TELESTE

ENABLING DIGITAL EVOLUTION

2012

CONTENT

TELESTE

Year 2012 in Brief	1
Teleste in Brief	2
CEO´s Review	4
Market Review	6
Megatrends	7
Strategy	8
Technology and Product Development	10

BUSINESS AREAS

Business Areas in Brief	12
Video and Broadband Solutions	14
Network Services	18
Customer Projects	20

RESPONSIBILITY

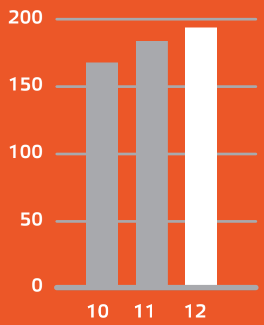
Personnel	24
Sustainable Development	26

MANAGEMENT

Board of Directors	28
Management Group	30
Information for Shareholders	32

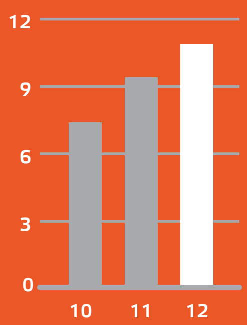
NET SALES

Meur



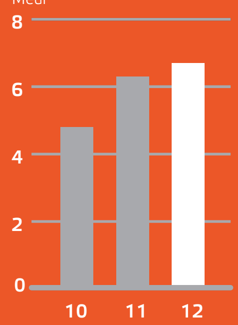
OPERATING PROFIT

Meur



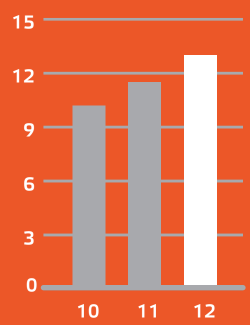
PROFIT FOR THE FINANCIAL PERIOD

Meur



RETURN ON CAPITAL EMPLOYED

%



YEAR 2012 IN BRIEF

Despite the general instability of the global economy, Teleste's business environment remained satisfactory. We managed to reach our targets for profitable growth.

In this industry seasonal variations are common, but in 2012 the demand in the first half of the year was exceptionally stronger than in the second half.

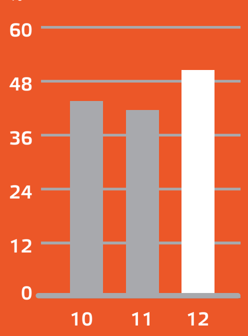
Progress was made on many fronts. The company's net sales increased by more than 5 per cent and also profita-bility improved significantly. This increase in net sales was supported by new orders for our video surveillance solutions and the market share gains in TV distribution business achieved through a number of important new customers.

As to our services business, co-operation with our long-term partners continued, and during the year, new significant frame agreements were also signed.

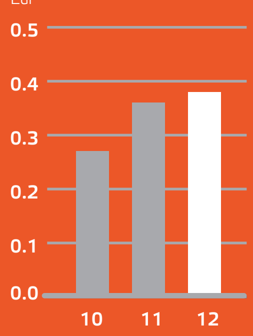
Teleste wants to grow profitably and to be a valued partner for its customers. With regard to sales of both products and services, reaching our growth objective is supported by the growing need for the availability of broadband capa-city as the demand for video services is getting more diversified. At the same time the demand for video surveillance solutions is increasing to ensure public safety.

The networked world requires a pioneer in technology solutions.

EQUITY RATIO



EARNINGS PER SHARE



KEY FIGURES

	2012	2011	Change, %
Net sales, Meur	193.9	183.6	5.6
Operating profit, Meur	10.9	9.4	16.6
Profit for the financial period, Meur	6.7	6.3	6.4
Earnings per share, eur	0.38	0.36	5.6
Orders received, Meur	189.7	188.1	0.8
Shareholder's equity per share, eur	3.48	3.17	9.7
Return on capital employed, %	13.0	11.5	13
Turnover, % of share capital	14.4	9.1	58.2

TEXAS: TXDOT

Texas Department of Transportation (TXDOT) is using Teleste IP video codecs and Ethernet switches in thousands of locations throughout the State of Texas including major metropolitan areas such as Houston, Dallas, Fort Worth and Austin.

Teleste equipment is used for migrating analog CCTV cameras into IP and for transmitting video and control data to traffic operation centers for traffic monitoring purposes.

DENMARK: STOFA A/S

Stofa A/S, the second largest cable operator in Denmark, is deploying pay-TV offerings with on-demand interactive TV and VoD services and up to 150 Mbit/s Internet subscriptions on their cable TV infrastructure. Together with WebTv, WebTv To Go, up to 48 hour catch-up services as well as IP telephony services this gives Stofa a leading service offering in the Danish cable TV market.

Stofa has since years deployed Teleste's intelligent network product concept including automated processes, remote network surveillance and configuration. With the intelligent network Stofa has a quick overview of the network health, and it is easy to monitor the network infrastructure. With the intelligent network concept Stofa is ahead of problems that might occur, and these are identified and located fast. This overall reduces the meantime to repair to a minimum and strongly supports a proactive service concept.

Stofa and Teleste have end 2012 signed a two year frame agreement to further continue the good corporation between the companies. Stofa's net sales is approximately EUR 150 million and it employs about 500 people.

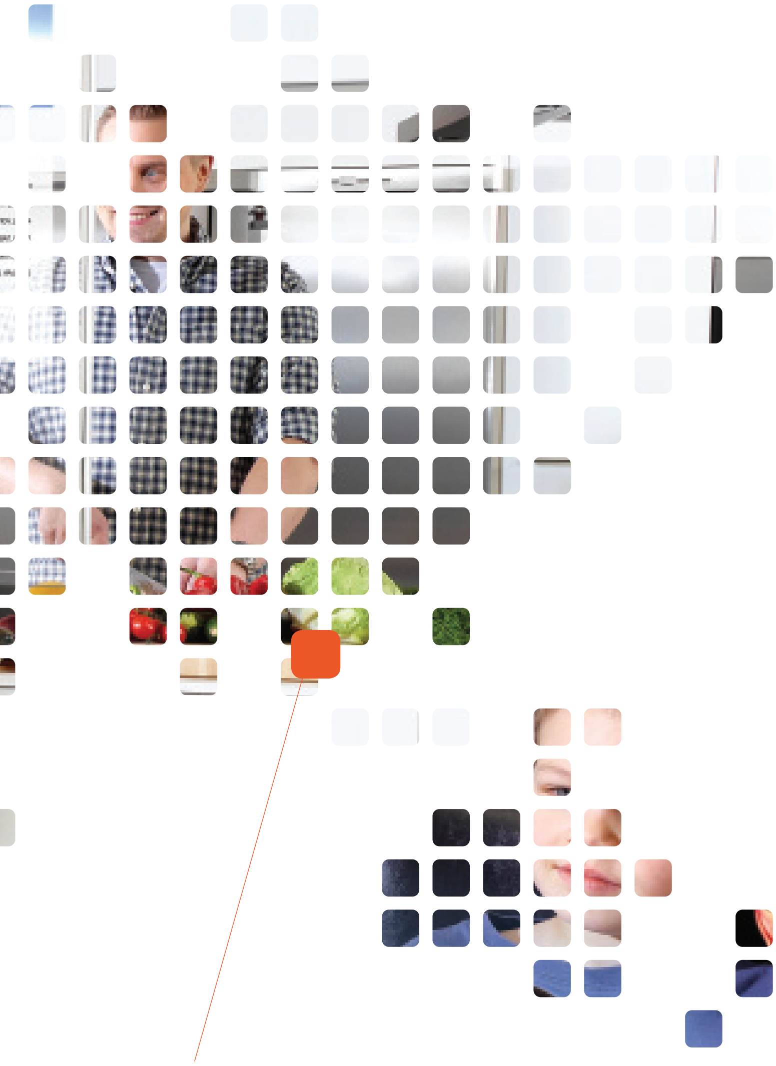
TELESTE IN BRIEF

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

Our business is divided into two divisions, which are Video and Broadband Solutions and Network Services. In both areas, we rank among the world's leading companies and technological forerunner. Video and Broadband Solutions focuses on access networks and product solutions in video surveillance applications. Network Services offers comprehensive services for network design, construction and maintenance.

In 2012, Teleste's net sales totaled EUR 194 million, and the company employed more than 1,300 people. Teleste runs a worldwide network of offices and more than 90% of its sales are generated outside Finland.

The company is listed on the NASDAQ OMX Helsinki Ltd. For more information see www.teleste.com



TELESTE´S CLOSE CUSTOMER RELATIONSHIP AND RELIABLE PARTNERS, ACHIEVED THROUGH OUR LOCAL PRESENCE, MAKE UP ONE OF OUR COMPETITIVE ADVANTAGES. SOME OF THESE ARE INDICATED HERE ON THE MAP

THAILAND: POINT IT CONSULTING CO LTD

During the past decade, Point IT Consulting Co. Ltd, a Bangkok based company, has had a profitable partnership with Teleste. Point IT is involved in providing IT solutions for the banking sector, as well as IP CCTV solutions for various government departments.

The partners have together successfully implemented a number of IP CCTV systems, both in Bangkok and also in the equally famous city of Pattaya. The Pattaya system has grown year on year to be a useful reference site for the benefits of public space CCTV. Some three million foreign visitors experienced less traffic hold ups, more efficient public space maintenance, as well as a much safer vacation time.

“We are proud of the stability and reliability of the Teleste products, and our technical staffs have been delighted with the professional and speedy support given to us by our European partners,” says Khun Prakorb Jongjarussang, co-owner and CEO of Point IT Consulting Co. Ltd.

VALUES

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

- Customer Centricity
- Respect
- Reliability
- Result Orientation

GLOBAL PRESENCE - LOCAL RELEVANCE

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.

The expansion of our production facilites in 2010 has brought important savings in logistics and has also reduced the production turnaround time significantly.

Corporate headquarters

BETTER RESULTS BY WORKING TOGETHER

In the past year, our operating environment offered us a number of interesting changes. At the end of 2011, demand was strong, so we moved into 2012 at quite some momentum. The rush went on until the summer, but towards the end of the year the demand leveled off. As a rule, the trend has been the opposite, that is, the autumn has been a busier time than spring. Presumably, there are numerous reasons for such exceptional market situation, but we think that in addition to the European financial instability, at least the Olympic Games in London and the European Football Championships could have had an impact on the fluctuations in demand. Cable operators, who make up an important part of our customer base, scheduled their largest investments in network development before these massively popular TV viewing events, so by the end of the year the most important investments had already been completed.

As a whole, for Teleste, the year was a success. Our net sales continued to grow, rising by 5.6 per cent to EUR 194 million. This increase in net sales came largely from the development in sales of optic network products and video surveillance systems, while the net sales from services business remained at the previous year's level. The measures we took to improve our profitability delivered results and our operating profit rose to EUR 11 million, an increase of 16.6 per cent. The most favorable development in profitability was seen in our services business.

Together We Are Stronger

Our common theme for 2012 was encapsulated in words 'Together We Are Stronger'. To strengthen our atmosphere of co-operation and openness, we have made an effort to improve our internal communications and organized events for the entire personnel to discuss our goals, economic development, our strategy and our customers' needs.

In assessing the achievements of the year we are delighted to say that the results were achieved through more efficient collaboration. In spite of demanding schedules, we were able to deliver the projects on time. We put an extra emphasis on our customer orientation and received a number of new major contracts especially in our product-based business, .i.e. Video and Broadband Solutions. We strengthened our market position in cable network products and expanded our portfolio in video surveillance systems. Our product development paid off and the new products were very well received in the market. Our profitability in the services business, that is, in Network Services, improved through development of productivity and more efficient use of resources.

The year also brought challenges. The uncertainty of the latter part of the year required adjustments to be made in the operations to match the level of the order backlog without compromising any future growth opportunities. The adjustment measures decided upon in our co-determination negotiations mainly involve temporary layoffs in the Video and Broadband Solutions business area.

Pioneer of Innovative Technology

With our main customers of cable operators, and for video surveillance the public sector, Teleste's offering consists of video and broadband technologies, as well as network services. Growth in our markets is strengthened by both our customers' needs and new technologies.

Cable operators want to provide their customers with a variety of high-quality content and services that run smoothly on a range of different terminals. This development requires building of a more efficient and more high-quality network capacity at a fast pace. Generally it has been estimated that the need for capacity doubles every 18 months. The second factor bringing about growth is the development of video and broadband technologies. We develop new technologies and offer innovative services to allow our customers to build high-quality network capacity cost-effectively and to provide their end-users with more of higher-quality video.

In the public sector, video technology is needed to guarantee security in applications like road and rail transport and public space monitoring. With the increase of various threats, the monitoring must be managed more cost-effectively. This challenge can be overcome by a centralized and automated video surveillance. For this, we develop our video surveillance systems so as to ensure better image quality, increased versatility and improved usability.

Strong Market Position

In the industry, Teleste ranks among the leading companies in the world, while in Europe, we are the market leader in the access network solutions. Besides competitive products and services, we also have a strong understanding of the needs of our customers, comprehensive sales organization and compelling evidence of successful deliveries. Considering our size and resources we are a credible partner for even the largest potential customers.

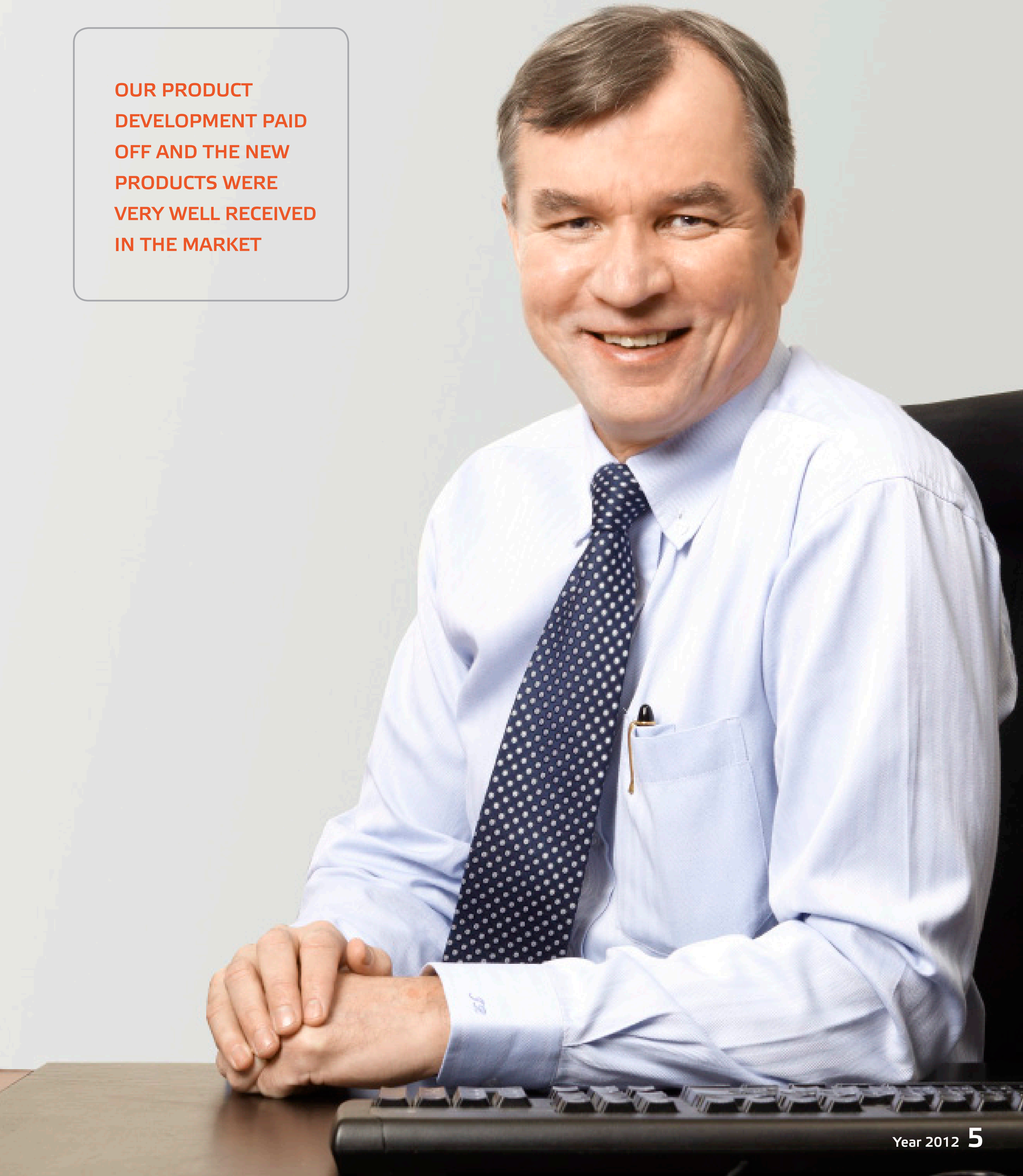
Our expectations of market trends for the new year are cautiously optimistic. We expect net sales and operating profit for 2013 to reach the 2012 level. On the longer run, our aim is to continue the strategy of profitable growth. In the long term, demand for our products and services will be increased by factors like the continued growth and development of our customers' offerings. New technologies will also bring in significant competitive advantage and potential. However, short-term fluctuations are difficult to predict.

We will continue by developing our ways of working and streamlining our operations so that we can ensure that our products and services are competitively priced and of high quality.

I wish to extend my warm thanks to our customers, partners and shareholders for your confidence in our work and all Telestians for your good contribution in our success. We strive to meet your expectations even in the time ahead.

Jukka Rinnevaara
CEO

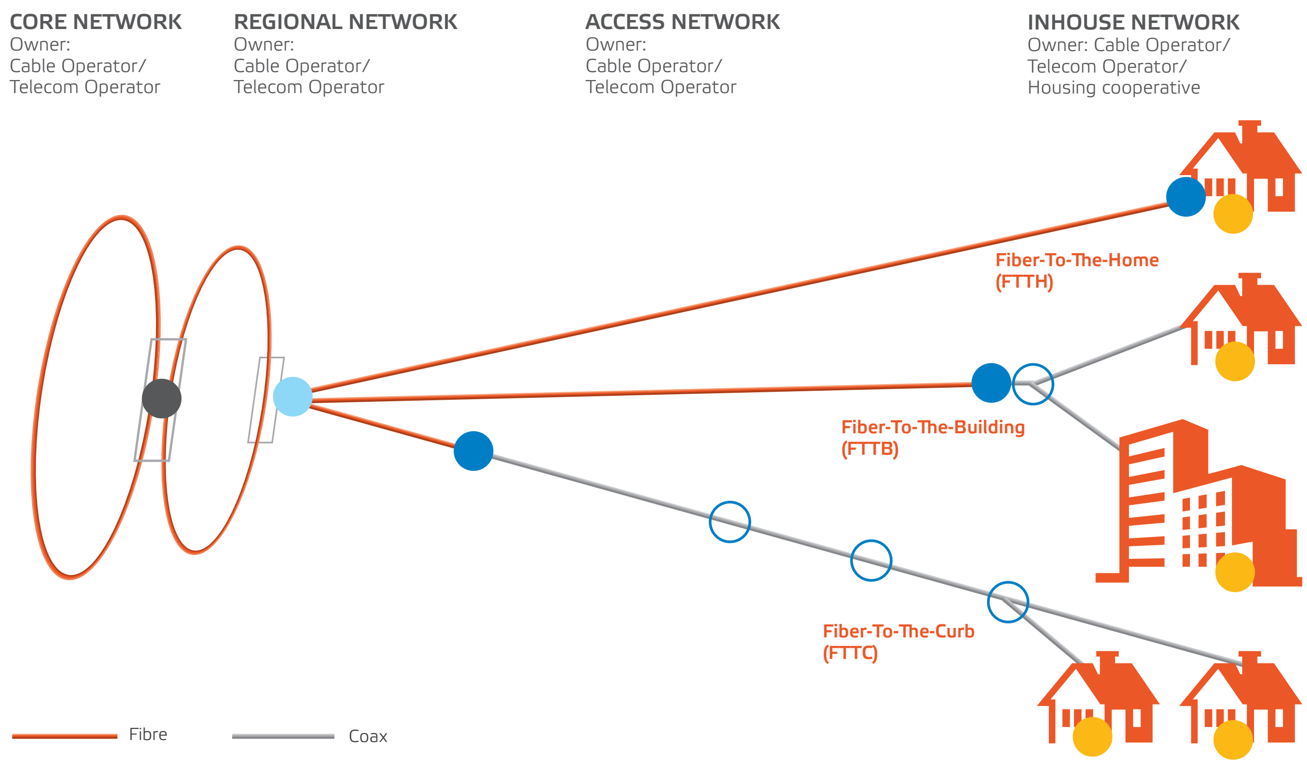
OUR PRODUCT DEVELOPMENT PAID OFF AND THE NEW PRODUCTS WERE VERY WELL RECEIVED IN THE MARKET



MODERN INTEGRATED SERVICES DIGITAL NETWORK

Conventional one-way cable TV network has undergone quite a change over the last 15 years. Operators have increased their service offerings by introducing Video-on-Demand services and high-speed Internet connections alongside the traditional linear television. These new services require a two-way communication network, which is furthermore divided into smaller segments by means of fiber optic cable connections. Such network is split into different areas in line with the example below. The core network connects the operator's individual service areas to each other, and typically these are different cities. The regional network connects all access networks of one service area into a single manageable entity. The regional network is segmented by means of fiber-optic connections into access networks so that a single optical node serves about 100 to 1,000 households. The more versatile a product portfolio the operator wants to offer the customers, the smaller the number of connected subscribers per node must be. From the view point of the services, the best option would be a Fiber-To-The-Home network (FTTH), but at least for the foreseeable future, deployment of a comprehensive fiber network is not economically feasible. For this reason, new innovations are expected to arise especially for the ever-more efficient utilization of the legacy house network cabling.

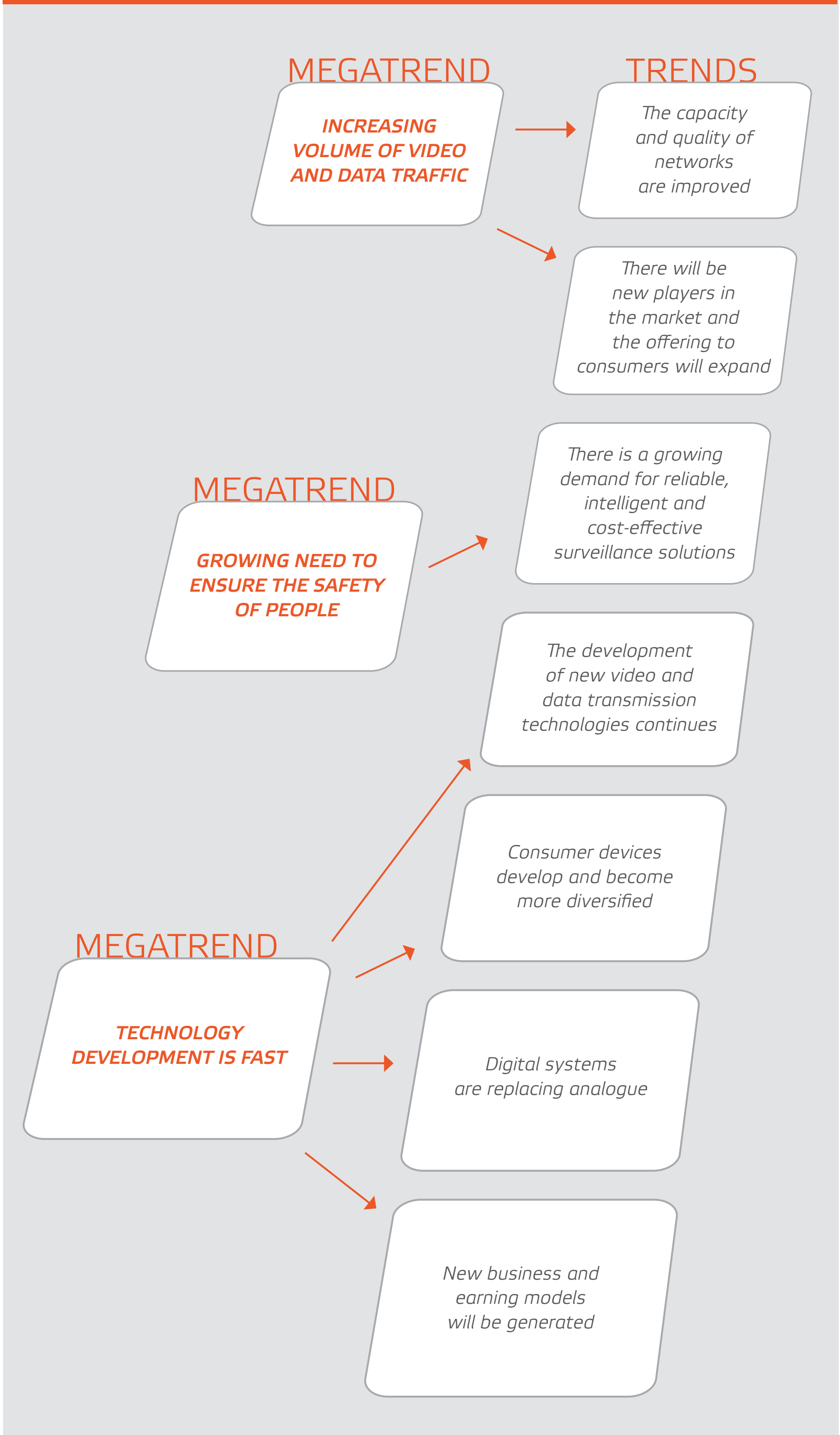
STRUCTURE OF A FIXED MULTI SERVICE NETWORK



TELESTE'S PRODUCT SOLUTIONS

Headend | Headend Optics | Node | Amplifier | Inhouse Equipment

MEGATRENDS AND TRENDS



DIGITAL REVOLUTION TRANSFORMING THE MARKET

Teleste's most important megatrends are recognizable in everyday life. Video and electronic data transfer are increasing and breaking over to new areas as people are using more and more video in a number of different ways. The need for ensuring people's safety is also growing. The third factor driving the market is the new technologies and concepts.

Increasing Use of Video and Data
The amount of content available in the form of video or data is huge. People consume the content of their choice anytime and anywhere. The number of different devices used for this is also increasing. Computers, tablets and smartphones have come to existence alongside traditional TV. People's needs and quality requirements are increasing. Responding to the wishes of Internet and TV users requires investments in the network, i.e. more capacity. Networks are being built and developed. Currently, the network capacity doubles every 18 months.

Ensuring Safety by Video Surveillance
More than ever, video technology is needed to provide a safety net. As the number of various threats increases, they are controlled more cost-effectively by means of video surveillance in areas such as traffic and guarding the borders.

Rapid Development of Technology
Image and data transfer technologies continue to develop rapidly. New technologies enable a better user experience, but they are also creating new ways to deploy networks. Development of devices continues apace. These devices talk to each other and with users. Interactivity generates new kinds of commercial activity and earning models.

TELESTE'S STRATEGIC DIRECTION

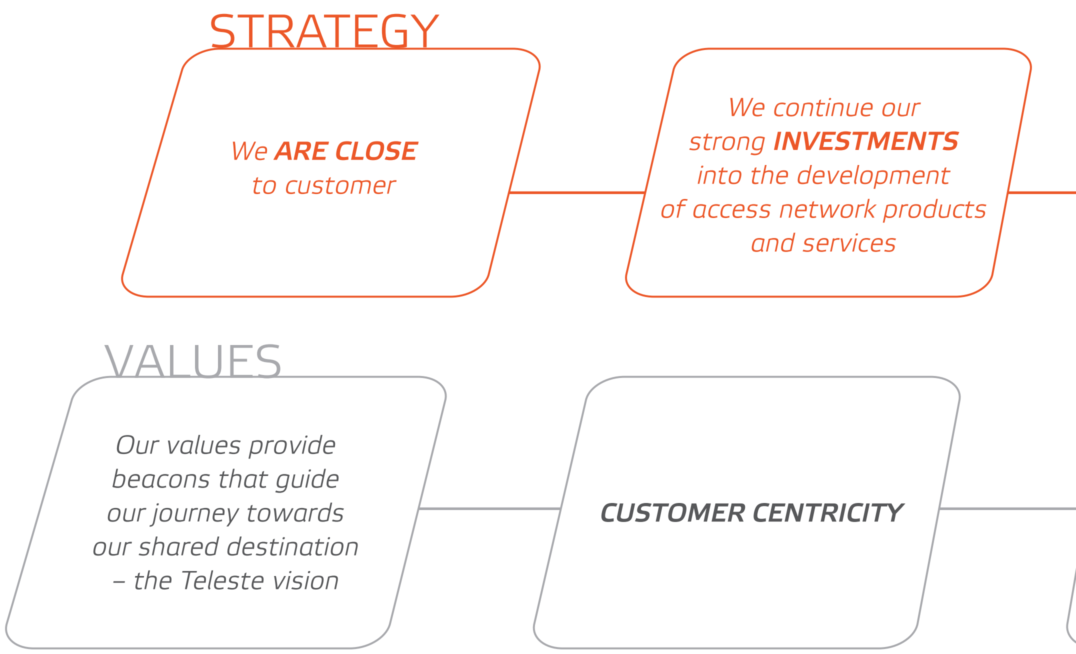
As a leader in its field, Teleste is building a modern networked world by means of its new broadband and video solutions. Teleste develops and provides video and broadband technologies and services for cable operators and telecom companies and the public sector. Our core business is video - image and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

Teleste's intent is to be a partner valued by its customers and a preferred employer. Our strategy supports the achievement of these objectives. It is based on the trends taking place in our business environment, which have been presented on the previous page. For the part of custom networks and video surveillance, Teleste's growth objectives are supported by investments in product and service solutions, as well as by our product development, which is in line with the customer needs. Profitability is supported by our on-going improvement of operational cost-efficiency and utilization of our business synergies.

Teleste is a pioneer as a developer of technology used for the access networks of operators. Building and qualitative improvement of network capacity continue to increase the demand for this technology. Teleste continues to invest in the development and delivery of products and services needed by our client base. Teleste's supply also allows the expansion of its customer base from the cable operators to telecom companies.

As for services, in addition to technological expertise Teleste's competitive advantage is based on the installed equipment base and strong local presence. The demand for online services is increased by the proliferation of outsourcing in the client sectors, which in turn is stimulated by the tight cost control and the introduction of new technology.

Teleste has a strong position in large custom-designed multi-site video surveillance systems encompassing up to thousands of cameras. In the future, Teleste



will also invest in multi-site systems, which comprise a few hundred, but not necessarily thousands of cameras. This segment offers good growth opportunities, to which Teleste's offering can be adapted by modest investments.

The pace of technological development in this industry is fast. In the next 5 to 10 years, the broadband offering by the cable companies in cabled areas will be overwhelming. In the long term, the network architecture will increasingly move towards optical networks. Teleste is involved in the development of new solutions required for this progress.

MISSION

*We **DEVELOP** and **OFFER** video and broadband products, services and solutions for cable operators and the public sector. We make everyday **LIFE EASIER**, **SAFER** and more **EFFICIENT**.*

VISION

*As the **LEADING** provider in our field, we build a modern networked society with new broadband and video solutions*

OUR GOALS

*Be a **VALUED PARTNER** for our customers and a preferred employer*

***PROFITABLE** growth*

*We **FOCUS** on developing ultra high-end video surveillance solutions and expand our offering to high-end solutions*

*We **DEVELOP** solutions enabling innovative TV services*

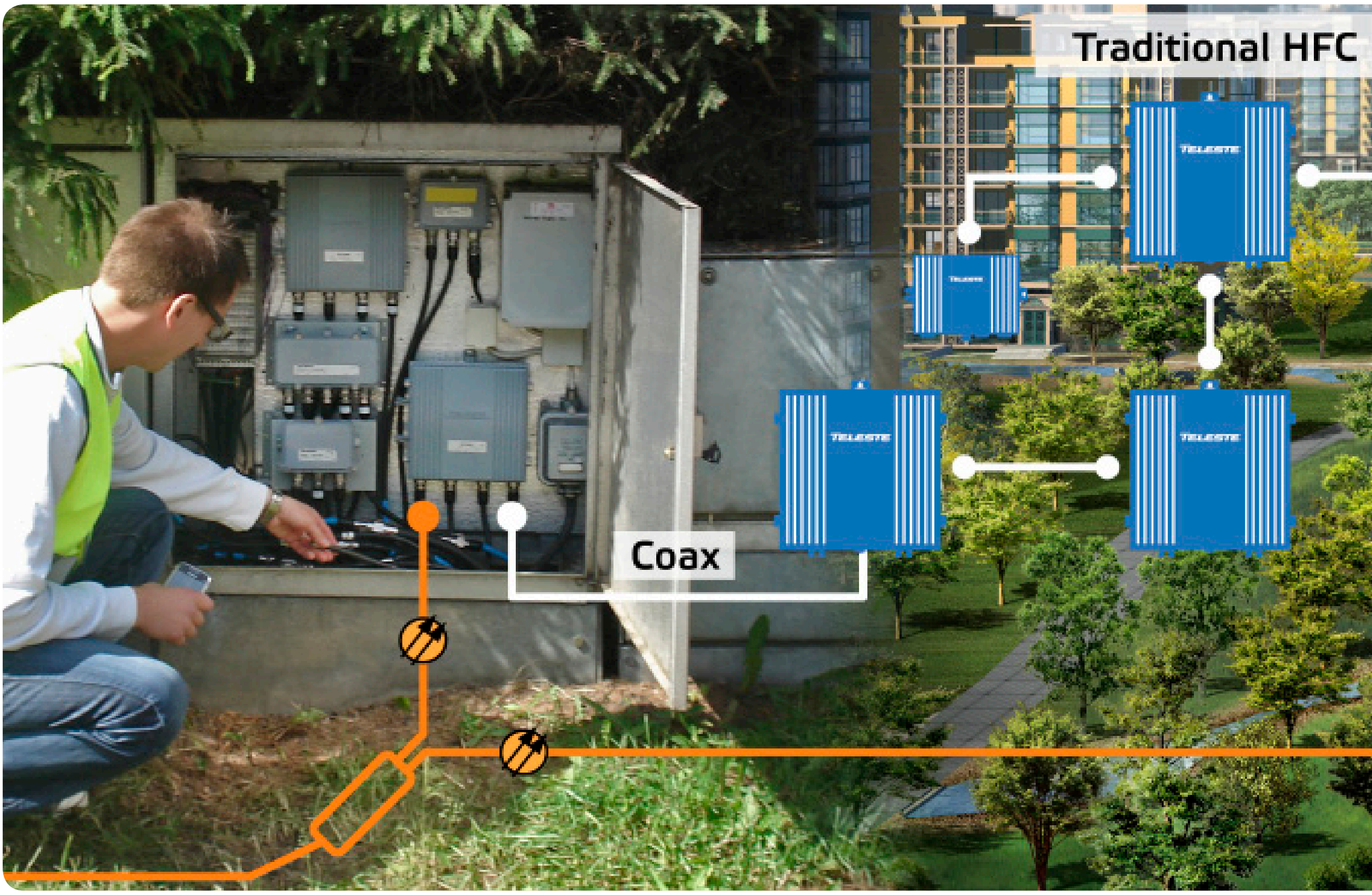
*We **IMPROVE** our performance and cost efficiency*

RESPECT

RELIABILITY

RESULT ORIENTATION

PRODUCT DEVELOPMENT TOGETHER WITH A BROAD NETWORK OF PARTNERS



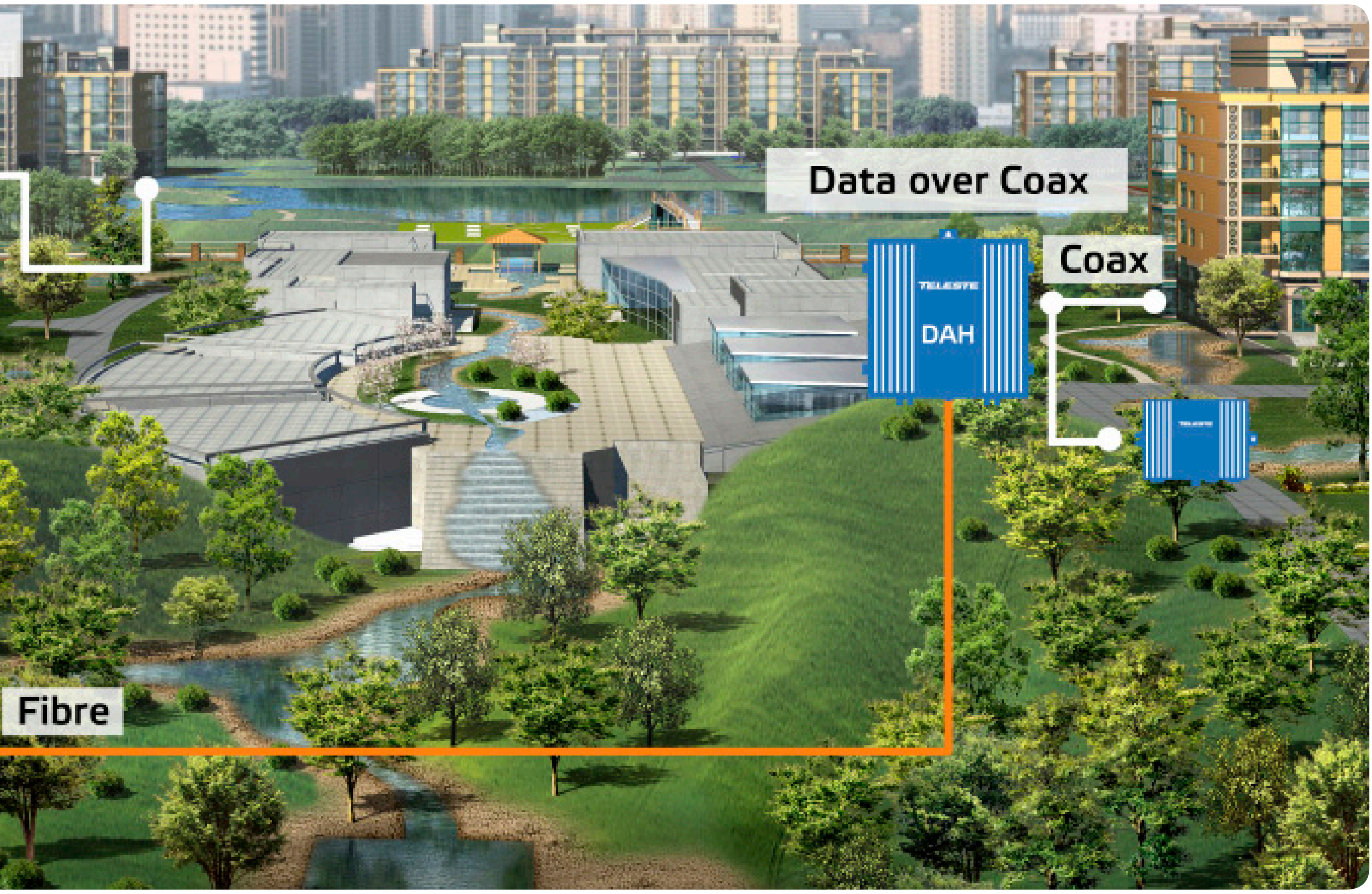
For Teleste's entire history, technical product and system innovations have been the cornerstones of the company's success. The company has made a long-term investment of at least 10% of its annual net sales on R&D, which has enabled the development of Teleste's wide-ranging and competitive product portfolio. Our 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 Teleste relies on partners focusing on these areas, which include the Technical Research Centre VTT, Universities and Polytechnics.

Experienced and skilled R&D personnel and their 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 on our own. For this reason, it is important to identify those technologies and key areas of expertise, the management of which by Teleste's own personnel is essential for our success today and in the coming years. Other required elements are, then, covered with a large network of Finnish and foreign partners.

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 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.

Main Areas in Product Development

Teleste's product development efforts target the following three main areas: access networks, video processing solutions, and



video surveillance solutions. From the R&D point of view these areas are significantly different from each other. In the access networks business it is essential to be able to quickly modify cost-effective product solutions. Video processing solutions of the operators require development of a high-quality total solution optimized for the given business environment. For video surveillance solutions, the latest and most effective technology available can almost always be used, which is due to the fact that the installed equipment base does not set restrictions to the choice of technology. Taking these differing priorities into account in the operational models of product development is a key requirement in the development of profitable business.

In 2012, as a new area of focus, we initiated research in technologies that enable high-speed data services via coaxial network (DoC, Data over Coax). Optional technologies for this purpose include MoCA (broadband technology developed for in-home coaxial networks), G.hn (broadband technology designed to utilize the power distribution networks) and DOCSIS (broadband technology developed for the cable networks). This technological research led to the decision of launching a product development project, the aim of which is to develop a management unit for cable modems based on the DOCSIS technology. The first focus group for this technology includes closed coaxial networks, such as those used in hotels and hospitals. In 2013, this project qualifies Teleste to compete for the ever-growing investments that the operators allocate to the development of broadband services.

The above-mentioned DoC project is an excellent example of Teleste's ability quickly to commercialize a demanding technical concept that takes advantage of the progress achieved by the standardization working groups, the development in component technology and the changes in market conditions. This extraordinary competence requires top-level expertise through the entire Teleste organization combined with a clear business strategy.

	CUSTOMERS	PRODUCTS

VIDEO AND BROADBAND SOLUTIONS

TV AND BROADBAND SERVICES

Customers

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.

Products

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

Customers

Users of Teleste video surveillance systems are mainly in the public sector, such as authorities in charge of traffic, transport and public security.

Through its own offices, Teleste Video Networks is present in all the major geographical markets: Europe, North America and Southeast Asia.

Products

We offer comprehensive video surveillance solutions and our own products 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

Customers

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 Belgium, Finland, Germany, Switzerland and the UK.

Products

We offer our customers high-quality services in design, documentation, construction of networks, installation and maintenance.

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 installation all the way to large-scale fiber construction or turn-key management 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 network 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. We are now expanding our offering also to smaller multi-site projects.	**There is a growing** need for video surveillance. Analog systems will be replaced by fully digital systems. The need for intelligent solutions will continue to grow and network management and storage solutions form the core of these networks. Teleste's good product offering combined with the company's world-class references provide a solid foundation for 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, Finland and Switzerland, 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 professional services as consulting, project delivery and outsourcing 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, Finland, Switzerland and the UK. In these countries, there are certain areas of application where we have identified potential. 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.

CURRENT TRENDS

- Consumers want to watch varied and high-quality video anytime, anywhere and on any device. From the cable operators this requires continous investments in the construction and development of access networks.
- Ensuring public safety requires more and better security control. Video surveillance solutions enable reliable monitoring in a cost-effective manner.

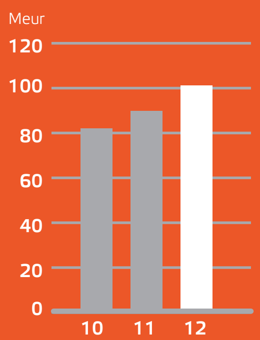
VIDEO AND BROADBAND SOLUTIONS

GROWTH IMPROVED PROFITABILITY

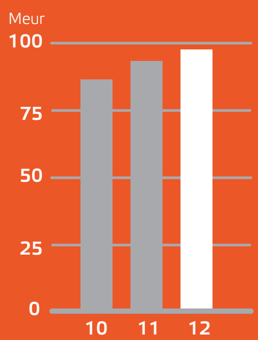
Video and Broadband Solutions (VBS) provides TV distribution industry and the video surveillance sector with products and services. Video and Broadband Solutions make available access network products, headends, and video-on-demand solutions for cable and telecom operators as well as video surveillance applications for public sector organizations.

Video and Broadband Solutions' net sales grew by 12.8%, rising to EUR 101.2 (89.7) million. This increase in net sales came from both the TV distribution business and, in particular, from video surveillance. Operating profit grew by 3.4%, amounting to EUR 8.5 (8.2) million. This improvement in profitability was largely due to growth in net sales. The business area employed 567 people.

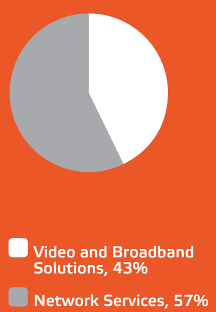
VBS NET SALES



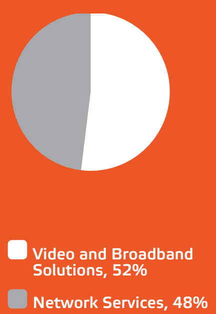
VBS ORDERS RECEIVED



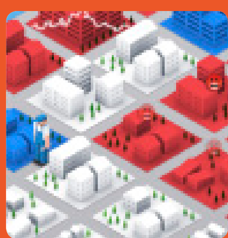
SHARE OF PERSONEL



SHARE OF NET SALES



OUR MARKET POSITION AS A TECHNOLOGY SUPPLIER TO THE CABLE OPERATORS STRENGTH-ENED SIGNIFICANTLY



A WORLD PREMIER - NETWORK GENIUS GAME!
Teleste releases a Network Genius iPad game, the first game ever to feature cable network maintenance in an iPad game! The game highlights in an entertaining way the benefits of intelligent networks concept, and challenges the players to test their skills and see who has the wits to manage a network occasionally troubled by errors. The game works on iPads and will soon be available for download from iTunes App Store. Stay tuned for more updates!

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.

Investments into cable networks made by our main customer group of cable operators to increase their capacity leveled off as the year 2012 progressed. The strong demand that started at the end of 2011 and continued in spring 2012 leveled off towards the year-end. The probable cause for this reduction in the investments is that significant investments were made into cable networks in the summer of 2012 for major sporting events, so the greatest requirements were satisfied for a while.

Market Share on the Increase

In 2012, Teleste won a number of new major contracts while deliveries related to earlier deals went smoothly. These new agreements significantly strengthened Teleste's market position as a technology supplier to the cable operators. For all that, the uncertainty that spread across the market towards the year-end slowed down the inflow of new orders.

The Most Modern Product Concept on the Market

TV and video industry is part of the rapidly digitalizing world. Customers of cable operators require increasingly faster connections and more versatile services while the number of various terminals is getting larger. These changes maintain the need for construction of new and more efficient networks and development of existing networks, as well as the creation of new technologies for the editing of video images. At the same time, they necessitate a strong investment on the part of the technology supplier in the development of products and technologies.

In 2012, a number of product launches and product developments were carried out. The most significant new product launches included optical fiber node Teleste AC8700 and Teleste Ubique solution for the management of DVB, IPTV and OTT services.

Centralization of Procurement in the Customer Field

Cable operators are significant players, and many of them are active throughout Europe or even worldwide. Previously, local subsidiaries have taken care of their purchases independently, but the current trend is towards centralization of procurement, thus, calling for an increase in the tender sizes. Customers are often looking for strategic suppliers who can cover the whole Europe. This trend favors Teleste thanks to our comprehensive product offering and our comprehensive local presence across Europe.

Whilst concentrating their purchases, operators are also looking for the most cost-effective solution. This has increased price competition, but on the other hand, the growth in production volumes brought about by large orders offsets price erosion.

Several Major Contracts

The most important new agreements were signed with the UPC Broadband unit of Liberty Global, Inc., multi-service operator YouSee and the cable operator Stofa. Liberty Global is the world's second-largest cable operator and UPC Broadband is their European unit, which provides TV broadband and telephone services to approximately 16 million customers in 10 European countries. The won agreement constitutes a significant strategic partnership between Teleste and UPC. This agreement includes, among other things, delivery of the next generation fiber-optic node solutions to Liberty Global's European operations.

YouSee is the leading cable operator in Denmark. The frame agreement includes deliveries of Teleste's most advanced fiber-optic products to access networks in the entire country. Stofa, on the other hand, is Denmark's second-largest cable operator. The agreement expands the cooperation with Teleste, and based on it, Teleste supplies Stofa with equipment such as optical transmission, coax amplifiers and software tools for network management.

Deliveries based on agreements signed earlier progressed well and, for example, deployment of the headend solutions supplied to Mobile TeleSystems in Russia proceeded smoothly and the cooperation will continue. Large Russian and Eastern European markets provide Teleste with a lot of potential.

NEW PRODUCTS

TELESTE AC8700

The first intelligent optical fiber node Teleste AC8700 was launched in June. In addition to its high capacity, this fiber node adjusts itself automatically, and adapts to the requirements of the given network. This product innovation was well-received in the market.

TELESTE UBIQUE

Teleste also introduced a new solution for the distribution of TV content over the Internet. This solution, named Teleste Ubique, gives operators of all sizes the opportunity to start their own OTT services, quickly and at a reasonable cost.

VIDEO SURVEILLANCE

Teleste offers 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 unified video surveillance system. Integrated solutions include products, systems design, project implementation and services related to system maintenance and training. In a video surveillance system, Teleste's own products are placed between the cameras and monitors, and they cover video transmission, storage and management.

Utilizers of video surveillance mainly include public authorities, such as authorities in charge of city centre monitoring as well as road, rail and air transport. As to the private sector applications, the primary end-user segments include energy distribution networks and control of industrial processes. Video surveillance systems are often connected to other systems, like those involving traffic control, emergency, and crisis management.

In 2012, the rapid growth in the demand for video surveillance solutions was maintained by the growing need for various security and safety systems. In particular, the public sector continued to invest in automated and centralized control, alarm and security systems, which, at the same time, enable improvements in precision, coverage and effectiveness of the control.

Orders from Chicago and Paris

The year was a success also in terms of deliveries and new contracts. Previously initiated projects were delivered under the contracts and, at the same time, they generated new orders. Maintenance contracts were made for the solutions delivered to the Préfecture de Police in Paris and SNCF, the French national railway company. The biggest order came from the Chicago Transit Authority to which Teleste already had delivered video management systems for 146 railway stations. Designed to be mounted on 700 railway carriages, this new delivery includes on-board video management equipment, which will be connected to the previously supplied video management system. Thus, this delivery complements the existing system turning it into an overall unified video surveillance system. For Teleste, this particular delivery is the first on-board system to be delivered. It is a major opening for new markets, which also offers exciting opportunities for the further development of the product.

Teleste's goal is to strengthen its position as a provider of highly demanding video surveillance solutions and, at the same time, expand its offerings to include slightly smaller, but still geographically extensive solutions. Highly demanding solutions are based on customized products, while demanding solutions are mainly based on standard products, which are then integrated e.g. through customized interfaces. Projects classified as highly demanding solutions usually include systems comprising of more than 200 cameras. The market for highly demanding solutions is relatively small with about a few dozen projects launched each year, while the market for slightly smaller projects is much larger. Teleste already has a strong position and extensive references in the highly demanding marked segment. The order received from Chicago is, on the other hand, an indication of Teleste's successes in expanding its supply to slightly smaller solutions.

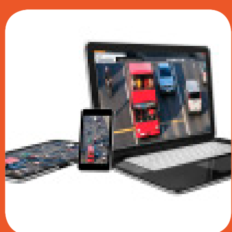
Towards Industry-Specific Solutions

A number of positive developments can be seen in the demand for video surveillance systems provided by Teleste. The most significant of these include a general increase in the need for supervision and control, replacement of analog systems with digital ones and the need for comprehensive and intelligent solutions. This need has to be satisfied by using more efficient, more automated, more centralized, easier-to-use and better quality systems. For Teleste, continuous development of technology and systems is a key factor in the maintenance of its strong market position. Video surveillance systems are being developed for an increasingly versatile use in combination with other systems, such as fire-fighting or access control. Such systems communicate with each other through an unified interface. Teleste focuses also on developing, industry-specific solutions such as rail or road transport.

RIGHT PICTURE – RIGHT TIME – RIGHT PLACE

S-VMX VIDEO SURVEILLANCE SOLUTION

The launch of S-VMX video management system in September 2012 was a significant moment. Teleste S-VMX system is based on web services and is the core of our offerings for high end video management solutions. It provides a scalable and uniform end–to–end solution from low camera count systems up to nationwide system comprising of thousands of video streams.



TELESTE MPH

MPH video encoding platform is designed for demanding systems. It brings support to full HD resolution (1920x1080 pixels) video and it incorporates multiple standard video codecs.

FUTURE TRENDS

- The demand for services is maintained by Teleste´s installed eguipment base and our customer´s tendency to outsource any non-core competencies tasks. Outsourcing is often seen as a good option when looking for cost-effective solutions or when introducing cutting-edge technology.

NETWORK SERVICES

CLEAR IMPROVEMENT IN PROFITABILITY

Network Services (NS) provides network design, high-quality installation, maintenance services and professional services for European cable and telecom operators. Our customers are often leaders in their countries, with the aim of providing their subscribers with new services, such as high-speed Internet access, pay-TV, Video-on-Demand and telephone services.

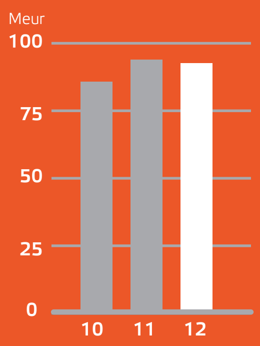
As early as in 2011, Network Services raised its net sales to a new level, and in 2012 we managed to improve our profitability. Our net sales reached almost the level of the previous year standing at EUR 92.6 million (93.9), whereas our operating profit doubled to EUR 2.4 million (1.2). The number of employees remained at the previous year's level of 759 (733).

In recent years, productivity and cost management have been improved by a number of measures. Practices and processes have been streamlined, quality standards have been raised and change has been supported by a range of investments. Additionally, more focus has been put on identifying our customers' needs and in responding to them. Efficiency improvement measures began to bear fruit with the increased profitability.

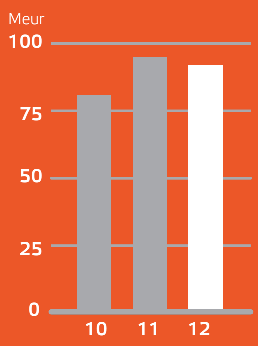
Bigger Customers

Operating range of the NS business area covers the whole Europe with the most important countries being Germany and the United Kingdom. In other countries the

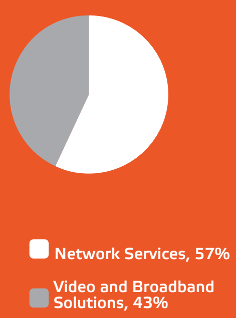
NS NET SALES



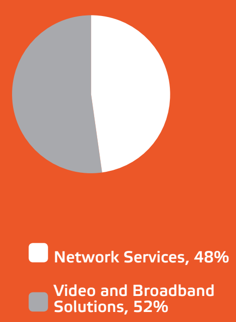
NS ORDERS RECEIVED



SHARE OF PERSONEL



SHARE OF NET SALES



situation was relatively stable, while in the German market the year was quite eventful. Consolidation in the customer base has been going on for some time, and a major merger was also realized in 2012. Furthermore, telecom companies seek to expand their service offerings into the traditional area of the cable operators.

Teleste was strongly involved in the changes of the market and also managed to bring home a number of important projects while maintaining its strong market position. New agreements were signed with both existing and new customers. Co-operation continued with players like Kabel Deutschland, LGI's European activities, Virgin Media and Deutsche Telekom, while new agreements were signed with Anvia, AinaCom, Enkom, TKS and UPC, to name a few.

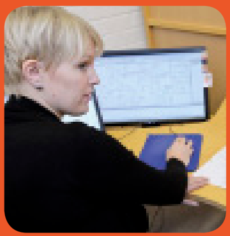
Strong Service Offering

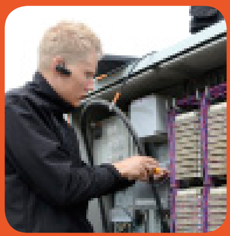
Smooth operation of cable networks requires effective technical management and functional hardware solutions. Operators give more and more weight to the functionality and reliability of their networks in order to keep a high level of customer satisfaction. From the view point of the operators and telecom companies, Teleste is a reliable and experienced partner in conception, design, construction and maintenance of networks. Wide-ranging as it is, Teleste's service offering for the operators is being continuously developed according to the customer needs. In 2012, our development focused on items such as turnkey solutions in repair services, network design services, and some higher-value services.

Growth Targets Approached By Cross-Selling

Year 2013 has begun with positive expectations in all of our countries of operation. The need for expert services of both cable operators and telecom companies appears to be increasing. Teleste is also interested in expanding its service offering to other customer segments. Opportunities for growth will be enhanced by focusing on the total supply at the Group level. When it comes to the product business, Teleste has a strong market share in many countries where our service offering has not yet been exploited. The objective is to lower the business and geographical boundaries to achieve greater synergies. Continued attention will be paid to productivity while keeping up with measures designed to further develop operational efficiency and customer value-added services.

IMPROVEMENTS IN PRODUCTIVITY AND COST CONTROL INCREASED THE OPERATING PROFIT





With a unique combination of highly skilled and motivated field force, close cooperation with our product unit, and second-to-none technical knowhow in cable TV and broadband applications, we help our customers design, build and operate their networks.

We believe in the power of collaboration. By working closely together with our customers, we can understand their needs, support their processes and help them meet future challenges.

Video Surveillance at the Chicago Transit Authority

Chicago Transit Authority (CTA), the second largest public transportation system in the United States, provides nearly two million rides every day around the City of Chicago and 40 surrounding suburbs. The CTA transit system consists of 146 metro-rail stations and 2000 buses.

In November 2012, based on technology and proven track record of delivering complex large scale IP based systems, Teleste was chosen for expanding the security system from rail stations to hundreds of railcars. The new expansion will take place during year 2013, and includes onboard mobile network video recorders, software, networking equipment and their technical integration into the overall CTA video management system.

The Teleste onboard system offers unprecedented service level to the security officers, connecting the mobile systems to the central operating centre in real time, through versatile mobile radio systems, with geolocalization and security information. Upon completion of this project it will nearly double the total number of cameras in the CTA VMX system.

Since 2005 Teleste has assisted CTA in ensuring safety and security of its customers by providing networked video surveillance solution for monitoring station platforms, rail-lines, tunnels and ticket halls. Today, the CTA video surveillance system includes approximately 4000 cameras that are monitored during daily operation and recorded 24/7 for investigation and crime prosecution purposes. Provided VMX solution consists of video management software, recording and storage hardware as well as equipment for analog to IP migration.

The need for increased safety and security of public transportation has been well recognized and video surveillance has played a prominent role in helping passengers to feel safe and eager to utilize public transportation. Over the Chicago area, results of video surveillance have been officially reported to contribute to a 25% drop-down in robberies within the first three quarters in 2012 compared with the same period a year ago.

Teleste is recognized by CTA as a trustworthy long-term video surveillance system provider, and our VMX video surveillance solution has been able to fulfill both technological and operational requirements set by CTA. The latest system extension proves that we have succeeded in covering all aspects of a complete public security solution including railcars, off-load areas, and stations and to deliver real-time information to the highly functional monitoring centers.

The fully integrated security system helps CTA to make their customers feel safe.

TELESTE IS RECOGNIZED BY CTA AS A TRUSTWORTHY LONG-TERM VIDEO SURVEILLANCE SYSTEM PROVIDER

Brutélé is Growing for Success

Founded in 1968, the Belgian operator Brutélé has rapidly expanded its business in terms of both territory and activities. Today the company operates a network of 230.000 Cable TV subscribers, covering a territory of 30 affiliated municipalities in the areas of Brussels and Wallonia. Started out as a CATV operator, Brutélé's network infrastructure consists of more than 5000km of coaxial cables and 500km of fiber optic cables.

Since 2006 the company has been developing its' VOO brand in partnership with Tecteo, an industrial group that pursues a dynamic and diversified policy in the energy and telecommunications sectors in Wallonia. VOO has developed innovative telecom approach combining television, Internet and telephone services. Brutélé now offers a wide range of services including broadband Internet transmission of data and speech signals, intranet technology and video surveillance, among others. The variety of services was enabled by significant investments in fiber-optic networks and the upgrade of coaxial networks.

Brutélé's strong commitment to the VOO brand with continuous innovation, significant investments in the upgrade of coaxial networks and installation of fiber optic networks, have created strong growth in business. In last years, the company has been realizing a growth of more than 10% in its turnover, achieving around 95 M€ in 2012. Implementation of modern transmission technologies over their entire infrastructure creates a strong background also for the company's expansion plans for the coming years.

Teleste has, for more than three decades, been a supplier of various types of equipment for the Brutélé cable network. During the years, there has been close cooperation between the companies on both the technical and commercial level. Teleste has provided Brutélé a full range of HFC products, including wall-outlets, in-home amplifiers, amplifiers, nodes, headends, and EMS software platform.

Brutélé has also selected Teleste's most advanced fiber-optic products to upgrade their access network infrastructure. Products like the intelligent node AC9000 and the fiber transmitter HDO906 offer premium performance and best-of-breed functionality that increases the quality and quantity of data and video services provides within HFC networks. This makes the products perfectly fit to Brutélé's strategy to provide their customers fast, economical and permanent access to high-speed and very high-speed telecoms services.

When raising the performance of network infrastructure, Brutélé believes in Teleste's intelligent technology and is actively using also the intelligent amplifier AC3200 and the element management software EMS as part of their network. Together with the AC9000, the products belong to Teleste's Intelligent Networks concept designed to provide cable operators solutions on how to increase their operational efficiency. The concept strives for improving network reliability, reducing the need for on-site maintenance, and thus cutting down operational costs.

Client Base Widened in Germany

The position of Teleste's German-based subsidiary Cableway is well-established as a strategic partner and service provider of cable operators for integrated and high-performance cable networks. The main office is located in Bergisch Gladbach near Cologne, and the company has about 700 employees. Thanks to its comprehensive network of qualified experts spanning whole Germany, Cableway is able to provide their services in a very flexible manner with the required capacity.

Cableway offers their clients both with network components and total solutions with their product range covering services starting from consulting, network planning, project management all the way to construction of networks, including additional services such as training and maintenance.

Fastest broadband access can be achieved ultimately by using fiber-optic technology, and the almost unlimited bandwidth enables the usage of today´s and possible future services simultaneously. The importance of fiber-optic technology for future network investments is undeniable.

In 2011, Cableway won a major new client, which resulted in a joint fiber optic project in Düsseldorf. A substantial investment in terms of civil engineering capacity was made into the project in which a stretch of about 250 km was covered with optical fiber. Some 1,500 households and approximately 1,200 subscribers were connected to the network. The project was completed in mid-2012. For Cableway the project was very successful, since as a result of the trust established between the companies a follow-up project has been scheduled for 2013. This project involving upgrading of customer subscriptions will take place in North Rhine-Westphalia.

Philosophy of Cableway is to take on new challenges, develop in them and improve their performance continuously.

DIGITAL HEADEND PLATFORMS BY TELESTE FORM AN INTERGRAL PART OF QUADRIGA´S DIGITAL TV SOLUTION

Quadriga Masters Hotel Networks

Quadriga is one of the hospitality industry's largest global integrators of in-room entertainment systems and network applications. The company has over 30 years experience serving the global hospitality sector, working with the leading brands and supporting 345,000 guest rooms. It has unrivalled expertise and over 10 years experience in managing hotel networks, Internet provision and digital IP systems, with over 120,000 Internet rooms.

Through an ever-growing portfolio of products, services and content, proprietary to Quadriga or via 'best-in-class' partners, Quadriga provides customers with the flexibility and reassurance that they can obtain a complete and relevant technology solution that meets their business revenue, guest satisfaction and operational efficiency targets, all from a single, global partner.

Quadriga's range of TV and mobile communications platforms, easy-to-use guest Internet solutions, network management, consultancy and delivery services and multimedia content means it can work with its customers to converge today's disparate technologies to create a technology ecosystem that delivers unequalled guest service and hotel operational efficiency.

Quadriga's has recently announced its new Personal Media Network™ (PMN™) solution which enables hotels to enhance guest communication and provides a truly integrated environment where the TV, smartphone, tablet and laptop are all synchronised to deliver an unlimited world of service and content.

Teleste has been one of Quadriga's key technology partners since 2006, providing industry leading product innovation and expertise. Teleste's Digital Headend platforms form an integral part of Quadriga's Digital TV solution, integrated with its established Sensiq and Genesis TV platforms and now installed in over 200 Quadriga hotel sites across 19 countries.

By partnering with Teleste Quadriga is able to provide the level of quality, ease of use, functionality and reliability that their customers demand, backed-up by a full range of support services. According to Paul Wilson, Quadriga's Partnership and Product Director, "Having already worked successfully with Teleste for the last two years, the migration to the Luminato platform was a logical choice. Teleste not only provides the market leading technology our customers demand but also the European support and proactive partnership that we expect to ensure our business is successful."

Quadriga selected Teleste as its technology partner not just because of its market leading technology, wide European presence and extensive support, but also for its overall flexibility to work with Quadriga to explore new technologies and react to evolving customer requirements and guest expectations. This is an important element of the partnership between the two companies and key to Quadriga's strategy as it expands its range of technology solutions to continue to meet the business needs of the global hospitality sector.

Customized Service Solutions for Virgin Media

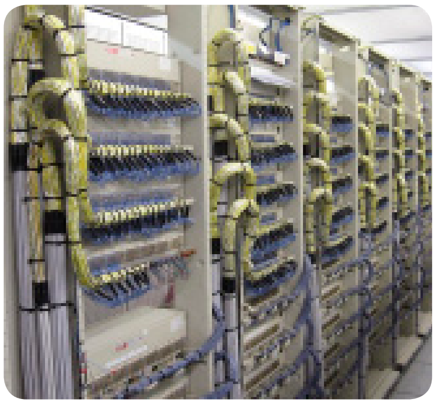
Flomatik Network Services Ltd. is a wholly owned subsidiary of Teleste Corporation and serves the UK Telecommunications, Broadband and TV industries. Flomatik's professionals integrate into the client organisation, working collaboratively to understand, establish and achieve business aims through tailored service solutions.

Virgin Media is the UK's consolidated national Quad-play service provider, offering cable (video, voice, data) and mobile services. A supplier to Virgin Media since 2007, Flomatik is currently their largest provider of infrastructure services and is fundamental in delivering a broad range of complex initiatives across the business.

Virgin Media's Network Refresh Programme covers a basket of related projects encompassing the planning and upgrade of legacy TDM switching and transmission to the latest generation of IP platforms. These initiatives enable the provision of high capacity, high density and interoperable IP-based systems to deliver the latest video, voice and data services and enable the growth of client's business and consumer products.

Flomatik's service enables Virgin to deliver large projects, whilst avoiding headcount increases. By outsourcing their Network Refresh activities, Virgin Media reduces operational uncertainty and assures the delivery of high-quality, efficient and timely initiatives.

"Flomatik are trusted to deliver our many obsolescence programmes; they provide exceptional problem analysis, technical solutions, project management and practical engineering, to realise our goals," Virgin Media.



Reliable Video Transmission for Energy Sector in Russia

Teleste products are vastly used for securing energy production and transfer in one of the world's biggest energy producing countries; Russia. In the energy sector, highly reliable video surveillance systems are needed for both process and security monitoring as part of the total security and process monitoring systems.

Teleste products are sold in Russia via local partners such as SKN (OOO "CKH", head-quarter in St. Petersburg) and STA ("CTA", Russian head-quarter in Moscow) to various end-users in the energy sector - including the world's leading gas producer Gazprom.

One of Teleste's focus areas in Russia has been to provide state of the art video transmission systems as key components for complete video surveillance systems protecting Gazprom pump stations and pipelines as well as Russian nuclear plants.

These highly demanding areas set demanding requirements on the video transmission and these are based on Teleste's fibre modem solutions.

The main advantage of Telestes' fibre modem solutions is their capability to provide highly reliable, simple & easy to maintain system, which works steady and sound also in the harsh environments - tolerating both very cold and hot temperatures. These capabilities as well as availability of needed certificates are appreciated by the end customers with demanding needs.

STRONGER TOGETHER

Teleste's expertise and competitive edge are based, to a large extent, on the motivated and professional personnel. The aim of our Human Resources is to strengthen the organizational model in support of the business strategy.

DEVELOPMENT GUIDELINES

- **HR Vision:** 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 2012:** Together we are stronger

At the end of 2012 Teleste employed 1,325 people. In addition to this, an average of 22 temporary employees worked in the production in that year. With the market situation leveling off, the need for leased labor disappeared towards the year-end.

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. In 2012, our HR projects involved harmonization of processes with the introduction of an HR system across the Corporation, conducting competence surveys, leadership development, and well-being at the work.

A Training Path to Supervisory Work

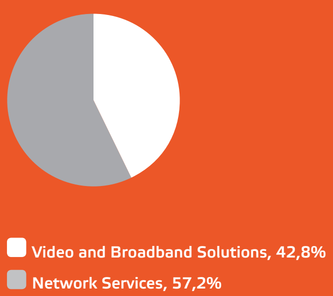
At the end of the year, a training path named "Working as a Supervisor at Teleste" was launched to support and develop supervisory work. The aim of this training package is to provide the supervisors with tools for human resource management and leadership. The different sections of this training path also put a strong emphasis on matters related to well-being at work.

Efficient and even-handed management of employment relationships is ensured by practical human resource management. To achieve this goal, Teleste introduces a common HR system. Some of the relevant units were included in the system in 2012 already and, as for the rest, the work will continue in 2013. To ensure its smooth deployment, both supervisors and the personnel received training in the use of the system.

Measures designed to develop the organization are, in the end, based on the needs for operational upgrading and skills derived from the business strategies. In 2012, preparations of creating skill profiles in the HR system were started by launching a competence survey. Development of the organization is also guided by our customer-oriented approach, which aims at increasing the personnel´s awareness of the customer´s operational environment.

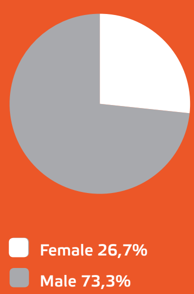
The theme of 2012 was "Together We Are Stronger ". A shared theme is intended to encourage an open and inclusive work

PERSONNEL BY BUSINESS AREA

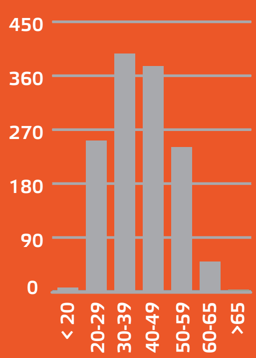


PERSONNEL BY LOCATION

PERSONNEL BY GENDER



PERSONNEL BY AGE RANGE



culture and improve the personnel's knowledge about the Group, its units and co-workers. Among others, information was provided by means of newsletters with company presentations and interviews.

Objectives of Working Capacity Management

Productivity and well-being at work go hand in hand. According to studies these are related to matters such as ability to work, health, working environment and management. A healthy working community signals a positive image of the employer and, by so doing, ensures permanence of skilled workers. At Teleste, well-being at work is monitored by means of regular meetings with the occupational health services.

At Teleste, measures to promote coping at work are perceived as a priority. In 2012, preparations for including value-based management of working capacity in the strategic management and basic operations of the company were started. Goals for the management of working capacity were defined jointly by the Company and the representatives of the occupational health services, with an emphasis on the principles of "being aware" and "being prepared". Based on the defined objectives, projects for well-being at work were launched aimed at finding ways to promote coping at work. The target group for the 2012 well-being at work project was the Finnish production environment.

In accordance with the principles of "being aware", an initiative was launched for a more comprehensive monitoring of issues like sick leaves, and their impact on cost. The sickness absence rate among the Teleste employees in Finland is below the average in the member companies of the Confederation of Finnish Industries (EK).

Natural Interaction

Continuous interaction and communication between the personnel and the employer is ensured by means of monthly meetings and regular gatherings between the employer and the employee representatives. This way, a flexible co-operation has been achieved allowing for quick adaptation to changes in the market. This mutual understanding has also allowed for reaching an agreement on the rules for the use of temporary labor in the production.

In the last quarter of 2012, joint discussions were initiated designed to anticipate the effect on personnel of the changes having taken place in the market situation. These negotiations concerned personnel in Finland as a whole. As a result, at the first stage, personnel working in Finland were temporary laid off for an average of three weeks by the end of March 2013, and a few persons were made redundant. It was also agreed that the rotating flexible lay-off may be continued until the end of March 2014.

A Wide Range of Incentives

At Teleste, systems related to payment and incentive schemes are based on profitability both at the company and personal level. The incentives in place include systems of bonuses and payment by results as well as those involving share bonus schemes and options. Bonus and performance-based schemes are closely tied to our business strategy, which is, thus, linked to the work of teams and individuals in a natural way.

A SHARED THEME IS INTENDED TO ENCOURAGE AN OPEN AND INCLUSIVE WORK CULTURE AND IMPROVE THE PERSONNEL'S KNOWLEDGE ABOUT THE GROUP, ITS UNITS AND CO-WORKERS

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 personnel system, HR Hub, integrates HR Management, HR Development and recruitment processes into a single coherent context. All personnel-related data can be managed in one system, which improves efficiency and automates corporate HR processes. In addition, personnel information is always up-to-date, accessible to proper persons and reportable in a variety of ways.

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 IN SUPPORT OF SUSTAINABLE DEVELOPMENT

Teleste's values and ethical guidelines form the basis for the principles of sustainable development. They also constitute a part of the foundation of the business, demonstrating Teleste's social responsibility. In 2012, systems related to social responsibility, quality and risk management as well as security were combined and approaches were harmonized better to meet requirements set by the business and the customers.

The current situation in the world with the ever-increasing competition builds up the pressure to social responsibility across Teleste's order and delivery chain. Assuming social responsibility is a common practice in the industry. Teleste's customers and partners require compliance with the social principles and Teleste, in turn, requires compliance with the same principles from its partners. This way, Teleste together with its customers and partners is laying its future on the foundation of sustainable development.

Environmental Protection by the Principles of Continuos Improvements

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

Efficient and Sustainable Products

Teleste's products consist mainly of recyclable materials. The greatest environmental impact is brought about by their consumption of energy when used, as well as their space and cooling requirements. Cable network equipment and video surveillance systems are durable, serviceable and upgradeable, which further extends their useful lives.

At Teleste, sustainable development is promoted by value management. The specified innovation objectives are more environmentally friendly, since product design plays a key role in the reduction of environmental impacts. Therefore, product development seeks to improve the quality of products and services as well as efficiency while aspiring to reduce the environmental impact spanning their entire life cycle from production and operation

HIGHLIGHTS 2012

MEASURES DESIGNED TO HELP REDUCING GREENHOUSE GAS EMISSIONS

- **Transition from bleached to unbleached cardboard packaging was continued in the selected product families with the introduction of unbleached cardboard in customer and pallet packaging.**
- **Recycling rate of packaging materials and pallets was increased. For instance, broken pallets are forwarded through a partner to be used in heat production.**
- **As for ICT server and server room investments, special attention was paid to energy efficiency and increased utilization rate.**
- **Work-related travel was reduced by favoring the use of modern information technology tools, such as teleconferencing.**

all the way to recycling. For customers, this means a reduction in life-cycle costs, thanks to the increased energy efficiency and prolonged useful life, as well as higher level of service in terms of larger capacity and increased reliability. Over the last few years, even customers have paid attention to these aspects.

A good example of R&D activities in support of sustainable development is provided by the revised HDO product family. HDO (High Density Optics) was compact and energy-efficient right at the launch. Continuous development of the product family has improved the product packaging density, power consumption, performance, and manufacturability. Better packing density provides an important competitive advantage for keeping down the costs of customer premises and, at the same time, it brings in significant savings in terms of raw materials. New technical solutions enable reduction in power consumption as the product optimizes its own performance. This can be seen as direct energy savings as well as increased reliability, thanks to the product running cooler. Attention has been paid to the amount of packaging material and, for example, the printed manual has been replaced by an electronic guide integrated into the product user interface.

In addition, the remote powered models of our high-volume amplifiers are equipped with new efficiency-improved and Power Factor Corrected (PFC) power supplies that reduce energy consumption and eliminate reactive power.

FOR OUR CUSTOMERS NEW TECHNOLOGICAL SOLUTIONS MEAN SAVINGS IN ENERGY AND GREATER RELIABILITY

Minor Environmental Impact

Environmental load related to Teleste's operation arises from generation of waste, energy consumption, transportation and traveling. The environmental burden brought about at the manufacturing stage of the products is relatively low. Our production is based on the assembly of printed circuit boards and electronic equipment giving no rise to significant discharges. In addition, Teleste is the business of software production the environmental impact of which is very limited.

As to Teleste's services business, the main source of environmental pollution is the CO_2 emissions produced by installation and maintenance runs. To reduce its carbon footprint, when it comes to the selection of new cars, Teleste pays attention to their CO_2 emissions, as well as to the route optimization enabled by the fault location feature of the new intelligent network solutions. Moreover, installation and packaging materials are recycled in cooperation with local operators.

Teleste aims to reduce generation of waste and improve recycling rate in all of its operations. Waste is sorted and most of it is recycled or used for energy. The amount of landfill and hazardous waste is very small, and even here, most of it can be recycled. Items consuming energy include heating and power for the production facilities, testing equipment and office equipment.

Direct and indirect environmental impacts of the products are monitored throughout their life cycle. This puts additional emphasis on the significance of co-operation with our suppliers, subcontractors and customers. Environmental issues have been incorporated into assessments of suppliers and subcontractors, and these are expected to commit themselves to continuous environmental improvement.

We also pay particular attention to the end-product packaging and their environmental friendliness. As for packages, fiber-based and recyclable materials are preferred.

MEASURES DESIGNED TO REDUCE THE LOAD CAUSED BY TELESTE'S PRODUCTS

- **Deployment of PFC power supply was extended to cover all remote powered high-volume amplifiers.**
- **HDO product family was renewed resulting in the power consumption being 30 to 50% smaller than with the preceding models.**

Teleste's Code of Conduct is available on Teleste website at http://www.teleste.com/suomi/sijoittajat/telesten_arvot/eettinen_toimintaohje

MARJO MIETTINEN 1

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 –
Efore Plc, Member of the Board 2013 –
EM Group Oy,
Member of the Board 2005 –
Ensto Oy, Member of the Board 2002 –

PERTTI ERVI 2

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

Principal occupation:
Independent Consultant

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

Other elected positions of trust:
Comptel Corporation, Chairman of the Board 2012 –
Efecte Oy, Member of the Board 2009 – ,
Chairman of the Board 2011 –
F-Secure Corporation, Member of the Board 2003 – , Chairman of the Audit Committee 2006 –
Inventure Oy,
Chairman of the Board 2005 –
Ixonos Plc,
Chairman of the Board 2011 –
Nevtor Oy,
Chairman of the Board 2008 –

ESA HARJU 3

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

Principal occupation:
Ixonos Plc, President and CEO 2013 –

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

PERTTI RAATIKAINEN 4

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 5

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 6

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

Principal occupation:
M.Sc. (Eng.)

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

Other elected positions of trust:
Comptel Corporation,
Member of the Board 2009 –
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 –

BOARD OF DIRECTORS

MANAGEMENT GROUP

JUKKA RINNEVAARA 1

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

Joined Teleste in 2002

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

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

ANDREE KANG 2

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

Joined Teleste in 2012
Member of the Management Group since 2012 –

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

MARKUS MATTILA 3

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

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

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

ESKO MYLLYLÄ 4

Technology Director
B.Sc. (Eng.), CBA, born in 1966

Member of the Management Group since 2006 –

Primary working experience:
Joined Teleste in 1994

HANNO NARJUS 5

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

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

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

ERJA SAARIKOSKI 6

CFO
Business school graduate,
born in 1953

Member of the Management Group since 2002 –

Primary working experience:
Joined Teleste in 1984

JOHAN SLOTTE 7

Deputy CEO
LL.M, EMBA , born in 1959

Joined Teleste in 1999
Member of the Management Group since 1999 –

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

Pasi Järvenpää, Senior Vice President for Teleste's Research and Development Unit started as a member of the Management Group as of January 1, 2013.

Esko Myllylä continues as a member of the Management Group focusing on strategic development projects in support of the Company growth.

INFORMATION FOR SHAREHOLDERS

Teleste share

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 2012, 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 2012, the low was EUR 3.04 (2.50) and the high EUR 4.44 (4.82). Closing price on 31 December 2012 stood at EUR 4.17 (3.00).

Trading code	TLT1V
Listed on	30.3.1999
Listing price	8.20 €
ISIN code	FI0009007728
Reuter's ticker symbol	TLT1V.HE
Bloomberg ticker symbol	TLT1VFH

Financial information 2013:

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

Financial Releases in 2013:

Interim Reports:

January–March	25.4.2013
January–June	8.8.2013
January–September	31.10.2013
Financial Statement Release	6.2.2014

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

Changes in shareholders' contact information

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

Annual General Meeting

Teleste Corporation's Annual General Meeting will be held on Friday, 12 April 2013, 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.

Shareholders registered on the list of shareholders with Euroclear Finland Oy on Tuesday, 2 April 2013 are entitled to participate in the Annual General Meeting.

A shareholder, who wants to participate in the meeting, shall register no later than Friday 5 April 2013 at 4 p.m.

Sign up to the AGM:

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

Proposal for Distribution of Dividend 2012

The Board of Directors proposes to the AGM that, based on the adopted balance sheet, a dividend of EUR 0.17 per share be paid for the fiscal year that ended on 31 December 2012.

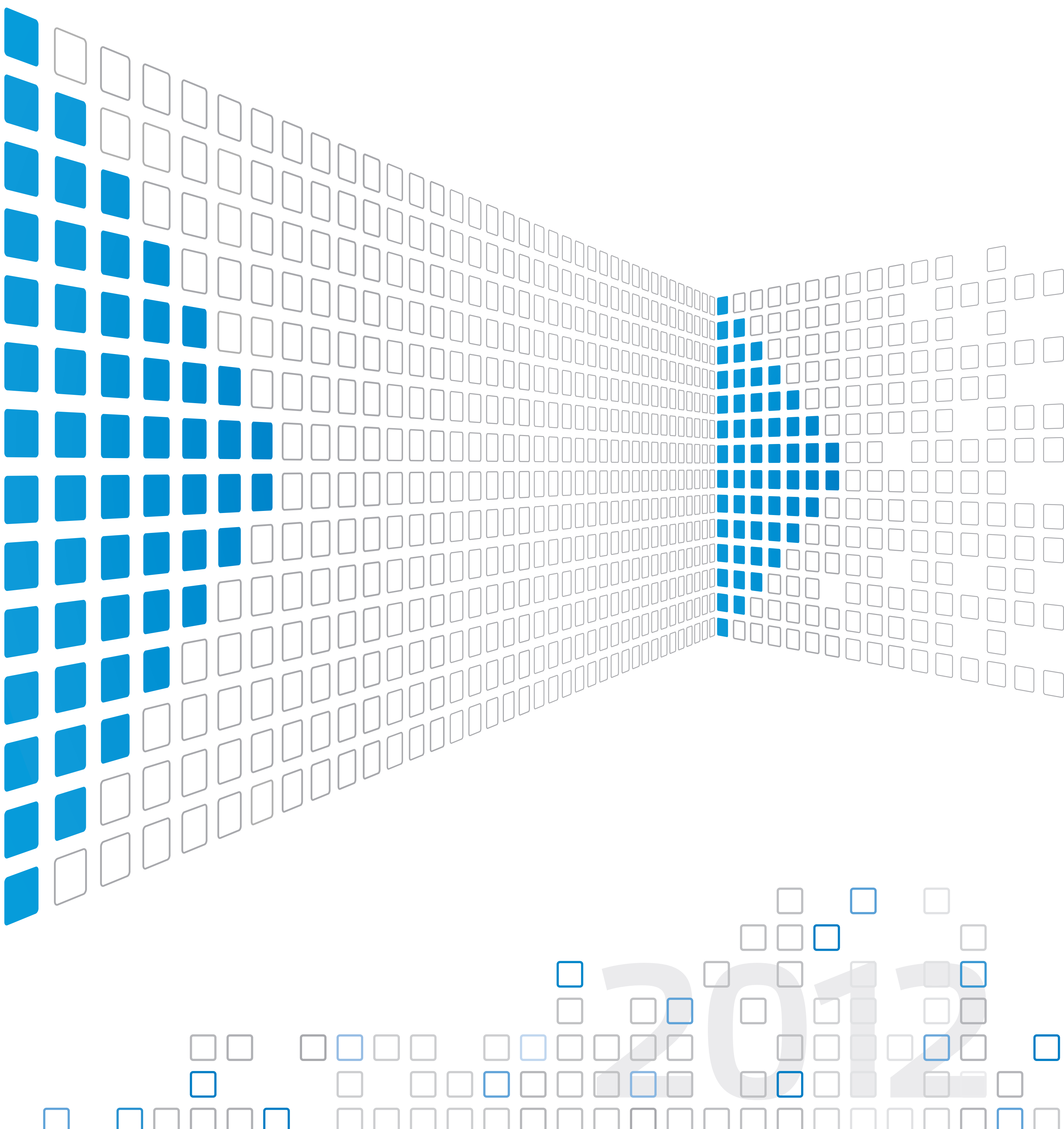
Dividend ex date	15.4.2013
Dividend record date	17.4.2013
Payment of dividend	24.4.2013

More information: www.teleste.com/AGM

Teleste hosted a capital markets day for analysts and institutional investors in September 2012. The day´s program consisted of management presentations, product demos and of factory tour.

TELESTE

FINANCIAL STATEMENTS 2012



CONTENT

REPORT OF THE BOARD OF DIRECTORS	**1**
CORPORATE FINANCIAL STATEMENT	**4**
Statement of comprehensive income	**4**
Statement of financial position	**5**
Consolidated cash flow statement	**6**
Consolidated statement of changes in equity	**7**
Accounting principles	**8**
Segment reporting	**15**
Business combinations acquired during 2012 and 2011	**16**
Notes to the consolidated income statement and balance sheet	**17**
FINANCIAL STATEMENT OF PARENT COMPANY	**36**
Income statement	**36**
Balance sheet	**37**
Cash flow statement	**38**
Accounting principles	**39**
Notes to the parent company's income statement and balance sheet	**40**
Proposal for the distribution of earnings	**45**
Auditor's report	**46**
Corporate governance statement	**47**
Key figures	**50**
Calculation of key figures	**51**
Shares and shareholders	**52**

REPORT OF THE BOARD OF DIRECTORS

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

NET SALES AND PROFITABILITY

Net sales increased by 5.6% to EUR 193.9 (183.6) million, mainly due to deliveries involving smart network equipment. Operating profit grew by 16.6% equaling EUR 10.9 (9.4) million. Operating profit includes a sale of a real estate and a reserve reversal of an additional purchase price related to a business acquisition totaling EUR 1.2 million. Taxes amounted to EUR 3.4 (2.5) million with the tax rate of 33.7% (28.7%). Undiluted result per share was EUR 0.38 (0.36). Cash flow from operations was good, i.e. EUR 15.3 (2.1) million, due to release of working capital and growth in profitability.

The Group's orders received stood at EUR 189.7 (188.1) million. At the year-end, the order backlog stood at EUR 17.0 (21.2) million.

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 subsidiaries and offices located in the United States, Australia, China and India.

Orders received improved by 4.8% standing at EUR 97.7 (93.3) million. Net sales grew by 12.8% amounting to EUR 101.2 (89.7) million. Operating profit increased by 3.4% standing at EUR 8.5 (8.2) million making 8.4% (9.2%) of the net sales.

Product development expenses equaled EUR 11.2 (11.6) million, in other words 11.2% (12.9%) of the net sales. In the period under review, product development expenditure involved research in future product platforms, further development of products in production and customer-specific projects. Activated R&D expenses stood at EUR 0.8 (2.5) million while depreciation on product development expenses equaled EUR 2.0 (2.1) million. A number of the business area's projects involved co-operation with Finnish universities and research institutes. In the financial period, R&D operations employed about 21% of the business area's employees.

NETWORK SERVICES

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

Orders received decreased by 3.0% and stood at EUR 91.9 (94.8) million. Net sales amounted to EUR 92.6 (93.9) million. Operating profit stood at EUR 2.4 (1.2) million making 2.6% (1.2%) of the net sales. Operating profit increased in step with improved productivity.

INVESTMENTS

Investments by the Group for the period under review totaled EUR 3.3 (5.2) million accounting for 1.7% (2.9%) of the net sales. Investments in product development equaled EUR 0.8 (2.5) million. The projects involved future product platforms at the research stage, further development of the existing product families and short-term customer projects. Other investments involved information systems, as well as machinery and equipment for production and services. Investments of EUR 0.8 (0.3) million were made under financial lease arrangements. In Finland, a piece of real property was sold with the capital gain amounting to EUR 0.6 million.

FINANCING AND CAPITAL STRUCTURE

Operating cash flow stood at EUR 15.3 (2.1) million. This improved cash flow from operations was due to a growth in profitability, a reduction in inventories, as well as a decrease in accounts receivable. At the end of the period under review, the amount of unused binding stand-by credits amounted to EUR 19.0 (7.5) million. Credit limits are valid until August 2015.

The Group's equity ratio equaled 50.5% (41.6%) and net gearing was 13.7% (32.2%). On 31 December 2012, the Group's interest bearing debt stood at EUR 22.1 (33.2) million.

PERSONNEL AND ORGANIZATION

In the period under review, the Group had an annual average of 1,326 people (1,297/2011 1,215/2010), of whom 567 (564) were employed by Video and Broadband Solutions, and 759 (733) by Network Services. At the end of the review period, the figure totaled 1,325 (1,319/2011, 1,231/2010) of whom 73% (72%/2011, 70%/2010) were stationed overseas. Employees stationed outside Europe accounted for less than 5% of the Group's personnel.

In the fourth quarter of 2012, the parent company Teleste Corporation launched cooperation procedures together with the personnel. Adjustments in the number of employees in Finland were initiated in December 2012 by introducing a flexible and rotating temporary layoff. In addition, three persons were made redundant. The rotating temporary layoff agreed in the cooperation procedures can be extended until March 2014.

Wages and salaries increased by 7.2% over the previous year and amounted to EUR 58.5 (54.6/2011, 50.8/2010) million. This increase was mainly due to a rise in the number of personnel of Network Services, decrease in the activation of wage costs involving R&D, as well as union-specific contract increases.

The number of temporary labor in the Finnish production averaged 22 (10) people. At the end of the review period, there were no temporary employees in Finland. Costs involving temporary labor have been entered under the material costs.

ENVIRONMENT

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

The greatest environmental impact is brought about by their consumption of energy when used, as well as their space and cooling requirements. Teleste´s products consist mainly of recyclable materials. Cable network equipment and video surveillance systems are durable, serviceable and upgradeable, which further extends their useful lives. Environmental load related to Teleste's operation arises from generation of waste, energy consumption, transportation and traveling. The environmental burden brought about at the manufacturing stage of the products is relatively low.

Our production is based on the assembly of printed circuit boards and electronic equipment giving no rise to significant discharges. In addition, Teleste is the business of software production the environmental impact of which is very limited.

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

GROUP STRUCTURE

Parent company Teleste has branch offices in Australia, the Netherlands, and Denmark with subsidiaries in 12 countries outside Finland. On account of financial arrangements, Teleste Management Oy, established in March 2010, and Teleste Management II Oy, established in December 2011, have been consolidated into Teleste Corporation's figures. Teleste Incentive Oy has been merged with Teleste Corporation. In Belgium, the company structure was streamlined.

KEY RISKS FACED BY THE BUSINESS AREAS

Founded in 1954, Teleste is a technology and services company consisting of two business areas: Video and Broadband Solutions and Network Services.

With Europe as the main market area, our clients include European cable operators and specified organizations in the public sector.

As to Video and Broadband Solutions, client-specific and integrated deliveries of solutions create favorable conditions for growth, even if the involved resource allocation and technical implementation pose a challenge involving, therefore, also reasonable risks. Our customers' network investments vary based on the relevant need for upgrading and their financial structure. Significant part of Teleste's competition comes from the USA so the exchange rate of euro up against the US dollar affects our competitiveness. The exchange rate development of the 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 our customers' investment plans. Furthermore, a weakening in the consumer purchasing power in Europe could slow down the network investments by the cable operators. Availability of components is subject to natural phenomena, such as floods and earthquakes. Severe weather conditions have an impact on the business areas' ability to deliver their products and services. Correct technological choices and their timing are vital for our 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 our services by any one of them is reflected in the actual deliveries. To ensure quality of services and cost-efficiency along with efficient service process management, customer satisfaction and improvements in productivity require innovative solutions in terms of processes, products and logistics. Smooth operation of cable networks requires effective technical management and functional hardware solutions in accordance with contractual obligations. This, in turn, demands continuous and determined development of skill levels in Teleste's own personnel as well as those of our subcontractors. In addition, our ability to deliver and compete may be constrained by the adequacy of our sub-contractor network capacity. Tender calculation and management of larger projects with overall responsibility are complex and risky.

It is important for our business areas to take into account any market developments such as consolidations taking place among the clientele and competition. The threats to information systems must be minimized to ensure business continuity. The Board of Directors annually reviews any essential risks related to the company operation and their management. Risk management is an integral part of the strategic and operational activities of the business areas. Risks and their probability are reported to the Board in conjunction with regular monthly reports.

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

DECISIONS BY THE ANNUAL GENERAL MEETING (AGM)

The Annual General Meeting of Teleste Corporation held on 3 April 2012 confirmed the financial statements for 2011 and discharged the Board of Directors and the CEO from liability for the financial period. The AGM confirmed the dividend of EUR 0.14 per share proposed by the Board. The dividend was paid out on 17 April 2012.

Ms. Marjo Miettinen, Mr. Pertti Ervi, Mr. Pertti Raatikainen, Mr. Kai Telanne and Mr. Petteri Walldén continue in Teleste's Board of Directors. Mr. Esa Harju was elected a new member while the membership of Mr. Tero Laaksonen ended. Ms. Marjo Miettinen was elected Chair of the Board in the organizational meeting held immediately after the AGM.

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

The AGM authorized the Board to acquire the maximum of 1,400,000 of the company's own shares and to convey the maximum of 1,779,985 company's own shares. On 8 April 2011, the AGM authorized the Board of Directors to issue five million new shares; this authorization will be valid until the Annual General Meeting of 2014. Pursuant to the special rights provided by the company, the maximum number of significant shares is 2,500,000; these special rights are included in the authorization to issue 5,000,000 new shares.

SHARES AND CHANGES IN SHARE CAPITAL

On 31 December 2012, EM Group Oy was the largest single shareholder with a holding of 23.44%.

In the period under review, the lowest company share price was EUR 3.04 (2.50) and the highest was EUR 4.44 (4.82). Closing price on 31 December 2012 stood at EUR 4.17 (3.00). According to Euroclear Finland Ltd, the number of shareholders at the end of the period under review was 5,182 (5,054). Foreign ownership accounted for 5.8% (7.76%). From 1 January to 31 December 2012, trading with Teleste share at NASDAQ OMX Helsinki amounted to EUR 10.8 (6.2) million. In the period under review, 2.7 (1.7) million Teleste shares were traded on the stock exchange.

At the end of December 2012, the Group held 1,302,985 of its own shares, of which the parent company Teleste Corporation had 379,985 shares and the controlled companies had 923,000 shares, respectively. At the end of the period, the Group's holding of the total amount of shares amounted to 6.96% (6.96%). Based on the rights of options, the Company's holding of shares may increase by 560,000 shares equaling to 2.90% of all shares and votes.

On 31 December 2012, the registered share capital of Teleste stood at EUR 6,966,932.80 divided in 18,728,590 shares.

Trading with stock options 2007B and 2007C began on the NASDAQ OMX Helsinki Ltd on 2 April 2012. These options allow subscription for a maximum of 560,000 shares in the company.

OWNERSHIP BY MANAGEMENT AND MEMBERS OF THE GOVERNING BODIES ON 31 DECEMBER 2012

On the balance sheet date, CEO and the Members of the Board owned 71,637 (84,791) Teleste Corporation shares equaling to 0.38% (0.45%) of all shares and votes. Based on Teleste 2007 stock option rights, CEO was entitled to subscribe 80,000 shares. On the balance sheet date, the ownership including rights of options by the CEO and the Board amounted to 151,637 (204,791) shares, which was equal to 0.79% (1.09%) of all shares and votes. On 31 December 2012, with the exception of the CEO, other members of the Management Group were not in the possession of Teleste Corporation shares.

On 31 December 2012, Teleste Management Oy and Teleste Management II Oy (companies established for the management incentive system) owned 923,000 (923,000) 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 2012, in addition to CEO's stock options, members of Teleste Corporation's Management Group owned a total of 164,314 (210,000) 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 Board of Directors of the NASDAQ OMX Helsinki Oy in their valid form at any given time.

OUTLOOK FOR 2013

Given the new video services offered by the operators, there is a continuous need for increased cable network capacity, so we estimate the deliveries by Video and Broadband Solutions in our target markets to reach at least the 2012 level. In our view, investments will be given more weight during the second half of the year.

We estimate that Network Services' net sales in our target markets will reach at least the 2012 level and that the profitability will improve from the 2012 level in step with the developments in productivity.

We expect net sales and operating profit for 2013 to reach the 2012 level. In our assessment, net sales and operating profit for the first half of 2013 will remain below the comparative period.

PROPOSAL FOR THE DISTRIBUTION OF EARNINGS

The parent company's distributable equity as of 31 December 2012 stood at EUR 41.041.292,27.

As to the Annual General Meeting scheduled for 12 April 2013, the Board proposes that a dividend of EUR 0.17 (0.14) per share be paid for the outstanding shares for the year 2012.

Signatories to the Annual Report and Financial Statements

31 January 2013

Teleste Corporation	Jukka Rinnevaara
Board of Directors	CEO

STATEMENT OF COMPREHENSIVE INCOME

1,000 €	Note	1.1.–31.12.2012	1.1.–31.12.2011	Change, %
Net sales	1	193,875	183,616	5.6
Other operating income	2	1,150	2,112	-45.6
Material and services		-94,747	-90,990	4.1
Employee benefits expense	3	-58,511	-54,560	7.2
Depreciation and amortisation expense	4	-5,078	-5,372	-5.5
Other operating expenses	5	-25,753	-25,426	1.3
Operating profit		**10,936**	**9,380**	**16.6**
Financial income	6	328	189	73.5
Financial expenses	7	-1,150	-730	57.5
Profit before taxes		**10,115**	**8,839**	**14.4**
Income tax expense	8	-3,412	-2,540	34.3
Profit for the financial period		**6,703**	**6,299**	**6.4**
Attributable to:	9			
Equity holders of the parent		6,703	6,299	6.4
Earnings per share for profit of the year attributable to the equity holders of the parent (expressed in € per share)				
Basic		0,38	0,36	5.6
Diluted		0,38	0,36	4.0
Total comprehensive income for the period (tEUR))				
Net profit		6,703	6,299	6.4
Translation differences		631	149	323.5
Fair value reserve		144	20	620.0
Total comprehensive income for the period		7,478	6,468	15.6
Total comprehensive income for the period				
Attributable to:				
Equity holders of the parent		7,478	6,468	15.6

STATEMENT OF FINANCIAL POSITION

1,000 €	Note	**31.12.2012**	31.12.2011	Change, %
ASSETS				
Non-current assets				
Property, plant and equipment	10	10,127	9,364	8,1
Goodwill	11	31,350	31,277	0,2
Other intangible assets	11	4,174	6,338	-34.1
Available-for-sale investments	12	294	713	-58.8
Deferred tax assets	13	2,086	1,714	21.7
		48,031	49,406	-2,8
Current assets				
Inventories	14	19,495	24,075	-19.0
Trade and other receivables	15	38,524	44,326	-13.1
Tax receivables	15	287	0	n/a
Cash and cash equivalents	16	13,880	15,404	-9.9
		72,186	83,805	-13,9
Total assets		**120,217**	**133,211**	**-9,8**
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		685	54	1168.5
Fair value reserve and other reserves		2,715	2,571	5.6
Retained earnings		48,008	43,559	10.2
Equity holders of the parent company		59,879	54,655	9.6
Share of non controlling interest		678	623	8.8
Total Eqity		60,557	55,278	9.5
Non-current liabilities				
Interest-bearing liabilities	18	788	11,940	-93.4
Other liabilities		22	4,140	-99.5
Deferred tax liabilities	13	1,297	1,946	-33.4
Provisions	19	503	605	-16.8
		2,610	18,631	-86.0
Current liabilities				
Trade and other payables	20	32,612	35,223	-7.4
Current tax payable	21	2,075	1,595	30.1
Provisions	19	1,004	1,211	-17.1
Interest-bearing liabilities	18	21,360	21,273	0.4
		57,050	59,302	-3.8
Total liabilities		**59,660**	**77,933**	**-23.4**
Total equity and liabilities		**120,217**	**133,211**	**-9.8**

CONSOLIDATED CASH FLOW STATEMENT

1,000 €	Note	1.1.–31.12.2012	1.1.–31.12.2011
Cash flows from operating activities			
Profit for the period		6,703	6,299
Adjustments for:			
Non-cash transactions	23	4,877	5,552
Interest and other financial expenses		1,150	730
Interest income		-326	-138
Dividend income		-2	-51
Income tax expense		3,412	2,540
Changes in working capital and provisions:			
Increase in trade and other receivables		5,802	-11,407
Increase in inventories		4,580	-3,075
Change in trade and other payables		-5,901	4,809
Decrease in provisions		-309	-154
Paid interests and dividends		-726	-760
Received interests and dividends		328	189
Paid taxes		-4,290	-2,471
Net cash from operating activities		**15,297**	**2,063**
Cash flows from investing activities			
Supplementary contract price for earlier acquisition		-828	0
Purchases of property, plant and equipment (PPE)		-1,609	-3,346
Proceeds from sales of PPE		499	714
Purchases of intangible assets		-844	-2,822
Proceeds from sale of shares		0	93
Net cash used in investing activities		**-2,782**	**-5,361**
Cash flows from financing activities			
Proceeds from borrowings		0	6,000
Repayments of borrowings		-11,500	-222
Payment of finance lease liabilities		-321	-655
Dividends paid		-2,440	-2,091
Proceeds from issuance of ordinary shares		0	319
Net cash used in financing activities		**-14,261**	**3,351**
Change in cash			
Cash and cash equivalents at 1 January		15,404	15,203
Effect of currency changes		221	149
Cash and cash equivalents at 31 December		13,880	15,404

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

1,000 €	Share capital	Share premium	Translation differences	Retained earnings	Invested non-restricted equity	Other reserves	Total	Non controlling interest	Total equity
	Attributable to equity holders of the paren								
At 1 January 2011	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	0	20	6,468	0	6,468
Issue of new shares*								319	319
Dividends				-2,137			-2,137	46	-2,091
Changes in non controlling interest				34	0		34	-34	0
Equity-settled share-based payments				180	0		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**
Total comprehensive income for the period			631	6,703		144	7,478		7,478
Total recognised income and expense for the year	0	0	631	6,703		144	7,478		**7,478**
Dividends				-2,569			-2,569	129	-2,440
Changes in non controlling interest				74	0		74	-74	0
Equity-settled share-based payments				240	0		240		240
	0	0	0	-2,255	0	0	-2,255	55	**-2,200**
At 31 December 2012	**6,967**	**1,504**	**685**	**48,007**	**2,737**	**-22**	**59,878**	**678**	**60,556**

* *Part of Teleste management incentive program*

ACCOUNTING PRINCIPLES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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, 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 2012. 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 2012:

- IFRS 7 (amendment) "Financial instruments: Disclosures"

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 per cent 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

At the end of the reporting period the Group had no investments in associates.

JOINT VENTURES

At the end of the reporting period the Group had no interests in joint ventures.

PRINCIPLES OF CONSOLIDATION

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

FINANCIAL STATEMENTS OF FOREIGN SUBSIDIARIES

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

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

FOREIGN CURRENCY TRANSACTIONS

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

LEASES

Group as lessee

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

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

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

Group as lessor

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

INTANGIBLE ASSETS

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

Goodwill

Goodwill represents the Group's share of difference between the cost of the acquisition and the fair value measured at the acquisition date of the net identifiable assets, liabilities and contingent liabilities acquired. The difference is first allocated, where applicable, to the underlying assets. The rest of the excess is presented as goodwill as a separate item in the consolidated balance sheet. Goodwill has been allocated to segments and in respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate. Goodwill is stated at cost less any cumulative impairment losses. Goodwill (together with other intangible assets with indefinite lives) is not amortised but is tested annually for impairment. 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 mainly 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 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 2011). 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 havn't had any impact on the reporting of operating segments.

BUSINESS SEGMENTS

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

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

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

GEOGRAPHICAL DIVISION

The two segments operates in four geographical areas:

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

The 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

2012 1,000 €	Video and Broad-band Solutions	Network Services	Group
External sales			
Services	5,862	92,645	98,507
Goods	95,368	0	95,368
Total external sales	101,230	92,645	193,875
Operating profit of segments	8,497	2,439	10,936
Operating profit			10,936
Financial items			-821
Profit before taxes			10,115
Non-current assets of segment	34,706	13,324	48,030

2011 1,000 €	Video and Broad-band 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
Profit before taxes			8,839
Non-current assets of segment	35 545	13 861	49 406

Geographical division

2012 1,000 €	Finland	Nordic countries	Other Europe	Others	Group
Sales by origin	12,776	17,358	150,936	12,805	193,875
Assets	26,162	8,800	83,634	1,621	120,217
Capital expenditure	1,940	15	1,350	20	3,325

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

MAJOR CUSTOMER

Revenues from one customer of the Group's Network Services segment represents approximately 58.8 Meur in 2012 (56.7 Meur in 2011), which is 30.3% (30.9%) of Group net sales.

BUSINESS COMBINATIONS AGUIRED DURING 2012 AND 2011

During 2012 there were no acquisitions. A conditional supplementary contract price of 600 thousand euro was de-recognised in other operating expenses during 2012. The total unpaid contract price of 2,168 thousand euro is booked in non current other liabilities.

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 euro is booked in non current other liabilities.

NOTES TO THE CONSOLIDATED INCOME STATEMENT AND BALANCE SHEET

1 CONSTRUCTION CONTRACTS

Amount of preoject revenue recognised during the period 2,318 thousand euros (2,008 thousand euros in 2011).

Cumulative expenses and income reconised by the end of the period were 8,441 thousand euro (6,123 thousand euro in 2011).

2 OTHER OPERATING INCOME

1,000 €	2012	2011
Government grants related to development costs	443	1,191
Rental income	10	81
Other income	697	840
Total	**1,150**	**2,112**

3 EMPLOYEE BENEFITS EXPENSE

Wages and salaries	-45,247	-42,904
Pension expenses		
Defined contribution plans	-8,486	-7,931
Other post employment benefits	-5,065	-4,739
Activated R&D salaries and social costs	697	1,193
Cash & Equity-settled share-based transactions	-170	0
Equity-settled share-based transactions	-240	-180
Total	**-58,511**	**-54,560**

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	1,326	1,297

4 DEPRECIATION, AMORTISATION AND IMPAIRMENT

Depreciation and amortisation by asset type:		
Tangible assets		
Buildings	-308	-343
Machinery and equipment	-1,283	-1,405
Other tangible assets	-408	-295
Total	**-1,999**	**-2,043**
Intangible assets		
Capitalised development expenses	-1,948	-1,990
Other intangible assets	-1,131	-1,339
Total	**-3,079**	**-3,329**
Total	**-5,078**	**-5,372**

5 OTHER OPERATING EXPENSES

1,000 €	2012	2011
Rental expenses	-6,874	-4,516
External services	-2,497	-2,881
Other variable costs	-5,952	-3,994
Travel and IT costs	-3,854	-4,069
Other R&D costs	-2,572	-3,705
Other expenses	-4,002	-6,260
Total	**-25,751**	**-25,426**

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

Audit expenses

KPMG		
Auditing assignments	-180	-191
Tax consultancy	-62	-56
Other assignments	-13	-8
Other auditors		
Auditing assignments	-60	-36
Other assignments	-41	-20

6 FINANCIAL INCOME

Interest and other financial income	326	138
Dividend income	2	51
Total	**328**	**189**

7 FINANCIAL EXPENCES

Interest expenses	-633	-702
Exchange losses	0	-1
Impairment on shares	-424	0
Other financial expenses	-93	-27
Total	**-1,150**	**-730**

Other financial expenses includes interests from financial leasing expenses during the period 15 thousand euro (27 thousand euro in 2011).
Losses from forward exchange contratcs are included in operating profit.

8 INCOME TAXES

1,000 €	2012	2011
Recognised in the income statement		
Current tax expense		
Current year	-3,913	-2,443
Adjustments for prior years	-468	-25
Change in deferred tax liabilities and tax assets	969	-72
Total	**-3,412**	**-2,540**

Reconciliation of the tax expense, EUR -3,412 thousand, calculated using the Teleste Group's domestic corporation 24.5% tax rate:

Profit before tax	10,115	8,839
Income tax using the domestic corporation tax rate (24.5%)	-2,478	-2,298
Effect of tax rates in foreign jurisdictions	-350	44
Tax debt increase related to balance sheet items	0	-72
Non-deductible expenses	-115	-189
Taxes from prevoius year	-469	-25
Income tax income/expense reported in the consolidated income statement	**-3,412**	**-2,540**

9 EARNINGS PER SHARE

The basic earnings per share is calculated as follows:

Profit for the year attributable to equity holders of the parent

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:

Profit for the year attributable to equity holders of the parent (diluted)

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.

	2012	2011
Profit for the year attributable to equity holders of the parent, (1,000 €)	6,703	6,299
Weighted average number of ordinary shares outstanding during the financial year (1 000)	17,425	17,425
Basic earnings per share (€)	0.38	0.36
Weighted average number of ordinary shares outstanding during the financial year (1000)	17,425	17,425
Effect of share options on issue (1000)	284	0
Weighted average number of ordinary shares outstanding during the financial year (diluted) (1 000)	17,709	17,425
Diluted earnings per share (€)	0.38	0.36

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 2012	48	9,635	6,612	1,241	398	**17,934**
Translation difference +-	6	-11	0	-7	1	**-11**
Additions	0	0	1,908	360	212	**2,480**
Transfers between classes	0	257	33	10	0	**301**
Balance at 31 December 2012	54	9,881	8,553	1,604	611	**20,704**
Depreciation and impairment losses						
Balance at 1 January 2012	0	-4,181	-3,564	-825	0	**-8,570**
Depreciation charge for the year	0	-309	-1,290	-408	0	**-2,007**
Balance at 31 December 2012	0	-4,490	-4,854	-1,233	0	**-10,577**
Carrying amounts at 1 January 2012	48	5,454	3,048	416	398	**9,364**
Carrying amounts at 31 December 2012	54	5,391	3,699	371	611	**10,127**

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 2012	153	5,290	2,930	463	0	**8,836**
Carrying amounts at 31 December 2012	48	5,454	3,048	416	398	**9,364**

Carrying amount of production machinery and equipment	31.12.2012	2 429
	31.12.2011	2 535

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

1,000 €	Machinery and equipment
31.12.2012	
Historical cost	2,967
Cumulative depreciation	-1,930
Carrying amount at 31 December	1,037
31.12.2011	
Historical cost	2,216
Cumulative depreciation	-1,624
Carrying amount at 31 December	592

11 INTANGIBLE ASSETS

1,000 €	Goodwill	Development costs	Other intangible assets	**Total**
Cost				
Balance at 1.1.2012	32,077	11,492	7,069	**50,638**
Translations differences	73		100	**173**
Additions	0	815	0	**815**
Balance at 31.12.2012	32,150	12,307	7,169	**51,626**
Amortisation and impairment losses				
Balance at 1.1. 2012	-800	-7,459	-4,764	**-13,023**
Amortisation for the year	0	-1,948	-1,131	**-3,079**
Balance at 31.12.2012	-800	-9,407	-5,895	**-16,102**
Carrying amounts 1.1.2012	31,277	4,033	2,305	**37,615**
Carrying amounts 31.12.2012	31,350	2,900	1,274	**35,524**

1,000 €	Goodwill	Development costs	Other intangible assets	**Total**
Cost				
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**

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 2012. Goodwill has been allocated to the following cash-generating unit:

	Million euro
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% (5%) annual growth rate and for Network Sservices segment over 30% (20%) annual growth for the 3 first years and 5% annual growth rate for the next 2 years. The expected future cash flows for a further 5 year period are extrapolated using a 2% (2%) growth rate for both segments. Management's view on the cash flows is cautious as the changes of the industry are difficult to foresee. A discount rate of 11.87% (10.99%) has been used in discounting the projected cash flows. The terminal value of the segments is calculated by using a growth rate of 2 per cent. The impairment test process included the sensitivity analysis of the segment or a cash generating unit (CGU) in the segment.

Assumption used in 2012 and 2011 impairment tests

	2012		2011	
%	VBS	NS	VBS	NS
Yearly growth in cash flow years 1-5	5	5*	5	5**
Yearly growth in cash flow years 1-5	2	2	2	2
WACC (after tax)	11.87	11.87	10.99	10.99

** NS years 1-3 average growth 30%, years 4-5 yearly growth 5%*
*** NS years 1-3 average growth 20%, years 4-5 yearly growth 5%*

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

Impairment test

Meur	**2012**	2011
VBS	17.9	24.4
NS	13.7	7.7

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

Decline of free cash flow		
	2012	2011
VBS	-32%	-48%
NS	-44%	-18%

Increase in discount rate		
	2012	2011
VBS	3.33%	4.51%
NS	4.36%	1.66%

The Group received a grant amounting to 0,4 million euro from Tekes (National Technology Agency of Finland) towards development costs in 2012 (2011: 1.6 million euro). From the grant received 0,04 million euro (2010: 0,36 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 €	**2012**	2011
Unlisted shares	294	713
Total	294	713

13 DEFERRED TAX ASSETS AND LIABILITIES

1,000 €	1.1.2012	Recognised in the income statement	31.12.2012
Movements in temporary differences during 2012			
Deferred tax assets			
Effects of consolidation and eliminations	709	-198	511
Unused tax losses	432	691	1,123
Provisions	273	17	290
Fair value adjustments to intangible and tangible assets on acquisition	228	-66	162
Other items	72	-72	0
Total	**1,714**	**372**	**2,086**
Deferred tax liabilities			
Capitalisation of intangible assets	-930	210	-721
Fair value adjustments to intangible and tangible assets on acquisition	-551	239	-312
Cumulative depreciation difference	-228	-36	-264
Other taxable temporary differences	-237	237	0
Total	**-1,946**	**650**	**-1,297**

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 €	1.1.2011	Recognised in the income statement	31.12.2011
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
Fair value adjustments to derivatives	-333	105	-228
Other taxable temporary differences	-247	10	-237
Total	**-2,324**	**378**	**-1,946**

At 31 December 2012 the Group had unused tax losses in subsidiaries amounting 6,101 thousand euro . A tax asset has been booked from 1,123 thousand euro as this loss will not expire (31 Dec. 2011: 1,432 thousand euro). A tax asset has not been booked from 2,489 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 15,077 thousand euro at 31 Dec. 2012 (31 Dec. 2011: 15,004 thousand euro). This is because the realization of this tax liability is unlikely in the near future.

14 INVENTORIES

1,000 €	2012	2011
Raw materials and consumables	3,847	5,281
Work in progress	7,809	12,254
Finished goods	7,839	6,540
Total	**19,495**	**24,075**

The amount of the impairment losses of inventories to the net realisable value recognised as an expense during the financial period is 1,850 thousand euro. At the end of the financial year 5,150 thousand euro was deducted from the inventory value to the net realisable value (31 Dec. 2011: 5,100 thousand euro).

15 TRADE AND OTHER CURRENT RECEIVABLES

1,000 €	2012	2011
Trade receivables	35,453	40,095
Accrued income and prepayments	235	1,006
Other receivables	2,837	3,225
Total	**38,525**	**44,326**

16 CASH AND CASH EQUIVALENTS

	2012	2011
Cash at bank and in hand	13,880	15,404
Total	**13,880**	**15,404**
Cash and cash equivalents in the statement of cash flows	13,880	15,404

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 2011	17,426	760	18,186	6,967	1,504
Issue of new shares	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
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 2012	17,426	1,302	18,728	6,967	1,504

The number of Teleste Oyj shares was 18,728,590 at 31 December 2012 (31 Dec. 2011 18,728,590 shares). All shares issued have been fully paid.

The Annual General Meeting of Teleste Oyj held on 3rd of April 2012 decided to authorize the Board of Directors to decide on repurchasing the Company's own shares in accordance with the proposal of the Board of Directors. Based on the authorization, the Board of Directors may repurchase a maximum of 1,400,000 own shares of the Company otherwise than in proportion to the holdings of the shareholders by using the non-restricted equity through public trading on NASDAQ OMX Helsinki Ltd at the market price prevailing at the time of acquisition.

At the end of December 2012, the Group held 1,302,985 of its own shares, of which the parent company Teleste Corporation had 379,985 shares and the controlled companies had 923,000 shares, respectively.

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.

Shares subscribed for pursuant to the share option plans will entitle to dividend when the new shares are registered with the Finnish trade register. Voting and other shareholder rights will commence on the date on which the shares are 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 0.17 euro per share (2011 0.14 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. Key characteristics and terms of the Teleste option schemes in operation at the end of the period are listed in the table below.

Type	Option Rights 2007			Total
Instrument	2007A	2007B	2007C	TOT/WA
Annual General Shareholders` Meeting date	03 April 2007	03 April 2007	03 April 2007	
Initial amount, pcs	280,000	280,000	280,000	840,000
The subscription ratio for underlying shares, pcs	1	1	1	
Initial excercise price, € *	12,89	6,94	3,57	
Dividend adjustment	Yes	Yes	Yes	
Current excercise price, € **	11.99	6.24	3.23	
Initial allocation date	24.8.2007	15.10.2008	21.9.2009	
Vesting date	1.4.2010	1.4.2011	1.4.2012	
Maturity date	30.4.2012	30.4.2013	30.4.2014	
Maximum contractual life, yrs	5.1	6.1	7.1	6.1
Remaining contractual life, yrs	0,0	0.3	1.3	0.8
Number of persons at the end of the reporting year	0	31	33	
Payment method	Equity	Equity	Equity	

* *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 2012	2007A	2007B	2007C	Weighted average exercise price in €	Weighted average remaining life, years
01 January 2012					
Outstanding at the beginning of the reporting period, pcs	224,000	240,000	268,000	7.04	732,000
Changes during the period					
Granted	0	0	17,000		
Forfeited	0	0	24,000	3.66	28,000
Invalidated during the period	0	0	0		
Excercised	0	0	0		
Weighted average price of shares, € ***	4.02	3.99	3.99		
Expired	280,000	0	0	11.99	280,000
31 December 2012					
Excercised at the end of the period	0	0	0		
Outstanding at the end of the period	0	236,000	261,000	3.23	497,000
Reserve at the end of the period	0	40,000	19,000	7.00	59,000

*** *weighted average price for Teleste share during the time that particular option could have been exerciced in 2012.*

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 reporting period, pcs	224,000	240,000	268,000	7.16	
Changes during the period					
Granted	0	0	0	-	
Forfeited	0	0	5,000	-	
Invalidated during the period	0	0	0	-	
Excercised	0	0	0	-	
Weighted average price of shares, € ***	3.64	3.64	-	3.45	
Expired					
31 December 2011					
Excercised at the end of the period	224,000	240,000	263,000	7.04	1.39
Outstanding 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.

FAIR VALUE DETERMINATION

The fair value of share based incentives have been determined at grant date and the fair value is expensed until vesting. The pricing of the share based incentives granted during the period was determined by the following inputs and had the following effect:

Valuation parameters for instruments granted during period	
Share price at grant, €	4.01
Exercise price, €	3.37
Expected volatility *	40.0%
Maturity, years	2.25
Risk-free rate	0.4%
Expected dividends, €	0.00
Valuation model	BS
Fair value 31 Dec 2012, €	21,148

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

Effect of Share-based Incentives on the result and financial position during the period	
Expenses for the financial year, share-based payments	74,390
Expenses for the financial year, share-based payments	74,390
Liabilities arising from share-based payments 31 December 2012	0

SHARE BASED INCENTIVES

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

Plan	Performance Share Plan 2012
Type	Share
Initial amount, pcs	250 000
Initial allocation date	31.1.2012
Vesting date	31.3.2015
Maximum contractual life, yrs	3,2
Remaining contractual life, yrs	2,2
Number of persons at the end of the reporting year	31
Payment method	Cash & Equity

Changes during the period 2012	PSP 2012-2014	Weighted remaining contractual life in years
Type	Share	
01 January 2012		
Outstanding at the beginning of the reporting period, pcs	0	
Reserve at the beginning of the reporting period	250,000	
Changes during the period		
Granted	236,000	
Forfeited	0	
Invalidated during the period	0	
Excercised	0	
Weighted average price of shares, € *)	0	
Expired	0	
31 December 2012		
Excercised at the end of the period	236,000	
Outstanding at the end of the period	236,000	2.2

FAIR VALUE DETERMINATION

The fair value of share based incentives have been determined at grant date and the fair value is expensed until vesting. The pricing of the share based incentives granted during the period was determined by the following inputs and had the following effect:

Valuation parameters for instruments granted during period

Share price at grant, €	4.01
Share price at reporting period end, €	4.17
Maturity, years	3
Dividends per year, €	0.12
Fair value 31 Dec 2012, €	997,165

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

Expenses for the financial year, share-based payments	336,303
Expenses for the financial year, share-based payments, equity-settled	166,240
Liabilities arising from share-based payments 31 December 2012	170,063

18 INTEREST-BEARING LIABILITIES

1,000 €	**2012**	2011
Non-current		
Loans from financial institutions	99	11,605
Finance lease liabilities	689	335
Total	**788**	**11,940**
Current		
Loans from financial institutions	21,000	21,003
Finance lease liabilities, current portion	360	271
Total	**21,360**	**21,274**

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

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

1,000 €	**31.12.2012**	31.12.2011
EUR	788	11,940
	788	11,940

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

Bank loans	1.6%	1.6%
Finance lease liabilities	2.2%	3.5%

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

EUR	100%	100%

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

Bank loans	1.6%	2.0%
Finance lease liabilities	2.2%	3.5%

Finance lease liabilities of the Group are payable as follows:

Minimum lease payments		
Less than one year	377	282
Between one and five years	709	344
Total	1,086	626
Present value of minimum lease payments		
Less than one year	360	271
Between one and five years	689	335
Total	1,049	606
Future finance charges	37	20
Total finance lease liabilities	1,086	626

19 PROVISIONS

1,000 €	Warraties	Total
Balance at 1 January 2012	1,816	**1,816**
Provisions made during the year	-309	**-309**
Balance at 31 December 2012	1,507	**1,507**

	2012
Non-current	503
Current	1,004
Total	**1,507**

Warranties

The Group grants average 18 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 €	2012	2011
Current		
Trade payables	11,190	14,043
Personnel, social security and pensions	6,073	6,116
Accrued interest expenses and other financial items	24	53
Other accrued expenses and deferred income	12,178	10,577
Advances	101	400
Other liabilities	3,046	4,044
Total	**32,612**	**35,233**
Non current		
Other liabilties	22	4,140

21 INCOME TAX PAYABLE FOR THE PERIOD

At the end of the period there was income tax receivable 288 thousand euro and tax payable 2,075 thousand euro on the profit for the period (31 Dec. 2011 there was 1,595 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 4 per cent of the net sales), Swedish and Norwegian crowns (7per cent), US dollars (4 per cent) and UK pound sterling (7 per cent). Significant part of expenses, 69 per cent, arise in euro and in US dollar almost 24 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

	2012					2011				
	USD	SEK	NOK	GBP	PLN	USD	SEK	NOK	GBP	PLN
Current assets	2,256	1,643	1,975	3,993	4,244	964	1,043	850	2,204	2,104
Current liabilities	1,020	1,301	945	966	1,221	1,637	1,490	732	1,290	1,346

Cash flow hedges at 31 Dec 2012

Currency position

Currency	Exposure	Hedge	Net	Hedge Instrument	Hedge%
USD	3,663	3,106	557	Forward exchange contract	85%
SEK	0	0	0	Forward exchange contract	0%
NOK	1,239	890	349	Forward exchange contract	72%
GBP	1,351	1,116	235	Forward exchange contract	83%

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%

In principle Teleste hedges forecast and probable cash flows. The Group only uses mainly 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 2012 the fair value of currency derivatives amounted to 5.9 million euro (31. Dec 2011: 7.4 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 2012 the total non-euro-denominated equity of the Group's foreign subsidiaries amounted to 6.8 million euro (31 Dec. 2011: 4.4 million euro).

Sensitivity to market risk

Sensitivity to market risks arising from financial instruments as required by IFRS 7	**2012** Profit or Loss	2011 Profit or Loss
+-10 % change in EUR/USD exchange rate	+-56	+-54
+-10 % change in EUR/SEK exchange rate	0	+-3
+-10 % change in EUR/NOK exchange rate	+-35	+-33
+-10 % change in EUR/GBP exchange rate	+-24	+-40

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. A 3-year loan of EUR 9,000 million which was withdrawn in 2009 to finance the acquisitions in Germany was repayed in 2012. The change in the fair value of this hedging instrument, 143 thousand euro, is recognised in equity in 2012. The fair value of the interest swap contract is -22 thousand euro. All Group loans are denominated in euro. In 2012, the average interest rate of the loan portfolio was 1,64% 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 2012, the effect on variable rate interest-bearing liabilities on profit before taxes would have been +-100 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	10,000			**10,000**
Financial instruments with fixed interest rate				
Financial liabilities				
Loan from financial institutions				
Lainat rahoituslaitoksilta	11,000			**11,000**

CREDIT RISK

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

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

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.

	2012			2011		
Analysis of trade receivables by age	Gross	Impair-ment loss	**Net**	Gross	Impair-ment loss	**Net**
Undue trade receivables	26,377		26,377	34,929		34,929
1-30 days	7,416		7,416	4,087		4,087
31-60 days	715		715	1,009		1,009
Over 60 days	2,109	-1,164	945	2,409	-2,339	70
Total			**35,453**			**40,095**

The maximum exposure to credit risk at the reporting date was:	**2012**	2011
Loans and receivables	38,525	44,320
Available for sale financial assets	287	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 2012 the Group's cash reserves totaled 13.9 million euro and its interest-bearing net debt 22.1 million euro. The Group administration raises the Group's interest-bearing debt centrally. At 31 December 2012 Teleste had committed and available credit facilities as well as other agreed and undrawn loans amounting to 19.0 million euro. Group's loan agreements and committed loan facilities include profitability and cash flow covenants.

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

As of 31 December 2012, the contractual maturity of interest-bearing liabilities was as follows:

	2013	2014	2015	2016	2017
Loans from financial institutions	21,024				
Trade payables	11,190				
Finance lease liabilities	377	319	255	135	
Forward exchange contracts					
Outflow	-5,936				
Inflow	5,827				
Other	22				

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				

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 2012 and 2011 was as follows:

	2012	2011
Total borrowings	22,147	33,213
Cash and cash equivalents	13,880	15,404
Interest-bearing net debt	8,267	17,809
Total equity	60,557	55,278
Interest-bearing net debt and total equity	68,824	73,087
Leverage ratio	12,0%	24,4%

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 -109 thousand euro in 2012 (2011: -99 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 -22 thousand euro. The change in fair value 143 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 or lower value based on management's estimation. 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:

	2012	2011
Finance lease liabilities	2.2%	3.5%

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
2012 Balance item							
Non current financial assets							
Other financial assets	12			294		294	294
Current financial assets							
Trade and other receivables	15		35,453			35,453	35,453
Carrying amount by category		0	35,453	294	0	35,747	35,747
Non-current financial liabilities							
Interest-bearing liabilities	18	689			99	788	788
Current financial liabilities							
Interest-bearing liabilities	18	360			21,024	21,384	21,384
Forward exchange contracts	25	109				109	109
Interest swap contracts	25	22				22	22
Trade and other payables	20				11,190	11,190	11,190
Other current liabilities	20				24	24	24
Carrying amount by category		1,180	0	0	32,337	33,517	33,517

	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

23 ADJUSTMENTS TO CASH FLOWS FROM OPERATING ACTIVITIES

1,000 €	**2012**	2011
1,000€		
Depreciation and amortisation	5,078	5,372
Employee benefits	241	180
Gains of disposals of fixed assets	-441	0
Total	**4,878**	**5,552**

24 OPERATING LEASES

Group as lessee

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

Less than one year	614	614
Between one and five years	1,075	1,075
More than five years	967	1,337
Total	2,656	3,026

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

25 COMMITMENTS AND CONTINGENCIES

1,000 €	**2012**	2011
Rental and leasing liabilities		
Rental liabilities	2,656	3,026
Lease liabilities	5,872	5,098
Currency derivatives		
Value of the underlying forward contracts	5,936	7,434
Market value of the forward contracts	-109	-99
Interest swap contracts		
Value of the underlying interest swap contracts	9,000	11,500
Market value of intersest swap contracts	-22	-167

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 AG, Bergisch Gladbach, Germany	100	100
Cableway Cyber Optic GmbH & Co. KG, Bergisch Gladbach, Germany	100	100
MKS Management GmbH, Bergisch Gladbach, Germany	100	100
Cableway Service Nord GmbH & Co. KG, Bergisch Gladbach, Germany	100	100
Cableway Nord GmbH, Bergisch Gladbach, Germany	100	100
Cableway Süd GmbH, Munchen, Germany	100	100
DINH TeleCom S.A., Herstal, Belgium	100	100
Flomatik A/S, Porsgrun, Norway	100	100
Flomatik Network Services Ltd, Fareham, UK	100	100
Kaavisio Oy, Turku, Finland	100	100
Promacom AB, Stockholm, Sweden	100	100
Satlan S.p.z.o.o., Wroclaw, Poland	100	100
Suomen Turvakamera Oy, Espoo, 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, Hildesheim, Germany	100	100
Teleste India Ptv. Mumbai, India	100	100
Teleste LLC, Georgetown Texas, USA	100	100
Teleste Networks Services S.A., Yverdon, Switzerland	100	100
Teleste Services GmbH, Hildesheim, Germany	100	100
Teleste Sweden AB, Stockholm, Sweden	100	100
Teleste UK Ltd, Cambridge, UK	100	100
Teleste Video Networks Sp zoo, Krakov, Poland	100	100

The key management personnel compensations

1,000 €	**2012**	2011
CEO		
Salaries and other short-term benefits	496	391

During 2012 no options were granted to the management of Teleste (2011: 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 2004 and 2007 option terms the recipient has to subscribe Teleste shares to the amount that equals his net annual salary. At 31 December 2012 management had 80,000 (2011: 120,000) options, of which 80,000 were exercisable (2011: 80,000). Management of the parent company has 0,38 % or 71,634 of the parent company's shares (2011: 0,45% or 84,791 shares) CEO holding in the Teleste Management Ltd stands at 34.4% and in Teleste Management II Ltd 31.25%.

A voluntary pension fee for CEO amounted 47 thousand euro (59 thousand euro in 2011).

1,000 €	2012	2011
Remuneration to Board members and Managing Director:		
Chairman of the Board	44	43
Members of the Board	145	137
CEO Jukka Rinnevaara	496	391
Total	**685**	**571**

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 2012 and 2011.

The Board of Directors of Teleste decided 5 March 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.

After the plan was implemented in full, the members of the Management Group hold 4.92% of the Teleste's shares through Teleste Management.

27 SUBSEQUENT EVENTS

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

INCOME STATEMENT OF PARENT COMPANY 1.1. - 31.12.2012

1,000 €	Note	2012	2011
NET SALES	1	**67,254**	**59,115**
Change in inventories of finished goods		-1,156	841
Other operating income	2	3,780	4,153
Material and services	3	-27,947	-24,870
Personnel expenses	4	-21,435	-18,679
Depreciation and amortisation	5	-587	-524
Other operating expenses		-15,967	-16,251
Operating profit		**3,943**	**3,783**
Financial income and expenses	6	5,369	3,477
Profit before extraordinary items		**9,312**	**7,260**
Extraordinary items	7	-222	-290
Profit before taxes		**9,089**	**6,970**
Appropriations	8	-575	311
Direct taxes	9	-1,691	-593
Profit for the financial period		**6,823**	**6,688**

BALANCE SHEET 31.12.2012

1,000 €	Note	**2012**	2011
Non-current assets			
Intangible assets	10	24	32
Property, plant and equipment	10	5,471	5,685
Long-term receivables	11	27,552	29,490
Investments	12	23,372	22,972
		56,420	**58,179**
Current assets			
Inventories	13	6,220	7,043
Trade and other receivables	14	20,863	22,584
Cash and cash equivalents	15	5,463	8,201
		32,546	**37,829**
Total assets		**88,966**	**96,009**
Shareholders' equity			
Share capital	16	6,967	6,967
Share premium	16	1,504	1,504
Invested non-restricted equity	16	5,784	5,784
Retained earnings	16	28,435	24,305
Profit for the financial period	16	6,823	6,688
		49,512	**45,247**
Appropriations	8	**986**	**411**
Provisions	17	**949**	**949**
Liabilities			
Long-term liabilities	18	0	11,500
Short-term liabilities	19	37,519	37,901
		37,519	**49,401**
Total equity and liabilities		**88,966**	**96,009**

CASH FLOW STATEMENT

1,000 €	**2012**	2011
Cash flow from operations		
Profit before extraordinary items	9,312	7,260
Adjustments		
Depreciations according plan	587	524
Financial income and expenses	-5,369	-3,477
Other items	-441	0
Cashflow before changes in working capital	4,089	4,307
Increase (-) /decrease(+) in trade and other receivables	1,721	-8,521
Increase (-) / decrease (+) in inventories	823	-2,085
Increase (+) / decrease (-) in trade payables	-440	-1,260
Cashflow before financial items	6,193	-7,559
Paid interest and other financial expenses	5,793	4,860
Income taxes paid	-1,572	-952
Cash flow from operations	**10,414**	**-3,651**
Investments		
Payment of other tangible assets	-469	-1,183
Investments in subsidiary shares	-828	0
Proceeds from sale of tangible and intangible assets	499	689
Loans granted	1,938	-2,667
Cash flow from investments	**1,140**	**-3,161**
Financing		
Short-term liabilities	0	6,000
Long-term liabilities	-11,500	0
Paid dividends and other profit distribution	-2,569	-539
Group contribution received and paid	-222	-290
Cash flows from financing activities	**-14,291**	**5,171**
Change in cash	**-2,738**	**-1,640**
Cash and cash equivalents 1.1	8,201	9,841
Cash and cash equivalents 31.12	5,463	8,201

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 specicig long term floating interest loans to eliminate the interest risk.

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

VALUATION OF FIXED ASSETS

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

Intangible assets	3 years
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.

NET SALES

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

RESEARCH AND DEVELOPMENT

R&D expenses are recorded as revenue expenditure.

PENSION ARRANGEMENTS

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

INCOME TAXES

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

TREASURY SHARES

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

NOTES TO THE INCOME STATEMENT AND BALANCE SHEET OF PARENT COMPANY 31.12.2012

1 NET SALES

1,000 €	2012	2011
Net sales by segments		
Video and Broadband Solutions	66,330	58,625
Network Services	924	490
Total	**67,254**	**59,115**
Net sales by market area		
Finland	11,963	9,820
Nordic countries	7,503	7,059
Other Europe	35,577	35,488
Others	12,212	6,748
Total	**67,254**	**59,115**

2 OTHER OPERATING INCOME

	2012	2011
R&D subvention and others	3,780	4,153
Total	**3,780**	**4,153**

3 MATERIAL AND SERVICES

	2012	2011
Purchases	-26,583	-25,805
Change in inventories	333	1,243
	-26,250	**-24,562**
Purchased services	-1,697	-308
Total	**-27,947**	**-24,870**

4 PERSONNEL EXPENSES

	2012	2011
Wages and salaries	-17,427	-15,186
Pension costs	-3,050	-2,658
Other personnel costs	-958	-835
Total	**-21,435**	**-18,679**
Remuneration to Board members and Managing Directors	685	571

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

	2012	2011
Year-end personnel	378	375
Average personnel	385	373

Personnel by function at the year-end

	2012	2011
Research and Development	103	103
Production and Material Management	218	215
Sales and marketing	30	29
Administration	27	28
Total	**378**	**375**

5 DEPRECIATION ACCORDING TO PLAN

1,000 €	2012	2011
Other capitalized expenditure	-188	-134
Buildings	-278	-267
Machinery and equipment	-113	-114
Other intangible rights	-8	-27
Total	**-587**	**-542**

6 FINANCIAL INCOME AND EXPENSES

	2012	2011
Interest income	59	50
Interest income from Group companies	1,598	1,344
Interest expenses	-557	-652
Interest expenses to Group companies	-113	-58
Currency differences	0	-17
Other financial income and expenses	486	-1,383
Dividend income from Group companies	3,895	4,143
Dividend income	2	50
Total	**5,369**	**3,477**

7 EXTRAORDINARY ITEMS

	2012	2011
Paid group contribution	-222	290

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

	2012	2011
Change in accumulated depreciation difference		
Buildings	-515	217
Other capitalized expenditure	-60	94
Total	**-575**	**311**
Accumulated depreciation in excess of plan	986	411

9 INCOME TAXES

	2012	2011
Direct taxes	-1,331	-652
Taxes from previous years	-360	60
Total	**-1,691**	**-592**

10 TANGIBLE AND INTANGIBLE ASSETS

	Intangible assets	Tangible assets: Land	Buildings	Machinery	Other capitalized expenditure	Total
Acquisition cost 1.1.	**7,619**	48	8,739	8,066	4,037	**20,890**
Increases	0	0	0	222	191	**413**
Disposals	0	-48	0	0	0	**-48**
Acquisition cost 31.12.	**7,619**	0	8,739	8,288	4,228	**21,255**
Accumulated depreciation 1.1.	**-7,587**	0	-3,556	-7,922	-3,727	**-15,205**
Depreciation	-8	0	-278	-113	-188	**-579**
Accumulated depreciation 31.12.	**-7,595**	0	-3,834	-8,035	-3,915	**-15,784**
Book value 31.12.2012	**24**	**0**	**4,905**	**253**	**313**	**5,471**
Book value of machinery and equipment 31.12.2012				245		
Book value of machinery and equipment 31.12.2011				139		

11 LONG TERM RECEIVABLES

1,000 €	2012	2011
Subordinated loan from group company	456	165
Other long term receivables from group companies	27,097	29,325
Total	**27,552**	**29,490**

12 INVESTMENTS

	Shares in group companies	Shares others	Total
Acquisition cost 1.1.	25 531	714	26,245
Increase	828	0	828
Acquisition cost 31.12.	**26 359**	**714**	**27,073**
Accumulated depreciation 1.1.	-3 273	0	-3,273
Disposals	0	-4	-4
Impairment	0	-424	-424
Accumulated depreciation 31.12.	**-3 273**	**-428**	**-3,701**
Book value 31.12.2012	**23 086**	**286**	**23,372**

13 INVENTORIES

1,000 euroa	2012	2011
Raw materials and consumables	2,586	2,253
Work in progress	2,649	2,777
Finished goods	985	2,013
Total	**6,220**	**7,043**

14 CURRENT ASSETS

Accounts receivables	8,779	11,435
Accounts receivables from Group companies	11,276	9,737
Other receivables	85	80
Accrued income	723	1,333
Total	**20,863**	**22,584**

15 LIQUID FUNDS

Cash and cash equivalents	**5,463**	**8,201**

16 CHANGES IN SHAREHOLDERS' EQUITY

1,000 €	2012	2011
Share capital 1.1.	6,967	6,967
Share capital 31.12.	6,967	6,967
Share premium fund 1.1.	1,504	1,504
Share premium fund 31.12.	1,504	1,504
Invested non-restricted equity 1.1	5,784	4,185
Share issues	0	1,598
Invested non-restricted equity 31.12	**5,784**	**5,784**
Retained earnings 1.1.	30,993	26,441
Dividends	-2,569	-2,136
Merger profit	12	0
Retained earnings 31.12.	28,435	24,305
Profit for the financial period	6,823	6,688
Accumulated profit 31.12.	35,258	30,993
Total	**49,512**	**45,247**
Companys distributable equity 31.12.	41,041	36,775

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 €	2012	2011
Provision for guarantees	**949**	**949**

18 LONG TERM LIABILITIES

Bank Loan	**0**	**11,500**

19 SHORT TERM LIABILITIES

Bank loans	21,000	21,000
Advance payments received	58	299
Advance payments from Group companies	0	865
Accounts payables	2,881	4,152
Accounts payables from Group companies	1,557	989
Other current liabilities	1,193	1,433
Other current liabilities from Group companies	4,679	2,905
Accrued liabilities	6,152	6,259
Total	**37,519**	**37,901**

20 CONTINGENT LIABILITIES AND PLEDGED ASSETS

	2012	2011
Leasing liabilities		
For next year	654	606
For later years	1,074	1,123
Total	**1,728**	**1,729**
Rental liabilities		
Less than one year	112	138
Between one and five years	128	128
More than five years	1,305	1,337
	1,545	1,603
Liabilities on own behalf		
Bank guarantees	0	0
Guarantees given on behalf of subsidiaries	0	0

21 CURRENCY DERIVATES

Value of underlying forward contracts	4,117	5,023
Market value of forward contracts	-74	-80
Interest rate swap	9,000	11,500
Market value of interest rate swap	-22	-167

22 COMPANIES OWNED BY THE GROUP AND PARENT COMPANY

	Parent company'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 , Munchen, Germany	100	0
Cableway Cyber Optic GmbH&Co. KG, Bergisch Gladbach, Germany	100	0
MKS Management GmbH, Bergisch Gladbach, Germany	100	0
Cableway AG, Bergisch Gladbach, Germany	100	12.5
Teleste Belgium SPRL, Bryssel, Belgium	100	100
Dinh Telecom,Herstal,Belgium	100	1
Flomatik A/S, Porsgrun, Norway	100	100
Flomatik Network Services Ltd. Fareham, UK	100	100
Teleste Networks Serice S.A.,Yverdon, Switzerland	100	100
Kaavisio Oy, Turku, Finland	100	100
Promacom AB, Tukholma, Sweden	100	100
Satlan s.p.zoo, Wroclaw, Poland	100	100
Suomen Turvakamera Oy, Vantaa, Finland	100	100
Teleste India Ptv. Mumbai, India	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, Stockholm, Sweden	100	100
Teleste UK Ltd, Cambridge, UK	100	100
Teleste Video Networks Sp zoo , Krakov, Poland	100	100

23 OWN SHARES

	Number of shares	Percentage of share capital and votes %
Teleste Oyj owns own shares 31.12.2012	379,985	2.03

24 SHARES AND OWNERS

Management interest

	Number of shares	Percentage of share capital, %	Percentage of and votes, %
CEO and Board Members	71,637	0.38	0.38

Option programs

Number of shares entitled to subscribe with options

	Number of shares	Percentage of shares and votes, %
CEO	80,000	0.41
Other option holders	421,000	2.18
2007 program warrants hold by the parent company	59,000	0.31
Total	**560,000**	**2.90**

Audit expenses	**2012**	2011
Auditing assignments	49	48
Tax consultancy	42	56
Other assignments	13	8

25 SHARES AND SHAREHOLDERS

Major shareholders 31.12.2012	Number of shares	%
EM Group Oy	4,389,712	23.44
Mandatum Life	1,679,200	8.97
Ilmarinen Mutual Pension Insurance Company	953,854	5.09
Kaleva Mutual Pension Insurance Company	824,641	4.40
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
Teleste Management Oy	381,000	2.03
Teleste Oyj	379,985	2.03
Op-Suomi Small Cap	350,000	1.87
Fim Fenno Mutual Fund	270,342	1.44
Mutual Fund Fourton Fokus Suomi	195,869	1.05
Total (13)	**11,437,753**	**61.06**

Sector Dispersion 31 December 2012	Shareholders	%	Shares	%
Corporations	286	5.51	7,254,749	38.73
Financial and insurance corporations	11	0.21	3,385,419	18.07
Public institutions	6	0.11	2,015,104	10.75
Non-profit institutions	37	0.71	384,929	2.05
Households	4,795	92.53	4,585,420	24.48
Foreign countries and nominee registered	47	0.90	1,102,969	5.88
Total	**5,182**	**100.00**	**18,728,590**	**100.00**

Holding Dispersion 31 December 2012	Shareholders	%	Shares	%
0 - 100	1,157	22.32	79,419	0.42
101 - 1000	3,016	58.20	1,268,596	6.77
1001 - 10000	914	17.63	2,501,777	13.35
10001 - 100000	74	1.42	1,796,217	9.59
100001 - 1000000	19	0.36	7,013,669	37.44
1000001 -	2	0.03	6,068,912	32.40
Total	**5,182**	**100.00**	**18,728,590**	**100.00**

PROPOSAL FOR THE DISTRIBUTION OF EARNINGS

The parent company's distributable equity as of 31 December 2012 stood at EUR 41.041.292,27.

As to the Annual General Meeting scheduled for 12 April 2013, the Board proposes that a dividend of EUR 0.17 per share be paid for the outstanding shares for the year 2012.

Signatories to the Annual Report and Financial Statements

31 January 2013

Marjo Miettinen
Chairperson of the Board

Pertti Ervi
Member of the Board

Esa Harju
Member of the Board

Pertti Raatikainen
Member of the Board

Kai Telanne
Member of the Board

Petteri Walldén
Member of the Board

Jukka Rinnevaara
CEO

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

Helsinki 31 January 2013

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 2012. 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 2013
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 7 Section 7 of the Securities Markets Act and of the recommendation 54 specified in the Finnish Corporate Governance Code 2010 available in the Securities Market Association website at www.cgfinland.fi. The Corporate Governance Statement will be issued separate from the Annual Report, and the provided data is based on situation dated on 31 December 2012.

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 3, 2012 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
- Esa Harju, Member of the Board, b. 1967, M.Sc. (Eng.), Nokia Siemens Networks, Head of Nordic & Baltic Region
- 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 2012, the Board of Directors of Teleste Corporation had 10 meetings. The attendance of the Directors at the Board meetings was 95%. 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 3, 2012 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 500 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 2012 to the Board of Directors were as follows:

- Marjo Miettinen, EUR 44 250 including 4 147 Teleste shares
- Pertti Ervi, EUR 29 250 including 2 592 Teleste shares
- Esa Harju, EUR 28 000 including 2 592 Teleste shares
- Tero Laaksonen, EUR 750 including 0 Teleste shares
- Pertti Raatikainen, EUR 29 250 including 2 592 Teleste shares
- Kai Telanne, EUR 28 500 including 2 592 Teleste shares
- Petteri Walldén, EUR 29 250 including 2 592 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 2012 to the CEO of Teleste Corporation totaled EUR 495,693.40. 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 paid in year 2012 amounted to EUR 46,503.04, 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, 2012 the Group's Management Group consisted of seven 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.

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, 2012.

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, 2012.

On 31 December 2012, the CEO was in the possession of a total of 80 000 Teleste 2007 options while the other Teleste Corporation's Management Group members held 164 314 options put together.

For details related to option specifics see Teleste's Annual Report 2012, 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 3, 2012 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 2012, Teleste Group's auditing expenses totaled EUR 240 000 in which the share of KPMG was EUR 180 000. Moreover, auditing units of KPMG have supplied Teleste Group companies with other consultation worth total EUR 75 000 and other than KPMG auditors for EUR 41 000.

INSIDERS

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

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

Moreover, insider rules and regulations include provisions concerning temporary commercial activities. Project-specific insider register includes personnel who, based on their position, have access to company-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 an insider to time any intended trading involving company shares and derivatives in such a manner that optimum information affecting the value of the shares is available in the market at the time. The permanent members of Teleste's insider register are obliged by the so-called Silent Period during which trading on company shares is banned completely for 14 days preceding publication of interim reports and the financial statements. During the specified period Teleste will not engage in any meetings with investors or analysts and no Teleste Group representative is allowed to comment upon company results.

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

INTERNAL SUPERVISION, RISK MANAGEMENT AND INTERNAL AUDITING

INTERNAL SUPERVISION

Teleste's internal supervision is designed to support the implementation of the strategy and to ensure the achievement of the specified goals, compliance with the regulations as well as reliability and correctness of the conducted financial reporting. Internal supervision is based on Teleste's values and corporate culture as well as on mutually supporting structures and processes 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 area in both of our business areas answers for the compliance with the internal supervision principles on every level of the area in question.

RISK MANAGEMENT

Group risk policy with the relevant principles and objectives are subject to approval by the Teleste Board of Directors. Risk management is based on the specified strategic and business objectives of the Teleste Group. Risk management aims to ensure achievement of operational goals so that essential risks affecting the business operation and posing a threat to its objectives are identified and these will be monitored and 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 2008-2012

	IFRS 2012	IFRS 2011	IFRS 2010	IFRS 2009	IFRS 2008
Profit and loss account, balance sheet					
Net sales, Meur	193.9	183.6	167.8	141.7	108.7
Change %	5.6	8.6	18.5	30.3	-13.1
Sales outside Finland, %	93.4	94.1	93.3	91.8	90.2
Operating profit, Meur	10.9	9.4	7.4	2.5	5.6
% of net sales	5.6	5.1	4.4	1.8	5.2
Profit after financial items, Meur	10.1	8.8	6.7	1.4	5.1
% of net sales	5.2	4.8	4.0	1.0	4.7
Profit before taxes, Meur	10.1	8.8	6.7	1.4	5.1
% of net sales	5.2	4.8	4.0	1.0	4.7
Profit for the financial period, Meur	6.7	6.3	4.8	0.4	5.5
% of net sales	3.5	3.4	2.9	0.3	5.1
R&D expenditure, Meur	11.2	11.6	10.3	10.8	13.5
% of net sales	5.8	6.3	6.1	7.6	12.4
Gross investments, Meur	3.3	5.2	3.8	25.2	3.9
% of net sales	1.7	2.9	2.2	17.8	3.6
Interest bearing liabilities, Meur	22.1	33.2	28.1	22.8	11.0
Shareholder's equity, Meur	60.6	55.3	50.4	46.7	46.6
Total assets, Meur	120.2	133.2	116.2	110.1	75.5
Personnel and orders					
Average personnel	1 326	1 297	1 215	1 103	702
Order backlog at year end, Meur	17.0	21.2	17.0	33.1	24.0
Orders received, Meur	189.7	188.1	167.2	151.0	118.6
Key metrics					
Return on equity, %	11.6	11.9	9.9	0.9	11.8
Return on capital employed, %	13.0	11.5	10.2	3.3	10.4
Equity ratio, %	50.5	41.6	43.6	43.6	61.7
Gearing, %	13.7	32.2	25.5	22.0	3.6
Earnings per share, euro	0.38	0.36	0.27	0.02	0.32
Earnings per share fully diluted, euro	0.38	0.36	0.27	0.02	0.32
Shareholders equity per share, euro	3.48	3.17	2.90	2.68	2.74
Teleste share					
Highest price, euro	4.44	4.82	5.33	4.30	7.49
Lowest price, euro	3.04	2.50	3.64	2.25	1.90
Closing price, euro	4.17	3.00	4.41	3.72	2.24
Average price, euro	3.98	3.64	4.49	3.62	4.52
Price per earnings	10.8	8.3	16.3	154.1	7.0
Market capitalization, Meur	78.1	56.2	80.2	66.2	39.9
Stock turnover, Meur	10.8	6.2	14.2	28.5	51.1
Turnover, number in millions	2.7	1.7	3.2	7.8	11.5
Turnover, % of capital stock	14.4	9.1	17.4	44.0	64.6
Average number of shares	18,728,590	18,189,560	18,093,689	17,805,590	17,708,782
Number of shares at the year-end	18,728,590	18,728,590	18,186,590	17,805,590	17,805,590
Average number of shares, diluted w/o own shares	17,688,527	17,425,605	17,693,605	17,229,154	17,372,555
Number of shares at the year-end, diluted w/o own shares	17,709,672	17,425,605	17,693,605	17,425,605	17,039,399
Paid dividend, Meur	* 3.0	2.4	2.1	1.4	2.0
Dividend per share, euro	* 0.17	0.14	0.12	0.08	0.12
Dividend per net result, %	44.5	38.9	43.7	331.3	37.4
Effective dividend yield, %	4.1	4.7	2.7	2.2	5.4

* The Board’s proposal to the AGM

CALCULATION OF KEY FIGURES

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 – advances received	x 100
Equity ratio:	Shareholders' equity / Taseen loppusumma – saadut ennakot	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 the regulated 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

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 2012, 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	30.3.1999
ISIN code	FI0009007728
Trading code	TLT1V
Reuter's ticker symbol	TLT1V. HE
Bloomberg ticker symbol	TLT1V FH
12 months high	4.44
12 months low	3.04
All-time high (7.9.2000)	39.00
All-time low (12.12.2008)	1.90

FINANCIAL INFORMATION

Annually, Teleste releases the Financial Statement bulletin, Annual Report and three Interim Reports. 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 2013:

Interim Report, January–March	25.4.2013
Interim Report, January–June	8.8.2013
Interim Report, January–September	31.10.2013
Financial Statement Release	6.2.2014

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
P.O. Box 1110
FI-00101 Helsinki
Street address: UrhoKekkosenkatu 5c
Phone: +358 20 7706000
Email: info.finland@euroclear.eu

ANNUAL GENERAL MEETING
Teleste Corporation's Annual General Meeting (AGM) will be held on Friday, 12 April 2013, 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 Tuesday, 2 April 2013 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 Friday, 5 April 2013.

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
- 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 by Friday 5 April at 16:00 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 2 April 2013. 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 9 April 2013 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.

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 2012
The Board of Directors proposes to the Annual General Meeting that, based on the adopted balance sheet, a dividend of EUR 0.17 per share be paid for shares other than those in company possession for the fiscal year that ended on 31 December 2012. The dividend will be paid to shareholders who on the record date, 17 April 2013, have been entered in the Company's Shareholder List, which is kept by Euroclear Finland Oy. This dividend will be paid on 24 April 2013.

PAYMENT OF DIVIDEND IN 2013
Annual General Meeting 12.4.2013
Dividend ex date 15.4.2013
Dividend record date 17.4.2013
Payment of dividend 24.4.2013

* Board proposal for the AGM

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
0.10	0.12	0.16	0.08	0.08	0.12	0.16	0.20	0.24	0.12	0.08	0.12	0.14	0.17*

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

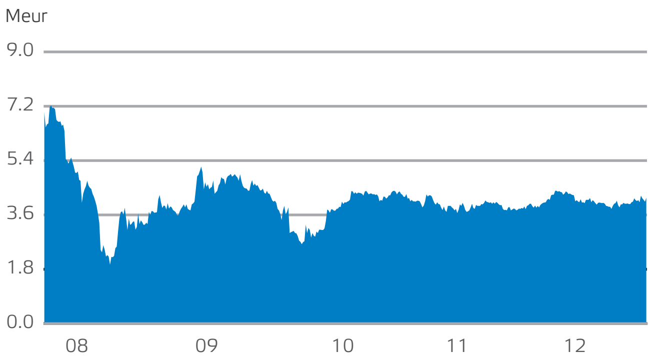
Minutes of the Annual General Meeting will be available at Teleste´s website no later than 26 April 2013.

KEY FIGURES PER SHARE

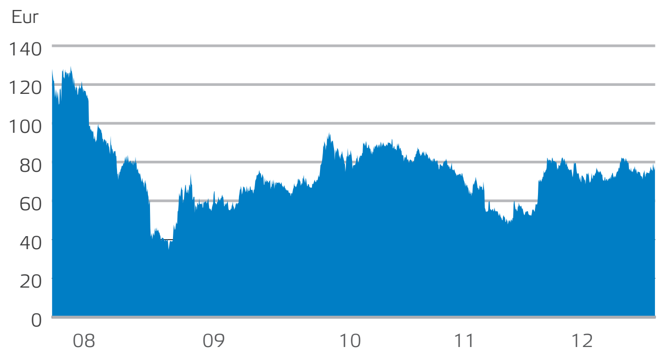
	2012	2011	2010	2009	2008
Earnings per share, €	0.38	0.36	0.27	0.02	0.32
Earnings per share fully diluted, €	0.38	0.36	0.27	0.02	0.32
Shareholders equity per share, €	3.48	3.17	2.90	2.68	2.74
Paid dividend, €	3.0*	2.4	2.1	1.4	2.0
Dividend per share, €	0.17*	0.14	0.12	0.08	0.12
Dividend per net result, %	44.5	38.9	43.7	331.3	37.4
Effective dividend yield, %	4.1	4.7	2.7	2.2	5.4
Closing price, €	4.17	3.00	4.41	3.72	2.24
Price per earnings (P/E)	10.8	8.3	16.3	154.1	7.0
Market capitalization, M€	78.1	56.2	80.2	66.2	39.9
Stock turnover, M€	10.8	6.2	14.2	28.5	51.1
Turnover, number in millions	2.7	1.7	3.2	7.8	11.5
Turnover, % of capital stock	14.4	9.1	17.4	44.0	64.6
Average number of shares	18,728,590	18,189,560	18,093,689	17,805,590	17,708,782
Number of shares at the year-end	18,728,590	18,728,590	18,186,590	17,805,590	17,805,590

* Proposal by the Board

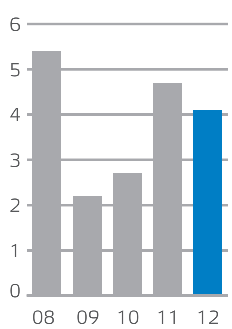
SHARE PRICE DEVELOPMENT 2008–2012



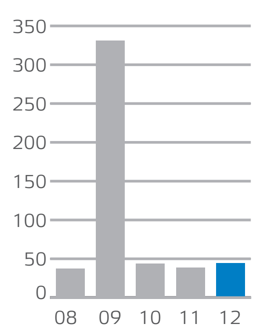
MARKET VALUE DEVELOPMENT 2008–2012



EFFECTIVE DIVIDEND YIELD, %



DIVIDEND PER NET RESULT, %



Teleste Corporation
Postal address: P.o. Box 323, FI-20101 Turku, Finland
Visiting address: Seponkatu 1, FI-20660 Littoinen
Telephone (switchboard): +358 2 2605 611
Telefax +358 2 2605 812
www.teleste.com

Business ID 1102267-8