

TELESTE



Corporate governance
statement 2020

Corporate governance statement 2020

This Corporate Governance Statement has been prepared pursuant to Chapter 7, section 7 of the Finnish Securities Markets Act and the Finnish Corporate Governance Code 2020 issued by the Securities Market Association of Finland on 1 January 2020. The Corporate Governance Code is available on the Finnish Securities Market Association's website at <http://cgfinland.fi/en/>. The Corporate Governance Statement is issued separately from the Report of the Board of Directors, and the provided data are based on the situation as at 31 December 2020.

Corporate governance

Teleste Corporation (hereafter "Teleste") aims to organise its management in a consistent and functional manner. The company's governance is based on Finnish legislation and Teleste's Articles of Association. Teleste shares are listed on Nasdaq Helsinki Oy (hereafter "Stock Exchange"). Teleste complies with the Finnish Securities Markets Act, the rules and regulations for listed companies issued by the Stock Exchange, including the Finnish Corporate Governance Code 2020, and the rules and regulations of the Finnish Financial Supervisory Authority. Since 1 March 2000, Teleste complies with the insider guidelines of the Stock Exchange in their valid form at any given time. These insider guidelines are complemented by Teleste's internal guidelines. The company has confirmed the values applied to its operations.

General Meeting

Teleste's General Meeting is the highest decision-making body of the company. The AGM convenes at least once a year. According to the Articles of Association, the Annual General Meeting (AGM) must be held by the end of June each year.

The General Meeting decides on matters as required in the provisions of the Limited Liability Companies Act. The matters decided by the AGM include adoption of the financial statements, allocation of profit shown by the balance sheet, discharge of the Board of Directors and the CEO from liability, and election of the Board members and the auditor. In addition, responsibilities of the General Meeting include making amendments to the Articles of Association and deciding on share issues, granting of entitlements to options and other special rights, procurement and redeeming of the company's own shares, and reduction of share capital. Teleste's General Meeting shall be convened by the Board of Directors.

Board of Directors

Rules of Procedure

It is the responsibility of Teleste's Board of Directors to manage the company in accordance with the law, statutory regulations, Articles of Association and decisions taken by the General Meeting. The operating procedures and main duties of the Board of Directors are specified in the Board's Rules of Procedure.

According to the Rules of Procedure approved by the Board of Directors on 18 September 2018 and amended on 18 December 2019, the Board of Directors represents all the shareholders and always acts in the best interests of the company and its shareholders. The objective of the Board of Directors is to guide the company's business in such a manner that it provides the company's shareholders with the best possible return in the long run. The Board of Directors regularly monitors the achievement of the company's financial and strategic targets as well as the development of the company in

accordance with the long-term goals. The Board of Directors provides the company management with external opinions and support. The Board is also responsible for ensuring that accounting, financial management and risk management in the company are appropriately organised. In addition, as applicable, the Board of Directors is responsible for matters related to the preparation of the shareholders' meeting and the implementation of its decisions.

The Board of Directors considers matters that have a significant and long-lasting effect on the company and defines the powers of the Chief Executive Office (CEO). When considered necessary, the Board of Directors establishes committees to support its work. The Board of Directors decides on the members, chairpersons and rules of procedure of the committees.

Matters requiring approval by the Board are listed in Appendix 1 to the Board of Directors' Rules of Procedure. The appendix is regularly reviewed. In addition, the Board of Directors:

- confirms the company's ethical values and policies and monitors their implementation;
- monitors the company management's communications with shareholders and the securities market and, when necessary, discusses the formation of shareholder interest and the response of the market;
- defines the company's dividend policy;
- annually confirms the company's basic strategy as well as the business objectives for the planning period derived from the basic strategy;
- annually studies the technical development as well as the general demand and competition environment in the industry and assesses the company's key risks on the basis of the analysis prepared by the CEO;
- reviews and approves interim financial statements and interim reports as well as the annual financial statements and the Report of the Board of Directors;
- holds a meeting with the chief auditors at least once a year;
- appoints and, when necessary, dismisses the CEO;
- makes the necessary proposals to the shareholders' meeting;
- grants authorisation to sign for the company and power of procuration;
- establishes Board committees, when necessary;
- approves proportional principles and processes for related party transactions and monitors and assesses transactions between the company and its related parties;
- considers any other matters that the Chairman of the Board and/or CEO have decided to place on the agenda for a meeting and matters that Board members have requested to be considered at a meeting by informing the Chairman about their request; and
- performs any other duties required by the Limited Liability Companies Act, the Articles of Association and other regulations.

The Rules of Procedure of the Board of Directors are available in their entirety on Teleste's website at <https://www.teleste.com/investors/corporate-governance/board-directors/rules-procedure-board>

Members of the Board of Directors

According to the Articles of Association, the Annual General Meeting elects a minimum of three and maximum of eight Board members each year. The Annual General Meeting (AGM) decides on the number of Board members and their election. The Board elects a Chairman of the Board from among its members. A person designated by the Board of Directors acts as the secretary of the Board.

The company has a nomination board that comprises three (3) members who represent the company's three largest shareholders calculated based on all shares conferred by the company on 30 August preceding the next annual general meeting. The nomination board is responsible for a) preparing and

presenting a proposal on the number of Board members to the AGM, b) preparing and presenting a proposal on the Board members to the AGM and advising the company's Board in respect of the composition of the Audit Committee, c) preparing and presenting a proposal on the remuneration of the Board members, d) looking for candidates for new Board members. Its term continues until a new nomination board is elected. In addition to the required experience and areas of expertise, the guidelines on the diversity of the Board are taken into account when choosing candidates.

The term of office of Board members is one year, lasting until the close of the Annual General Meeting following the election. The number of terms of a Board member is not limited.

The Annual General Meeting held on 22 April 2020 elected the six persons specified below to Teleste's Board of Directors. Timo Luukkainen was elected Chairman on 22 April 2020 by the members of the Board.

Member	Position	Date of birth	Education	Principal occupation	Member since
Luukkainen, Timo	Chairman	1954	M.Sc. (Econ.), M.Sc. (Eng.), MBA	Board professional	2016
Himanen, Jussi	Member	1972	M.Sc. (Eng.)	Ramboll Finland, Business Development Director	2019
Korpimies, Vesa	Member	1962	M.Sc. (Econ.)	EM Group Oy, CEO	2019
Leino-Haltia, Mirel	Member	1971	D.Sc. (Econ.), CFA	professor of practice, Board professional	2020
Mäkijärvi, Heikki	Member	1959	M.Sc. (Eng.)	Head of Telia Ventures	2018
Telanne, Kai	Member	1964	M.Sc. (Econ.)	Alma Media Corporation, CEO	2008

The members of the Board are not employed by the company, and on the basis of assessment in accordance with the issued Finnish recommendations, they are independent of the company. The Board members are independent of the company's significant shareholders, except for the following Board members:

- Timo Luukkainen – (Chairman of the Board in Tianta Oy from 6 April 2018). Tianta Oy is a significant shareholder of Teleste.
- Vesa Korpimies – (CEO and a Board member in Tianta Oy). Tianta Oy is a significant shareholder of Teleste.

On 31 December 2020, Board members and their controlled entities held shares in Teleste Corporation and other companies included in the Teleste Group as follows:

Member	Shareholding on 31 December 2020
Himanen, Jussi	5,592 shares
Korpimies, Vesa	6,592 shares
Leino-Haltia, Mirel	5,084 shares
Luukkainen, Timo	25,910 shares
Mäkijärvi, Heikki	7,508 shares
Telanne, Kai	28,655 shares

On 31 December 2020, Board members or their controlled entities held no share-based entitlements in Teleste Corporation or other companies included in the Teleste Group.

In 2020, Teleste's Board of Directors held 16 meetings. The Board members attended the meetings as follows:

Member	Participation (%)
Ervi, Pertti	6/6 (100%) member until 22 April
Fagerholm, Jannica	6/6 (100%) member until 22 April
Himanen, Jussi	16/16 (100%)
Korpimies, Vesa	16/16 (100%)
Leino-Haltia, Mirel	10/10 (100%) member from 22 April
Luukkainen, Timo	16/16 (100%)
Mäkijärvi, Heikki	16/16 (100%)
Telanne, Kai	16/16 (100%)

In addition to the Board members, meetings of the Board were attended by the CEO, the Deputy CEO and the CFO as well as other persons who were specifically invited as necessary.

Principles concerning diversity of the Board of Directors

Teleste has established principles concerning the diversity of the Board of Directors, taking into account the extent of the company's business and the needs related to its phase of development. Teleste's Board of Directors adopted the diversity principles concerning the Board of Directors on 10 August 2016.

It is in the interests of Teleste and its shareholders that Teleste's Board of Directors is composed of people with different educational and professional backgrounds and international experience, and that Board members have complementary expertise and knowledge in different topics, such as Teleste's field of business and the related technologies, risk management and international sales and marketing. Teleste's objective is that both genders are represented in the Board of Directors.

The Annual General Meeting held on 22 April 2020 elected six members to the Board of Directors, five men and one woman. All Board members have a degree in technology or business. All the other above factors and characteristics relevant to diversity were also represented in the Board of Directors in 2020.

Remuneration of Board members

The Annual General Meeting decides on the remuneration of the members of the Board of Directors. The Annual General Meeting held on 22 April 2020 decided on the following remunerations for Board service until the next AGM: the Chairman of the Board will be paid EUR 66,000 a year and each member EUR 33,000 a year. The annual remuneration of the Board member who acts as the chairman of the Audit Committee shall be EUR 49,000 per year. Of the remuneration to be paid to the Board members, 40% of the total gross remuneration amount will be used to purchase Teleste Corporation's shares for the Board members through trading on a regulated market organised by Nasdaq Helsinki Ltd and the rest will be paid in cash. In addition, EUR 400 per meeting shall be paid to the members of the Board of Directors' Audit Committee as a meeting fee. However, a separate meeting fee shall not be paid to the chairman of the Audit Committee.

Salaries, remuneration and fringe benefits paid to the Board of Directors in 2020 were as follows:

- Luukkainen, Timo, EUR 66,000, including 6,852 Teleste Corporation shares
- Leino-Haltia, Mirel, EUR 49,000, including 5,084 Teleste Corporation shares

- Himanen, Jussi, EUR 35,400, including 3,426 Teleste Corporation shares
- Korpimies, Vesa, EUR 35,800, including 3,426 Teleste Corporation shares
- Mäkijärvi, Heikki, EUR 33,000, including 3,426 Teleste Corporation shares
- Telanne, Kai, EUR 33,000, including 3,426 Teleste Corporation shares

Audit Committee

On 5 April 2018, Teleste's Board of Directors established an audit committee to prepare matters concerning the company's financial reporting and supervision. The Audit Committee assists the Board of Directors by preparing the matters that fall within the responsibilities of the Audit Committee. The Audit Committee shall convene at least four times a year, in accordance with a schedule confirmed by the chairperson of the Audit Committee.

The majority of the members of the Audit Committee must be independent of the company. At least one member must be independent of the company's significant shareholders. The Audit Committee members must have sufficient expertise and experience considering the responsibilities of the committee and obligatory auditing-related duties. At least one Audit Committee member must have expertise in accounting or auditing.

The Audit Committee consists of a minimum of three Board members, each of whom fulfils the requirements on independence and understanding of financial information as well as any other requirements specified in Finnish law and regulations concerning Finnish listed companies.

In addition to the committee members, the participants in Audit Committee meetings include the company's CIO (secretary), CEO, CFO and auditor. The Audit Committee may invite other experts or representatives of the operative management to attend its meetings as necessary. Any Board member may attend Audit Committee meetings at their discretion. The minutes and materials of the Audit Committee are available to all Board members.

The chairperson of the Audit Committee presents the committee's most important observations, its recommendations and a summary of Audit Committee meetings to the Board of Directors.

The Board of Directors that convened after Teleste Corporation's AGM on 22 April 2020 decided on the following Audit Committee composition: Mirel Leino-Haltia (Chair), Jussi Himanen and Vesa Korpimies.

In 2020, the Audit Committee held 8 meetings. The members attended the meetings as follows:

Member	Participation (%)
Ervi, Pertti	1/1 (100%), member until 22 April 2020
Fagerholm, Jannica	1/1 (100%), Chair until 22 April 2020
Himanen, Jussi	7/7 (100%), member from 22 April 2020
Korpimies, Vesa	8/8 (100%), member
Leino-Haltia, Mirel	7/7 (100%), Chair from 22 April 2020

According to the Rules of Procedure of the Audit Committee, the responsibilities of the Audit Committee include:

- monitoring of Teleste Corporation's economic and financial situation, taxation position as well as the financial statement reporting process
- monitoring and assessment of the financial reporting system
- supervision of compliance with the accounting policies for consolidated financial statements and with the IFRS

- reviewing interim reports and financial statements and giving recommendations to the Board of Directors before the publication of stock exchange releases on interim reports and financial statements
- assessment of the use and presentation of alternative performance measures
- processing of the statement of non-financial information
- assessment of the efficiency of the company's internal supervision and risk management systems
- monitoring of significant economic, financial and tax risks
- supervision of compliance with policies and principles confirmed by the Board as well as internal auditing
- processing of the Corporate Governance Statement
- monitoring of the company's information management strategy and data security-related policies
- monitoring of the statutory audit of the financial statements and consolidated financial statements
- evaluation of the independence of the statutory auditor
- monitoring of the additional services provided by the audit firm
- preparation of a proposal to the Annual General Meeting on the election of auditor and communication with the auditor
- definition of principles applicable to the monitoring and assessment of related party transactions
- assessment of legal and regulatory compliance processes, and
- performing other tasks assigned to the committee by the Board of Directors.

The Rules of Procedure of the Audit Committee are available in their entirety on Teleste's website at: <https://www.teleste.com/investors/corporate-governance/committees/rules-procedure-audit-committee>

President and CEO

The company's CEO is in charge of the Group's business operations and corporate governance in accordance with the law, Teleste's Articles of Association and the instructions and regulations issued by the Board.

The detailed terms of employment of the CEO are specified in a separate contract approved by the Board of Directors. The CEO is not a member of Teleste's Board of Directors. Teleste's current President and CEO, Jukka Rinnevaara, b. 1961, M.Sc. (Econ.), started as CEO on 1 November 2002. The CEO is assisted by the Management Group.

The company's Board of Directors decides on the salary, remuneration and other benefits received by the CEO. Salary, remuneration and fringe benefits paid to Teleste's CEO in 2020 totalled EUR 396,908. In addition to the salary, remuneration and fringe benefits, an additional pension payment of EUR 97,405 and a capital redemption policy payment of EUR 76,987 were paid to the CEO in 2020.

CEO Jukka Rinnevaara is entitled to retire after turning 60 years old. A contributory additional pension is included in the CEO's contract. The CEO's pension plan is arranged through group pension insurance and a capital redemption policy. The payment level of the group pension is 25 per cent of basic pay, excluding bonuses. Payment under the capital redemption policy is subject to the same adjustment procedure as the CEO's basic pay excluding bonuses.

The contract of CEO Rinnevaara specifies that his term of notice is six (6) months in case the CEO decides to withdraw, and eighteen (18) months should the contract be terminated by the company. Upon termination of the CEO's contract by the company, the CEO will be paid compensation corresponding to eighteen (18) months of service without benefits.

Teleste has published the Remuneration report 2020 available on company's website at: <https://www.teleste.com/investors/corporate-governance/remuneration-statement>

Management Group

On 31 December 2020, the Group's Management Group consisted of eight members including the CEO, to whom the members of the Management Group report. The members of the Management Group are directors representing Teleste's business areas and units and directors representing the Group management. The subsidiaries operate as part of the business areas. Teleste's Management Group is chaired by the CEO who reports to the Board of Directors. The Management Group has no authority under law or the Articles of Association.

On 31 December 2020, Teleste's Management Group consisted of the following members:

Member	Date of birth	Education	Position	Tasks and areas of responsibilities
Rinnevaara, Jukka	1961	M.Sc. (Econ.)	President and CEO	Is in charge of the Group's business operations and corporate governance in accordance with the law, Teleste's Articles of Association and the instructions and regulations issued by the Board
Slotte, Johan	1959	LL.M, EMBA	Deputy CEO	Regional Director of Network Services business in Switzerland and Austria, Head of corporate business development and legal affairs
Hyytiäinen, Juha	1967	M.Sc. (Econ.)	CFO	Area of responsibility: finance and IT
Narjus, Hanno	1962	M.Sc. (Econ.)	Senior Vice President	Area of responsibility: Network Products business unit
Harju, Esa	1967	M.Sc. (Eng.)	Senior Vice President	Area of responsibility: Video Security and Information business unit
Järvenpää, Pasi	1967	M.Sc. (Eng.)	Head of R&D	Area of responsibility: Teleste's research and development
Mattila, Markus	1968	M.Sc. (Eng.)	Senior Vice President, Operations	Area of responsibility: Teleste's Operations
Vanne, Tuomas	1979	M.Sc. (Military Science)	Head of HR	Area of responsibility: HR

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

The Board of Directors decides on the management's incentive and remuneration systems on the basis of the CEO's proposal.

The salary of all Management Group members consists of a fixed basic salary and a performance-based bonus. The amount of performance-based bonus depends on the performance of the company and the business area in question, as well as the achievement of other key operative objectives.

The Management Group, including the CEO, has a group pension plan, and payment is based on the annual pay of the insured person, excluding bonuses. The payment is 25 per cent of the above pay.

Incentive schemes and ownership by the management

Management Group's shareholding and share-based entitlements

On 31 December 2020, Management Group members and their controlled entities held shares in Teleste Corporation and other companies included in the Teleste Group as follows:

Member	Shareholding on 31 December 2020
Rinnevaara, Jukka	107,697 shares
Slotte, Johan	12,607 shares
Hyytiäinen, Juha	9,262 shares
Narjus, Hanno	7,481 shares
Harju, Esa	12,562 shares
Järvenpää, Pasi	5,041 shares
Mattila, Markus	11,633 shares
Vanne, Tuomas	900 shares

On 31 December 2020, Teleste did not have any running stock option programmes, and the CEO, the members of the Management Group or their controlled entities did not hold any Teleste options or other share-based entitlements.

Share-based incentive programme LTI 2015

On 5 February 2015, Teleste's Board of Directors decided on the establishment of a new long-term share-based incentive programme to be offered to Teleste's key employees (hereafter "LTI 2015"). The objective of LTI 2015 is to align the key employees' interests with those of Teleste's shareholders by creating a long-term equity interest for the key employees and, consequently, to increase the company's value in the long term and to drive a performance culture, retain key employees and offer the key employees competitive compensation for excellent performance.

LTI 2015 consists of three annually commencing plans with three main elements: an investment in Teleste shares that is required for a key employee to be included in the LTI 2015 programme; a matching share plan with a three-year vesting period that is based on the above investment; and a performance matching plan with a three-year performance period. The commencement of each plan and the inclusion of eligible participants were subject to a specific approval by Teleste's Board of Directors.

The matching share plan includes the investment of an individual participant in Teleste's shares and the delivery of matching shares as a long-term incentive reward against the invested shares. After the three-year vesting period, the key employee receives one matching share for each invested share free of charge.

The performance matching plan includes a three-year performance period. The potential share rewards will be delivered if the performance targets set by the Board of Directors are achieved.

The performance criterion applied to all the three plans alike is the total shareholder return (TSR) of Teleste's share in the three-year performance period. The above investment in Teleste's shares was the requirement for an individual key employee to be included in the plan. The Board of Directors approved 37 key employees as eligible to participate in the first plan 2015-2017 of LTI 2015, and 42 key employees as eligible to participate in the second plan 2016-2018 and 40 key employees as eligible to participate in the third plan 2017-2019.

The gross quantity of matching shares delivered under the 2015-2017 plan ending in April 2018 was 47,250 shares, and the gross quantity of performance matching shares was 39,724 shares. A net quantity of 42,771 shares were delivered to the key employees entitled to reward through a directed share issue on 6 April 2018.

The gross quantities of shares delivered under the 2016-2018 plan that ended in April 2019 were 35,438 shares and 0 performance matching shares. A net quantity of 22,361 shares were delivered to the key employees entitled to reward through a directed share issue on 5 April 2019.

The gross quantities of shares delivered under the 2017-2019 plan that ended in April 2020 were 35,201 shares and 0 performance matching shares. A net quantity of 22,402 shares were delivered to the key employees entitled to reward through a directed share issue on 23 April 2020.

Share-based incentive programme LTI 2018

On 7 February 2018, Teleste's Board of Directors decided on the establishment of a new long-term share-based incentive programme to be offered to Teleste's key employees (hereafter "LTI 2018"). The objective of LTI 2018 is to align the key employees' interests with those of Teleste's shareholders by creating a long-term equity interest for the key employees and, consequently, to increase the company's value in the long term and to drive a performance culture, retain key employees and offer the key employees competitive compensation for excellent performance. LTI 2018 consists of three annually commencing plans with the following main elements: an investment in Teleste shares as a precondition for the key employee's participation in the individual plan, a matching share plan with a three-year vesting period based on the individual investment and a performance share plan with a three-year performance period.

The first plans within the programme are the matching share plan 2018-2020 and the performance share plan 2018-2020. The commencement of each new plan, its eligible participants and the matching ratio and performance targets applied to the individual plan is subject to a separate approval of Teleste's Board of Directors in each case. The matching share plan 2018-2020 comprises the individual key employee's investment in Teleste's shares and the delivery of a specific number of matching shares without consideration as a share reward based on the share investment after the three-year vesting period. The matching shares are delivered according to a fixed matching ratio determined by the Board of Directors for each individual plan. The matching ratio applied to the matching share plan 2018-2020 is one matching share for each two shares invested. The gross quantity of matching shares that may be delivered on the basis of the matching share plan 2018-2020 is approximately 13,963 shares. The performance share plan 2018-2020 comprises a three-year performance period. The potential share rewards will be delivered if the performance targets set by the Board of Directors are achieved. The performance measure applied in the performance share plan is the total shareholder return (TSR) of Teleste share. The above investment in Teleste's shares is the requirement for an

individual key employee to be included in the plan. If all the eligible key employees participate in the plan by fulfilling the investment precondition and the performance targets set for this performance share plan are fully achieved, the gross number of shares that may be delivered under the performance share plan 2018-2020 is 248,400 shares. Applicable withholding tax is deducted from the gross quantities before paying the share reward. The Board of Directors approved 35 key employees as eligible to participate in the plans beginning in 2018. At the end of 2020, altogether 24 key employees were approved as eligible to participate in the plan.

Other plans to be implemented within the programme are the matching share plan 2019-2021 and the performance share plan 2019-2021, and the plans to be implemented within the third programme are the matching share plan 2020-2022 and the performance share plan 2020-2022. These programmes correspond to the terms and conditions of the programmes during 2019-2021. The gross quantity of matching shares payable under the matching share plan 2019-2021 is 18,087 shares and under the performance share plan at maximum 281,220 shares. The Board of Directors approved 33 key employees as eligible to participate in the plans beginning in 2019. At the end of 2020, altogether 25 key employees were approved as eligible to participate in the plan. The gross quantity of matching shares payable under the matching share plan 2020-2022 is 19,201 shares and under the performance share plan at maximum 290,700 shares.

The Board of Directors approved 33 key employees as eligible to participate in the plans beginning in 2020. At the end of 2020, altogether 28 key employees were approved as eligible to participate in the plan.

Auditing, revisions and remuneration of the auditor

The term of office of Teleste's auditor expires at the closing of the first Annual General Meeting following the election.

On 22 April 2020, Teleste's AGM elected Authorised Public Accountants KPMG Oy Ab the company's auditor. The auditor in charge was Petri Kettunen, APA.

In addition to their statutory duties, the auditors report their observations to Teleste Corporation's Board of Directors and Audit Committee and attend at least one Board meeting each year.

In 2020, Teleste Group's auditing expenses totalled EUR 193,603, with KPMG accounting for EUR 139,784. In addition, Teleste Group companies have received other consultation services from various units of KPMG for a total of EUR 49,316 and from other than KPMG auditors for EUR 10,340.

Insider management

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

The Market Abuse Regulation ((EU) No. 596/2014, "MAR") entered into force on 3 July 2016. As a result of the MAR regulation, Teleste no longer has public insiders. The last date of updating the public insider register was 2 July 2016.

Teleste maintains a permanent insider register and project-specific insider lists prepared specifically for each project as needed. The permanent insider register includes the persons who are always up-to-date with all insider information concerning Teleste.

Project-specific insider lists include the persons who work for Teleste under an employment contract or other agreement and receive insider information concerning an individual project, as well as any other persons to whom Teleste discloses insider information concerning an individual project. 'Project' refers to an identifiable arrangement or set of procedures which is being prepared at Teleste in strict confidence and which, when disclosed, could materially affect the value of Teleste's financial instrument. The CEO evaluates each case to determine whether a set of procedures or an arrangement is considered as a project.

Persons discharging managerial responsibilities at Teleste with the obligation to notify are the Board members, the CEO, the Deputy CEO and the CFO. They and persons closely associated with them shall notify Teleste and the Finnish Financial Supervisory Authority of any transactions they conduct in Teleste's financial instruments. Teleste informs about transactions reported to it in a specific stock exchange release. It is recommended for persons discharging managerial responsibilities at Teleste to time their trading activities involving financial instruments issued by Teleste in such a manner that as accurate as possible information affecting the value of the share is available in the market.

The persons discharging managerial responsibilities at Teleste and anyone participating in the preparation of interim reports and/or financial statement releases are not permitted on their own account or on behalf of others, directly or indirectly, to trade in financial instruments issued by Teleste during the "closed window" period, that is, for thirty (30) days prior to the publication of an interim report and financial statement release. The persons participating in the preparation of interim reports and/or financial statement releases include the rest of Teleste's Management Group, the person in charge of investor relations and the controllers participating in the management's reporting.

Teleste's insider administration supervises compliance with the insider guidelines and maintains insider lists as well as a list of persons discharging managerial responsibilities and persons closely associated with them. Teleste's Deputy CEO is in charge of insider issues.

People employed by Teleste may report any suspected violations of rules and regulations concerning the financial markets through an independent channel within the company.

Related party transactions, internal supervision, risk management and internal auditing

Related party transactions

Teleste assesses and monitors related party transactions in accordance with the Corporate Governance and Teleste's internal guidelines. Teleste strives to ensure that any conflicts of interest are taken into account in the decision-making process. The main rule is that all related party transactions always relate to Teleste's normal business and are in line with the company's purpose and conducted on normal commercial terms. In 2020, no related party transactions were reported to Teleste that would have been of material importance for Teleste, deviated from normal business or been carried out on other than ordinary market terms.

Information on related party transactions are provided in the notes of the financial statements in section "Related party transactions".

Internal supervision

Teleste's internal supervision is designed to support the implementation of the strategy and to ensure the achievement of the specified goals, compliance with the regulations as well as the reliability and

accuracy of financial reporting. Internal supervision is based on Teleste's values and corporate culture, as well as Group- and operational-level structures and processes that support each other. The management of the Group and the business units are responsible for the internal supervision as part of their normal managerial duties, while the Board evaluates and verifies the appropriateness and efficiency of the supervision. In each of the two business areas, the management of the business unit, supported by Teleste's centralised business controller function, is responsible for compliance with the principles of internal supervision on all levels of the areas.

Risk management

Risk management is based on the strategic and business goals of Teleste Group. The principles and objectives of the Group's risk management are subject to approval by Teleste's Board of Directors. Risk management aims to ensure the achievement of business goals, so that any material risks affecting business operations and posing a threat to the achievement of goals are identified and continuously monitored and evaluated. The company has risk management methods in place to prevent the materialisation of risks. In addition, insurance is used to cover financial risks and other risks that are reasonably insurable. Regular, cost-efficient evaluation and management of risks are emphasised in Teleste's risk management policy. Risk management supports the business operations and generates added value that promotes decision-making and goal-setting by the management in charge of business operations. Monthly reporting constitutes part of the internal supervision and risk management system. In particular, it is used for the monitoring of the development of orders received, net sales, order backlog, deliveries, trade receivables and cash flow and, consequently, the development of Teleste Group's performance. The Board of Directors annually reviews essential business risks and their management. Risk management constitutes an integral part of the strategic and operational activities of the business areas. Risks are reported to the Board on a regular basis.

Teleste's risk management system covers the following risk categories, among others:

- strategic risks
- operational risks
- financial risks
- hazard risks

Internal auditing

Internal auditing includes evaluating the efficiency of processes related to risk management, supervision, management, administration and selected functions, as well as making proposals for their improvement. Internal auditing functions under the authority of the Board's Audit Committee and the CEO. A director appointed by the CEO is responsible for the implementation of the auditing, and the expertise of bodies external to the auditing unit is used where needed. In addition, internal auditing may carry out special tasks assigned by the Audit Committee. Internal auditing covers all the organisational levels. Internal auditing also coordinates priorities together with the external auditor.

Key features of the internal supervision and risk management systems related to the financial reporting process

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

Internal supervision of the financial reporting process was created by describing the reporting process, surveying its relevant risks and specifying the control points on the basis of the conducted risk

assessment. The controls cover the entire reporting process from accounting by subsidiaries to monthly, quarterly and annual reporting. Controls are built into reporting systems, or controls may involve balancing, inspections carried out by the management, or specified procedures or policies. The CFO is responsible for ensuring that there is a designated person responsible for the implementation and efficiency of each control. The Group Accounting Manual specifies the standards for financial reporting. Financial reports to be published are reviewed by the Management Group, the Audit Committee and the Board of Directors prior to their publication. Auditor reviews the correctness of the financial statements.