



*Teleste*

ANNUAL REPORT 2000

MEASUREMENTS

OF TELESTE'S SUCCESS

- OWNER SATISFACTION
- CUSTOMER SATISFACTION
- PERSONNEL SATISFACTION

TELESTE ANNUAL REPORT 2000

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Reaching our tough internal targets for profitable growth requires top competitiveness and the constant nurturing of it. Timo Toivola



## CEO'S LETTER

The past year was the year of Teleste's success. The strategy transformation from improving profitability to profitable growth succeeded. Despite the divestiture of the UK-based division, the group's net sales were up 46 percent and profitability was good. I am particularly glad that the long hours spent on improving the competitiveness of the group have produced added results and that Teleste, a company specialized in fast broadband network technology, is a leading company in Europe and a strong global challenger in its niche. Excellent profitability and a strong market position create good prerequisites for positive development in the next few years.

In our vision and strategies it is extremely important to understand the factors that guide market development. What does the need for high-speed optical internet connections and interactivity mean? Where and how will video images be viewed in the future? The media has forgotten the critical discussion of the advantages of broadband cable networks, and the often premature UMTS and WAP news by different companies may have caused unwarranted excitement. The growth in the offering of VoIP telephony services, i.e. phone services through, for example, broadband cable networks, increases competition in the future for the companies offering the old fixed telephone connections. As we see it, television, and especially digital television, is the center of home entertainment electronics in the coming decades. As the need to build new high-speed optical networks is increasing, Teleste's growth is also boosted by the urgent need to upgrade existing networks. Digital broadcasts are going to be launched in several countries.

Growth was pursued and prerequisites for future growth were created in 2000. It was a successful year with profitability remaining good even as the investments for sales and marketing as well as for R&D in the Access Systems division almost doubled. It is believed that also the investments launched at year-end for India's growing gigantic markets will pay back quickly.

In accordance with its strategy, Teleste concentrates on businesses where fast growth and good profitability can be achieved in both the short- and long-term. The UK-based Home Networks division did not meet these requirements and it was sold last autumn. Extraordinary items include positive income of 1.4 million euros from the sale.

Teleste's orders received without the Home Networks division increased 51.8 percent and the order backlog was 26.4 million euros at year-end. Comparable net sales increased 60.6 percent, operating profit margin was 15.4 percent and earnings before taxes improved 47.1 percent to 14.4 million euros. With Home Networks the group's net sales were 99.4 million euros and earnings before taxes improved 36.3 percent to 12.3 million euros. Home Networks burdened the group's operating profit with a loss of 1.9 million euros. The group's comparable earnings per share was 0.56 euros compared to last year's 0.42 euros. Both return on equity and return on capital employed exceeded 30 percent. Group items in 1999 included few exceptional items that improved profitability;

consequently, the comparable operating profit and key figures improved in 2000 even more than stated above. The group's core division Access Systems increased its sales during the year by 59.7 percent to 79.5 million euros and its year-end order backlog increased 76.0 percent to a new record of 25.8 million euros. Teleste Educational's net sales increased 40.8 percent to 12.6 million euros and its operating profit increased more than five-fold to 2.8 million euros.

The Access Systems division's competitive position as the leading broadband network developer and supplier in Europe has strengthened. The new generation ATMux and DWDM product families open new important possibilities also in Asia's large and growing markets. Also the order from Isle of Wight Cable and Telephone Company, where for the first time Teleste has total responsibility for technical integration of the network, is an important step in securing future growth.

The Educational division is in an interesting phase. Sales of software-based products increased more than 50 percent from the previous year to 7.6 million euros, now representing about 60 percent of Educational's net sales. The development project with California State University to develop a learning environment for their 350,000 students has drawn international interest and it contributes to the sales of the software products.

One of the most important tasks and greatest challenges for Teleste's group and divisional management is finding the right people, keeping them motivated and committed to their challenges and further expanding the development programs for personnel. The mental growth of all us working for Teleste is a value by virtue, a value that we believe strengthens our possibilities in tough competition.

The feedback from our shareholders, which has been received in various meetings, has strengthened the trust that our chosen growth strategy is viable. The trust is visible in Teleste's share price development, especially when compared to that of our competitors. The share price has increased almost 50 percent during the year and the share price of our main competitors has decreased in virtually every case.

Normally, one should not say too much about the future. However, we have set challenging targets for the next few years and we believe that profitable growth will continue. A strong competitive position, the right and motivated people, and a clear focus enable it.

I thank Teleste's shareholders, the competent colleagues, customers and other partners for the trust and good co-operation that has made possible the profitable growth Teleste reached in the year 2000.



**Timo Toivola**  
President and CEO

"It is not the strongest species  
that survive, nor the most  
intelligent, but the ones most  
responsive to change"

Charles Darwin

## TELESTE'S MOST IMPORTANT RELEASES IN 2000

### 3.1. Co-operation agreement with Taiwanese Jebsee

Home Networks division signs a co-operation agreement with the Taiwanese Jebsee. The product portfolio was also extended with Jebsee's products.

### 2.2. Decision to divest Home Networks division

Teleste launched negotiations to divest the Home Networks division and decided to focus on the Access Systems and Educational divisions.

### 10.2. Order from Lyonnaise Cable

An order worth 4.5 million euros is received from Lyonnaise Cable, the largest cable operator in France. The order includes fiber nodes, optical transmitters and a network management system.

### 22.2. Teleste is chosen as an approved supplier for UPC

The parent company of United Pan-Europe Communications, the largest cable operator in Europe, chooses Teleste as their approved supplier globally.

### 1.3. Order from Telia Stofa

Denmark's second-largest cable operator, Telia Stofa, places a 330,000-euro order for a signal transmission system for the backbone.

### 4.4. Orders from Deutsche Telekom and Essent Kabelcom

Essent Kabelcom, the second-largest cable operator in the Netherlands, orders broadband amplifiers worth of 1.2 million euros. Deutsche Telekom, the largest cable operator in Germany, orders products to upgrade their networks for two-way communications.

### 10.4. Order from ComHem

Telia's subsidiary ComHem, the largest cable operator in Scandinavia, orders fiber nodes and broadband amplifiers worth 5.5 million euros.

### 11.4. Managing director of Teleste Educational changed

Mr. Visa Vanamo is elected managing director of Teleste Educational.

### 12.4. Decisions by the Annual General Meeting

The AGM decides to distribute a dividend of EUR 0.10 per share. Mr. Pekka Vennamo is elected Chairman of the Board and Mr. Matti Suutarinen, Mr. Heikki Keränen, Mr. Tero Laaksonen and Mr. Asko Schrey are elected members of the Board of Directors. The Board of Directors is authorized to acquire own shares, to convey own shares and to increase share capital by a new issue. A bond loan with warrants for the personnel is approved.

### 25.5. Order from ComHem

Telia's subsidiary ComHem, the largest cable operator in Scandinavia, orders backbone transmission equipment worth 4.4 million euros.

### 16.8. Letter of intent with NTL

NTL, the largest cable operator in the UK, signs a letter of intent worth 5.7 million euros for DWDM technology.

### 15.9. Order from Suomen 3KTV

Suomen 3KTV Oy, the third-largest cable operator in Finland, orders digital headends and backbone solutions worth 3.5 million euros.

### 9.10. Order from Isle of Wight

Isle of Wight Cable and Telephone Company orders a complete delivery of a cable network worth 2.9 million euros.

### 20.10. Order from Essent Kabelcom

Essent Kabelcom, the second-largest cable operator in the Netherlands, orders broadband amplifiers, fiber nodes, and optical transmitters and receivers worth 6.6 million euros.

### 30.10. Order from China

Chengde Xin Guang Lian CableTV Broadband Networks Co. Ltd. orders backbone signal transmission system worth 1.2 million euros.

### 31.10. Divestiture of Home Networks is finalized

The Home Networks division is sold to its management.

### 28.12. Teleste opens an office in India

Teleste decides to open an office in New Delhi, India.

## INFORMATION FOR SHAREHOLDERS

### Annual General Meeting

Teleste Corporation's Annual General Meeting will be held on Wednesday, 21 March 2001, at 3 p.m., at Finlandia Hall in Helsinki. Registration begins at 2:30 p.m.

Shareholders wishing to attend the Annual General Meeting must be registered in the list of shareholders maintained by Finnish Central Securities Depository Ltd no later than 9 March 2001.

Shareholders wishing to attend the Annual General Meeting must notify the company by 4 p.m. on 16 March 2001, at the latest, by writing to Teleste Corporation, Ms. Tiina Vuorinen, P.O. Box 323, 20101 Turku, Finland, by telephoning +358 2 260 5611, by telefaxing +358 2 260 5812 or by emailing to [investor.relations@teleste.com](mailto:investor.relations@teleste.com). Written notice must be received before the deadline stated above. Any letters of authorization must be submitted when the shareholders in question notify the company of their intention to attend.

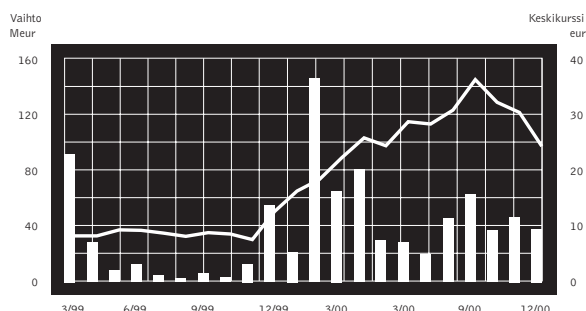
### Financial information

3 May 2001	Interim report January–March
31 July 2001	Interim report January–June
6 November 2001	Interim report January–September

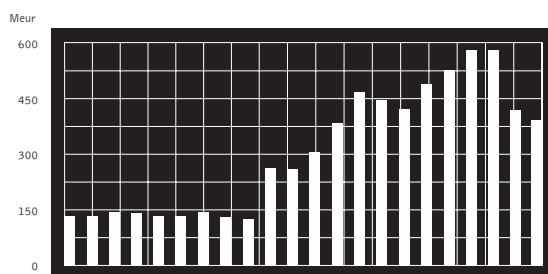
Financial information is available in Finnish and English. Financial reports are no longer printed; they are published on Teleste's Internet pages, [www.teleste.com](http://www.teleste.com). Stock exchange releases can also be found at the same address. Paper copies of financial publications may be ordered from Teleste Corporation, Investor Relations, P.O. Box 323, 20101 Turku, Finland, by telephoning +358 2 260 5611 or by emailing to [investor.relations@teleste.com](mailto:investor.relations@teleste.com).

### Investor relations

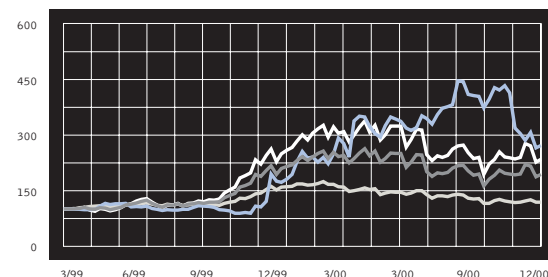
The Vice President responsible for investor relations is Mr. Antti Salminen. All inquiries about the company can be addressed to him by telephoning +358 2 260 5611 or by emailing to [investor.relations@teleste.com](mailto:investor.relations@teleste.com).



Share turnover and average price (line).



Market capitalisation per month.



Share price development.

— HEX all-share index      — Telecommunications and electronics  
— HEX portfolio index      — Teleste

## PERSONNEL

Only by being successful and competitive can Teleste meet the expectations and win the confidence of its personnel, customers and shareholders. During the past year the most important success factor proved to be the right, highly qualified and motivated personnel. They were able to generate faster than expected growth and were able to meet the new, extremely tough demands of the fast growth with healthy flexibility.

Our target of fast growth requires also in the future that the company is highly competitive and that it continuously improves its competitiveness. It is important for Teleste to provide an atmosphere and the prerequisites for mental growth, which promote record-setting performance and continuous stretching in order to reach tougher and tougher targets. According to our understanding, reaching tough targets sustains an inspiring and energetic atmosphere.

The most important task for Teleste's human resources development function in the next few years is to assist management in recruiting and, above all, to ensure that the organizational climate and the prerequisites for top performance are in shape.

The fast internationalization of the company brings new challenges on constant basis. Human relation skills and management of knowledge,

know-how and performance are emphasized alongside with the traditional management skills. During the past year the third class of Teleste's internal MBA-level, three-year-long "Commitment to Growth" program began its studies. This time the participants are mainly from Teleste's offices around the world. Also an extensive project management course tailored primarily for R&D personnel promotes common operating practices in the organization.

The changes in the group's focus areas are visible also in personnel. The personnel of Teleste Access Systems, which sustains the fastest profitable growth, increased by more than one hundred experts, whereas the Educational division decreased its personnel as a result of internal restructuring. Due to the divestiture of the Home Networks division in October, the number of personnel for the whole group was slightly lower than the year before.

In spring 2000 the entire personnel were offered the opportunity to participate in the group's stock option program. Most of Teleste's personnel are included in bonus programs and performance-based compensation systems are constantly being developed.

	2000	1999 without Home Networks	1999
Research and Development	123	97	105
Production and Material Management	296	251	357
Sales and Marketing	108	97	112
Finance and IT	35	26	30
Finland	485	404	404
Other countries	77	67	200
Access Systems	477	373	373
Educational	74	89	89
Home Networks			133
Group Management	11	9	9
Female	233	199	278
Male	329	272	326
Operatives	232	194	276
Staff	330	277	328
<b>Total</b>	<b>562</b>	<b>471</b>	<b>604</b>
Average age	36,9	36,2	37,3



## EXECUTIVE MANAGEMENT

### Timo Toivila

President and CEO

Born 1950

Member of the Board 1995–1997

Chairman of the Board 1996–1997

CEO 1997 (1996)–

## DIVISION OFFICERS

### Timo Salokoski

Teleste Access Systems

Born 1956

Joined Teleste 1998

### Visa Vanamo

Teleste Educational

Born 1956

Joined Teleste 2000

## CORPORATE OFFICERS

### Antti Salminen

Finance and Investor Relations

Born 1963

Joined Teleste 1997

### Johan Slotte

Business Development and Legal Affairs

Born 1959

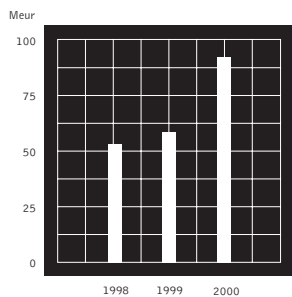
Joined Teleste 1999

### Hannu U. Ketola

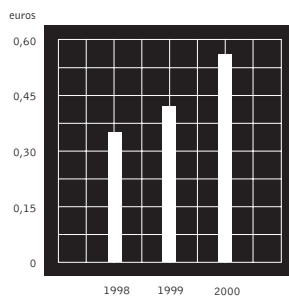
HR Development

Born 1957

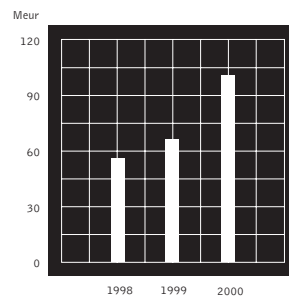
Joined Teleste 1997



Teleste net sales,  
w/o Home Networks.



Teleste earnings per share,  
w/o Home Networks.



Teleste orders received,  
w/o Home Networks.



TELESTE ACCESS SYSTEMS

**TELESTE ACCESS SYSTEMS** DIVISION IS EUROPE'S LEADING SUPPLIER OF BROADBAND CABLE NETWORKS. THE DIVISION IS ALSO THE WORLD'S LEADING DEVELOPER OF DIGITAL VIDEO SURVEILLANCE NETWORKS.



**Patrik Anckar**  
**Director**  
**Surveillance Networks**

During the year the awareness of the need for broadband networks increased all over the world. The market situation was positive throughout the year on all the main markets. Only in Germany was the investment level lower than forecasted as the launch of the expected network upgrades was delayed until 2001. This was due to several reasons, perhaps most importantly the ownership re-arrangements of the networks. Nevertheless, Teleste Access Systems was able to double its sales on the German market. Also during the year concerns emerged over the financing of the cable operators and the tightened competition in Europe caused by the slowing growth of the North American market. As Teleste operates mainly on the European market, these concerns were not reflected in Teleste's customer base during the year.

Cable operators continued their investments in new and existing networks as they prepared to start offering consumers high-speed internet connections and digital television services. During the year the demand for the high-speed Internet connections in particular increased in many European countries. The service requires operators to upgrade their networks for two-directional communication, i.e. replace the fiber nodes and broadband amplifiers. These kinds of projects were ongoing in almost all European countries. Telephone companies started a larger scale offering of ADSL connections for

internet use, resulting in tightened competition for end-users between the different network solutions. Forecasts indicated that the number of users connected to the internet via cable networks will increase in Europe from one million last year to more than ten million over the next five years. Digital television services in the cable networks were launched in the UK. These services will be available for consumers in the Nordic and Benelux countries during 2001. Investments in digital technology in these countries are already underway. In order to offer digital services, operators must build digital headends. During the year the preparations to launch digital video-on-demand services began in the UK. The use of video-on-demand services requires a substantial capacity increase in the fiber optic cables. The capacity can be increased by putting several signals into a single fiber simultaneously (so-called DWDM technology). As the number of services in cable networks increases and as they become more and more diversified, operators want to simultaneously segment them more and more accurately. This leads to increasing signal transmissions between the headends located in different cities. Teleste has developed a more cost-effective solution for operators. The solution is based on the open ATM standard for backbone transmission.

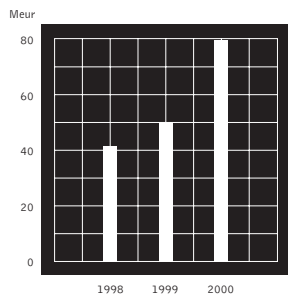
Consolidation of the customer base continued. Strong cable operators aim to become larger by acquiring their competitors. They also try to expand their networks into several countries. This sets new requirements for the further development of Teleste's operating procedures. As the networks become digital and the number of services increases, their structures become more and more complicated. In many cases this has resulted in a situation where the equipment suppliers have to play a bigger role in designing the networks. Teleste has been offering operators this kind of help for several years now. During the year, Teleste received an order from Isle of Wight Cable and Telephone Company. This was Teleste's first order giving it full responsibility for the technical integration of the network. To a certain extent, these projects are expected to become more common in the coming years.

The products of the surveillance networks product group are used in areas like traffic and city-center surveillance as well as in industrial applications. With Teleste's equipment, a high quality surveillance signal can be transferred more than 100 kilometers. The need for all kinds of video surveillance is increasing globally as traffic congestion and crime are becoming increasingly problematic in more countries than before. The geographical coverage of the product group's distribution network was expanded and the first orders from Latin America and the Middle East were received. The product group also received orders from new application areas, such as video conferencing and industrial process control.

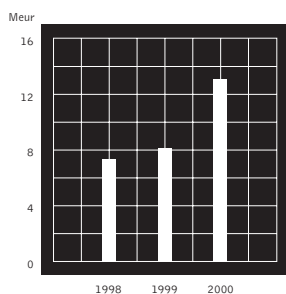
During the year the R&D resources were focused on signal transmission in the fiber optic backbone and on digital headends. New market roll-outs included, among others, products for simultaneous transmission of several wavelengths (so-called DWDM technology) and a new broadband amplifier family. For surveillance networks, a fully digital product family was launched. Access Systems' R&D centers are located in Finland in Kaarina, Turku and Tampere, as well as in Germany in Hildesheim. The number of R&D personnel increased by 30, mainly software engineers.

Production volumes were clearly higher than last year. Capacity was increased e.g. by adding shift work and by using more sub-contracting. Component availability was secured by increasing the inventory levels. Teleste was the first company in the world to implement an environmentally friendly lead-free soldering method in production.

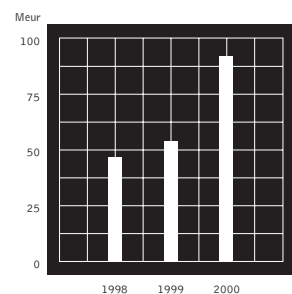
Teleste's ATMux product family for the backbone signal transmission was launched in late 1999. Last year the product family fulfilled its expectations and several orders were received. Customers included Telia Stofa in Denmark, Telia's subsidiary ComHem in Sweden, Suomen 3KTV Oy in Finland and Chengden Xin Guang Lian CableTV Broadband Networks in China. Fiber nodes and broadband amplifiers were sold to Lyonnaise Cable in France, Deutsche Telekom in Germany, Essent Kablecom in the Netherlands, and Brutele and Interelectra in Belgium. In the UK, DWDM technology, which can multiply the capacity of the existing fiber optic cables, was delivered to NTL.



Teleste Access Systems, net sales.

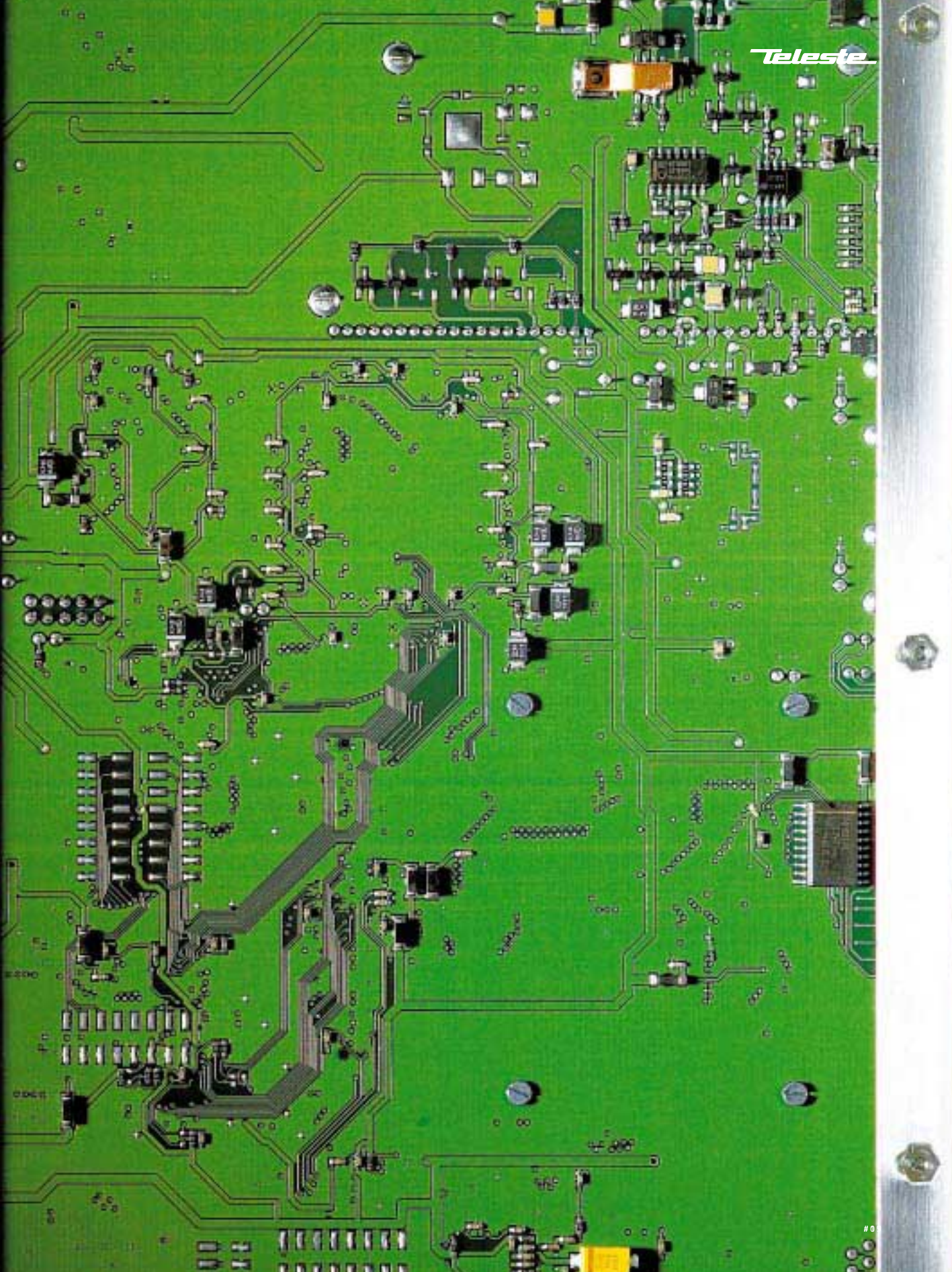


Teleste Access Systems, operating profit.



Teleste Access Systems, orders received.

Teletec



TELESTE EDUCATIONAL



# Imperata

Application and Activity Control System  
for Networked Computer Classrooms

Made by Teleste Educational



**Andrzej Styrzc**  
Marketing Manager  
Digital Courseware  
Applications

**TELESTE EDUCATIONAL DIVISION IS ONE OF THE WORLD'S LEADING DEVELOPERS AND SUPPLIERS OF MULTIMEDIA LEARNING ENVIRONMENTS.**

The need for higher and adult education, in particular, is constantly increasing around the world, and, at the same time, there is a growing shortage of competent teachers. Education as the facilitator of healthy societies and as the success factor of business is increasing in importance. New technologies enable higher productivity from the investments in education and a boost in educational equality. These strong forces of change create substantial growth potential for content producers, but also for those offering technological solutions, such as Teleste Educational.

Teleste Educational's software products are based on decades of know-how in pedagogical methods and offer educational institutions and teachers the tools to teach more effectively. The products support both self- and distance-learning as well as teacher-based learning environments. Internet-based learning will become more and more important as time goes on. Using the internet and corporate intranets for educational purposes is becoming increasingly popular because it provides a learning environment that is continuous and independent of time and location. In this respect, mobile equipment will create a richer learning experience.

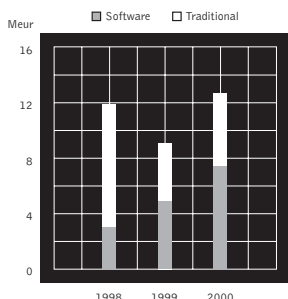
The market moved more and more towards software solutions during the year. The share of software products increased to about 60 percent of sales, up about 53 percent from the previous year. The traditional analogue technology deliveries were concentrated to couple of larger orders at the beginning of the year. A large share of the investments in the educational institutions was for equipment purchases and network infrastructure. Therefore the demand for application

software has increased less than expected. At the same time, the supply has increased, resulting in a fragmented competitive environment.

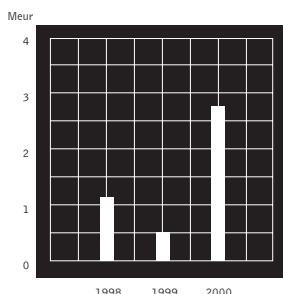
The development of distribution channels continued and agreements with new distributors were made. In Latin America, for example, a co-operation agreement with Compaq was made. The agreement allows for the inclusion of Teleste's software products in the Compaq computer packages directed to the educational sector. The initial steps for building a distribution channel for the corporate sector were taken.

R&D concentrated on the further development of current software products and on adding new features to them. During the year new versions were released for Imperata, the software for managing a computer classroom, and for Divace, the multimedia recorder. The most important development project was the design of a virtual learning environment for California State University and their 350,000 students. The project has proceeded as planned and the first orders have been received.

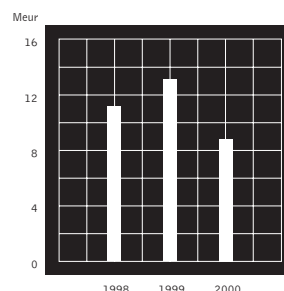
Teleste Educational in partnership with IBM's distributor was chosen as one of the three options for what is currently the world's largest learning technology project in Hong Kong. Teleste was the only Western learning software company on the short list of suppliers the individual schools will be able to choose from. Among the universities purchasing Teleste's software products during the year were the Chinese Culture University in Taiwan, Universidad Nacional de Mar in Argentina, University of Brest in France, University College Dublin in Ireland, Indiana University in the USA and University of Sussex in the UK.



Teleste Educational, net sales.



Teleste Educational, operating profit.



Teleste Educational, orders received.



**Matti Suutarinen**

**Tero Laaksonen**

**Heikki Keränen**

**Asko Schrey**

**Pekka Vennamo**

**Timo Toivila**

**Chairman Pekka Vennamo**

Born 1944  
 Chairman 2000–  
 Sijoitus Oy, Chairman of the Board 1998–  
 Sonera Corporation, CEO 1998–1999  
 Suomen PT Oy, CEO 1994–1998  
 Owns 4.200 Teleste shares

**Matti Suutarinen**

Born 1954, MSc (Econ.)  
 Member 1991–  
 Chairman 1991–1996 and 1997–2000  
 Sponsor Capital Oy, CEO 1997–  
 Sponsor Oy, CEO 1991–1997  
 Owns 20.160 Teleste shares

**Heikki Keränen**

Born 1945, MSc (Eng.), MBA  
 Member 1995–  
 Heikki Keränen & Co. Oy, CEO 1985–  
 Nokia, senior executive positions 1973–1985  
 Does not own Teleste shares

**Tero Laaksonen**

Born 1946, MSc  
 Member 1999–  
 Telia Finland Oy, CEO 1998–  
 Nokia Telecommunications Oy, Senior Vice President  
 1995–1998  
 ICL Plc, Financial Services Unit, President, 1993–1994  
 Owns 2.000 Teleste shares

**Asko Schrey**

Born 1957, MSc (Eng.), Master of Laws  
 Member 2000–  
 Pretax Oy, CEO 2000–  
 HEX Group, senior executive positions 1987–1999, last  
 of all CEO of Helsinki Exchanges  
 Oy Efactor Ab, CEO 1986–87  
 Does not own Teleste shares

**Timo Toivila**

Born 1950, MSc (Eng.)  
 Member 1995–1997  
 Chairman 1996–1997  
 President and CEO 1997 (1996)–  
 Owns options for 170.000 Teleste shares

Stated shareholding also include shares held by under-age children and by organizations or foundations of which the person has control.



## REPORT OF THE BOARD OF DIRECTORS

### Changes in group structure

Teleste divested the Home Networks division on October 31, 2000. This did not generate any major effects on the consolidated statement of income despite a 1.4 million euro tax benefit, which is booked in extraordinary items. The division's figures are consolidated in the group figures until the above-mentioned day. The group operating profit included Home Networks' loss of 1.9 million euros.

### Turnover and profitability

The group's orders received without Home Networks increased 51.8 percent to 100.4 million euros and net sales 60.6 percent to 91.8 million euros. With Home Networks, the orders received increased 39.5 percent to 108.9 million euros (1999: 78.1 million euros) and net sales 46.6 percent to 99.4 million euros (1999: 68.1 million euros).

The group's operating profit without Home Networks grew 35.3 percent to 14.1 million euros and with it 23.4 percent to 12.2 million euros (1999: 9.9 million euros). In 1999 operating profit was improved by a 1.0 million euro income item from an arbitration.

The group's result after financial items without Home Networks increased 33.0 percent to 13.0 million euros and with it 21.1 percent to 10.9 million euros (1999: 9.0 million euros). In order to secure the availability of components and the deliveries, inventory levels were increased. The increase in accounts receivable along with the strong growth increased the working capital proportionately. The group's earnings per share without Home Networks was 0.56 euros and with it 0.44 euros (1999: 0.39 euros). With Home Networks, the return on capital employed was 31.4 percent (1999: 36.2 percent) and the return on equity was 31.4 percent (1999: 39.0 percent).

### Teleste Access Systems

The Teleste Access Systems division succeeded well. Orders received increased 71.2 percent to 91.9 million euros (1999: 53.7 million euros). Net sales increased 59.7 percent to 79.5 million euros (1999: 49.8 million euros). Operating profit increased 60.9 percent to 13.1 million euros (1999: 8.1 million euros).

The competitiveness of Teleste Access Systems improved and it succeeded in increasing its market share in all the main markets. During the past year the product mix still leaned towards the lower margin fiber nodes and broadband amplifiers. During the latter half of the year sales of digital solutions started picking up. Strong investments in R&D, sales and marketing continued during the year. The resources of existing offices were strengthened, a new R&D center was established in Germany and, at year-end, a new office was opened in India.

### Teleste Educational

The orders received by the Teleste Educational division decreased 32.8 percent to 8.8 million euros (1999: 13.1 million euros). In December 1999 Teleste Educational received two large orders. This, together with higher margin, but lower unit priced software products, led to a lower order backlog last year compared to the previous year. Net sales increased 40.8 percent to 12.6 million euros (1999: 9.0 million euros). Operating profit increased 432.1 percent to 2.8 million euros (1999: 0.5 million euros).

The share of software sales continued its growth and reached 60 percent. The change in the product mix from traditional precision mechanics products to higher margin software products improved the profitability of the division.

## **R&D and Investments**

R&D costs during the year without Home Networks came to 8.6 million euros and with it to 9.0 million euros (1999: 6.6 million euros), which were booked as annual expenses. Most of the expenses were related to Teleste Access Systems. A substantial part of the R&D investments were directed to further development of products for the German market and to digital fiber-optic backbone solutions, where the first development phase was finalized. During the year R&D personnel increased by 26 to 123 experts.

Investments for the year amounted to 3.1 million euros (1999: 2.0 million euros). The investments during the year mainly targeted information technology and equipment and measuring devices for production.

## **Finance**

The group's liquidity remained good during the year. Liquid funds stood at 7.4 million euros at year-end. The group's equity ratio was 42.7 % (1999: 45.4 %) and gearing 51.1 % (1999: 38.1 %). The interest-bearing debt on 31.12. was 21.0 million euros.

The group's hedging policy is to cover all material currency risks at least six months ahead.

## **Personnel**

During the year the group employed on average 616 people (1999: 446) and without Home Networks 516 people. At year-end the group employed 562 persons. In line with the group's strategy, employees were recruited for Teleste Access Systems, where personnel strength was increased by 104 people.

## **Branch offices**

The parent company has branch offices in China, India, the Netherlands, Denmark, Belgium, Spain, France and Singapore.

## **Annual General Meeting**

The Annual General Meeting on April 12, 2000 confirmed the financial statements for 1999 and discharged the Board and the CEO from liability for the financial period. The Annual General Meeting confirmed the Board's proposed dividend of EUR 0.10 per share.

The Annual General Meeting elected Mr. Pekka Vennamo as the Chairman of the Board and Mr. Matti Suutarinen, Mr. Heikki Keränen, Mr. Tero Laaksonen and Mr. Asko Schrey as members of the Board.

The Annual General Meeting authorized the Board to decide on the acquisition and on the conveyance of the company's own shares as well as on the increase of the share capital by a new issue. The Board has not used the authorizations.

The Annual General Meeting decided to issue a bond loan with warrants to the personnel of Teleste. As a result of the bond loan with warrants, the share capital may increase by a maximum of 1,125,000 shares, i.e. 450,000 euros.

## **Management and the Auditors**

The Chairman of the Board was until 12 April Mr. Matti Suutarinen and from 12 April Mr. Pekka Vennamo. Board members were Mr. Heikki Keränen and Mr. Tero Laaksonen and from 12 April Mr. Matti Suutarinen and Mr. Asko Schrey. Mr. Olli Anttila was Board member until 12 April. Mr. Johan Kronberg (Authorized Public Accountant) and SVH PricewaterhouseCoopers Oy continued as auditors. Mr. Timo Toivola acted as President and CEO for the company.

## **Changes in share capital**

With the warrants of Teleste's 1997 bond loan with warrants, 515,600 shares were subscribed, thus bringing Teleste's registered share capital to 6,644,840 euros divided among 16,612,100 shares.

## **Outlook for 2001**

Teleste's net sales are expected to further grow due to the good outlook of the core division and its result is expected to clearly improve in 2001.

The market outlook for Teleste Access Systems is expected to remain good. New product families and the division's strong competitive position in Europe create opportunities for fast growth. Profitability is forecasted to remain at a good level. The success of the Chinese office during the past year and the new office in India, which was established at year-end, are believed to improve the growth potential in the coming years.

Teleste Educational is becoming an almost complete software house with lower per unit priced products, but with higher relative margins. The fast growth of the software products will not yet in 2001 fully compensate for the steep decline in the demand for the traditional products. Profitability is nevertheless expected to remain at a good level.

# STATEMENT OF INCOME

1.1.-31.12.2000

1 000 euros

GROUP

PARENT COMPANY

	Note	2000	1999		2000	1999
<b>NET SALES</b>	1	<b>99 448</b>	<b>68 131</b>		<b>73 526</b>	<b>44 428</b>
Change in inventories of finished goods		3 245	484		2 879	80
Other operating income	2	1 145	2 040		958	1 784
Materials, supplies and services	5	-46 575	-25 422		-35 150	-16 583
Wages, salaries and social expenses	4	-23 570	-19 799		-15 798	-11 504
Depreciation and amortisation	6	-3 269	-3 312		-2 319	-2 057
Other operating expenses		-18 216	-12 225		-14 506	-8 147
<b>OPERATING PROFIT</b>	3	<b>12 208</b>	<b>9 897</b>		<b>9 589</b>	<b>8 001</b>
Financial income and expenses	7	-1 268	-860		-168	-174
<b>PROFIT AFTER FINANCIAL ITEMS</b>		<b>10 941</b>	<b>9 037</b>		<b>9 421</b>	<b>7 828</b>
Extraordinary items	8	1 377	0		-2 128	600
<b>PROFIT BEFORE TAXES</b>		<b>12 317</b>	<b>9 037</b>		<b>7 293</b>	<b>8 428</b>
Appropriations	12	0	0		124	75
Direct taxes	9	-3 682	-2 604		-3 602	-2 034
<b>PROFIT FOR THE FINANCIAL PERIOD</b>		<b>8 636</b>	<b>6 432</b>		<b>3 815</b>	<b>6 469</b>

## TELESTE GROUP WITHOUT HOME NETWORKS DIVISION

1 000 euros

2000

1999

Change

Net sales	91 748	57 125	60.6 %
Operating profit	14 129	10 440	35.3 %
Profit after financial items	13 013	9 787	33.0 %
Profit before taxes	14 390	9 787	47.0 %
Profit for the financial period	10 708	6 958	53.9 %
Earnings per share	0.56	0.42	34.1 %

# BALANCE SHEET

31.12.2000

1 000 euros

		GROUP		PARENT COMPANY	
	Note	2000	1999	2000	1999
<b>FIXED ASSETS</b>					
Intangible assets	22	52	57	6 074	6 827
Goodwill	22	6 664	7 520	0	0
Tangible assets	22	7 799	7 952	7 226	5 882
Investments	23	58	45	2 825	8 684
Long-term receivables	15	3 324	0	3 324	1 853
		<b>17 897</b>	<b>15 574</b>	<b>19 449</b>	<b>23 246</b>
<b>CURRENT ASSETS</b>					
Inventories	16	13 450	8 521	11 488	4 982
Current/short-term receivables	17	24 905	16 143	20 438	12 245
Cash in hand and at bank		7 353	3 235	5 926	1 319
		<b>45 708</b>	<b>27 898</b>	<b>37 851</b>	<b>18 545</b>
<b>TOTAL ASSETS</b>		<b>63 605</b>	<b>43 472</b>	<b>57 300</b>	<b>41 791</b>
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	11	6 645	6 439	6 645	6 439
Share issue	11	1 056	912	1 056	912
Retained earnings	11	10 469	5 678	8 252	3 393
Profit for the financial period	11	8 636	6 432	3 815	6 469
		<b>26 806</b>	<b>19 461</b>	<b>19 768</b>	<b>17 212</b>
<b>APPROPRIATIONS</b>		<b>0</b>	<b>0</b>	<b>1 852</b>	<b>1 976</b>
<b>OBLIGATORY PROVISIONS</b>		<b>1 822</b>	<b>1 428</b>	<b>1 368</b>	<b>925</b>
<b>LIABILITIES</b>					
Long-term liabilities	18	6 038	7 069	6 267	7 069
Short-term liabilities	19	28 939	15 514	28 047	14 609
		<b>34 977</b>	<b>22 583</b>	<b>34 313</b>	<b>21 678</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>63 605</b>	<b>43 472</b>	<b>57 300</b>	<b>41 791</b>

# CASH FLOW STATEMENT

1.1.-31.12.2000

	GROUP		PARENT COMPANY	
	2000	1999	2000	1999
<b>CASH FLOW FROM OPERATIONS</b>				
Operating profit	12 208	9 897	9 589	8 001
Adjustments to operating profit	3 539	1 361	2 762	511
Change in net working capital	-11 836	-4 342	-12 811	-3 781
Interest income	232	209	456	371
Interest expenses	-936	-774	-985	-667
Dividend income	6	10	268	371
Other financial items	-570	-305	-514	-636
Taxes paid	-3 668	-2 604	-3 602	-2 034
Extraordinary items	1 667	0	1 667	0
<b>CASH FLOW FROM OPERATIONS</b>	<b>642</b>	<b>3 452</b>	<b>-3 170</b>	<b>2 136</b>
<b>INVESTMENTS</b>				
Other tangible assets	-3 102	-1 963	-2 939	-1 235
Sold group companies	572	0	572	0
Sale of other tangible assets	113	903	32	10
<b>CASH FLOW FROM INVESTMENTS</b>	<b>-2 417</b>	<b>-1 060</b>	<b>-2 335</b>	<b>-1 225</b>
<b>CASH FLOW BEFORE FINANCING</b>	<b>-1 775</b>	<b>2 392</b>	<b>-5 505</b>	<b>911</b>
<b>FINANCING</b>				
Long-term liabilities	-1 031	-1 009	-803	-1 009
Long-term assets	-3 324	0	-1 472	355
Short-term liabilities	11 570	285	11 547	285
Dividends paid	-1 609	-1 211	-1 609	-1 211
Group contributions, net	0	0	2 100	600
Share issue	350	501	350	501
Others	-63	-164	0	0
<b>FINANCING TOTAL</b>	<b>5 893</b>	<b>-1 599</b>	<b>10 113</b>	<b>-479</b>
<b>CHANGE IN LIQUID FUNDS</b>	<b>4 118</b>	<b>793</b>	<b>4 607</b>	<b>432</b>
Liquid funds 1.1.	3 235	2 442	1 319	887
Liquid funds 31.12.	7 353	3 235	5 926	1 319

## ACCOUNTING PRINCIPLES OF THE GROUP

The consolidated Financial Statements include the accounts of the company and those companies in which it holds, directly or indirectly, over 50 per cent of the shares and voting rights.

The companies acquired or established during the financial period have been consolidated from the date of acquisition or formation. The companies disposed during the financial period have been consolidated up to the date of disposal.

All intercompany transactions and balances are eliminated as a part of the consolidation process. Minority interests in earnings and shareholder's equity are presented separately in the income statements and balance sheet.

Acquisitions of companies are accounted for by using purchase method. The excess of purchase consideration over the fair value of net assets acquired is carried as goodwill on consolidation and amortised over its estimated useful life, not exceeding 10 years.

Shareholdings below 20 per cent of the shares and voting rights are carried at cost, and only dividends are included in the consolidated income statement.

### Foreign currency translation

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. In relation to revenues and operating expenses, these exchange gains and losses are insignificant. Other foreign exchange gains and losses are recorded as financial income and expenses.

The income statements of foreign subsidiaries are translated into euros at the average exchange rate for the accounting period, and the balance sheets are translated at the closing rate at the balance sheet date.

All the translation differences arising from consolidation of foreign shareholdings are credited or charged directly to retained earnings.

### Derivative financial instruments

The business and the operations of the company give rise to certain exposure to currency related risks. These risks are managed to minimize their impact on the profitability and financial position of the Company.

The group's hedging policy is to cover all material currency risks at least six months ahead. Regarding group's balance sheet items in foreign currency, the hedging part of the derivative instruments are valued according to the currency rates at the closing date and the currency difference is booked into the statement of income. Rest of the derivative financial instruments are considered to hedge future currency flows and their currency difference is not booked into the closing.

Derivative financial instruments are not used for speculative purposes.

### Fixed assets and other long-term investments

The balance sheet values 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 rights	3 years
Goodwill and goodwill on consolidation	10 years
Other long-term expenses	3 years
Buildings	25–33 years
Machinery and equipment	3–7 years

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

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

### Leased assets

The company does not currently hold any significant assets under capital lease terms. If such contracts are entered in the future, these contracts are accounted for as a purchase of asset and an incurred of a interest bearing liability. Assets held under operating leases are not recognised on the balance sheet, and the lease payments are charged as incurred.

### Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the first-in-first-out (FIFO) method. The value of inventory does not include indirect costs.

### Cash

Cash and cash equivalents include cash on hand, cash in banks and other highly liquid funds equivalent to cash money.

### Net sales

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

### Research and development

All costs relating to research and development activities are expensed as incurred.

### Pension plans and coverage of pension liabilities

The statutory pension liabilities of Finnish subsidiaries in the group are funded through pension insurance. Subsidiaries outside Finland have various pension schemes in accordance of local requirements and practices.

### Taxes

Income taxes consist of current and deferred taxes. Current taxes in the income statement include tax refunds for the financial year, as well as the adjustments to tax accruals related to previous years.

Deferred tax liabilities or assets result from temporary differences in accounting profit and taxable profit, adjustments or eliminations. Deferred tax liabilities are recognised at their full amounts in the balance sheet, and deferred tax assets are recognised at estimated realisable amounts. The change in deferred tax liabilities and assets during the financial year has been booked to income taxes in the income statement. In the parent company deferred taxes are presented in the notes. The confirmed tax rate for next year at closing date is used as the tax rate.

### Social costs of options

Social costs have been expensed regarding those options, whose subscription period has begun. Regarding the rest of the options, the social costs are booked during the financial period, when the subscription period begins.

**NOTES TO THE STATEMENT OF INCOME AND BALANCE SHEET 31.12.2000**

	GROUP		PARENT COMPANY	
	2000	1999	2000	1999
<b>1. NET SALES AND ORDERS RECEIVED</b>				
<b>Net sales by division</b>				
Access Systems	79 476	49 752	73 526	44 428
Educational	12 608	8 957	0	0
Inter-company items	-336	-1 584	0	0
	<b>91 748</b>	<b>57 125</b>	<b>73 526</b>	<b>44 428</b>
Sold operations	7 700	11 006	0	0
<b>Total</b>	<b>99 448</b>	<b>68 131</b>	<b>73 526</b>	<b>44 428</b>
<b>Orders received</b>				
Access Systems	91 908	53 673	85 774	44 794
Educational	8 786	13 067	0	0
Inter-company items	-316	-597	0	0
	<b>100 378</b>	<b>66 143</b>	<b>85 774</b>	<b>44 794</b>
Sold operations	8 569	11 977	0	0
<b>Total</b>	<b>108 947</b>	<b>78 120</b>	<b>85 774</b>	<b>44 794</b>
<b>Net sales by market area</b>				
Finland	9 005	6 012	8 448	5 201
Scandinavia	20 580	8 744	17 555	7 302
Other EU	57 965	43 078	36 983	25 011
Other Europe	4 478	4 726	3 120	4 602
North America	1 645	2 200	1 645	903
Asia	4 418	1 369	4 418	508
Others	1 357	2 001	1 357	901
<b>Total</b>	<b>99 448</b>	<b>68 131</b>	<b>73 526</b>	<b>44 428</b>
<b>2. OTHER OPERATING INCOME</b>				
Profit on fixed assets sale	17	788	17	41
R&D subvention and others	658	1 252	518	1 103
SPP repayment	470	0	0	0
Group charges	0	0	423	640
<b>Total</b>	<b>1 145</b>	<b>2 040</b>	<b>958</b>	<b>1 784</b>
<b>3. OPERATING PROFIT BY DIVISION</b>				
Access Systems	13 106	8 143	11 364	7 047
Educational	2 772	521	0	0
Inter-company items	-1 749	1 776	-1 775	954
	<b>14 129</b>	<b>10 440</b>	<b>9 589</b>	<b>8 001</b>
Sold operations	-1 921	-543	0	0
<b>Total</b>	<b>12 208</b>	<b>9 897</b>	<b>9 589</b>	<b>8 001</b>
<b>4. PERSONNEL EXPENSES</b>				
Wages and salaries	18 976	16 189	12 470	9 212
Pension costs	2 494	2 028	1 880	1 320
Other personnel costs	2 100	1 582	1 448	972
<b>Total</b>	<b>23 570</b>	<b>19 799</b>	<b>15 798</b>	<b>11 504</b>
Remuneration to Board members and Managing Directors	678	544	274	192
Year-end personnel	562	604	449	355
Average personnel	616	584	400	322

	GROUP		PARENT COMPANY	
	2000	1999	2000	1999
<b>Personnel by division at the year-end</b>				
Access Systems	477	373	438	346
Educational	74	89	0	0
Group management	11	9	11	9
	<b>562</b>	<b>471</b>	<b>449</b>	<b>355</b>
Sold operations	0	133	0	0
<b>Total</b>	<b>562</b>	<b>604</b>	<b>449</b>	<b>355</b>
<b>Personnel by function at the year-end</b>				
Research and Development	123	97	110	85
Production and Material Management	296	251	228	184
Sales and Marketing	108	97	86	68
Finance and IT	35	26	25	18
	<b>562</b>	<b>471</b>	<b>449</b>	<b>355</b>
Sold operations	0	133	0	0
<b>Total</b>	<b>562</b>	<b>604</b>	<b>449</b>	<b>355</b>
<b>5. MATERIALS AND SERVICES</b>				
Purchases	45 977	24 471	37 228	16 434
Change in inventories	-3 089	-265	-3 627	-395
Subtotal	42 888	24 207	33 601	16 039
Purchased services	3 687	1 215	1 549	544
<b>Total</b>	<b>46 575</b>	<b>25 422</b>	<b>35 150</b>	<b>16 583</b>
<b>6. DEPRECIATION ACCORDING TO PLAN</b>				
Other capitalized expenditure	317	124	307	114
Buildings	256	245	253	224
Machinery and equipment	1 840	1 880	1 006	966
Goodwill on consolidation	856	1 063	753	753
<b>Total</b>	<b>3 269</b>	<b>3 312</b>	<b>2 319</b>	<b>2 057</b>
<b>Change in accumulated depreciation difference</b>				
Buildings			124	74
Machinery and equipment			0	1
<b>Total</b>			<b>124</b>	<b>75</b>
<b>7. FINANCIAL INCOME AND EXPENSES</b>				
Interest income	232	209	195	173
Interest income from Group companies	0	0	261	198
Interest expenses	-936	-774	-920	-622
Interest expenses to Group companies	0	0	-65	-45
Currency differences	-212	-155	-245	-485
Write-down of investments	0	0	607	387
Other financial income and expenses	-358	-150	-269	-151
Dividend income from Group companies	0	0	262	361
Dividend income	6	10	6	10
<b>Total</b>	<b>-1 268</b>	<b>-860</b>	<b>-168</b>	<b>-174</b>



	GROUP		PARENT COMPANY	
	2000	1999	2000	1999
<b>8. EXTRAORDINARY INCOME AND EXPENSES</b>				
<b>Income</b>				
Group contribution	0	0	2 100	600
Tax benefit from the sale of Home Networks	1 377	0	1 727	0
<b>Total</b>	<b>1 377</b>	<b>0</b>	<b>3 827</b>	<b>600</b>
<b>Expenses</b>				
Divestiture of Home Networks	0	0	-5 955	0
<b>9. INCOME TAXES</b>				
Change in deferred taxes	-446	579	0	0
Direct taxes	4 128	2 025	3 602	2 034
<b>Total</b>	<b>3 682</b>	<b>2 604</b>	<b>3 602</b>	<b>2 034</b>
<b>10. OBLIGATORY PROVISIONS</b>				
Provision for guarantees	1 025	756	839	601
Provision for pension commitments	321	321	321	321
Provision for restructuring	268	348	0	0
Others	208	3	208	3
<b>Total</b>	<b>1 822</b>	<b>1 428</b>	<b>1 368</b>	<b>925</b>
<b>11. CHANGES IN SHAREHOLDERS' EQUITY</b>				
Share capital 1.1.	6 439	6 728	6 439	6 728
Share issues	206	39	206	39
Transfer to share premium fund	0	-328	0	-328
Share capital 31.12.	6 645	6 439	6 645	6 439
Share premium fund 1.1.	912	122	912	122
Share issues	144	462	144	462
Transfer from share capital	0	328	0	328
Share premium fund 31.12.	1 056	912	1 056	912
Retained earnings 1.1.	12 110	6 712	9 861	4 604
Translation difference	-32	177	0	0
Dividends	-1 609	-1 211	-1 609	-1 211
Retained earnings 31.12.	10 469	5 678	8 252	3 393
Profit for the financial period	8 636	6 432	3 815	6 469
Accumulated profit 31.12.	19 105	12 110	12 067	9 861
<b>Total</b>	<b>26 806</b>	<b>19 461</b>	<b>19 768</b>	<b>17 212</b>
<b>Distributable funds</b>	<b>19 105</b>	<b>12 110</b>	<b>12 067</b>	<b>9 861</b>
Parent company's share capital consists of one serie and is divided into 16.612.100 shares at 1 vote each				
<b>12. APPROPRIATIONS AND DEFERRED TAX ASSETS AND LIABILITIES IN THE PARENT COMPANY</b>				
Accumulated depreciation in excess of plan			1 852	1 976
Parent company has not booked deferred tax assets and liabilities				
Deferred tax liability from appropriations			537	573
Deferred tax assets from timing differences			329	491

	GROUP		PARENT COMPANY	
	2000	1999	2000	1999
<b>13. CONTINGENT LIABILITIES AND PLEDGED ASSETS</b>				
<b>Debts covered by mortgages</b>				
Bank loans	10 653	10 653	10 653	10 653
Mortgages	2 985	2 985	2 985	2 985
<b>Leasing liabilities</b>				
For next year	296	373	105	135
For later years	321	267	210	112
<b>Other liabilities</b>				
Bank guarantees	537	332	537	332
Rental liabilities	772	1 144	362	318
<b>For Group companies</b>				
Guarantees			841	841
<b>14. CURRENCY DERIVATIVES</b>				
Value of underlying forward contracts	22 515	16 548	22 515	16 548
Market value of forward contracts	-803	401	-803	401
Forward contracts are used only for hedging currency exchange risks				
<b>15. INVESTMENTS</b>				
Long term receivables from Group companies	0	0	0	1 853
Long term receivables from others	3 324	0	3 324	0
<b>16. INVENTORIES</b>				
Raw materials and consumables	6 325	3 678	5 783	2 154
Work in progress	4 433	2 258	4 012	2 020
Finished goods	2 692	2 584	1 693	808
<b>Total</b>	<b>13 450</b>	<b>8 521</b>	<b>11 488</b>	<b>4 982</b>
<b>17. CURRENT ASSETS</b>				
Accounts receivables	22 333	14 283	14 530	6 696
Accounts receivables from Group companies	0	0	4 010	4 207
Loan receivables from Group companies	0	0	341	0
Other receivables	626	128	140	72
Deferred tax assets, note 20	359	0	0	0
Accrued income	1 587	1 732	1 417	1 270
<b>Total</b>	<b>24 905</b>	<b>16 143</b>	<b>20 438</b>	<b>12 245</b>
<b>18. LONG-TERM LIABILITIES</b>				
Bond loans	152	5	152	5
Bond loans from Group companies	0	0	227	0
Bank loans	5 886	7 064	5 888	7 064
<b>Total</b>	<b>6 038</b>	<b>7 069</b>	<b>6 267</b>	<b>7 069</b>
<b>Liabilities due after 5 years</b>	<b>1 177</b>	<b>2 355</b>	<b>1 177</b>	<b>2 355</b>
<b>19. CURRENT LIABILITIES</b>				
Bank loans	15 159	3 589	15 138	3 589
Advance payments received	888	636	829	476
Accounts payables	5 045	3 731	3 851	2 348

	GROUP		PARENT COMPANY	
	2000	1999	2000	1999
Accounts payables from Group companies	0	0	723	214
Other current liabilities	1 398	965	710	598
Other current liabilities from Group companies	0	0	1 732	2 775
Accrued liabilities	6 450	6 472	5 064	4 609
Deferred tax liabilities, note 20	0	121	0	0
<b>Total</b>	<b>28 939</b>	<b>15 514</b>	<b>28 047</b>	<b>14 609</b>

## 20. DEFERRED TAXES

Deferred tax liability from appropriations	541	608
Deferred tax assets from consolidation	-156	-108
Deferred tax assets from timing differences	-744	-379
<b>Total</b>	<b>-359</b>	<b>121</b>

## 21. COMPANIES OWNED BY THE GROUP AND PARENT COMPANY

	Group's share %	Parent Company's share %
Teleste Norge A/S, Oslo, Norway	100	100
Teleste Försäljning AB, Helsingborg, Sweden	100	100
Teleste UK Ltd, Leeds, UK	100	100
Teleste Educational Oy, Turku, Finland	100	100
Teleste GmbH, Hannover, Germany	100	100
Suomen Yhteisantennit Oy, Turku, Finland	100	100
Kaavisio Oy, Turku, Finland	100	100
Tandberg Educational A/S, Oslo, Norway	100	0
Tandberg Educational Oy, Turku, Finland	100	0
Teleste Educational UK Ltd., Leeds, UK	100	0
Teleste Educational LLC, Miami, USA	100	0
C.A.T.V. Teletransmission I Malmö AB, Malmö, Sweden	100	0
Auditek S.A., Paris, France	100	0

## 22. TANGIBLE AND INTANGIBLE ASSETS

Group	Intangible assets			Tangible assets				
	Intangible rights	Goodwill	Total	Land	Buildings	Machinery and equipment	Other capitalized expenditure	Total
Acquisition cost 1.1.2000	60	14 585	14 645	108	4 623	7 531	537	12 799
Translation difference	0	0	0	0	0	0	0	0
Increases	0	0	0	0	313	2 073	716	3 102
Decreases	-8	0	-8	0	0	-1 000	-106	-1 106
Transfer between items	0	0	0	0	0	0	0	0
<b>Acquisition cost 31.12.2000</b>	<b>52</b>	<b>14 585</b>	<b>14 637</b>	<b>108</b>	<b>4 936</b>	<b>8 604</b>	<b>1 147</b>	<b>14 795</b>
Accumulated depreciation 1.1.2000	0	7 065	7 065	0	550	4 089	232	4 871
Translation difference	0	0	0	0	0	0	0	0
Accumulated depreciation of decreases and transfers	0	0	0	0	0	-288	0	-288
Depreciation	0	856	856	0	256	1 840	317	2 413
<b>Accumulated depreciation 31.12.2000</b>	<b>0</b>	<b>7 921</b>	<b>7 921</b>	<b>0</b>	<b>806</b>	<b>5 641</b>	<b>549</b>	<b>6 996</b>
<b>Book value 31.12.2000</b>	<b>52</b>	<b>6 664</b>	<b>6 716</b>	<b>108</b>	<b>4 130</b>	<b>2 963</b>	<b>598</b>	<b>7 799</b>
Book value of machinery and equipment 31.12.2000						2 963		
Book value of machinery and equipment 31.12.1999						3 442		

Parent company	Intangible assets			Tangible assets				
	Intangible rights	Goodwill	Total	Land	Buildings	Machinery and equipment	Other capitalized expenditure	Total
Acquisition cost 1.1.2000	7 580	0	7 580	108	4 176	2 644	259	7 187
Translation difference	0	0	0	0	0	0	0	0
Increases	0	0	0	0	313	2 003	624	2 940
Decreases	0	0	0	0	0	-32	0	-32
Transfer between items	0	0	0	0	0	0	0	0
<b>Acquisition cost 31.12.2000</b>	<b>7 580</b>	<b>0</b>	<b>7 580</b>	<b>108</b>	<b>4 489</b>	<b>4 615</b>	<b>883</b>	<b>10 095</b>
Accumulated depreciation 1.1.2000	753	0	753	0	224	965	114	1 303
Translation difference	0	0	0	0	0	0	0	0
Accumulated depreciation of decreases and transfers	0	0	0	0	0	0	0	0
Depreciation	753	0	753	0	253	1 006	307	1 566
<b>Accumulated depreciation 31.12.2000</b>	<b>1 506</b>	<b>0</b>	<b>1 506</b>	<b>0</b>	<b>477</b>	<b>1 971</b>	<b>421</b>	<b>2 869</b>
<b>Book value 31.12.2000</b>	<b>6 074</b>	<b>0</b>	<b>6 074</b>	<b>108</b>	<b>4 012</b>	<b>2 644</b>	<b>462</b>	<b>7 226</b>
Book value of machinery and equipment 31.12.2000						2 644		
Book value of machinery and equipment 31.12.1999						1 679		

## 23. INVESTMENTS

Group	Shares associated companies		Shares others	Receivables associated companies		Receivables others	Total
	Shares associated companies	Shares others		Receivables associated companies	Receivables others		
Acquisition cost 1.1.2000	0	45	0	24	69		
Translation difference	0	0	0	0	0		
Increases	0	0	0	0	0		
Decreases	0	0	0	-11	-11		
Transfer between items	0	0	0	0	0		
<b>Acquisition cost 31.12.2000</b>	<b>0</b>	<b>45</b>	<b>0</b>	<b>13</b>	<b>58</b>		
Accumulated depreciation 1.1.2000	0	0	0	0	0		
Translation difference	0	0	0	0	0		
Accumulated depreciation of decreases and transfers	0	0	0	0	0		
Depreciation	0	0	0	0	0		
<b>Accumulated depreciation 31.12.2000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>		
<b>Book value 31.12.2000</b>	<b>0</b>	<b>45</b>	<b>0</b>	<b>13</b>	<b>58</b>		
Parent company	Shares group companies	Shares others	Receivables group companies	Receivables others	Total		
Acquisition cost 1.1.2000	9 331	38	0	0	9 369		
Translation difference	0	0	0	0	0		
Increases	607	0	0	0	607		
Decreases	-6 466	0	0	0	-6 466		
Transfer between items	0	0	0	0	0		
<b>Acquisition cost 31.12.2000</b>	<b>3 472</b>	<b>38</b>	<b>0</b>	<b>0</b>	<b>3 510</b>		
Accumulated depreciation 1.1.2000	685	0	0	0	685		
Translation difference	0	0	0	0	0		
Accumulated depreciation of decreases and transfers	0	0	0	0	0		
Depreciation	0	0	0	0	0		
<b>Accumulated depreciation 31.12.2000</b>	<b>685</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>685</b>		
<b>Book value 31.12.2000</b>	<b>2 787</b>	<b>38</b>	<b>0</b>	<b>0</b>	<b>2 825</b>		

## 24. OWNERSHIP

### Largest owners 31.12.2000

	Number of shares	Number of shares	Percentage of shares
Ilmarinen Mutual Pension Insurance Company		686 250	4.1 %
Varma-Sampo Mutual Pension Insurance Company		541 750	3.3 %
OP Funds		516 830	3.1 %
OP-Delta	244 100		
OP-Pirkka	98 600		
OP-Tuotto	88 000		
OP-Teknologia	31 700		
OP-Spektri	24 400		
Opstock Oy	16 700		
Opstock Finland Index	12 330		
Osuuspankkien Keskuspankki Oyj	1 000		
Alfred Berg Funds		432 880	2.6 %
Alfred Berg Finland	130 700		
Alfred Berg Small Cap	92 950		
Alfred Berg Portfolio	89 600		
Alfred Berg Optimal	84 550		
Alfred Berg Finland Oyj	35 080		
FIM Funds		356 700	2.1 %
FIM Forte	237 000		
FIM Tekno	80 550		
FIM Fenno	39 150		
Sampo-Leonia		310 700	1.9 %
Sampo-Leonia Plc	150 200		
Leonia Osake Fund	72 500		
Sampo Enterprise Insurance Company	64 000		
Leonia Yhteisöosake Fund	20 000		
Sampo Sektorit (Suomi) Fund	4 000		
Evli Funds		259 350	1.6 %
Evli Select	83 150		
Evli Nordic Small Co	74 000		
EVLI Finland Small Tech	46 500		
Evli Mix	38 800		
EVLI IT-information technology	14 000		
Evli-Options Ltd	2 500		
Evli Securities Plc	400		
The Local Government Pensions Institute		236 750	1.4 %
Gyllenberg Funds		172 750	1.0 %
Gyllenberg Momentum	50 200		
Gyllenberg Optimum	50 000		
Gyllenberg Small Firm	40 000		
Gyllenberg Finlandia	30 050		
Gyllenberg Forum	2 500		
Nordea		163 000	1.0 %
Merita Life Insurance	97 500		
Merita Avanti	62 500		
Arosmaizels Equities Oy	3 000		
Pohjola		120 000	0.7 %
Pohjola Non-Life Insurance Ltd	60 000		
Pohjola Life Assurance Company Ltd	60 000		
Suomi Mutual Life Assurance Company		100 000	0.6 %
Nominee registration		10 640 251	64.1 %
Others		2 074 889	12.5 %
<b>Total</b>		<b>16 612 100</b>	<b>100.0 %</b>

<b>Ownership structure on 31 December 2000</b>				
Shares	Number of shareholders	Number of shares	Percentage of shareholders	Percentage of shares
1-1.000	3 233	666 066	92.9 %	4.0 %
1.001-10.000	170	557 982	4.9 %	3.4 %
10.001-100.000	67	2 688 411	1.9 %	16.2 %
100.001-	11	12 699 641	0.3 %	76.4 %
<b>Total</b>	<b>3 481</b>	<b>16 612 100</b>	<b>100.0 %</b>	<b>100.0 %</b>

#### **Shareholders on 31 December 2000**

Corporations	3.0 %
Financial and insurance institutions	78.7 %
Public organizations	10.7 %
Non-profit organizations	2.1 %
Households	5.3 %
Foreign	0.4 %
<b>Total</b>	<b>100.0 %</b>

#### **Management interest**

	Number of shares	Percentage of shares and votes
CEO and Board members	26 360	0.2 %

#### **Option programs**

Number of shares entitled to subscribe with options	Number of shares	Percentage of shares and votes
CEO and Board members	170 000	0.9 %
Other option holders	991 650	5.4 %
1997 program warrants hold by the group	21 000	0.1 %
2000 program warrants hold by the group	675 250	3.7 %
<b>Total</b>	<b>1 857 900</b>	<b>10.1 %</b>

The Annual General Meeting decided on November 14, 1997 to issue a bond loan with warrants for Teleste's key personnel. With warrants attached to the bonds totally 1.280.000 shares at 0.68 euros a piece can be subscribed by the holders. The subscription period for 50 % of the warrants begins on December 1, 1999, for 25 % on December 1, 2000 and for 25 % on December 1, 2001. The subscription period for all the warrants ends on January 31, 2004. The board has the right to decide on transferring the option rights.

The Annual General Meeting decided on April 12, 2000 to issue a bond loan with warrants for Teleste's personnel. With warrants attached to the bonds totally 1.125.000 shares can be subscribed by the holders. The subscription period for 46 % of the warrants begins on October 1, 2002 and their subscription price is 25.71 euros a piece. The subscription period for 27 % of the warrants begins on April 1, 2003 and their subscription price is 34.79 euros a piece. The subscription period for 27 % of the warrants begins on October 1, 2003 and their subscription price is determined in April 2001. The subscription period for all the warrants ends on October 31, 2005. The subscription price is lowered with paid dividends. The board has the right to decide on transferring the option rights.

## KEY FIGURES

	1996 Pro forma	1997 Pro forma	1997 Official	1998	1999	2000
Net sales, Meur	55.6	58.7	22.4	66.1	68.1	99.4
Change %	-22.1 %	5.6 %		12.5 %	3.1 %	46.0 %
Sales outside Finland, %	90 %	88 %	88 %	90 %	91 %	91 %
Operating profit, Meur	2.8	4.5	1.2	9.4	9.9	12.2
% of net sales	5.0 %	7.7 %	5.5 %	14.2 %	14.5 %	12.3 %
Profit after financial items, Meur	2.9	4.1	1.2	8.8	9.0	10.9
% of net sales	5.2 %	7.0 %	5.6 %	13.4 %	13.3 %	11.0 %
Profit before taxes, Meur	1.4	-1.1	-4.0	9.8	9.0	12.3
% of net sales	2.5 %	-1.9 %	-17.8 %	14.8 %	13.3 %	12.4 %
Profit for the financial period, Meur	0.5	-2.2	-4.4	7.0	6.4	8.6
% of net sales	1.0 %	-3.8 %	-19.7 %	10.6 %	9.4 %	8.7 %
R&D expenditure, Meur	4.0	4.1	1.6	4.2	6.6	9.0
% of net sales	7.2 %	7.0 %	7.1 %	6.3 %	9.6 %	9.0 %
Gross investments, Meur	2.2	32.2	31.4	10.6	2.0	3.1
% of net sales	4.0 %	54.8 %	140.2 %	16.0 %	2.9 %	3.1 %
Average personnel	566	560	560	563	584	616
Order backlog at year end, Meur	6.2	5.1	5.1	9.3	19.9	26.4
Orders received, Meur	54.5	58.3	25.1	70.1	78.1	108.9
Return on equity, %	8.8 %	20.0 %		60.3 %	39.0 %	31.4 %
Return on capital employed, %	13.0 %	20.2 %		37.8 %	36.2 %	31.4 %
Equity ratio, %	60.7 %	16.9 %	16.9 %	34.2 %	45.4 %	42.7 %
Gearing, %	-32.5 %	107.0 %	107.0 %	65.9 %	38.1 %	51.1 %
Earnings per share, eur	0.13	0.19	0.05	0.38	0.40	0.44
Earnings per share w/o goodwill depreciation, eur	0.16	0.21	0.05	0.42	0.47	0.49
Shareholders equity per share, eur	1.44	0.47	0.47	0.84	1.21	1.61
Highest price, eur					19.00	39.00
Lowest price, eur					7.00	12.90
Closing price, eur					16.20	23.50
Average price, eur					9.06	24.06
Price per earnings					40.5	53.8
Market capitalization, Meur					260.8	390.4
Turnover, number in millions					24.8	25.7
Turnover, % of share capital					154.2 %	154.5 %
Average number of shares					16 049 364	16 360 488
Number of shares at the year-end					16 096 500	16 612 100
Average number of shares, diluted					17 345 000	18 153 402
Number of shares at the year-end, diluted					17 345 000	18 470 000
Dividend per share, eur	0.00	0.00	0.00	0.08	0.10	0.12*
Dividend per net result, %	0.0 %	0.0 %	0.0 %	21.6 %	25.0 %	27.5 %
Effective dividend yield, %					0.6 %	0.5 %

\* The Board's proposal to the AGM

The pro forma figures for 1996 are based on consolidated figures of Teleste Oy. Group contributions are cancelled and the tax effect on this has been taken into account. 1997 result includes a one-time write-off of goodwill, worth of 5.2 million euros. No corrections are made into the balance sheets. Investments include the purchase price of Teleste Oy's shares 30.3 million euros in 1997 and 8.5 million euros in 1998. Group's official financial period for 1997 was four months long.

### CALCULATION OF KEY FIGURES

#### Return on equity:

$$\frac{\text{Profit before extraordinary items} - \text{taxes}}{\text{Shareholders' equity (average)}} \times 100$$

#### Return on capital employed:

$$\frac{\text{Profit before extraordinary items} + \text{financial expenses}}{\text{Total assets} - \text{non-interest bearing liabilities (average)}} \times 100$$

#### Equity ratio:

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

#### Gearing:

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

#### Earnings per share:

$$\frac{\text{Profit before extraordinary items} - \text{taxes}}{\text{Number of shares on average}}$$

#### Equity per share:

$$\frac{\text{Shareholders' equity}}{\text{Number of shares at the end of the year}}$$

#### Earnings per share:

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

#### Effective dividend yield:

$$\frac{\text{Dividend per share}}{\text{Share price at the end of the year}}$$

## PROPOSAL FOR DISTRIBUTION OF PROFITS

Distributable funds according to consolidated balance sheet were 19.1 million euros. The parent company's distributable funds were 12,066,834.19 euros. The Board of Directors proposes that a dividend of 1,993,452.00 euros (0.12 euros per share) be paid and that the remaining 10,073,382.19 euros be retained and carried forward.

6 February 2001

**Pekka Vennamo**

**Matti Suutarinen**

**Heikki Keränen**

**Tero Laaksonen**

**Asko Schrey**

**Timo Toivola**

President and CEO

## AUDITOR'S REPORT

### To the shareholders of Teleste Corporation

We have audited the accounting, the financial statements and the corporate governance of Teleste Corporation for the period 1.1.–31.12.2000. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the CEO. Based on our audit we express an opinion on these financial statements and on corporate governance.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement presentation. The purpose of our audit of corporate governance is to examine that the members of the Board of Directors and the CEO have legally complied with the rules of the Companies' Act.

In our opinion the financial statements have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company's result of operations as well as of the financial position. The financial statements with the consolidated financial statements can be adopted and the members of the Board of Directors and the CEO of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distributable assets is in compliance with the Companies' Act.

Turku, March 2, 2001

SVH Pricewaterhouse Coopers Oy  
Authorised Public Accountants

**Johan Kronberg**

Authorised Public Accountant

**Mika Kaarisalo**

Authorised Public Accountant



## CORPORATE GOVERNANCE

The tasks and responsibilities of the Annual General Meeting, the Board of Directors and the CEO are stipulated by the Companies Act. No special tasks have been assigned in addition to the tasks required by the law. The tasks and responsibilities of the Board members conform to the relevant legislation and are not confirmed separately.

The Board of Directors and the Chairman of the Board are elected by the Annual General Meeting. According to the Articles of Association, the Board shall consist of a minimum of three and a maximum of eight members. The Board members and the Chairman of the Board are elected for a period of one year from the meeting. The CEO is appointed by the Board of Directors.

The Board of Directors convened 7 times during the year.

The remuneration of the members of the Board is decided by the Annual General Meeting. The salary, fees and other benefits received by the CEO are decided by the Board of Directors.

The salaries, fees and benefits paid to the members of the Board and the CEO totaled 274 thousand euros.

The Board decided to take into use from 1 March 2000 the insider regulations approved by the Helsinki Exchanges' Board of Directors on 28 October 1999. The regulations have been amended with internal instructions.

## SHARES AND SHAREHOLDERS

Teleste's shares are traded on the main list of Helsinki Exchanges. The company has one share series and it is traded under the code TEL1V.

During the year the highest share price was 39.00 euros and the lowest 12.90 euros. The average price for the year was 24.05 euros. The closing price at year-end was 23.50 euros. At that time the market capitalization of the share capital was 390 million euros. During the year 26 million shares were traded in Helsinki Exchanges and they represent 154 percent of the share capital.

With the warrants of Teleste's 1997 bond loan with warrants, 515.600 shares were subscribed during the year. The share capital was thus increased 206.240 euros. Teleste's registered share capital on 31 December 2000 totaled 6.644.840 euros divided among 16.612.100 shares. The nominal value of the shares is 0.40 euros.

The Annual General Meeting on 12 April 2000 resolved to offer a bond loan with warrants for the entire personnel. About 70 percent of the personnel participated in the program. With the warrants attached to the bond loan, a total of 1.125.000 shares can be subscribed in phases between 2002 and 2005.

The Board of Directors and CEO own a total of 0.2 percent of the share capital and votes. With warrants they can increase their shareholding to 1.1 percent of the shares. The CEO is entitled to subscribe 170.000 shares with the warrants from Teleste's 1997 and 2000 bond loans with warrants. He does not own any Teleste shares.

Teleste had 3.481 shareholders at year-end. Foreign ownership amounted to 64.5 percent at year-end. Teleste is one of the most foreign-owned companies in Helsinki Exchanges.

On 17 February 2000, Sponsor Fund I Ky sold the remainder of its shares (5.472.000 shares), which equaled about 34 percent of Teleste's shares.

On 21 February 2000, Sampo-Leonia announced that its shareholding had increased to 6.07 percent.

On 28 March 2000, Sampo-Leonia announced that its shareholding had decreased to 4.92 percent.

On 7 August 2000, Robert Fleming Holding announced that the shareholding of its funds had increased to 10.03 percent.

On 10 August 2000, Robert Fleming Holding announced that the shareholding of its funds had decreased to 7.29 percent.

On 12 October 2000, Deutsche Bank announced that its shareholding had increased to 5.83 percent.

On 7 December 2000, Deutsche Bank announced that its shareholding had decreased to 4.92 percent.

On 8 January 2001, Putnam announced that the shareholding of its funds had increased to 10.33 percent.

## ANALYSTS

According to our information the analysts listed below follow Teleste. Analysts do so on their own initiative. The list might not be complete. Teleste takes no responsibility for the opinions expressed by analysts.

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