TELESTE

Enabling Digital Evolution

YEAR 2011

CONTENT

Enabling Digital Evolution

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

Teleste contributes to this digitization of networks by providing its customers with both equipment and services. We can either make available complete product solutions or develop them together with our customers to make them better meet the changing demand. This, combined with our strong offering of network design and maintenance services, allows us to offer our unique overall expertise in the promotion of digital expansion among our operator customers.

Year 2011 in Brief

TELESTE MANAGED to exceed the set growth target while significantly improving its profitability. Year 2011 showed an upward trend and the highest net sales in the company history was achieved in the fourth quarter. At the same time, Teleste's market share seemed to have strengthened. Streamlining of operations proceeded nearly according to plan. Market for our product-based business continued active, especially in France, Belgium, Israel, Poland and Russia. Performance of the services business was good, especially in Germany and the UK.

FUTURE YEARS for Teleste appears equally bright. Market demand has strengthened; the European cable operators are well positioned and will be launching innovative services in 2012. On the other hand, a general economic downturn in Europe would also affect Teleste's operation.

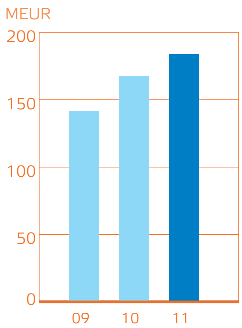
Operating profit increased over

26%

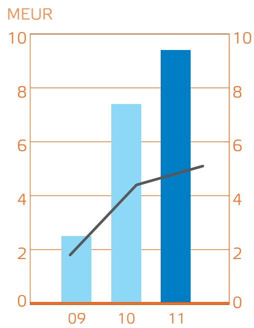
KEY FIGURES

	2011	2010	Change %
Orders received, Meur	**188.1**	167.2	12.5
Net sales, Meur	**183.6**	167.8	9.4
Operating profit, Meur	**9.4**	7.4	26.2
Profit for the financial period, Meur	**6.3**	4.8	31.7
Earnings per share, eur	**0.36**	0.27	31.7
Shareholder's equity per share, eur	**3.17**	2.90	9.3
Return on capital employed, %	**11.5**	10.2	
Turnover, % of share capital.	**9.1**	17.4	

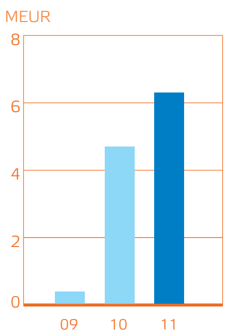
NET SALES



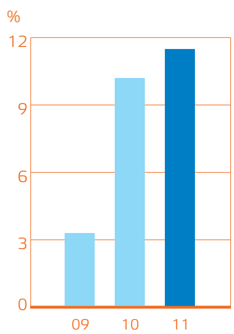
OPERATING PROFIT



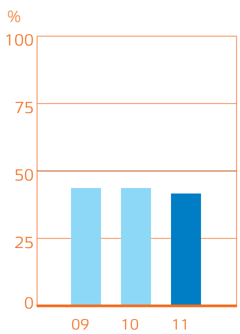
PROFIT FOR THE FINANCIAL PERIOD



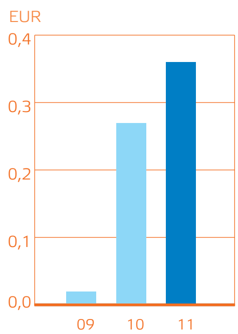
RETURN ON CAPITAL EMPLOYED



EQUITY RATIO



EARNINGS PER SHARE



Teleste in Brief

Teleste is an international corporation specializing in high-technology and network services. Our expertise is based on products and network services related to processing, networking, transmission and management of video and data for operators and the public sector. Teleste has two synergistic business areas: Video and Broadband Solutions and Network Services. These business operations are linked by a common customer base as well as video and broadband technology.

Video and Broadband Solutions focus on product solutions related to broadband access networks, video service platforms and video surveillance applications.

Network Services provide network operators with comprehensive technical services in selected target markets.

Teleste was founded in 1954, and its share (TLT1V) is listed in the technology sector on the NASDAQ OMX Helsinki Oy.

My name is Mark Griffiths. I am based in the UK office located in Fareham. I have been employed as a Business Development Manager at Teleste for 10 years. My main responsibility is to look for opportunities to help the UK and Ireland cable operators improve their network. My aim is to work in partnership with Customers rather than just being another supplier, the last 10 years have been an absolute pleasure. There is nothing more satisfying than seeing Teleste equipment being used in a customers' network, especially in the areas that I know I have been involved in.

Out of business hours I like to spend time with family, work on computers, watching films and television programs and go walking with the dog.

I am Tamara Van Laecke from Belgium and have worked at Teleste for 1.5 years now.

My current position include administrative and supportive tasks around technical planning and processing of the so called "build plans".

My hobbies are reading and jogging and driving my two boys from one hobby to the other.

My name is Melanie Vogel and I have been working for Cableway in Germany now for four years. Since 2010 I have worked as an assistant to Cableways management. On top of my daily routines I am responsible for general administrative tasks.

It is exciting to see how rapidly the company has grown in the recent years. During this period of growth I have gathered a lot of experience.

In my free time I like riding, gym and reading.

My name is Yang Yani (Callie) and I work in Teleste´s China manufacturing site in Suzhou. I am the first person to be seen when entering our office as I take care of our telephone reception.

One of my hobbies is badminton which is very popular in China .

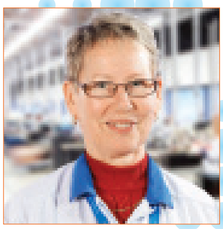
When I hear about Finland, I think about polar lights and a country with small population and when I hear about Teleste, I think about a professional and famous company in its own business area.

My name is Maciej Włodarczyk and I have worked as the IP System Engineer for Teleste Video Networks in Krakow for 2 years now.

In Poland there are two Teleste Video Networks offices: in Krakow and in Wroclaw. People in the office in Krakow integrate and support video networks Teleste systems. I'm personally responsible for support British Telecom system in the UK. My colleagues in Wroclaw are developing Teleste´s Video Management software (VMX).

At Teleste I like that every day brings new challenges.

In my free time I repair my old VW beetle.



I am Pirjo Pahlberg and work in Teleste´s production in Finland, mainly on the CFO equipments. My work consists of assembly, tuning and packaging of equipment.

I started at Teleste back in 1978! Over the years my work has changed significantly. In this time, just the number of personnel has increased almost tenfold and the premises have certainly become larger in the same proportion. Our current headquarters in Littoinen represents a stylish and modern production facility. The work itself has moved from the early manual tuning to high-quality automation testing.

To offset work I engage in a variety of sports such as skiing and jogging. On top of that, travelling on our caravan with my husband we enjoy getting familiar with European cities.

VALUES

Our values provide beacons that guide our journey towards our shared destination – the Teleste vision

- Customer Centricity
- Respect
- Reliability
- Result Orientation

CUSTOMERS

One of our main customer groups consists of cable and video surveillance operators.

Our cable television and IPTV solutions, and the Networks Services divisions, serve mainly the biggest European cable operators, and much of the business is conducted through direct customer contacts.

Video Surveillance Solutions serve primarily the public sector, such as rail, land and air transport authorities, police and defense. Most of the business is handled through system integrators.

GLOBAL PRESENCE - LOCAL RELEVANCE

One of Teleste's competitive advantages involves close customer relationships achieved through our local presence.

Our main market is Europe, where we have our densest network of offices. Besides the head office our biggest offices by number of personnel are located in Germany, the UK, Poland, Belgium and China.

Teleste is headquartered in Finland and the vast majority of our product development and production has been concentrated in the Turku region, in Littoinen, on our recently extended premises.

Growing Together with Customers

Each year, Teleste's management and personnel come up with a theme, which encapsulates our common goal. For 2011, we chose the theme of "Growing Together with the Customer". Demand picked up following the slightly sluggish beginning of the year whereas the second half was downright action-packed. With the strengthening of the market demand we also believe to have increased our market share. Now, after the turn of the year I can proudly say that we managed to exceed our growth target while clearly improved our profitability. Our net sales increased by 9.4% to EUR 183.6 million and our operating profit reached EUR 9.4 million, an increase of no less than 26.2%.

The net sales increased in both of our business areas. The operator clientele of Video and Broadband Solutions continued to improve the capacity of their networks as well as to invest in new services. For Network Services, operations involving network design developed favorably with the customer relations becoming increasingly closer. We also made progress in strengthening our position in new markets such as Russia. In the past year, we entered into a number of significant framework agreements that do not appear in the order backlog. Nevertheless, at the year-end our order backlog was about 25% higher that of the reference year.

This clear improvement in our operating profit is based on increased net sales, efficient production and successful project deliveries. Streamlining of our operations proceeded almost as planned and as a part of it, we concentrated most of the R&D taking place in Finland and the whole production over to the premises in Littoinen. Instead, in the services business, results from the development program launched at an earlier stage were not yet fully realized in 2011. As to project deliveries, deliveries involving particularly optical product solutions and video surveillance materialized better than forecast.

The Changing Operating Environment

Our operating environment is undergoing a constant and massive change as the electronic data transfer breaks into new areas. Video and broadband technologies are developing fast and new technologies will enable increasingly higher quality video. Also, the needs of our customers and, in particular, those of the end-users, are becoming greater. End-users want a diverse and high-quality content anytime, anywhere. At the same time, the range of terminal equipment is widening. Responding to the wishes expressed by the users of the Internet and TV requires increasingly broader bands and higher speeds, in other words, more efficient network capacity. Similarly, video technology is increasingly needed for safety applications. As the number of various threats increases, they are controlled more cost-effectively by means of video surveillance in areas such as traffic and guarding the borders.

Our net sales increased by 9.4% to EUR 183.6 million and our operating profit reached EUR 9.4 million, an increase of no less than 26.2%.

JUKKA RINNEVAARA

Enabling Digital Evolution

When it comes to the supply of video processing and transfer technology, Teleste is one the industry-leading companies in the world, and in Europe it is the market leader in subscriber network solutions (HFC). For its part, our offering enables an ever higher quality and faster electronic transmission of data. So we are enabling the digital evolution. Teleste's strongest expertise includes hybrid fiber-COAX technology (HFC), the use of which will be stepped up in the future. We are also highly proficient in fiber optic technology, the share of which is set to rise. In addition to our technological know-how, we have a strong understanding of our customers' needs, which is why we have succeeded in creating a strong working relationship with our customer base and, thus, have compelling evidence of successful deliveries.

In 2011, we went through an extensive strategy process, in which we examined prospects for our markets and gauged the possible trends. As a result of this process we renewed our strategy. Based on the obtained information we concluded that the foundation of our competitiveness will continue to include both the HFC technology solutions and the fiber optic solutions.

Future success will require continuous development of our own operations and our production quality, but also that of the technologies we use. New, innovative product solutions will provide us with competitive advantage. Very often we engage in development work together with our clients putting their needs as our starting point. Therefore, our investments in product development were significant accounting for 12.9% of Video and Broadband Solutions' product business.

Forward with Optimism

Thanks to the strong second half and our good order backlog, the year 2012 has started with an upbeat tone. Our goal is to continue on our growth path while enhancing our profitability. In addition to our current markets we are also seeking growth in new market areas. However, our main market is in Europe, the economic impact of which on the demand for our products and services can not be underestimated. A potential increase in financial costs would reduce our operator customers' willingness to invest.

I would like to express my warm thanks to everyone at Teleste for good cooperation and high-quality work even in the busy months. I want to thank our customers, partners and shareholders for their confidence in Teleste.

Jukka Rinnevaara
CEO

Technological Development –The Cornerstone of Our Success

Technical innovations have provided the cornerstone of Teleste's business success in the company's entire history. The company has made a long-term investment on R&D of at least 10% of the net sales of Video and Broadband Solutions´product business, and this has enabled the development of our wide-ranging and competitive product portfolio. Teleste's R&D activities represent mainly the so-called applied product development, which aims at creating new commercially exploitable products or product features. A prerequisite for applied R&D is the development of basic technology and research, for which part Teleste relies on its partners focusing on such activity. These partners include VTT, Technical Research Centre of Finland, universities and polytechnics.

Experienced and skilled R&D personnel, and its continued development, constitute the key success factors in Teleste's approach to business. Since technology develops at an increasing speed and Teleste operates in a number of different areas of technology, it is almost impossible to cover all the required areas of technology by our own personnel. For this reason, it is important to identify those technologies and key areas of expertise, the management of which by our own personnel is essential for our success today and in the coming years. As for other necessary components, Teleste relies on its wide network of partners both in Finland and overseas.

Teleste's R&D operates in close interaction with the company's key customers. This ensures that there is a real market need for any development project taken onboard and that the timing in relation to competition and market conditions is optimal. It does not seem at all exaggerated to say that the speed of commercialization with regard to technological innovations and the customer-oriented way of operation provide Teleste with a strategic competitive advantage.

Tailored Upgrading of Access Networks

European cable TV networks were originally built between the 1970s and 1990s. This relatively long period of time is one of the reasons for why the networks differ significantly in structure from one another. Therefore, upgrading these networks to match the transmission capacity required by the new services is not possible by resorting to any so-called standard products. In-

deed, customer-specific "tailoring" of product features is a defining characteristic to product projects involving access networks.

The rapidly growing video-on-demand (VOD) services and high-speed data networks require segmentation by means of fiber optic cable connections. As to access networks, the main R&D projects carried out by Teleste in 2011 focused on just these areas. Key product launches involved further development of high-density optical platform (HDO) and development of a modular optical receiver (AC9000).

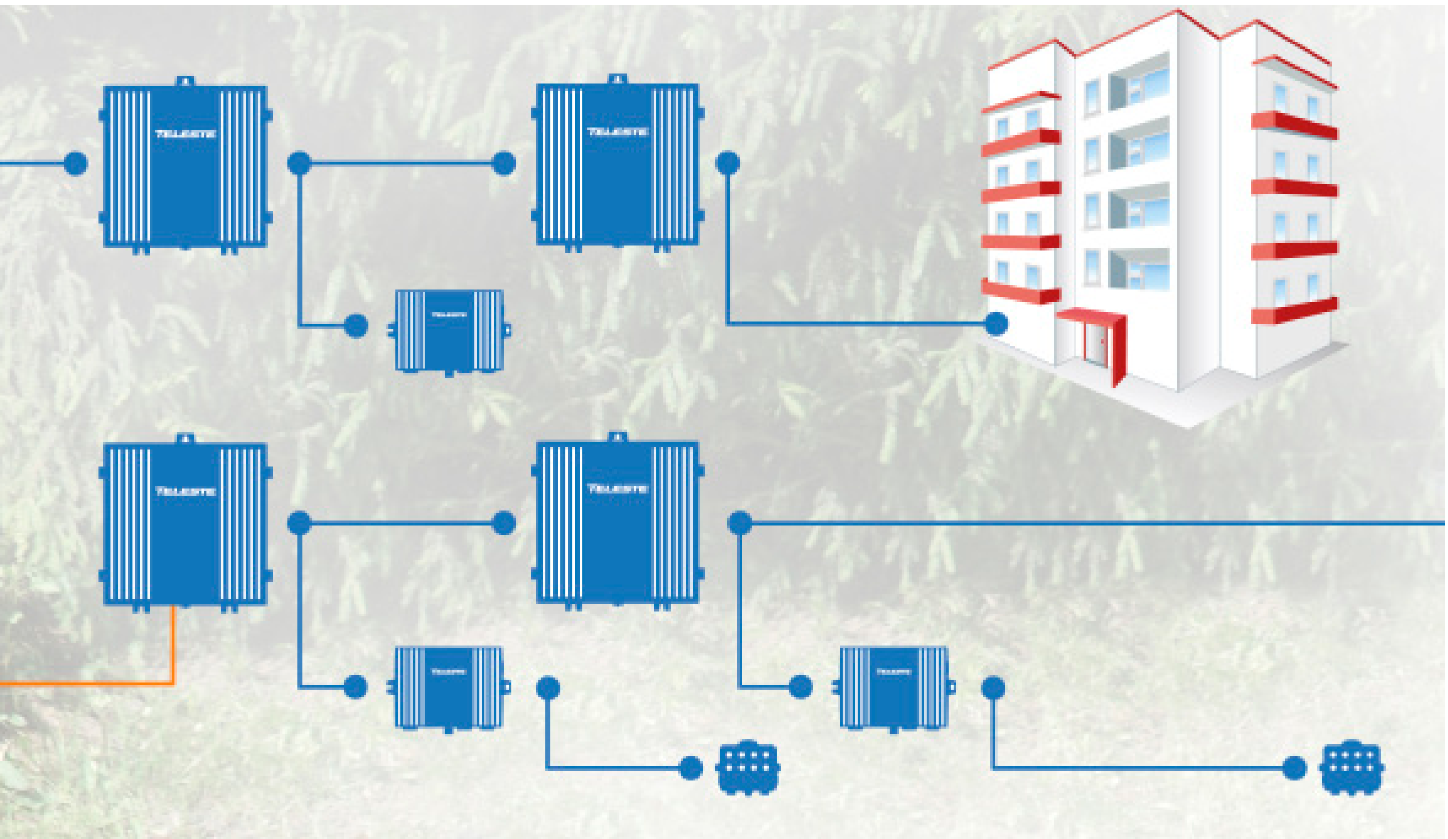
Growing Need for Video Processing

The need of operators working in a multi-service (video, data, voice) environment for processing the service content is increasing rapidly with new customer applications. One example of these new services is offering the video content originally designed for traditional TV sets also for smartphones and tablet computers. Provision of such a service requires adapting video to different terminal equipment and different transmission networks. As to Teleste's product offering, the Luminato and MyCast product families have been developed with exactly this need in mind. Development of both product families continued actively throughout 2011.

Video Surveillance Solutions Draw on the Internet Network

Video surveillance technology has undergone a significant transition in recent years. Earlier systems were based almost exclusively on a closed optical fiber network and supplier-specific terminal devices. The current modern video surveillance solutions are based on an overall system consisting of network elements using Internet Protocol (IP) and networks, on the one hand, and the management software developed for the efficient management of surveillance data, on the other.

In 2011, Teleste launched the MPEG-4 standard (H.264) based encoder (MPH), and continued its strong investments in the further development of our video surveillance recording and management software (VMX product line) and in support of customer projects.



Forward with Revised Strategy

In year 2011, a comprehensive strategy project was carried out within Teleste. This was motivated by the signs of disruption within the TV distribution market as well as the alleged maturing of the cable network access technology market. The focus was on product-based business and the purpose of the project was to describe, analyze and select a strategic pathway for Teleste that generates the most shareholder value with growth and additional profitable revenue in segments where Teleste has or will have a leading position.

The project confirmed some of the starting-points that have been the basis of Teleste's strategy in the past years:

- In the short/mid-term future (5-10 years), cable companies have a superior broadband offering in the areas covered by the cable plant, thus their business is not under immediate pressure and also the technology market is relatively secure
- In the long term, the business environment of cable operators is fundamentally changing and network architectures converge towards optical networks forcing technology vendors to adapt to the changes
- The growth in network service is due to outsourcing driven by operational expenditure pressure, introduction of new technology, increased fibre to the home roll-outs and entrance of new players
- In video surveillance, Teleste is strongly present in the "ultra high-end" segment with encoders and tailored video management/recording software solutions
- Teleste's competitive advantage is based on installed base, its deep technology understanding, ability to customize, local presence and strong relationships with European cable operators

TRENDS

TV AND BROADBAND DISTRIBUTION	VIDEO SURVEILLANCE
Cable Operators' operative business typically running well in Europe Broadband access service is superior compared to Telcos' offering. Incumbent Telecom Operators are investing more to win market share from TV distribution market **Over The Top TV (OTT) services will eventually disrupt the TV distribution business** Cable Operators in Europe are well positioned and will launch innovative services in 2012 **Cable Operator networks are getting more and more congested** **After several ownership structural changes in 2011, cable operator industry is expected to be more stable in 2012**	**Digitalization – Digital products will replace analogue products** Increased need for security Long term good growth in IP cameras, management SW and recording Need to reduce OPEX by increasing efficiency > Demand for intelligent systems with automation

Teleste Revised Strategy

Teleste´s revised strategy is summarized in the figure below. Although the strategy, and the picture, includes some logical steps that build on each other, many of the steps are planned to be taken parallel in time.

Strategic targets defined as Must-Win-Battles, are basic targets that need to be achieved to ensure profitable growth. The most important of these are the turnaround of the services business. A Network Services turnaround profitability program has been in process already for some time and its implementation is proceeding according to plan. The commercial excellence program concentrates among others on strategic selling to key accounts, potential value leakages and sales efficiency. The operating model has been redesigned with new responsibilities and own management teams for each business unit and a new, more effective, model for software creation.

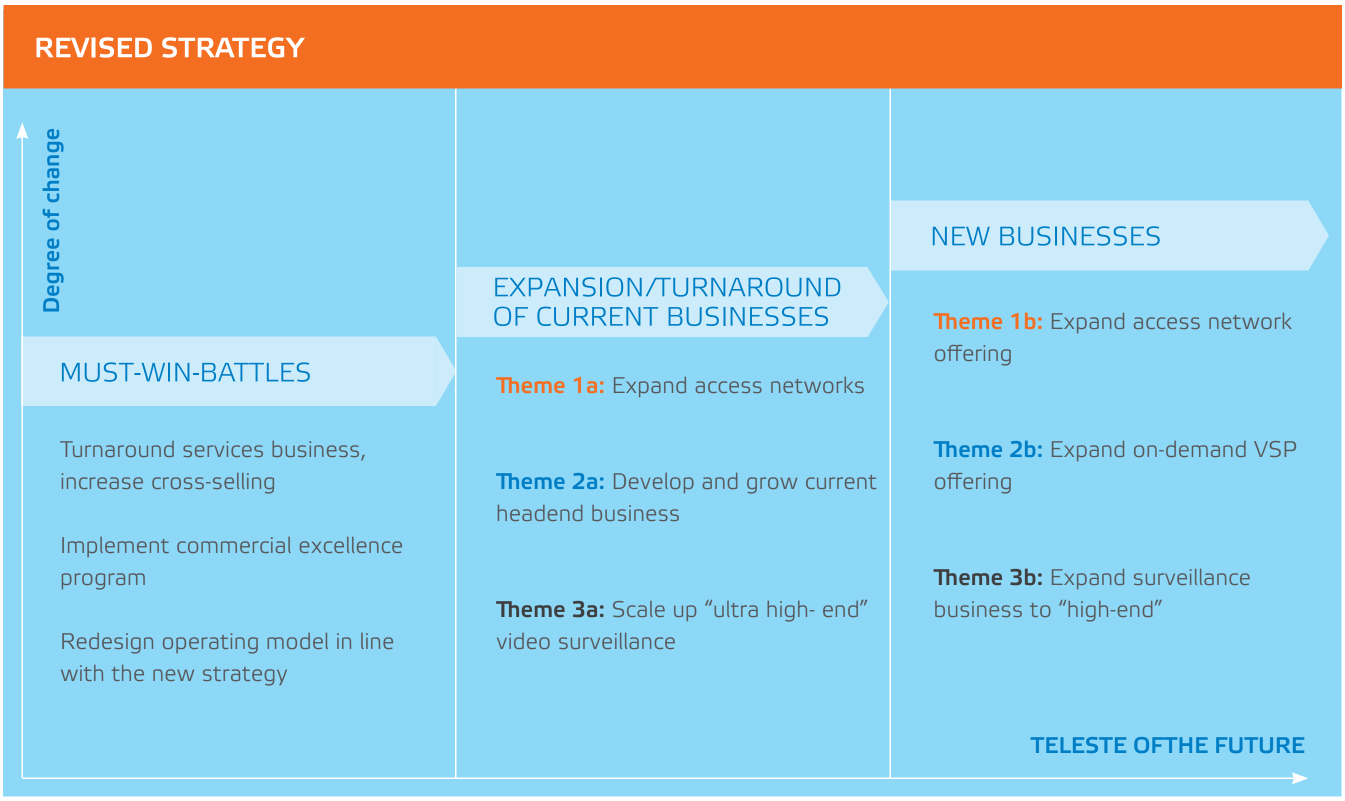
The Access Network theme (theme 1) can be summarized as a continued and even increased investment into access network technology and market, where Teleste traditionally holds a very strong position. The target customer base includes also other customers than cable operators such as telecom operators.

The Headend theme (theme 2) includes the Teleste Luminato platform and emphasizes growth to cover the investments needed into this segment. Emphasis will be put both on developing the technology as well as on go-to-market actions. On demand and other technology areas such as Over the Top TV technologies, provide good growth opportunities for Teleste both within its traditional customer base, cable operators, as well as new customers such as telecom operators.

The Video Surveillance theme (theme 3) highlights the fact that Teleste's stronghold has traditionally been in large, tailored multi-site systems consisting up-to thousands of cameras, i.e. so called ultra high-end systems. In addition to a continued focus on these systems, Teleste will also focus on multi-site projects with a few hundred but necessarily not thousands of cameras. There are good growth opportunities in this high-end segment and Teleste's offering can be adapted to fit this segment with reasonable investments.

The above themes form the main short term focus areas. Other growth areas are also being reviewed to ensure long term growth.

Much emphasis has been put into an effective corporate-wide implementation of the strategy. The themes have their own time tables, owners, steering groups and metrics. The implementation is closely monitored and widely reported on. All Telestians have had a possibility to comment on the strategy and the actions to be taken for its implementation.



BUSINESS AREAS

	CUSTOMERS	PRODUCTS
VIDEO AND BROADBAND SOLUTIONS	TV- AND BROADBAND SERVICES	
	Customer base includes most of the largest European cable operators. Through resellers we address also mid-size and small operators, particularly in Central and Eastern Europe. We are seeking growth particularly from European fixed-line telecom operators.	**We offer** to our customers all the products needed for cable operator access network from the digital IP headend all the way to subscriber wall outlet. The most important product groups are access network active equipment and passives, digital headends as well as solutions for on-demand TV services. We complement our product offering with professional integration and maintenance services.
	VIDEO NETWORKS	
	Users of video surveillance systems delivered by Teleste are mainly in the public sector, such as authorities in charge of city centre monitoring, road, rail and air transport. Through its own offices, Teleste Video Networks is present locally in all the major geographical markets: Europe, North America and Southeast Asia.	**We offer** comprehensive video surveillance solutions. In a video surveillance system, Teleste's own products are placed between the cameras and monitors, and they cover video transmission, storage and management. Teleste's video surveillance system is often connected to other systems, like those involving traffic control, emergency, and crisis management.
NETWORK SERVICES	**Our customers** include European operators proving cable TV and broadband services. They make available services such as high-definition broadcasts on cable networks, video-on-demand and pay-TV services as well as IP telephony services. As to geography, the current priority areas of Network Services include Germany, Belgium, the UK, Switzerland and Finland.	**We offer** our customers high-quality services in installation, design, documentation, maintenance and construction of networks. The services provided vary from country to country, depending largely on market-specific demand. The range of delivered products is wide starting from the delivery of a single interface all the way to large-scale fiber construction projects.

STRENGTHS	MARKET POSITION	GROWTH OPPORTUNITIES
The Teleste product innovations enable operators to guarantee better subscriber service availability as well as build and run their networks more efficiently. Additionally, our strength is a product portfolio which is optimized for varying needs of European markets. We are present on all the main markets and hence provide comprehensive local support services for our customers. Teleste product quality is widely appreciated and customers respect our way of working.	**We are the market leader** in Europe for cable access products. We are the only vendor present in all main cable markets in Europe with comprehensive product offering. Digital IP headends we deliver globally through our partner network.	**Delivery of TV content** over public Internet may increase significantly the need for access network capacity and hence speed up the operator investments to increase their capacity. This disruption also opens new opportunities for Teleste to provide integrated service management solutions enabling on-demand video services for consumers. Telecom operators' stronger presence in TV distribution services may open significant growth opportunities for Teleste. Russian and Eastern European markets provide major growth potential for existing product offering.
Teleste's special areas of competence is in demanding video surveillance applications, where cameras, storage devices and workstations from several sites are networked into a single video surveillance system. Teleste's references in its target segments are of world-class.	**Teleste has a strong** foothold in very large and demanding projects in the public sector. Our position is particularly strong in road and rail segments as well as in large-scale city centre monitoring projects. The company is now expanding its offering to include smaller projects comprising of several locations.	**There is a growing need** for video surveillance. In the coming years, the current analog systems will be replaced by fully digital systems, and new construction will rapidly move over to IP-based solutions in all market areas. The need for intelligent solutions will continue to grow. Network management and storage solutions form the core of these networks, and Teleste's good product offering combined with the company's world-class references provide a solid foundation even for a rapid growth.
Our angle of approach to the market differs from that of most of our competitors with contractor background. Our strength lies in our strong technological expertise and excellent reputation. This technology know-how is expressed in our ability to provide innovative and novel solutions to items such as network maintenance. Our long history as a European equipment supplier provides us with the necessary market credibility.	**Our market position** varies from country to country. In Belgium, Switzerland and Finland, we are playing the role of the challenger having made excellent headway with the local operators. In the UK, we rank among the most important special actors in the provision of technical design and consulting services to a selected segment. In Germany, we are among the market's leading contractors providing services to all major operators.	**In today's market** we see interesting growth opportunities in countries like Belgium, Britain, Switzerland and Finland. In these countries, there are certain areas of application where we have identified potential, but do not yet have active business. In Germany, we see growth potential in projects related, for instance, to extensive fiber network construction. Tapping into new markets is also possible in the Nordic countries and in continental Europe. Moreover, we believe that our investments in the exploitation of sales opportunities between the different business units will bear fruit, for example, in terms of monitoring solutions and professional services.

TV Distribution Business

OUR VISION : The leading technology partner to the cable operators

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

SOLUTION: HFC access network and integrated video headend solutions

KEY MARKETS: Europe and selected markets in Asia

PRIMARY CLIENTELE: Cable operators, telephone operators and system integrators

VIDEO AND BROADBAND SOLUTIONS

New Customers Generated Profitable Growth

Video and Broadband Solutions (VBS) make available access network products, headends, and video-on-demand solutions for cable and telecom operators as well as video surveillance applications for public sector organizations. Video and Broadband Solutions operates in both TV distribution business and video surveillance sector.

Video and Broadband Solutions' net sales increased up to EUR 89.7 million (2010: 82.0). This growth in net sales was mainly due to increased volumes in optical access networks and video surveillance solutions. In the year under review, profitability of operations developed favorably and the operating profit increased to EUR 8.2 million. Profitability improved on account of growth in net sales and successful implementation of integration projects.

TV Distribution Business

The offering of our TV distribution business consists of access networks, headends, and video-on-demand solutions with the related services. As to access networks, our range of products includes all the components from optical fiber solutions to amplifiers and passive component solutions, for example, aerial sockets. In headends, the focus is on fully digital solutions. Services included in product related business contain system design and quality assurance consultation, maintenance services for the delivered systems and training.

Success in Many Sectors

In 2011, network investments made by the cable operators' increased moderately and development towards the end of the year was very positive. New orders were received from Kabel Deutschland, Hot Telecom and YouSee. In Russia, a breakthrough was achieved when MTS (Mobile TeleSystems OJSC) chose Teleste for the supplier of digital headends for their national cable networks.

In 2010, we launched a new optical fiber node AC9000, which has proven to be very competitive. Many of the major European cable operators have opted for it in the segmentation projects of their optical networks. In our product development we focused on solutions that allow the network operator's costs to be reduced, either by automation or through remote network management. In addition, the network management solution CATVisor was further developed in such a way that it supports networks built with products from a number of manufacturers. The Luminato headend product range was developed to support the American broadcasting standards. This allows for increased sales of Luminato in new market areas.

Significant Changes in the TV Distribution Market

The core of Teleste's customer base is formed by the largest European cable operators. Today's cable operators provide households with all the essential telecommunication services: TV programming, telephony and broadband access to Internet. To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maintain their competitiveness, the operators must continually invest in increased capacity and solutions of their access network, which allows them to bring to market new and innovative services. In the coming years, the TV distribution market is likely to experience significant changes, as besides broadcast networks (cable, satellite, terrestrial network, IPTV) TV content will be distributed via the public Internet (Over the Top services, OTT). In addition, through OTT services TV content can be delivered not only to traditional television receivers, but also to mobile devices.

This revolution will bring Teleste new business opportunities. Teleste can supply an OTT service provider with the MyCast service management solution that includes the most important functions of OTT services, such as consumer interface and content search capabilities. When consumers shift their consumption of television services towards on-demand viewing, the broadband traffic of access networks will increase dramatically. To avoid network congestion, the cable and telecom operators need to invest in greater capacity of their access networks. Thus, the increase in popularity of the OTT and video-on-demand services can bring Teleste additional sales with accelerated investments in network capacity.

Telecom operators will build fiber networks at an increased speed all the way to the basement of apartment buildings (Fiber to the Building) and they will use the existing infrastructure in these buildings, that is, pair or a coaxial cabling, to connect households to the optical node in the basement of the building. Teleste will be having significant business opportunities, should the telecom operators choose to use the buildings' coaxial cabling in the construction of their high-speed broadband connections (Data over Coax).

We strive to further improve our competitiveness in the optical data transmission by investing in product solutions, the volume of which is on the increase. These include, for example, externally modulated 1550 nm optical transmitters and a digital return path.

Video Networks

Video Networks supplies comprehensive video surveillance applications with emphasis on demanding video surveillance applications, where cameras, recorders and workstations from a number of sites will be networked into a single video surveillance system. Teleste´s solutions include products, systems design, project implementation and services related to system maintenance and training. In the system, Teleste's own products are placed between the cameras and monitors, and they cover transmission, storage and management of video. Teleste's video surveillance systems are often connected to other systems, like those involving traffic control, emergency, and crisis management.

Through its own offices, Teleste Video Networks is present locally in all the major geographical markets: Europe, North America and Southeast Asia. Teleste's references are of world class in its target segments.

Varied Needs of Customers

Utilizers of video surveillance are mainly in the public sector, such as authorities in charge of city centre monitoring as well as road, rail and air transport. The most important private sector applications are related to energy distribution systems and control of industrial processes, where the requirements are higher with respect to, for example, degree of connectivity, quality of the video as well as the analysis and processing tools for the stored video content.

Customers often wish to use one video surveillance system for several purposes. For example, an airport control system can be used by airlines, enterprises at the airport, providers of security guard and security services, police and border guards, among others. To fulfill these requirements, the systems must work seamlessly with each other. Based on open standards, Teleste solutions can easily be integrated with other systems.

The new generation of optical network terminals. Designed to accommodate the needs for future broadband capacity. There is enough capacity to meet the requirements of about 250–1000 subscribers.

The latest version of the EMS network management system enables highly customizable views with network maps and the adding of documentation to real-time network data.

A compact MPH series video transmitter designed for video surveillance. The device converts the signal from a CCTV camera into digital format and forwards it over the network to the control room. This series also supports HD resolution, and its efficient processing relays the video without significant delays.

Teleste Luminato headend represents the forefront of the field. The device allows for full exploitation of the digital television technology. Teleste Luminato is an effective and compact platform that meets the demands of large and small cable television operators alike.

Video Networks

Our Vision: A leading provider of integrated video surveillance solutions

MISSION: Enable high-quality and efficient work of security professionals through provision of video surveillance technologies

SOLUTION: Extensive networked video monitoring solutions

KEY MARKETS: The business focus is on high-quality video surveillance networks for road, rail and public places monitoring and corporate security systems on a global scale. Main market areas are Europe, USA and Southeast Asia

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

Successful Deliveries

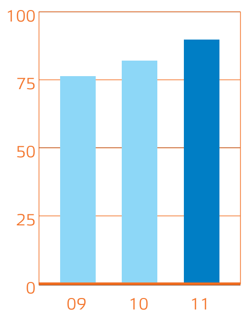
Highlights of 2011 include the successful delivery of the video surveillance solution for the Greater Paris Police Department (Préfecture de Police). In the year under review, we continued our cooperation with the French national railway company SNCF, who also placed new orders with us. Deliveries continued to the Chicago Transit Authority and the State of Queensland prison project. Numerous systems have also been delivered to the Middle East and South Africa.

Tapping New Markets by Product Development

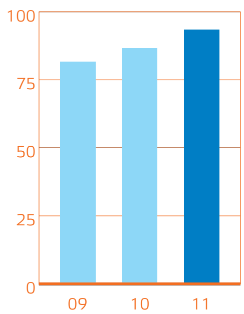
In the future, besides large-scale and multi-annual projects, we will be investing to smaller, but geographically wide projects. These projects require more user-friendly products. A new version of the VMX video management and recording software is thus being developed with significantly improved software integration friendliness and ease of remote use. Similarly, we are also building complete turn-key solutions for our main segments. Our partner network will be strengthened and extended to countries like India and Brazil.

The long-term market outlook for IP based video surveillance is positive. In the coming years, the current analog systems will be replaced by fully digital systems, and new construction will rapidly move over to IP-based solutions in all market areas. The need for intelligent solutions will continue to grow.

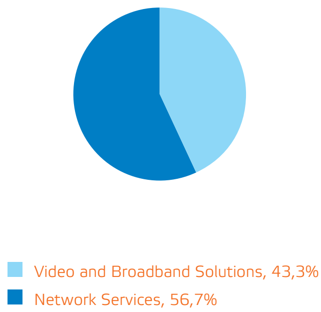
VBS NET SALES



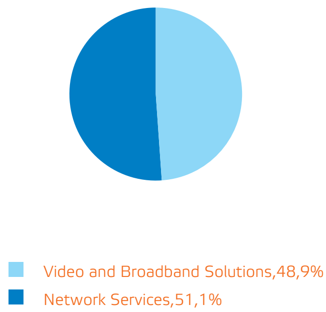
VBS ORDERS RECEIVED



SHARE OF PERSONNEL

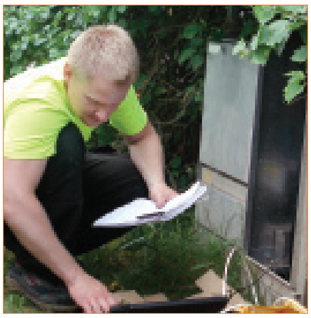


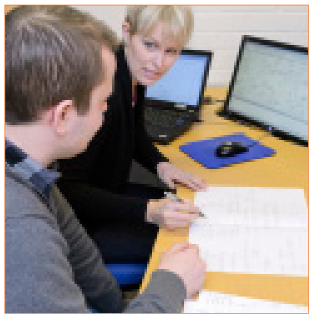
SHARE OF NET SALES



NETWORK SERVICES

Year of Organic Growth





Network Services (NS) make available network design and high-quality installation and maintenance services for European cable and FTTx operators. The customers are often leading operators in their respective countries and they have a vision of providing their subscribers with compelling services, including high-speed Internet access, pay television, video-on-demand and telephony.

Net sales of Networks Services grew by 9.4% over the year of comparison standing at EUR 93.9 (2010: 85.8) million. Despite this growth in net sales, operating income increased only slightly on the previous year and amounted to EUR 1.2 (1.1) million. In Germany, the service process was streamlined, but the impact of the conducted measures on profitability did not produce the desired result yet. Profitability of the German services business was also eroded by the services consisting of more basic deliveries in which the price and margin levels are lower. Moreover, operating profit was reduced by limited sub-contracting resources and severe weather in the beginning of the year. The total number of employees in the services business stood at 764 (713), out of which 640 in Germany. Teleste's services business is also strongly present in the UK, Belgium, Switzerland and Finland.

The relative importance of cable TV programming for our client base has increased significantly together with the growth of value-added TV services and high-speed Internet access. Operators are also paying increasing attention to measurements of customer satisfaction, and have realized the importance of reliable, high-quality technical services in their pursuit to meet and exceed the customers' expectations. In this context, the need for a specialized and professional services partner is emphasized and, at the same time, Teleste's expertise comes into its own. Many customers have found that cooperation with a partner specializing in cable technology (HFC) brings in better results compared with those obtained with a local mainstream contractor.

Development Measures in Germany

Currently, the German operations of Network Services account for, by far, Teleste's largest country organization. In 2011, the German activities were subject to vigorous development. A major restructuring program was successfully implemented at the same time with streamlining of the German regional operations. The Teleste Way-of-Working was introduced, and the German service brands were aligned so that we now operate exclusively under the Cableway brand. Similarly, the local administrative structure was reformed to cut down on overlapping functions that were brought about as a result of several acquisitions. The

OUR VISION: To be the preferred partner providing technical services for European cable operators.

SOLUTIONS: New construction, upgrading planning and maintenance services for cable networks

KEY MARKETS: Northern and Central Europe

PRIMARY CLIENTELE: Operators providing television and broadband services and looking for improved customer experience

impact of these cost-saving measures is expected to appear in 2012.

Furthermore, integration of the ICT infrastructure and processes with Teleste Corporation was launched with the intention of taking advantage of our increased purchasing volumes.

Organic Growth by Cross-selling

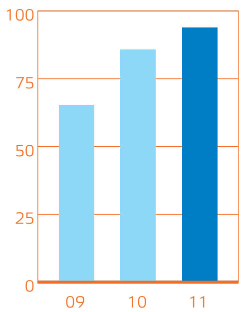
If earlier Network Services used to grow largely through acquisitions, in 2011 we focused actively on pursuing fresh revenue from amongst our existing customer base. In the past 12 months, the business was expanded in several countries. In Britain, new service customerships were obtained, and growth was also achieved through the existing customers. In addition, the local organization was strengthened, in particular for the part of business development and sales operations. Our strengthened market position enables continued growth. In Belgium, product range was expanded from network planning to field installations. In Finland, the first significant network upgrade projects were received and our own installation operations were launched. Furthermore, we successfully delivered FTTx installation services to several customers, going beyond our usual scope of HFC applications and transfer of video. In Switzerland, new opportunities for services were found while utilizing the synergies between product sales and services operations. Many of the above measures were carried out by making active use of the service opportunities related to Teleste's existing customers.

Growth Opportunities in Many Areas

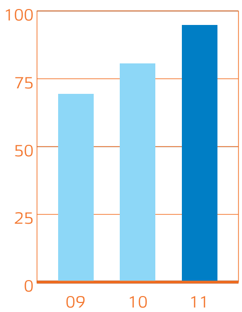
Network Services have a lot of opportunities to grow profitably in the countries where they already operate. As for customers, Teleste is a viable partner thanks to the excellent reputation achieved on the product and technology side and the credibility gained in field work over the past 3-4 years. Moreover, there are a number of European countries where Teleste has a significant market share in terms of product business, but where the provision of services has not yet been exploited.

We keep acquisitions, organic growth and focused partnerships in our toolbox while keeping an active eye on the market, focusing on quality, customer satisfaction and profitability in our services operations.

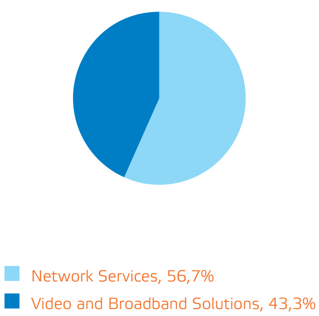
NS NET SALES



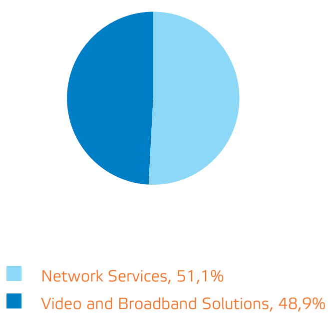
NS ORDERS RECEIVED



SHARE OF PERSONNEL



SHARE OF NET SALES



YouSee to Increase Their Network Capacity

As the biggest cable operator in Denmark YouSee A/S provides 45% of the households or 1.3 million customers with TV, high speed Internet and telephony services. The headquarters is located in Copenhagen with offices throughout Denmark. YouSee is a fully owned subsidiary of TDC, the largest telecom and mobile operator in Denmark.

YouSee has always been a pioneer in launching new service innovations within European cable industry. They have launched already in 2010 their catch-up and start-over -services, which are today offered as a multiscreen (TV, laptop, pad) service to their cable subscribers. The launch of these new services has been truly successful, with large number of households who have subscribed to the service and these subscribers are using the time-shifting options extensively. Watching TV is expected to disengage from time and place, so this trend can only be expected to grow in the near future.

These services, together with ever growing need for high-speed broadband Internet connectivity, are generating lots of traffic to the YouSee cable access network. Accordingly, YouSee has started measures to increase the capacity of their network infrastructure. Over the coming years the large upgrade deployment with segmentation of the cable network feeding fibre closer to the customer will be implemented in the entire network across Denmark.

Teleste has, for more than a decade, been a supplier of various types of equipment for the YouSee cable network. There is a tradition of close co-operation, at all levels in the organisations, between YouSee and Teleste. Accordingly, Teleste was pleased to be invited to the professional tendering process which is typical for such a large investment. The tendering process resulted in YouSee selecting Teleste as the preferred supplier for the network upgrade project, and a three-year frame agreement was signed in the beginning of 2012, with an option to extend the agreement for an additional period until the end of year 2016.

The tendering process included techno-economical evaluation of network architectural options, as well as an extensive acceptance test of the products, not only as a lab test but also in the field with live traffic.

The agreement includes deliveries of Teleste´s most advanced fiber-optic products required for the upgrading the access infrastructure. This improvement is YouSee´s response to the increased demand for both broadband and, in particular, unicast traffic. Deep Fiber Architecture, in which the optical fiber is brought closer to subscribers, improves network performance and reliability. Reduced network segment allows for more competitive data rates while the smaller number of equipment enables lower maintenance costs. Power consumption, too, is significantly reduced.

The network solution is based on Teleste's fibre optic products in the HDO platform series and AC9000 intelligent node.

- Customerships spanning over decades
- New, significant customerships

MTS Goes Digital

Mobile TeleSystems OJSC ("MTS") selected deployment of both Teleste Luminato video headend platform and the Teleste Broadcast Manager service management solution for their nationwide digital TV network.

MTS is the leading telecommunications Group in Russia, East Europe and Central Asia offering mobile and fixed voice, broadband, pay TV as well as content and entertainment services in one of the world's most rapidly growing areas. The Group provides services to over 108 million mobile subscribers in Russia, Ukraine, Uzbekistan, Armenia and Belarus. As for fixed solutions, the Group has more than 3 million pay TV subscribers and over 2 million users of broadband Internet services. Put together, there are more than 230 million people living in the area.

Fixed broadband network and digital services development is one of MTS key interests. MTS has already implemented several projects for construction and modernization of fixed networks in Russia and plans to convert all the networks in digital format in 2012-2013. Now, MTS develops its video distribution network by digitizing the video headends in order to be able to offer its customers a more versatile channel lineup, but also additional services as well as high-definition content all over Russia.

The deployment of digital TV headend solution will consist of dozens of headends in 90 cities nationwide by the end of 2013. The core of the solution will be formed by the Teleste Luminato video headend platform and the Teleste Broadcast Manager service management and EPG solutions. The used technology provides a compact and flexible solution for high-quality digital TV services in the foreseeable future.

"This project is of major strategic importance to us and, therefore, we need a partner we can rely on for years to come. Teleste's reliability as a supplier, modern technology and continuous efforts in product development form a strong basis for this cooperation. We are very pleased to have Teleste as our partner", says Dmitry Bagdasaryan, the Director for fixed business development, MTS OJSC

MTS has been satisfied with Teleste's shown performance. The tender was closed in August 2011. In just a few months, by the end of 2011, Teleste had successfully delivered several hundreds of fully furnished Luminato headends, including DVB-S receivers (both dual and quad) along with the Broadcast Manager systems. The initial headend project will continue in 2012 bringing also other new opportunities to widen the cooperation of the two companies.

Close Cooperation with Kabel Deutschland

Listed company Kabel Deutschland is Germany's largest cable operator, which through its networks serves about 8.7 million households. Kabel Deutschland provides its customers with competitive and modern digital TV services and HDTV services, analog TV channels, video on demand, pay-TV services, video recording services as well as very fast, up to 100 Mbit/s Internet connections. Furthermore, the company makes available telephone services in its own cable TV network while offering mobile communications services through a partner's network.

Kabel Deutschland has collaborated with Teleste's subsidiary Cableway AG for several years. Cableway provides Kabel Deutschland with a wide range of technical services from network upgrade projects, maintenance, design and documentation services and access delivery services all the way to network expansions.

Combined with active cooperation between the companies, successful delivery of services to Kabel Deuschland is based on Cableway's high technical expertise and a broad geographical coverage in Germany. In addition to daily operational activities the companies actively collaborate in various development projects, with the aim of improving the quality of the client's network even further. Also Teleste´s products, such as amplifiers and passives, are widely used.

HOT Upgrades to Fibre

HOT Telecommunication Systems Ltd. is Israel's premier cable television operator offering the Triple Play by providing over 160 channels including HD, video-on-demand (VOD) services as well as the fastest Internet surfing in Israel with 100Mb/s based on DOCSIS 3 technology, IP telephony over cable and telecommunication services.

HOT serves more than 900 000 subscribers to multi channel television services with 61% TV market share, 765 000 customers to Internet services for 40% market share and in excess of 630 000 lines of telephone services. About 1.3 million Households in Israel (over a total of 2 millions) subscribe to HOT services.

HOT is constantly looking for innovation and seeks to understand the needs of customers in a world of rapidly changing technologies. The company runs an advanced, fiber-based cable network infrastructure extended to each building and implemented through FTTLA-technology (Fibre To The Last Amplifier). The total length of fiber lines is more than 6 500 km.

The large-scale FTTx upgrade deployment program of HOT Telecom cable networks covering two million homes passed, will be done during the coming 4 years by changing the architecture from classical HFC towards deep fibre to enable higher capacity for new and future services.

HOT chose Teleste as their partner after careful evaluation of commercial and technological aspects.

The HOT strategy is to invest into HFC network upgrades continuously, replace coaxial network segments by fibre and migrate closer to the subscriber premises to be prepared for the future. Therefore FTTLA is the right choice and being highly committed to highest standard of quality and services where high quality products are a necessity. HOT decided to use Teleste´s AC, CXE and HDO family products .

Elisa to Improve Their Network Reliability

Elisa is a listed communications services provider and ICT company on the Helsinki Stock Exchange that serves approximately 2.2 million consumers, companies and government organizations. In Finland Elisa has more than 250,000 cable television subscribers. Elisa's total net sales for 2010 equaled 1.46 billion euros and the company employed approximately 3,600 people.

In early 2011, Elisa placed an order with Teleste for plans involving upgrading the HFC network in the area of city of Riihimäki, covering approximately 10,000 subscribers and more than 700 street cabinets. Once the planning had begun, Elisa and Teleste also discussed the installation work, and Elisa decided to order the installation for the area from Teleste on the turnkey principle. The selected hardware solution is based on devices in the AC3000/3200 series standing for Teleste's new generation of amplifiers and M Series passives. Elisa's aim is to improve the network reliability and increase the capacity offered to the subscribers. In connection with the project other measures designed to increase capacity have also been carried out, such as reducing the cell size of the network by installing AC800 fiber nodes.

The work was begun in spring as soon as the snow conditions allowed efficient working. In addition to street cabinets the project also included replacement of distribution amplifiers. The model of the project is an exception to Elisa's earlier approach to network upgrades , since, for instance, Teleste has handled the material call-offs in the field, thus, relieving the workload of Elisa's own personnel in practical terms. As to device installations, preparations have been made for a possible introduction of a element monitoring system in the future. High quality of work is ensured by comprehensive documentation and recording of installation data. Jari Simpanen (Head of Department, Elisa Oyj, Fixed Access): "Cooperation with Teleste in the Riihimäki project has gone well and we are very pleased with the installation work and the quality of operations. Everything has gone on schedule. Since Teleste works as the equipment supplier while being responsible for the planning and installation, cooperation with Elisa has been seamless and characterized by strong expertise in cable technology. We have also placed an order for a similar project over network restructuring in the surrounding municipalities of Riihimäki".

Next Generation City Center Monitoring to Paris

No more than a year ago Teleste secured a position as a technology supplier for the winning consortium to supply Préfecture de Police (PdP) in Paris metropolitan area state-of-the-art video surveillance platform. In the project Teleste is responsible on active video networking equipment, recording infrastructure, software applications, and the required elements for the proper operation and security of such a system, according to regulations related to video surveillance. In December 2011 and after two months of intensive trials and field testing, the first phase with 200 cameras was officially taken in use for round-the-clock. Within next 6 months the system will expand to manage several thousand additional camera feeds. Once fully up and running, this urban video protection system for public areas will provide a decision tool to facilitate traffic management, maintenance of law and order, fight against crime and terrorism and rescue operations thru the whole capital of France.

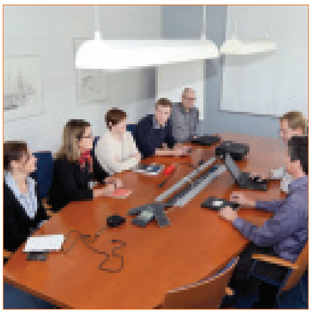
In plain figures the system will manage directly more than 1.200 cameras within Paris territory, and will interconnect with other security networks across Paris metropolitan area, in total covering more than 12.000 cameras: railways (SNCF), underground, city of Paris traffic control, large Parisian malls, etc. In addition, the system will include over 250 workstations, 55 monitoring centres, around 2500 operators, digital video storage for 30 days recordings and authentication of video evidential material. The complete system is based on backbone of a 400 km long and fully secured and redundant optical 10GE network.

Main users of the system, the Paris area authorities (department of Ministry of the Interior), appreciates this unified system that interconnects both the private and public video surveillance systems. The user-friendly technology with clear and homogenous user interfaces provide authorised officers access to live videos but also recordings with indexed data and timestamps. Duty reports and event management is supported with additional tools. The operation with multiple simultaneous camera connections is supported with highly developed and Geographical Information System (GIS). Although the core system operation is based on open standards, the system is taking all the advantages of secured and highly protected network communication methods.

The, by Teleste provided equipment consist of CFO fiber optics, new line of MPH series H.264 encoders and VMX video management building blocks, both software and hardware. The project took an advantage of some recently developed features in the VMX video management platform. A particular new area in software architectural entities is based on web services modules, which are bringing totally new dimension to the VMX platform and its functionality.

- Deliveries of increasingly innovative solutions
- Ever larger system deliveries
- World-class technology solutions

Innovative and Learning Organization

As an innovative technology Group, Teleste's expertise and competitive edge are based on motivated and professional personnel. The function of human resources is to create an organization, which supports the corporate business strategy while being flexible, innovative and learning. At the year-end 2011 Teleste Corporation employed 1319 people.

Customer-focused Thinking

The long-term objectives of our human resources management include satisfied, committed and skilled personnel, which is supported by good leadership, open and inclusive working culture as well as by active HR processes. Each year Teleste's operation is also formulated by a chosen theme, which provides the framework for the planning and implementation of the topical development activities. The theme selected for 2011 was "Growing Together with The Customer"

Development of age management was particularly highlighted in the continuous improvement of Teleste's HR management and the related support for leadership. In 2011, new tools were introduced and supervisors were trained in the management of employees of different ages.

To strengthen open and inclusive working culture, personnel were encouraged to participate in activities related to the theme of the year. In the past year, understanding concerning Teleste's business and the underlying factors was enhanced, and the importance of customer-centric thinking was emphasized throughout the organization. Concrete actions included a personnel training workshop, key customer presentations for the personnel, visits to customers' premises as well as strategic and operational development projects.

Appropriate HR management processes ensure good human resources policy and high-quality management of employee issues. Prioritization and measures were keyed on continuous improvement and harmonization of the Group's employment issues as well as HR management practices by means of managerial communication and training.

Achievement of the goal specified as "Satisfied, committed and skilled personnel" has been assessed by means of Teleste's internal job satisfaction surveys implemented by work communities. Corrective actions were carried out based on results obtained from the surveys, and in-house vocational training was provided for the business units.

Incentive Pay

Teleste's pay and incentive schemes are based on profitability on the corporate, team and personal levels. The deployed incentives include systems of bonuses and payment by results as well as those involving share bonus schemes and options. Implementation of Teleste's equality plan has been evaluated together with personnel representatives.

HR VISION: Flexible, innovative and learning organization in support of Teleste's strategy

HR MISSION: Personnel structure and expertise support the corporate strategy and objectives

HR OBJECTIVES: Good governance, open and inclusive work culture, working HR processes and satisfied, committed and skilled personnel

THE THEME FOR 2011: Growing Together with The Customer

Long-term Careers

We at Teleste believe that well-being at work is shaped by good atmosphere and motivation, and a healthy working community signals a positive employer image and contributes to ensuring the permanence of skilled employees. Well-being at work is monitored on a regular basis through discussions with the occupational health care. For example, long years of service are indicative of job satisfaction among the personnel. At the end of the year 2011 we celebrated 20 individuals who had 10 years of service (previous year 55) and 2 persons with 20 years of service (previous year 8).

Teleste's leisure time committee called Vapari is selected annually from amongst the personnel. This body is in charge of organizing summer and Christmas parties and various events related to physical exercise, like the annual champion cycle commuter competition. Teleste also promotes many types of physical activity by the personnel through financial support.

Natural Interaction

Continuous interaction and flow of information between the personnel and the employer is ensured by meetings held every month between the employer and the employee representatives. Moreover, interaction between the management and personnel is maintained by regular meetings between the representatives of the management and the employees. This has helped to create a flexible co-operation, which allows for quick adaptation to changes in the market.

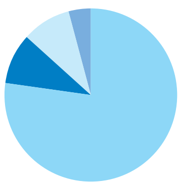
The safety committee meets regularly to evaluate the working environment, its safety and possible risk factors. The prepared plans and measures are designed to turn safety into a part of everyday work.

Cooperation with Educational Institutions

Construction of a positive employer image for future professionals was continued through cooperation with universities and other educational institutions. This process has taken forms such as research collaboration, patronage, and Teleste's representation in various bodies of universities and educational institutes. Teleste is also represented in the Law and Education and Labour Committees of the Turku Chamber of Commerce. The mandate of Education and Labour Committee includes ensuring the availability of skilled workforce and skills development issues. The committee is particularly active at the interface between enterprises and educational institutions.

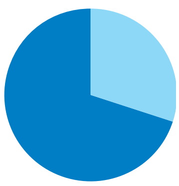
PERSONNEL

PERSONNEL BY BUSINESS AREA



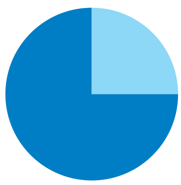
- Operations,77,3%
- Research and Development 9,3%
- Sales and marketing, 9,5%
- Admin & IT, 3,9%

PERSONNEL BY LOCATION



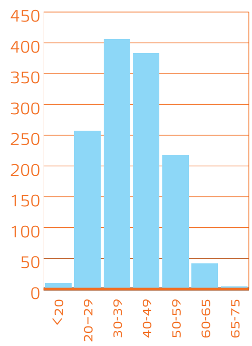
- Finland, 28.1%
- Others, 71.9%

PERSONNEL BY GENDER



- Female, 26.7%
- Male, 73.3%

PERSONNEL BY AGE RANGE



TELESTE ENVIRONMENTAL POLICY:

We understand environmental protection as a strategic choice that is in harmony with Teleste's economic and qualitative objectives.

We recognize the value of environmental responsibility and we are committed to sustainable development, prevention of pollution and reduction of resource consumption.

We comply with relevant environmental legislation, regulations and other requirements to which we subscribe.

New Innovations for More Environmentally Friendly Products

We at Teleste believe that a growing business can only be based on principles of sustainable development and social responsibility. Teleste Code of Conduct has been published to demonstrate our commitment to the determined policy of present and the future. This Code, together with our previously published values, lays down the principles on which Teleste's operations are based in practice.

Teleste requires that also its partners, suppliers and contractors comply with the same set of ethical principles. For example, the Company does not accept the use of child labor in any form and, therefore, declines to have any business with communities that do not follow this principle. Acceptance of social responsibility is already a widespread practice in the industry, since also Teleste's customers and partners often require adherence to these same principles of social responsibility and sustainable development.

Threat Posed by Counterfeit Products

Counterfeiting is a major problem in many industries. It can give rise to quality problems, violate proprietary rights and lead to unethical behavior. Unfortunately, the electronics industry is not immune to unethical conduct, whereby most of the cases involve raw materials of electronic components that may come from illegal sources.

Teleste is aware of these risks and wants to contribute to the fight against counterfeiting. We are is committed to the five key principles presented below, and also expect our suppliers to promote the following by their actions in their own businesses:

1. Combating piracy by means of supplier channel selection
2. Utilization of one's own capacity of manufacturing and final assembly in a profitable manner
3. Purchases are made through authorized and trusted suppliers and trusted channels
4. Supplier audits are carried out regularly
5. All suppliers should promote these principles in their own businesses.

Protecting the Environment by Innovations

One essential component in social responsibility is the commitment to protecting the environment and support to sustainable development. Teleste operates responsibly in environmental matters. We at Teleste believe that sustainable development arises from commitment to sustainable development in all its operations and from the values of innovation designed to improve sustainable development.

Good examples of how product innovation can support sustainable development are provided by Teleste's renewed CATVisor EMS Management Software and AC9000 fiber optic node. Network management and more accurate fault location featured by CATVisor EMS Management Software help customers focus on the essentials and target remedial action to the right place and, thus, reduce any unnecessary truck rolls of the field installers, and thereby reducing the carbon footprint. In turn, the new AC9000 fiber optic node can be managed remotely, and it has advanced automatic control features. Its automatic power control based on the latest component technology ensures that the power consumption of the device is always at the optimum level. Moreover, Teleste's volume amplification products now include power supplies with the Power Factor Correction (PFC) feature, capable of regulating their own efficiency. This reduces the consumption of reactive power in the product's life cycle.

TELESTE ENVIRONMENTAL OBJECTIVES

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

Innovations spanning across product generations in aid of sustainable development have long been an important priority at Teleste. For example, video headend systems have evolved considerably over the years in terms of their size, customer's requirements for a smaller footprint and the power consumed by the system in its life cycle. Teleste's latest Luminato system is based on a new generation of components, which allow the production of an even more energy-efficient and compact headend system. For the customer this means savings in electricity consumption in the system's life cycle and in need for cooling the premises as well as prolonged life thanks to a lower operating temperature and improved service reliability.

Commitment to sustainable development in everything we do also extends to our production and premises. In 2011, we enhanced heat collection on our premises in Littoinen and, thus, ensured an even better energy efficiency of our property.

Reducing the Environmental Load

We at Teleste understand environmental protection as a strategic choice, which is in line with our economic and qualitative objectives. We recognize the value of environmental responsibility and we are committed to sustainable development, prevention of pollution and reduction of resource consumption. We comply with relevant environmental legislation, regulations and other industry requirements to which we subscribe.

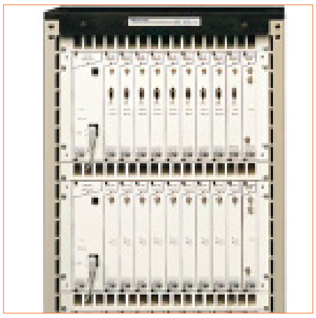
Based on continuous improvement, and in compliance with our environmental policies, Teleste is committed to bringing down the environmental load of its own making. Teleste has been granted the ISO 14001:2004 environmental management system certification. Teleste complies with environmental legislation and regulations in all of its operations. We at Teleste keep an eye on developments in different markets and any implications thereof to our operations. Teleste's operations are guided by its environmental policy, which has been communicated to the Company's employees.

Low Environmental Impact by Production

At Teleste, the environmental burden caused by the manufacturing of our physical products is relatively low compared to the impact of the product's life cycle as a whole. Our production is based on the assembly of PCBs and electronic devices, the production of which gives rise to no significant emissions. Furthermore, Teleste is a significant producer of software applications and the environmental impact of these is very limited. Environ-

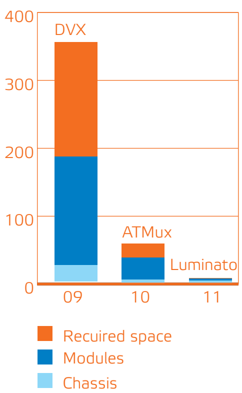
PRODUCT GENERATIONS IN TERMS OF ENVIRONMENTAL FRIENDLINESS

BEFORE: DVX analogue headend

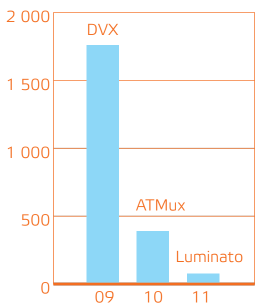


AFTER: Luminato digital IPTV-headend

Number of items



Total power consumption



DVX is Teleste´s latest headend system for managing and delivering of the analogue TV and radio channels.

ATMux was Teleste´s first digital headend platform for processing and transmission of the digital TV services.

Luminato is Teleste´s next generation headend platform for the IP-based cable television and IPTV services transmission.

HIGHLIGHTS 2011

Measures designed to help reducing greenhouse gas emissions, among others

- Transportation of raw materials has been reduced by better classification of raw materials and by developing methods of prediction. Intervals between deliverables have been reduced while batch sizes have been increased.
- R&D moved over onto new more energy efficient premises at the headquarters in Littoinen. At the same time, passenger and freight transport between different offices was eliminated.
- Limit to CO_2 emissions was specified for new car leasing contracts.

Measures designed to reduce the load caused by Teleste's products

- Introduction of the PFC power supply in the amplifiers of the AC product range.
- Introduction of state-of-the-art component technology in our new fiber optic node.
- The new HDO transmitter, with the power consumption approx. 40% smaller than its predecessors.
- EMS network management software featuring more accurate fault location.

mental load related to Teleste's operational activities arises from generation of waste, energy consumption and transportation.

We at Teleste aspire to reduce our generation of waste in all operations. Waste is sorted and most of it is recycled or used for energy, so only a very small fraction ends up in landfill. The amount of hazardous waste is minimal and even that can be mainly recycled. Items consuming energy include heating and power for production facilities, testing equipment and office equipment.

Environmental pollution caused by duty travel is further reduced by adding and expanding the use of tools provided by modern information technology, such as teleconferencing. Furthermore, we encourage our personnel to use bikes for daily commuting over short distances instead of car.

Importance of Energy Efficient Products

At Teleste, environmental management focuses on the management of indirect environmental impacts in the product's entire life cycle. This lays more emphasis on the significance of cooperation with our suppliers, subcontractors and customers. Environmental issues have been incorporated into evaluations of suppliers and subcontractors, and we require commitment to continuous environmental improvement.

As to minimizing the environmental impact caused by our products, product development provides a tool of great importance. Currently, our final products mainly consist of recyclable materials like metals. Systems included in cable networks and video surveillance are, by nature, relatively long-lived compared to other electronic equipment, such as consumer electronics. Moreover, they are maintainable as well as upgradable, which means that their life-cycle can be extended even more. This is to say that the single most significant environmental aspect related to our products is the power they consume. In recent years, particular attention has been paid to this aspect.

At Teleste, we also put a particular emphasis on the end-product packaging and the related environmental friendliness. Most of the packaging materials are fiber-based, which allow for easy recycling.

Reducing the Environmental Impact in 2011

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

IN ITS OPERATIONS TELESTE CONFORMS TO THE FOLLOWING ETHICAL PRINCIPLES

1. **Compliance with Laws and Regulations**
   Teleste along with its subsidiaries, agencies and offices undertake to comply with the national laws of the country, where the given Teleste office is located or where Teleste is operational.

2. **Clientele**
   Teleste undertakes to maintain the trust and respect endowed upon us by our customers. Teleste competes fairly and honestly in supplying products and services to its customers. Illegal or unethical behavior is not tolerated.

3. **Human Rights**
   Teleste respects and complies with internationally recognized human rights, such as those specified in the UN Declaration and the ILO Convention.

4. **Forced Labor**
   Teleste does not engage in, or support, forced labor, nor any non-voluntary work.

5. **Child Labor**
   Teleste does not engage in, or support, the use of child labor.

6. **Prohibition of Discrimination**
   Teleste supports diversity and equality. All Teleste employees are required to appreciate and respect different cultures and customs in the workplace, and no discrimination in the workplace will be tolerated.

7. **Freedom of Assembly**
   Open and direct communication between employees and management is the most effective way to solve issues related to employment and remuneration/rewards. Employees must be able to communicate openly with the management about working conditions without fear of intimidation or harassment.

8. **Health and Safety at Work**
   Teleste is committed to paying attention to employees' health and safety as well as conducting its operations in accordance with applicable laws and regulations.

9. **Prohibition on Bribery**
   Teleste with its employees are committed to integrity, honesty and fairness with regard to both internal and external relations of co-operation.Teleste does not allow, condone, encourage or promote, directly or indirectly, illegal or unethical activities, such as bribery, or other activities, which can be interpreted as being corrupt, illegal or unethical.

10. **Environment**
    Teleste respects the environment and is committed to operating in compliance with applicable laws and regulations.

11. **Supplier Co-operation**
    The abovementioned points provide the selection criteria for our suppliers, who are expected to comply.

Teleste's Code of Conduct is available on Teleste website at http://www.teleste.com/Investors/Teleste Values/Code of Conduct

MARJO MIETTINEN

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

Principal occupation:
EM Group Oy, CEO 2006–

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

Other elected positions of trust:
Componenta Corporation,
Member of the Board 2004–
Efla Oy, Chairman of the Board 2007–
EM Group Oy,
Member of the Board 2005–
Ensto Oy, Member of the Board 2002–
Technology Industries of Finland,
Member of the Board 2007–

PERTTI ERVI

B.Sc. (Eng.), born in 1957
Member of the Board since 2009–
Independent of Teleste and its significant shareholders

Principal occupation:
Independent Consultant

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

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

TERO LAAKSONEN

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

Principal occupation:
Professional Board Member

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

Other elected positions of trust:
Ixonos Plc,
Chairman of the Board 2005–2011
Tieto-X Plc,
Member of the Board 2004–2005

PERTTI RAATIKAINEN

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

Principal occupation:
VTT ICT, Director Technology 2009–

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

KAI TELANNE

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

Principal occupation:
Alma Media Corporation, CEO 2005–

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

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

PETTERI WALLDÉN

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

Principal occupation:
M.Sc. (Eng.)

Primary working experience:
Alteams Oy, CEO 2007–1/2010
Onninen Oy, CEO 2001–2005
Ensto Oy, CEO 1996–2001
Nokia Kaapeli Oy, CEO 1990–1996
Sako Oy, CEO 1987–1990

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

JUKKA RINNEVAARA

M.Sc. (Econ.)
President and CEO
Born in 1961

Joined Teleste in 2002

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

Other elected positions of trust:
Ventilation Holding Finland Oy,
Member of the Board 2008–
Salcomp Plc,
Member of the Board 2009–
Finland Chamber of Commerce,
Member of the Board 2011–

JOHAN SLOTTE

LL.M, EMBA
Deputy CEO
Born in 1959

Joined Teleste in 1999

Member of the Management Group since 1999–

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

ERJA SAARIKOSKI

Business school graduate
CFO
Born in 1953

Primary working experience:
Joined Teleste in 1984

Member of the Management Group since 2002–

HANNO NARJUS

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

Joined Teleste in 2006
Member of the Management Group since 2007–

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

ANDREE KANG

Ph.D. (Eng.)
Network Services,
Senior Vice President
Born in 1964

Joined Teleste 1st. Feb. 2012
Member of the Management Group since 2012–

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

ESKO MYLLYLÄ

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

Primary working experience:
Joined Teleste in 1994

Member of the Management Group since 2006–

MARKUS MATTILA

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

Joined Teleste in 2008
Member of the Management Group since 2008–

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

Juha Järvenreuna was a member of the Management Group until 1 Sep 2011.
Andree Kang started as a member of the Management Group as of 1 Feb 2012.

Information for Shareholders

Share Basics

Teleste Corporation is listed on the NASDAQ OMX Helsinki Oy in the Technology sector. The company shares are included in the book-entry securities system. The company has one series of shares. In Annual General Meeting each share carries one vote and confers an equal right to a dividend. On 31 December 2011, Teleste's registered share capital stood at EUR 6,966,932.80 divided in 18,728,590 shares.

As to the company share price in 2011, the low was EUR 2.50 (3.64) and the high EUR 4.82 (5.33). Closing price on 31 December 2011 stood at EUR 3.00 (4.41).

Facts about the share:

Trading code	TLT1V
Listed on	30 March1999
Listing price	8,20 €
ISIN code	FI0009007728
Reuter's ticker symbol	TLT1V.HE
Bloomberg ticker symbol	TLT1VFH

Financial Releases in 2012:

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

Publication dates:

Interim Report, January–March	26 Apr 2012
Interim Report, January–June	1 Aug 2012
Interim Report, January–September	31 Oct 2012
Financial Statement Release	1 Feb 2013

Publications can be ordered directly to your e-mail from the on-line news release service on Teleste's website

Changes in Shareholders' Contact Information

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

Annual General Meeting

Teleste Corporation's Annual General Meeting (AGM) will be held on Tuesday, 3 April 2012, commencing at 3 p.m., in Helsinki Hall at Finlandia Hall in Helsinki, Mannerheimintie13 e.

Shareholders registered on the list of shareholders with Euroclear Finland Oy on Thursday, 22 March 2012 are entitled to participate in the Annual General Meeting. Shareholders wishing to attend the Annual General Meeting must sign up with the company no later than by 4 p.m. on Monday, 26 March 2012.

Sign up to the AGM by one of the following:

by email at investor.relations@teleste.com,
by telephone +358 2 2605 611 Monday-Friday between 09:00-16:00 EET;
by telefax +358 2 2605 812; or
by regular mail to the address Teleste Corporation,
Tiina Vuorinen, P.O.Box 323, FI-20101 Turku, Finland.

Proposal for Distribution of Dividend 2011

The Board of Directors proposes to the Annual General Meeting that, based on the adopted balance sheet, a dividend of EUR 0.14 per share be paid for shares other than those in company possession for the fiscal year that ended on 31 December 2011.

Annual General Meeting	3 Apr 2012
Dividend ex date	4 Apr 2012
Dividend record date	10 Apr 2012
Payment of dividend	17 Apr 2012

TELESTE

Enabling Digital Evolution

FINANCIAL STATEMENTS 2011

CONTENT

Report of the Board of Directors

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

Business Description and Overview

Video and Broadband Solutions' net sales and profitability increased over the year of comparison.

Network Services' net sales grew from the comparative year. Operating profit was at par with the reference year. In Germany, streamlining of the services processes was in progress, but its impact on profitability fell short of target.

Net Sales and Profitability

The Group's net sales increased 9.4% from the previous year and totaled EUR 183.6 (167.8) million. In the financial year 2011 our main customers, the European cable operators were investing in network segmentation while the households' transmission capacity was increasing. Increased provision of services (digitization of infrastructure) by telecom operators pushed up deliveries of Luminato video headends. In the financial year, main part of the Paris urban area video surveillance project was delivered.

Operating profit stood at EUR 9.4 (7.4) million making 5.1% (4.4%) of the net sales. The year-on-year growth in operating profit was due to an increase in Video and Broadband Solutions' net sales and successful project deliveries.

Year-on-year orders received by the Group improved by 12.5% standing at EUR 188.1 (167.2) million. At the year-end, the order backlog stood at EUR 21.2 (17.0) million.

Profit after financial items totaled EUR 8.8 (6.7) million while the net profit equaled EUR 6.3 (4.8) million. Undiluted result per share for the Group stood at EUR 0.36 (EUR 0.27). The return on capital employed was 11.5% (10.2%) and the return on equity was 11.9% (9.9%).

BUSINESS AREAS

Video and Broadband Solutions

This business area focuses on broadband access networks, video services platforms and CCTV applications. The core clientele of the business area consists of cable operators but includes also resellers and public sector organizations. The main market of the business area is Europe.

The business area has 23 offices of its own and a number of retail and integration partners. Outside Europe, Video and Broadband Solutions has offices of its own located in the United States, Australia, China and India.

Net sales grew by 9.4% over the year of comparison amounting to EUR 89.7 (82.0) million. This increase in net sales was mainly due to higher delivery volumes in video surveillance and integration projects as well as optical product solutions. Operating profit stood at EUR 8.2 (6.3) million making 9.2% (7.7%) of the net sales. This improvement in operating profit over the reference year was brought about by growth in net sales and successful project deliveries. Orders received amounted to EUR 93.3 (86.5) million with the order backlog equaling EUR 20.3 (17.0) million.

The R&D efforts by the business area focused on the IP-based video processing system (the Luminato product range) and the video surveillance transmission system based on H.264 standard. R&D efforts were continued on amplifier technology (the Access product range), optical transmission system for HFC network (the HDO product range) as well as video surveillance management system (VMX).

Network Services

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

Net sales amounted to EUR 93,9 (85,8) million. Operating profit equaled EUR 1.2 (1.1) million. Operating profit remained at par with the comparative period in spite of the 9.4% increase in net sales, which was partly due to increased human resources in the German fiber projects. Moreover, expenses were increased and operating profit was weakened by limited sub-contracting resources and severe weather in the beginning of the year. Orders received totaled EUR 94.8 (80.7) million, while the order backlog amounted to EUR 0.9 (0.0) million. The German development program fell short of the set goal.

R&D and Investments

R&D expenditure for the period under review totaled EUR 11.6 (10.3) million making 6.3% (6.1%) of the net sales. Teleste's R&D expenditure focused on the business area of Video and Broadband Solutions, the R&D expenses of which amounted to 12.9% (12.6%) of the net sales.

Some 60% (60%) of the R&D expenses involved continued development of product platforms currently in production and their maintenance as well as customer-specific product applications. Activated R&D inputs totaled EUR 2.7 (1.7) million. Depreciation on activated R&D expenses amounted to EUR 2.0 (2.4) million.

At the end of the financial period, 9.7% (9.7%/2010, 10.0%/2009) of the Group personnel were working in R&D related duties. Teleste was involved in number of projects in co-operation with Finnish universities and research institutes.

Net investments for the financial period amounted to EUR 5.2 (3.8) million, or 2.9% (2.2%) of the net sales. The largest product development investments involved Luminato video processing system (EUR 1.9 million) and video surveillance management system (EUR 0.6 million). Investment for the Littoinen extension project totaled EUR 1.1 million. Investments in tools and measuring equipment amounted to EUR 1.3 million while those in information systems equaled EUR 0.5 million. Investments of EUR 0.3 (0.1) million were carried out under financial lease arrangements. In Finland, real estate was sold for EUR 0.7 million.

Financing

The Group's liquidity was good throughout the financial year. Operating cash flow stood at EUR 2.1 (5.4) million. Accounts receivable did not result in substantial credit losses. The need for working capital bound by growth was financed by credit facilities of EUR six million in interest-bearing loan. At the end of the period, the amount of unused binding stand-by credits amounted to EUR 7.5 (13.5) million. The current binding stand-by credit facilities of EUR 40.0 million are valid till November 2013. The Group's equity ratio equaled 41.6% (43.6%) while net gearing was 32.2% (25.5%). On 31 December 2011, the Group's interest-bearing debt stood at EUR 33.2 (28.0) million.

Personnel and Organization

In 2011, the Group employed an average of 1,297 people (1,215/2010, 1,103/2009). At the year-end, the figure totaled 1,319 (1,231/2010, 1,260/2009) of which 72% (70%/2010, 68%/2009) were stationed overseas. At the end of the accounting period, rented workforce involved 26 people. This figure is not included in the number of personnel. Employees stationed outside Europe accounted for less than 5% of the Group's personnel. Expenditure on employee benefits amounted to EUR 54.6 (50.8/2010, 44.6/2009) million. The year-on-year growth in employee benefits was brought about by re-establishment of full employment in Finland´s operations, and due to increase in staffing levels of Network Services in Germany and the UK.

Group Structure

In the financial period, Teleste Kaurakatu Oy was sold. Cableway Nord GmbH was merged with Cableway Mitte GmbH, whose name was changed to Cableway Nord GmbH. Cableway Nord Mitte GmbH&KG and Cableway North West GmbH&KG were merged into Teleste Services GmbH.

The parent company has branch offices in Australia, China, Denmark and the Netherlands, with subsidiaries in 12 countries outside Finland. Due to financial arrangements, Teleste Management Oy and Teleste Management II Oy, owned by the members of the Management Group, have been merged with the Teleste Corporation figures.

Key Risks faced by the Business Areas

With Europe as Teleste's main marketing area, our most significant clients include European cable operators and specified organizations in the public sector.

Concerning Video and Broadband Solutions, integrated deliveries of solutions create favorable conditions for growth, even if the involved resource allocation and technical implementation pose a challenge involving reasonable risks. Network investments carried out by the clients vary based on their need for upgrading and their capital structure. Much of Teleste's competition comes from the USA so the exchange rate of euro up against the US dollar affects our competitiveness. Also the exchange rate development of the Chinese renminbi to euro affects our material costs. The company hedges against short-term currency exposure by means of forward contracts. The tight financial market in Europe may slow down the customers' investment plans. Natural phenomena, such as floods and earthquakes, may reduce the availability of components. The right technology choices and their timing are crucial to success.

Net sales of Network Services comes, for the most part, from a small number of large European customers, so a significant change in the demand for services by any one of them is reflected in the actual deliveries. Improvements in customer satisfaction and productivity require efficient control of service process management as well as innovative solutions in processes, products and logistics to ensure the quality of services and cost effectiveness. Smooth operation of cable networks necessitates efficient technical management of the networks and functional solutions for devices in accordance with contractual obligations. This, in turn, requires continuous and determined development of skill levels in Teleste's own personnel as well as those of our subcontractors. Besides, availability of subcontractor network capacity may restrict our ability to deliver.

The business areas will have to keep an eye on market movements, such as consolidations among the customers and competitors. Severe weather conditions have an impact on the business areas' ability to deliver their products and services.

The Board of Directors annually reviews any essential risks related to the company operation and the management thereof. Risk management is an integral part of the strategic and operational activities of the business areas. Risks and their probability are reported to the Board in conjunction with regular monthly reports.

The Company has covered the most significant operational hazard risks of the Business areas by insurance. Insurance does not cover credit loss risks. In the period under review, no such risks materialized, nor was there any pending litigation or legal proceedings, which would have had any significant relevance to the Group's operations.

Decisions by the Annual General Meeting

The Annual General Meeting of Teleste Corporation held on 8 April 2011 confirmed the financial statements for 2010 and discharged the Board of Directors and the CEO from liability for the financial period. The AGM confirmed the dividend of EUR 0.12 per share as proposed by the Board. The dividend was paid out on 20 April 2011

Marjo Miettinen, Pertti Ervi, Tero Laaksonen, Pertti Raatikainen, Kai Telanne and Peter Walldén were elected members of the Board by the Annual General Meeting. Marjo Miettinen was elected chairperson in the organizing meeting of the Board held immediately after the AGM.

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

The Annual General Meeting decided to authorize the Board of Directors to decide on repurchasing the Company's own shares. Based on the authorization, the Board of Directors may repurchase a maximum of 1,400,000 own shares of the Company otherwise than in proportion to the holdings of the shareholders by using the non-restricted equity through public trading on NASDAQ OMX Helsinki Ltd at the market price prevailing at the time of acquisition. The authorization to repurchase own shares is valid until the Annual General Meeting for year 2012.

The Annual General Meeting accepted the proposal of the Board of Directors to authorize the Board of Directors to decide on issuing new shares and/or conveying the Company's own shares held by the Company and/or granting special rights. Based on the authorization, a maximum of 5,000,000 new shares may be issued and a maximum of 1,779,985 of the Company's own shares held by the Company or its group company may be conveyed. The number of shares to be issued to the Company itself together with the shares repurchased to the Company on basis of the authorization to repurchase own shares shall be at the maximum of 1,400,000 shares. The maximum number of new shares that may be subscribed and own shares held by the Company that may be conveyed by virtue of the special rights granted by the Company is 2,500,000 shares in total which number is included in the above maximum numbers of new shares and own shares held by the Company. The authorizations are valid for three (3) years from the resolution of the Annual General Meeting.

Shares and Changes in Share Capital

On 31 December 2011, EM Group Oy was the largest single shareholder with the holding of 21.08%.

In the period under review, the lowest company share price was EUR 2.50 (3.64) and the highest was EUR 4.82 (5.33). Closing price on 31 December 2011 stood at EUR 3.00 (4.41). According to Euroclear Finland Ltd, the number of shareholders at the end of the period under review was 5,054 (5,184). Foreign ownership accounted for 7.76% (8.38%). From 1 January to 31 December 2011, trading with Teleste share at NASDAQ OMX Helsinki amounted to EUR 6.2 (14.2) million. In the period under review, 1.7 (3.2) million Teleste shares were traded on the stock exchange.

In December 2011, the Board decided on a directed share issue of 542,000 shares to Teleste Management II Oy, founded by the Management Group members of Teleste Corporation. This directed share issue was authorized by the AGM on 8 April 2011.

On 31 December 2011, the Group held a total of 1,302,985 own shares (760,985), of which the parent company Teleste Corporation had none (0) while other Group companies or controlled companies had 1,302,985 shares. At the end of the period, the Group's holding of the total amount of shares amounted to 6.96% (4.18%). Based on the rights of options, the Company's holding of shares may increase by 840,000 shares equaling to 4.29% of all shares and votes.

On 31 December 2011, Teleste's registered share capital stood at EUR 6,966,932.80 divided in 18,728,590 shares.

Ownership by Management and Members of the Governing Bodies on 31 December 2011

On the balance sheet date, CEO and the Members of the Board owned 84,791 (98,482) Teleste Corporation shares equaling to 0.45% (0.54%) of all shares and votes. Based on Teleste 2007 stock option rights, CEO was entitled to subscribe 120,000 shares. On the balance sheet date, the ownership including rights of options by the CEO and the Board amounted to 204,791 (218,482) shares, which is equal to 1.09% (1.15%) of all shares and votes. On 31 December 2011, other members of the Management Team were not in the possession of Teleste Corporation shares.

On 31 December 2011, Teleste Management Oy and Teleste Management II Oy (companies established for the management incentive system) owned 923,000 (381,000) shares of the Teleste Corporation. The CEO owns 34.4% and the others 65.6%, respectively, of the Teleste Management Oy shares. Of the Teleste Management II Oy shares the CEO owns 31.25% while the others have a holding of 68.75%, respectively. On 31 December 2011, in addition to CEO's stock options, members of Teleste Corporation's Management Group owned a total of 210,000 (255,000) Teleste 2007 options.

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

Outlook for 2012

In our estimation, deliveries of equipment and solutions in 2012 for the operator clientele by Video and Broadband Solutions in our target market will reach at least the 2011 level. European telecom operators have launched TV distribution infrastructure investments, and in our view, Teleste's optical products and IP network solutions are competitive in this new emerging market.

In our estimate, demand on the annual level for services by Network Services continues relatively stable. We believe that in the main market area of Germany the operating profit will improve from the 2011 level due to more efficient resource management.

Net sales and operating profit will grow over the 2011 level.

The Board's Proposal for the Distribution of Dividends

Parent company Teleste Corporation's distributable equity on the balance sheet date is EUR 36,775,101.54.

The Board of Directors proposes to the Annual General Meeting to be held on 3 April 2012 that a dividend be paid for 2011 of EUR 0.14 (EUR 0.12) per share for the outstanding shares.

31 January 2012

Teleste Corporation	Jukka Rinnevaara
Board of Directors	CEO

STATEMENT OF COMPREHENSIVE INCOME

1,000 €	Note	2011	2010	Change %
Net sales	1	183,616	167,836	9.4
Other operating income	2	2,112	1,460	44.7
Raw material and consumables used		-90,990	-82,054	10.9
Employee benefits expense	3	-54,560	-50,824	7.4
Depreciation and amortisation expense	4	-5,372	-5,896	-8.9
Other operating expenses	5	-25,426	-23,090	10.1
Operating profit		**9,380**	**7,432**	**26.2**
Financial income	6	189	84	125.0
Financial expenses	7	-730	-773	-5.6
Profit before taxes		**8,839**	**6,743**	**31.1**
Income tax expense	8	-2,540	-1,959	29.7
Profit for the financial period		**6,299**	**4,784**	**31.7**
Attributable to:	9			
Equity holders of the parent		6,299	4,784	31.7
Earnings per share for profit of the year attributable to the equity holders of the parent				
(expressed in € per share)				
Basic		0.36	0.27	31.7
Diluted		0.36	0.27	31.7
Total comprehensive income for the period (tEUR)				
Net profit		6,299	4,784	31.7
Translation differences		149	277	-46.2
Fair value reserve		20	–70	n/a
Total comprehensive income for the period		6,468	4,991	29.6
Attributable to:				
Equity holders of the parent		6,468	4,991	29.6

STATEMENT OF FINANCIAL POSITION

1,000 €	Note	2011	2010	Change %
ASSETS				
Non-current assets				
Property, plant and equipment	10	9,364	8,836	6.0
Goodwill	11	31,277	30,959	1.0
Other intangible assets	11	6,338	6,709	-5.5
Available-for-sale investments	12	713	713	0.0
Deferred tax assets	13	1,714	0	n/a
		49,406	47,217	4.6
Current assets				
Inventories	14	24,075	21,000	14.6
Trade and other receivables	15	44,326	32,819	35.1
Cash and cash equivalents	16	15,404	15,203	1.3
		83,805	69,022	21.4
Total assets		**133,211**	**116,239**	**14.6**
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Share capital	17	6,967	6,967	0.0
Share premium	17	1,504	1,504	0.0
Translation differences		54	-95	n/a
Invested nonrestricted equity		2,737	2,737	0.0
Other reserves		-166	-186	-10.8
Retained earnings		43,559	39,183	11.2
Share of non controlling interest		623	292	113.4
		55,278	50,402	9.7
Non-current liabilities				
Interest-bearing liabilities	18	11,940	11,847	0.8
Other liabilities		4,140	3,865	7.1
Deferred tax liabilities	13	1,946	511	280.8
Provisions	19	605	657	-7.8
		18,631	16,880	10.4
Current liabilities				
Trade and other payables	20	35,223	30,161	16.8
Current tax payable	21	1,595	1,240	28.6
Provisions	19	1,211	1,313	-7.8
Interest-bearing liabilities	18	21,273	16,243	31.0
		59,302	48,957	21.1
Total liabilities		**77,933**	**65,837**	**18.4**
Totsl equity and liabilities		**133,211**	**116,239**	**14.6**

CONSOLIDATED CASH FLOW STATEMENT

1,000 €	Note	2011	2010
Cash flows from operating activities			
Profit for the period		6,299	4,784
Adjustments for:			
Non-cash transactions	23	5,552	6,143
Interest and other financial expenses		730	773
Interest income		-138	–72
Dividend income		-51	–12
Income tax expense		2,540	1,959
Changes in working capital and provisions			
Increase in trade and other receivables		-11,407	–4,650
Increase in inventories		-3,075	1,265
Increase in trade and other payables		4,809	–3,942
Decrease in provisions		-154	431
Paid interests and dividends		-760	–565
Received interests and dividends		189	84
Paid taxes		-2,471	–786
Net cash from operating activities		**2,063**	**5,412**
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		0	–3,643
Purchases of property, plant and equipment (PPE)		-3,346	–1,022
Proceeds from sales of PPE		714	306
Purchases of intangible assets		-2,822	–1,499
Proceeds from sale of shares		93	0
Net cash used in investing activities		**-5,361**	**–5,858**
Cash flows from financing activities			
Proceeds from borrowings		6,000	5,520
Repayments of borrowings		-222	–966
Payment of finance lease liabilities		-655	–596
Dividends paid		-2,091	–1,394
Proceeds from issuance of ordinary shares		319	289
Net cash used in financing activities		**3,351**	**2,853**
Change in cash			
Cash and cash equivalents at 1 January		15,203	12,518
Effect of currency changes		149	277
Cash and cash equivalents at 31 December		15,404	15,203

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent								
1,000 €	Share capital	Share premium	Translation differences	Retained earnings	Invested non-restricted equity	Other reserves	Total	Non controlling interest	Total equity
At 1 January 2010	6,967	1,504	-372	35,949	2,737	-116	46,669		**46,669**
Total comprehensive income for the period			277	4,784		-70	4,991	0	4,991
Total recognised income and expense for the year	0	0	277	4,784		-70	4,991	0	**4,991**
Issue of new shares*								289	289
Dividends				-1,424			-1,424	30	-1,394
Changes in subsidiary interest				-373			-373	-27	-400
Equity-settled share-based payments				247			247		247
	0	0	0	-1,550	0		-1,550	292	**-1,258**
At 31 December 2010	6,967	1,504	–95	39,183	2,737	–186	50,110	292	**50,402**
Total comprehensive income for the period			149	6,299		20	6,468	0	6,468
Total recognised income and expense for the year	0	0	149	6,299		20	6,468	0	**6,468**
Issue of new shares*								319	319
Dividends				-2,137			-2,137	46	-2,091
Changes in subsidiary interest				34			34	-34	0
Equity-settled share-based payments				180			180		180
	0	0	0	-1,923	0	0	-1,923	331	**-1,592**
At 31 December 2011	**6,967**	**1,504**	**54**	**43,559**	**2,737**	**-166**	**54,655**	**623**	**55,278**

** Part of Teleste management incentive program*

Accounting principles

Company profile

Teleste Corporation (the”Company”) is a Finnish public limited liability company organised under the laws of Finland and domiciled in Turku in Finland. Its registered address is Seponkatu 1, 20660 Littoinen.

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

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) in force as at 31 December 2011. International financial reporting standards, referred to in the Finnish Accounting Act and in ordinances issued based on the provisions of this Act, refer to the standards and their interpretations adopted in accordance with the procedure laid down in regulation (EC) No 1606/2002 of the EU. The notes to the consolidated financial statements also include additional information in accordance with the Finnish accounting and company legislation.

Teleste adopted IFRSs as from 1 January 2005. Prior to IFRSs Teleste’s financial statements were based on Finnish accounting standards (FAS) applicable to listed companies in Finland. IFRS 1 First-time adoption of IFRS was applied in the transition. Teleste’s date of transition to IFRSs was 1 January 2004.

The Group has applied the following new and revised standards and interpretations as of 1 January 2011:

- IAS 32 (Amendment) “Financial instruments: Classification of rights issues”
- IAS 24 (Revised) “Related party disclosures”
- IFRIC 19 “Extinguishing financial liabilities with equity instruments”
- IFRIC 14 (Amendment) “Prepayments of a minimum funding requirement”
- Annual amendments to the IFRS’s (Annual improvements).

The above mentioned changes, amendments and interpretations do not have any material impact on Teleste ’s financial reporting.

Basis of preparation

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

Use of estimates

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

Subsidiaries

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

Associates

Associates included in the consolidated financial statements are those entities in which Teleste Group holds voting rights over 20% or in which it otherwise has significant influence, but not control, over the financial and operating policies. Holdings in associates are accounted for using the equity method from the date that significant influence commences until the date that significant influence ceases. The Group’s proportionate share of associates’ net income for the financial year is presented as a separate line item in the consolidated income statement. The unrealised profits between the Group and associates are eliminated in proportion to share ownership. The carrying amount of an investment in an associate includes the carrying amount of goodwill resulted from its acquisition. When Teleste’s share in an associate’s losses exceeds its interest in the associate, the Group’s carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate or made payments on behalf of the associate. At the end of the reporting period the Group had no investments in associates.

Joint ventures

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

Principles of consolidation

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

Teleste has applied the exemption under IFRS 1 according to which the classification and accounting treatment of business combinations occurred prior to the IFRS transition date do not have to be restated but previous values under FAS are taken as a deemed cost.

Financial statements of foreign subsidiaries

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

All translation differences arising from consolidation of foreign shareholdings are recognised as a separate item in the comprehensive income. In accordance with the exemption included in IFRS 1 those cumulative translation differences arisen until the transition date have been reclassified to retained earnings and consequently they will not be later released in the income statement. From the transition date onwards translation differences arising on the consolidation are presented as a separate component of equity. If an interest in a foreign entity is disposed of all, or part of, that entity, related cumulative translation differences deferred in equity are recognised in the income statement as part of the gain or loss on sale.

Foreign currency transactions

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

Property, plant and equipment

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

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

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

Land is not depreciated.

Leases

Group as lessee

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

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

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

Group as lessor

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

Intangible assets

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

Goodwill

Goodwill represents the Group's share of difference between the cost of the acquisition and the fair value measured at the acquisition date of the net identifiable assets, liabilities and contingent liabilities acquired. The difference is first allocated, where applicable, to the underlying assets. The rest of the excess is presented as goodwill as a separate item in the consolidated balance sheet. Goodwill has been allocated to segments and in respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate. Goodwill is stated at cost less any cumulative impairment losses. Goodwill (together with other intangible assets with indefinite lives) is not amortised but is tested annually for impairment. Consequently goodwill was amortised on a straight-line basis over the expected useful life until 31 December 2003, after which the amortisation was discontinued.

Research and development costs

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

Other intangible assets

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

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

The estimated useful lives are as follows:

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

Non-current assets held for sale and discontinued operations

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

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

Impairment

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

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

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

Inventories

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

Financial assets and liabilities

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

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either classified as held for trading, or they are designated by the Group as at fair value through profit or loss upon initial recognition. A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of short-term profittaking from changes in market prices or it is a derivative that does not qualify for hedge accounting. Financial assets and liabilities at fair value through profit or loss are recognised on the balance sheet using trade date accounting. They are measured at their fair values, which is the bid price at the balance sheet date based on published price quotations in an active market. Both financial assets held for trading and other financial assets maturing in 12 months after the balance sheet date are included in the current assets. A gain or loss arising from a change in the fair value, realised or unrealised, is recognised in the income statement as incurred.

Derivatives and hedge accounting

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

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

Available-for-sale assets

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

Loans and receivables

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

Held-to-maturity investments

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

Financial liabilities

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

Trade receivables

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

Cash and cash equivalents

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

Treasury shares

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

Dividends

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

Provisions

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

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

Revenue recognition and net sales

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

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

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

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

Other operating income

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

Government grants

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

Employee benefits

Pension arrangements

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

Share-based payments

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

Operating profit

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

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

= operating profit / loss

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

Borrowing costs

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

Interest and dividend income

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

Income taxes

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

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

Accounting policies requiring management's judgement and key sources of estimation uncertainty

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

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

Application of new and revised IFRS standards

The IASB has published the following standards or interpretations that are not yet effective and that Teleste has not yet adopted. Teleste will adopt them as from their effective dates, if the effective date is the same as the beginning of the financial year, or if the effective date is different, they will be adopted as from the beginning of the following financial year.

IFRS 7 (amendment) "Financial instruments: Disclosures" (effective from 1 July 2011). The amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets. This amendment does not have any material impact on Teleste 's financial reporting. The amendment has not yet been endorsed by EU.

IFRS 7 (amendment) "Financial instruments: Disclosures" (effective from 1 January 2013). The IASB and the FASB issued common disclosure requirements that are intended to help investors and other financial statement users to better assess the effect or potential effect of offsetting arrangements on a company's financial position. This amendment does not have any material impact on Teleste 's financial reporting. The amendment has not yet been endorsed by EU.

IAS 32 (amendment) "Financial instruments: Presentation" (effective from 1 January 2014). The amendments Offsetting Financial Assets and Financial Liabilities address inconsistencies in current practice when applying the offsetting criteria in IAS 32. This amendment does not have any material impact on Teleste 's financial reporting. The amendment has not yet been endorsed by EU.

IAS 1 “Presentation of items of other comprehensive income” (amendment to IAS1) (effective from 1 July 2012). The amendment changes the grouping of items presented in OCI. Items that would be reclassified to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment has not yet been endorsed by EU.

IAS19 (amendment) ”Employee benefits” (effective from 1 January 2013). The impact will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in OCI as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). Teleste is yet to assess the full impact of the amendment. The amendment has not yet been endorsed by EU.

IFRS 9 ”Financial Instruments” (effective from 1 January 2015). This standard is a part of a wider project to replace IAS 39 and the later phases will be issued mainly during 2010. New standard provides guidance in respect of classification and measurement of financial instruments. Later phases relate to impairment of financial instruments and hedge accounting. In Teleste ’s estimation, this standard will not have any material impact on valuation of Teleste ’s financial instruments compared with present IAS 39 but will have some effect on presentation of Teleste ’s financial instruments. This standard has not yet been endorsed by EU.

IFRS 10 ”Consolidated financial statements” builds on existing principles by identifying the concept of control as the determining factor in whether the entity should be included within the consolidated financial statemenst of the parent company. The change will not have any material impact on Teleste ’s financial reporting. The amendment has not yet been endorsed by EU.

IFRS 11 “Joint arrangements” (effective from 1 January 2013). The change will not have any material impact on Teleste ’s financial reporting. The amendment has not yet been endorsed by EU.

IFRS 12 “Disclosures of interest in other entities” (effective from 1 January 2013). The standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates and/or structured entities. This standard has not yet been endorsed by EU.

IFRS 13 “Fair value measurement” (effective from 1 January 2013). The standard will not have any material impact on Teleste ’s financial reporting. This standard has not yet been endorsed by EU.

IAS 27 (revised) “Separate financial statements” (effective from 1 January 2013). The standards includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included to new IFRS 10. The amended standard has not yet been endorsed by EU.

IAS 28 (revised) “Associates and joint ventures” (effective from 1 January 2013). The standard include requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The revised standard has not yet been endorsed by EU.

Other changes or amendments to other published IFRS standards and IFRIC’s do not have any material impact on Teleste ’s financial reporting.

Segment Reporting

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

Business segments

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

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

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

Geographical division

The two segments operates in four geographical areas:

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

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

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

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

Unallocated items

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

BUSINESS SEGMENTS

2011 1,000 €	Video and Broadband Solutions	Network Services	Group
External sales			
Services	4,305	93,900	98,205
Goods	85,411	0	85,411
Total external sales	89,716	93,900	183,616
Operating profit of segments	8,220	1,160	9,380
Operating profit	9,380		
Financial items	-541		-541
Profit before taxes	8,839		8,839
Non-current assets of segment	35,545	13,861	49,406

2010 1,000 €	Video and Broadband Solutions	Network Services	Group
External sales			
Services	3,379	85,829	89,208
Goods	78,628	0	78,628
Total external sales	82,007	85,829	167,836
Operating profit of segments	6,345	1,087	7,432
Operating profit			7,432
Financial items			–689
Profit before taxes			6,743
Non-current assets of segment	33,527	13,690	47,217

Geographical division

2011 1,000 €	Finland	Nordic countries	Other Europe	Others	Group
Sales by origin	10,830	11,059	154,979	6,748	183,616
Assets	38,576	9,280	83,634	1,721	133,211
Capital expenditure	3,631	15	1,576	18	5,240

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

Major customer

Revenues from one customer of the Group's Network Services segment represents approximately 56.7 Meur in 2011 (51.6 Meur in 2010), which is 30.9% (30.7%) of Group net sales.

Business combinations acquired during 2011 and 2010

During 2011 there were no acquisitions. A conditional supplementary contract price of 600 thousand euro was recognised in other operating expenses during 2011. The total unpaid contract price of 4,104 thousand euros is booked in non current liabilities.

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

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

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

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

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

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

The fair values determined in the business combination are based on the following estimates:

- The fair value of acquired trade marks is determined to equate with the discounted royalties, which have been managed to be avoidable by owing the trademarks in question. A reasonable royalty per cent, that an external party would pay for a licensing agreement, has been estimated when determining the fair values.
- The fair value of acquired technology is determined to equate with the discounted product development costs, which have been managed to be avoidable by owing the technology in question.
- Determination of fair value of the customer relationships is based on the estimated life time of the customer relationships and the discounted cash flows to be derived from the existing customerships.

FINAL CALCULATION OF RECOGNISED FAIR VALUES ON ACQUISITION OF SATLAN

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

FINAL CALCULATION OF RECOGNISED FAIR VALUES ON ACQUISITION OF FREYCOM

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

NOTES TO THE CONSOLIDATED INCOME STATEMENT AND BALANCE SHEET

1 CONSTRUCTION CONTRACTS

Group revenue includes 1 907 thousand euros in 2011 (2 708 thousand euros in 2010) of income from construction contracts.

Revenue recognised in the consolidated income statement from construction contracts in progress amounted to 101 thousand (412 thousand euros). No advance payments included to balance sheet at the closing time.

2 OTHER OPERATING INCOME

1,000 €	2011	2010
Government grants related to development costs	1,191	1,148
Rental income	81	59
Government grants	840	253
Total	**2,112**	**1,460**

3 EMPLOYEE BENEFITS

Wages and salaries	-42,904	−39,425
Pension expenses		
Defined contribution plans	-7,931	−7,412
Other post employment benefits	-4,739	−4,387
Activated R&D salaries and social costs	1,193	647
Equity-settled share-based transactions	-180	−247
Total	**-54,560**	**−50,824**

Information on the remuneration of (and loans to) the Group management is presented in the note Related party transactions.

The average number of employees during the financial year	1,297	1,215

4 DEPRECIATION, AMORTISATION AND IMPAIRMENT

Depreciation and amortisation by asset type:		
Tangible assets		
Buildings	-343	−348
Machinery and equipment	-1,405	−1,302
Other tangible assets	-295	−618
Total	**-2,043**	**−2,268**
Intangible assets		
Capitalised development expenses	-1,990	−2,379
Other intangible assets	-1,339	−1,249
Total	**-3,329**	**−3,628**
Impairment losses		
Goodwill	0	0
Total	**0**	**0**
Total	**-5,372**	**-5,896**

5 OTHER OPERATING EXPENSES

1,000 €	2011	2010
Rental expenses	-4,516	-4,237
External services	-2,881	-2,889
Other variable costs	-3,994	-3,975
Travel and IT costs	-4 ,069	-4,736
R&D costs	-3,705	-3,187
Other expenses	-6,260	-4,066
Total	**-25,426**	**-23,090**

Audit expenses

KPMG		
Auditing assignments	-191	-164
Tax consultancy	-56	-27
Other assignments	-8	-17
Other auditors		
Auditing assignments	-36	-36
Other assignments	-20	-21

6 FINANCIAL INCOME

Interest and other financial income	138	72
Dividend income	51	12
Total	**189**	**84**

7 FINANCIAL EXPENSES

Interest expenses	-702	−659
Exchange losses	-1	−36
Other financial expenses	-27	−78
Total	**-730**	**−773**

Other financial expenses includes interests from financial leasing expenses during the period 27 teur (36 teur in 2010).

Losses from forward exchange contratcs are included in operating profit.

8 INCOME TAXES

1,000 €	**2011**	2010
Recognised in the income statement		
Current year	-2 ,443	–1,764
Adjustments for prior years	-25	–230
Deferred tax expense	-72	35
Total	**-2,540**	**–1,959**

Reconciliation of the tax expense, EUR -2 540 thousand, calculated using the Teleste Group's domestic corporation 26 % tax rate:

Profit before tax	8 839	6 743
Income tax using the domestic corporation tax rate (26 %)	-2,298	-1,753
Effect of tax rates in foreign jurisdictions	44	-86
Tax debt increase related to balance sheet items	-72	35
Non-deductible expenses	-189	-76
Taxes from previous year	-25	-230
Effect of tax losses utilised	0	150
Income tax income/expense reported in the consolidated income statement	**-2,540**	**-1,959**

9 EARNINGS PER SHARE

The basic earnings per share is calculated as follows:

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

The number of ordinary shares outstanding excludes the treasury shares.

The diluted earnings per share is calculated as follows:

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

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

	2011	2010
Profit for the year attributable to equity holders of the parent, (1 000 €)	6,299	4,784
Weighted average number of ordinary shares outstanding during the financial year (1 000)	17,425	17,425
Basic earnings per share (€)	0.36	0.27
Weighted average number of ordinary shares outstanding during the financial year (1000)	17,425	17,425
Effect of share options on issue (1000)	0	268
Weighted average number of ordinary shares outstanding during the financial year (diluted) (1 000)	17,425	17,693
Diluted earnings per share (€)	0.36	0.27

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

10 PROPERTY, PLANT AND EQUIPMENT

1,000 €	Land areas	Buildings	Machinery and equipment	Other tangible assets	Advance payments	**Total**
Balance at 1 January 2011	153	9,128	20,067	4,805	0	**34,153**
Translation difference +-		-102	-30		45	**-87**
Additions	0	861	1,602	222	353	**3,038**
Disposals	-105	-252	-15,027	-3,786	0	**-19,170**
Balance at 31 December 2011	48	9,635	6,612	1,241	398	**17,934**
Depreciation and impairment losses						
Balance at 1 January 2011	0	-3,838	-17,137	-4,342	0	**-25,317**
Cumulative depreciations on disposals			14,978	3,810		**18,788**
Depreciation charge for the year	0	-343	-1,405	-293	0	**-2,041**
Balance at 31 December 2011	0	-4,181	-3,564	-825	0	**-8,570**
Carrying amounts at 1 January 2011	153	5,290	2,930	463	0	**8,836**
Carrying amounts at 31 December 2011	48	5,454	3,048	416	398	**9,364**

1,000 €	Land areas	Buildings	Machinery and equipment	Other tangible assets	**Total**
Balance at 1 January 2010	153	8,900	19,373	4,583	**33,009**
Additions	0	209	578	222	**1,009**
Acquisitions through business combinations	0	19	116	0	**135**
Balance at 31 December 2010	153	9,128	20,067	4,805	**34,153**
Depreciation and impairment losses					
Balance at 1 January 2010	0	-3,490	-15,835	-3,724	**-23,049**
Depreciation charge for the year	0	-348	-1,302	-618	**-2,268**
Balance at 31 December 2010	0	-3,838	-17,137	-4,342	**-25,317**
Carrying amounts at 1 January 2010	153	5,410	3,538	859	**9,960**
Carrying amounts at 31 December 2010	153	5,290	2,930	463	**8,836**

Carrying amount of production machinery and equipment	at 31 December 2011	2,535
	at 31 December 2010	2,930

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

1,000 €	Machinery and equipment
2011	
Historical cost	2,216
Cumulative depreciation	-1,624
Carrying amount at 31 December	592
2010	
Historical cost	2,606
Cumulative depreciation	–1,797
Carrying amount at 31 December	809

11 INTANGIBLE ASSETS

1,000 €	Goodwill	Develop-ment costs	Other intangible assets	Total
Balance at 1.1 2011	31,759	13,771	6,933	**52,463**
Translations differences	318		136	**454**
Additions	0	2,723	0	**2,723**
Disposals	0	-5,002	0	**-5,002**
Balance at 31.12.2011	32,077	11,492	7,069	**50,638**
Amortisation and impairment losses				
Balance at 1.1. 2011	-800	-10,572	-3,423	**-14,795**
Cumulative depreciations on disposals		5,103		**5,103**
Amortisation for the year	0	-1,990	-1,341	**-3,331**
Balance at 31.12.2011	-800	-7,459	-4,764	**-13,023**
Carrying amounts 1.1.2011	30,959	3,199	3,510	**37,668**
Carrying amounts 31.12.2011	31,277	4,033	2,305	**37,615**

1,000 €	Goodwill	Develop-ment costs	Other intangible assets	Total
Balance at 1.1 2010	32,457	12,029	6,002	**50,488**
Additions	5,103	1,742	1,160	**8,005**
Disposals	-5,801	-	-229	**-6,030**
Balance at 31.12.2010	31,759	13,771	6,933	**52,463**
Amortisation and impairment losses				
Balance at 1.1. 2010	-800	-8,193	-2,174	**-11,167**
Amortisation for the year	0	-2,379	-1,249	**-3,628**
Balance at 31.12.2010	-800	-10,572	-3,423	**-14,795**
Carrying amounts 1.1.2010	31,657	3,836	3,828	**39,321**
Carrying amounts 31.12.2010	30,959	3,199	3,510	**37,668**

For the purposes of impairment testing goodwill items of the Group have been allocated to the segments, each of which represents a separate cash-generating unit. The aggregate goodwill amount totalled 31.3 million euro at 31 December 2011. Goodwill has been allocated to the following cash-generating unit (Meur):

Video and Broadband Solutions	23.5
Network Services	7.8

The recoverable amount of the segments is based upon value-in-use calculations. Those calculations use cash flow projections based upon the strategy and budgets approved by the management. Calculations are prepared covering a 10 years' period. The cash flow for Video and Broadband Solutions segment covers the five first years with 5% annual growth rate and for Network Services segment over 20% annual growth for the 3 first years and 5% annual growth rate for the next 2 years (For both Video and Broadband Solutions and Network Services first 5 years is based on 5% yearly growth rate) The expected future cash flows for a further 5 year period are extrapolated using a 2% (5 %) growth rate for both segments.

Management's view on the cash flows is cautious as the changes of the industry are difficult to foresee. A discount rate of 10.99% (12.7%) has been used in discounting the projected cash flows. The terminal value of the segments is calculated by using a growth rate of 2%. The impairment test process included the sensitivity analysis of the segment or a cash generating unit (CGU) in the segment, in which the specific yearly cash flow estimates were reduced by 1 - 3 percentage units and the discount interests were increased by 1 - 2 percentage units. In Video and Broadband Solutions segment the recoverable amount is 48% higher than the carrying amount of net assets. If the annual growth rate would decrease to 2% annually for the next 10 years and discount rate would increase 3.2 percentage units, then the recoverable amount would be 1% higher than the carrying amount of net assets. In Networks Services segment the recoverable amount is 21% higher than the carrying amount of net assets. If the annual growth rate would be 10% less than the growth expectation for 3 next years and 2% annually the following next 7 years and discount rate woulld stay at 10.99%, then the recoverable amount would be 4% higher than the carrying amount of net assets.

The Group received a grant amounting to 1.6 million euro from Tekes (National Technology Agency of Finland) towards development costs in 2011 (2010: 1.4 million euro). From the grant received 0,36 million euro (2010: 0,22 million euro) has been recognised to deduct the carrying amount of the asset. The grant has the condition, according to which 10 % of the total costs of the project have to be incurred through subcontracting work in Finnish small and medium-sized companies.

12 AVAILABLE-FOR-SALE INVESTMENTS

1,000 €	**2011**	2010
Unlisted shares	713	713
Total	713	713

13 DEFERRED TAX ASSETS AND LIABILITIES

1,000 €	Balance 1. Jan. 2011	Recognised in the income statement	Balance 31 Dec. 2011
Movements in temporary differences during 2011			
Deferred tax assets			
Effects of consolidation and eliminations	894	-185	709
Unused tax losses	333	99	432
Provisions	244	29	273
Other items	72	0	72
Cumulative depreciation difference	270	-42	228
Total	**1,813**	**-99**	**1,714**
Deferred tax liabilities			
Capitalisation of intangible assets	-831	-99	-930
Fair value adjustments to intangible and tangible assets on acquisition	-913	362	-551
Cumulative depreciation difference	-333	105	-228
Other taxable temporary differences	-247	10	-237
Total	**-2 324**	**378**	**-1 946**

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

1,000 €	Balance 1. Jan. 2010	Recognised in the income statement	Balance 31 Dec. 2010
Movements in temporary differences during 2010			
Deferred tax assets			
Effects of consolidation and eliminations	1,698	-804	894
Unused tax losses	0	333	333
Provisions	244	0	244
Other items	41	31	72
Cumulative depreciation difference	442	-172	270
Total	**2,425**	**-612**	**1,813**
Deferred tax liabilities			
Capitalisation of intangible assets	-991	160	-831
Fair value adjustments to intangible and tangible assets on acquisition	-1,160	247	-913
Fair value adjustments to derivatives	-256	-77	-333
Other taxable temporary differences	-283	36	-247
Total	**-2,690**	**366**	**-2,324**

At 31 December 2011 the Group had unused tax losses in subsidiaries amounting 4,800 thousand euro. A tax asset has been booked from 1,440 thousand euro as this loss will not expire (31 Dec. 2010: 1,185 thousand euro). A tax asset has not been booked from 3,360 thousand euro due to the uncertainty if the Group can utilize them.

No deferred tax liability has been provided for the undistributed profits of the foreign subsidiaries amounting to 15,004 thousand euro at 31 Dec. 2011 (31 Dec. 2010: 14,744 thousand euro). This is because the realization of this tax liability is unlikely in the near future.

14 INVENTORIES

1,000 €	2011	2010
Raw materials and consumables	5,281	3,963
Work in progress	12,254	11,398
Finished goods	6,540	5,639
Total	**24,075**	**21,000**

The amount of the impairment losses of inventories to the net realisable value recognised as an expense during the financial period is 1,200 thousand euro. At the end of the financial year 3,900 thousand euro was deducted from the inventory value to the net realisable value (31 Dec. 2010: 5,152 thousand euro).

15 TRADE AND OTHER CURRENT RECEIVABLES

1,000 €	2011	2010
Trade receivables	40,095	28,082
Accrued income and prepayments	1,006	2,070
Other receivables	3,225	2,667
Total	**44,326**	**32,819**

16 CASH AND CASH EQUIVALENTS

	2011	2010
Cash at bank and in hand and call deposits	15,404	15,203
Total	**15,404**	**15,203**
Cash and cash equivalents in the statement of cash flows	15,404	15,203

17 CAPITAL AND RESERVES

1,000 €	Number of shares, 1,000	Number of own shares, 1,000	Number of shares, total 1,000	Share capital, 1,000 €	Reserve fund, 1,000 €
At 1 January 2010	17,426	379	17,805	6,967	1,504
Issue of new shares (Teleste Management Oy)		381	381		
Share options exercised by employees	0	0	0	0	0
Own shares purchased	0	0	0	0	0
Own shares sold	0	0	0	0	0
At 31 December 2010	17,426	760	18,186	6,967	1,504
Issue of new shares (Teleste Management II Oy)	0	542	542	0	0
Share options exercised by employees	0	0	0	0	0
Own shares purchased	0	0	0	0	0
Own shares sold	0	0	0	0	0
At 31 December 2011	17,426	1,302	18,728	6,967	1,504

The number of Teleste Oyj shares was 18,728,590 at 31 December 2011 (31 Dec. 2010 18,186,590 shares). All shares issued have been fully paid.

The Annual General Meeting of Teleste Oyj held on 8th of April 2011 decided to authorize the Board of Directors to decide on issuing new shares and/or conveying the Company's own shares.

Based on the authorization, a maximum of 5,000,000 new shares may be issued and a maximum of 1,779,985 of the Company's own shares held by the Company or its group company may be conveyed. The number of shares to be issued to the Company itself together with the shares repurchased to the Company on basis of the authorization to repurchase own shares shall be at the maximum of 1,400,000 shares. The maximum number of new shares that may be subscribed and own shares held by the Company that may be conveyed by virtue of the special rights granted by the Company is 2,500,000 shares in total which number is included in the above maximum numbers of new shares and own shares held by the Company.

On the basis of authorization granted by the Annual General Meeting of Teleste Oyj held on 8 April 2011, the Board of Directors of Teleste decided on 5th December 2011 on a share issue against payment directed to Teleste Management II. In the share issue, a maximum total of 542,000 new shares in Teleste will be offered for subscription by Teleste Management II, in derogation from the shareholders' pre-emptive subscription rights. There are weighty financial reasons for the derogation from the shareholders' pre-emptive subscription rights as the shares to be issued in the share issue will be used for the implementation of the incentive and commitment plan of the members of the Teleste Management Group. At the end of December 2011, the number of own shares in the Group possession stood at 1,302,985.

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

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

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

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

Translation reserve

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

Dividends

After the balance sheet date the dividend of 0.14 euro per share (2010 0.12 euro per share) was proposed by the Board of Directors.

17 SHARE-BASED PAYMENTS

Teleste Corporation had one option scheme in operation during the period: Stock Options 2007. The scheme was approved by Teleste annual general shareholders' meetings in 2007. The stock options have an average maturity of 6 years from the plan launch including a waiting period and a two-year share subscription period. Under the schemes outstanding at the end of the period the annual general meeting of shareholders has authorized Teleste board of directors to grant up to 840 000 options to the Group key employees or to Teleste subsidiary, which may be authorized to grant options further to the Group key personnel. The options are forfeited if the employee leaves the Group before the options vest. The options expire unless not distributed or exercised by the end of the share subscribtion period. Dilution effect of the new shares potentially subscribed with the outstanding stock options the after share capital increase currently amount to 3,76%, at maximum. Key characteristics and terms of the Teleste option schemes in operation at the end of the period are listed in the table below.

Basic information	Stock Options 2007			Total
2011	2007A	2007B	2007C	
31 December 2011				
Annual General Shareholders' Meeting date	03 April 2007	03 April 2007	03 April 2007	
Grant date(s)	24 August 2007	15 October 2008	21 September 2009	
Maximum number of stock options	280,000	280,000	280,000	840,000
The number of shares subscribed by one option	1	1	1	
Initial exercise price *	12.89 €	6.94 €	3.57 €	
Dividend adjustment	Yes	Yes	Yes	
Exercise price Dec. 31, 2008	12.45 €	6.70 €	--	
Exercise price Dec. 31, 2009	12.33 €	6.58 €	3.57 €	
Exercise price Dec. 31, 2010	12.25 €	6.50 €	3.49 €	
Exercise price Dec. 31, 2011 **	12.13 €	6.38 €	3.37 €	
Beginning of exercise period (vesting)	01 April 2010	01 April 2011	01 April 2012	
End of excercise period (expiration)	30 April 2012	30 April 2013	30 April 2014	
Maximum contractual life, years	5.1	6.1	7.1	
Remaining contractual life Dec. 31, 2010, years	0.3	1.3	2.3	
Number of persons Dec. 31, 2011	Vested	Vested	41	
Vesting conditions	Employment until beginning of exercise period			

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

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

Changes during the period 2011	Stock Options 2007				Weighted average remaining life, years
	2007A	2007B	2007C	Weighted average exercise price in €	
01 January 2011					
Outstanding at the beginning of the period	224,000	240,000	268,000	7.16	
Changes during the period					
Granted	0	0	0	-	
Forfeited	0	0	5,000	-	
Exercised	0	0	0	-	
Expired	0	0	0	-	
Weighted avergae share price, € ***	3.64	3.28	-	3.45	
31 December 2011					
Outstanding at the end of the period	224,000	240,000	263,000	7.04	1.39
Exercisable at the end of the period	224,000	240,000	0	-	

*** *weighted average price for Teleste share during the time that particular option could have been exerciced in 2011.*

Changes during the period 2010	Stock Options 2007				Weighted average remaining life, years
	2007A	2007B	2007C	Weighted average exercise price in €	
01 January 2010					
Outstanding at the beginning of the period	239,000	263,000	268,000	7.317	
Changes during the period					
Granted	0	0	0	-	
Forfeited	15,000	23,000	0	8.770	
Exercised	0	0	0	-	
Expired	0	0	0	-	
Weighted avergae share price, € ***	4.56	-	-	5	
31 December 2010					
Outstanding at the end of the period	224,000	240,000	268,000	7.16	2.39
Exercisable at the end of the period	224,000	0	0	-	

*** *weighted average price for Teleste share during the time that particular option could have been exerciced in 2010.*

The fair value of options have been determined at grant date and the fair value is expensed until vesting. The fair value of stock options have been determined by using Black–Scholes valuation model. No new options were granted during the period 2011. The effect of all options on the Group's earnings during the period was 0.180 MEUR (2010: 0.244 MEUR). The pricing of the options granted during the period was determined by the following inputs:

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

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

18 INTEREST-BEARING LIABILITIES

1 000 €	**2011**	2010
Non-current		
Loans from financial institutions	11,605	11,515
Finance lease liabilities	335	332
Total	**11,940**	**11,847**
Current		
Loans from financial institutions	21,003	15,629
Finance lease liabilities, current portion	271	614
Total	**21,274**	**16,243**

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

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

1 000 €	**31 Dec 2011**	**31 Dec 2010**
EUR	11,940	11,847
	11,940	11,847

Group long-term interest-bearing liabilities - interest rates are as follows:

Bank loans	1.6%	1.2%
Finance lease liabilities	3.5%	3.9%

The currency mix of the Group short-term interest-bearing liabilities:

1 000 €	100%	100%
EUR	100%	100%

Group short-term interest-bearing liabilities - interest rates are as follows:

Bank loans	2.0%	1.8%
Finance lease liabilities	3.5%	3.9%

Finance lease liabilities of the Group are payable as follows:

Minimum lease payments		
Less than one year	282	645
Between one and five years	344	340
Total	626	985
Present value of minimum lease payments		
Less than one year	271	614
Between one and five years	335	332
Total	606	946
Future finance charges	20	39
Total finance lease liabilities	626	985

19 PROVISIONS

1 000 €	Warranties	**Total**
Balance at 1 January 2011	1,970	**1,970**
Provisions made during the year	-154	**-154**
Balance at 31 December 2011	1,816	**1,816**

	2011
Non-current	605
Current	1,211
Total	**1,816**

Warranties

The Group grants 12-36 months guarantees for its certain products. If defects are detected during the warranty period, the Group either repairs the product or delivers a comparable new product. The amount of the warranty provision is based on the past experience on defective products and an estimate of related expenses.

20 TRADE AND OTHER CURRENT LIABILITIES

1 000 €	**2011**	2010
Current		
Trade payables	14,043	11,048
Personnel, social security and pensions	6,116	5,465
Accrued interest expenses and other financial items	53	78
Other accrued expenses and deferred income	10,577	8,717
Advances	400	748
Other liabilities	4,044	4,105
Total	**35,233**	**30,161**
Non current		
Other liabilties	4,140	3,865

21 INCOME TAX PAYABLE FOR THE PERIOD

At the end of the period there was income tax payable 1,595 thousand euro on the profit for the period (31 Dec. 2010 there was 1,240 thousand euro tax payable).

Financial Risk Management

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

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

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

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

Market risk

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

Currency risk

Transaction risk

The Group's currency position is divided into the transaction position and net investments in foreign operations. Foreign exchange exposures of the Group's units arise from receivables and accounts payables denominated in foreign currency, sales and purchase contracts and from forecast sales and purchases. Major part of the Group's sales is in Euro. The most significant non-euro sales currencies are PLN (accounts for 5 per cent of the net sales), Swedish and Norwegian crowns (6 per cent) and UK pound sterling (2 per cent). Significant part of expenses, 67 per cent, arise in euro and in US dollar almost 30 per cent. The hedging decisions are based on the expected net cash flow for the following six months.

Assets and liabilities in foreign currency translated at closing rate

	2011					2010			
	USD	SEK	NOK	GBP	PLN	USD	SEK	NOK	GBP
Current assets	964	1,043	850	2,204	2,104	770	1,596	1,450	1,275
Current liabilities	1,637	1,490	732	1,290	1,346	1,389	894	367	228

Cash flow hedges at 31 Dec 2011

Currency position

Currency	Exposure	Hedge	Net	Hedge Instrument	Hedge%
USD	2,870	2,334	535	Forward exchange contract	81
SEK	319	0	319	Forward exchange contract	0
NOK	1,493	1,158	335	Forward exchange contract	78
GBP	1,550	1,135	415	Forward exchange contract	73

Cash flow hedges at 31 Dec 2010

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

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

At the year-end 2011 the fair value of currency derivatives amounted to 7.4 million euro (31. Dec 2010: 8.3 million euro).

Translation risk

Since the Group's currency risk exposure regarding net investments in foreign operations is relatively low, the equity position, i.e. differences in the calculatory euro values of these amounts (translation risk) is not actively hedged. At 31 December 2011 the total non-euro-denominated equity of the Group's foreign subsidiaries amounted to 3.2 million euro (31 Dec. 2010: 3.0 million euro).

Sensitivity to market risk

Sensitivity to market risks arising from financial instruments as required by IFRS 7	**2011** Profit or Loss	2010 Profit or Loss
+-10 % change in EUR/USD exchange rate	+-54	+–6
+-10 % change in EUR/SEK exchange rate	+-3	+–11
+-10 % change in EUR/NOK exchange rate	+-33	+–54
+-10 % change in EUR/GBP exchange rate	+-40	+–102

Fair value interest rate risk and cash flow interest rate risk

Teleste's interest rate risk mainly comprises cash flow interest rate risk that arises from the interest-bearing liabilities. The Group can have floating or fixed interest loans and use interest swap contracts to achieve financial objectives. At the end of the reporting period 21,000 thousand euro have short-term interest as a reference rate. The interest period is of less than one year. During 2009, the group withdrew a 3-year loan of EUR 11,500 million to finance the acquisitions in Germany. For this loan which is hedged by a 3 years interest swap contract, 2.6%, hedge accounting is applied. The change in the fair value of this hedging instrument, 20 thousand euro, is recognised in equity. The fair value of the interest swap contract is -167 thousand euro. All Group loans are denominated in euro. In 2011, the average interest rate of the loan portfolio was 2.02% per cent. All finance lease agreements are fixed-rate. The Group does not hedge the risk position resulting from the fair value interest rate risk as the position is small. The average balances of the variable rate loans realized during the period have been used in calculating the sensitivity analysis required by IFRS 7. At the closing date 31 December 2011, the effect on variable rate interest-bearing liabilities on profit before taxes would have been +-210 thousand euro had the interest rate increased or decreased by 1 percentage point.

Period in which repricing occurs	Within 1 year	1 year –5 years	over 5 years	**Total**
Financial instruments with floating interest rate				
Financial liabilities				
Loan from financial institutions	21,043			**21,043**
Financial instruments with fixed interest rate				
Financial liabilities				
Loan from financial institutions		11,500		**11,500**

Credit risk

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

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

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

	2011			2010		
Analysis of trade receivables by age	Gross	Impair-ment loss	**Net**	Gross	Impair-ment loss	**Net**
Undue trade receivables	34,929		34,929	21,155		21,155
1–30 days	4,087		4,087	4,330		4,330
31–60 days	1,009		1,009	1,412		1,412
Over 60 days	2,409	-2,339	70	3,109	–1,923	1,186
Total	**42,434**	-2,339	**40,095**	**30,005**	–1,923	**28,082**

The maximum exposure to credit risk at the reporting date was:	**2011**	2010
Loans and receivables	44,320	32,756
Available for sale financial assets	713	713

Liquidity risk

Liquidity risk is monitored through Group's cash flow forecasts. The Group seeks to reduce liquidity risk through sufficient cash reserves and credit facility arrangements as well as with balanced maturity profile of loans. Efficient cash and liquidity management also reduces liquidity risk. At the year-end 2011 the Group's cash reserves totaled 15.4 million euro and its interest-bearing net debt 33.2 million euro. The Group administration raises the Group's interest-bearing debt centrally. At 31 December 2011 Teleste had committed and available credit facilities as well as other agreed and undrawn loans amounting to 40 million euro. Group's loan agreements and committed loan facilities include profitability and cash flow covenants.

The recognition and measurement principles applied to derivatives are described in the accounting principles for the consolidated financial statements. The nominal and fair values of derivatives at the balance sheet date are presented in the note Commitments and contingencies to the consolidated financial statements.

As of 31 December 2011, the contractual maturity of interest-bearing liabilities was as follows:

	2012	2013	2014	2015	2016
Loans from financial institutions	21,509	11,504			
Trade payables	14,043				
Finance lease liabilities	282	173	122	49	
Forward exchange contracts					
Outflow	-7,434				
Inflow	7,335				
Other	54				

As of 31 December 2010, the contractual maturity of interest-bearing liabilities was as follows:

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

Capital risk management

The Group's objective when managing capital is to secure the continuity of the business and to make investments possible with optimal capital structure. The capital structure of the Group is reviewed by the Board of Directors on a regular basis.

The Group monitors its capital on the basis of leverage ratio, the ratio of interest-bearing net debt to interest-bearing net debt, plus total equity. Interest-bearing net debt is calculated as borrowings less cash and cash equivalents. The Group's objective to maintain the leverage less than 50%.

The leverage ratio as of 31 December 2011 and 2010 was as follows:

	2011	2010
Total borrowings	33,213	28,090
Cash and cash equivalents	15,404	15,203
Interest-bearing net debt	17,809	12,887
Total equity	55,278	50,402
Interest-bearing net debt and total equity	73,087	63,289
Leverage ratio	24.4%	20.4%

22 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

Derivative instruments

Teleste uses forward exchage contracts to hedge its balance sheet items against transaction risk. The changes in the fair values of forward exchage contracts designated as hedging instruments are fully recognised through profit and loss. The fair value changes of forward exchange contracts amounted to -99 thousand euro in 2011 (2010: -293 thousand euro) and they are recognised as adjustements to sales. Long term bank loans are hedged by a interest swap contract. For this interest swap contract Teleste apply hedge accounting. The fair value changes of interest swap contracts amounted to -166 thousand euro of which 20 thousand euro is entered in the total comprehensive income. The currency exchange contracts and interest swap contracts are in level 2.

Available-for-sale financial assets

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

Finance lease liabilities

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

Trade and other payables or receivables

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

Following discount rates were used for determining fair value:

	2011	2010
Finance lease liabilities	3.5%	3.9%

Carrying amounts of financial assets and liabilities by measurment categories

	Note	Financial assets and liabilities at fair value through income statement	Loans and receivables	Available for sale financial assets	Financial liabilities measured at amortized cost	Carrying amount by balance sheet item	Fair Value
2011 Balance item							
Non current financial assets							
Other financial assets	12			713		713	713
Current financial assets							
Trade and other receivables	15		40,095			40,095	40,095
Carrying amount by category		0	40,095	713	0	40,808	40,808
Non-current financial liabilities							
Interest-bearing liabilities	18	335			11,605	11,940	11,940
Current financial liabilities							
Interest-bearing liabilities	18	271			21,003	21,274	21,274
Forward exchange contracts	25	99				99	99
Interest swap contracts	25	166				166	166
Trade and other payables	20				14,043	14,043	14,043
Other current liabilities	20				54	54	54
Carrying amount by category		871	0	0	46,705	47,576	47,576

	Note	Financial assets and liabilities at fair value through income statement	Loans and receivables	Available for sale financial assets	Financial liabilities measured at amortized cost	Carrying amount by balance sheet item	Fair Value
2010 Balance item							
Non current financial assets							
Other financial assets	12			713		713	713
Current financial assets							
Trade and other receivables	15		28,082			28,082	28,082
Carrying amount by category		0	28,082	713	0	28,795	28,795
Non-current financial liabilities							
Interest-bearing liabilities	18	332			11,515	11,847	11,847
Current financial liabilities							
Interest-bearing liabilities	18	614			15,629	16,243	16,243
Forward exchange contracts	25	293				293	293
Interest swap contracts	25	256				256	256
Trade and other payables	20				11,048	11,048	11,048
Other current liabilities	20				78	78	78
Carrying amount by category		1,495	0	0	38,270	39,765	39,765

23 ADJUSTMENTS TO CASH FLOWS FROM OPERATING ACTIVITIES

1,000 €	2011	2010
Non-cash transactions:		
Depreciation and amortisation	5,372	5,896
Employee benefits	180	247
Total	**5,552**	**6,143**

24 OPERATING LEASES

Group as lessee

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

Less than one year	614	653
Between one and five years	1,075	231
More than five years	1,337	1,370
Total	3,026	2,254

The Group leases factory and office facilities outside Finland under operating leases. The leases typically run for a period of 2-5 years, normally with an option to renew the lease after that date. According to the index clauses of the leases lease payments are increased every two years. From 2010 figures leasing liabilites for machines have been deducted.

The Group has sublet part of its production and office property in Finland to an external company. The agreeement is valid until further notice. In 2011 the lease payments in respect of this part of property amounted to 81 thousand euro (2010: 54 thousand euro). This property was sold during 2011.

25 COMMITMENTS AND CONTINGENCIES

1,000 €	2011	2010
Collateral for own commitments		
Other commitments	0	640
Rental and leasing liabilities		
Rental liabilities	3,026	2,254
Lease liabilities	5,098	4,227
Currency derivatives		
Value of the underlying forward contracts	7,434	8,283
Market value of the forward contracts	-99	–293
Interest swap contracts		
Value of the underlying interest swap contracts	11,500	11,500
Market value of intersest swap contracts	-167	–256

26 RELATED PARTY TRANSACTIONS

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

Companies owned by the Group and parent company	Group holding, %	Group voting, %
Parent company Teleste Oyj, Turku, Finland		
Cableway Süd GmbH, Munchen, Germany	100	100
Cableway AG, Bergisch Gladbach, Germany	100	100
Cableway Nord GmbH, Bergisch Gladbach, Germany	100	100
Cableway Nord GmbH & Co. KG, Bergisch Gladbach, Germany	100	100
Cableway Cyber Optic GmbH & Co. KG (former MKS Cyber Optic GmbH & Co. KG), Bergisch Gladbach, Germany	100	100
Cableway Management GmbH (former MKS Management GmbH), Bergisch Gladbach, Germany	100	100
DINH TechniCom S.A., Herstal, Belgium	100	100
DINH TeleCom S.A., Herstal, Belgium	100	100
Flomatik A/S, Porsgrun, Norway	100	100
Flomatik Network Services Ltd, Fareham, UK	100	100
Freycom S.A., Yverdon, Switzerland	100	100
Kaavisio Oy, Turku, Finland	100	100
Promacom AB, Stockholm, Sweden	100	100
Satlan Sp z o.o., Wroclaw, Poland	100	100
Suomen Turvakamera Oy, Vantaa, Finland	100	100
Teleste India Ptv. Mumbai, India	100	100
Teleste Incentive Oy (former Suomen Yhteisantennit Oy), Turku, Finland	100	100
Teleste Belgium SPRL, Bryssel, Belgium	100	100
Teleste d.o.o., Ljutomer, Slovenia	100	100
Teleste Electronics (SIP) Co., Ltd, Shuzhou, China	100	100
Teleste France SAS, Paris, France	100	100
Teleste GmbH, Hannover, Germany	100	100
Teleste LLC, Georgetown Texas, USA	100	100
Teleste Services GmbH, Hildesheim, Germany	100	100
Teleste Sweden AB, Stockholm, Sweden	100	100
Teleste UK Ltd, Cambridge, UK	100	100
Teleste Video Networks Sp z o.o., Krakov, Poland	100	100

The key management personnel compensations

1 000 €	**2011**	2010
CEO		
Salaries and other short-term benefits	391	499

During 2011 no options were granted to the CEO of Teleste (2010: 0 options).

The terms of the management share option plans are similar to those of other employees' share option plans, except for the terms of 2007 options. According to the 2007 option terms the recipient has to subscribe Teleste shares to the amount that equals his net annual salary. At 31 December 2011 management had 120,000 (2010: 120,000) options, of which 0 were exercisable (2010: 0). Management of the parent company has 0,45 % or 84,791 of the parent company's shares (2010: 0,54% or 98,482 shares). CEO holding in the Teleste Management Oy stands at 34.4% and in the Teleste Management II Oy 31.25 %.

A voluntary pension fee for CEO amounted 59 teur (56 teur in 2010).

1,000 €	2011	2010
Remuneration to Board members and Managing Director:		
Chairman of the Board	43	47
Members of the Board	137	152
CEO Jukka Rinnevaara	391	499
Total	**571**	**698**

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

No cash loans were granted to nor commitments assumed or collaterals given regarding CEO or the members of the Board of Directors in 2011 and 2010.

The Board of Directors of Teleste decided in December 2011, in accordance with the decision of the Annual General Meeting held on 8 April 2011, on a share issue against payment directed to Teleste Management II. In the share issue, a maximum total of 542,000 new shares in Teleste will be offered for subscription by Teleste Management II, in derogation from the shareholders' pre-emptive subscription rights. There are weighty financial reasons for the derogation from the shareholders' pre-emptive subscription rights as the shares to be issued in the share issue will be used for the implementation of the incentive and commitment plan of the members of the Teleste Management Group. For the purpose of the share ownership, some of the members of the Management Group have established a limited liability company named Teleste Management II Oy ("Teleste Management II"), whose entire capital stock they or corporations over which they exercise control own. Upon establishment of the Plan, the intention of Teleste Management II is to acquire Teleste shares for a maximum of EUR 1,600,000, in total. The share acquisition was financed by capital investments in Teleste Management II by members of the Management Group, in the maximum total amount of EUR 320,000, as well as by a loan provided by Teleste. Some of the members of the Management Group did finance their capital investments in Teleste Management II by selling the Teleste shares they currently hold. The Board of Directors of Teleste Corporation decided 3 March 2010 on a new incentive plan directed to the members of the Teleste Management Group. The purpose of the plan is to commit the members of the Management Group to Teleste Corporation ("Teleste") by encouraging them to acquire and hold Teleste's shares and this way increase Teleste's shareholder value in the long run. Through this incentive plan, the members of the Management Group personally invest a considerable amount of their own funds in Teleste's shares. The directors finance their investments partly themselves and partly by a loan provided by Teleste. The actual owner risk will be carried out personally by the directors for the part of their personal investment in the plan. For the purpose of the share ownership, the members of the Management Group established a limited company named Teleste Management Oy ("Teleste Management"), whose entire share capital they own. Teleste Management acquired a total of 381,000 Teleste's shares from Teleste. The share acquisition was financed by capital investments in Teleste Management by the members of the Management Group, in the maximum total amount of approximately EUR 290,000, as well as by a loan provided by Teleste. Some of the members of the Management Group financed their capital investments in Teleste Management by selling Teleste's shares they held. After the plan was implemented in full, the members of the Management Group hold 4.92% of the Teleste's shares through Teleste Management.

28 SUBSEQUENT EVENTS

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

INCOME STATEMENT OF PARENT COMPANY 1.1. - 31.12.2011

1,000 €	Note	2011	2010
Net sales	1	**59,115**	**55,451**
Change in inventories of finished goods		841	817
Other operating income	2	4,153	3,668
Materials, supplies and services	3	-24,870	–23,140
Wages, salaries and social expenses	4	-18,679	–18,015
Depreciation and amortisation	5	-524	–709
Other operating expenses		-16,251	–13,216
Operating profit		**3,783**	**4,858**
Financial income and expenses	6	3,477	3,722
Profit before extraordinary items		**7,260**	**8,580**
Extra ordinary items	7	-290	–761
Profit before taxes		**6,970**	**7,819**
Appropriations	8	311	–220
Direct taxes	9	-593	–1,414
Profit for the financial period		**6,688**	**6,185**

BALANCE SHEET 31.12.2011

1,000 €	Note	2011	2010
Non-current assets			
Intangible assets	10	32	0
Property, plant and equipment	10	5,685	5,342
Long-term receivables	11	29,490	26,822
Investments	12	22,972	24,760
		58,179	**56,925**
Current assets			
Inventories	13	7,043	4,959
Trade and other receivables	14	22,584	14,063
Cash and cash equivalents	15	8,201	9,841
		37,829	**28,863**
Total assets		**96,009**	**85,789**
Shareholders' equity			
Share capital	16	6,967	6,967
Share premium	16	1,504	1,504
Invested non-restricted equity	16	5,784	4,185
Retained earnings	16	24,305	20,257
Profit for the financial period	16	6,688	6,185
		45,247	**39,097**
Appropriations	8	**411**	**722**
Provisions	17	**949**	**949**
Liabilities			
Long-term liabilities	18	11,500	11,500
Short-term liabilities	17	37,901	33,521
		49,401	**45,021**
Total equity and liabilities		**96,009**	**85,789**

CASH FLOW STATEMENT

1,000 €	**2011**	2010
Cash flow from operations		
Operating profit	3,783	4,858
Adjustments to operating profit	524	709
Change in net working capital	-11,865	-4,880
Interest income	1,394	1,128
Interest expenses	-710	-648
Dividend income	4,193	2,255
Paid group contribution	-290	-761
Other financial items	-17	236
Taxes paid	-952	-257
Cash flow from operations	**-3,939**	**2,639**
Investments		
Payment of other tangible assets	-1,604	-1,064
Sale of other tangible assets	596	262
Sale of shares	93	0
Long term receivables	-2,667	0
Investments in subsidiary shares	421	-3,442
Cash flow from investments	**-3,161**	**-4,244**
Cash flow before financing	**-7,101**	**-1,605**
Financing		
Short-term liabilities	6,000	5,000
Paid dividends	-2,137	-1,424
Other reserves	1,280	1,160
Share issue	318	287
Financing total	**5,461**	**5,023**
Change in liquid funds	**-1,640**	**4,526**
Liquid funds 1 Jan	9,841	5,315
Liquid funds 31 Dec	8,201	9,841

Accounting principles

Accounting principles of Teleste Corporation

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

Foreign Currency Transactions

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

Derivatives

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

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

Valuation of Fixed Assets

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

Intangible assets	3 years
Goodwill	10 years
Other capitalised expenditure	3 years
Buildings	25 to 33 years
Machinery	3 to 5 years
Computers	0 to 3 years

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

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

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

Leased Assets

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

Inventories

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

Cash

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

Net Sales

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

Percentage of completion method: sales and anticipated profits under significant long-term engineering and construction contracts are recorded on a percentage-of-completion basis, using units of delivery (based on predetermined milestones) or the cost-to-cost method of accounting as the measurement basis. Estimated contract profits are recorded in earnings in proportion to recorded sales. In the cost-to-cost method, sales and profits are recorded after considering the ratio of accumulated costs to estimated total costs to complete each contract. In the event that the company can be held as the main contractor of a long-term delivery contract, various product expenses, including raw materials and labour costs, will be accounted for in the calculation of the completion percentage. Possible changes in the anticipated total expenses or loss related to a long-term delivery contract are expensed as incurred.

Research and Development

R&D expenses are recorded as revenue expenditure.

Pension Arrangements

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

Income Taxes

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

Treasury shares

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

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

1. NET SALES

1,000 €	2011	2010
Net sales by segments		
Video and Broadband Solutions	58,625	55,451
Network Services	490	0
Total	**59,115**	**55,451**
Net sales by market area		
Finland	9,820	10,497
Nordic countries	7,059	8,355
Other Europe	35,488	27,479
Others	6,748	9,120
Total	**59,115**	**55,451**

2. OTHER OPERATING INCOME

R&D subvention and others	4,153	3,668
Total	**4,153**	**3,668**

3. MATERIALS, SUPPLIES AND SERVICES

Purchases	-25,805	-22,928
Change in inventories	1,243	65
	-24,562	**-22,863**
Purchased services	-308	-277
Total	**-24,870**	**-23,140**

4. PERSONNEL EXPENSES

Wages and salaries	-15,186	-14,783
Pension costs	-2,658	-2,452
Other personnel costs	-835	-780
Total	**-18,679**	**-18,015**
Remuneration to Board members and Managing Directors	571	698
Cash loans, securities or contingent liabilities were not granted to the President or to the members of the Board of Directors.		
Year-end personnel	375	366
Average personnel	373	378
Personnel by function at the year-end		
Research and Development	103	102
Production and Material Management	215	210
Sales and marketing	29	29
Administration	28	25
Total	**375**	**366**

5. DEPRECIATION ACCORDING TO PLAN

1,000 €	2011	2010
Other capitalized expenditure	-134	-243
Buildings	-267	-291
Machinery and equipment	-114	-174
Other intangible rights	-27	0
Total	**-542**	**-708**

6. FINANCIAL INCOME AND EXPENSES

Interest income	50	40
Interest income from Group companies	1,344	1,089
Interest expenses	-652	-540
Interest expenses to Group companies	-58	-108
Currency differences	-17	-44
Other financial income and expenses	-1,383	281
Dividend income from Group companies	4,143	2,996
Dividend income	50	9
Total	**3,477**	**3,723**

7. EXTRA ORDINARY ITEMS

Paid group contribution	290	761

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

Change in accumulated depreciation difference		
Buildings	217	−220
Other capitalized expenditure	94	0
Total	**311**	**−220**
Accumulated depreciation in excess of plan	411	722

9. INCOME TAXES

Direct taxes	-652	-1,157
Taxes from previous years	60	-257
Total	**-592**	**-1,414**

10. TANGIBLE AND INTANGIBLE ASSETS

		Tangible assets				
	Intangible assets	Land	Buildings	Machinery	Other capital-ized expendi-ture	**Total**
Acquisition cost 1 Jan	**7,579**	86	8,233	8,751	3,713	**20,783**
Increases	40	0	1,065	87	324	**1,476**
Disposals	0	-38	-559	-772	0	**-1,369**
Acquisition cost 31 Dec	**7,619**	48	8,739	8,066	4,037	**20,890**
Accumulated depreciation 1 Jan	**7,579**	0	3,311	8,546	3,597	**15,454**
Cumulative depreciations on disposals	**0**	0	0	-764	0	**-764**
Depreciation	8	0	267	114	134	**515**
Accumulated depreciation 31 Dec	**7,587**	0	3,578	7,896	3,731	**15,205**
Book value 31 Dec 2011	**32**	**48**	**5,161**	**170**	**306**	**5,685**
Book value of machinery and equipment 31 Dec 2011			139			
Book value of machinery and equipment 31 Dec 2010			120			

11. LONG TERM RECEIVABLES

1,000 €	2011	2010
Subordinated loan from group company	165	1,200
Other long term receivables from group companies	29,325	25,455
Other long term receivables	0	167
Total	**29,490**	**26,822**

12. INVESTMENTS

	Shares in group compa-nies	Shares others	Total
Acquisition cost 1. Jan	25,531	714	26,245
Increase	0	0	0
Acquisition cost 31. Dec	**25,531**	**714**	**26,245**
Accumulated depreciation 1. Jan	-1,485	0	-1,485
Disposals	-418		-418
Loss on disposals	-1,370	0	-1,370
Accumulated depreciation 31. Dec	**-3,273**	**0**	**-3,273**
Book value 31. Dec 2011	**22,258**	**714**	**22,972**

13. INVENTORIES

1,000 €	2011	2010
Raw materials and consumables	2,253	1,010
Work in progress	2,777	3,001
Finished goods	2,013	948
Total	**7,043**	**4,959**

14. CURRENT ASSETS

	2011	2010
Accounts receivables	11,435	7,904
Accounts receivables from Group companies	9,737	5,111
Other receivables from Group companies	0	5
Other receivables	80	0
Accrued income	1,333	1,043
Total	**22,584**	**14,063**

15. LIQUID FUNDS

	2011	2010
Cash and cash equivalents	**8,201**	**9,841**

16. CHANGES IN SHAREHOLDERS' EQUITY

1,000 €	2011	2010
Share capital 1 Jan	6,967	6,967
Share capital 31 Dec	6,967	6,967
Share premium fund 1 Jan	1,504	1,504
Share premium fund 31 Dec	1,504	1,504

1,000 €	2011	2010
Invested non-restricted equity 1 Jan	4,185	2,737
Share issues	1,598	1,448
Invested non-restricted equity 31 Dec	**5,784**	**4,185**
Retained earnings 1 Jan	26,441	21,681
Dividends	-2,136	-1,425
Retained earnings 31 Dec	24,305	20,257
Profit for the financial period	6,688	6,185
Accumulated profit 31 Dec	30,993	26,442
Total	**45,247**	**39,097**
Companys distributable equity 31. Dec	36,775	30,626

Company's registered share capital consists of one serie and is divided into 18,728,590 shares at 1 vote each.

17. OBLIGATORY PROVISIONS

1,000 €	2011	2010
Provision for guarantees	**949**	**949**

18. LONG TERM LIABILITIES

	2011	2010
Bank Loan	**11,500**	**11,500**

19. SHORT TERM LIABILITIES

	2011	2010
Bank loans	21,000	15,000
Advance payments received	299	422
Advance payments from Group companies	865	0
Accounts payables	4,152	4,099
Accounts payables from Group companies	989	999
Other current liabilities	1,433	1,513
Other current liabilities from Group companies	2,905	6,081
Accrued liabilities	6,259	5,408
Total	**37,901**	**33,521**

20. CONTINGENT LIABILITIES AND PLEDGED ASSETS

	2011	2010
Leasing liabilities		
For next year	606	663
For later years	1,123	542
Total	**1,729**	**1,205**
Rental liabilities	**1,603**	**1,635**
Liabilities on own behalf		
Bank guarantees	0	0
Guarantees given on behalf of subsidiaries	0	0

21. CURRENCY DERIVATES

	2011	2010
Value of underlying forward contracts	5,023	5,195
Market value of forward contracts	-80	–277

Forward contracts are used only for hedging currency exchange risks.

22. COMPANIES OWNED BY THE GROUP AND PARENT COMPANY

	Corporate's share %	Parent company's share %
Teleste Services GmbH, Hildesheim, Germany	100	100
Cableway Nord GmbH, Bergisch Gladbach, Germany	100	0
Cableway Nord GmbH & Co. KG, Bergisch Gladbach, Germany	100	0
Cableway Süd GmbH , Mynchen, Germany	100	0
Cableway Cyber Optic GmbH&Co. KG (former MKS Cyber Optic GmbH & Co. KG), Bergisch Gladbach, Germany	100	0
Cableway Management GmbH (former MKS Management GmbH), Bergisch Gladbach, Germany	100	0
Cableway AG, Bergisch Gladbach, Germany	100	12,5
Teleste Belgium SPRL, Bryssel, Belgium	100	100
Dinh TechniCom S.A., Herstal, Belgium	100	0
Dinh TeleCom S.A., Herstal, Belgium	100	1
Flomatik A/S, Porsgrun, Norway	100	100
Flomatik Network Services Ltd. Fareham,UK	100	100
Freycom S.A. Yverdon, Switzerland	100	100
Kaavisio Oy, Turku, Finland	100	100
Promacom AB, Tukholma, Sweden	100	100
Satlan Sp z o.o., Wroclaw, Poland	100	100
Suomen Turvakamera Oy, Vantaa, Finland	100	100
Teleste India Ptv. Mumbai, India	100	100
Teleste Incentive Oy, Turku, Finland	100	100
Teleste d.o.o., Ljutomer, Slovenia	100	100
Teleste Electronics (SIP), Shuzhou, China	100	100
Teleste France SAS, Paris, France	100	100
Teleste GmbH, Hannover, Germany	100	100
Teleste LLC, Georgetown Texas, USA	100	100
Teleste Sweden AB, Tukholma, Sweden	100	100
Teleste UK Ltd, Cambridge, UK	100	100
Teleste Video Networks Sp z o.o., Krakov, Poland	100	100

23. OWN SHARES

	Number of shares	Nominal value euros	Percentage of share capital and votes
Teleste Oyj owns own shares 31. Dec 2011	0	0	0

24. SHARES AND OWNERS

Management interest

	Number of shares	Percentage of shares	Percentage of shares and votes
CEO and Board Members	84,791	0.45	0.45

Option programs

Number of shares entitled to subscribe with options

	Number of shares	Votes after exercised options
CEO	120,000	0.61
Other option holders	607,000	3.10
2007 program warrants hold by the group	113,000	0.58
Total	**840,000**	**4.29**

Audit expenses	**2011**	2010
Auditing assignments	48	44
Tax consultancy	56	27
Other assignments	8	8

25 SHARES AND SHAREHOLDERS

Major shareholders 31. Dec 2011	Shares	%
EM Group Oy	3 ,948,513	21.08
Mandatum Life	1,679,200	8.97
Ilmarinen Mutual Pension Insurance Company	936,776	5.00
Kaleva Mutual Pension Insurance Company	824,641	4.40
Op-Suomi Small Cap	550,000	2.94
Teleste Management II Oy	542,000	2.89
Varma Mutual Pension Insurance Company	521,150	2.78
State Pension Fund	500,000	2.67
Aktia Capital Mutual Fund	450,000	2.40
Skagen Vekst Verdipapierfond	429,000	2.29
Teleste Management Oy	381,000	2.03
Teleste Incentive Oy	379,985	2.03
Fim Fenno Mutual Fund	271,342	1.45
Eläke-Fennia Mutual Pension Insurance Company	220,000	1.17
Martnok Oy	187,820	1.00
Sumato Oy	142,610	0.76
Pharmacy Pension Fund (Finland)	110,000	0.59
Stadigh Kari Henrik	100,000	0.53
Renkkeli Oy	100,000	0.53
Nieminen Jorma	100,000	0.53
Nelimarkka Heikki Antero	82,491	0.44
Evli Bank Plc	77,455	0.41
Nelimarkka Kerttu Tuulikki	58,257	0.31
Toivila Timo Tapio	54,293	0.29
Häll Matti Kalervo	40,021	0.21
Aakula Olli-Matti	40,000	0.21
Kelhu Markku Juhani	37,500	0.20
Daytor Oy	35,123	0.19
Sewatec Oy	33,206	0.18
Susiveräjä Oy	32,486	0.17
Total (30)	**12,864,869**	**68.65**

Sector Dispersion 31 December 2011	Shareholders	%	Shares	%
Corporations	289	5.71	6,492,490	34.66
Financial and insurance corporations	11	0.21	3,655,175	19.51
Public institutions	9	0.17	2,327,976	12.43
Non-profit institutions	35	0.69	369,811	1.97
Households	4,673	92.46	4,429,463	23.65
Foreign countries and nominee registered	37	0.73	1,453,675	7.76
Total	**5,054**	**100.00**	**18,728,590**	**100.00**

Holding Dispersion 31 December 2011	Shareholders	%	Shares	%
1–100	1,124	22.23	77,692	0.41
101–1 000	2,946	58.29	1,230,317	6.56
1 001–10 000	887	17.55	2,519,791	13.45
10 001–100 000	77	1.52	1,913,233	10.21
100 001–1 000 000	18	0.35	7,359,844	39.29
1 000 001–	2	0.03	5,627,713	30.04
Total	**5,054**	**100.00**	**18,728,590**	**100.00**

Proposal for the Distribution of Earnings

Board of Directors' Proposal for the Distribution of Earnings
The parent company's distributable equity as of 31 December 2011 stood at EUR 36,775,101.54

As to the Annual General Meeting scheduled for 3 April 2012, the Board proposes that a dividend of EUR 0.14 per share be paid for the outstanding shares for the year 2011.

Helsinki 31 January 2012

Teleste Corporation
Board of Directors

Marjo Miettinen Chairman	Pertti Ervi Member	Tero Laaksonen Member
Pertti Raatikainen Member	Kai Telanne Member	Petteri Walldén Member

Jukka Rinnevaara
CEO

The Auditor's Note
Our auditors report has been issued today.

Helsinki 31 January 2012

KPMG OY AB

Esa Kailiala
Authorised Public Accountant

Auditor's report

To the Annual General Meeting of Teleste Corporation

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Teleste Corporation for the year ended 31 December 2011. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the President and CEO

The Board of Directors and the President and CEO are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the President and CEO shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the President and CEO are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the company's financial statements and the report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Helsinki, 31 January 2012

KPMG OY AB

Esa Kailiala
Authorized Public Accountant

Corporate Governance Statement

This Corporate Governance Statement report has been drawn up on the basis of Chapter 2 Section 6 of the Securities Markets Act and of the recommendation 54 specified in the Finnish Corporate Governance Code 2010 available in the Securities Market Association website at www.cgfinland.fi. The Corporate Governance Statement will be issued separate from the Annual Report, and the provided data is based on situation dated on 31 December 2011.

Corporate Governance

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

Annual General Meeting

The Annual General Meeting (hereafter AGM) of Teleste Corporation is the highest decision-making body of the company. It is held at least once a year by the end of June as specified in the Articles of Association. The AGM is held in Helsinki in the customary manner.

The AGM decides on any specified tasks in compliance with the Finnish Companies Act. Issues decided by the AGM include approval of the financial statement, allocation of profit shown in the balance sheet, discharge from liability of the Board of Directors and the CEO, and the election of the members of the Board of Directors and the auditor. Responsibilities of the AGM also include making amendments to the Articles of Association, decision-making concerning share issues, granting of entitlements to options and other special rights, procurement and redeeming of company's own shares and reduction of share capital. Teleste Corporation's Annual General Meeting shall be convened by the Board of Directors.

Board of Directors

Rules of Procedure

It is the function of Teleste Corporation's Board of Directors to carry out any administrative duties in accordance with the law, statutory regulations, Articles of Association and decisions taken by the General Meeting. The operating procedures and main duties of the Board of Directors have been specified in the Board's Rules of Procedure. The Board shall resolve any matters of great importance in terms of scope and magnitude to the Group's operation. The Board oversees and assesses the operation of the CEO and the Management Group. The Board decides on the criteria of the company's compensation system and makes decisions on any other far-reaching issues related to personnel.

In line with the view adopted by the Board of Teleste Corporation, the proceedings of the Board will be carried out in an optimum way without formation of separate committees but by involving the entire Board in the so-called committee proceedings. The Board is also carrying out the duties of the Audit Committee.

The Board shall conduct an annual evaluation of its performance and working methods. The Board of Teleste Corporation has laid down rules of procedure according to which the essential duties of the Board include the following:

- Provision for the company business strategy and its revision at regular intervals,
- Approval of annual budgets and supervision of their implementation,
- Decisions concerning major investments and divestments,
- Handling and approval of annual financial statements and interim reports,
- Appointment of the CEO and discharging him from his duties and specification of his responsibilities and conditions of work,
- Decisions concerning incentive and bonus systems involving management as well as personnel and presentation of any related proposals to the AGM as required,
- Annual revision of any essential risks related to the company operation and management thereof,
- Laying down the company values and policies.

Election and Term of Office of the Board of Directors

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

In its meeting held on April 8, 2011 the AGM elected the six persons specified below to the Board of Directors of Teleste Corporation. Marjo Miettinen was elected Chairperson by the members of the Board.

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

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

In 2011, the Board of Directors of Teleste Corporation had 10 meetings. The attendance of the Directors at the Board meetings was 98%. In addition to the Members of the Board the meetings were attended by the CEO, the Deputy CEO and concerning interim reports also the CFO and persons invited separately as required.

Remuneration for the Members of the Board

The remuneration of the Members of the Board of Directors is decided on by the Annual General Meeting. On April 8, 2011 the AGM decided that the Chairman of the Board be paid annually EUR 40,000 and each Member will receive EUR 25,000 a year. Attendance allowance, which is paid separately, stands at EUR 250 per meeting. Remuneration for the Members of the Board will be paid so that 40% of the specified annual amount will be company shares and the rest will be remitted in money.

Salaries, remuneration and other benefits paid in 2011 to the Board of Directors were as follows:

- Marjo Miettinen, EUR 42,500 including 3,954 Teleste shares
- Pertti Ervi, EUR 27,500 including 2,471 Teleste shares
- Tero Laaksonen, EUR 27,500 including 2,471 Teleste shares
- Pertti Raatikainen, EUR 27,500 including 2,471 Teleste shares
- Kai Telanne, EUR 27,500 including 2,471 Teleste shares
- Petteri Walldén, EUR 27,250 including 2,471 Teleste shares

President and CEO

The Company's CEO is in charge of the Group's business operations and corporate governance in line with the law, Teleste Corporation's Articles of Association as well as instructions and regulations issued by the Board.

Detailed terms of employment of the CEO are specified in a separate contract subject to the Board approval. CEO is not a member of Teleste's Board of Directors. The current President and CEO of Teleste, Jukka Rinnevaara, b. 1961, M.Sc. (Econ.), assumed his present responsibilities on 1 November 2002. The CEO is assisted by the Corporate Management Group.

The Company Board of Directors decides on the salary, fees and other benefits received by the CEO. Salary, remuneration and other benefits paid in 2011 to the CEO of Teleste Corporation totaled EUR 390,783. The contractual age of retirement of President and CEO Jukka Rinnevaara is 60. The insurance premium of the voluntary retirement insurance policy of the CEO was EUR 59,016, which amount is not included in the paid salary and remuneration. As to the contract of President and CEO Rinnevaara, his term of notice has been specified as six (6) months in case the President and CEO decides to withdraw, and eighteen (18) months should the contract be terminated by the company.

Management Group

The Teleste Corporation Management Group is chaired by the CEO who reports to the Board of Directors. On December 31, 2011 the Group's Management Group consisted of six members including CEO, to whom the Management Group members report. Members of the Management Group consist of the directors of Teleste's business areas and the Group Management. Subsidiaries are operating as parts of the business areas.

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

Salary for all Members of the Management Group consists of a fixed basic salary and a results-based bonus. The amount of results-based bonus is determined by the company performance, the business area in question and other key operative objectives. The Board decides on the remuneration of the Management Group, and in December 2011 it made a decision on an executive incentive scheme (Teleste Management II Oy) for the Members of the Teleste Management Group. For more information on this new scheme see Teleste's Annual Report 2011, see Notes section: Related party transactions.

Management Interest

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

Teleste Management II Oy is in possession of 542,000 Teleste Corporation's shares. CEO's holding in the Teleste Management II Oy shares stands at 31.25% while the ownership by other members equals 68.75%. In addition, the CEO was in the possession of 5,357 Teleste Corporation's shares on December 31, 2011.

Share Ownership and Options of the Management Group

With the exception of the CEO, other Members of Teleste Corporation's Management Group were not in the possession of Teleste Corporation's shares on December 31, 2011.

On 31 December 2011, the CEO was in the possession of a total of 120,000 Teleste 2007 options while the other Teleste Corporation's Management Group members held 210,000 options put together.

For details related to option specifics see Teleste's Annual Report 2011, Notes section: Share-based payments. For holdings and stock options of the President and CEO and the Management Group see Notes section: Related party transactions.

Auditing and Revisions

The term of office of Teleste Corporation auditor expires at the closing of the first Annual General Meeting following the election. On April 8, 2011 Teleste AGM selected Authorized Public Accountants KPMG Oy Ab for the company auditor. The Company's Chief Auditor is Esa Kailiala, KHT auditor (authorised public accountant). In addition to their statutory duties the auditors report to the Teleste Corporation Board of Directors and attend the Board meeting at least once a year.

In 2011, Teleste Group's auditing expenses totaled EUR 227 000 in which the share of KPMG was EUR 191 000. Moreover, auditing units of KPMG have supplied Teleste Group companies with other consultation worth total EUR 64 000 and other than KPMG auditors for EUR 20 000.

Insider Register

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

Membership in the Teleste Corporation permanent inner circle is based on position. Thus, the group consists of Members of the

Board of Directors, CEO and the auditors. Furthermore, the extended inner register includes Members of the Management Group and the CEO's assistant.

Moreover, insider rules and regulations include provisions concerning temporary commercial activities. Project-specific insider register includes personnel who, based on their position, have access to company-related information, which upon publication may affect the value formation of the company's share. The CEO will assess, on a case-by-case basis, whether an issue or arrangement under preparation will be defined as a project.

It is recommendable for those included in the insider register to time any intended trading involving company shares and derivatives in such a manner that optimum information affecting the value of the shares is available in the market at the time. The permanent members of Teleste Corporation's insider register are obliged by the so-called Silent Period during which trading on company shares is banned completely for 14 days preceding publication of interim reports and the financial statements. During the specified period Teleste Corporation will not engage in any meetings with investors or analysts and no Teleste Group representative is allowed to comment upon company results.

The company insider administration is included in the SIRE system of Euroclear Finland Oy.

INTERNAL SUPERVISION, RISK MANAGEMENT AND INTERNAL AUDITING

Internal Supervision

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

Risk Management

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

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

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

Internal Auditing

Internal auditing unit is in charge of the internal auditing of Teleste Corporation and its subsidiaries. The results are reported to the appointed Member of the Board. The internal auditing evaluates business operations, any related processes, their involved risks and efficiency of the conducted supervision while making suggestions for developmental measures. These activities are performed in cooperation with controllers and other relevant bodies as needed. Furthermore, the internal auditing carries out any special assignments issued by the Management. The internal auditing covers all levels of the organisation. Internal auditing is reported to the Teleste Corporation Board of Directors twice a year. External auditor participates in the selection of the priorities for the internal auditing and assessment of results.

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

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

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

KEY FIGURES 2007-2011

	IFRS 2011	IFRS 2010	IFRS 2009	IFRS 2008	IFRS 2007
Profit and loss account, balance sheet					
Net sales, Meur	183.6	167.8	141.7	108.7	125.1
Change %	8.6	18.5	30.3	-13.1	22.9
Sales outside Finland, %	94.1	93.3	91.8	90.2	91.2
Operating profit, Meur	9.4	7.4	2.5	5.6	13.2
% of net sales	5.1	4.4	1.8	5.2	10.5
Profit after financial items, Meur	8.8	6.7	1.4	5.1	12.7
% of net sales	4.8	4.0	1.0	4.7	10.1
Profit before taxes, Meur	8.8	6.7	1.4	5.1	12.7
% of net sales	4.8	4.0	1.0	4.7	10.1
Profit for the financial period, Meur	6.3	4.8	0.4	5.5	9.4
% of net sales	3.4	2.9	0.3	5.1	7.5
R&D expenditure, Meur	11.6	10.3	10.8	13.5	13.1
% of net sales	6.3	6.1	7.6	12.4	10.5
Gross investments, Meur	5.2	3.8	25.2	3.9	12.3
% of net sales	2.9	2.2	17.8	3.6	9.8
Interest bearing liabilities, Meur	33.2	28.1	22.8	11.0	9.5
Shareholder's equity, Meur	55.3	50.4	46.7	46.6	46.7
Total assets, Meur	133.2	116.2	110.1	75.5	77.9
Personnel and orders					
Average personnel	1 297	1 215	1 103	702	681
Order backlog at year end, Meur	21.2	17.0	33.1	24.0	21.5
Orders received, Meur	188.1	167.2	151.0	118.6	118.5
Key metrics					
Return on equity, %	11.9	9.9	0.9	11.8	22.2
Return on capital employed, %	11.5	10.2	3.3	10.4	27.1
Equity ratio, %	41.6	43.6	43.6	61.7	60.2
Gearing, %	32.2	25.5	22.0	3.6	3.8
Earnings per share, euro	0.36	0.27	0.02	0.32	0.55
Earnings per share fully diluted, euro	0.36	0.27	0.02	0.32	0.52
Shareholders equity per share, euro	3.17	2.90	2.68	2.74	2.69
Teleste share					
Highest price, euro	4.82	5.33	4.30	7.49	12.34
Lowest price, euro	2.50	3.64	2.25	1.90	6.47
Closing price, euro	3.00	4.41	3.72	2.24	6.71
Average price, euro	3.64	4.49	3.62	4.52	10.10
Price per earnings	8.3	16.3	154.1	7.0	12.3
Market capitalization, Meur	56.2	80.2	66.2	39.9	118.6
Stock turnover, Meur	6.2	14.2	28.5	51.1	72.4
Turnover, number in millions	1.7	3.2	7.8	11.5	7.2
Turnover, % of capital stock	9.1	17.4	44.0	64.6	40.5
Average number of shares	18,189,560	18,093,689	17,805,590	17,708,782	17,494,435
Number of shares at the year-end	18,728,590	18,186,590	17,805,590	17,805,590	17,671,305
Average number of shares, diluted w/o own shares	17,425,605	17,693,605	17,229,154	17,372,555	17,971,752
Number of shares at the year-end, diluted w/o own shares	17,425,605	17,693,605	17,425,605	17,039,399	17,972,785
Paid dividend, Meur	*2.4	2.1	1.4	2.0	4.2
Dividend per share, euro	*0.14	0.12	0.08	0.12	0.24
Dividend per net result, %	38.9	43.7	331.3	37.4	43.9
Effective dividend yield, %	4.7	2.7	2.2	5.4	3.6

* The Board's proposal to the AGM

CALCULATION OF KEY FIGURES

Key figure	Formula	
Return on equity:	Profit/loss for the financial period / Shareholders' equity (average)	x 100
Return on capital employed:	Profit/loss for the period after financial items + financing charges / Total assets – non-interest-bearing liabilities (average)	x 100
Equity ratio:	Shareholders' equity / Total assets – advances received	x 100
Gearing:	Interest bearing liabilities – cash in hand and in bank – interest bearing assets / Shareholders' equity	x 100
Earnings per share:	Profit for the period attributable to equity holder of the parent / Weighted average number of ordinary shares outstanding during the period	
Earnings per share, diluted:	Profit for the period attributable to equity holder of the parent (diluted) / Average number of shares – own shares + number of options at the period-end	
Equity per share:	Shareholders' equity / Number of shares – number of own shares at year-end	
Price per earnings (P/E):	Share price at year-end / Earnings per share	
Effective dividend yield:	Dividend per share / Share price at year-end	

Shares and shareholders

Investor Relations

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

Objectives and Principles

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

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

Contact Information

Jukka Rinnevaara, CEO
Phone +358 2 2605 611, fax +358 2 2605 812

Tiina Vuorinen, Investor Relations and Press Office
Phone +358 2 2605 611, fax +358 2 2605 812

Email: investor.relations@teleste.com

Share Basics

Teleste Corporation is listed on the NASDAQ OMX Helsinki Oy in the Technology sector. In 2011, the company was included in the small cap segment. The company shares are included in the book-entry securities system.

Facts about the share:

Listed on	30. March 1999
ISIN code	FI0009007728
Trading code	TLT1V
Reuter's ticker symbol	TLT1V. HE
Bloomberg ticker symbol	TLT1V FH

12 months high	4,82
12 months low	2,50
All-time high (7. Sep 2000)	39,00
All-time low (12. Dec 2008)	1,90

Financial Information

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

Teleste exercises a Silent Period of two weeks preceding publication of financial statements and interim reports. During these periods Teleste will not participate in any meetings with investors or analysts and Group representatives are not allowed to comment upon company results.

Financial Releases in 2012:

Interim Report, January–March	26. Apr 2012
Interim Report, January–June	1. Aug 2012
Interim Report, January–September	31. Oct 2012
Financial Statement Release	1. Feb 2013

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

Publications can be ordered on Teleste's website or by contacting the company's investor relations at investor.relations@teleste.com, tel. +358 2 2605 611.

Moreover, you can use the online news release service on the website to subscribe to the company's stock exchange releases and have them sent directly to your e-mail.

Changes in Shareholders' Contact Information

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

In the event Euroclear Finland Oy acts as the account operator, any changes should be notified to the address:
Euroclear Finland Oy
PL 1110
00101 Helsinki
Street address: Urho Kekkosenkatu 5 c
Phone:+358 20 770 6000
Email: info.finland@euroclear.eu

Analyst Coverage

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

For analyst contact information visit our company website.

Carnegie Investment Bank Ab, Ilkka Haavisto
SEB Enskilda Equities, Artem Beletski
Handelsbanken Capital Markets, Karri Rinta
Danske Markets Equities, Ilkka Rauvola
Nordea Markets, Martti Larjo
Pohjola Pankki Oyj, Hannu Rauhala

Annual General Meeting

Teleste Corporation's Annual General Meeting (AGM) will be held on Tuesday, 3 April 2012, commencing at 3 p.m., in Helsinki Hall at Finlandia Hall in Helsinki, Mannerheimintie13 e. Registration and distribution of voting tickets begins at 2 p.m.

Right to Participate and Registration

Shareholders registered on the list of shareholders with Euroclear Finland Oy on Thursday, 22 March 2012 are entitled to participate in the Annual General Meeting. A shareholder whose shares have been registered on his/her personal Finnish book-entry securities account has been entered into the list of company shareholders.

Shareholders wishing to attend the Annual General Meeting must sign up with the company no later than by 4 p.m. on Monday, 26 March 2012.

Sign up to the AGM by one of the following:
by email at investor.relations@teleste.com,
by telephone +358 2 2605 611 Monday-Friday between 09:00-16:00 EET;
by telefax +358 2 2605 812; or
by regular mail to the address Teleste Corporation, Tiina Vuorinen, P.O.Box 323, FI-20101 Turku, Finland.

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

Use of Representative and Proxies

A shareholder is entitled to attend the AGM and exercise his/her rights at it through a representative. The appointed representative of this shareholder must produce a dated proxy, or by other reliable means confirm his/her authorization for the representation of the shareholder. Should a shareholder participate in the meeting by means of several authorized representatives representing the shareholder with shares in different book-entry accounts, the shares by which each authorized representative represents the shareholder shall be identified in connection with the registration.

Possible powers of attorney should be delivered in originals to the address Teleste Corporation, Tiina Vuorinen, P.O. Box 323, FI-20101 Turku, Finland by Monday, 26 March 2012 at 4 p.m. at the latest.

Holder of Nominee-registered Shares

The owner of nominee-registered shares is entitled to attend the meeting by virtue of the shares pursuant to which he would be entitled to be registered with Euroclear Finland Oy's shareholder register on 29 March 2012. Participation also requires that the shareholder of the relevant shares has been entered temporarily in the shareholder register maintained by Euroclear Finland Oy no later than 29 March 2012 at 10:00 a.m. For nominee registered shares, this shall be deemed as registration for the meeting.

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

Other Information

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

On the date of this notice of meeting, the total number of shares and votes in Teleste Corporation is 18,728,590.

Dividend Policy

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

Proposal for Distribution of Dividend 2011

The Board of Directors proposes to the Annual General Meeting that, based on the adopted balance sheet, a dividend of EUR 0.14 per share be paid for shares other than those in company possession for the fiscal year that ended on 31 December 2011. The dividend will be paid to shareholders who on the record date, 10 April 2012, have been entered in the Company's Shareholder List, which is kept by Euroclear Finland Oy. This dividend will be paid on 17 April 2012.

Payment of dividend in 2012

Annual General Meeting.. 3. April 2012
Dividend ex date .... 4. April 2012
Dividend record date ....10. April 2012
Payment of dividend ....17. April 2012

Dividend history, EUR

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011*
0.10	0.16	0.16	0.08	0.08	0.12	0.16	0.20	0.24	0.12	0.08	0.12	0.14*

** Proposal by the Board*

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

Minutes of the Annual General Meeting will be available at Teleste's website no later than 17 April 2012.

Shareholders

According to Euroclear Finland Ltd the number of shareholders at the end of the period under review was 5,054 (5,184). Foreign ownership accounted for 7.76% (8.38%). For more information on shareholders and shares see the parent company notes 24.

Price Development and Trading in 2011

As to the company share price in 2011, the low was EUR 2.50 (3.64) and the high EUR 4.82 (5.33). Closing price on 31 December 2011 stood at EUR 3.00 (4.41). From 1 January to 31 December 2011, trading with Teleste share at NASDAQ OMX Helsinki amounted to EUR 6.2 (14.2) million. In the period under review, 1.7 (3.2) million Teleste shares were traded on the stock exchange.

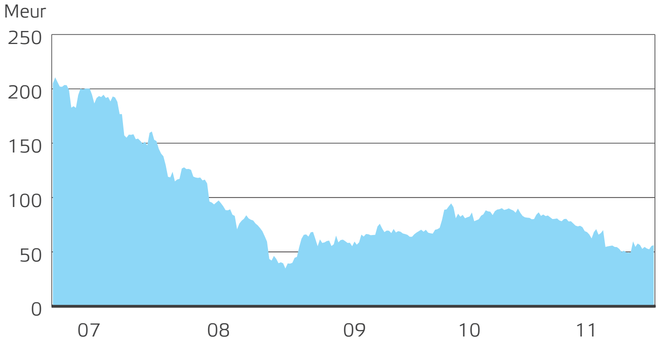
Market capitalization at the year-end stood at EUR 56,185,770 (2010: 80,202,862).

Share Capital and the Number of Shares

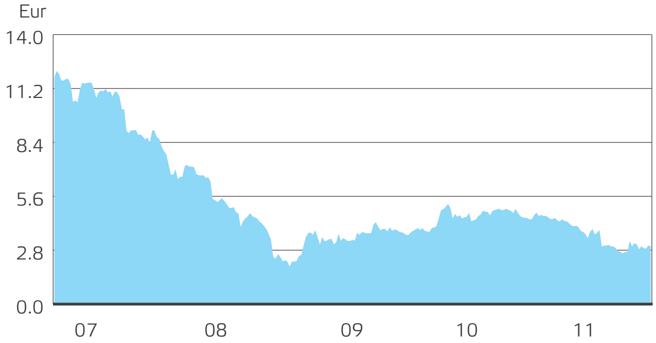
The company has one series of shares. In Annual General Meeting each share carries one vote and confers an equal right to a dividend. On 31 December 2011, Teleste's registered share capital stood at EUR 6,966,932.80 divided in 18,728,590 shares.

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

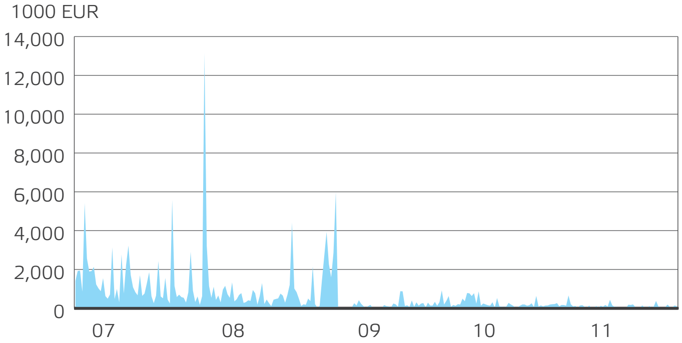
MARKET VALUE DEVELOPMENT 2007–2011



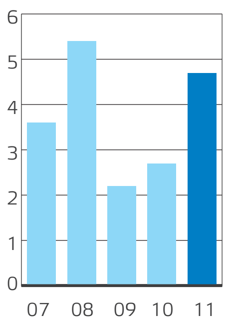
SHARE PRICE DEVELOPMENT 2007–2011



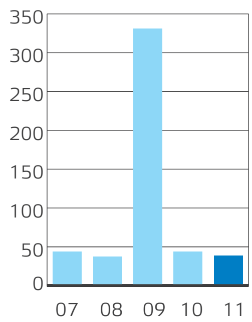
SHARE TURNOVER 2007–2011



EFFECTIVE DIVIDEND YIELD, %



DIVIDEND PER NET RESULT %



KEY FIGURES PER SHARE

	2011	2010	2009	2008	2007
Earnings per share, euro	0.36	0.27	0.02	0.32	0.55
Earnings per share fully diluted, euro	0.36	0.27	0.02	0.32	0.52
Shareholders equity per share, euro	3.17	2.90	2.68	2.74	2.69
Paid dividend, Meur	*2.4	2.1	1.4	2.0	4.2
Dividend per share, euro	*0.14	0.12	0.08	0.12	0.24
Dividend per net result, %	38.9	43.7	331.3	37.4	43.9
Effective dividend yield, %	4.7	2.7	2.2	5.4	3.6
Closing price, euro	3.00	4.41	3.72	2.24	6.71
Price per earnings	8.3	16.3	154.1	7.0	12.3
Market capitalization, Meur	56.2	80.2	66.2	39.9	118.6
Stock turnover, Meur	6.2	14.2	28.5	51.1	72.4
Turnover, number in millions	1.7	3.2	7.8	11.5	7.2
Turnover, % of capital stock	9.1	17.4	44.0	64.6	40.5
Average number of shares	18 189 560	18 093 689	17 805 590	17 708 782	17 494 435
Number of shares at the year-end	18 728 590	18 186 590	17 805 590	17 805 590	17 671 305

** The Board's proposal to the AGM*

A summary of Teleste corporation's stock exchange releases and announcements during 2011

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

January 04 A summary of Teleste´s stock exchange releases in 2010.

February 2 Financial Statement of Teleste Corporation 1 January to 31 December 2010.

March 2 Notice to the Annual General Meeting of Teleste Corporation to be held on April 8, 2011.

March 24 Announcement that Teleste´s Annual Report 2010 has been published.

April 8 Decisions of the Annual General Meeting (AGM). The AGM resolved to distribute a dividend of EUR 0.12 per share for year 2010. Mrs. Marjo Miettinen was re-elected as the Chairman of the Board of Directors and Mr. Pertti Ervi, Mr. Tero Laaksonen, Mr. Pertti Raatikainen, Mr. Kai Telanne and Mr. Petteri Walldén were re-elected as members of the Board of Directors.

April 27 Teleste Corporation Interim Report 1.1. – 31.3.2011.

May 12 Teleste signed a three-year frame agreement with German Kabel Deutschland. The estimated value of this frame agreement was approx. EUR 5 million.

May 16 Teleste signed a frame agreement with German Immomedianet. Order value was estimated to EUR 1.4 million.

June 7 Teleste's local services company Cableway signed an agreement with a German telecom operator. The estimated value of this agreement was approximately EUR 3.7 million.

August 3 Teleste Corporation Interim Report 1.1. – 30.6.2011.

September 28 Teleste published the financial calendar for year 2012.

October 26 Teleste Corporations Interim Report 1.1. – 30.9.2011.

December 5 The Board of Directors of Teleste Corporation decided on incentive plans directed to members of the management group and to key employees.

December 29 The new shares in Teleste Corporation entered into the trade register.

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