFRSs, 2012–2014 cycle*) (effective for financial years beginning on or after 1 January 2016): The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments cover in four standards. Their impacts vary standard by standard but are not significant.
- New IFRS 9 Financial Instruments* (effective for financial years beginning on or after 1 January 2018): IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Group is assessing the impact of IFRS 9.
- Other new standards or amendments will not have an impact on Telestes's consolidated financial statements.

SEGMENT REPORTING

Teleste Group is organised in two reporting segments. These segments are based on the Group's organisational and internal reporting structure. The Group has adopted IFRS 8 since 1 January 2009 and it havn't had any impact on the reporting of operating segments.

BUSINESS SEGMENTS

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

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

Network Services segment deliver comprehensive network service solutions including new construction, rebuilding, upgrading, planning and maintenance services of cable networks.

GEOGRAPHICAL DIVISION

The two segments operates in four geographical areas:

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

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

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

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

UNALLOCATED ITEMS

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

BUSINESS SEGMENTS

2014 1,000 €	Video and Broadband Solutions	Network Services	Group
External sales			
Services	6,512	90,275	96,787
Goods	100,389	0	100,389
Total external sales	106,901	90,275	197,176
Operating profit of segments	9,673	1,463	11,135
Operating profit			11,135
Financial items			-301
Profit before taxes			10,835
Non-current assets of segment	35,036	12,303	47,339

2013 1,000 €	Video and Broadband Solutions	Network Services	Group
External sales			
Services	4,017	91,060	95,077
Goods	97,698	0	97,698
Total external sales	101,715	91,060	192,775
Operating profit of segments	9,460	1,587	11,047
Operating profit			11,047
Financial items			-386
Profit before taxes			10,660
Non-current assets of segment	35,550	12,943	48,493

Geographical division

2014 1,000 €	Finland	Nordic countries	Other Europe	Others	Group
Sales by origin	14,858	15,792	159,572	6,954	197,176
Assets	33,937	89	12,730	583	47,339
Capital expenditure	1,446	5	1,755	470	3,676

2013 1,000 €	Finland	Nordic countries	Other Europe	Others	Group
Sales by origin	13,164	15,630	151,545	12,436	192,775
Assets	35,868	111	12,379	135	48,493
Capital expenditure	2,059	4	4,227	24	6,314

Major customer

Revenues from one customer of the Group's Video and Broadband Solution and Network Services segment represents approximately 66.0 Meur in 2014 (64.2 Meur in 2013), which is 33.5% (33.3%) of Group net sales.

BUSINESS COMBINATIONS ACQUIRED DURING 2014 AND 2013

During 2014 there were no acquisitions. A conditional supplementary contract price from Asheridge acquisition of 1,060 thousand euro was de-recognised in other operating income during 2014. Unpaid supplemenetray price is recogniced in current other liabilities and it will be paid in April 2015.

At 8 April 2013 Video and Broadband solution segment was strengthened by acquiring 100% of share capital of Asheridge Communications Ltd, the English provider of access network equipment for cable operators. Asheridge has a particularly strong offering in HFC network passives products and customized solutions.

The acquisitions resulted in 1,263 thousand of intangible assets, which was allocated to customer relationships and technology. The goodwill, amounted 2,257 thousand euro, is mainly due to future revenue expectation. The goodwill include estimated amount of the conditional supplementary contract price for Asheridge. Total consideration was estimated to be 3,553 thousand euro depending on the profitability development during next two years. The total unpaid contract price of 2,408 thousand euro was booked in non current other liabilities and are classified as fair value level 3. The fair value of Asheridges s trade receivables 1,126 thousand euro were 100 thousand euro less than the total value based on agreements. The difference is expected to realize as credit losses. Teleste personnel increased with 20 persons. All costs related to the acquisitions, 100 thousand euro, are expensed in other operating expenses.

The impact of the acquisition on Teleste's net sales during the period 8 April 2013–31.12.2013 was 5,575 thousand euro and on the net profit 163 thousand euro. If Asheridge had been consolidated since 1 January 2013, the Group net sales would have been 1,827 thousand euro higher and the Group net profit would have increased 7 thousand euro.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 CONSTRUCTION CONTRACTS

Amount of project revenue recognised during the period 2,286 thousand euros (2,360 thousand euros in 2013).

Cumulative expenses and income recognised by the end of the period 12,976 thousand euros (10,691 thousand euros in 2013).

2 OTHER OPERATING INCOME

1,000 €	2014	2013
Government grants related to development costs	670	276
Rental income	6	5
Gain on disposals of non-current assets	60	0
De-recognised supplementary contract price	1,060	0
Other income	740	558
Total	**2,536**	**840**

3 EMPLOYEE BENEFITS EXPENSE

Wages and salaries	-45,946	-44,339
Pension expenses		
Defined contribution plans	-9,419	-9,080
Other post employment benefits	-5,083	-4,556
Activated R&D salaries and social costs	1,086	1,295
Cash & Equity-settled share-based transactions	-135	-186
Equity-settled share-based transactions	0	-83
Total	**-59,497**	**-56,949**

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	1,302	1,306

4 DEPRECIATION, AMORTISATION AND IMPAIRMENT

1,000 €	2014	2013
Depreciation and amortisation by asset type:		
Tangible assets		
Buildings	-394	-395
Machinery and equipment	-1,480	-1,304
Other tangible assets	-511	-468
Total	**-2,385**	**-2,168**
Intangible assets		
Capitalised development expenses	-1,162	-1,785
Other intangible assets	-664	-675
Total	**-1,826**	**-2,460**
Total	-4,211	-4,628

5 OTHER OPERATING EXPENSES

Rental expenses	-3,797	-3,562
External services	-3,108	-2,986
Other variable costs	-6,724	-6,645
Travel and IT costs	-3,779	-3,507
Other R&D costs	-1,812	-1,935
Other expenses	-8,089	-7,901
Total	**-27,309**	**-26,536**

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

Audit expenses

KPMG		
Auditing assignments	-150	-140
Tax consultancy	-65	-60
Other assignments	-8	-30
Other auditors		
Auditing assignments	-60	-64
Other assignments	-37	-43

6 FINANCIAL INCOME

1,000 €	2014	2013
Interest and other financial income	223	160
Dividend income	2	2
Total	**225**	**162**

7 FINANCIAL EXPENSES

Interest expenses	-368	-414
Exchange losses	-75	-20
Other financial expenses	-83	-114
Total	**-526**	**-548**

Other financial expenses includes interests from financial leasing expenses during the period 13 thousand euro (16 thousand euro in 2013).

Losses from forward exchange contracts are included in operating profit.

8 INCOME TAXES

1,000 €	2014	2013
Recognised in the income statement		
Current tax expense		
Current year	-2,043	-2,861
Adjustments for prior years	44	70
Change in deferred tax liabilities and tax assets	-354	279
Total	**-2,353**	**-2,513**

Reconciliation of the tax expense, EUR -2,353 thousand, calculated using the Teleste Group's domestic corporation 20.0 % tax rate.

Profit before tax	10,835	10,660
Income tax using the domestic corporation tax rate (20.0 %)	-2,167	-2,612
Effect of tax rates in foreign jurisdictions	-181	67
Tax debt increase related to balance sheet items	0	-29
Not recognised deferred tax assets from tax losses	0	27
Change in deferred taxes due to decrease of the domestic corporation tax rate	0	46
Non-deductible expenses	-49	-81
Taxes from previous year	44	70
Income tax income/expense reported in the consolidated income statement	**-2,353**	**-2,513**

9 EARNINGS PER SHARE

The basic earnings per share is calculated as follows:

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

The number of ordinary shares outstanding excludes the treasury shares.

The diluted earnings per share is calculated as follows:

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

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

	2014	2013
Profit for the year attributable to equity holders of the parent, (1,000 €)	8,481	8,147
Weighted average number of ordinary shares outstanding during the financial year (1,000)	17,729	17,516
Basic earnings per share (€)	0.48	0,47
Weighted average number of ordinary shares outstanding during the financial year (1,000)	17,729	17,516
Effect of share options on issue (1,000)	0	282
Weighted average number of ordinary shares outstanding during the financial year (diluted) (1,000)	17,729	17,798
Diluted earnings per share (€)	0.48	0,46

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

10 PROPERTY, PLANT AND EQUIPMENT

1,000 €	Land areas	Buildings	Machinery and equipment	Other tangible assets	Advance payments	**Total**
Balance at 1 January 2014	54	10,622	10,149	1,903	513	**23,242**
Translation difference +-	0	44	-101	0	0	**-57**
Additions	0	36	1,883	274	0	**2,193**
Disposals	0	-3,435	-559	-64	0	**-4,058**
Balance at 31 December 2014	54	7,267	11,372	2,113	513	**21,320**
Depreciation and impairment losses						
Balance at 1 January 2013	0	-4,884	-6,158	-1,701	0	**-12,743**
Cumulative depreciations on disposals	0	3,435	0	0	0	**3,435**
Depreciation charge for the year	0	-401	-1,577	-407	0	**-2,385**
Balance at 31 December 2013	0	-1,850	-7,735	-2,108	0	**-11,693**
Carrying amounts at 1 January 2014	54	5,738	3,991	202	513	**10,499**
Carrying amounts at 31 December 2014	54	5,417	3,637	5	513	**9,627**

1,000 €	Land areas	Buildings	Machinery and equipment	Other tangible assets	Advance payments	**Total**
Balance at 1 January 2013	54	9,881	8,553	1,604	611	**20,704**
Translation difference +-	0	-72	-143	-31	0	**-246**
Additions	0	147	1,909	270	0	**2,326**
Disposals	0	0	-235	0	0	**-235**
Acquisitions through business combinations	0	666	65	0	0	**731**
Transfers between classes	0	0	0	60	-98	**-38**
Balance at 31 December 2013	54	10,622	10,149	1,903	513	**23,242**
Depreciation and impairment losses						
Balance at 1 January 2013	0	-4,490	-4,854	-1,233	0	**-10,577**
Depreciation charge for the year	0	-394	-1,304	-468	0	**-2,166**
Balance at 31 December 2013	0	-4,884	-6,158	-1,701	0	**-12,743**
Carrying amounts at 1 January 2013	54	5,391	3,699	371	611	**10,127**
Carrying amounts at 31 December 2013	54	5,738	3,991	202	513	**10,499**
Carrying amount of production machinery and equipment at 31 December 2014			3,612			
Carrying amount of production machinery and equipment at 31 December 2013			4,183			

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

1,000 €	Machinery and equipment
2014	
Balance at 1 January 2014	2,952
Additions	327
Disposals	-48
Balance at 31 December 2014	3,231
Cumulative depreciation on disposals	0
Cumulative depreciation	-2,169
Depreciation charge for the year	-354
Carrying amount at 31 December 2014	708

1,000 €	Machinery and equipment
2013	
Balance at 1 January 2013	2,967
Additions	148
Disposals	-163
Balance at 31 December 2013	2,952
Cumulative depreciation on disposals	114
Cumulative depreciation	-1,930
Depreciation charge for the year	-353
Carrying amount at 31 December 2013	783

11 INTANGIBLE ASSETS

1,000 €	Goodwill	Development costs	Other intangible assets	Shares available for sale, unlisted	**Total**
Balance at 1 January 2014	34,052	13,749	8,462	717	**56,980**
Translations differences	-131	0	192	0	**61**
Additions	0	1,076	0	407	**1,483**
Balance at 31 December 2014	33,921	14,825	8,654	1,125	**58,524**
Balance at 1 January 2014	-800	-11,192	-6,571	-423	**-18,986**
Amortisation for the year	0	-1,162	-664		**-1,826**
Balance at 31 December 2014	-800	-12,354	-7,235	-423	**-20,812**
Carrying amounts at 1 January 2014	33,252	2,557	1,891	294	**37,994**
Carrying amounts at 31 December 2014	33,121	2,471	1,419	701	**37,713**

1,000 €	Goodwill	Development costs	Other intangible assets	Shares available for sale, unlisted	**Total**
Balance at 1 January 2013	32,150	12,307	7,169	717	**52,343**
Translations differences	-355		-35		**-390**
Additions	2,257	1,442	1,328		**5,027**
Balance at 31 December 2013	34,052	13,749	8,462	717	**56,980**
Amortisation and impairment losses					
Balance at 1 January 2013	-800	-9,407	-5,895	-423	**-16,525**
Amortisation for the year	0	-1,785	-676		**-2,461**
Balance at 31 December 2013	-800	-11,192	-6,571	-423	**-18,986**
Carrying amounts at 1 January 2013	31,350	2,900	1,274	294	**35,818**
Carrying amounts at 31 December 2013	33,252	2,557	1,891	294	**37,994**

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 33.1 million euro at 31 December 2014. Goodwill has been allocated to the following cash-generating unit:

	Million euro
Video and Broadband Solutions	25.0
Network Services	8.1

The recoverable amount of the segments is based upon value-in-use calculations. Those calculations use cash flow projections based upon the strategies and business plans approved by the management. Calculations are prepared covering a 10 years' period. The cash flow for Video and Broadband Solutions segment covers the five first years with 5% (5%) annual growth rate and for Network Services segment over 5% (30%) annual growth for the 3 first years, cash flow decrease year 4 by -22%, year 5 growth is 5%. Cash flow decrease the fourth year because the recognized tax losses are used in year 1 to 3 in the calculations The expected future cash flows for a further 5 year period are extrapolated using a 2 % (2%) growth rate for both segments. Management's view on the cash flows is cautious as the changes of the industry are difficult to foresee. A discount rate of 14,05% is used in VBS and 11.00% in NS segment (13.76% in VBS segment and 10.78% in NS segment) has been used in discounting the projected cash flows. The terminal value of the segments is calculated by using a growth rate of 2 per cent. The impairment test process included the sensitivity analysis of the segment or a cash generating unit (CGU) in the segment. If the cashflow's yearly growth rate would stay at 1 per cent for NS segment for the period, an impairment loss of 0.5 million euro should be recognised.

Assumption used in 2014 and 2013 impairment tests

	2014		2013	
%	VBS	NS	VBS	NS
Yearly growth in cash flow years 1–5	5	5*	5	5**
Yearly growth in cash flow years 6 –10	2	2	2	2
WACC (after tax)	14.05	11.00	13.76	10.78

* *NS years 1–3 average growth 5% , year 4–22% year 5 growth 5%*

** *NS years 1–3 average growth 5% , year 4–26% year 5 growth 5%*

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

Impairment test		
Meur	**2014**	2013
VBS	22.4	19.3
NS	5.0	2.0

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

Decline of free cash flow		
	2014	2013
VBS	-38%	-27%
NS	-17%	-7%

Increase in discount rate		
	2014	2013
VBS	4.85%	4.49%
NS	1.75%	0.72%

The Group received a grant amounting to 0.7 million euro from Tekes (National Technology Agency of Finland) towards development costs in 2014 (2013: 0.3 million euro). From the grant received 0,08 million euro (2013: 0.04 million euro) has been recognised to deduct the carrying amount of the asset.

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

12 AVAILABLE-FOR-SALE INVESTMENTS

1,000 €	**2014**	2013
Unlisted shares	701	294
Total	701	294

13 DEFERRED TAX ASSETS AND LIABILITIES

1,000 €	Balance 1 Jan. 2014	Recognised in the income statement	Business combinations	Balance 31 Dec. 2014
Movements in temporary differences during 2014				
Deferred tax assets				
Effects of consolidation and eliminations	530	96		626
Unused tax losses	1,051	-352		699
Provisions	314	9		323
Fair value adjustments to intangible and tangible assets on acquisition	106	-57		49
Total	**2,002**	**-304**		**1,698**
Deferred tax liabilities				
Capitalisation of intangible assets	-511	17		-494
Fair value adjustments to intangible and tangible assets on acquisition	-602	-20	0	-622
Cumulative depreciation difference	-180	-31		-211
Total	**-1,293**	**-34**	**0**	**-1,327**

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

1,000 €	Balance 1 Jan. 2013	Recognised in the income statement	Business combinations	Balance 31 Dec. 2013
Movements in temporary differences during 2013				
Deferred tax assets				
Effects of consolidation and eliminations	511	19		530
Unused tax losses	1,123	-72		1,051
Provisions	290	24		314
Fair value adjustments to intangible and tangible assets on acquisition	162	-56		106
Total	**2,086**	**-84**		**2,002**
Deferred tax liabilities				
Capitalisation of intangible assets	-721	210		-511
Fair value adjustments to intangible and tangible assets on acquisition	-312	145	-435	-602
Cumulative depreciation difference	-264	84		-180
Total	**-1,297**	**439**	**-435**	**-1,293**

At 31 December 2014 the Group had unused tax losses in subsidiaries amounting 2,973 thousand euro . A tax asset has been booked from 699 thousand euro as this loss will not expire (31 Dec. 2013: 1,051 thousand euro). A tax asset has not been booked from 1,721 thousand euro due to the uncertainty if the Group can utilize them.
No deferred tax liability has been provided for the undistributed profits of the foreign subsidiaries amounting to 14,229 thousand euro at 31 Dec. 2014 (31 Dec. 2013: 18,705 thousand euro). This is because the realization of this tax liability is unlikely in the near future.

14 INVENTORIES

1,000 €	2014	2013
Raw materials and consumables	4,652	4,065
Work in progress	10,368	10,307
Finished goods	5,463	5,390
Total	**20,483**	**19,762**

The amount of the impairment losses of inventories to the net realisable value recognised as an expense during the financial period is 347 thousand euro. At the end of the financial year 4,619 thousand euro was deducted from the inventory value to the net realisable value (31 Dec. 2013: 4,966 thousand euro).

15 TRADE AND OTHER CURRENT RECEIVABLES

1,000 €	2014	2013
Trade receivables	39,635	35,238
Accrued income and prepayments	3,442	1,857
Other receivables	1,617	1,442
Total	**44,694**	**38,537**

16 CASH AND CASH EQUIVALENTS

Cash at bank and in hand	17,672	15,229
Total	**17,672**	**15,229**
Cash and cash equivalents in the statement of cash flows	17,672	15,229

17 CAPITAL AND RESERVES

1,000 €	Number of shares, 1,000	Number of own shares, 1,000	Number of shares, total 1,000	Share capital, 1,000 €	Reserve fund, 1,000 €
At 1 January 2013	17,426	1,302	18,728	6,967	1,504
Share options exercised by employees	89	0	89	0	0
Own shares sold	112	-112	0	0	0
At 31 December 2013	17,627	1,190	18,817	6,967	1,504
Share options exercised by employees	169	0	169	0	0
At 31 December 2014	17,796	1,190	18,986	6,967	1,504

The number of Teleste Oyj shares was 18,985,588 at 31 December 2014 (31 Dec. 2013 18,816,691 shares). All shares issued have been fully paid.

The Annual General Meeting of Teleste Oyj held on 1st of April 2014 decided to authorize the Board of Directors to decide on repurchasing the Company's own shares in accordance with the proposal of the Board of Directors. Based on the authorization, the Board of Directors may repurchase a maximum of 1,200,000 own shares of the Company otherwise than in proportion to the holdings of the shareholders by using the non-restricted equity through public trading on Nasdaq Helsinki Ltd at the market price prevailing at the time of acquisition.

The Annual General Meeting of Teleste Oyj held on 12th of April 2013 decided to authorize the Board of Directors to decide on repurchasing the Company's own shares in accordance with the proposal of the Board of Directors. Based on the authorization, the Board of Directors may repurchase a maximum of 1,400,000 own shares of the Company otherwise than in proportion to the holdings of the shareholders by using the non-restricted equity through public trading on Nasdaq Helsinki Ltd at the market price prevailing at the time of acquisition.

At the end of December 2014, the Group held 1,189,654 of its own shares, of which the parent company Teleste Corporation had 647,654 shares and the controlled companies had 542,000 shares, respectively.

Shares subscribed for pursuant to the share option plans will entitle to dividend when the increase of the share capital is registered with the Finnish trade register. Voting and other shareholder rights will commence on the date on which the increase of the share capital is registered with the Finnish trade register.

Translation reserve

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

Dividends

After the balance sheet date the dividend of 0.20 euro per share (2013 0.19 euro per share) was proposed by the Board of Directors.

17 SHARE BASED INCENTIVES

Teleste Corporation had one option scheme in operation during the period: Stock Options 2007. The scheme was approved by Teleste annual general shareholders' meetings 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 840 000 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. Key characteristics and terms of the Teleste option schemes in operation at the end of the period are listed in the table below.

SHARE BASED INCENTIVES - STOCK OPTIONS DURING THE REPORTING PERIOD 1.1.2014-31.12.2014

Plan	Option Rights 2007
Instrument	2007C
Annual General Shareholders` Meeting date	03 April 2007
Initial amount, pcs	280,000
The subscription ratio for underlying shares, pcs	1
Initial excercise price, € *	3.57
Dividend adjustment	Yes
Current excercise price, € **	2.87
Initial allocation date	21 September 2009
Vesting date	01 April 2012
Maturity date	30 April 2014
Maximum contractual life, yrs	7.1
Remaining contractual life, yrs	0.0
Number of persons at the end of the reporting year	0
Payment method	Equity

* *Share subscription price for stock options is the volume weighted average price plus 10% of Teleste share in Nasdaq Helsinki Ltd during April 2009.*

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

Changes during the period 2014	2007C	Weighted average exercise price in €
1 January 2014		
Outstanding at the beginning of the reporting period, pcs	236,000	
Changes during the period		
Granted	0	
Forfeited	0	
Invalidated during the period	0	
Excercised	168,897	2.93
Weighted average price of shares, € ***	4.47	
Expired	23,002	2.87
31 December 2014		
Excercised at the end of the period	256,998	
Outstanding at the end of the period	0	
Reserve at the end of the period	0	

**** weighted average price for Teleste share during the time that particular option could have been exerciced in 2014.*

Changes during the period 2013		2007B	2007C	Total	Weighted average exercise price in €
1 January 2013					
Outstanding at the beginning of the reporting period, pcs		236,000	261,000	497,000	4.66
Changes during the period					
Granted		0	0	0	
Forfeited		0	0	0	
Invalidated during the period		0	0	0	
Excercised		0	88,101	88,101	3.06
Weighted average price of shares, € ***		4.18	4.17	4.17	
Expired		280,000	0	280,000	6.07
31 December 2013					
Excercised at the end of the period		0	88,101	88,101	3.06
Outstanding at the end of the period		0	172,899	172,899	3.06
Reserve at the end of the period		0	19,000	19,000	3.06

**** weighted average price for Teleste share during the time that particular option could have been exerciced in 2013.*

SHARE BASED INCENTIVES - SHARE PLANS DURING THE REPORTING PERIOD 1.1.2014–31.12.2014

The Board of Directors of Teleste Corporation has at its meeting on 2 December 2011 resolved to implement a long-term Performance share plan 2012 (the Plan). The Plan offers the key employees a possibility to earn the Company shares on the basis of performance (Performance-Based Reward) as well as on the basis of share ownership and employment (Restricted Reward). The prerequisite for the Plan participation is that the key employee holds shares in Teleste. If the key employee holds the company shares and remains employed in the Group during the Plan, i.e. until the end of March 2015, one share as a net reward (after taxes) against each share owned by the key employee is earned. In addition, based on an annually set performance target for the three performance periods 2012, 2013 and 2014, the key employee has an opportunity to earn performance shares from each of the performance period. Both Restricted shares and Performance-based shares are paid to the participants at the end of March 2015. If the plan participant's employment or service ends before the reward payment in the manner determined in the Terms and Conditions for the Plan, he or she will lose the right to the reward. In addition to net shares corresponding to approximately 50% of the total reward, there will be cash portion (appr. 50%) in the reward, which will be withheld for taxes arising from the reward to the key employee.

Plan	Performance Share Plan 2012
Type	Share
Instrument	PSP 2012-2014
Initial amount, pcs *	250,000
Initial allocation date	31 January 2012
Vesting date	31 March 2015
Maximum contractual life, yrs	3.2
Remaining contractual life, yrs	0.2
Number of persons at the end of the reporting year	28
Payment method	Cash & Equity

* *In addition to shares, there will be a cash payment intended for taxes and tax-related charges arising to the key employee from the reward.*

Changes during the period 2014 *	Performance Share Plan 2012	Weighted remaining contractual life in years
Tyyppi	Share	
1 January 2014		
Outstanding at the beginning of the reporting period, pcs	191 331	
Reserve at the beginning of the reporting period	23,000	
Changes during the period		
Granted	0	
Forfeited	12,839	
Invalidated during the period	0	
Excercised	0	
Expired	47,973	
31 December 2013		
Excercised at the end of the period	130,519	
Outstanding at the end of the period	130,519	0.2

* *Number of shares consists of the net reward given as shares. In addition to the shares, a cash portion will be included in the gross reward. The maximum value of the cash portion to be paid corresponds to the value of shares at the time of transfer.*

Changes during the period 2013	Performance Share Plan 2012	Weighted remaining contractual life in years
Tyyppi	Share	
1 January 2013		
Outstanding at the beginning of the reporting period, pcs	229,000	
Reserve at the beginning of the reporting period	21,000	
Changes during the period		
Granted	6,000	
Forfeited	8,000	
Invalidated during the period	0	
Excercised	0	
Expired	35,669	
31 December 2013		
Excercised at the end of the period	191,331	
Outstanding at the end of the period	191,331	1.2

Effect of Share-based Incentives on the result and financial position during the period 2014, €

Expenses for the financial year, share-based payments	135,072
Expenses for the financial year, share-based payments, equity-settled	27,829
Liabilities arising from share-based payments 31 December 2014	379,825

Effect of Share-based Incentives on the result and financial position during the period 2013, €

Expenses for the financial year, share-based payments	185,359
Expenses for the financial year, share-based payments, equity-settled	82,840
Liabilities arising from share-based payments 31 December 2013	272,582

18 INTEREST-BEARING LIABILITIES

1,000 €	2014	2013
Non-current		
Loans from financial institutions	196	16
Finance lease liabilities	399	454
Total	**595**	**470**
Current		
Loans from financial institutions	23,465	23,458
Finance lease liabilities, current portion	319	342
Total	**23,784**	**23,799**

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

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

1,000 €	31.12.2014	31.12.2013
EUR	595	470
	595	470
Group long-term interest-bearing liabilities - interest rates are as follows:		
Bank loans	1.1%	1.3%
Finance lease liabilities	1.5%	2.1%
The currency mix of the Group short-term interest-bearing liabilities:		
EUR	100%	100%
Group short-term interest-bearing liabilities - interest rates are as follows:		
Bank loans	1.1%	1.3%
Finance lease liabilities	1.5%	2.1%
Finance lease liabilities of the Group are payable as follows:		
Minimum lease payments		
Less than one year	327	352
Between one and five years	405	462
Total	732	814
Present value of minimum lease payments		
Less than one year	319	342
Between one and five years	399	454
Total	718	796
Future finance charges	14	18
Total finance lease liabilities	732	814

19 PROVISIONS

1,000 €	Warraties	Total
Balance at 1 January 2013	1,466	**1,466**
Provisions made during the year	252	**252**
Balance at 31 December 2013	1,718	**1,718**

	2014
Non-current	1,238
Current	480
Total	**1,718**

Warranties

The Group grants average 24 months guarantees for its certain products. If defects are detected during the warranty period, the Group either repairs the product or delivers a comparable new product. The amount of the warranty provision is based on the past experience on defective products and an estimate of related expenses.

20 TRADE AND OTHER CURRENT LIABILITIES

1,000 €	**2014**	2013
Current		
Trade payables	12,515	9,951
Personnel, social security and pensions	6,265	6,059
Accrued interest expenses and other financial items	23	9
Other accrued expenses and deferred income	13,051	11,856
Advances	26	145
Other liabilities	1,656	110
Total	**33,536**	**28,130**
Non current		
Other liabilties	31	2,414

21 INCOME TAX PAYABLE FOR THE PERIOD

At the end of the period there was income tax receivable 581 and tax payable 793 thousand euro on the profit for the period (31 Dec. 2013 there was 307 thousand euro tax receivables and 1,206 thousand euro tax payables).

FINANCIAL RISK MANAGEMENT

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

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

The hedge accounting principles as defined in IAS 39 are applied in Teleste only for hedging the interest risk for specific long term loans.

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

MARKET RISK

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

CURRENCY RISK

Transaction risk

The Group's currency position is divided into the transaction position and net investments in foreign operations. Foreign exchange exposures of the Group's units arise from receivables and accounts payables denominated in foreign currency, sales and purchase contracts and from forecast sales and purchases. Major part of the Group's sales is in Euro. The most significant non-euro sales currencies are PLN (accounts for 4 per cent of the net sales), Swedish and Norwegian crowns (6 per cent), US dollars (2 per cent) and UK pound sterling (9 per cent). Significant part of expenses, 57 per cent, arise in euro and in US dollar almost 34 per cent and Chinese CNY 14 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

	2014					2013				
	USD	SEK	NOK	GBP	PLN	USD	SEK	NOK	GBP	PLN
Current assets	971	773	859	4,170	4,092	989	851	878	2,056	2,327
Current liabilities	1,463	1,093	1,721	2,250	1,689	1,186	1,057	519	1,413	1,649

Cash flow hedges at 31 Dec 2014

Currency position

Currency	Exposure	Hedge	Net	Hedge Instrument	Hedge%
USD	6,762	6,013	750	Forward exchange contract	89%
CNY	3,368	2,986	382	Forward exchange contract	89%
GBP	2,631	2,054	576	Forward exchange contract	78%
PLN	1,510	1,240	270	Forward exchange contract	82%
NOK	863	691	171	Forward exchange contract	80%

Cash flow hedges at 31 Dec 2013

Currency position

Currency	Exposure	Hedge	Net	Hedge Instrument	Hedge%
USD	4,012	3,313	699	Forward exchange contract	83%
CNY	2,040	1,748	292	Forward exchange contract	86%

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 2014 the fair value of currency derivatives amounted to 11.4 million euro (31. Dec 2013: 7.6 million euro).

Translation risk

Since the Group's currency risk exposure regarding net investments in foreign operations is relatively low, the equity position, i.e. differences in the calculatory euro values of these amounts (translation risk) is not actively hedged. At 31 December 2014 the total non-euro-denominated equity of the Group's foreign subsidiaries amounted to 10.9 million euro (31 Dec. 2013: 12.8 million euro).

Sensitivity to market risk

Sensitivity to market risks arising from financial instruments as required by IFRS 7	**2014** Profit or Loss	2013 Profit or Loss
+-10% change in EUR/USD exchange rate	+-75	+-70
+-10% change in EUR/CNY exchange rate	+-38	+-29
+-10% change in EUR/GBP exchange rate	+-58	

FAIR VALUE INTEREST RATE RISK AND CASH FLOW INTEREST RATE RISK

Teleste's interest rate risk mainly comprises cash flow interest rate risk that arises from the interest-bearing liabilities. The Group can have floating or fixed interest loans and use interest swap contracts to achieve financial objectives. At the end of the reporting period 23,465 thousand euro have short-term interest as a reference rate. The interest period is of less than one year. Hedge accounting is applied for interest swap contracts hedging the interest risk for 11,000 thousand euro of the loans. The change in the fair value of this hedging instrument, 16 thousand euro, is recognised in profit and loss as other comprehensive income. The fair value of the interest swap contract is -31 thousand euro. All Group loans are denominated in euro. In 2014, the average interest rate of the loan portfolio was 1,1% 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 2014, the effect on variable rate interest-bearing liabilities on profit before taxes would have been +-120 thousand euro had the interest rate increased or decreased by 1 percentage point

Period in which repricing occurs	Within 1 year	1 year –5 years	Over 5 years	**Total**
Financial instruments with floating interest rate				
Financial liabilities				
Loan from financial institutions	12,465			**12,465**
Financial instruments with fixed interest rate				
Financial liabilities				
Loan from financial institutions	11,000			**11,000**

CREDIT RISK

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

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

All receivables are without collaterals. There are no significant concentrations of risk with respect to the receivables of the Group. Impairment losses on trade receivables are shown in note 5 Other operating expenses.

	2014			2013		
Analysis of trade receivables by age	Gross	Impair-ment loss	**Net**	Gross	Impair-ment loss	**Net**
Undue trade receivables	31,823		31,823	27,662		27,622
1–30 days	4,319		4,319	5,400		5,400
31–60 days	1,362		1,362	1,460		1,460
Over 60 days	2,777	-646	2,131	1,333	-616	717
Total			**39,635**			**35,238**

The maximum exposure to credit risk at the reporting date was:	**2014**	2013
Loans and receivables	44,694	38,537
Available for sale financial assets	701	294

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 2014 the Group's cash reserves totaled 17.6 million euro and its interest-bearing net debt 24.4 million euro. The Group administration raises the Group's interest-bearing debt centrally. At 31 December 2014 Teleste had committed and available credit facilities as well as other agreed and undrawn loans amounting to 17.0 million euro. 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 2014, the contractual maturity of interest-bearing liabilities was as follows:

	2015	2016	2017	2018	2019
Loans from financial institutions	23,488				
Trade payables	12.515				
Finance lease liabilities	327	184	103	75	43
Forward exchange contracts					
Outflow	-13,427				
Inflow	13,141				
Other	1,517				

As of 31 December 2013, the contractual maturity of interest-bearing liabilities was as follows:

	2014	2015	2016	2017	2018
Loans from financial institutions	23,467				
Trade payables	9,951				
Finance lease liabilities	352	272	129	47	13
Forward exchange contracts					
Outflow	-7,842				
Inflow	7,633				
Other		2,414			

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 2014 and 2013 was as follows:

	2014	2013
Total borrowings	24,379	24,269
Cash and cash equivalents	17,672	15,229
Interest-bearing net debt	6,707	9,040
Total equity	70,682	65,552
Interest-bearing net debt and total equity	77,389	74,592
Leverage ratio	8,7%	12.1%

22 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

Derivative instruments

Teleste uses forward exchage contracts to hedge its balance sheet items against transaction risk. The changes in the fair values of forward exchage contracts designated as hedging instruments are fully recognised through profit and loss. The fair value changes of forward exchange contracts amounted to 65 thousand euro in 2014 (2013: -209 thousand euro) and they are recognised as adjustements to sales. Long term bank loans are hedged by a interest swap contract. For this interest swap contract Teleste apply hedge accounting. The fair value changes of interest swap contracts amounted to -31 thousand euro. The change in fair value -25 thousand euro is entered in the total comprehensive income. The currency exchange contracts and interest swap contracts are in level 2.

Available-for-sale financial assets

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

Finance lease liabilities

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

Trade and other payables or receivables

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

Following discount rates were used for determining fair value:

	2014	2013
Finance lease liabilities	1.5%	2.1%

Carrying amounts of financial assets and liabilities by measurment 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
2014 Balance item							
Non current financial assets							
Other financial assets	12			701		701	701
Current financial assets							
Trade and other receivables	15		39,635			39,635	39,635
Forward exchange contracts	25	65				65	65
Carrying amount by category		**65**	**39,635**	**701**	**0**	**40,401**	**40,401**
Non-current financial liabilities							
Interest-bearing liabilities	18	399			196	595	595
Current financial liabilities							
Interest-bearing liabilities	18	319			23,465	23,784	23,784
Interest swap contracts	25	31				31	31
Trade and other payables	20				12,515	12,515	12,515
Other current liabilities	20				23	23	23
Carrying amount by category		**749**	**0**	**0**	**36,199**	**36,948**	**36,948**

	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
2013 Balance item							
Non current financial assets							
Other financial assets	12			294		294	294
Current financial assets							
Trade and other receivables	15		35,238			35,238	35,238
Carrying amount by category		**0**	**35,238**	**294**	**0**	**35,532**	**35,532**
Non-current financial liabilities							
Interest-bearing liabilities	18	454			16	470	470
Current financial liabilities							
Interest-bearing liabilities	18	342			23,458	23,799	23,799
Forward exchange contracts	25	209				209	209
Interest swap contracts	25	6				6	6
Trade and other payables	20				9,951	9,951	9,951
Other current liabilities	20				9	9	9
Carrying amount by category		**1,011**	**0**	**0**	**33,434**	**34,445**	**34,445**

23 ADJUSTMENTS TO CASH FLOWS FROM OPERATING ACTIVITIES

1,000 €	2014	2013
Non-cash transactions:		
Depreciation and amortisation	4,211	4,628
Employee benefits	0	83
Total	**4,211**	**4,711**

24 OPERATING LEASES

Group as lessee

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

Less than one year	565	650
Between one and five years	665	619
More than five years	1,337	1,357
Total	**2,567**	**2,626**

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

25 COMMITMENTS AND CONTINGENCIES

1,000 €	2014	2013
Rental and leasing liabilities		
Rental liabilities	2,567	2,626
Lease liabilities	2,992	4,122
Currency derivatives		
Value of the underlying forward contracts	13,141	7,633
Market value of the forward contracts	65	-209
Interest swap contracts		
Value of the underlying interest swap contracts	11,000	11,000
Market value of interest swap contracts	-31	-6

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		
Asheridge Communications Ltd, Chesham, UK	100	100
Asheridge Communications Espana S.L, Alcobendas, Spain	100	100
Asheridge Communications Poland Sp z.o.o, Wroclaw, Poland	100	100
Asheridge Investments Ltd, Chesham, UK	100	100
Cableway Management GmbH, Bergisch Gladbach, Germany	100	100
Cableway AG, Bergisch Gladbach, Germany	100	100
Cableway Nord GmbH, Bergisch Gladbach, Germany	100	100
Cableway Süd GmbH & Co. KG , Munich, Germany	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
Kaavisio Oy, Turku, Finland	100	100
Satlan S.p.zoo, Wroclaw, Poland	100	100
Teleste Belgium SPRL, Brussels, 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 FZ LLC, Fujairah, UAE	100	100
Teleste GmbH, Hildesheim, Germany	100	100
Teleste India Ptv. Mumbai, India	100	100
Teleste LLC, Georgetown Texas, USA	100	100
Teleste Networks Services S.A. Yverdon, Switzerland	100	100
Teleste Services GmbH, Hildesheim, Germany	100	100
Teleste Sweden AB, Stockholm, Sweden	100	100
Teleste UK Ltd, Cambridge, UK	100	100
Teleste Video Networks Sp z.o.o, Krakov, Poland	100	100

The key management personnel compensations

1,000 €	**2014**	2013
CEO		
Salaries and other short-term benefits	438	533

During 2014 no options were granted to the management of Teleste (2013: 0 options). The terms of the management share option plans are similar to those of other employees' share option plans, except for the terms of 2007 options. According to the 2007 option terms the recipient has to subscribe Teleste shares to the amount that equals his net annual salary. At 31 December 2014 management did not have any options (2013: no options of which 0 were exercisable). Management of the parent company has 0,66% or 125,652 of the parent company's shares (2013: 0,59% or 111,079 shares) CEO holding in Teleste Management II Ltd 31.25%.

A voluntary pension fee for CEO amounted 50 thousand euro (49 thousand euro in 2013), which amount is not included in the paid salary and remuneration.

1,000 €	**2014**	2013
The key management personnel compensations		
Marjo Miettinen, Chairman of the Board	40	41
Pertti Ervi, Member of the Board	28	29
Jannica Fagerholm, Member of the Board	28	28
Esa Harju, Member of the Board	28	29
Pentti Raatikainen, Member of the Board until 12 April 2013	0	1
Kai Telanne, Member of the Board	28	29
Petteri Walldén, Member of the Board	28	29
Jukka Rinnevaara, CEO	438	533
Total	**618**	**719**

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 2014 and 2013.

The Board of Directors of Teleste decided 5 December 2011 on a share issue against payment directed to Teleste Management II. In the share issue, a maximum total of 542,000 new shares in Teleste will be offered for subscription by Teleste Management II, in derogation from the shareholders' pre-emptive subscription rights. There are weighty financial reasons for the derogation from the shareholders' pre-emptive subscription rights as the shares to be issued in the share issue will be used for the implementation of the incentive and commitment plan of the members of the Teleste Management Group.

For the purpose of the share ownership, some of the members of the Management Group have established a limited liability company named Teleste Management II Oy ("Teleste Management II"), whose entire capital stock they or corporations over which they exercise control own. Upon establishment of the Plan, the intention of Teleste Management II is to acquire Teleste shares for a maximum of EUR 1,600,000, in total. The share acquisition was financed by capital investments in Teleste Management II by members of the Management Group, in the maximum total amount of EUR 320,000, as well as by a loan provided by Teleste. Some of the members of the Management Group did finance their capital investments in Teleste Management II by selling the Teleste shares they currently hold.

When the plan is implemented in full, the members of the Management Group (non controlling interest) will hold 2.85% of the Teleste's shares through Teleste Management II. There is a plan to dissolve this arrangement with shares and cash during first half of 2015. There is no restrictions according IFRS 12.

27 SUBSEQUENT EVENTS

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

Teleste has acquired 7th of January 2015 the entire share capital of Mitron Group Oy Ltd. – the Finnish provider of public transportation information systems and modern display solutions. Systems manufactured by Mitron are used on trains and railway stations, subways, airports and in urban traffic. Mitron runs its design and manufacturing operations in Forssa and Tampere with subsidiaries in Poland, Germany and Switzerland. More than 90 per cent of the company's net sales consist of exports. Mitron strengthens Teleste's position as a supplier of end-to-end video security and information management solutions for the rail segment.

In 2014, Mitron's net sales exceeded EUR 22.0 million. The transaction is expected to increase Teleste's 2015 net sales more than EUR 22 million and the impact on Teleste´s operating profit is estimated to be positive. While the impact of this acquisition on equity ratio will not be significant, Teleste's gearing will increase moderately. The equity of the acquired company is approximately EUR 5 million and the total assets are approximately EUR 15 million at the closing date. The initial purchase price of the company's entire share capital stands at EUR 8 million. This price may increase depending on the development of the net profit of the acquired company in the next two years. The initial purchase price will be paid mainly in cash. The transaction becomes effective on 7 January 2015. Through the acquisition Teleste personnel increases by 120 persons and Mitron's current management will continue to be in charge of the business. The business will be integrated into the video surveillance business unit within Teleste's Video and Broadband Solutions Business Area.

The initial accounting for this business combination is incomplete when Teleste financial statement s for 2014 is published, therefore all required information according IFRS 3 cannot be disclosed.

INCOME STATEMENT OF PARENT COMPANY 1.1. – 31.12.2014

1,000 €	Note	2014	2013
Net sales	1	**67,677**	**63,807**
Change in inventories of finished goods		-77	856
Other operating income	2	2,669	2,244
Material and services	3	-29,088	-29,414
Personnel expenses	4	-21,930	-20,285
Depreciation and amortisation	5	-930	-799
Other operating expenses		-14,905	-14,173
Operating profit		**3,417**	**2,237**
Financial income and expenses	6	3,319	6,148
Profit before extraordinary items		**6,737**	**8,385**
Extra ordinary items	7	0	0
Profit before taxes		**6,737**	**8,385**
Appropriations	8	267	143
Direct taxes	9	-907	-772
Profit for the financial period		**6,096**	**7,757**

BALANCE SHEET 31.12.2014

1,000 €	Note	**2014**	2013
Non-current assets			
Intangible assets	10	1,771	2,053
Property, plant and equipment	10	4,819	5,282
Long-term receivables	11	20,789	30,013
Investments	12	34,597	24,572
		61,975	**61,920**
Current assets			
Inventories	13	7,029	6,349
Trade and other receivables	14	23,030	20,717
Cash and cash equivalents	15	5,490	3,761
		35,549	**30,827**
Total assets		**97,524**	**92,747**
Shareholders' equity			
Share capital	16	6,967	6,967
Share premium	16	1,504	1,504
Invested non-restricted equity	16	5,563	6,516
Retained earnings	16	36,432	32,138
Profit for the financial period	16	6,096	7,757
		56,562	**54,881**
Appropriations	8	**576**	**843**
Provisions	17	**1,616**	**1,249**
Liabilities			
Long-term liabilities	18	0	0
Short-term liabilities	19	38,770	35,774
		38,770	**35,774**
Total equity and liabilities		**97,524**	**92,747**

CASH FLOW STATEMENT

1,000 €	**2014**	2013
Cash flow from operations		
Profit before extraordinary items	6,737	8,385
Adjustments		
Depreciations according plan	930	799
Financial income and expenses	-3,319	-6,148
Other items	-367	300
Cashflow before changes in working capital	3,980	3,336
Changes in working capital		
Increase (-) /decrease (+) in trade and other receivables	-2,313	146
Increase (-) / decrease (+) in inventories	-680	-129
Increase (+) / decrease (-) in trade payables	3,159	-2,987
Cashflow before financial items	4,147	366
Paid interest	-630	-479
Interests and dividends received	3,949	6,125
Income taxes paid	-1,092	-1,458
Cash flow from operations	**6,374**	**4,554**
Investments		
Payment of other tangible assets	-184	-436
Investments in subsidiary shares	0	-2,585
Proceeds from sale of tangible and intangible assets	0	82
Loans granted	-1,086	-2,468
Available-for-sale investments	-407	0
Cash flow from investments	**-1,677**	**-5,407**
Financing		
Short-term liabilities	1,000	5,000
Long-term liabilities	-1,000	-3,000
Paid dividends and other profit distribution	-3,463	-3,119
Proceed from issue of new shares	496	270
Cash flows from financing activities	**-2,967**	**-849**
Change in liquid funds	**1,729**	**-1,702**
Liquid funds 1.1.	3,761	5,463
Liquid funds 31.12.	5,490	3,761

ACCOUNTING PRINCIPLES

ACCOUNTING PRINCIPLES OF TELESTE CORPORATION

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

FOREIGN CURRENCY TRANSACTIONS

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

DERIVATIVES

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

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

VALUATION OF FIXED ASSETS

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

Intangible assets	3 years
Goodwil	8 years
Other capitalised expenditure	3 years
Buildings	25 to 33 years
Machinery	3 to 5 years
Computers	0 to 3 years

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

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

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

LEASED ASSETS

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

INVENTORIES

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

CASH

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

NET SALES

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

RESEARCH AND DEVELOPMENT

R&D expenses are recorded as revenue expenditure.

PENSION ARRANGEMENTS

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

INCOME TAXES

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

TREASURY SHARES

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

NOTES TO THE CONSOLIDATED INCOME STATEMENT AND BALANCE SHEET OF PARENT COMPANY 31.12.2014

1 NET SALES

1,000 €	2014	2013
Net sales by segments		
Video and Broadband Solutions	66,190	62,638
Network Services	1,487	1,169
Total	**67,677**	**63,807**
Net sales by market area		
Finland	13,710	11,963
Nordic countries	8,577	9,615
Other Europe	39,934	35,011
Others	5,456	7,218
Total	**67,677**	**63,807**

2 OTHER OPERATING INCOME

R&D subvention and others	2,669	2,244
Total	**2,669**	**2,244**

3 MATERIAL AND SERVICES

Purchases	-28,685	-28,092
Change in inventories	757	-727
	-27,928	**-28,819**
Purchased services	-1,160	-595
Total	**-29,088**	**-29,414**

4 PERSONNEL EXPENSES

1,000 €	2014	2013
Wages and salaries	-17,829	-16,492
Pension costs	-3,120	-2,886
Other personnel costs	-981	-907
Total	**-21,930**	**-20,285**
Remuneration to Board members and Managing Directors		
Marjo Miettinen, Chairman of the Board	-40	-41
Pertti Ervi, Member of the Board	-28	-29
Jannica Fagerholm, Member of the Board	-28	-28
Esa Harju, Member of the Board	-28	-29
Pentti Raatikainen, Member of the Board until 12 April 2013	0	-1
Kai Telanne, Member of the Board	-28	-29
Petteri Walldén, Member of the Board	-28	-29
Jukka Rinnevaara, CEO	-438	-533
Yhteensä	**-618**	**-719**

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

Year-end personnel	382	373
Average personnel	379	376

Personnel by function at the year-end

Research and Development	101	101
Production and Material Management	223	215
Sales and marketing	30	30
Administration	28	27
Total	**382**	**373**

5 DEPRECIATION ACCORDING TO PLAN

1,000 €	2014	2013
Other capitalized expenditure	-177	-203
Buildings	-306	-283
Machinery and equipment	-165	-145
Goodwill	-274	-160
Other intangible rights	-8	-8
Total	**-930**	**-799**

6 FINANCIAL INCOME AND EXPENSES

Interest income	5	-16
Interest income from Group companies	944	1,384
Interest expenses	-323	-329
Interest expenses to Group companies	-73	-81
Currency differences	92	75
Other financial income and expenses	-66	433
Dividend income from Group companies	2,739	4,680
Dividend income	2	2
Total	**3,319**	**6,148**

7 EXTRAORDINARY ITEMS

Paid group contribution	0	0

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

Change in accumulated depreciation difference		
Buildings	29	-11
Other capitalized expenditure	238	154
Total	**267**	**143**
Accumulated depreciation in excess of plan	576	843

9 INCOME TAXES

Direct taxes	-931	-808
Taxes from previous years	24	36
Total	**-907**	**-772**

10 TANGIBLE AND INTANGIBLE ASSETS

	Intangible assets	Goodwill	Total	Buildings	Machinery	Other capitalized expenditure	Total
Acquisition cost 1.1.	**7,619**	2197	**9,816**	8,847	8,488	4,362	**21,697**
Increases	0	0	**0**	16	155	14	**185**
Acquisition cost 31.12.	**7,619**	2,197	**9,816**	8,863	8,643	4,376	**21,882**
Accumulated depreciation 1.1.	**-7,603**	-160	**-7,763**	-4,117	-8,180	-4,118	**-16,415**
Depreciation	-8	-274	**-282**	-306	-165	-177	**-648**
Accumulated depreciation 31.12.	**-7,611**	-434	**-8,045**	-4,423	-8,345	-4,295	**-17,063**
Book value 31.12.2014	**8**	**1,763**	**1,771**	**4,440**	**298**	**81**	**4,819**
Book value of machinery and equipment 31.12.2014			273				
Book value of machinery and equipment 31.12.2013			308				

13 INVENTORIES

1,000 €	2014	2013
Raw materials and consumables	2,616	1,859
Work in progress	2,450	2,771
Finished goods	1,963	1,719
Total	**7,029**	**6,349**

14 CURRENT ASSETS

Accounts receivables	10,325	7,889
Accounts receivables from Group companies	11,089	11,570
Accrued income	1,616	1,258
Total	**23,030**	**20,717**

15 LIQUID FUNDS

Cash and cash equivalents	**5,490**	**3,761**

11 LONG TERM RECEIVABLES

1,000 €	2014	2013
Subordinated loan from group company	457	448
Other long term receivables	20,331	29,565
Total	**20,788**	**30,013**

12 INVESTMENTS

Parent company	Shares in group companies	Shares others	Total
Acquisition cost 1.1.	29,909	714	30,623
Increases	10,080	407	10,487
Acquisition cost 31.12.	**39,989**	**1,121**	**41,110**
Accumulated depreciation 1.1.	-5,624	-428	-6,052
Disposals	-462	0	-462
Accumulated depreciation 31.12.	**-6,086**	**-428**	**-6,514**
Book value 31.12.2014	**33,903**	**693**	**34,597**

16 CHANGES IN SHAREHOLDERS' EQUITY

1,000 €	2014	2013
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.	6,516	5,784
Purchases of own shares	-1,448	0
Share issues	495	732
Invested non-restricted equity 31.12.	**5,563**	**6,516**
Retained earnings 1.1.	39,895	35,258
Dividends	-3,463	-3,119
Retained earnings 31.12.	36,432	32,138
Profit for the financial period	6,096	7,757
Accumulated profit 31.12.	42,528	39,895
Total	**56,562**	**54,881**
Company's distributable equity 31.12.	48,091	46,411

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

17 OBLIGATORY PROVISIONS

1,000 €	2014	2013
Guarantee provision	**1,616**	**1,249**

18 LONG TERM LIABILITIES

Bank Loan	**0**	**0**

19 SHORT TERM LIABILITIES

Bank loans	23,000	23,000
Advance payments from Group companies	0	10
Accounts payables	4,146	2,912
Accounts payables from Group companies	1,381	680
Other current liabilities	486	523
Other current liabilities from Group companies	3,080	2,927
Accrued liabilities	6,676	5,722
Total	**38,770**	**35,774**

20 CONTINGENT LIABILITIES AND PLEDGED ASSETS

	2014	2013
Leasing liabilities		
For next year	658	782
For later years	824	870
Total	**1,482**	**1,652**
Rental liabilities		
Less than one year	117	112
Between one and five years	216	128
More than five years	1,154	1,269
	1,487	**1,509**
Liabilities on own behalf		
Bank guarantees	0	0
Guarantees given on behalf of subsidiaries	0	0

21 CURRENCY DERIVATES

Value of underlying forward contracts	13,427	7,198
Market value of forward contracts	65	-159
Interest rate swap	11,000	11,000
Market value of interest rate swap	-31	-6

22 COMPANIES OWNED BY THE GROUP AND PARENT COMPANY

	Group holding share %	Parent company's share %
Asheridge Communications Espana S.L, Alcobendas, Spain	100	0
Asheridge Communications Ltd, Chesham, UK	100	0
Asheridge Communications Poland SP z.o.o, Wroclaw, Poland	100	0
Asheridge Investments Ltd, Chesham, UK	100	0
Cableway Management GmbH, Bergisch Gladbach, Germany	100	0
Cableway AG, Bergisch Gladbach, Germany	100	0
Cableway Nord GmbH, Bergisch Gladbach, Germany	100	0
Cableway Süd GmbH & Co. KG , München, Germany	100	0
Dinh TeleCom S.A., Herstal, Belgium	100	1
Flomatik A/S, Porsgrun, Norway	100	100
Flomatik Network Services Ltd., Fareham, UK	100	100
Kaavisio Oy, Turku, Finland	100	100
Satlan s.p.zoo,Wroclaw, Poland	100	100
Teleste Belgium SPRL, Brussels, 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 FZ LLC, Fujairah, UAE	100	100
Teleste GmbH, Hildesheim, Germany	100	0
Teleste India Ptv., Mumbai, India	100	100
Teleste LLC, Georgetown Texas, USA	100	100
Teleste Network Services S.A., Yverdon, Switzerland	100	100
Teleste Services GmbH, Hildesheim, Germany	100	100
Teleste Sweden AB, Stockholm, Sweden	100	100
Teleste UK Ltd, Cambridge, UK	100	100
Teleste Video Networks Sp zoo , Krakov, Poland	100	100

Asheridge Communications Limited (02704083) and Asheridge Investments Limited (05418313) have taken advantage of the audit exemption provisions under section 479A of the Companies Act 2006 in the UK relating to subsidiary companies.

23 OWN SHARES

	Number of shares	Percentage of share capital and votes %
Teleste Oyj owns own shares 31.12.2014	647,654	3.41%

24 SHARES AND OWNERS

Management interest

	Number of shares	Percent-age of share capital, %	Percent-age of votes, %
CEO and Board Members	125,652	0.66%	0.66%

Audit expenses	**2014**	2013
KPMG		
Auditing assignments	-44	-41
Tax consultancy	-24	-43
Other assignments	-8	-43
Total	**-76**	**-127**

25 SHARES AND SHAREHOLDERS

Major shareholders 31 December 2014	Number of shares	%
EM Group Oy	4,409,712	23.23
Mandatum Life Insurance Company Limited	1,679,200	8.84
Ilmarinen Mutual Pension Insurance Company	963,860	5.08
Kaleva Mutual Insurance Company	824,641	4.34
Teleste Oyj	647,654	3.41
OP-Finland Small Firms Fund	630,712	3.32
Teleste Management II Oy	542,000	2.85
Varma Mutual Pension Insurance Company	521,150	2.74
The State Pension Fund	500,000	2.63
Danske Invest Finnish Small Cap Fund	300,000	1.58
Total (10)	**11,018,929**	**58.02**

Sector Dispersion 31 December 2014	Shareholders	%	Shares	%
Households	4,626	93.23	4,545,768	23.9
Public sector institutions	3	0.06	1,985,010	10.5
Financial and insurance institutions	18	0.36	3,869,397	20.4
Corporations	248	5.0	7,263,897	38.3
Non-profit institutions	27	0.54	368,048	1.9
Foreign and nominee registered owners	40	0.81	953,468	5.0
Total	**4,962**	**100.00**	**18,985,588**	**100.00**

Holding Dispersion 31 December 2014	Shareholders	%	Shares	%
1–100	1,116	22.5	73,984	0.4
101–500	2,157	43.5	588,322	3.1
501–1,000	758	15.3	624,039	3.3
1,001–5,000	747	15.1	1,641,409	8.6
5,001–10,000	88	1.8	628,171	3.3
10,001–50,000	69	1.4	1,356,609	7.1
50,001–100,000	3	0.1	258,152	1.4
100,001–500,000	16	0.3	3,595,973	18.9
500,001–	8	0.2	10,218,929	53.8
Total	**4,962**	**100.0**	**18,985,588**	**100.0**
of which nominee registered			724,480	3.8

PROPOSAL FOR THE DISTRIBUTION OF EARNINGS

The parent company's distributable equity as of 31 December 2014 stood at EUR 48,091,658.69.

As to the Annual General Meeting scheduled for 9 April 2015, the Board proposes that a dividend of EUR 0.20 (0.19) per share be paid for the outstanding shares for the year 2014.

Signatories to the Annual Report and Financial Statements

4 February 2015

Marjo Miettinen
Chairperson of the Board

Pertti Ervi
Member of the Board

Jannica Fagerholm
Member of the Board

Esa Harju
Member of the Board

Kai Telanne
Member of the Board

Petteri Walldén
Member of the Board

Jukka Rinnevaara
CEO

The Auditor's note
Our auditors report has been issued today

4 February 2015

KPMG OY AB

Esa Kailiala
Authorised Public Accountant

AUDITOR'S REPORT

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

TO THE ANNUAL GENERAL MEETING OF TELESTE CORPORATION

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Teleste Corporation for the year ended 31 December 2014. 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 PRESIDENT AND CEO

The Board of Directors and the President and CEO are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, 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 President and CEO 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 or the President and CEO 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, 4 February 2015
KPMG OY AB

Esa Kailiala
Authorized Public Accountant

CORPORATE GOVERNANCE STATEMENT 2014

This Corporate Governance Statement report has been drawn up on the basis of Chapter 7 Section 7 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 separately from the Board of Directors' Report, and the provided data is based on situation dated on December 31, 2014.

CORPORATE GOVERNANCE

Teleste Corporation aims at organizing its management in a consistent and functional manner. The governance is based on the Finnish Companies Act and Teleste Corporation's Articles of Association. Teleste shares are listed on the NASDAQ OMX Helsinki Oy (hereafter Stock Exchange). The company abides by the Securities Markets 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 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 values.

General Meeting

The General Meeting 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 Annual General Meeting (hereafter AGM) is held in Helsinki in the customary manner.

The General Meeting decides matters specified for it to decide in 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 CEO, and the election of the members of the Board of Directors and the auditor. Responsibilities of the General Meeting also include e.g. 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 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 manage the company in accordance with the law, statutory regulations, Articles of Association and decisions taken by the General Meeting. The operating procedures and main duties of the Board of Directors 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 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 personnel and presentation of any related proposals to the AGM as required,
- Annual revision of any essential risks related to the company operation and management thereof,
- Laying down the company values and policies.

Election and Term of Office of the Board of Directors

According to the Articles of Association, the Board consisting of a minimum of three and a maximum of eight members will be elected annually at the Annual General Meeting. Members shall hold office until the end of the next Annual General Meeting. The Board shall elect Chairman of the Board from amongst its members.

In its meeting held on April 1, 2014, the AGM elected the six persons specified below to the Board of Directors of Teleste Corporation. Marjo Miettinen was elected Chairperson by the members of the Board.

- Marjo Miettinen, Chairperson, b. 1957, M.Sc. (Ed.), EM Group Oy, Board Professional, Board Member since 2009
- Pertti Ervi, Member of the Board, b. 1957, B.Sc. (Eng.), Independent Consultant, Board Member since 2009

- Jannica Fagerholm, Member of the Board, b. 1961, M.Sc. (Econ.), Signe and Ane Gyllenberg Foundation, Managing Director, Board Member since 2013
- Esa Harju, Member of the Board, b. 1967, M.Sc. (Eng.), Ixonos Plc, President and CEO, Board Member since 2012
- Kai Telanne, Member of the Board, b. 1964, M.Sc. (Econ.), Alma Media Corporation, CEO, Board Member since 2008
- Petteri Walldén, Member of the Board, b. 1948, M.Sc. (Eng.), Board Member since 2009

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 a Board Member of EM Group Oy, a significant shareholder.

In 2014, the Board of Directors of Teleste Corporation had 9 meetings. The attendance of the Directors at the Board meetings was 100%. 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 1, 2014, the AGM decided that the Chairman of the Board be paid until the next AGM EUR 40 000 per year and each Member EUR 28 000 per year. Remuneration for the Members of the Board will be paid so that 40% of the specified annual amount will be used to purchase Teleste's shares or alternatively the shares may be conveyed by using the own shares held by the company, and the rest will be paid in cash.

Salaries, remuneration and other benefits paid in 2014 to the Board of Directors were as follows:

- Marjo Miettinen, EUR 40 000 including 3 572 Teleste shares
- Pertti Ervi, EUR 28 000 including 2 500 Teleste shares
- Jannica Fagerholm, EUR 28 000 including 2 500 Teleste shares
- Esa Harju, EUR 28 000 including 2 500 Teleste shares
- Kai Telanne, EUR 28 000 including 2 500 Teleste shares
- Petteri Walldén, EUR 28 000 including 2 500 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 which has been approved by the Board. CEO is not a member of Teleste's Board of Directors. The current President and 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, remuneration and other benefits received by the CEO. Salary, remuneration and other fringe benefits paid in 2014 to the CEO of Teleste Corporation totaled EUR 438 290,40. In addition, there was an additional pension payment of 50 006,84 EUR in the financial year. There were no share based benefits in the financial year.

The contractual age of retirement of CEO Jukka Rinnevaara is 60. Charges resulting from additional voluntary pension scheme are included in the post-employment benefits. Pension liability of EUR 70 000 related to this additional pension plan is included in Teleste Corporation's balance sheet.

As to the contract of CEO Rinnevaara, his term of notice has been specified as six (6) months in case the CEO decides to withdraw, and eighteen (18) months should the contract be terminated by the company. Upon termination of contract of the CEO by the company, the CEO will be paid a compensation corresponding to eighteen (18) months without benefits.

Management Group

The Teleste Corporation Management Group is chaired by the CEO who reports to the Board of Directors. On December 31, 2014, the Group's Management Group consisted of seven members including the CEO, to whom the Management Group members report. Members of the Management Group are the directors of Teleste's business areas and the Group Management. Subsidiaries are operating as parts of the business areas.

The Management Group handles the main 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, as a rule, once a month and at other times, when necessary.

Decisions concerning incentive and remuneration systems for the management are made by the Board of Directors based on proposal made by the CEO.

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 Management Group including the CEO have a group pension plan in which the members' retirement age is 60 years. The planned amount of pension is 60% of the regular annual earnings paid in the four years preceding the occurrence of retirement. In this calculation, pensions to be paid in line with the Employees' Pensions Act (TyEL) will be taken into account.

INCENTIVE SCHEMES AND OWNERSHIP BY THE MANAGEMENT

Share Ownership and Options of the Management Group

On December 31, 2014, Teleste Corporation's CEO owned 44 436 Teleste Corporation's shares. Other members of the Management Group owned 11 627 Teleste Corporation's shares.

On 31 December, 2014, Teleste did not have any running stock option programs and the CEO and the members of Teleste Corporation's Management Group did not hold any Teleste options.

For holdings held by the CEO and the Management Group, see Notes section: Related party transactions.

Teleste Management II Oy

On 5 December, 2011, Teleste Corporation's Board of Directors decided on two new share-based incentive schemes for the members of the Management Group and for the key personnel. The systems are designed to unify the objectives of the owners, members of the Management Group, and the key personnel to increase the company's value, as well as to commit the members of the Management Group and the key employees by encouraging them to acquire and hold shares of the company and to offer them competitive compensation systems based on the long-term ownership of the company's shares. For such shareholding, some members of the Management Group established a company by the name of Teleste Management II Oy, the entire share capital of which they or their controlled corporations own.

This system is valid until the spring of 2015, when the system is intended to be dissolved in a manner decided later. Transfer of shares owned by Teleste Management II Oy is restricted during the system's period of validity. Holdings in Teleste Management II Oy by the members of the Management Group will be, as a rule, valid until the dissolution.

On 31 December, 2014, Teleste Management II Oy was in possession of 542 000 Teleste Corporation's shares. CEO's holding in the Teleste Management II Oy shares stands at 31.25% while the ownership by other members equals 68.75%.

AUDITING, REVISIONS, AND AUDIT EXPENSES

The term of office of Teleste Corporation auditor expires at the closing of the first Annual General Meeting following the election. On April 1, 2014, 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 2014, Teleste Group's auditing expenses totaled EUR 210 000 in which the share of KPMG was EUR 150 000. Moreover, auditing units of KPMG have supplied Teleste Group companies with other consultation worth total EUR 73 000 and other than KPMG auditors for EUR 37 000.

INSIDERS

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

Membership in Teleste's permanent public insider circle is based on position. Thus, the group consists of Members of the Board of Directors, CEO and the auditors. Furthermore, the extended permanent public insider register includes members of the Management Group and the CEO's assistant. Teleste has also permanent company-specific insiders.

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's project-specific 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 an insider 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'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 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 within 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 area in both of our business areas answers for the compliance with the internal supervision principles on every level of the area 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 strategic and 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 these will be monitored and evaluated 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 by insurance. In risk management, the regular evaluation of most significant risks and exercising control thereof in a cost-effective manner are emphasized. Risk management supports the business activity and generates added value, assisting decision-making and goal-setting 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:

- strategic risks
- operational risks
- economic risks
- interest groups risks
- personnel risks
- property and business interruption 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. In addition, the summary of the internal audit report is presented twice a year to the Board of Directors of Teleste Corporation. The internal auditing evaluates the efficiency of the processes regarding risk management, supervision, management and selected functions, and makes suggestions for their developmental measures. These activities are performed in cooperation with the company's 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. External auditor participates in the selection of the priorities for the internal auditing and assessment of results.

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

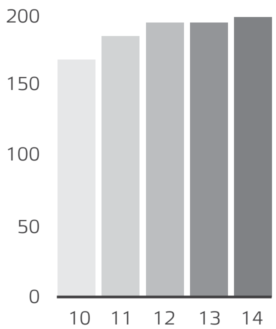
Internal supervision and risk management involved in the financial reporting process are based on the general principles of internal supervision and risk management described above. CFO answers for the systems involved in the internal supervision and risk management related to the financial reporting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

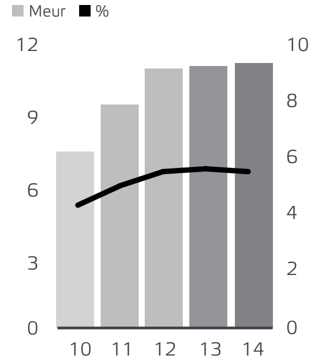
KEY FIGURES 2010–2014

	IFRS 2014	IFRS 2013	IFRS 2012	IFRS 2011	IFRS 2010
Profit and loss account, balance sheet					
Net sales, Meur	197.2	192.8	193.9	183.6	167.8
Change %	2.3	-0.6	5.6	8.6	18.5
Sales outside Finland, %	92.5	93.2	93.4	94.1	93.3
Operating profit, Meur	11.1	11.0	10.9	9.4	7.4
% of net sales	5.6	5.7	5.6	5.1	4.4
Profit after financial items, Meur	10.8	10.7	10.1	8.8	6.7
% of net sales	5.5	5.5	5.2	4.8	4.0
Profit before taxes, Meur	10.8	10.7	10.1	8.8	6.7
% of net sales	5.5	5.5	5.2	4.8	4.0
Profit for the financial period, Meur	8.5	8.1	6.7	6.3	4.8
% of net sales	4.3	4.2	3.5	3.4	2.9
R&D expenditure, Meur	10.3	10.0	11.2	11.6	10.3
% of net sales	5.2	5.2	5.8	6.3	6.1
Gross investments, Meur	3.7	6.3	3.3	5.2	3.8
% of net sales	1.9	3.3	1.7	2.9	2.2
Interest bearing liabilities, Meur	24.4	24.3	22.1	33.2	28.1
Shareholder's equity, Meur	70.7	65.6	60.6	55.3	50.4
Total assets, Meur	132.5	124.3	120.2	133.2	116.2
Personnel and orders					
Average personnel	1,302	1,306	1,326	1,297	1,215
Order backlog at year end, Meur	15.2	13.1	17.0	21.2	17.0
Orders received, Meur	199.3	188.9	189.7	188.1	167.2
Key metrics					
Return on equity, %	12.5	12.9	11.6	11.9	9.9
Return on capital employed, %	12.2	13.0	13.0	11.5	10.2
Equity ratio, %	53.4	52.7	50.5	41.6	43.6
Gearing, %	9.5	13.8	13.7	32.2	25.5
Earnings per share, euro	0.48	0.47	0.38	0.36	0.27
Earnings per share fully diluted, euro	0.48	0.46	0.38	0.36	0.27
Shareholders equity per share, euro	3.94	3.73	3.48	3.17	2.90

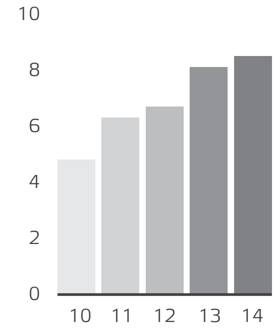
NET SALES, Meur



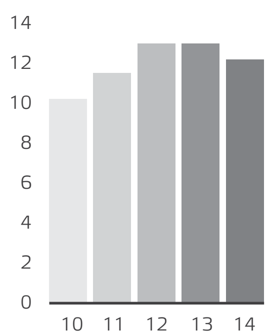
OPERATING PROFIT



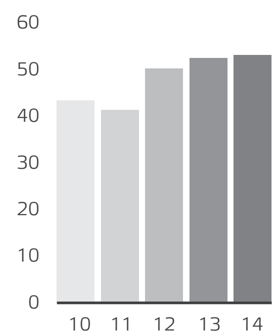
PROFIT FOR THE FINANCIAL PERIOD, Meur



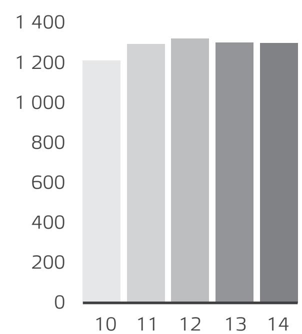
RETURN ON CAPITAL EMPLOYED, %



EQUITY RATIO, %



AVERAGE PERSONNEL



CALCULATION OF KEY FIGURES

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

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

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

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

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

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

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

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

Effective dividend yield: $\dfrac{\text{Dividend per share}}{\text{Dividend per share}}$

SHARES AND SHAREHOLDERS

INVESTOR RELATIONS

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

OBJECTIVES AND PRINCIPLES OF COMMUNICATION

Our communication aims at providing all the market participants with equally correct and relevant information, which supports the value formation of the company share. The principles guiding Teleste's disclosure policy include up-to-dateness, truthfulness and simultaneity. Cornerstones 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 Disclosure Policy, approved by the Board of Directors, which defines the principles and procedures by which Teleste communicates with the capital market.

CONTACT INFORMATION

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Phone +358 2 2605 611

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Phone +358 2 2605 611, fax +358 2 2605 812
Email: investor.relations@teleste.com

SHARE BASICS

Teleste Corporation is listed on the NASDAQ OMX Helsinki Oy in the Technology sector. In 2014, the company was included in the small cap segment.

Facts about the share:

Listed on	30.3.1999
ISIN code	FI0009007728
Trading code	TLT1V
Reuter's ticker symbol	TLT1VHE
Bloomberg ticker symbol	TLT1V FH
12 months high	5.29
12 months low	4.25
All-time high (7.9.2000)	39.00
All-time low (12.12.2008)	1.90

FINANCIAL INFORMATION

Annually, Teleste releases the Financial Statement bulletin, Annual Report and three Interim Reports. These publications including the stock exchange releases are available in Finnish (official language) and English at the company website. Moreover, you can use the online news release service on the website to subscribe to the company's stock exchange releases and have them sent directly to your e-mail. The Annual Report is available in PDF format on the website.

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 2015:

Interim Report, January–March	30.4.2015
Interim Report, January–June	6.8.2015
Interim Report, January–September	29.10.2015
Financial Statement Release	4.2.2016

CHANGES IN SHAREHOLDERS' CONTACT INFORMATION

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

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

ANNUAL GENERAL MEETING

Teleste Corporation's Annual General Meeting (AGM) will be held on Thursday, 9 April 2015, at 3:00 p.m., in Helsinki Hall of Finlandia Hall at the address of Mannerheimintie 13 e, 00100 Helsinki, Finland. The reception of persons who have registered for the meeting will commence at 2:00 p.m.

RIGHT TO PARTICIPATE AND REGISTRATION

Each shareholder, who is registered on Thursday, 26 March 2015 in the shareholders' register of the Company maintained by Euroclear Finland Ltd, has the right to participate in the Annual General Meeting. A shareholder, whose shares are registered on his/her personal Finnish book-entry account, is registered in the shareholders' register of the Company.

A shareholder, who wants to participate in the Annual General Meeting, shall register for the meeting no later than Wednesday 1 April 2015 at 4 p.m. by giving a prior notice of participation to the Company.

Sign up to the AGM by one of the following:

- by email at investor.relations@teleste.com,
- by telephone +358 2 2605 611 Monday–Friday between 09:00–16:00 EET;
- 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 notice of participation shall be delivered to the Company before the deadline for registration. In connection with the registration, a shareholder shall notify his/her name, personal identification number, address, telephone number and the name of a possible assistant or proxy representative and the personal identification number of the proxy representative. The personal data given to Teleste Corporation is used only in connection with the Annual General Meeting and with the processing of thereto related necessary registrations.

Use of Representative and Proxies

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

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

Possible proxy documents should be delivered in originals to the address Teleste Corporation, Tiina Vuorinen, P.O.Box 323, FI-20101 Turku, Finland by Wednesday 1 April 2015 at 4 p.m. at the latest.

Holder of Nominee-registered Shares

A holder of nominee registered shares has the right to participate in the Annual General Meeting by virtue of such shares, based on which he/she on the record date of the Annual General Meeting, i.e. on 26 March 2015, would be entitled to be registered in the shareholders' register of the Company held by Euroclear Finland Ltd. The right to participate in the Annual General Meeting requires, in addition, that the shareholder on the basis of such shares has been temporarily registered into the shareholders' register held by Euroclear Finland Ltd. at the latest by 2 April 2015, by 10 a.m. As regards nominee registered shares this constitutes due registration for the Annual General Meeting.

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

Other Information

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

DIVIDEND POLICY

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

Proposal for Distribution of Dividend 2014

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.20 per share be paid based on the adopted balance sheet for the financial period that ended on 31 December 2014 for shares other than those held by the Company. The dividend will be paid to a shareholder who on the record date of dividend payment 13 April 2015 is registered in the Company's shareholders' register maintained by Euroclear Finland Ltd. The dividend will be paid on 20 April 2015.

Payment of dividend in 2014

Annual General Meeting	9.4.2015
Dividend ex date	10.4.2015
Dividend record date	13.4.2015
Payment of dividend	20.4.2015

1999	2000	2001	2002	2003	2004	2005	2006
0.10	0.12	0.16	0.08	0.08	0.12	0.16	0.20

2007	2008	2009	2010	2011	2012	2013	2014
0.24	0.12	0.08	0.12	0.14	0.17	0.19	0,20*

* *Proposal by the Board*

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

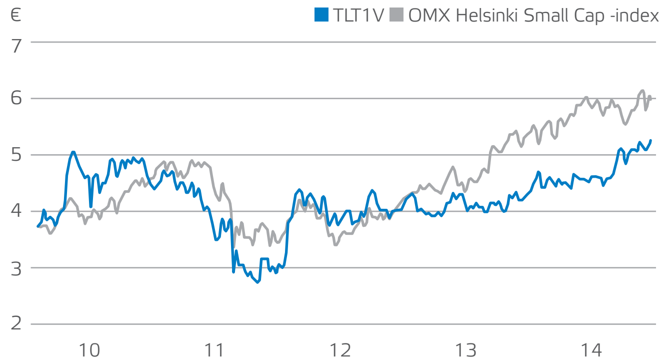
Minutes of the Annual General Meeting will be available at Teleste's website no later than 23 April 2015.

KEY FIGURES PER SHARE

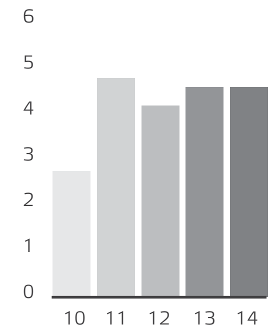
	2014	2013	2012	2011	2010
Earnings per share, euro	0,48	0,47	0,38	0,36	0,27
Earnings per share fully diluted, euro	0,48	0,46	0,38	0,36	0,27
Shareholders equity per share, euro	3,94	3,73	3,48	3,17	2,90
Paid dividend, Meur	3,3*	3,3	3.0	2,4	2,1
Dividend per share, euro	0,20*	0,19	0,17	0,14	0.12
Dividend per net result, %	41,7	40,8	44,5	38,9	43,7
Effective dividend yield, %	4,5	4,5	4,1	4,7	2,7
Highest price, euro	5,29	4,47	4,44	4,82	5,33
Lowest price, euro	4,25	3,78	3,04	2,50	3,64
Closing price, euro	5,27	4,25	4,17	3,00	4,41
Price per earnings	11,0	9,1	10,8	8,3	16,3
Market capitalization, Meur	98,7	79,6	78,1	56,2	80,2
Stock turnover, Meur	10,9	9,2	10,8	6,2	14,2
Turnover, number in millions	2,3	2,2	2,7	1,7	3,2
Turnover, % of capital stock	12,5	11,7	14,4	9,1	17,4
Average number of shares	18 918 869	18 743 507	18 728 590	18 189 560	18 093 689
Average number of shares, diluted w/o own shares	17 729 215	17 513 799	17 688 527	17 425 605	17 693 605
Number of shares at the year-end, diluted w/o own shares	17 795 934	17 838 599	17 709 672	17 425 605	17 693 605
Number of shares at the year-end	189 855 588	18 816 691	18 728 590	18 728 590	18 186 590

** The Board's proposal to the AGM*

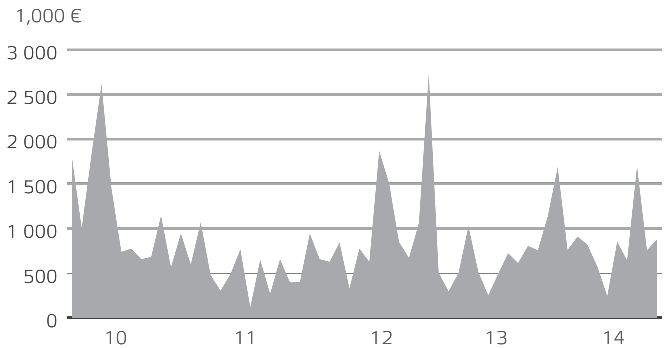
SHARE PRICE DEVELOPMENT 2010–2014



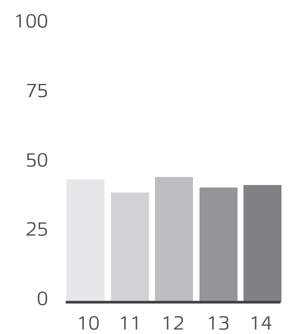
EFFECTIVE DIVIDEND YIELD, %



SHARE MONTHLY TURNOVER 2010–2014



DIVIDEND PER NET RESULT, %



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

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