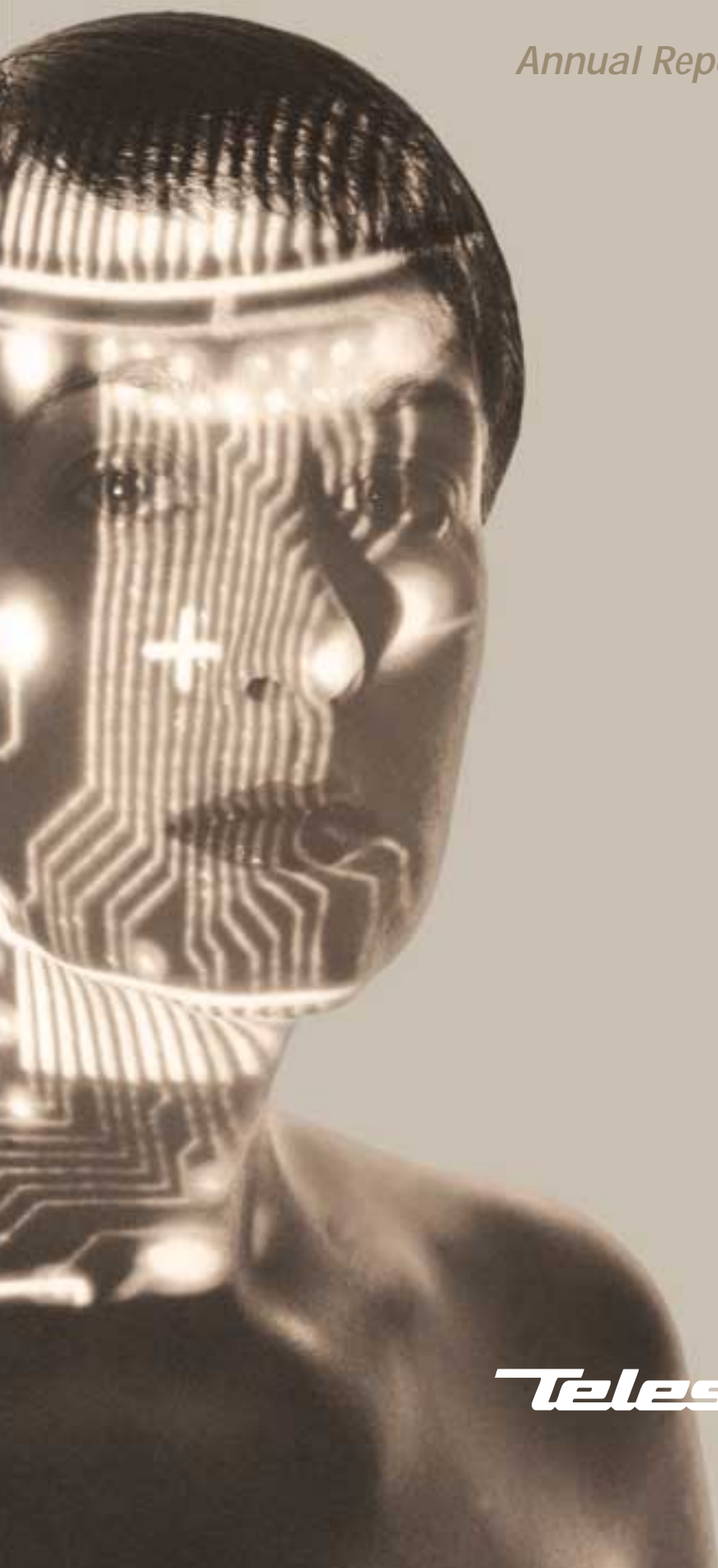
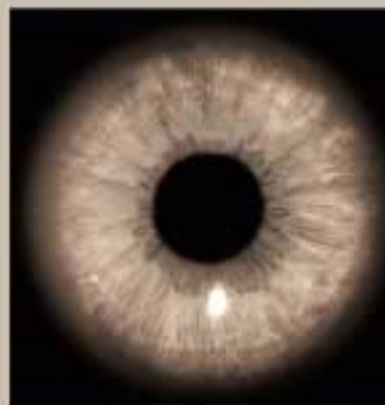


Annual Report 2002



Teleste



Measurements of Success

- ▶ *Shareholder value*
- ▶ *Profitable growth*
- ▶ *Customer satisfaction*
- ▶ *Efficient processes*
- ▶ *Capable personnel*

Teleste

Teleste Corporation is divided into two Strategic Business Units: Broadband Cable Networks and Video Networks.

▶ *Broadband Cable Networks provides the cable operators with complete network solutions.*

▶ *Video Networks supplies transmission and network solutions for surveillance, monitoring and security systems and the major part of its business is handled through system integrators.*

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"We are strategically well positioned considering both our core competence areas and our global sales network. We will continue our goal-directed development work based on the needs of our customers in order to maintain the leading position of providing technically cutting edge solutions and for reaching our target of profitable growth."

CEO's Letter

A Change is Always an Opportunity

Year 2002 was an especially challenging year for Teleste as well as for the whole cable operator industry. Several cable operators active in our main business area froze their network investments and focused on solving their balance sheet problems, and on restructuring their businesses and improving their profitability. On the other hand, the video surveillance and security market continued its steady growth supported by an increased demand for traffic control and security surveillance. The difficult situation in the world economy and especially the difficulties in our main business area had an affect also on Teleste, resulting in, among others, a significant reduction in sales volumes, a credit loss from OMNE Ltd. and in a one time write-off of the loan receivable from the Home Networks division divested in year 2000. We were, however, able to swiftly adjust our cost structure to reflect the current volume level without endangering future growth opportunities. Our operative result before one-time write-offs remained positive also in the past year.

Teleste is a global technology company operating in a fast developing and growing technology sector. We are clearly focused on our core businesses: Broadband Cable Networks and Video Networks and in both segments we are the leading European provider of signal processing and transmission systems. The Video Networks business unit has also a strong position in the US and Asia Pacific markets. We see solid growth possibilities especially in broadband data solutions for residential users, in growing interest for on-demand services (Video-on-demand), in digitalisation of TV-services and in an increasing demand for video surveillance and security in city centres, traffic control and corporate security. Our high technology knowledge and our well-covered global sales network makes us well positioned to meet the demands of recovering markets. Our strong balance sheet

helped us to continue investments in key areas. We believe that also during these challenging times we have made the right decisions and further strengthened our market position.

Continuous Development and Innovations

Our personnel have once again showed agility and flexibility in a challenging situation. Our success is based on world-class performance of our talented personnel working in an innovative environment. This combined with almost fifty years of cumulative expertise in signal processing technology and thorough knowledge of our customer's businesses and needs give us a solid ground for further refining our product offering. A product development based on the needs of our customers and continuing education of our personnel are the corner stones in our success today and in the future.

During 2002 R&D supplemented our head-end and backbone solutions and renewed and widened our optical and broadband amplifier product portfolios.


In addition Teleste introduced its first IP products. These products bring IP content into the HFC access network enabling operators to offer cost-effective on-demand services. All above and more, has been done when at the same time adjusting the cost structure to reflect the new market situation.

Ready for Year 2003 – Look Ahead

Under the current circumstances it is more difficult than ever to make any reliable predictions of the future. We live in an unsteady economy and the possibility for global political conflicts increase the uncertainty. We expect markets to remain quiet in our main business and expect a recovery starting towards the end of the year 2003. We are, however strategically well positioned considering both our strong competitive product offering and our sales network. Our objectives are customer-

oriented products and solutions and a reliable local customer driven service chain in the chosen market areas. By fulfilling these objectives, I am confident that we will succeed in reaching our targets of profitable growth.

I wish to express my sincere gratitude to our customers, shareholders and other partners for the past year. Especially I wish to thank our personnel for the valuable input and agility throughout the tough year. Together we have faced the challenges and together we will continue to develop Teleste to a leading player in its field.



Jukka Rinnevaara
CEO

Teleste's Most Important Releases in 2002

4.1. ► **Teleste enters Chinese Surveillance market**

Video Networks Business Unit opened a sales office in Shanghai.

27.3. ► **New General Manager for Video Networks Business Unit**

Mr. Johan Slotte was appointed as the new General Manager.

30.4. ► **The resignation of the Managing Director**

Mr. Timo Toivila announced his resignation from the position of CEO of Teleste Corporation due to personal reasons. He will continue in his position until the new CEO has been appointed.

2.5. ► **An order from England**

BT RedCare Vision (part of British Telecom) ordered fibre optic transmission equipment for a project aimed to improve traffic in London. The order was worth EUR 1.9 million.

13.5. ► **A second phase order from the USA**

The city of Austin ordered signal transmission equipment worth EUR 1.4 million for the city's traffic surveillance network.

28.8. ► **An order from Germany**

Kabel Deutschland, the largest cable operator in Germany, ordered new generation fibre nodes and amplifiers for upgrading the networks in Berlin, Leipzig and Bayreuth. The order was worth EUR 0.9 million.

8.3. ► **Teleste's Broadband Cable Networks Business Unit begins personnel negotiations**

Business Unit's activities are adapted to the difficultly forecasted market situation without endangering the good growth possibilities in the coming years.

8.4. ► **Decisions of the Annual General Meeting**

The AGM decided to distribute a dividend of EUR 0.16 per share. Mr. Risto Hautamäki was elected as the Chairman of the Board and Mr. Tapio Hintikka, Mr. Tero Laaksonen and Mr. Pekka Vennamo as members of the Board of Directors. The Board of Directors was authorized to acquire own shares, to convey own shares and to increase share capital by a new issue. The AGM approved the proposal of the Board of Directors to issue stock options to key personnel.

3.5. ► **An order from France**

Noos, the largest cable operator in France ordered CWDM equipment to increase the capacity of existing fibre optic network in the Paris area. The order was worth EUR 1.2 million.

23.8. ► **Appointment of the new CEO**

Mr. Jukka Rinnevaara was appointed as the new President and Chief Executive Officer of Teleste Corporation starting from November 1, 2002.

2.9. ► **An order from the Netherlands**

A Dutch cable operator Zekatel ordered broadband amplifiers for upgrading their network two directional. The order was worth EUR 1.1 million.

Information for the Shareholders

Annual General Meeting

Teleste Corporation's Annual General Meeting will be held on Tuesday April 8, 2003, commencing at 3 pm., at Finlandia Hall in Helsinki. Registration begins at 2.30 pm.

Shareholders wishing to attend the Annual General Meeting must be registered in the list of shareholders kept by Finnish Central Securities Depository Ltd no later than March 28, 2003.

Shareholders wishing to attend the Annual General Meeting must inform the company by 4 pm. on Thursday April 3, 2003 at the latest by writing to Teleste Corporation, Ms. Tiina Vuorinen, P.O. Box 323, 20101 Turku, Finland, or by telephone +358 2 2605 611, or by telefax +358 2 2605 812, or by email to investor.relations@teleste.com. Attendance information must arrive before the deadline stated above. Any letters of authorization must be submitted at the time the shareholders concerned inform the company of their intention to attend.

Financial Information

April 23, 2003 Interim report January–March

July 22, 2003 Interim report January–June

October 20, 2003 Interim report January–September

Financial information is available in Finnish and in English. Financial reports are not printed, instead they are published on Teleste's internet pages, www.teleste.com. Stock exchange releases can be found from the same address. Paper copies of the financial publications may be ordered from:

Teleste Corporation, Investor Relations,
P.O. Box 323, 20101 Turku, Finland, or by
telephone +358 2 2605 611, by telefax
+358 2 2605 812 or by email to
investor.relations@teleste.com

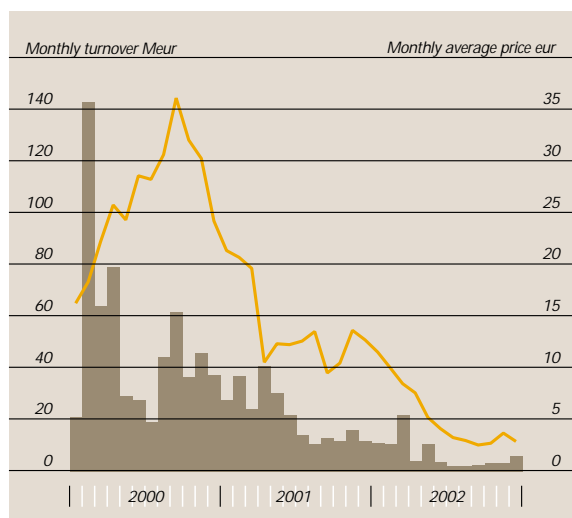
Investor Relations

CEO Mr. Jukka Rinnevaara is responsible for investor relations. All inquiries about the company can be addressed to him by telephone +358 2 2605 611 or by email to investor.relations@teleste.com

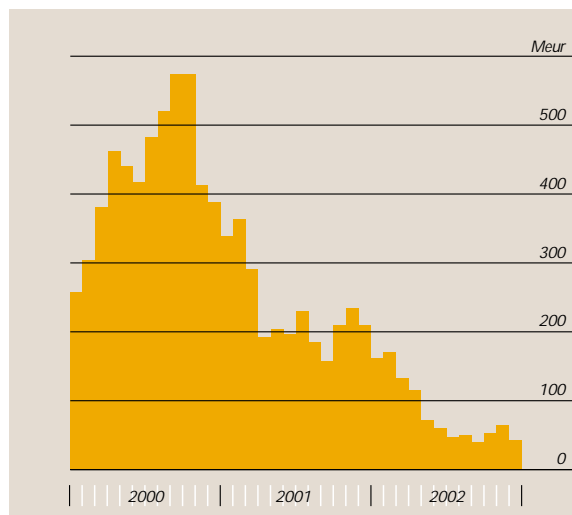
Share Register

Shareholders are kindly requested to inform the custodian of their book-entry account of any changes in addresses and personal details.

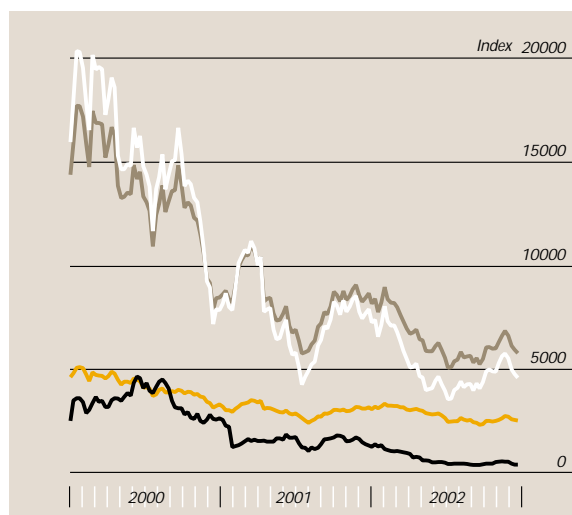
► Share turnover
► Average price



► Market capitalization per month



Share price development
► Teleste
▷ Telecommunications and electronics
► HEX All-share index
► HEX Portfolio index



Teleste Management Group

▶ **Jukka Rinnevaara**, M.Sc. (Econ.)

President and CEO since November 1, 2002

Born in 1961

Owns 4,000 Teleste shares

▶ **Johan Slotte**, LL.M, MBA

Video Networks, General Manager

Senior Vice President, Development

Born in 1959

Joined Teleste 1999

Owns 3,000 Teleste shares

Owns options for 10,000 Teleste shares

▶ **Erja Saarikoski**, business school graduate

Group Controller

Born in 1953

Joined Teleste 1984

Owns 3,000 Teleste shares

Owns options for 5,000 Teleste shares

▶ **Pekka Rissanen**, M.Sc. (Eng.), MBA

Senior Vice President

Broadband Cable Networks, Sales and Marketing

Born in 1963

Joined Teleste 1998

Does not own Teleste shares

Owns options for 20,000 Teleste shares

▶ **Juha Järvenreuna**, M.Sc. (Eng.)

Senior Vice President

Broadband Cable Networks, Product Operations

Born in 1964

Joined Teleste 1995

Owns 6,000 Teleste shares

Owns options for 11,300 Teleste shares

Personnel

Teleste's success is based on the competence of its individuals and the organisation. One of the key targets for Teleste is to maintain its position as an attractive employer for existing and new employees also in the future. A prerequisite for reaching this target is a working atmosphere, which motivates our highly talented personnel to continuously develop themselves and to maintain the company's positive and challenging working environment. This will be one of our main focus areas also in the future.

The last year was challenging for the personnel. The heavy downturn in Broadband Cable Networks' market caused us to make dismissals and temporary lay-offs in our work force. The measures burdened the persons affected as well as their colleagues. The process and its preparation were carried out in close co-operation with personnel representatives and was finalised within a rapid schedule. This was important since insecurity is, after all, the most depressing phase. It can be noted with great pleasure that the measures have not negatively influenced the organisational climate. On the contrary, the whole organisation showed during the latter part of the year exceptional agility and organisational spirit. For this we wish to express our deep gratitude.

Investments into developing the personnel's competence were continued despite the challenging market situation. Teleste's internal three-year-long "Commitment to Growth" program was continued with two new groups. In addition, a new program aimed to improve managerial skills for mid-level managers called "Teleste JET" was started with 20 participants. The program lasts for 1.5 years and leads to a professional degree. Other types of education and training at different levels were also provided for in order to maintain and increase professional skills within the organisation.

Teleste continued its participation in committees of local universities and higher education instances and its involvement in various information technology-related projects within, among others, universities. Contacts with polytechnics and other students were also maintained in various forms.

Regular development discussions form an integral part of Teleste's personnel policy. Bonus and reward programs are designed to support reaching strategically important goals of the company. Work will be continued for establishing a clear link between the company's strategic targets and each employee's own targets and daily work-related activities.

	2002	2001
<i>Research and Development</i>	116	138
<i>Production and Material Management</i>	231	260
<i>Sales and Marketing</i>	96	109
<i>Finance and IT</i>	24	32
<i>Finland</i>	401	460
<i>Other countries</i>	66	79
<i>Female</i>	177	206
<i>Male</i>	290	333
<i>Operatives</i>	170	199
<i>Staff</i>	297	340
Total	467	539
<i>Average age</i>	37.5	36.7

Broadband Cable Networks

Teleste Broadband Cable Networks offers cable operators a wide variety of cable network products. The main technology areas are digital and analogue head-end equipment, digital backbone transmission, fiber optics solutions including multi-wavelength solutions, optical receivers and broadband amplifiers. Teleste supports both turnkey deliveries and product and equipment deliveries.

The main market area for Broadband Cable Networks is Europe, where the customer support is provided by 13 own sales offices with sales and technical support structure. The active areas outside of Europe have been selected due to their long-term potential. Teleste actively investigates new market areas with the intention to both add the number of own presence and develop co-operation with strong local partners.

Upgrade of existing cable networks is the biggest single business area for Broadband Cable Networks. The upgrade projects can involve building bi-directionality when the formerly one-way network that was targeted for the single delivery of TV programs can enable the offering of new interactive services. This is still not the complete picture, as majority of networks requires constant renovations to cope with the growth of demand for the new services. The increased amount of data subscribers typically requires the operator to extend the fiber part of the network closer to home.

Markets, Trends and Market Drivers

The consumers' wish and need to be connected to various networks increases the bandwidth and capacity requirements for the access networks. Even when there is a lack of more serious business applications, it is visible that the use of these services will require the operators to offer faster Internet connection. The cable access network offers a technologically excellent physical access to the residential consumers.

The need for optical fiber and optical

transmission will grow in the future as further segmentation of the networks – and the use of optics for this – is requested by the networks to cope with the increased bandwidth and traffic demand. This will take place regardless of development of the last mile technologies – the cable access can be used for cable modem based data services as well as for direct Ethernet over coaxial copper solutions.

Clearly the most successful new service for the cable operators has been the fast Internet connection for residential users. The cable modem enabled service is mostly in competition with the ISDN and xDSL services that are provided by the traditional telecommunications operators. Cable modem provides fundamentally faster bandwidth than the competing technologies and has received a market leader position on a global scale over the twisted-pair connections. From the investment point-of-view cable modem service has clear advantage.

Cost-of-ownership, as a descriptor of total costs and expenses for the complete product life cycle, has been raised as a new evaluation angle. The movement from the price comparisons of individual products towards complete system costs appreciates the quality angle stressed by Teleste in a new way.

Digitalization Frees up Capacity

The digitalization of the TV programs offers certain clear benefits both to the consumer and the operator. Most important for the operator is to free up capacity, as it is possible to feed 6–10 digital programs into the place of one analogue program. The free capacity can then be utilised either by offering an increased amount of service packages or by offering interactive order-based services like on-demand movies or additional pay-per-view content. The customer sees digitalisation as improved picture quality in addition to increased service.

Besides technology, competition has been of dominant influence in steering the opera-

tors' investments. The main competition on the content side comes from satellite and terrestrial operators. The digital channels and services in cable networks have been introduced first in countries where there is a strong competitive pressure. The operational problems of terrestrial operators in Spain and UK as well as the start-up delays for the operators in Sweden and Finland have in their turn changed the situation.

The first phase of digitalisation for the operator is the offering of digital TV programs. The second phase is the introduction of interactive digital services. In phase one, the most important task is to gain maximum penetration for the digital set-top-boxes amongst the subscriber households to ensure sufficient theoretical customer base for any additional services.

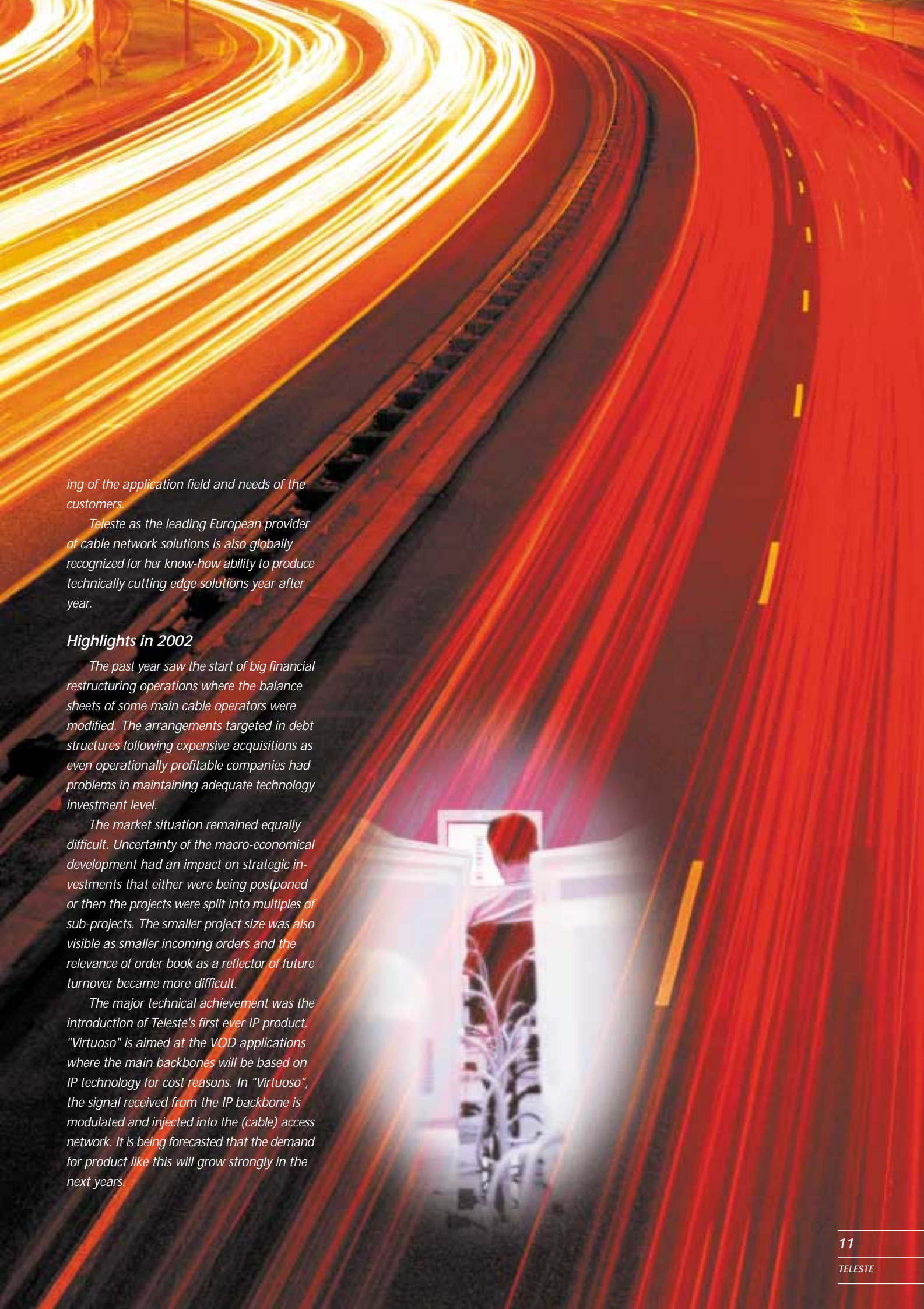
The customer-originated need for providing turnkey solutions in addition to the product deliveries will continue in the future. On the side of solution sales, the global networking of the procurement function and partnership management are becoming more important.

The Video-on-demand (VOD) market is experiencing strong growth in the USA where the number of digital set-top-box homes is already 14 million. The introduction of VOD service in Europe will happen later as the installed base of digital devices at homes is less than 25 % of USA. There are big variations between the European countries in terms of readiness for on-demand services and it is likely that England will be the first market area where VOD market becomes active.

Competitive Position

The wide local presence via own sales offices has proven to be an important competitive factor for Teleste on economic downturn also. The trustworthiness and consistency of the vendor have strong influence in the selection. The geographical coverage can be seen as one of Teleste's main asset against the competition.

Teleste's 50-year experience in the use of radio frequency technology for variable communications and transmission needs combined with the 30-year experience in the cable networks offers a unique starting point for the business development. The understanding and introduction of new technologies becomes easier with a thorough understand-



ing of the application field and needs of the customers.

Teleste as the leading European provider of cable network solutions is also globally recognized for her know-how ability to produce technically cutting edge solutions year after year.

Highlights in 2002

The past year saw the start of big financial restructuring operations where the balance sheets of some main cable operators were modified. The arrangements targeted in debt structures following expensive acquisitions as even operationally profitable companies had problems in maintaining adequate technology investment level.

The market situation remained equally difficult. Uncertainty of the macro-economical development had an impact on strategic investments that either were being postponed or then the projects were split into multiples of sub-projects. The smaller project size was also visible as smaller incoming orders and the relevance of order book as a reflector of future turnover became more difficult.

The major technical achievement was the introduction of Teleste's first ever IP product. "Virtuoso" is aimed at the VOD applications where the main backbones will be based on IP technology for cost reasons. In "Virtuoso", the signal received from the IP backbone is modulated and injected into the (cable) access network. It is being forecasted that the demand for product like this will grow strongly in the next years.



tioning from this region was the supply of an EASI ATM system for city centre monitoring for the City of Padova, Italy, the first such Teleste system supplied for this purpose in this geographical area. Also, at the end of the year, Teleste won a project for the supply to NAMDEB, Namibia, of an EASI ATM system for one of the largest industrial mining grounds in the world. In year 2002 Video Networks also opened its own sales office in France.

In the USA, a second phase order worth EUR 1.4 million was received from the City of Austin. The order relates to an advanced traffic management system and supplies based on it will continue in 2003. Video Networks also received an EASI ATM order for a U.S. Navy port security project. This was strategically important and further similar orders are expected during year 2003.

Video Networks opened a sales office in Shanghai. Although Video Networks has supplied systems to the Chinese markets for some years, the opening of an own sales office strengthens its commitment to this fast growing market. There are expectations for growth in orders from this region during year 2003.

Year 2002 saw the start of an R&D project for an IP/Ethernet product platform. The project is proceeding in line with expectations and a commercially launch is planned during the first half of year 2003. In March Johan Slotte, Senior Vice President, Development and member of the Group management board since 1999, was appointed general manager of Teleste Video Networks.

The Board of Directors

Tapio Hintikka, M.Sc. (Eng.)

Born in 1942

- Member of the Board since 2001
- Vice Chairman of the Board 2001
- TeliaSonera, Chairman of the Board since 2002
- Sonera Corporation, Chairman of the Board 2001–2002
- Onninen Oy, Member of the Board since 2000
- Hackman Oyj Abp, CEO 1997–2002
- Owns 609 Teleste shares



Chairman

Risto Hautamäki, M.Sc. (Eng.)

Born in 1945

- Chairman of the Board since 2002
- Member of the Board since 2001
- Tamfelt Corporation, CEO since 1995
- Owns 3,015 Teleste shares



Tero Laaksonen M.Sc. (Math.)

Born in 1946

- Member since 1999
- Comptel Corporation, CEO since 2002
- Telia Finland Oy, CEO 1998–2001
- Nokia Telecommunications Oy, Senior Vice President 1995–1998
- ICL Plc, Financial Services Unit, President, 1993–1994
- Owns 15,609 Teleste shares



Pekka Vennamo, student in technology

Born in 1944

- Member of the Board since 2000
- Chairman of the Board 2000–2001
- Aldata Solution Oyj, Chairman of the Board since 2002
- Boardman Oy, Member of the Board since 2002
- Jippii Group Oyj, Chairman of the Board since 2001
- Soprano Group, Chairman of the Board since 2000
- Janton Media Group, Member of the Board since 1999
- Sijoitus Oy, Chairman of the Board and CEO since 1998
- Owns 4,809 Teleste shares



Jukka Rinnevaara, M.Sc. (Econ.)

Born in 1961

- Teleste Corporation, CEO since November 1, 2002
- ABB Building Systems, Group Senior Vice President 2001–2002
- ABB Installaatiot Oy, President 1999–2001
- Owns 4,000 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

Business Units and Group Structure

There were no major changes in the corporation structure year 2002, since the Educational division was divested already in December 2001 and consequently the group was able to concentrate on its core businesses: Broadband Cable Networks and Video Networks.

Broadband Cable Networks serves cable operators. The customers are offered complete end-to-end solutions and wide range of network equipment. Video Networks supplies transmission and network solutions for surveillance, monitoring and security systems and the major part of its business is handled through system integrators.

Market Situation and Business Environment

Year 2002 was an especially challenging year for Teleste as well as for the whole cable operator business. Many cable operators postponed their network investments and instead focused on solving their balance sheet problems and exploiting maximum use of the existing networks. On the other hand Video Networks Business Unit's market continued its steady growth supported by increased demand for surveillance applications.

In Broadband Cable Network Business Unit we see the future growth opportunities in high-speed Internet connections for residential users. In addition, the digitalisation of networks is increasing leading to wider program offering and new Video-on-demand services. The growth drivers in Video Networks Business Unit are in the need of optimising the transportation infrastructure and in increasing demand of protecting assets and people with live video.

Turnover and Profitability

The group's net sales decreased by 34.9 % to EUR 66.8 million (EUR 102.6 million). Operating profit decreased due to

credit losses and one time write-offs and came down to EUR 4.3 million loss (profit of EUR 13.8 million). The most significant credit loss of EUR 1.9 million came from OMNE Communications Ltd and the full amount was totally booked as credit loss. One time write-offs consist of slow moving obsolescent inventories of EUR 1.6 million and a provision of EUR 0.9 million for restructuring costs of global sales network. A loan receivable of EUR 3.1 million from divestiture of Home Networks division sold in 2000 was booked as extra ordinary expenses. The extra ordinary income from divestment of the division concerned was booked in 2000. The loss after financial items was EUR -5.1 million (profit of EUR 13.1 million). The group's earnings per share were EUR -0.25 (EUR 0.53). The return on capital employed was -7.6 % (27.4 %) and the return on equity was -14.2 % (28.9 %).

Comparable figures can be reached by eliminating Educational division from year 2001 figures. The group's net sales for continuing business decreased by 28.2 % to EUR 66.8 million (EUR 93.0 million). Broadband Cable Networks' net sales decreased by 34.4 % to EUR 52.2 million (EUR 79.5 million), as for Video Networks net sales increased 8.5 % to EUR 14.6 million (EUR 13.5 million).

The group's comparable operating profit decreased significantly and after one time write-offs indicated loss of EUR 4.3 million (profit of EUR 12.5 million). Sales revenues were to a greater extent generated from lower margin project deliveries and from smaller partial deliveries. Despite strong adjustments in the cost structure, investments especially in R&D were continued to secure future growth. A second sales office was opened in China.

The group's orders received for continuing business decreased 31.7 % to EUR 59.5 million (EUR 87.2 million). Broadband Cable Networks' orders received were EUR 44.7 million (EUR 74.2 million), a decrease of 39.7 % from the previous year. Video Net-

works orders received increased by 13.8 % to EUR 14.8 million (EUR 13.0 million). The backlog of orders was EUR 9.7 million (EUR 17.8 million) at the year-end.

The market situation of Broadband Cable Networks weakened the whole year, because customers continued postponing their new investments. We believe however, that Teleste succeeded in increasing its market share in the challenging market environment.

The market situation for Video Networks remained good the whole year. The competitive position was strengthened thanks to increased demand of video surveillance network deliveries especially in Europe.

During the last quarter the orders received for continuing business decreased by 31.6 % compared to the last quarter of the previous year amounting EUR 14.5 million (EUR 21.2 million). Net sales decreased to EUR 18.1 million (EUR 24.4 million). Operating profit decreased during the last quarter due to one time write-offs of EUR 2.5 million and due to a lower volume to a loss of EUR 2.2 million (profit of EUR 4.2 million).

R&D and Investments

R&D costs during the year for continuing business were EUR 6.6 million (EUR 8.4 million), these were booked as annual expenses. We have strongly focused our R&D development projects and have concentrated in development of IP-based solutions and in our broadband equipment. R&D expenses were 9.9 % of net sales (9.0 %).

Investments for the year amounted to EUR 1.3 million (EUR 3.7 million). They mainly targeted in buildings and information technology. At the year-end there was an additional advance payment of EUR 1.0 million related to unfinished ERP project.

Finance

The group's liquidity was stable during the year. Teleste negotiated a credit facility of EUR 21 million in December of which

EUR 10 million has been raised in January 2003. The arrangement is valid for eight years. The group's equity ratio was 44.8 % (44.5 %) and gearing 5.8 % (-20.5 %). The interest bearing debt on December 31 was EUR 15 million.

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

Personnel

During the year the group employed on average 506 people (594). At the year-end the group employed 467 persons (539), of which 66 (79) abroad. The number of personnel for continuing business decreased by 72 persons (increased by 51). The decrease affected mainly production and R&D, where reallocated priorities and improved focusing enabled maintaining the growth opportunities while adjusting into the market conditions.

Branch Offices

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

General Meetings

The Annual General Meeting of Teleste Corporation on April 8, 2002 confirmed the financial statements for 2001 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 0.16 per share.

The Annual General Meeting elected Mr. Risto Hautamäki as the Chairman of the Board and Mr. Tapio Hintikka, Mr. Tero Laaksonen and Mr. Pekka Vennamo 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. Teleste began the acquisition of own shares according to the

authorization in May. At the year-end the company possessed 620,000 own shares. The Board has not used the other authorizations.

Management and the Auditors

Mr. Timo Toivila acted as President and CEO for the company until October 31, 2002 and Mr. Jukka Rinnevaara starting from November 1, 2002. Mr. Johan Kronberg (Authorized Public Accountant) and PricewaterhouseCoopers Oy continued as auditors.

Shares and Changes in Share Capital

The following changes in Teleste's shareholding were announced during the year: On May 10, 2002 the holdings of OKO Bank Group Central Cooperative decreased to 4.79 % and on September 25, 2002 the holdings of Sampo Life Insurance Company Limited increased to 5.85 %. At the year-end Sampo Group was the largest single shareholder with 9.7 % holdings.

During the year the highest share price was EUR 14.00 and the lowest EUR 2.21. The closing price at the end of the year was EUR 2.47. During the year 15 million shares were traded in Helsinki Exchanges presenting 88 % of the share capital.

The Annual General Meeting decided on April 8, 2002 to issue stock options to key personnel. As a result of this the share capital may increase by a maximum of 550,000 shares, i.e. EUR 220,000. With warrants totally 550,000 shares can be subscribed in steps between 2005 and 2008. The possible dilution effect is totally 3.2 %.

With the warrants of Teleste's 1997 bond loan with warrants 137,420 shares were subscribed, thus bringing Teleste's registered share capital to EUR 6,814,160 divided among 17,035,400 shares.

Outlook for 2003

The demand for fast Internet connections for homes, for new Video-on-demand services

and for interactive digital television will increase clearly in the next few years. The cable operators will invest in their networks in order to develop their services. Based on information available today we believe that the market starts to recover towards the end of year 2003, when the customers' financial situation gradually improves to a state enabling them to restart necessary investments for their continuing activities. The video surveillance and security market is expected to continue its steady growth. Teleste's objective is still profitable growth and increase of market share. For strengthening our position in the next years' growing markets, Teleste will focus its investments in year 2003 mainly in R&D and in increasing the effectiveness of its sales network.

With the measures taken the operating profit will be positive year 2003. The market situation in the beginning of the year will still remain quiet, but with the market recovery the expectations are for the net sales in year 2003 as a whole to grow.

Statement of Income 1.1.–31.12.2002

EUR 1000	Note	GROUP		PARENT COMPANY	
		2002	2001	2002	2001
NET SALES	1	66 778	102 606	58 115	85 385
Change in inventories of finished goods		-3 173	628	-3 263	447
Other operating income	2	994	1 349	994	1 714
Materials, supplies and services	3	-30 930	-44 817	-23 840	-37 241
Wages, salaries and social expenses	4	-21 034	-25 569	-17 628	-19 341
Depreciation and amortisation	5	-3 016	-2 977	-2 810	-2 674
Other operating expenses		-13 904	-17 398	-16 867	-16 844
OPERATING PROFIT	6	-4 286	13 821	-5 299	11 446
Financial income and expenses	7	-843	-716	3 450	-905
PROFIT AFTER FINANCIAL ITEMS		-5 129	13 106	-1 849	10 541
Extraordinary items	8	-3 065	4 744	-3 065	833
PROFIT BEFORE TAXES		-8 194	17 850	-4 914	11 374
Appropriations	5			145	16
Direct taxes	10	1 076	-4 360	-81	-3 655
PROFIT FOR THE FINANCIAL PERIOD		-7 118	13 490	-4 850	7 735

Teleste without sold operations (Educational) in year 2001.
Sold operation is eliminated from net sales and from operating profit.
The effect of eliminating operating profit is taken into account in taxes.

EUR 1000	2002	2001	Change
Net sales	66 778	92 960	-28.2 %
Operating profit	-4 286	12 521	
Profit after financial items	-5 129	11 806	
Profit before taxes	-8 194	16 550	
Profit for the financial period	-7 118	12 567	
EPS	-0.25	0.47	

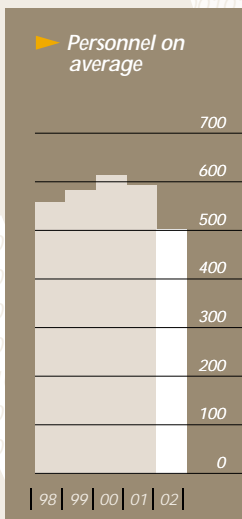
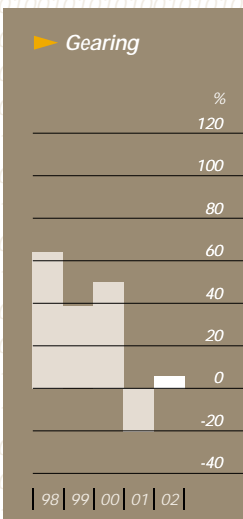
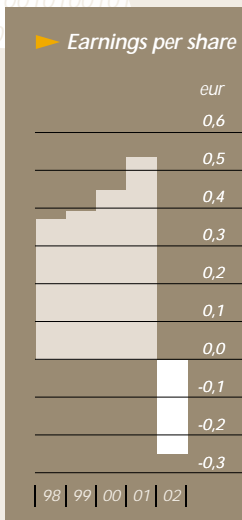
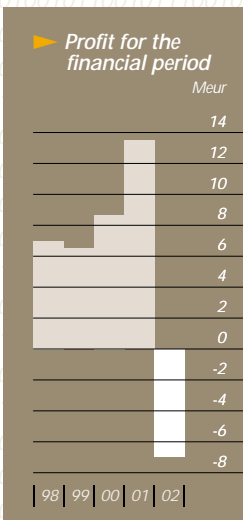
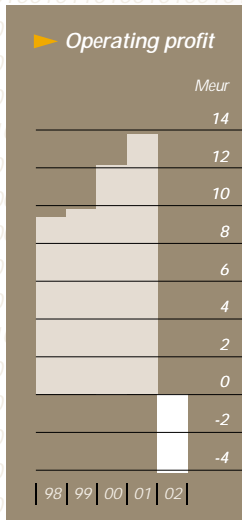
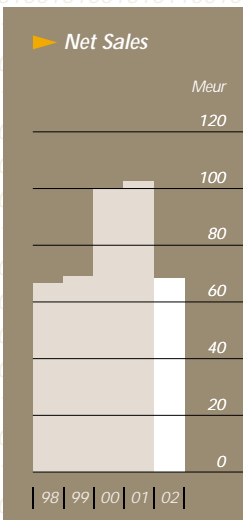
Balance Sheet 31.12.2002

EUR 1000	Note	GROUP		PARENT COMPANY	
		2002	2001	2002	2001
FIXED ASSETS					
Intangible assets	11	1 036	52	5 540	5 321
Goodwill	11	4 954	5 808	0	0
Tangible assets	11	7 083	8 050	6 906	7 859
Investments	12	2 649	5 864	5 437	8 651
Long-term receivables	13	0	3 390	849	4 577
		15 722	23 164	18 732	26 408
CURRENT ASSETS					
Inventories	14	5 935	11 583	4 862	10 600
Current/short-term receivables	15	16 726	15 181	13 893	13 255
Short-term investments	16	8 539	19 800	8 539	19 800
Cash and cash equivalents	16	5 127	7 143	4 762	6 275
		36 327	53 707	32 056	49 930
TOTAL ASSETS		52 049	76 871	50 788	76 338
SHAREHOLDERS' EQUITY					
Share capital	17	6 814	6 759	6 814	6 759
Share Premium Fund	17	1 175	1 136	1 175	1 136
Treasury shares	17	1 531	4 746	1 531	4 746
Retained earnings	17	22 238	12 418	9 350	5 327
Profit for the financial period	17	-7 118	13 490	-4 850	7 735
		24 640	38 549	14 020	25 703
APPROPRIATIONS	9	0	0	1 690	1 835
OBLIGATORY PROVISIONS	18	1 882	1 463	1 831	1 019
LIABILITIES					
Long-term liabilities	20	10 000	20 148	10 000	20 378
Short-term liabilities	21	15 527	16 711	23 247	27 403
		25 527	36 859	33 247	47 781
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		52 049	76 871	50 788	76 338

Cash Flow Statement

EUR 1000	GROUP		PARENT COMPANY	
	2002	2001	2002	2001
CASH FLOW FROM OPERATIONS				
Operating profit	-4 286	13 821	-5 299	11 446
Adjustments to operating profit	3 435	2 618	3 618	2 324
Change in net working capital	-815	14 522	-3 181	22 566
Interest income	536	589	595	526
Interest expenses	-845	-1 011	-853	-1 111
Dividend income	4	25	3 371	4
Other financial items	-538	-318	-538	-324
Taxes paid	-189	-4 360	-81	-3 655
Extraordinary items	0	4 744	0	0
CASH FLOW FROM OPERATIONS	-2 698	30 630	-2 368	31 776
INVESTMENTS				
Other tangible assets	-1 311	-3 713	-1 150	-3 634
Advance payments	-971	0	-971	0
Sale of other tangible assets	48	0	48	0
CASH FLOW FROM INVESTMENTS	-2 234	-3 713	-2 073	-3 634
CASH FLOW BEFORE FINANCING	-4 932	26 917	-4 441	28 142
FINANCING				
Long-term liabilities	-10 148	14 110	-10 378	14 111
Long-term assets	325	-66	663	-1 253
Short-term liabilities	5 000	-15 159	5 000	-15 138
Paid dividends	-2 640	-1 994	-2 640	-1 994
Group contributions, net	0	0	0	833
Share issue	94	194	94	194
Others	96	334	0	0
Own shares	-1 072	-4 746	-1 072	-4 746
FINANCING TOTAL	-8 345	-7 327	-8 333	-7 993
CHANGE IN LIQUID FUNDS	-13 277	19 590	-12 774	20 149
Liquid funds 1.1.	26 943	7 353	26 075	5 926
Liquid funds 31.12.	13 666	26 943	13 301	26 075

Teleste in Graphs



Home Networks division included years 1998-2000.
Educational division included years 1998-2001.

Accounting Principles of the Group

Consolidated Accounts

The consolidated Financial Statements include the accounts of the company and those companies in which it holds, directly or indirectly, over 50 % 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 % 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 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	3–5 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 an 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 and cash at banks. Short-term investments include other funds equivalent to cash, such as commercial papers.

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.

Extraordinary Items

Events that differ from normal activities, are by nature one time and relevant, are handled as extraordinary items. Extraordinary items are adjusted with their tax effect. As an exception from this principle the deferred tax receivable from long-term loan receivable write-off during accounting period 2002 has not been booked.

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 recognized at their full amounts in the balance sheet, and deferred tax assets are recognized 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. 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 and whose subscription price is higher than the share price.

Own Shares

Own shares acquired by the company are presented in the fixed assets in the balance sheet. The acquisition cost of the acquired shares is recognized as undistributable equity. The value of own shares will be readjusted if the closing price of the shares is less than the balance sheet value.

Notes to the Statement of Income and Balance Sheet

EUR 1000	GROUP		PARENT COMPANY	
	2002	2001	2002	2001
1. Net sales and orders received				
Net sales by business unit				
Broadband Cable Networks	52 178	79 501	43 515	71 926
Video Networks	14 600	13 459	14 600	13 459
	66 778	92 960	58 115	85 385
Sold operations	0	9 646	0	0
Total	66 778	102 606	58 115	85 385
Orders received				
Broadband Cable Networks	44 745	74 153	37 545	72 376
Video Networks	14 781	13 009	14 781	13 009
	59 526	87 162	52 326	85 385
Sold operations	0	10 574	0	0
Total	59 526	97 736	52 326	85 385
Net sales by market area				
Finland	11 604	13 741	11 604	13 329
Scandinavia	9 364	20 232	9 284	18 469
Other EU	36 491	52 962	27 902	42 629
Other Europe	6 624	6 659	6 624	6 143
North America	914	4 143	921	2 772
Asia	884	3 286	884	1 633
Others	895	1 583	895	410
Total	66 778	102 606	58 115	85 385
2. Other operating income				
R&D subvention and others	994	1 290	994	1 118
SPP repayment	0	59	0	0
Group charges	0	0	0	596
Total	994	1 349	994	1 714
3. Materials and services				
Purchases	23 714	38 780	20 811	34 918
Change in inventories	2 475	1 128	2 475	1 336
	26 189	39 908	23 286	36 254
Purchased services	4 741	4 909	554	987
Total	30 930	44 817	23 840	37 241
4. Personnel expenses				
Wages and salaries	17 172	20 866	14 190	15 519
Pension costs	2 565	3 063	2 349	2 574
Other personnel costs	1 297	1 640	1 089	1 248
Total	21 034	25 569	17 628	19 341
Remuneration to Board members and Managing Directors	768	760	547	348
Year-end personnel	467	539	430	496
Average personnel	506	594	459	487
Personnel by function at the year-end				
Research and Development	116	138	116	134
Production and Material Management	231	260	231	260
Sales and Marketing	96	109	59	74
Finance and IT	24	32	24	28
Total	467	539	430	496

	GROUP		PARENT COMPANY	
	2002	2001	2002	2001
5. Depreciation according to plan				
Other capitalized expenditure	489	431	489	429
Buildings	304	272	304	268
Machinery and equipment	1 369	1 418	1 265	1 224
Goodwill on consolidation	854	856	752	753
Total	3 016	2 977	2 810	2 674
Change in accumulated depreciation difference				
Buildings			145	111
Other capitalized expenditure			0	-95
Total			145	16
6. Operating profit				
Continuing operations	-4 286	12 521	-5 299	11 446
Sold operations	0	1 300	0	0
Total	-4 286	13 821	-5 299	11 446
7. Financial income and expenses				
Interest income	536	589	523	503
Interest income from Group companies	0	0	72	23
Interest expenses	-845	-1 011	-844	-1 004
Interest expenses to Group companies	0	0	-9	-107
Currency differences	-236	134	-236	131
Write-down of investments	0	0	0	0
Other financial income and expenses	-302	-452	-302	-455
Dividend income from Group companies	0	0	3 367	0
Avoir fiscal	0	0	875	0
Dividend income	4	25	4	4
Total	-843	-716	3 450	-905
8. Extraordinary items				
Income				
Group contribution	0	0	0	833
Divestiture of Educational division	0	4 744	0	0
Total	0	4 744	0	833
Expenses				
Long-term loan receivables excluding deferred tax assets	-3 065	0	-3 065	0
9. Appropriations and deferred tax assets and liabilities in the parent company				
Accumulated depreciation in excess of plan			1 690	1 835
10. Income taxes				
Change in deferred taxes	-1 265	166	0	0
Direct taxes	189	4 194	81	3 655
Total	-1 076	4 360	81	3 655

11. Tangible and intangible assets

Group	Intangible assets			Tangible assets				Total
	Intangible rights	Goodwill	Total	Land	Buildings	Machinery	Other capitalized expenditure	
Acquisition cost 1.1.	52	14 585	14 637	108	4 878	10 183	1 970	17 139
Translation difference	0	0	0	0	0	0	0	0
Increases	*984	0	984	0	438	813	47	1 298
Decreases	0	0	0	0	0	-48	0	-48
Transfer between items	0	0	0	0	0	0	-33	-33
Acquisition cost 31.12.	*1 036	14 585	15 621	108	5 316	10 948	1 984	18 356
* Includes advance payment 971								
Accumulated depreciation 1.1.	0	8 777	8 777	0	1 078	7 031	980	9 089
Translation difference	0	0	0	0	0	0	0	0
Accumulated depreciation of decreases and transfers	0	0	0	0	0	0	22	22
Depreciation	0	854	854	0	304	1 369	489	2 162
Accumulated depreciation 31.12.	0	9 631	9 631	0	1 382	8 400	1 491	11 273
Book value 31.12.	1 036	4 954	5 990	108	3 934	2 548	493	7 083
Book value of machinery and equipment 31.12.2002							2 347	
Book value of machinery and equipment 31.12.2001							2 932	
Parent company								
Acquisition cost 1.1.	7 580	0	7 580	108	4 545	6 312	1 684	12 649
Translation difference	0	0	0	0	0	0	0	0
Increases	*971	0	971	0	438	665	47	1 150
Decreases	0	0	0	0	0	-48	0	-48
Transfer between items	0	0	0	0	0	0	0	0
Acquisition cost 31.12.	*8 551	0	8 551	108	4 983	6 929	1 731	13 751
* Includes advance payment 971								
Accumulated depreciation 1.1.	2 259	0	2 259	0	745	3 195	850	4 790
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	752	0	752	0	304	1 262	489	2 055
Accumulated depreciation 31.12.	3 011	0	3 011	0	1 049	4 457	1 339	6 845
Book value 31.12.	5 540	0	5 540	108	3 934	2 472	392	6 906
Book value of machinery and equipment 31.12.2002							2 320	
Book value of machinery and equipment 31.12.2001							2 911	

12. Investments

Group	Shares associated comp.	Shares others	Treasury shares	Receivables others	Total
	Acquisition cost 1.1.	0	1 118	4 746	0
Translation difference	0	0	0	0	0
Increases	0	0	1 072	0	1 072
Decreases	0	0	0	0	0
Transfer between items	0	0	0	0	0
Acquisition cost 31.12.	0	1 118	5 818	0	6 936
Accumulated depreciation 1.1.	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	4 287	0	4 287
Accumulated depreciation 31.12.	0	0	4 287	0	4 287
Book value 31.12.	0	1 118	1 531	0	2 649
Parent company					
Acquisition cost 1.1.	3 472	1 118	4 746	0	9 336
Translation difference	0	0	0	0	0
Increases	0	0	1 072	0	1 072
Decreases	1	0	0	0	1
Transfer between items	0	0	0	0	0
Acquisition cost 31.12.	3 473	1 118	5 818	0	10 409

Accumulated depreciation 1.1.	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	4 287	0	4 287
Accumulated depreciation 31.12.	685	0	4 287	0	4 972
Book value 31.12.	2 788	1 118	1 531	0	5 437

	GROUP		PARENT COMPANY	
	2002	2001	2002	2001
13. Long-term receivables				
Long-term receivables from Group companies	0	0	849	1 236
Long-term receivables from others	0	3 390	0	3 341
Total	0	3 390	849	4 577
14. Inventories				
Raw materials and consumables	1 972	4 445	1 972	4 445
Work in progress	2 186	3 691	2 010	3 373
Finished goods	1 777	3 447	880	2 782
Total	5 935	11 583	4 862	10 600
15. Current assets				
Accounts receivables	13 452	13 414	9 702	10 046
Accounts receivables from Group companies	0	0	1 281	939
Loan receivables from Group companies	0	0	784	1 519
Other receivables	562	495	43	116
Deferred tax assets, note 19	1 458	193	875	0
Accrued income	1 253	1 079	1 208	635
Total	16 726	15 181	13 893	13 255
16. Liquid funds				
Short-term investments	8 539	19 800	8 539	19 800
Cash and cash equivalents	5 127	7 143	4 762	6 275
17. Changes in shareholders' equity				
Share capital 1.1.	6 759	6 645	6 759	6 645
Share issues	55	114	55	114
Transfer to share premium fund	0	0	0	0
Share capital 31.12.	6 814	6 759	6 814	6 759
Share premium fund 1.1.	1 136	1 056	1 136	1 056
Share issues	39	80	39	80
Transfer from share capital	0	0	0	0
Share premium fund 31.12.	1 175	1 136	1 175	1 136
Treasury shares 1.1.	4 746	0	4 746	0
Transfer from retained earnings	1 072	4 746	1 072	4 746
Change in value	-4 287	0	-4 287	0
Treasury shares 31.12.	1 531	4 746	1 531	4 746
Retained earnings 1.1.	25 908	19 105	13 062	12 067
Translation difference	42	53	0	0
Dividends	-2 640	-1 994	-2 640	-1 994
Transfer to treasury shares	-1 072	-4 746	-1 072	-4 746
Retained earnings 31.12.	22 238	12 418	9 350	5 327
Profit for the financial period	-7 118	13 490	-4 850	7 735
Accumulated profit 31.12.	15 120	25 908	4 500	13 062
Total	24 640	38 549	14 020	25 703
Distributable funds	15 120	25 908	4 500	13 062

Parent company's share capital consists of one serie and is divided into 17,035,400 shares at 1 vote each.

	GROUP		PARENT COMPANY	
	2002	2001	2002	2001
18. Obligatory provisions				
Provision for guarantees	718	937	667	725
Provision for pension commitments	100	178	100	178
Provision for restructuring	1 054	232	1 054	0
Others	10	116	10	116
Total	1 882	1 463	1 831	1 019
19. Deferred taxes				
Deferred tax assets				
From timing differences	1 000	554	0	0
From consolidation	73	171	0	0
Avoir fiscal	875	0	875	0
Total	1 948	725	875	0
Deferred tax liabilities				
From appropriations	490	532	0	0
Total	1 458	193	875	0
20. Long-term liabilities				
Bond loans	0	148	0	148
Bond loans from Group companies	0	0	0	230
Bank loans	10 000	20 000	10 000	20 000
Total	10 000	20 148	10 000	20 378
Liabilities due after 5 years	0	0	0	0
21. Short-term liabilities				
Bank loans	5 000	0	5 000	0
Advance payments received	453	942	453	881
Accounts payables	3 834	4 809	3 005	4 356
Accounts payables from Group companies	0	0	350	1 060
Other current liabilities	1 121	4 048	738	639
Other current liabilities from Group companies	0	0	9 297	13 908
Accrued liabilities	5 119	6 912	4 404	6 559
Total	15 527	16 711	23 247	27 403
22. Contingent liabilities and pledged assets				
Debts covered by company mortgages and pledged assets				
Bank loans	15 000	20 000	15 000	20 000
Leasing liabilities				
For next year	383	298	191	163
For later years	333	388	169	175
Total	716	686	360	338
Rental liabilities	774	814	461	483
Liabilities on own behalf				
Mortgages	2 985	2 985	2 985	2 985
Company mortgages	40 000	40 000	40 000	40 000
For Group companies				
Guarantees	0	0	109	0
Other liabilities on own behalf				
Bank guarantees	767	1 152	658	1 152
Other liabilities on others behalf				
Guarantees	0	41	0	41

	GROUP		PARENT COMPANY	
	2002	2001	2002	2001
23. Currency derivatives				
Value of underlying forward contracts	7 607	24 619	7 607	24 619
Market value of forward contracts	-114	359	-114	359

Forward contracts are used only for hedging currency exchange risks.

24. 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, Malmö, Sweden	100	100
Teleste UK Ltd, Cambridge, UK	100	100
Teleste Kaurakatu Oy, Turku, Finland	100	100
Teleste GmbH, Hannover, Germany	100	100
Suomen Yhteis antennit Oy, Turku, Finland	100	100
Kaavisio Oy, Turku, Finland	100	100
Kaavisio Norge A/S, Oslo, Norway	100	0
Teleste LLC, Texas, USA	100	100

25. Own shares

	Number of shares	Nominal value EUR	% of share capital	% of votes
Parent company owns own shares 31.12.2002	620 000	248 000	3.6 %	3.6 %

Parent company has acquired own shares during the year:

Time	Number of shares	Nominal value EUR	Paid price (average)	Paid price (range)
May	137 000	54 800	5.12	4.60–5.81
June	83 000	33 200	4.47	4.32–4.57
Total	220 000	88 000	4.87	4.32–5.81

26. Ownership

Largest owners on 31 December 2002

	Number of shares	Total	Percentage of shares
Sampo		1 660 150	9.7
	Vakuutusosakeyhtiö Henki-Sampo	1 330 000	
	Mandatum Suomi Kasvuosake	83 950	
	Finanssi-Sampo Oy	75 800	
	Sampo Eurooppa Yhdistelmä	51 600	
	Sampo Suomi Osake	42 100	
	Mandatum Nordic IT Small	30 700	
	Sampo Suomi Yhteisöosake	26 000	
	Sampo Globaali Yhdistelmä	20 000	
Ilmarinen Mutual Insurance Company		840 350	4.9
Varma-Sampo Mutual Insurance Company		789 150	4.6
Teleste Corporation		620 000	3.6
Mutual Insurance Company Kaleva		530 000	3.1
State's Pension Institute		400 000	2.4
Gyllenberg Funds		358 450	2.1
	Gyllenberg Optimum	244 950	
	Gyllenberg Small Firm Fund	113 500	
Aktia Funds		349 550	2.1
	Aktia Capital	211 100	
	Aktia Secura	138 450	
Nordea Funds		348 450	2.0
	Nordea Nordic Small Cap	215 350	
	Nordea Henkivakuutus Suomi Oy	70 000	
	Nordea Avanti	63 100	
Alfred Berg Funds		270 800	1.6
	Alfred Berg Finland	90 050	
	Alfred Berg Portfolio	68 350	
	Alfred Berg Small Cap	56 350	
	Alfred Berg Optimal	56 050	
Nominee registration		2 102 672	12.3
Others		8 765 828	51.5
Total		17 035 400	100.0

Ownership structure on 31 December 2002

Shares	Number of shareholders	Number of shares	Percentage of shareholders	Percentage of shares
1-1 000	5 393	1 659 141	83.6 %	9.7 %
1 001-10 000	928	2 772 206	14.4 %	16.3 %
10 001-100 000	106	3 475 961	1.6 %	20.4 %
100 001-	24	9 128 092	0.4 %	53.6 %
Total	6 451	17 035 400	100.0 %	100.0 %

Shareholders on 31 December 2002

Corporations	17.5 %
Financial and insurance institutions	39.0 %
Public organizations	15.1 %
Non-profit organizations	4.5 %
Households	23.0 %
Foreign	0.9 %
Total	100.0 %

Management interest

	Number of shares	Percentage of shares and votes
CEO and Board members	28 042	0.16 %

Option programs

Number of shares entitled to subscribe with options

	Number of shares	Percentage of shares and votes
CEO and Board members	0	0.0 %
Other option holders	867 100	5.1 %
1997 program warrants hold by the group	21 000	0.1 %
2000 program warrants hold by the group	241 500	1.4 %
2002 program, not distributed	550 000	3.2 %
Total	1 679 600	9.9 %

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 EUR 0.68 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. On June 18, 2001 the Board decided to cancel the B warrants attached to the bonds. After that with warrants attached to the bonds totally 820,000 shares can be subscribed by the holders. The subscription period for 63 % of the warrants begins on October 1, 2002 and their subscription price is EUR 25.43 a piece. The subscription period for 37 % of the warrants begins on October 1, 2003 and their subscription price is EUR 10.29 a piece. 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.

The Annual General Meeting decided on April 8, 2002 to issue a bond loan with warrants for Teleste's personnel. With warrants attached to the bonds totally 550,000 shares can be subscribed by the holders. The subscription period for A warrants, which represent 50 % of the warrants begins on February 2005 and the subscription price is EUR 7.55 a piece. The subscription period for A warrants ends October 1, 2007. The subscription period for B warrants, which represent 50 % of warrants, begins February 1, 2006 and ends October 1, 2008. The subscription price will be average share price in April 2003. The subscription price is lowered with paid dividends. The board has the right to decide on transferring the option rights.

Calculation of Key Figures

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

Return on capital employed: $\frac{\text{Profit before extraordinary items} + \text{financial expenses}}{\text{Total assets} - \text{non-interest bearing liabilities} - \text{own shares (average)}} \times 100$

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

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: $\frac{\text{Profit before extraordinary items} - \text{taxes}}{\text{Number of shares} - \text{number of own shares}}$

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

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

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

Key Figures

	1998	1999	2000	2001	2002
Net sales, Meur	66.1	68.1	99.4	102.6	66.8
Change, %	12.5	3.1	46.0	3.2	-34.9
Sales outside Finland, %	90.0	91.0	91.0	87.0	82.6
Operating profit, Meur	9.4	9.9	12.2	13.8	-4.3
% of net sales	14.2	14.5	12.3	13.5	-6.4
Profit after financial items, Meur	8.8	9.0	10.9	13.1	-5.1
% of net sales	13.4	13.3	11.0	12.8	-7.6
Profit before taxes, Meur	9.8	9.0	12.3	17.9	-8.2
% of net sales	14.8	13.3	12.4	17.4	-12.3
Profit for the financial period, Meur	7.0	6.4	8.6	13.5	-7.1
% of net sales	10.6	9.4	8.7	13.1	-10.6
R&D expenditure, Meur	4.2	6.6	9.0	9.2	6.6
% of net sales	6.3	9.6	9.0	9.0	9.9
Gross investments, Meur	10.6	2.0	3.1	3.7	1.3
% of net sales	16.0	2.9	3.1	3.6	1.9
Average personnel	563	584	616	594	506
Order backlog at year end, Meur	9.3	19.9	26.4	17.8	9.7
Orders received, Meur	70.1	78.1	108.9	97.7	59.5
Return on equity, %	60.3	39.0	31.4	28.9	-14.2
Return on capital employed, %	37.8	36.2	31.4	27.4	-7.6
Equity ratio, %	34.2	45.4	42.7	44.5	44.8
Gearing, %	65.9	38.1	51.1	-20.5	5.8
Earnings per share, eur	0.37	0.39	0.44	0.53	-0.25
Earnings per share w/o goodwill depreciation, eur	0.41	0.45	0.49	0.58	-0.19
Earnings per share fully diluted, eur	0.35	0.37	0.46	0.51	-0.25
Shareholders equity per share, eur	0.82	1.17	1.61	2.05	1.41
Highest price, eur		19.00	39.00	24.00	14.00
Lowest price, eur		7.00	12.90	7.80	2.21
Closing price, eur		16.20	23.50	12.49	2.47
Average price, eur		9.06	24.06	13.64	5.52
Price per earnings		40.5	53.8	23.7	-10.0
Market capitalization, Meur		260.8	390.4	206.1	40.5
Turnover, number in millions		24.8	25.7	19.3	15.0
Turnover, % of share capital		154.2	154.5	114.1	88.0
Average number of shares		16 049 364	16 360 488	16 732 918	16 974 287
Number of shares at the year-end		16 096 500	16 612 100	16 897 980	17 035 400
Average number of shares, diluted		17 345 000	18 153 402	18 306 219	18 567 329
Number of shares at the year-end, diluted		17 345 000	18 470 000	18 165 000	18 715 000
Dividend per share, eur	0.08	0.10	0.12	0.16	0.08*
Dividend per net result, %	21.6	25.0	27.5	30.3	-32.5
Effective dividend yield, %		0.6	0.5	1.3	3.2

* The Board's proposal to the AGM

Investments include the purchase price of Teleste Oy's shares EUR 8.5 million in 1998

Proposal for Distribution of Profits

Distributable funds according to consolidated balance sheet were EUR 15.1 million. The parent company's distributable funds were EUR 4,498,945.58. The Board of Directors proposes that a dividend of EUR 0.08 per share will be paid to free floating shares and that the remaining distributable funds remain as retained earnings.

February 4, 2003

Risto Hautamäki

Tapio Hintikka

Tero Laaksonen

Pekka Vennamo

Jukka Rinnevaara
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.–31.12.2002. 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, February 25, 2003

PricewaterhouseCoopers 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 ten 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.

In addition to the tasks required by the law the auditors report their findings to the

Board of Directors and participate a board meeting at least once a year.

The salaries, fees and benefits paid to the members of the Board and the CEO in 2002 totaled EUR 545,000.

The company has followed from March 1, 2000 the insider regulations approved by Helsinki Exchanges' Board of Directors on October 28, 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's traded under the code TEL1V.

During the year the highest share price was EUR 14.00 and the lowest EUR 2.21. The average price of the year was EUR 5.52. The closing price at the end of the year was EUR 2.47. The market capitalization of the share capital was at that time EUR 40.5 million. During the year 15.0 million shares were traded in Helsinki Exchanges and they present 88 % of the share capital.

With warrants of Teleste's 1997 bond loan with warrants 137,420 shares were

subscribed during the year. Due to this the share capital increased EUR 54,968. Teleste's registered share capital on December 31, 2002 totaled EUR 6,814,160 divided to 17,035,400 shares. The nominal value of the shares is EUR 0.40.

The Annual General Meeting decided on April 8, 2002 to issue stock options to key personnel. As a result of this the share capital may increase by a maximum of 550,000 shares, i.e. EUR 220,000. With warrants totally 550,000 shares can be subscribed in steps between 2005 and 2008.

The possible dilution effect is totally 3.2 %.

The Board of Directors and CEO own totally 0.16 % of the share capital and votes. With warrants they can increase their shareholding to 0 % of the shares. CEO owns 4,000 Teleste shares.

Teleste had 6,451 shareholders at the year-end. The amount of foreign ownership was 13.3 % at the end of the year.

On September 25, 2002 Sampo Life Insurance Limited announced that the shareholding of their funds had increased to 5.85 %.

On May 8, 2002 OKO Bank Group Central Cooperative announced that the shareholding of their funds had decreased to 4.79 %.

Analyst Coverage

According to our information the analysts listed below monitor 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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