



**BUILDING  
A FUTURE**

YEAR  
**2015**

## THAT IS SMARTER



**Development of technologies** makes it possible to run an increasing number of functions more easily and more efficiently. Intelligent solutions facilitate your daily life at work, at home and on the go. We at Teleste build solutions for a smarter future.

**Functionality** of our environment require safety monitoring of both public and private areas. Cybersecurity and privacy are a growing concern for telecommunications service providers. We at Teleste design solutions that make infrastructure more efficient and protect the modern lifestyle. Our products and services create stability and security for millions of people around the world.



## SAFER AND

## SMOOTHER



**In life**, a lot is going on even during one day. To make life more enjoyable, things need to proceed smoothly, network connections need to work, information must be available, and trains have to run. We at Teleste develop innovations that help everyday activities run smoothly and even more effectively in the future.

# 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: video and data processing, transfer and management. Our customer base consists of cable and telecom operators, as well as public sector organizations.

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 forerunners.

Video and Broadband Solutions focuses on access networks and video security and information solutions. Network Services offers comprehensive services for network design, construction and maintenance.

In 2015, Teleste's net sales totaled EUR 248 million, and the company employed more than 1,500 people. Teleste runs a worldwide network of offices and more than 95% of its sales are generated outside Finland. The company is listed on the Nasdaq Helsinki. For more information see [www.teleste.com](http://www.teleste.com).

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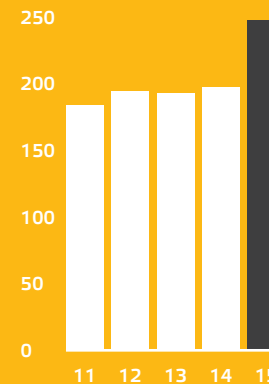
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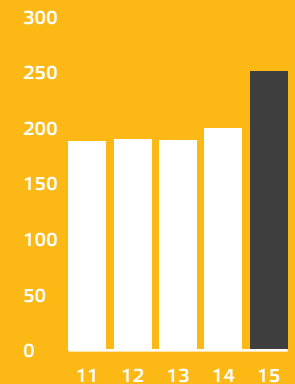
# YEAR OF STRONG GROWTH

-  The market remained active throughout the year.
-  Net sales increased by 26 percent to EUR 247.8 million. Orders received and net sales for the fourth quarter were the best in Teleste's history.
-  Operating profit increased by 28 percent to EUR 14.3 million.
-  Cable operators and telecom operators interest in network investments increased and demand for access network products grew strongly.
-  Teleste launched new products under the DOCSIS 3.1 standard and strengthened its leading position as a provider of these products.
-  The general demand for video security solutions showed a growth due to increased security threats, particularly in Europe, but investments were delayed among others due to the economic situation.
-  The Mitron acquisition strengthened Teleste's position as an end-to-end supplier of public transport video and information solutions.
-  The development of our Network Services business varied from country to country, but the overall profitability remained below the target level.
-  Our strong order backlog provides a good starting point for the new year. We estimate net sales and operating profit for 2016 to exceed the 2015 level.
-  Teleste's share price strengthened by 86 percent during the year.

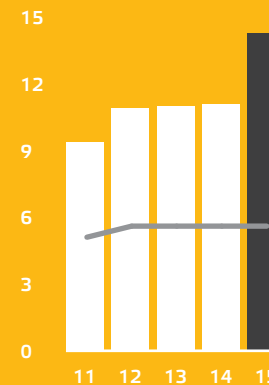
**NET SALES**  
MEUR



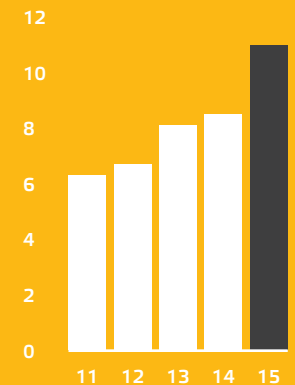
**ORDERS RECEIVED**  
MEUR



**OPERATING PROFIT**  
MEUR / % of net sales



**PROFIT FOR THE YEAR**  
MEUR



# EVENTS IN 2015

**29** Teleste's subsidiary Cableway AG signed a three-year frame agreement with Vodafone Kabel Deutschland on maintenance services of cable networks. The agreement ensures continuity of the maintenance outsourcing cooperation started with Kabel Deutschland as early as 2008.

The contract value is approximately EUR 50 to 60 million per year, and it will strengthen Cableway's leading position as the German services company focusing on cable networks.

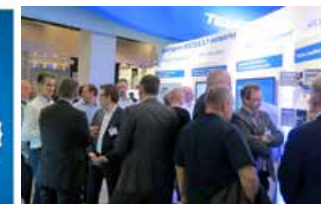


**9** In accordance with the Board's proposal, the Annual General Meeting of Teleste held in the Finlandia Hall in Helsinki on 9 April 2015 decided on the payment of a dividend of EUR 0.20 per share to non-treasury shares for the year 2014.

Mr. Pertti Ervi, Ms. Jannica Fagerholm, Mr. Esa Harju, Ms. Marjo Miettinen, Mr. Kai Telanne and Mr. Peter Walldén were re-elected to the Board of Directors.

**9-11** Teleste participated ANGA COM, which is the main exhibition held annually for broadband, cable and satellite sector in Cologne, Germany.

Teleste's main message was Intelligent DOCSIS 3.1 networks and its wide selection of standard's compatible products.



JANUARY

FEBRUARY

MARCH

APRIL

MAY

JUNE

**7** Teleste strengthened its position as a comprehensive supplier of video security and information solutions in the rail segment by acquiring the entire share capital of Mitron Group Oy Ltd. Mitron delivers public transport information systems and modern display solutions. With its 120 employees, Mitron has a turnover of approximately EUR 22 million. The company runs its design and manufacturing operations in Forssa and Tampere with subsidiaries in Poland, Germany and Switzerland.



**3** The Finnish Foundation for Share Promotion is an independent entity whose mission is to promote savings in securities and the securities market. The events are open to everyone interested in savings and investments.

Teleste participated for example in a tour organised by the Finnish Foundation for Share Promotion and visited Turku, Helsinki and Mariehamn. Each event was attended by a large number of equity investors to hear about the Company's business, operating environment, and economic development.



**20** "Let the good roll" -campaign is part of the Teleste's well-being program and actions based on well-being assessment results. Through the campaign the aim is to share job related positive things and ideas to colleagues and this way enhance the spirit and well-being in Teleste.

In the campaign, the aim is to spread ideas, innovations and positive things by challenging colleagues/teams to present some of their ideas and insights to other colleagues.



**24-25** Representatives of the Paris police and Inecom visited Teleste's head office in Littoinen. The video management system supplied by Teleste to Paris connects all the major video security systems in place in the metro, railway stations and the largest shopping malls as well as in the La Defense business centre. Visitors familiarised themselves with Teleste's latest products and production facilities and heard a presentation on strategic plans.



**1** The Dutch operator DELTA commissioned an optical broadband network for Teleste. The order was a turn-key project, which included the hardware delivery, installation and commissioning.

With this upgrade project, DELTA's network is ready for the transmission of broadband services in line with the new DOCSIS standard 3.1. The contract value was approximately EUR 3.8 million.

**25** On 25 August, a German equipment manufacturer delivered a new SMT placement machine line in the Littoinen plant. In mid-September, the personnel had been trained in and the line became available. The efficiency of the new line is up to three times that of the previous one. Besides high-standard work quality, the line supports flexible manufacturing methods and the latest manufacturing technologies.



**5-9** The Women in Tech Forum was held in Helsinki on the theme "Make a difference!" The main event of the week brought together women and men interested in the future of the technology business to discuss how women can be more involved in the making of high-tech success stories.

At the Forum, Teleste's representative Tommi Ketola presented software related solutions to the smart home and home health care as well as the next generation of cable networks.



**15** The City of Turku and Teleste signed an agreement aimed at the adoption of new ICT-based innovations in the public sector.

The purpose of this cooperation is to apply intelligent technologies that benefit the residents and businesses of Turku. Teleste will participate in the project as a technical partner engaged in research and development and piloting a variety of products, applications and services related to the Smart City concept on the basis of the framework provided by Turku.

## JULY

## AUGUST

## SEPTEMBER

## OCTOBER

## NOVEMBER

## DECEMBER

**8** Teleste's Sub-miniature Euro style Integrated Double Galvanic Isolator was announced as the winner in the category of "Best CPE Solution" in the SCTE's 2015 Technological Innovation Awards.

The winner is an ultra-low-loss, broadband miniaturised isolator that provides enhanced bandwidth performance over an extended frequency range of 5-1700MHz, and low safety leakage current. In addition, it comes with optimised RFI screening effectiveness, and has an integrated in-line miniaturised coaxial cable interconnect on the input.

**29** Teleste signed a frame agreement with Canal Digital Cable TV, a subsidiary of the Norwegian company Telenor on supplies of access network products to Canal Digital's HFC 2.0 network investment project.

Canal Digital is the largest provider of cable and broadband services based on the HFC technology in Norway. The value of this contract scheduled for 2015 to 2019 is likely to exceed EUR 15 million.

**Q3**

**29** In the third quarter, Teleste reached the highest net sales and operating profit in its history. Net sales were EUR 179.4 (143.3) million, a year-on-year increase of 25.2%.

Operating profit amounted to EUR 11.0 (7.6) million, an increase of 44.9%. This favourable development was driven by increased volumes of product deliveries as well as the Mitron business.

**30** In November Teleste launched a theme called "Successful future – smart ideas today". With this theme, Teleste wishes to develop its innovation culture and make ideation a part of day-to-day life.

Even a small idea can make a difference. Behind every innovation or solution stands an idea.



# SUCCESS IN MANY FIELDS

The things that kept us busy here at Teleste in 2015 include strong demand for access networks products, expansion of production, major services contracts, new product development initiatives, the Mitron acquisition, active marketing, and internal development projects. The hard work also produced good results. In terms of net sales and operating profit we broke our previous quarterly records several times over. Our full-year net sales increased by 25.7 percent to EUR 247.8 million (2014: EUR 197.2 million). Part of this increase came from Mitron, but our organic growth was strong as well. Our operating profit rose by 28.4 percent to EUR 14.3 million. Similarly, the value of orders received increased by 26.1 percent to EUR 251.3 million. The good news was also reflected in our share price, which strengthened 86 percent during the year.

The performance of the Network Products business exceeded our expectations. Our customers showed an interest to invest in the new network infrastructure complying with the DOCSIS 3.1 standard faster than our expectations. We have developed products in line with the said standard at a fast pace and, therefore, gained the status of a clear frontrunner. We have also ensured our delivery capacity by investing in the SMT line and by developing our lean production. Thanks to these, we were able to deliver orders in accordance with the agreements in spite of the growing production volumes. And even if the price erosion continued for a part of the access network products, the strong growth in the production volumes helped to improve our profitability.

As for video security, the highlight of the year was the acquisition of Mitron, the provider of public transport information and display systems. Mitron strengthened our position as a comprehensive supplier of video security and information management solutions for rail. The integration of operations began immediately and proceeded at a brisk pace during the year.

Network Services catering to the cable and telecommunications operators managed to partially improve its weak profitability. The development of our Swiss operations was

excellent and in Germany we moved in the right direction, but in the UK, the investments made in the offering of new services burdened our profitability. A job well done was rewarded in Germany when Vodafone Kabel Deutschland, the longstanding customer of our services, signed a three-year frame agreement on the maintenance and after-sales services of their cable networks. This extension is a little more comprehensive and valued at approximately EUR 50 to 60 million per year.

## Moving forward even more united

While being busy with our client work, we also invested in the development of our operations by a number of internal projects. In part, Teleste has grown through acquisitions, and slightly differing corporate cultures have survived in various parts of the Group. Now our goal is to create a unified Teleste culture and bring together our ways of working to take advantage of the best practices.

Highly commendable work is also carried out in the on-going management and leadership training programme that all our supervisors complete. We want to be a pleasant working community. Good team leadership has a significant impact on well-being. In the light of the conducted surveys, Teleste's initial level of well-being was found to be good, even if there was clear variation between



the units. Our ways of working change from time to time, so it is important to provide our team leaders with management tools that are in line with our values. By investing in the development of leadership skills, we expect to become a more innovative organisation and reach a better cooperation between all of us here working for Teleste.

New innovations are a precondition to our existence. As for product development, we continued working on our existing products and services to update, among others, our access networks products to make them comply with the DOCSIS 3.1 standard. As a result, compared to our competitors we had a record number of such products to display at the ANGA international trade fairs in June. We also put forward new initiatives, which we hope will bring revenue in the future. Out of these, one of the most interesting ones is related to the utilisation of smart digital solutions to improve home security.

### Strong market position

While having a need to continue to increase their broadband capacity, our largest clientele, i.e. the telecommunications and cable operators, also have financial strength to invest. Consolidation within the industry has created larger groups, that set specific criteria to their suppliers. Our starting position is good given

Teleste's high-quality products and services and the fact that our market position as a strategic partner to the major players has strengthened further.

The solutions we offer to the public sector and private transport operators include those for the control of public areas, borders and transportation, as well as the smooth flow of traffic. The strengthening of threats to security and the growth in public traffic naturally increase the need for video security and information services, but especially the realisation of large projects requires time. This is to say, an increase in threats does not immediately translate into an increase in demand.

### Ahead with confidence

We entered the current year with a record-high order backlog. While our customers' need for our products and services seems to be strengthening even further, our offering has proven to be very competitive. Moreover, Teleste's production is ready to take on even higher production volumes. Thus, we have a strong belief in continued profitable growth in the year 2016.

Favourable development still requires a lot of work including co-operation with our customers and partners, conquering new markets, new product innovation and development of operations. The past year was a

good indication of the good spirit in which our employees work together. My sincere thanks for your creditable work. I would also like to express my thanks to our customers, partners, and shareholders for the confidence shown in Teleste.

President and CEO

**Jukka Rinnevaara**

OUR GOAL IS TO CREATE  
AN UNIFIED TELESTE CUL-  
TURE AND BRING TOGETHER  
OUR WAYS OF WORKING  
TO TAKE ADVANTAGE  
OF THE BEST PRACTICES.

-Jukka Rinnevaara




# MEGATRENDS BEHIND OUR STRATEGY

Teleste's most important megatrends can be identified in everyday life. Internet usage is increasing rapidly, which makes the operators invest in their networks and expand their service offerings. The use of video increases more and more, and most of the content published on the Internet is already in video format. The rapidly progressing urbanisation increases the amount of traffic while the slowing down of climate change requires reduction of its negative consequences. People's needs for security and information are also growing. New technologies enable the development of more intelligent solutions.

## Increasing usage of video and data

Internet usage is growing rapidly and the need for network capacity increases two-fold in about 18 months. People's needs and quality requirements are increasing, and especially the use of videos on the network requires a lot of capacity and high quality. There is a vast amount of video content available, and most of the content on the Internet is already in video format. People consume the content

of their choice anytime and anywhere while the number of different devices used for this is also increasing. Computers, tablets and smartphones have come to existence alongside traditional TV. Responding to the wishes of the Internet users requires investments in the network by the operators, which is to say that there shall be more efficient and higher-quality network capacity, which in turn allows for a wider service offering.



PEOPLE TAKE CARE  
OF THEIR BUSINESS  
REGARDLESS OF  
TIME AND PLACE

DIVERSITY OF  
TERMINAL  
EQUIPMENT IS  
INCREASING

NEW  
TECHNOLOGIES  
ARE USED FOR  
BUILDING NEXT  
GENERATION  
NETWORKS

VIDEO IS THE  
MOST POPU-  
LAR CONTENT  
FORMAT ON THE  
INTERNET

BROADBAND IS  
WITHIN ALMOST  
EVERYONE'S REACH

### Increased safety by video security

More than ever, video technology is needed to ensure safety. As the number of various threats increases, they are controlled more cost-effectively by means of video security. Globalisation, urbanisation and political interferences are increasing the need for security, yet at the same time, the focus of such security has shifted from national borders to cities.

### Smooth flow and cleanliness of traffic

Globalisation and urbanisation are also reflected in the strong growth in traffic volumes. Slowing down climate change requires further reduction in emissions from traffic and, particularly, increased public transport. As for their transportation, people look for its smooth flow and safety, and these can be increased by means of stricter video security and passenger information.

### Rapidly developing technology

Video and data transfer technologies continue to develop swiftly. New technologies enable a better user experience, but they are also creating new ways to deploy networks. The amount of smart technology in the networks is increasing, since this is the way to enhance the capacity and improve the quality experienced by the end-customer. In the network, smart features are coming closer

to the user. Development of devices continues apace. These devices talk to each other and with their users. Interactivity generates new kinds of commercial activity and earning models.



SMOOTH FLOW  
OF PUBLIC  
TRANSPORT IS  
IMPORTANT

SECURITY IN  
PUBLIC TRANSPORT  
AND SPACES IS  
IMPORTANT

FASTER  
NETWORKS  
ENABLE NEW  
SERVICES

PASSENGERS  
NEED  
UP-TO-DATE  
INFORMATION

SMART HOME  
TECHNOLOGY WILL  
GROW AND HOMES  
ARE MONITORED  
REMOTELY

# TELESTE'S STRATEGY UP TO 2018

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 and telecommunications operators and the public sector. The core of our business is video – the processing, transfer and management of video and data. Teleste's goal is to be a respected partner by its customers and a preferred employer, and to grow profitably. To achieve these goals we have created a strategy with a set of specified priorities.

1.



## Close to the customer and keeping promises

Teleste is a well-known player in all of its business areas with a particularly strong market position in Europe. Our area of operation covers the whole world, and growth is being sought increasingly, inter alia, in North America and the Middle East. Teleste's offering also makes it possible to expand its customer base from cable operators to telecom operators.

In 2015, Teleste enhanced its sales and marketing while strengthening its market position. In our Network Products business, we focused most on Europe and Americas while in video security and information solutions we strengthened our presence in North America and the Middle East. In Network Services business, the focus was on improving profitability in our existing areas of Germany, Britain, Finland, Switzerland, and Belgium.

2.

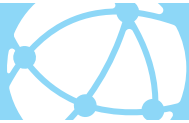


## The search for new growth areas

In addition to new geographical growth areas Teleste constantly explores new areas of expertise to expand its offering. The need of our customer base is increasingly focused on comprehensive solutions and services. The continuously developing technology also provides our R&D with new growth opportunities. Our product offering can be extended based on both our own product development and co-operation with our partners.

In 2015, the most significant expansion in our offering was realised through the Mitron acquisition. This company specialising in passenger information systems and display solutions is now part of Teleste's video security and information unit.

3.



### Developing competitive product offering in access networks

Building up of network capacity and bringing about qualitative improvements in it continue to drive the demand for technology, and in this business technologies are developing fast. Teleste is a pioneer as a developer of technology used for access networks, and we continue to invest in products and services needed by our customer base.

The functionality of networks combining conventional coaxial cable and optical fibre can be improved by adding intelligent features in them. Similarly, we press on with the development of new technologies, such as Distributed Architecture, which enables high-speed data services over the coaxial network. These new solutions of access networks add to the intelligence of devices close to the end-users, and it is this added intelligence that makes it possible to increase the network capacity cost-effectively for households.

In 2015, our access network product offering was expanded to meet customer needs. In our product development, we continued to upgrade our products to comply with the DOCSIS 3.1 standard. Teleste's supply of products accommodated to the said standard is now the widest on the market.

4.



### Strengthening innovative services for access networks

In addition to our comprehensive offering, Teleste's competitive advantage in access network services is based on our technological know-how, installed base, and local presence. The demand for online services is increased by the spread of outsourcing in the customer segments. In its offering, Teleste seeks to increase the number of high-yield value-added services.

As for Network Services, development of profitability continued in 2015. In Germany and Switzerland we made clear progress, whereas in the UK, sales of new services proceeded more slowly than expected.

5.



### Strengthening end-to-end solutions of video security and passenger information

Teleste offers comprehensive solutions for carefully selected segments. Teleste's offering consists of products of our own and those of third-parties. For rail transport, our supply consists of passenger information and video security solutions for stations and railway carriages. These solutions feature wireless transfer of data and real-time video between the railway carriages, stations and peripherals. In other segments, such as the public space security, our offering consists of Teleste's own video management software, with the addition of third-party software and hardware products. Significant growth opportunities can be achieved by combining video security and information products in our supply and sales. Therefore, along with mobile applications, our product development focuses on the creation of software linking up various systems.

In 2015, Mitron's expertise in information and display technology strengthened Teleste's overall offering and the number of potential customers increased to include European railway carriage manufacturers and new passenger operators. In product development, we continued to focus on mobile solutions, our video management system, solutions enabling smart home, as well as display technology.

6.



### Improving productivity of our own operations

To maintain our competitive edge, we keep an eye on the cost-effectiveness of Teleste's operations. The monitoring of our profitability is continuous and response to any deviations is rapid. The seasonal variations in demand typical for the industry are tackled by flexible production. In our production process, we seek to take advantage of the most effective tools and best practices that will be introduced throughout the organisation. Well-being at work is a major factor in maintaining productivity.

Development of well-being was continued on the basis of the previously implemented group-wide survey. Internal development initiatives were carried out by launching a broad leadership and management training programme. Moreover, harmonisation of Teleste's corporate culture, bringing out innovations and strategic communication were given weight.



# FASTER INTERNET CONNECTIONS AND SAFER ENVIRONMENT

For Teleste's entire history, technical product and system innovations have provided the foundation for the Company's successful product business. Teleste's R&D activities focus mainly on the so-called applied product development, the aim of which is a new product or product feature. A prerequisite for such applied R&D is the research on the underlying technology, in which Teleste is collaborating with universities and polytechnics.

For Teleste, the key success factors include experienced and skilled R&D personnel and its continued development. 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 needs for technological R&D on our own. For this reason, it is important to identify those technologies and key areas of expertise, the management of which by ourselves is essential for our success today as well as in years to come. Other required

elements are, then, covered by means of a network of partners.

Teleste's R&D operates in close interaction with the Company's key customers. In this type of activity, Teleste's own extensive sales network plays a crucial role. Regular "workshops" dealing with future technologies and set up with the key customers allow for the testing of new ideas before investments are made, and thus, limit the risk always involved in any development activities. This ensures that there is a real market need for

any development project taken onboard and that the timing is optimal with respect to competition and market conditions. It is not exaggerated to say that the speed of commercialisation with regard to technological innovations and our customer-oriented way of operation provide Teleste with a strategic competitive advantage.

## Many priorities

Teleste's R&D efforts involve the following areas: cable operators' access networks, video processing solutions featured by the headend, video security management solutions consisting of a large number of cameras and passenger information solutions. The essence of the access networks business is our ability to design product solutions suitable for large production volumes cost-efficiently. On the other hand, cable operators' video processing solutions require end-to-end solu-

tions developed for the specific market areas and the valid standards. The video management and passenger information solutions call for capabilities to tailor the solutions to meet customer-specific needs. As for the development of profitable business, taking these differing priorities into account in the operational models of product development is a key requirement.

In 2015, the strategically most important priority area, which also received most of the R&D inputs, was the further development of access network devices to meet the requirements set by the new standard version of the DOCSIS technology, Data-Over-Cable Service Interface Specifications, for short. Innovations introduced by this new standard will make it possible to provide the consumers with significantly faster Internet connections.



# DOCSIS 3.1 LEADS THE CABLE OPERATORS INTO "THE GIGABIT ERA"

IP traffic has grown intensively for many years and this growth is expected to remain strong in the coming years. This development will have a great impact on the viewing of IP-based video (known as "streaming"), which leads to a huge growth in the need for network capacity.

The new services and applications requiring more broadband such as the UHD (Ultra High Definition TV), Internet TV (the so-called OTT, Over The Top) and the cloud-based applications necessitate DOCSIS 3.1. The DOCSIS 3.1 standard supports high speeds of IP traffic transmission, which can be used for a variety of Internet services while the clearly higher return channel capacity supports the consumers' growing desire to share more and more self-produced video content on various channels of the Internet. Having followed this trend for a long time Teleste has released a number of products for the access network, which are DOCSIS 3.1 compliant.

## How will the introduction of DOCSIS 3.1 affect the cable industry?

The issued DOCSIS 3.1 standard may launch an entirely new wave of reconstruction in the cable industry. This new standard can offer a 1 Gbps end-user experience while requiring a significantly lower investment compared with the so-called FTTH technology (Fibre to the Home). For the next 10 to 20 years, DOCSIS 3.1 will provide the cable industry with a competitive platform for IP-based services.

## What is the meaning of DOCSIS 3.1 for Teleste?

Teleste develops a comprehensive offering of access network products that supports the new frequency bands of DOCSIS 3.1 in both directions. DOCSIS 3.1, which for the consumers is marketed under the name of "Gigasphere", brings new value to both the operator and the consumer in terms of speed, network capacity and a broader portfolio of broadband services. Teleste's R&D efforts are designed to ensure that the operators can take full advantage of the new opportunities offered by DOCSIS 3.1 and, thus, allow the end customers to enjoy a richer broadband experience enabled by the gigabit speed.

## What technical changes will DOCSIS 3.1 bring to device manufacturers?

The raising of the upper limit frequency of the access network to 1.2GHz means that each component of the signal path must reliably support the new higher frequency range. With the growing demand, the ranges of components will expand and, thus, speed up the product development. Along with the access network products, the R&D measuring systems must also support the new frequencies and the new data transfer protocols. The same applies to the final testing and calibration systems used in the manufacturing operations. In practice, among other things, this has meant investments in new measuring equipment and training.

## What is DOCSIS?

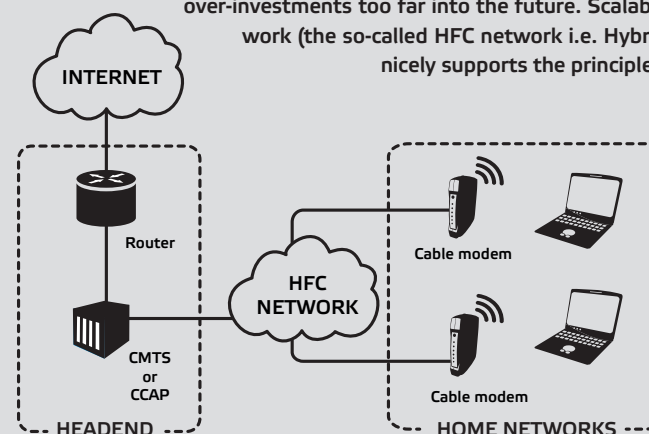


Pasi Järvenpää

DOCSIS stands for Data-Over-Cable Service Interface Specifications. Most cable operators offer broadband services to consumers by means of the DOCSIS technology. Cable operators run a bidirectional access network via which the broadband Internet service is brought to homes using different frequencies in different directions. A terminal device called a cable modem is placed at home and connected to a cable network wall socket. This cable modem provides broadband connection to a PC, or another device requiring an online interface through one or more Ethernet ports. The new modems also feature a wireless access point (WiFi). Broadband capacity for this cable modem is distributed by the operator's DOCSIS-specific router (so-called CMTS) in an operator's premises.

The first DOCSIS 1.0 standard was published as early as in 1997. Standardisation work is led by CableLabs, an American non-profit research and development consortium, the members of which are cable operators. The new DOCSIS 3.1 is the fifth generation of the standard.

The cable operators have increased their market share in broadband services from generation to generation. Thanks for that belongs partly to the DOCSIS technology, which makes it possible to increase broadband capacity cost-effectively and based on demand where it is needed, without making over-investments too far into the future. Scalable access network (the so-called HFC network i.e. Hybrid Fibre Coax) nicely supports the principle of increasing capacity.



# FOR THE PASSANGER'S BENEFIT

Operators are running end-to-end ecosystems in public transport. However, the passenger is their end-customer and, at the end of the day, their success is depending on how satisfied they are. Today's passengers want to have personalized and enhanced passenger experience and hence operators need to be capable of offering real-time passenger information systems, 24/7 connectivity, maximum safety, security and other services.

## End-to-end solution for video and information management

Teleste Rail includes advanced passenger information and video management systems both in rail cars and at the station enabling access to accurate and timely information as well as rapid and correct situation aware-

ness and actions. In short, the solution ensures that the right message is delivered to the right people and at the right time. The solution also helps rail operators offer more advanced, better quality passenger services through e.g. infotainment.

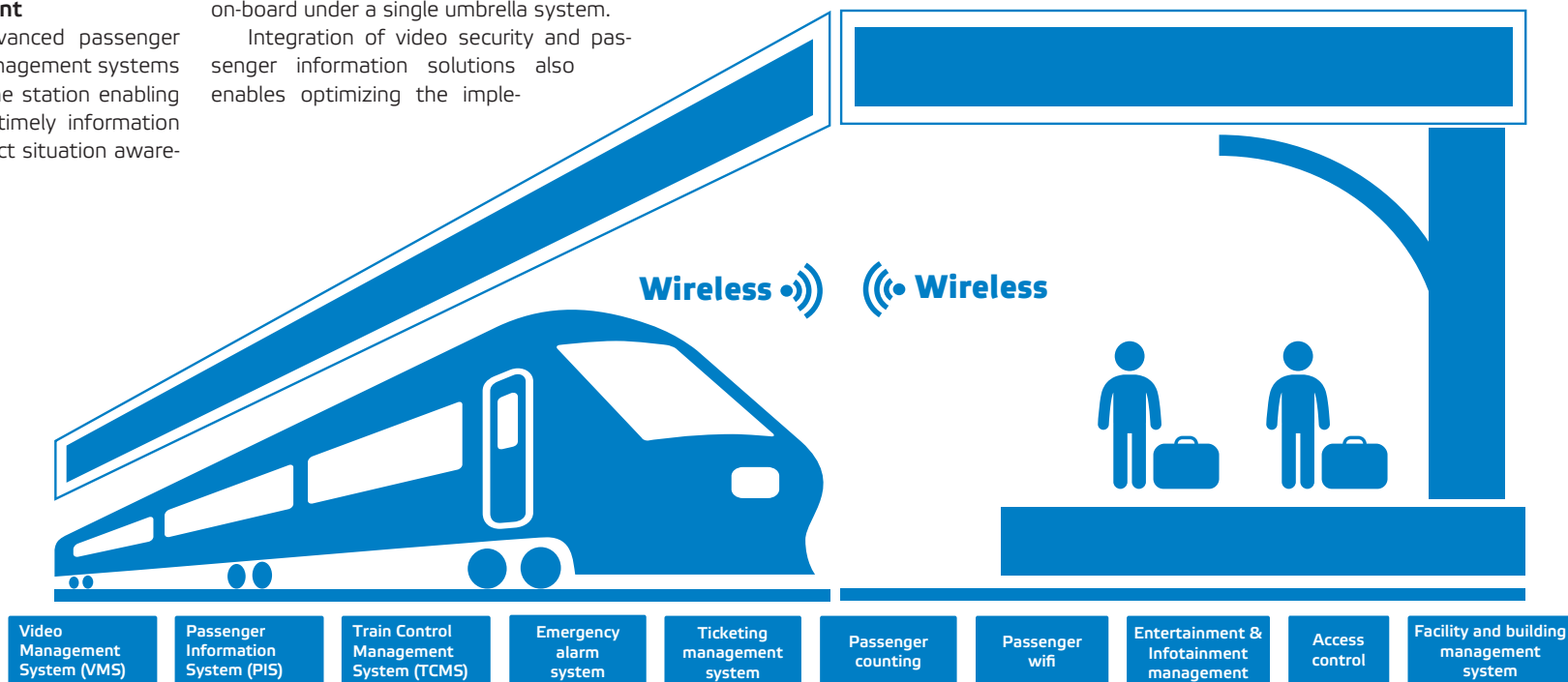
The rail ecosystem has two distinctive elements; stations with fixed infrastructure and an on-board with moving rail cars. Both have specific requirements in terms of video and information management. Teleste Rail allows seamless integration of wayside and on-board under a single umbrella system.

Integration of video security and passenger information solutions also enables optimizing the imple-

mentation of some of the applications from technical point of view while also the technical cost of ownership can be reduced. One example of such integration is our recent integration of pillar display and pinhole camera inside the display. Such integration allows optimal implementation, for e.g. face recognition application due to ideal lighting and camera positioning.

## Rail-proven and IRIS certified

Confirming the quality of our products and their suitability to rail applications, Teleste Rail has been granted with IRIS certification. Teleste Rail is also compliant with rail standards, e.g. EN50155, and its hardware components are ruggedized, vandal-proof and engineered for extreme weather conditions.



# PROTECTION OF PRIVACY PLAYS A KEY ROLE

Digitalisation and ICT-based solutions provide a means to create intelligent applications for the benefit of the community and its citizens. The target is to increase the comfort and safety of residents through a variety of services; we are building the so called smart city environment.

## New applications of video security

The most important technological trends in recent years include the spread of smartphones, faster broadband connections and the large-scale use of cloud platforms. These have enabled the rapid proliferation of new applications.

One of the beneficiaries of this transition is video security, where the more affordable and more advanced camera-generated data can be processed in many ways and saved more cost-efficiently. Yet, the cameras are not actively monitored, but their available video is combined as needed with information obtained from other systems.

## The new kind of user

Since high-speed Internet connections allow for video transfer to centralised and cost-effective cloud services, video security can be affordably provided to a large number of smaller customer groups, examples of which may be schools, small businesses, housing companies and real estates.

An already proven solution and a good practical example is provided by the old-age homes, where nurses are currently receiving automatic alarms on irregular events and can,

thus, make rapid decisions. Modern cameras also feature sophisticated video analysis functions, so they can be used as additional sources of alarm for monitoring movement in the corridors at night-time.

## Protection of privacy plays a key role

When the cameras move from public spaces over to offices and homes, protection of the resulting video poses a key question. Just to accept such a service in the first place, the customer must have the full assurance that only authorised users will have a chance to see the video and records of the camera.

Moreover, regulation concerning the service provider is becoming significantly tougher with regard to information security and privacy protection, so it is clear that the protection of video material has, by now, become the most important feature of the new camera systems.



## Protection of privacy by encryption technology



Tommi Ketola

Teleste's new service platform can be used to build modern video security applications that take advantage of low-cost and feature-rich cameras, as well as the cost-efficiency added by the cloud services. Here, the key to ensuring the user's privacy is to engage a unique encryption scheme.

### 1. ENCRYPTING THE VIDEO ALL THE WAY FROM THE CAMERA TO THE PLAYBACK DEVICE

When the video is encrypted right at the camera and is not decrypted or changed on its way to the user's smartphone or another playback device, one can be sure that no one else can decrypt the video encryption during its transfer and possible recording. This restriction also applies to system administrators who may have access to the video material, but no possibility to decrypt the data.

### 2. ACCESS TO THE VIDEO CONTROLLED BY THE USER

A number of services will benefit from the fact that the user can provide access to the video to a third party such as a guard or a nurse. The user can indeed opt to choose who else has the opportunity to decrypt the video. Such authorisation may depend on the system status: the nurse may have access to the video only during night-time and the guard can be given authorisation to view the material only when the burglar alarm has been set off.

### 3. YOU ALWAYS SEE HOW THE AUTHORISATION WAS USED

When a trusted user, such as a guard, decrypts a video for viewing, this information is stored on the Teleste system and it is available to the owner of the camera. This transparency is designed to build trust between the camera owner and the trusted user.

## VIDEO AND BROADBAND SOLUTIONS



## CUSTOMERS

### NETWORK PRODUCTS

- All major European cable operators
- Medium-sized and small operators in Central and Eastern Europe are served through distributors
- Headends delivered globally through resellers for the operators and the hospitality segment

## OFFERING

- All products from video headends to consumer terminals in households
- The main categories include active and passive products, headends and video-on-demand solutions of access networks
- Integration and maintenance services

### VIDEO SECURITY AND INFORMATION SOLUTIONS

- Mainly public institutions, such as authorities responsible for the control of urban areas as well as road, rail and air traffic
- The largest markets include Europe, North America and South-East Asia
- The leading railway carriage manufacturers and major urban transport operators

- End-to-end video security and information applications, with Teleste's own products covering transmission, recording and management of video as well as information solutions
- Teleste's application is often joined together with other systems, such as those involving traffic control, alarm and crisis management systems

## NETWORK SERVICES



- European operators providing cable, broadband and telecommunications services
- Recently expanded service portfolio – our client base now includes mobile operators and OEMs
- Priority areas include Belgium, Finland, Germany, Switzerland and the United Kingdom

- Comprehensive next generation network services for network operators and their main OEM partners
- High-quality services for the design, documentation and construction as well as installation and maintenance of networks
- Consultancy, project management and Managed services for large-scale projects
- Shipments of components, custom assembly assignments, integration, testing, and network management over advanced Network Operations Centres (NOC)



## STRENGTHS

- Innovations in our product offering allow operators to provide consumers with higher-level services, as well as a more efficient way to build and maintain networks
- Product portfolio optimised for the varying needs of Europe
- Presence and local customer support in all major markets
- Strong reputation as a high quality and respected supplier

## MARKET POSITION

- European market leader in the offering of access network products designed for the use of cable operators
- The only player with a comprehensive product presence in all major European cable markets
- A significant global player in headends

## GROWTH OPPORTUNITIES

- Distribution of TV services via the Internet increases the need for more access network capacity
- Integrated service platform solutions allow for the delivery of on-demand video services to consumers
- A stronger presence of telecommunications operators in TV services
- With the new DOCSIS 3.1 access network solutions, our market area expansion beyond Europe

- Demanding video security sites in which multi-object cameras, recorders and workstations are networked into one unified video security system
- The ability to technically integrate customer-specific systems into comprehensive solutions
- World-class reference projects
- End-to-end solutions

- Strong market position in very large and demanding projects.
- Experience also in slightly smaller multi-site systems
- Strong market position amongst leading railcar manufacturers
- Long-term customer relations.

- The need to ensure safety increases the use of video surveillance
- The intelligence of solutions will increase in living environments and at homes
- The need for end-to-end solutions is growing
- Mobile solutions
- The need for passenger information is growing

- Strong technological know-how, professional project management capabilities and excellent reputation
- Ability to provide, among others, innovative and new solutions for network construction and maintenance
- Our long history as a European equipment supplier shows as experience, market credibility and profound technological know-how

- European-wide uniquely positioned to serve Network operators and their OEM partners across nations and geographical boundaries with a true end-to-end approach.

- Broadband expansion and bandwidth growth drive strong growth in our service segments
- Customers are centralising their purchases and want their products and services increasingly from the same supplier
- New technologies

# VIDEO AND BROADBAND SOLUTIONS

## A YEAR OF STRONG GROWTH

Video and Broadband Solutions (VBS) provides cable and telecom operators with all the products related to access network from headends to household terminals and video security and information solutions mainly to public sector organisations.

VBS's net sales grew by 44.4% amounting to EUR 154.4 (106.9) million. Net sales were increased by the access network products and Mitron information solutions. Operating profit increased by 32.1% standing at EUR 12.8 (9.7) million and making 8.3% (9.0%) of the net sales. The operating profit was improved by the information solutions and an improvement in profitability of the IP headend business. The business area employed, on average, 697 people.

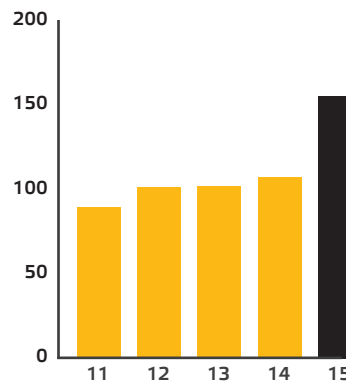
SHARE OF PERSONNEL

47%

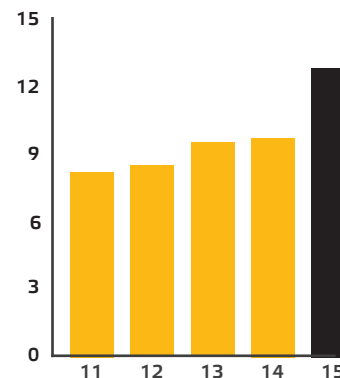
SHARE OF NET SALES

62%

VBS NET SALES  
MEUR



VBS OPERATING PROFIT  
MEUR



## MITRON ON-BOARD SYSTEMS IN ITALY

Mitron's on-board solutions are well known and appreciated in the railway industry. With installations in hundreds of vehicles, the solutions represent mature but still modern technology. Our products include display and comprehensive passenger information systems including intercommunication, video security and entertainment solutions.

One of the recent projects has been for Alstom trains to Trenitalia, the primary train operator in Italy. Alstom is one of the leading train manufacturers globally and Mitron has developed extensive collaboration with Alstom in development, logistics, quality and maintenance. The solution has seamless communication with the Italian wide Dove6 system, providing fluent end-to-end passenger information solution. In addition, the trains are equipped with comprehensive video security and intercommunication systems. Solutions fulfill strictest quality regulations of the industry.

The first deliveries were in 2013. The series is still in production and at end of 2015, Mitron's systems are running in more than 100 vehicles. Such a project is a prime example of Mitron's long-term customer commitment which, backed-up with Mitron's obsolescence management capability, secures technology support for the entire life time of the trains.

Italy represents an important market for Mitron. In addition to Alstom trains, Mitron technology can be found in dozens of other trains in Italy supplied by train manufacturers Stadler, Pesa and Newag.



## SAFETY OF PARIS IN FOCUS

When Paris security authorities decided to deploy a large scale video management system in 2009, the objective was clear: a single, efficient, decision-making tool to help protect the millions of people living in Paris. The system had to simultaneously fit the needs of multiple authorities including the police, the fire department and traffic enforcement authorities as well as authorities dealing with criminal investigations and counter terrorism.

Teleste's video management system connects all the main video protection systems of the Paris Metro and railway stations, but also the largest shopping centres as well as the La Defense business centre. In total, the system controls today over 21,000 cameras, allowing more than 2,500 operators with different access privileges to monitor the safety of Parisians.

"Ergonomics, open standardization and reliability were our biggest needs when designing and installing the system. The results have been excellent as has our co-operation with Teleste", said the Senior Project Executive in charge of the project.

In 2015, the system was heavily used during the tragic terrorist attacks taking place in Paris in January and November including suspect search, car tracking, evidential material etc. Teleste's system worked flawlessly although put under very high stress. New functionalities were added to the system just prior to the United Nation's Conference on Climate Change (COP21) held in Paris. These functionalities included a Mobility Platform, which allows the police teams to access the system and its regular cameras from their mobile devices. This Platform also offers the security teams additional access to a range of video sources while enabling them to send encrypted live videos to the HQ from their phones. Further, Command & Capture™, a tool developed by Teleste was added to the management system. This allows for fixed or mobile security cameras to be connected to the umbrella system.

## CANAL DIGITAL TO UPGRADE CABLE-TV NETWORK

In the autumn of 2015, Canal Digital launched a significant network upgrade operation in Norway. Once complete, more than 500,000 cable-TV and broadband customers will enjoy the multi-gigabit broadband speeds as well as new interactive and smart TV services.

Canal Digital is the first Nordic operator to decide to invest in DOCSIS 3.1 access Network infrastructure.

Teleste has long been Canal Digital's main HFC equipment supplier and continues now, after a rigorous tender, as the supplier of fibre-optic network transmitters and receivers, as well broadband amplifiers. Teleste's assets included the technical performance of the offered solution, competitive price and delivery capacity.

On 1 January 2016, Canal Digital was merged into Telenor.

## ATTRACTIVE OFFERING FOR THE HOSPITALITY SEGMENT

Hotels need to provide their guests a better than at home Smart TV, Internet and Wi-Fi experience. The problem preventing this is that most buildings don't have the wiring infrastructure in place. In 2015, Teleste formed Hospitality and AV business unit to provide innovative and economical solutions, using just the existing coaxial TV cables, and saving our customers from the costly & disruptive rewiring.

In partnership with Samsung Electronics Co. Ltd., Teleste introduced a fully embedded digital rights management solution that brings secured, premium HDTV content from headend to Samsung Hospitality TVs. To further promote joint development, the companies also announced a technological partnership agreement in January 2016.

# NETWORK PRODUCTS

## Customer investments in strong growth

In 2015, the good financial standing of our operator customers and the positive growth outlook strengthened their willingness to invest. This activity of our customers was reflected in the strong growth in the demand for our access network products. Orders were received at an accelerating pace and our order backlog increased towards the end of the year. In the meanwhile, the capacity of our plant in Littoinen was increased, allowing the deliveries to pan out according to schedule.

Teleste's success was strengthened by our product range in compliance with the DOCSIS 3.1 standard, which is wider than that of our competition. Teleste is by far the market leader when it comes to the number of products that comply with the standard issued in 2013. This standard allows for the implementation of higher-speed broadband at competitive cost structure. European operators, in particular, have wasted no time in launching development projects of their networks in order to achieve the benefits brought in by this standard.

## Stronger market position

The strong growth of Teleste's net sales from the Network Products business also heralds a strengthening in our market position. Aggressive price competition in amplifiers continued while in optics the price level remained stable. In spite of the strong decline in sales margins, increased production volumes maintained profitability on a good level.

In March, major new agreements were signed with the Belgian Telenet and Integan,

followed by the Dutch Delta in July and Canal Digital Cable TV being part of the Norwegian Telenor Group in September. In early 2016, Teleste concluded another agreement with Poland's leading cable operator Multimedia Polska on the development of a new type of distribution platform for TV content.

The investment by Telenet is one of the most important access network upgrade projects in the European cable industry. Their agreement concluded with Teleste covers the supply of amplifiers and passives until the year 2019 and is up to EUR 15 million in value. The framework contract with Canal Digital Cable TV involves deliveries of access network products for the first DOCSIS 3.1 standard access network in the Nordic countries. The value of this contract scheduled for the years 2015-2019 is likely to exceed EUR 15 million.

## Industry in continuous change

Consolidation in the industry continued within both the competitor and the customer fields. Vodafone, one of Europe's largest telecommunications companies, bought the largest cable operator in Spain. The trade continued on the path where an increasing number of cable operators are acquired by telecommunications operators.

As to our competitor field, the most significant merger took place when the biggest global operator, the American Arris, acquired the British Pace and, at the same time, Aurora owned by it. In the meantime, new and important competitors enter the market as the Chinese Huawei is investing in the DOCSIS technology and its implementation in a distributed architecture.

## Continuous innovation

Teleste's policy is to develop its product offering and its working procedures continuously. In 2015, in addition to the products complying with the new DOCSIS 3.1 standard, our network management software Argus was upgraded. Similarly, our offering of indoors and passives was developed by coming up with a new, more easily mountable and upgradeable aerial socket. Moreover, we are enabling innovative multiscreen TV-services through our investment on new Ubique software platform.

## Looking west

The operators' need for developing their networks appears to remain strong in the coming years. The starting point of our Network Products business in the current year is excellent. Orders are at a good level, deliveries in accordance with the agreements continue and the delivery capacity of our production has been ensured. Also the prices of amplifiers that have caused some concerns seem to have reached their lowest level.

Technological development drives the market forward at a brisk pace. In Europe, digitisation continues strongly while in many places in the rest of the world it is only just beginning. Networks in compliance with the DOCSIS 3.1 standard are becoming more common in Europe and in North America. Utilisation of the distributed architecture will become tangible in the near future in North America and Europe. The US and Canada may provide Teleste with significant growth opportunities.



**Network Products business provides access networks, video headends and video-on-demand solutions and related services to cable operators. As to access networks, our range of products includes all the components from optical fibre solutions to amplifiers and passive component solutions, for example, aerial sockets. In headends, the focus is on fully digital solutions. Services covered by our product-related business include system design, quality assurance consultation, maintenance services for the delivered systems and training.**



# VIDEO SECURITY AND INFORMATION SOLUTIONS

## Forward together

As for video security solutions, the year 2015 started strongly when Teleste acquired the information systems and display solutions provider Mitron immediately at the beginning of January. This acquisition brought Teleste significant new expertise, expanded its offerings and strengthened its position as an end-to-end provider of video security and information management solutions for rail traffic. The inclusion of Mitron with net sales of more than EUR 22 million increased the number of the segment's personnel by some 120 employees. To a large extent, Mitron's business was integrated into Teleste's video security solutions unit in the course of 2015, but the company still continues under its own name.

In 2015, the demand for video security and information solutions were at a reasonable level. Security threats increased, especially in Europe, but the weak economic situation slowed down the implementation of projects.

## Challenging projects

Owing to the Mitron acquisition, the unit's net sales grew strongly and profitability remained good. While most of the orders received were normal in size, Teleste signed one major agreement with the Austrian Road Administration ASFINAG on renovation and expansion of the video management system covering the whole of Austria. This system consisting of 6,000 cameras is based on Teleste's new generation S-VMX video man-

agement system. Along with planning and deliveries, the contract includes a three-year maintenance agreement.

Another project, which was very challenging in terms of schedule, was carried out to protect the international climate conference held in Paris. Only a couple of weeks before the beginning of the conference a series of terror attacks had been carried out in the city. Thus, Teleste received an assignment to upgrade the comprehensive video security previously delivered to Paris with, for example, a number of added applications operating over the wireless network. During the meeting, the system proved its worthiness and on this day it covers as many as 21,000 cameras making it one of the world's larger urban security systems.

## Combined supply

Along with the acquisition of Mitron, a company serving railway carriage manufacturers and rail operators, the number of Teleste's potential customers expanded clearly. While the sales were strengthened with new human resources, the organisation of sales operations and customer accounts proceeded smoothly. Customers welcomed this expansion in supply into an end-to-end video security and information solution for stations and railway carriages, which consists of wireless data and real-time video transfer between railway carriages, stations and peripheral devices as well as of advanced passenger information systems. The overall solution increases the safety of passengers and enables us to pro-

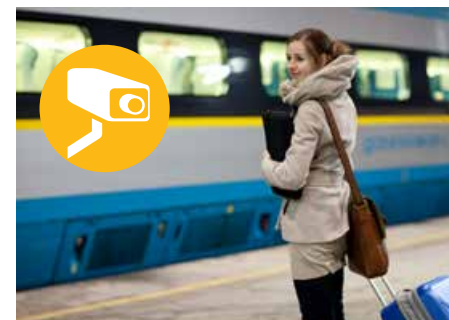
vide a wider range of services, for example, real-time entertainment offerings.

## Investments in product development

Using the latest technology, Teleste develops its products and services continuously to make them even more customer-oriented, high-quality and sophisticated. As for the product offering in video security and information, we focused, in particular, on increasing the smart features of our video management system, development of mobile applications, and IT solutions. During 2015, Teleste also developed solutions for smart home and smart city applications.

## Continued urbanisation

Even if the weak economic situation in Teleste's main market areas may slow down the implementation of projects in the short term, the longer-term demand is constantly increasing. The world population growth and urbanization continuing at a rapid pace as well as political unrest all increase the demand for effective video security and information solutions. The smooth flow of traffic and reducing the greenhouse gas emissions by developing rail transport, the safety of public spaces including control of homes, borders and energy utilities – Teleste can provide cost-effective solutions to all of these challenges and, additionally, produce comprehensive references of demanding deliveries.



**Teleste offers comprehensive video security applications for customers primarily in the public sector. The focus of video security is set on demanding video surveillance applications, where cameras, recorders and workstations from a number of sites will be networked into a single system. As for our information solutions, the emphasis is on rail traffic solutions. Our end-to-end solutions consist of Teleste and third-party products, system design, project implementation as well as services related to system maintenance and training.**



# NETWORK SERVICES INVESTMENTS IN FUTURE GROWTH

Network Services provides network planning, installation, and maintenance as well as expert services for cable and telecom operators in Germany, Britain, Belgium, Switzerland and Finland. In 2015, the business area grew by 3.4 percent while its net sales amounted to EUR 93.1 (90.3) million. Our operating profit remained at par with the previous year equalling EUR 1.5 (1.5) million. Most of our net sales come from our German operations. In Britain, we continued investments in our new service areas. Demand for them did not reach expectations, and hence, the operation turned into losses. In other countries, namely Switzerland, Belgium and Finland, profitability developed favourably. The business area employed, on average, 788 people.

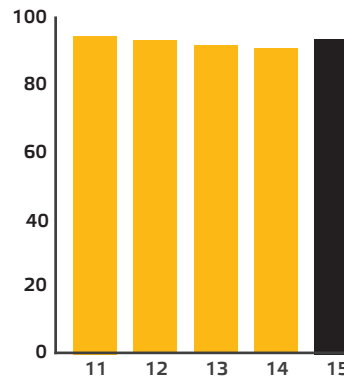
SHARE OF PERSONNEL

53 % | 38 %

SHARE OF NET SALES

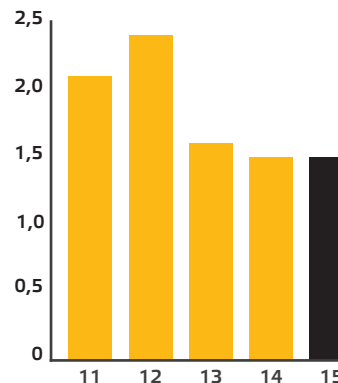
NS NET SALES

Meur



NS OPERATING PROFIT

Meur



## DNA AND TELESTE LONG-TERM PARTNERS

The Finnish technology group DNA and Teleste have been engaged in long-term cooperation on product solutions for several decades. Also, in the services business this cooperation goes back a long way. Teleste has been DNA's partner in the specification of networking technology solutions as well as in network planning, field surveys, network documentation and in field installations in CATV network upgrade projects. In recent years, projects have been carried out together across Finland in locations like Lahti, Kuopio, Pori, Rauma, and in 2015, in the areas of Raisio and Naantali.

Typically, deliverables in such projects have been street cabinet upgrade plans, products selected by DNA, installation work in the field, and documentation directly into DNA's information systems. This approach includes site and project meetings, as well as follow-up meetings on the steering group level. Over the years, the co-operation model and operating processes have been actively developed.

Kari Ruopsa, Head of Department in charge of cable networks at DNA Oy: "Our cooperation with Teleste has worked well for several years. Projects are delivered on time and in accordance with the agreements. From the customer's point of view, Teleste's competitive advantage is that we can get the products, planning and installation from the same supplier, all delivered in a professional manner."

DNA and its predecessor companies have traditionally been among the first to adopt new cable network technology. Currently, one major theme in the co-operation between Teleste and DNA is the DOCSIS 3.1 standard and the high speeds of access networks enabled by it.

Interest in large-scale network investments shown by the cable operators and telecom companies increased during the year, but the implementation of plans was not yet reflected in the demand for services. Instead, the large-scale network development projects about to be launched could be seen in the entry in the market of new service providers. Consolidation among our customers and concentration in the market continued.

### Fluctuating development

In Germany, while our services business developed reasonably, the volumes in the second quarter fell momentarily from the forecasts, which was reflected in the profitability. In our customer work, we scored some good successes. Teleste's long-term customer Vodafone Kabel Deutschland made a three-year frame agreement on the maintenance services of their cable networks. This agreement expands our on-going co-operation and includes an additional option of one year. The value of this frame agreement is about EUR 50 to 60 million per year.

In the UK, while our sales increased slightly, profitability was weakened by the investments made in the expansion of our services and the related strengthening of our human resources. New and demanding network planning services are based on our existing customers' needs and enable Teleste's turnkey deliveries in the upgrading of the current access networks to the next-gen-

eration standards. Our offering of planning services was also increased by establishing a new office in Poland.

In Belgium, Switzerland and Finland our net sales grew while profitability remained at a good level. The very positive development in Switzerland was also reflected in the expanding customer base and the increasing share of our high value-added services.

### High customer satisfaction

As a provider of services Teleste's position is strong in all our operating countries. Our services business requires close and effective co-operation with the customer, high quality of work, flexible way of working, quick responsiveness, and strong technical expertise. The high scores received by Teleste for customer satisfaction are an indication of smooth co-operation. Customers rate Teleste's performance and quality of services in a continuous measurement process. Teleste is following the obtained results actively and reacts immediately to any needs of development.

### Profitability to a new level

While anticipating a moderately good demand, the outlook for the markets also points to increasing competition, particularly for the largest projects. Teleste's position in this competition is strong because we have a good reputation and our service offering meets the customers' needs. Teleste's goal is to increase profitability to a new level by

making improvements in productivity and performance and leveraging on high value add services. For this, our increasingly wide range of services and human resources provide a good starting point. Top line growth will be considered as second priority.

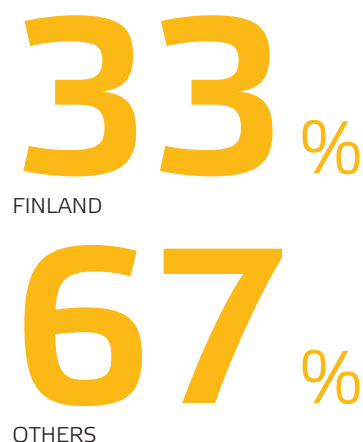


**Network Services offers network planning, installation and maintenance, as well as expert services for European cable and telecom operators. Our customers are often the leading players in their countries, and they aim to make available new services, such as high-speed Internet access, pay TV, video-on-demand and telephony to their subscribers. Our network of services covers Europe.**

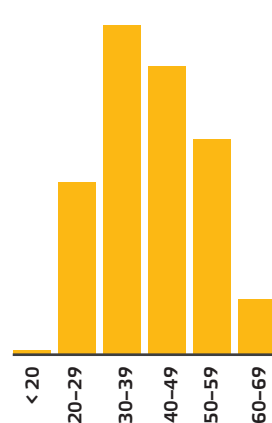
# BEHIND THE SUCCESS, THERE IS AN INNOVATIVE ORGANISATION

Teleste's offering is based on strong technological expertise. The goal is to grow profitably and become one of the world's leading companies in our sector. Achieving this ambitious goal requires continuous development of skills and competitiveness. The skills and motivation of our personnel make up the cornerstones of Teleste's success. Teleste offers its employees challenging and varied tasks, an opportunity to develop their skills among the industry's best professionals, as well as an international environment.

PERSONNEL BY LOCATION



PERSONNEL BY AGE RANGE



At the end of the year 2015, Teleste had 1,506 employees (2014: 1,343). Teleste's operational field is very international, and the Company has offices in 20 countries. In terms of the number of employees, the largest Teleste countries are Finland (33%), Germany (42%) and the UK (7%). At Teleste, employee turnover is, on average, at a low level, and employment relations are mainly long.

## Focus on technological excellence

Development of technologies, products and services, as well as continuous improvement of our operations, require strong expertise, enthusiasm, and close cooperation from our personnel. The rapidly changing international line of business is also reflected in our quickly evolving practices. This demands the ability to put up with constant change and the courage to try out new things. Teleste has in place a competency mapping, which has been defined according to business needs. This mapping served as the basis for preparing competence profiles for the personnel. These profiles are used to steer the development of skills of both teams and individual persons to the desirable direction. Learning profiles are used to assist in appraisal discussions. Sharing knowledge within the organisation and challenging assignments provide important means for developing personal skills.

## Better well-being at work by first-class supervisory work

Teleste wants to be an innovative, flexible and open community where co-workers are respected and people work together in good spirits. Teleste's flat organisation supports smooth co-operation between the different operations and across national boundaries. At Teleste, well-being at work springs from meaningful tasks, good working environment and balance between work and leisure.

According to results obtained from a survey on well-being conducted in 2014, Teleste employees are motivated and enjoy their work. Similarly, the ability to work and the atmosphere were rated favourably. Teleste's line of business and technology expertise were reported particularly rewarding. Instead, room for improvement was felt to be there regarding supervisory work, management of well-being at work and job management.

Therefore, in 2015, we launched a supervisor training programme, the aim of which is to develop managerial practices, as well as to share good practices among supervisors. The target is to develop well-being, culture and spirit at Teleste, and this way, to create the conditions paving the way for profitable growth in line with our objectives. This training programme consists of topical themes relating to the work of supervisors. In 2015, the number of training sessions carried out was three, and the themes discussed were "Leading renewal and development", "Strategy Communication and implementation," and "Leading people and performance."

In 2016, we will carry out a follow-up survey on well-being at work, which will provide the basis for assessing the effectiveness of this supervisor training programme.

## Well-being at work with a twinkle in the eye

Well-being at Teleste was also promoted with a smile by the setting up the "Let the good roll" challenge campaign, kicked off with the CEO's video greetings in May 2015. This campaign seeks to develop and maintain a positive cycle at work and in the workplace across national borders by sharing with colleagues good practices and ideas relating to employment and well-being. Teleste has grown through acquisitions, so a challenge campaign like this provides a great way of

bringing people in the head office closer to those working in other parts of the organisation, and vice versa.

### Smooth operation by management of tacit knowledge

Sharing tacit knowledge ensures the continuity of the organisation and the ongoing development of its skills. It also ensures a controlled sharing of knowledge in situations involving personnel turnover. Tacit knowledge can be transferred, among other things, by sharing best practices. To manage this tacit knowledge, Teleste initiated a pilot project in 2015, the aim of which was to establish an operating procedure that would ensure the transfer of such knowledge. Means for sharing tacit knowledge may vary from meeting practices and documentation to expert communities and mentoring. This pilot project is designed to become a natural part of everyday activities.

### "Successful future, smart ideas today"

In November, Teleste launched a project to support innovation under the theme of "Successful future, smart ideas today." The project aims to improve both the achievement of strategic objectives and the daily routines and ways of working. This, in turn, supports Teleste's competitiveness by paving the way for a more open corporate culture promoting innovation. Ideas are collected in our intranet so that everyone at Teleste can discuss and develop them further. A team that brings together expertise from across our organisation is in charge of pushing the ideas forward and implementing them.

### Preferred employer

As an employer, Teleste has a good reputation, and there are plenty of candidates for almost all vacancies. Potential applicants are

particularly interested in Teleste's technological expertise and the possibility of having a chance to evolve with it. Our close cooperation with educational institutions is designed to increase the Company's visibility among potential employees, so as to ensure the availability of labour in the future. We also offer young people summer jobs, internships and topics for theses.

### Rewards based on performance

Teleste's incentive systems are based on achieved results, which are measured both on the company and personal level. The used incentives can consist, inter alia, of bonus and incentive systems as well as share-based incentive schemes. Bonus and incentive systems are based on the Group's strategy and objectives and are thus naturally integrated into the work of teams and individuals alike.



Giving thanks and positive and encouraging feedback is valuable resource and maintains well-being at work. Therefore, as a HR challenge we wished to maintain and enhance the culture of feedback giving in a form of Thank & Tell postcard.

## Successful future, smart ideas today



Peter Nuytens

In November 2015 the innovation team at Teleste launched the project called Successful future, smart ideas today. With this theme Teleste wants to further develop its innovation culture, improve the implementation of its strategic targets and make ideation a part of our day-to-day lives.

At the beginning of every innovation and every solution stands an idea. At Teleste we all have ideas, big and small. For how many of us has it crossed our minds that the way we do things, our daily business, our routines, can be done differently, more efficiently? And how many of us have, at some point, been thinking about new products or services, or perhaps new applications for the existing ones?

When looking at the bigger picture we realize that Teleste operates in increasingly challenging markets. We know that through innovations we can strengthen our competitiveness. This is, undoubtedly, a key factor for successful business in the future.

Developing the innovation culture does not just happen overnight. It requires commitment and continuity. Through continuous communication the innovation team keeps people informed on the received ideas, their relevance to the innovation theme and possibly their implementation in Teleste's operations. Also previous ideas, which turned out to be real solutions, are put in the spotlight as these innovations form the corner stones of Teleste's profitable business.

A dedicated innovation site has been created on Teleste's intra-site. The site provides a platform for Telestians to share their ideas, which gives them a change to develop into new solutions. The innovation team studies every single entry and provides immediate feedback. On regular basis a selection of ideas is published as news items on the innovation site.

We also added a competitive factor to the innovation theme in the form of the "idea of the month" competition. From all the entries, the most innovative idea or the idea with most business potential is then selected and the contributor receives a reward.

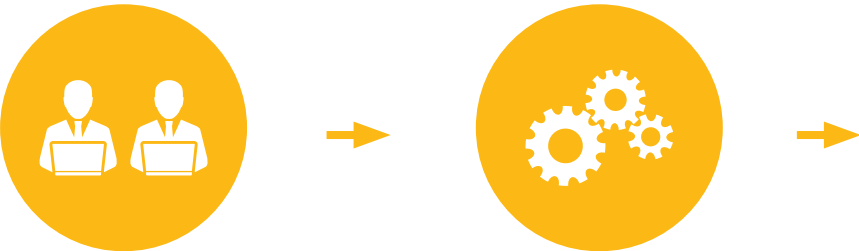
In 2016 the innovation theme will be expanded to Teleste's group level, providing all persons involved a forum to share their ideas and shape a successful future.

# INNOVATIVE AND ENVIRONMENTAL FRIENDLY PRODUCTS

Concern for the environment grows with climate change. In 2015, the discussion focused on global warming and the future of the environment. The year culminated in the Paris Summit on Climate Change, which agreed on the emission reduction targets by 2020. Teleste's corporate responsibility work aims to contribute in support of these common goals. At Teleste, responsibility is defined and guided by the business needs, the Group's values, vision, strategy and our Code of Conduct.

Teleste wishes to provide its customers with innovative solutions that are cost-efficient throughout their life cycle. Our products are long-lasting, upgradeable and serviceable. They mainly consist of recyclable materials, so besides their space and cooling requirements, their environmental impact is mainly brought about by the energy they consume when used. Higher energy costs and the competitive marketplace set demands to the entire order-delivery chain management. Teleste strives to provide customers with products made of materials from ethically and environmentally responsible sources. Our aim is to support sustainable development and to build a profitable business together with reliable partners.

Teleste's quality and risk management is, in part, supported by our environmental management system. Teleste's environmental management system is ISO 14001:2004 certified.



## DESIGN

When it comes to reducing the environmental impact caused by Teleste's products, product design provides the key. In 2015, SCTE Energy2020 came up with a comparable measurement method for the energy performance of cable products. In the future, Teleste seeks to apply this method, which makes it easier for the customers to compare the environmental impacts of new product generations during their useful lives. For the customer, the introduction of new technologies is typically reflected in improved performance.

Teleste will continue actively to develop its product lines both in terms of their characteristics and environmental effects. For example, in the new HDO line of products, significant improvements have been achieved, for instance, by extending the frequency range (DOCSIS 3.1) for increased transmission capacity. In the same time, the packing density of components has been doubled while the energy consumption of the products has been halved compared to the previous products of a similar kind.

## PRODUCTION

The environmental impact of Teleste's operations is primarily brought about by our use of energy, waste generation and logistics. Our own production consists mainly of the assembly of printed circuit boards and electronic components, and no emissions are released into the environment from this type of manufacture. Items consuming energy include heating, cooling, and the power used by the production facilities, testing equipment and office equipment.

For its part, Teleste wishes to ensure that the materials used come from ethically and environmentally responsible sources. To determine the origin of the materials requires a better understanding of the legitimate trade of natural resources and the sustainable supply chain. Teleste keeps an eye on the origin of the raw materials used in our standard components (Conflict minerals/3TG/RoHS) with the purpose of trying to prevent the use of conflict minerals by working closely with our suppliers.





#### DISTRIBUTION AND SERVICE

The carbon footprint of our logistics is mainly brought about by transportation of materials and finished products. We aim to continue our cooperation with our European supplier partners for shorter distances and flexibility. By improving the forecast process, we aim to increase the packaging efficiency of our transports, as well as to put the preference in land and sea transport, even in the future.

As to our services business, the main source of our environmental load consists of CO<sub>2</sub> emissions from the installation and maintenance runs, and these can be changed by choices of equipment and route planning. Our installation and packaging materials are recycled in cooperation with the local operators.

#### USAGE

The most significant part of the environmental impact related to the use of Teleste's products comes from their consumption of energy and the systems' needs for space and cooling. Cable network and video surveillance systems are durable, serviceable and upgradeable, so their service life can be extended even more.

The added value and overall responsibility perceived by our customers are contributed by Teleste's ability to complement its hardware solutions by making available relevant services. This will provide the desired entity for planning the supply and maintenance of the network when the network monitoring and maintenance measures can be planned and implemented so that unnecessary truck rolls and related travel mileage is minimised.

#### RECYCLING

We at Teleste seek to reduce the amount of waste produced while improving our recycling rate. Teleste's products consist mainly of recyclable metals. Waste fractions from production are sorted and they can be almost entirely recycled or made use of for energy. The amount of landfill and hazardous waste is limited.

Any data sensitive material is properly disposed of in co-operation with our recycling partner as part of our responsibility and risk management schemes.

## Teleste's impact on society

#### PERSONNEL EXPENSES

**70.5**  
MEUR

#### CORPORATE TAXES

**2.9**  
MEUR

#### DIVIDENDS FOR SHAREHOLDERS

**3.7**  
MEUR

# BOARD OF DIRECTORS



**MARJO MIETTINEN**

M.Sc. (Ed.), born in 1957

Chairman of the Board since 2009 –  
EM Group Oy is a significant shareholder of  
Teleste

Principal occupation:  
Board professional

Primary working experience:  
EM Group Oy, CEO 2006–2014  
Ensto Oy, Chairman of the Board  
2002–2006  
Ensto Oy, managerial positions  
1989–2001

Other elected positions of trust:  
Efore Plc, Member of the Board 2013 –  
EM Group Oy, Member of the Board 2005 –  
Ensto Oy, Member of the Board 2002  
–2016, Chairman of the Board 2016 –



**PERTTI ERVI**

B.Sc. (Eng.), born in 1957

Member of the Board since 2009 –  
Independent of Teleste and its significant  
shareholders

Principal occupation:  
Independent Consultant

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

Other elected positions of trust:  
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 –  
Ixonos Plc, Member of the Board 2009 –

**JANNICA FAGERHOLM**

M.Sc. (Econ.), born in 1961

Member of the Board since 2013 – Independent of Teleste and its significant shareholders

Principal occupation:  
Signe and Ane Gyllenberg Foundation,  
Managing Director 2010 –

Primary working experience:  
SEB Gyllenberg Private Bank,  
Managing Director 1999–2010  
Handelsbanken Liv, Country Manager,  
Life Insurance business in Finland 1998–1999  
Sampo Group, Investment Director Life  
Insurance 1996–1998  
Sampo Group, various posts in Asset  
Management 1990–1996

Other elected positions of trust:  
Sampo plc, Member of the Board 2013 –  
Eira Hospital, Member of the Board 2010 –  
Hanken School of Economics,  
Member of the Board, Chair of Investment  
Committee 2010 –  
Veritas Pension Insurance Company,  
Member of the Board of Supervisors 2010 –

**ESA HARJU**

M.Sc.(Eng.), born in 1967

Member of the Board since 2012 – Independent of Teleste and its significant shareholders

Principal occupation:  
Independent Consultant

Primary working experience:  
Ixonos Plc, President and CEO 2013-2015  
Nokia Siemens Networks, Head of Nordic &  
Baltic Region 2010-2012.  
Employment by Nokia and Nokia Siemens  
Networks since 1991

No other elected positions of trust

**KAI TELANNE**

M.Sc. (Econ.), born in 1964

Member of the Board since 2008 – Independent of Teleste and its significant shareholders

Principal occupation:  
Alma Media Corporation, CEO 2005 –

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

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

**PETTERI WALLDÉN**

M.Sc. (Eng.), born in 1948

Member of the Board since 2009 – Independent of Teleste and its significant shareholders

Principal occupation:  
M.Sc. (Eng.)

Primary working experience:  
Alteams Oy, CEO 2007-2010  
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 –  
Efla Oy, Member of the Board 2014 -  
Kuasakoski 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 –

# MANAGEMENT



**JUKKA RINNEVAARA**

M.Sc. (Econ.), born in 1961

President and CEO

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 2012–2015,  
Vice Chairman 2016 –



**JOHAN SLOTTE**

LL.M, EMBA, born in 1959

Deputy CEO

Video Security and Information Solutions

Joined Teleste in 1999

Member of the Management Group  
since 1999 –

Primary working experience:  
Uponor Group, Head of Legal dpt 1989–  
1995  
Uponor Group, Country Manager Poland  
1995–1999



**JUHA HYYTIÄINEN**

M.Sc. (Econ.), born in 1967

CFO

Joined Teleste in 2013

Member of the Management Group  
since 2013 –

Primary working experience:  
OMG Kokkola Chemicals Oy,  
Financial Manager 1994–1998  
Ensto Saloplast Oy,  
Financial Manager 1998–2000  
Nokia Corporation, Business Controller  
and Director positions in Finance and  
Control 2000–2013

**HANNO NARJUS**

M.Sc. (Econ.), born in 1962

Network Products  
Senior Vice President

Joined Teleste in 2006

Member of the Management Group  
since 2007 –

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

**ANDREE KANG**

Ph.D. (Eng.), born in 1964

Network Services  
Senior Vice President

Joined Teleste in 2012

Member of the Management Group  
since 2012 –

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

**PASI JÄRVENPÄÄ**

M.Sc. (Eng.), born in 1967

Research and Development,  
Senior Vice President

Member of the Management Group  
since 2013 –

Primary working experience:  
Joined Teleste in 1994

**MARKUS MATTILA**

M.Sc. (Eng.), born in 1968

Operations,  
Senior Vice President

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



# INFORMATION FOR SHAREHOLDERS

## Teleste share

Teleste share Teleste Corporation is listed on Nasdaq Helsinki 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 2015 Teleste's registered share capital stood at EUR 6,966,932.80 divided in 18,985,588 shares.

As to the company share price in 2015, the low was EUR 5.32 (4.25) and the high EUR 9.88 (5.29). Closing price on 31 December 2015 stood at EUR 9.80 (5.27).

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

## Financial Information

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

## Financial releases in 2016

Interim Reports:  
January–March 28.4.2016  
January–June 11.8.2016  
January–September 2.11.2016  
Financial Statement Release 9.2.2017

Publications can be ordered on Teleste's website or by contacting the company's IR at [investor.relations@teleste.com](mailto: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 (AGM)

Teleste Corporation's Annual General Meeting will be held on Thursday, 7 April 2016, commencing at 3 p.m., in B Hall at Finlandia Hall in Helsinki, Mannerheimintie 13. Registration and distribution of voting tickets begins at 2 p.m. Shareholders registered on the list of shareholders with Euroclear Finland Oy on Thursday, 24 March 2016 are entitled to participate in the Annual General Meeting.

A shareholder who wants to participate in the meeting shall register no later than Friday 1 April 2016 at 4 p.m.

## Sign up to the AGM:

[investor.relations@teleste.com](mailto: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 2015

The Board of Directors proposes to the AGM that, based on the adopted balance sheet, a dividend of EUR 0.23 per share be paid for the fiscal year that ended on 31 December 2015. Dividend ex date 8.4.2016  
Dividend record date 11.4.2016  
Payment of dividend 18.4.2016.

More information: [www.teleste.com/AGM](http://www.teleste.com/AGM)

## Investor Information on Teleste's website

The Investor section on Teleste's website includes:

- Financial reports and stock exchange releases
- Monthly updated information on our major shareholders, Teleste insiders including their shareholding
- Share trading information and investment calculator
- Information on the shareholder meeting





FINANCIAL STATEMENT  
**2015**

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# REPORT OF THE BOARD OF DIRECTORS

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 – the processing, transfer and management of video and data. Our customer base consists of cable and telecom operators, as well as public sector organisations. 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 forerunners.

For Teleste, 2015 was a year of profitable growth. Net sales and operating profit of Video and Broadband Solutions grew significantly. This increase occurred organically in access network products, and as a result of an acquisition in passenger traffic information solutions. According to our estimates, Teleste achieved a strong position in the new products complying with the Docsis 3.1 standard. In January, the Mitron acquisition was carried out to strengthen Teleste's position in comprehensive video security and information solutions, particularly in the rail transportation segment. The Group's number of personnel increased to more than 1,500 employees.

## NET SALES AND PROFITABILITY

Orders received by the Group improved by 26.1% standing at EUR 251.3 (199.3) million. Net sales increased 25.7% equaling EUR 247.8 (197.2) million. Expenses for material and production services increased amounting to 51.8% (49.5%) of the net sales. Personnel expenses totalled EUR 70.5 (59.5) million, an increase of 18.5%. Personnel expenses were increased by the number of personnel and exchange rate changes. Depreciation, amortisation, and other fixed operating expenses increased by 18.9% to EUR 37.5 (31.5) million. This increase in the fixed expenses was particularly affected by the Mitron acquisition. Operating profit grew by 28.4% standing at EUR 14.3 (11.1) million. Taxes for the Group amounted to EUR 2.9 (2.4) million while the tax rate equalled 21.0% (21.7%). Undiluted earnings per share increased by 27.6% to EUR 0.61 (0.48). Cash flow from operations decreased by 46.7% to EUR 4.9 (9.2) million. The cash flow was negatively affected, in particular, by the working capital tied to the growth of Video and Broadband Solutions.

## BUSINESS AREAS

### Video and Broadband Solutions

This business area focuses on access network products as well as video security and information solutions. The most significant customer base of the business area consists of cable operators and public sector organisations. The business area's main market is Europe, but it has operations in, among others, North America and Asia.

The business area has 31 offices of its own and a number of retail and integration partners. Outside Europe, Video and Broadband Solutions has subsidiaries and offices in the United States, Australia, China, India, and in the United Arab Emirates.

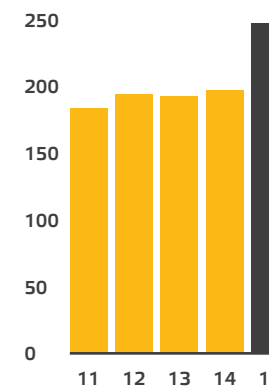
Year-on-year orders received improved by 44.9% standing at EUR 158.0 (109.0) million. Net sales grew by 44.4% amounting to EUR 154.4 (106.9) million. Orders and net sales were increased by the Mitron information solutions and access network products. Operating profit increased by 32.1% standing at EUR 12.8 (9.7) million and making 8.3% (9.0%) of the net sales. The operating profit was improved by the information solutions and an improvement in profitability of the IP headend business. Product development expenses equalled EUR 11.0 (10.3), i.e. 7.1% (9.6%) of the net sales. Product development projects focused on network products complying with the Docsis 3.1 standard, a network management system, distributed access architecture, video security and information solutions, as well as customer-specific projects. Capitalized R&D expenses amounted to EUR 1.7 (1.1) million. Depreciation on activated R&D expenses amounted to EUR 1.1 (1.2) million.

### Network Services

Network Services offers comprehensive services for access network design, construction and maintenance. The clientele of the Network Services business area mainly consists of large European cable operators. Implementation and scope of the relevant services vary by client ranging from stand-alone 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 the upgrad-

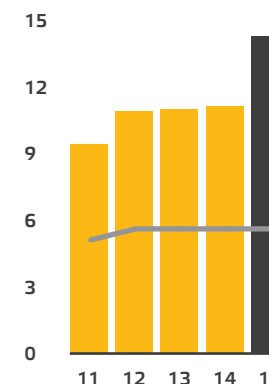
## NET SALES

Meur



## OPERATING PROFIT

Meur / %



ing of house networks. Services are also provided through a network of subcontractors.

Year-on-year orders received and net sales increased by 3.4% amounting to EUR 93.4 (90.3) million. Net sales increased in Switzerland and the UK. Operating profit increased by 3.9% standing at EUR 1.5 (1.5) million and making 1.6% (1.6%) of the net sales. Operating profit weakened in the UK and was a loss. Operating profit was below the comparative period also in Germany but improved in other markets.

## INVESTMENTS

Investments by the Group in the period under review totalled EUR 16.9 (3.7) million accounting for 6.8% (1.9%) of the net sales. EUR 11.5 million of these investments involved the acquisition of Mitron. Investments in product development equalled EUR 1.7 (1.1) million. Other investments involved information systems and machines as well as equipment. Investments of EUR 1.7 (0.3) million were carried out under financial lease arrangements.

Product development projects focused on network products complying with the Docsis 3.1 standard, a network management system, distributed access architecture, video security and information solutions, as well as customer-specific projects.

## FINANCING AND CAPITAL STRUCTURE

Cash flow from operations stood at EUR 4.9 (9.2) million. This year-on-year decline in the operating cash flow was due to a growth in net working capital. The single most significant reason behind this growth in net working capital was the expansion of business of Video and Broadband Solutions.

In January, Teleste Corporation signed new overdraft and revolving credit facilities with a total value of EUR 45.0 million. These new agreements replaced the corresponding previous funding agreements. These credit limits are valid until the end of March 2018. At the end of the period under review, the amount of unused binding stand-by credits amounted to EUR 17.7 (17.0) million.

The Group's equity ratio equalled 48.3% (53.4%) while net gearing was 26.3% (9.5%). On 31 December 2015, the Group's interest-bearing debt stood at EUR 33.0 (24.4) million.

## PERSONNEL AND ORGANISATION

In the period under review, the average number of people employed by the Group was 1,485 (1,302/2014,

1,306/2013); of these 697 (560) were employed by Video and Broadband Solutions, and 788 (741) by Network Services. At the end of the review period, the Group employed 1,506 people (1,343/2014, 1,261/2013) of whom 68% (72%/2014, 71%/2013) were stationed abroad. About 3% of the Group's employees were working outside Europe.

Personnel expenses increased from the previous year by 18.5% to EUR 70.5 (59.5/2014 and 56.9/2013) million. This growth in personnel expenses was due to the Mitron acquisition, increased number of personnel abroad and exchange rate changes. From the beginning of the reporting period, the number of employees increased by more than 160 people. The average number of employees increased by 14.2%. Most of this growth resulted from the Mitron acquisition, but also the number of personnel employed by Network Services increased.

## ENVIRONMENTAL FACTORS

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 caused by Teleste's products 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 security systems are relatively long-lasting, serviceable and upgradeable, so their useful lives can be further extended.

The environmental impact of Teleste's operations is primarily brought about by our use of energy, waste generation and logistics. Environmental load during development and manufacturing of software products and equipment is relatively low. Our production is based on the assembly of printed circuit boards and electronic components by the Lean principles, so no significant emissions are released into the environment.

As to Teleste's services business, the main source of environmental pollution is the CO<sub>2</sub> emissions produced by installation and maintenance runs. When it comes to the selection of new maintenance vehicles, to reduce its carbon footprint, Teleste pays attention to its CO<sub>2</sub> emissions, as well as to the route optimisation enabled by the fault location feature of the new intelligent network solutions. Our installation and packag-

ing materials are recycled in cooperation with the local operators.

Teleste wants to make sure that the used materials come from ethically and environmentally responsible sources. To maintain and improve our information on the legal trade of natural resources and the supply chains supporting sustainable development, we rely on a third-party service that monitors the origin of raw materials used in standard components (Conflict minerals, 3TG).

## GROUP STRUCTURE

Parent company Teleste has branch offices in Australia, the Netherlands, and Denmark with subsidiaries in 14 countries outside Finland. On 7 January 2015, the parent company acquired the entire share capital of Mitron Group Oy Ltd. On 15 May 2015, the parent company bought the entire share capital of Teleste Management II Oy to acquire its holding of Teleste Corporation's shares.

## KEY RISKS FACED BY THE BUSINESS AREAS

As to Video and Broadband Solutions, client-specific and integrated deliveries of solutions create favourable conditions for growth, even if the concerned resource allocation and technical implementation pose a challenge involving, therefore, also reasonable risks. In particular, deliveries of integrated safety and information systems for the passenger transport may be large in size, setting high demands for the project quotation calculation and management and, consequently, there are risks involved. Our customers' network investments vary based on the relevant need for upgrading and their financial structure.

A 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 US dollar and the Chinese renminbi to the euro affects our product costs. The company hedges against short-term currency exposure by means of forward exchange contracts. The modest development in economic growth and the financial challenges faced by the European public sector may slow down the implementation of our customers' investment plans. Furthermore, a weakening in the consumer purchasing power in Europe could slow down the network investments by the cable operators. Competition increased by the new service providers (OTT) may undermine the cable operators' ability to invest. Availability of components is sub-



ject to natural phenomena, such as floods and earthquakes. Correct technological choices and their timing are vital to our success. Regardless of careful planning and quality assurance, complex products may fail in the customer's network and lead to expensive repair obligations.

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 and profitability. Improvements in customer satisfaction and productivity require efficient control of service process management as well as innovative solutions in processes, products and logistics to ensure the quality of services and cost effectiveness. Smooth operation of cable networks necessitates efficient technical management of the networks and functional solutions for devices in accordance with contractual obligations. This, in turn, demands continuous and determined development of skills and competencies in Teleste's own personnel as well as those of our subcontractors. In addition, adequacy and utilization rates of our own personnel and subcontractor network capacity affect the Company's delivery capacity and profitability. Tender calculation and management of larger projects with overall responsibility are complex and risky. Severe weather conditions may affect the supply conditions of our products and services.

Teleste's strategy involves risks and uncertainties: new business opportunities may fail to be identified or they cannot be acted upon successfully. The business areas will have to keep an eye on market movements, such as consolidations among the customers and competitors. Intensifying competition may decrease the prices of products and solutions faster than we manage to reduce our products' manufacturing and delivery costs. Various information systems are critical to the development, manufacturing and supply of products to our customers. Maintenance of information systems and deployment of new systems involve risks that may affect our ability to deliver products and services. Information systems may also be subject to external threats, from which we aim to protect ourselves. Acquisition of skilled personnel and maintenance of their competence require encouragement, development and recruitment, which can fail.

The Board of Directors annually reviews any essential risks related to the company operation and the management thereof. Risk management constitutes an integral part of the strategic and operative practices of our business areas. Risks are reported to the Board on a regular basis.

The company has covered any major risks of loss related to the business areas through insurance policies. Insurance will also cover credit loss risks related to sales receivables. In the period under review, 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

The Annual General Meeting (AGM) of Teleste Corporation held on 9 April 2015 confirmed the financial statements for 2014 and discharged the Board of Directors and the CEO from liability for the financial period. The AGM confirmed the dividend of EUR 0.20 per share as proposed by the Board. The dividend was paid out on 20 April 2015.

The AGM decided that the Board of Directors consists of six members. Mr. Pertti Ervi, Ms. Jannica Fagerholm, Mr. Esa Harju, Ms. Marjo Miettinen, Mr. Kai Telanne and Mr. Petteri Walldén were re-elected as members of Teleste Corporation's Board of Directors. Ms. Marjo Miettinen was elected Chair of the Board in the organising meeting held immediately after the AGM.

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

The Annual General Meeting decided to authorise the Board of Directors to decide on repurchasing the Company's own shares as proposed by the Board. Based on this authorization, the Board of Directors may repurchase a maximum of 1,200,000 own shares of the Company otherwise than in proportion to the holdings of the shareholders by using the non-restricted equity through the regulated market on Nasdaq Helsinki Ltd at the market price prevailing at the time of acquisition. This authorisation of purchasing is valid for 18 months from the date of the decision.

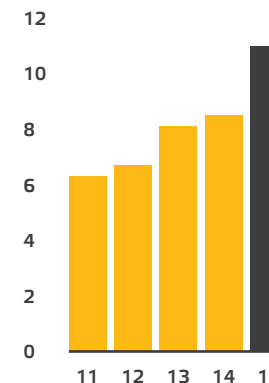
## SHARES AND CHANGES IN SHARE CAPITAL

On 31 December 2015, EM Group Oy was the largest single shareholder with a holding of 23.2%.

In the period under review, the lowest company share price was EUR 5.32 (4.25) while the highest was EUR 9.88 (5.29). Closing price on 31 December 2015 stood at EUR 9.80 (5.27). According to Euroclear Finland Ltd, the number of shareholders at the end of the period under review was 5,355 (4,962). Foreign ownership accounted for 5.0% (5.0%). The

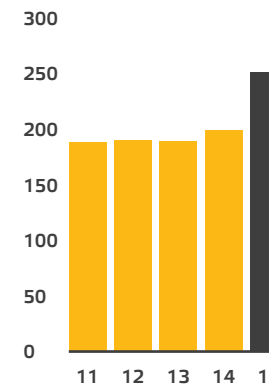
## PROFIT FOR THE FINANCIAL PERIOD

Meur



## ORDERS RECEIVED

Meur



value of shares traded on the Nasdaq Helsinki on 1 January to 31 December 2015 was EUR 24.6 (10.9) million. In the period under review, 3.3 (2.3) million Teleste shares were traded on the stock exchange.

On 31 December 2015, the Group held 863,953 of its own shares, of which the parent company Teleste Corporation had 321,953 shares and the Group companies had 542,000 shares, respectively. At the end of the period, the Group's holding of the total amount of shares amounted to 4.6% (6.3%).

In January, the Company transferred 56,924 shares as part of the purchase price in the context of the acquisition of the entire share capital of Mitron Group Oy Ltd by Teleste Corporation. In February, the Company transferred 73,644 shares in a directed free share issue constituting part of Teleste Corporation's 2012 long-term incentive plan. In May, the Company transferred 195,133 shares when purchasing the entire share capital of Teleste Management II Oy.

On 31 December 2015, the registered share capital of Teleste stood at EUR 6,966,932.80 divided into 18,985,588 shares.

Valid authorisations at the end of the review period:

- Purchases of own shares: maximum 1,200,000 of the Company's own shares, valid until 8 October 2016.
- Issue of new shares: maximum 4,000,000 shares, valid until 31 March 2017.
- Disposal of own shares in possession: maximum 1,800,000 shares, valid until 31 March 2017.
- Based on the special rights granted by the Company, the number of shares to subscribe may not exceed 2,500,000 shares; these special rights are included in the maximum warrants concerning new shares and the Group's own shares mentioned above. This authorisation is valid until 31 March 2017.

## OWNERSHIP BY MANAGEMENT AND MEMBERS OF THE GOVERNING BODIES ON 31 DECEMBER 2015

On the balance sheet date, CEO and the Members of the Board owned 187,251 (125,652) Teleste Corporation shares equalling to 0.99% (0.66%) of all shares and votes. The President and CEO and the members of the Board had no subscrip-

tion rights based on stock options. On the balance sheet date, CEO together with other members of the Management Group owned 24,748 (11,627) Teleste Corporation shares equalling to 0.13% (0.06%) of all shares and votes.

Teleste Corporation complies with the Finnish Securities Market Act and the Finnish Corporate Governance Code. 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 of the Stock Exchange in their valid form at any given time.

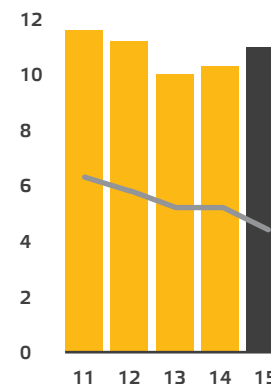
## OUTLOOK FOR 2016

The business objective of Video and Broadband Solutions is to maintain its strong market position in Europe and to strengthen this market position in selected new markets outside Europe. Network capacity will continue to increase driven by the new broadband and video services provided by the operators. Our new products in line with the Docsis 3.1 communication standard allow the cable operators to increase their network capacity competitively. Price erosion in the market continues. Changes in the value of the euro, particularly against the US dollar and the Chinese renminbi, affect Teleste's competitiveness, on the one hand, and product manufacturing costs, on the other. The positive trend in the markets for video security and passenger information solutions will continue whereas the public sector decisions concerning the initiation of projects may be delayed by the current economic situation. The security solution for public areas introduced in Paris provides new opportunities for other major cities of the world. Train manufacturers and public transport operators benefit from Teleste's video security and passenger information solutions.

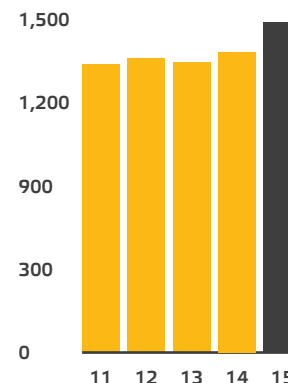
As to Network Services, our business objective is to further develop the operational efficiency and increase the share of those services that provide our customers with higher value. In the UK, our aim is to improve the profitability of the provided services. We estimate the demand for all-inclusive network services in our key target markets to continue at least at the previous year level.

We estimate that net sales and operating profit for 2016 will exceed the 2015 level.

**R&D EXPENDITURE,**  
Meur / % of net sales



**AVERAGE PERSONNEL**



## STATEMENT OF COMPREHENSIVE INCOME

1 000 €	Note	1.1.–31.12.2015	1.1.–31.12.2014	Change %
<b>Net sales</b>	1	247,758	197,176	25.7
Other operating income	2	2,854	2,536	12.5
Material and services		-128,300	-97,561	31.5
Employee benefits expense	3	-70,532	-59,497	18.5
Depreciation and amortisation	4	-4,874	-4,211	15.8
Other operating expenses	5	-32,604	-27,309	19.4
<b>Operating profit</b>		<b>14,302</b>	<b>11,135</b>	<b>28.4</b>
Financial income	6	582	225	158.1
Financial expenses	7	-945	-526	79.6
<b>Profit before taxes</b>		<b>13,939</b>	<b>10,835</b>	<b>28.7</b>
Income tax expense	8	-2,928	-2,353	24.4
<b>Profit for the financial period</b>		<b>11,011</b>	<b>8,482</b>	<b>29.8</b>
Attributable to Equity holders of the parent	9	11,011	8,482	29.8
Earnings per share for profit of the year attributable to the equity holders of the parent (expressed in € per share)				
Basic		0.61	0.48	27.6
Diluted		0.61	0.48	28.3
Total comprehensive income for the period (tEUR)				
Net profit		11,011	8,482	29.8
Items that may be reclassified to profit or loss:				
Translation differences		240	-465	n/a
Fair value reserve		31	-25	n/a
Total comprehensive income for the period		11,282	7,992	41.2
Attributable to:				
Equity holders of the parent		11,282	7,992	41.2

## STATEMENT OF FINANCIAL POSITION

1 000 €	Note	31.12.2015	31.12.2014	Change %
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	10	11,648	9,627	21.0
Goodwill	11	37,849	33,121	14.3
Other intangible assets	11	6,653	3,891	71.0
Available-for-sale investments	12	704	701	0.5
Deferred tax assets	13	1,843	1,698	8.5
		<b>58,698</b>	<b>49,037</b>	<b>19.7</b>
<b>Current assets</b>				
Inventories	14	32,661	20,483	59.5
Trade and other receivables	15	60,159	44,694	34.6
Tax receivables	21	263	582	-54.9
Cash and cash equivalents	16	12,677	17,672	-28.3
		<b>105,759</b>	<b>83,430</b>	<b>26.8</b>
<b>Total assets</b>		<b>164,458</b>	<b>132,467</b>	<b>24.1</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to equity holders of the parent</b>				
Share capital	17	6,967	6,967	0.0
Share premium	17	1,504	1,504	0.0
Translation differences		-99	-339	-70.7
Fair value reserve and other reserves		3,140	3,923	-19.9
Retained earnings		66,033	58,139	13.6
<b>Equity holders of the parent company</b>		<b>77,545</b>	<b>70,195</b>	<b>10.5</b>
Share of non controlling interest		0	487	-100.0
<b>Total equity</b>		<b>77,545</b>	<b>70,682</b>	<b>9.7</b>
<b>Non-current liabilities</b>				
Interest-bearing liabilities	18	30,723	595	5060.9
Other liabilities		2,730	31	8681.3
Deferred tax liabilities	13	1,662	1,327	25.2
Provisions	19	1,026	1,238	-17.1
		<b>36,141</b>	<b>3,192</b>	<b>1032.3</b>
<b>Current liabilities</b>				
Trade and other payables	20	46,505	33,536	38.7
Current tax payable	21	1,062	793	33.9
Provisions	19	889	480	85.2
Interest-bearing liabilities	18	2,315	23,784	-90.3
		<b>50,771</b>	<b>58,593</b>	<b>-13.3</b>
<b>Total liabilities</b>		<b>86,912</b>	<b>61,785</b>	<b>40.7</b>
<b>Total equity and liabilities</b>		<b>164,458</b>	<b>132,467</b>	<b>24.1</b>

## CONSOLIDATED CASH FLOW STATEMENT

1 000 €	Note	1.1.–31.12.2015	1.1.–31.12.2014
<b>Cash flows from operating activities</b>			
Profit for the period		11,011	8,482
Adjustments for:			
Non-cash transactions	23	3,856	4,211
Interest and other financial expenses		961	542
Interest income		-582	-225
Dividend income		-3	-2
Income tax expense		2,928	2,353
Changes in working capital and provisions			
Increase/decrease in trade and other receivables		-5,096	-6,157
Increase/decrease in inventories		-6,950	-721
Increase/decrease in trade and other payables		1,361	3,510
Increase/decrease in provisions		197	252
Paid interests and other financial expenses		-945	-526
Received interests and dividends		582	225
Paid taxes		-2,400	-2,717
<b>Net cash from operating activities</b>		<b>4,920</b>	<b>9,227</b>
<b>Cash flows from investing activities</b>			
A conditional supplementary contract price for prior subsidiary acquisition		-1,147	0
Purchases of property, plant and equipment (PPE)		-1,258	-1,782
Proceeds from sales of PPE		17	64
Purchases of intangible assets		-1,644	-1,077
Purchases of available-for-sale investments		0	-407
Acquisition of subsidiary, net of cash acquired		-6,826	0
<b>Net cash used in investing activities</b>		<b>-10,858</b>	<b>-3,202</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		44,300	1,000
Repayments of borrowings		-38,130	-888
Payment of finance lease liabilities		-391	-367
Dividends paid		-3,694	-3,360
Proceeds from issuance of ordinary shares		-1,382	497
<b>Net cash used in financing activities</b>		<b>703</b>	<b>-3,118</b>
<b>Change in cash</b>			
Cash and cash equivalents at 1 January		17,672	15,229
Effect of currency changes		240	-465
<b>Cash and cash equivalents at 31 December</b>		<b>12,677</b>	<b>17,672</b>



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent								
1 000 €	Share capital	Share premium	Translation differences	Retained earnings	Invested non-restricted equity	Other reserves	Total	Non controlling interest	Total equity
<b>At 1 January 2014</b>	6,967	1,504	126	53,079	3,457	-6	65,127	425	<b>65,552</b>
Total comprehensive income for the period			-465	8,482		-25	7,992	0	7,992
Total recognised income and expense for the year	0	0	-465	8,482		-25	7,992	0	<b>7,992</b>
Dividends				-3,462			-3,462	102	-3,360
Changes in non-controlling interest				40			40	-40	0
Exercised share options					497		497		497
	0	0	0	-3,422	497		-2,925	62	<b>-2,863</b>
<b>At 31 December 2014</b>	6,967	1,504	-339	58,139	3,954	-31	70,194	487	<b>70,682</b>
Total comprehensive income for the period			240	11,011		31	11,282	0	11,282
Total recognised income and expense for the year			240	11,011		31	11,282	0	<b>11,282</b>
Dividends				-3,802			-3,802	108	-3,694
Changes in non-controlling interest				10			10	-10	0
Purchases and proceeds of own shares					-814		-814		-814
Exercised share options				676	0		676	-585	91
	0	0	0	-3,116	-814	0	-3,930	-487	<b>-4,417</b>
<b>At 31 December 2015</b>	<b>6,967</b>	<b>1,504</b>	<b>-99</b>	<b>66,034</b>	<b>3,140</b>	<b>0</b>	<b>77,545</b>	<b>0</b>	<b>77,545</b>

# ACCOUNTING PRINCIPLES

## COMPANY PROFILE

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

Founded in 1954 Teleste is a technology company running its two business units Video and Broadband Solutions and Network Services; in both fields, we are among the global leaders. Video is at the core of our business activities, with a focus on the processing, transmission and management of video and data for operators and public authorities who provide multiple video-related information, entertainment and security services to end-users. Video and Broadband Solutions business segment has the emphasis on product solutions for broadband access networks, video service platforms and video surveillance applications. Network Services segment deliver comprehensive network service solutions including new construction, rebuilding, upgrading, planning and maintenance services of cable networks. The parent company of Teleste Group, Teleste Corporation, has operations in Australia, China, Denmark, the Netherlands and a subsidiary in fourteen 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](http://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 2015. 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.

The Group has applied as from 1 January 2015 the following new and amended standards that have come into effect. These had no significant impact on the consolidated financial statements for the financial year 2015.

- Amendments to IAS 19 Employee Benefits – Defined Benefit Plans: Employee Contributions (effective for financial years beginning on or after 1 July 2014): The amendments clarify the accounting treatment under IAS 19 in respect of defined benefit plans that involve contributions from employees or third parties towards the cost of benefits. The amendments are not assessed to have an impact on Teleste's consolidated financial statements.
- Annual Improvements to IFRSs (2011–2013 cycle and 2010–2012 cycle) (effective for financial years beginning on or after 1 July 2014): The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments cover in total four (2011–2013 cycle) and seven (2010–2012 cycle) standards. Their impacts vary standard by standard but are not significant.
- IFRIC 21 Levies (effective for financial years beginning on or after 1 January 2014; in the EU to be applied at the latest, as from the commencement date of its first financial year starting on or after 17 June 2014): The interpretation clarifies the accounting treatment of levies. A liability for a levy is recognised when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation is applicable to all levies other than income taxes, fines, penalties and outflows that are in scope of other standards. The interpretation had no significant impact on Teleste's consolidated financial statements.

## 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. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The companies acquired during the financial periods presented have been consolidated from the date of acquisition, when control commenced. The companies disposed during a financial period are included in the consolidated financial statements up to the date of disposal.

## ASSOCIATES

Associates included in the consolidated financial statements are those entities in which Teleste Group holds vot-

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

### JOINT VENTURES

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

### PRINCIPLES OF CONSOLIDATION

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

### 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.

#### 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 sub-

sidiary acquired exclusively with a view to resale. The result of discontinued operations is presented separately on the face of the consolidated income statement.

### IMPAIRMENT

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

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

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

## INVENTORIES

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

## FINANCIAL ASSETS AND LIABILITIES

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

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

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

### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either classified as held for trading, or they are designated by the Group as at fair value through profit or loss upon initial recognition. A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of short-term profittaking from changes in market prices or it is a derivative that does not qualify for hedge accounting. Financial assets and liabilities at fair value through profit or loss are recognised on the balance sheet using trade date

accounting. They are measured at their fair values, which is the bid price at the balance sheet date based on published price quotations in an active market. Both financial assets held for trading and other financial assets maturing in 12 months after the balance sheet date are included in the current assets. A gain or loss arising from a change in the fair value, realised or unrealised, is recognised in the income statement as incurred.

### Derivatives and hedge accounting

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

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

to hedge variable rate loans is recognised in profit or loss within financial items and the change in the fair value of the hedging instrument is recognised in equity.

### Available-for-sale assets

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

### Loans and receivables

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

### Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity. They are stated at amortised cost



less impairment losses and presented within non-current assets. At the end of the reporting period the Group had no assets classified as held-to-maturity investments.

### Financial liabilities

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

### Trade receivables

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

### Cash and cash equivalents

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

### TREASURY SHARES

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

### DIVIDENDS

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

### PROVISIONS

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

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

### REVENUE RECOGNITION AND NET SALES

Revenue from the sale of goods is recognised in the income statement when all significant risks and rewards of

ownership have been transferred to the buyer, which normally takes place when a commodity is delivered. Revenue from services is recognised when the service has been performed.

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

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

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

### OTHER OPERATING INCOME

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

## GOVERNMENT GRANTS

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

## EMPLOYEE BENEFITS

### Pension arrangements

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

### Share-based payments

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

## OPERATING PROFIT

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

Net sales

+ other operating income

- raw material and consumables used adjusted for changes in inventories of finished goods and work in progress

- employee benefits expense

- depreciation and amortisation expense and impairment losses

- other operating expense

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= 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 comprehensive 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 it is 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.

## Adoption of new and amended standards and interpretations applicable in future financial years

Teleste has not yet adopted the following new and amended standards and interpretations already issued by the IASB. The Group will adopt them as of the effective date or, if the date is other than the first day of the financial year, from the beginning of the subsequent financial year.

\* = not yet endorsed for use by the European Union as of 31 December 2015.

- Amendment to IAS 1 Presentation of Financial Statements: Disclosure Initiative (effective for financial years beginning on or after 1 January 2016). The amendments are designed to encourage companies to apply judgement in determining what information to disclose in the financial statements. For example, the amendments clarify the application of the materiality concept and judgement when determining where and in what order information is presented in the financial disclosures. The interpretation had no significant impact on Teleste's consolidated financial statements.
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation (effective for financial years beginning on or after 1 January 2016): The amendments clarify IAS 16 and IAS 38 that revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in limited circumstances to amortise intangible assets. The amendments will have no impact on Teleste's consolidated financial statements.
- Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture – Bearer Plants (effective for financial years beginning on or after 1 January 2016): These amendments require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment and included in the scope of IAS 16, instead of IAS 41. These amendments will have no impact on Teleste's consolidated financial statements.
- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures: Investment Entities: Applying the Consolidation Exception\* (the amendments can be applied immediately; mandatory for financial years beginning on or after 1 January 2016): The narrow-scope amendments to IFRS 10, IFRS 12 and IAS 28 clarify the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the Standards. The amendments will not have an impact on Teleste's consolidated financial statements.
- Amendments to IFRS 11 Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations (effective for financial years beginning on or after 1 January 2016): The amendments add new guidance to IFRS 11 on how to account for the acquisition of an interest in a joint operation that constitutes a business, i.e. business combination accounting is required to be applied. The amendments are not assessed to have an impact on Teleste's consolidated financial statements.
- Amendments to IAS 27 Separate Financial Statements – Equity Method in Separate Financial Statements (effective for financial years beginning on or after 1 January 2016): The amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments will not have an impact on Teleste's consolidated financial statements.
- Annual Improvements to IFRSs (2012–2014 cycle) (effective for financial years beginning on or after 1 January 2016): The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments cover in four standards. Their impacts vary standard by standard but are not significant.
- New IFRS 15 Revenue from Contracts with Customers\* (effective for financial years beginning on or after 1 January 2018): IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. Under IFRS 15 an entity shall recognise revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Group is currently assessing the impact of IFRS 15.
- New IFRS 9 Financial Instruments\* (effective for financial years beginning on or after 1 January 2018): IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9

includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Group is assessing the impact of IFRS 9.

# 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 hasn't had any impact on the reporting of operating segments.

## BUSINESS SEGMENTS

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

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

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

## GEOGRAPHICAL DIVISION

The two segments operates in four geographical areas:

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

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

The geographical division of 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

2015 1 000 €	Video and Broadband Solutions	Network Services	Group
External sales			
Services	7,860	93,362	101,222
Goods	146,536	0	146,536
Total external sales	154,396	93,362	247,758
Operating profit of segments	12,781	1,520	14,302
Operating profit			14,302
Financial items			-363
Profit before taxes			13,939
Non-current assets of segment	45,101	11,754	56,855

2014 1,000 €	Video and Broadband Solutions	Network Services	Group
External sales			
Services	6,512	90,275	96,787
Goods	100,389	0	100,389
Total external sales	106,901	90,275	197,176
Operating profit of segments	9,673	1,463	11,135
Operating profit			11,135
Financial items			-301
Profit before taxes			10,835
Non-current assets of segment	35,036	12,303	47,339

### Geographical division

2015 1 000 €	Finland	Nordic countries	Other Europe	Others	Group
Sales by origin	12,223	20,290	209,172	6,073	247,758
Assets	42,763	82	13,750	260	56,855
Capital expenditure	14,982	0	1,843	123	16,948

2014 1 000 €	Finland	Nordic countries	Other Europe	Others	Group
Sales by origin	14,858	15,792	159,572	6,954	197,176
Assets	33,937	89	12,730	583	47,339
Capital expenditure	1,446	5	1,755	470	3,676

### Major customer

Revenues from one customer of the Group's Video and Broadband Solution and Network Services segment represents approximately 64.0 Meur in 2015 (66.0 Meur in 2014), which is 25.8% (33.5%) of Group net sales.



# BUSINESS COMBINATIONS ACQUIRED DURING 2015 AND 2014

At 7 January 2015 Video and Broadband solution segment was strengthened by acquiring 100% of share capital of Mitron Group Oy Ltd, the Finnish provider of public transportation information systems and modern display solutions. Systems manufactured by Mitron are used on trains and railway stations, subways, airports and in urban traffic. Mitron runs its design and manufacturing operations in Forssa and Tampere with subsidiaries in Poland, Germany and Switzerland. More than 90 per cent of the company's net sales consist of exports.

The acquisitions resulted in 2,693 thousand of intangible assets, which was allocated to customer relationships and technology. The goodwill, amounted 4,400 thousand euro, is mainly due to future end-to-end video security and information management solutions for the rail and city traffic segment and synergies in the logistics. The goodwill include estimated amount of the conditional supplementary contract price for Mitron. Total consideration is estimated to be 11,500 thousand euro depending on the profitability development during next two years. The total unpaid contract price of 2,730 thousand euro was booked in non current other liabilities and are classified as fair value level 3. The unpaid contract price is discounted and the difference is booked as a financial expense in profit and loss statement. The final unpaid contract price is estimated to be between 0.3 and 3.5 Million euro. The fair value of Mitron's trade receivables 8,514 thousand euro were 200 thousand euro less than the total value based on agreements. The difference is expected to realize as credit losses. Teleste personnel increased with 120 persons. All costs related to the acquisitions, 22 thousand euro, are expensed in other operating expenses.

The impact of the acquisition on Teleste's net sales during the period 7 January 2015–31 December 2015 was 27,490 thousand euro and on the net profit 962 thousand euro.

During 2014 there were no acquisitions. A conditional supplementary contract price from Asheridge acquisition of 1,060 thousand euro was de-recognised in other operating income during 2014. Unpaid supplementary price was recognised in current other liabilities and it was paid in April 2015.

The final conditional supplementary contract price from Asheridge acquisition was paid during 2015. Unpaid supplementary price is recognised in current other liabilities and it will be paid in April 2015.

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

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

## THE FOLLOWING ASSETS AND LIABILITIES WERE RECOGNISED IN THE ACQUISITION OF MITRON:

1,000 €	Recognised fair values on acquisition
Fair values used in consolidation	
Trade marks (inc. in intangible assets)	746
Customer relationship (inc. in intangible assets)	585
Technology (inc. in intangible assets)	1,362
Inventories	4,983
Trade receivables	8,514
Book values used in consolidation	
Tangible assets	944
Intangible assets	537
Shares and immaterial rights	29
Accrued income	1,315
Deferred tax asset	314
Other receivables	425
Cash and cash equivalents	874
Total assets	20,628
Book values used in consolidation	
Interest-bearing liabilities	1,174
Trade payables	5,672
Deferred tax liabilities	539
Advance payments	2,984
Other liabilities	3,159
Total liabilities	13,528
Net identifiable assets and liabilities	7,100
Total consideration	11,500
Goodwill on acquisition	4,400
Consideration paid in cash	-7,700
Cash and cash equivalents in acquired subsidiary	874
<b>Total net cash outflow on the acquisition</b>	<b>-6,826</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1 CONSTRUCTION CONTRACTS

Amount of project revenue recognised during the period 1,969 thousand euros (2,286 thousand euros in 2014).

Cumulative expenses and income recognised by the end of the period 14,946 thousand euros (12,976 thousand euros in 2014)

### 2 OTHER OPERATING INCOME

1,000 €	2015	2014
Government grants related to development costs	546	670
Rental income	2	6
Gain on disposals of non-current assets	19	60
De-recognised supplementary contract price	1,109	1,060
Other income	1,178	740
<b>Total</b>	<b>2,854</b>	<b>2,536</b>

### 3 EMPLOYEE BENEFITS EXPENSE

Wages and salaries	-53,819	-45,946
Pension expenses		
Defined contribution plans	-11,033	-9,419
Other post employment benefits	-6,842	-5,083
Activated R&D salaries and social costs	1,490	1,086
Cash & Equity-settled share-based transactions	-237	-135
Equity-settled share-based transactions	-91	0
<b>Total</b>	<b>-70,532</b>	<b>-59,497</b>

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	1,485	1,302
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### 4 DEPRECIATION, AMORTISATION AND IMPAIRMENT

1,000 €	2015	2014
Depreciation and amortisation by asset type:		
Tangible assets		
Buildings	-399	-394
Machinery and equipment	-2,079	-1,480
Other tangible assets	-229	-511
<b>Total</b>	<b>-2,707</b>	<b>-2,385</b>

Intangible assets		
Capitalised development expenses	-1,072	-1,162
Other intangible assets	-1,095	-664
<b>Total</b>	<b>-2,167</b>	<b>-1,826</b>

<b>Total</b>	<b>-4,874</b>	<b>-4,211</b>
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### 5 OTHER OPERATING EXPENSES

Rental expenses	-4,276	-3,797
External services	-4,222	-3,108
Other variable costs	-6,677	-6,724
Travel and IT costs	-4,051	-3,779
R&D costs	-1,799	-1,812
Other expenses	-11,579	-8,089
<b>Total</b>	<b>-32,604</b>	<b>-27,309</b>

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

#### Audit expenses

#### KPMG

Auditing assignments	-152	-150
Tax consultancy	-70	-65
Other assignments	-21	-8

#### Other auditors

Auditing assignments	-23	-60
Other assignments	-69	-37

### 6 FINANCIAL INCOME

1,000 €	2015	2014
Interest and other financial income	56	223
Foreign exchange gain	523	0
Dividend income	3	2
<b>Total</b>	<b>582</b>	<b>225</b>

### 7 FINANCIAL EXPENSES

Interest expenses	-476	-368
Foreign exchange loss	-345	-75
Other financial expenses	-124	-83
<b>Total</b>	<b>-945</b>	<b>-526</b>

Other financial expenses includes interests from financial leasing expenses during the period 10 thousand euro (13 thousand euro in 2014).

Losses from forward exchange contracts are included in operating profit.

## 8 INCOME TAXES

1,000 €	2015	2014
Recognised in the income statement		
Current tax expense		
Current year	-2,832	-2,043
Adjustments for prior years	-88	44
Change in deferred tax liabilities and tax assets	-8	-354
<b>Total</b>	<b>-2,928</b>	<b>-2,353</b>

Reconciliation of the tax expense, EUR -2,928 thousand, calculated using the Teleste Group's domestic corporation 20.0% tax rate.

Profit before tax	13,939	10,835
Income tax using the domestic corporation tax rate (20.0%)	-2,788	-2,167
Effect of tax rates in foreign jurisdictions	-245	-181
Tax debt increase related to balance sheet items	17	0
Changes in conditional supplementary contract price	222	0
Non-deductible expenses	-46	-49
Taxes from previous year	-88	44
<b>Income tax income/expense reported in the consolidated income statement</b>	<b>-2,928</b>	<b>-2,353</b>

## 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

	2015	2014
Profit for the year attributable to equity holders of the parent, (1,000 €)	11,011	8,482
Weighted average number of ordinary shares outstanding during the financial year (1,000)	18,037	17,729
Basic earnings per share (€)	0.61	0.48
Weighted average number of ordinary shares outstanding during the financial year (1000)	18,037	17,729
Effect of share options on issue (1000)	0	0
Weighted average number of ordinary shares outstanding during the financial year (diluted) (1 000)	18,037	17,729
Diluted earnings per share (€)	0.61	0.48

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 2015	54	7,267	11,372	2,113	513	<b>21,320</b>
Translation difference +/-		33	-113	116		<b>36</b>
Additions		23	3,634	89		<b>3,746</b>
Acquisitions through business combinations			944	20		<b>964</b>
Transfers between classes				443	-443	<b>0</b>
Balance at 31 December 2015	54	7,323	15,837	2,781	70	<b>26,066</b>
Depreciation and impairment losses						
Balance at 1 January 2015		-1,850	-7,735	-2,108		<b>-11,693</b>
Depreciation charge for the year		-399	-2,080	-245		<b>-2,724</b>
Balance at 31 December 2015	0	-2,249	-9,815	-2,353	0	<b>-14,417</b>
Carrying amounts at 1 January 2015	54	5,417	3,637	5	513	<b>9,627</b>
Carrying amounts at 31 December 2015	54	5,074	6,022	428	70	<b>11,648</b>

1,000 €	Land areas	Buildings	Machinery and equipment	Other tangible assets	Advance payments	Total
Balance at 1 January 2014	54	10,622	10,149	1,903	513	<b>23,242</b>
Translation difference +/-		44	-101			<b>-57</b>
Additions		36	1,883	274		<b>2,193</b>
Disposals		-3,435	-559	-64		<b>-4,058</b>
Balance at 31 December 2014	54	7,267	11,372	2,113	513	<b>21,320</b>
Depreciation and impairment losses						
Balance at 1 January 2014	0	-4,884	-6,158	-1,701	0	<b>-12,743</b>
Cumulative depreciations on disposals	0	3,435	0	0	0	<b>3,435</b>
Depreciation charge for the year	0	-401	-1,577	-407	0	<b>-2,385</b>
Balance at 31 December 2014	0	-1,850	-7,735	-2,108	0	<b>-11,693</b>
Carrying amounts at 1 January 2014	54	5,738	3,991	202	513	<b>10,499</b>
Carrying amounts at 31 December 2014	54	5,417	3,637	5	513	<b>9,627</b>

Carrying amount of production machinery and equipment at 31 December 2015 5,265  
Carrying amount of production machinery and equipment at 31 December 2014 3,612

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

1,000 €	Machinery and equipment
31.12.2015	
Balance at 1 January 2015	3,231
Additions	1,737
Disposals	0
Balance at 31 December 2015	4,968
Cumulative depreciation on disposals	0
Cumulative depreciation	-2,523
Depreciation charge for the year	-382
Carrying amount at 31 December 2015	2,063

1,000 €	Machinery and equipment
31.12.2014	
Balance at 1 January 2014	2,952
Additions	327
Disposals	-48
Balance at 31 December 2014	3,231
Cumulative depreciation on disposals	0
Cumulative depreciation	-2,169
Depreciation charge for the year	-354
Carrying amount at 31 December 2014	708

## 11 INTANGIBLE ASSETS

1,000 €	Goodwill	Development costs	Other intangible assets	Shares available for sale, unlisted	Total
Balance at 1.1.2015	33,921	14,825	8,654	1,124	<b>58,524</b>
Translations differences	328	-98	114	3	<b>347</b>
Acquisitions		537	32		<b>3,262</b>
Additions	4,400	1,652	2,693		<b>6,052</b>
Disposals		-678			<b>-678</b>
Balance at 31.12.2015	38,649	16,238	11,493	1,127	<b>67,507</b>
Amortisation and impairment losses					
Balance at 1.1.2015	-800	-12,354	-7,235	-423	<b>-20,812</b>
Cumulative depreciations on disposals		678			<b>678</b>
Amortisation for the year	0	-1,072	-1,095		<b>-2,167</b>
Balance at 31.12.2015	-800	-12,749	-8,330	-423	<b>-22,301</b>
Carrying amounts 1.1.2015	33,121	2,471	1,419	701	<b>37,713</b>
Carrying amounts 31.12.2015	37,849	3,489	3,163	704	<b>45,206</b>

1,000 €	Goodwill	Development costs	Other intangible assets	Shares available for sale, unlisted	Total
Balance at 1.1.2014	34,052	13,749	8,462	717	<b>56,980</b>
Translations differences	-131		192		<b>61</b>
Additions	0	1,076	0	407	<b>1,483</b>
Balance at 31.12.2014	33,921	14,825	8,654	1,124	<b>58,525</b>
Amortisation and impairment losses					
Balance at 1.1.2014	-800	-11,192	-6,571	-423	<b>-18,986</b>
Amortisation for the year	0	-1,162	-664		<b>-1,826</b>
Balance at 31.12.2014	-800	-12,354	-7,235	-423	<b>-20,812</b>
Carrying amounts 1.1.2014	33,252	2,557	1,891	294	<b>37,994</b>
Carrying amounts 31.12.2014	33,121	2,471	1,419	701	<b>37,713</b>

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 37.8 million euro at 31 December 2015. Goodwill has been allocated to the following cash-generating unit:

Video and Broadband Solutions  
Network Services

Million euro  
29.7  
8.1

The recoverable amount of the segments is based upon value-in-use calculations. Those calculations use cash flow projections based upon the strategies and business plans approved by the management. Calculations are prepared covering a 10 years' period. The cash flow for both segments covers the five first years with 2% (5%) annual growth rate. 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 9.41% used in VBS and 9.53% in NS segment (14.05% in VBS segment and 11.00% in NS segment) has been used in discounting the projected cash flows. The terminal value of the segments is calculated by using a growth rate of 2%. The impairment test process included the sensitivity analysis of the segment or a cash generating unit (CGU) in the segment.

Assumption used in 2015 and 2014 impairment tests

	2015		2014	
%	VBS	NS	VBS	NS
Yearly growth in cash flow years 1-5	2	2	5	5*
Yearly growth in cash flow years 6-10	2	2	2	2
WACC (after tax)	9.41	9.53	14.05	11.00

\* NS years 1-3 average growth 5% , year 4-22% year 5 growth 5%

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

Impairment test		
Meur	2015	2014
VBS	39.3	22.4
NS	7.3	5.0



The tables below show the required decline in free cash 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		
	2015	2014
VBS	-34%	-38%
NS	-22%	-17%
Increase in discount rate		
	2015	2014
VBS	4,2%	4,9%
NS	2,2%	1,8%

The Group received a grant amounting to 0.5 million euro from Tekes (National Technology Agency of Finland) towards development costs in 2015 (2014: 0.7 million euro). From the grant received 0,06 million euro (2014: 0.08 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 €	2015	2014
Unlisted shares	704	701
Total	704	701

## 13 DEFERRED TAX ASSETS AND LIABILITIES

1,000 €	Balance 1 Jan. 2015	Recognised in the income statement	Business combinations	Balance 31 Dec. 2015
Movements in temporary differences during 2015				
Deferred tax assets				
Effects of consolidation and eliminations	626	-150		476
Unused tax losses	699	-243	316	772
Provisions	323	244		567
Other taxable temporary differences	49	-22		27
<b>Total</b>	<b>1,698</b>	<b>-171</b>	<b>316</b>	<b>1,843</b>
Deferred tax liabilities				
Capitalisation of intangible assets	-494	-46		-540
Fair value adjustment to intangible and tangible assets on acquisition	-622	150	-498	-970
Cumulative depreciation difference	-211	59		-152
<b>Total</b>	<b>-1,327</b>	<b>163</b>	<b>-498</b>	<b>-1,662</b>

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, foreign exchange rates and group internal eliminations.

1,000 €	Balance 1 Jan. 2014	Recognised in the income statement	Business combinations	Balance 31 Dec. 2014
Movements in temporary differences during 2014				
Deferred tax assets				
Effects of consolidation and eliminations	530	96		626
Unused tax losses	1,051	-352		699
Provisions	314	9		323
Other taxable temporary differences	106	-57		49
<b>Total</b>	<b>2,002</b>	<b>-304</b>		<b>1,698</b>
Deferred tax liabilities				
Capitalisation of intangible assets	-511	17		-494
Fair value adjustments to intangible and tangible assets on acquisition	-602	-20	0	-622
Cumulative depreciation difference	-180	-31		-211
<b>Total</b>	<b>-1,293</b>	<b>-34</b>		<b>-1,327</b>

At 31 December 2015 the Group had unused tax losses in subsidiaries amounting 3,598 thousand euro. A tax asset has been booked from 772 thousand euro as this loss will not expire (31 Dec. 2014: 699 thousand euro). No deferred tax liability has been provided for the undistributed profits of the foreign subsidiaries amounting to 19,349 thousand euro at 31 Dec. 2015 (31 Dec. 2014: 14,229 thousand euro). This is because the realization of this tax liability is unlikely in the near future.

## 14 INVENTORIES

1,000 €	2015	2014
Raw materials and consumables	9,891	4,652
Work in progress	13,062	10,368
Finished goods	9,708	5,463
<b>Total</b>	<b>32,661</b>	<b>20,483</b>

The amount of the impairment losses of inventories to the net realisable value recognised as an expense during the financial period is 710 thousand euro. At the end of the financial year 5,329 thousand euro was deducted from the inventory value to the net realisable value (31 Dec. 2014: 4,619 thousand euro).

## 15 TRADE AND OTHER CURRENT RECEIVABLES

1,000 €	2015	2014
Trade receivables	53,313	39,635
Accrued income and prepayments	5,899	3,442
Other receivables	947	1,617
<b>Total</b>	<b>60,159</b>	<b>44,694</b>

## 16 CASH AND CASH EQUIVALENTS

Cash at bank and in hand and call deposits	12,677	17,672
<b>Total</b>	<b>12,677</b>	<b>17,672</b>
Cash and cash equivalents in the statement of cash flows	12,677	17,672

## 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 2014	17,627	1,190	18,817	6,967	1,504
Share options exercised by employees	169	0	169	0	0
At 31 December 2014	17,796	1,190	18,986	6,967	1,504
Change in own shares	326	-326	0	0	0
At 31 December 2015	18,122	864	18,986	6,967	1,504

The number of Teleste Oyj shares was 18,985,588 at 31 December 2015 (31 Dec. 2014 18,985,588 shares). All shares issued have been fully paid.

The Annual General Meeting of Teleste Oyj held on 9th of April 2015 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 1,200,000 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 Helsinki Ltd at the market price prevailing at the time of acquisition.

The Annual General Meeting of Teleste Oyj held on 1st of April 2014 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 may repurchase a maximum of 1,200,000 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 Helsinki Ltd at the market price prevailing at the time of acquisition.

At the end of December 2015, the Group held 863,953 of its own shares, of which the parent company Teleste Corporation had 321,953 shares and Teleste Management II had 542,000 shares, respectively.

### 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 0.23 euro per share (2014 0.20 euro per share) was proposed by the Board of Directors.

## 17 SHARE BASED INCENTIVES

### Performance Share Plan 2012

The Board of Directors of Teleste Corporation has at its meeting on 2 December 2011 resolved to implement a long-term Performance share plan 2012 (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
Instrument	PSP 2012–2014
Initial amount, pcs *	250,000
Initial allocation date	31 January 2012
Vesting date	31 March 2015
Maximum contractual life, yrs	3.1
Remaining contractual life, yrs	0.2
Number of persons at the end of the reporting year	0
Payment method	Cash & Equity

\* In addition to shares, there will be a cash payment intended for taxes and tax-related charges arising to the key employee from the reward

	Changes during the period 2015	Changes during the period 2014
<b>Performance Share Plan 2012*</b>	Share	Share
Type		
01 January		
Outstanding at the beginning of the reporting period, pcs	130,519	191,331
Reserve at the beginning of the reporting period	0	23,000
Changes during the period		
Granted	0	0
Forfeited	8,044	12,839
Invalidated during the period	0	0
Exercised	73,644	0
Expired	48,831	47,973
31 December		
Exercised at the end of the period	0	130,519
Outstanding at the end of the period	0	130,519
Weighted remaining contractual life in years	0.0	0.2

\* Number of shares consists of the net reward given as shares. In addition to the shares, a cash portion will be included in the gross reward. The maximum value of the cash portion to be paid corresponds to the value of shares at the time of transfer.

### Effect of Share-based Incentives on the result and financial position during 1.1.–31.12.2015, 1,000 €

Expenses for the financial year, share-based payments	85
Expenses for the financial year, share-based payments, equity-settled	14
Liabilities arising from share-based payments 31 December 2015	0

### Effect of Share-based Incentives on the result and financial position during 1.1.–31.12.2014, 1,000 €

Expenses for the financial year, share-based payments	135
Expenses for the financial year, share-based payments, equity-settled	28
Liabilities arising from share-based payments 31 December 2014	380

## Performance Share Plan 2015

The Board of Directors of Teleste Corporation has approved the establishment of a new long-term share-based incentive programme to be offered to the key employees of Teleste (below LTI 2015).

The objective of LTI 2015 is to align the interests of the key employees with those of Teleste's shareholders by creating a long-term equity interest for the key employees and, thus, to increase the company value in the long term as well as to drive performance culture, to retain key employees and to offer the key employees with competitive compensation for excellent performance in the company.

LTI 2015 consists of three annually commencing plans with three main elements: an investment in Teleste shares as a precondition for the key employee's participation in LTI 2015, a matching share plan with a three-year vesting period based on the above investment and a performance matching plan with a three-year performance period. The commencement of the subsequent new plans after 2015 and their eligible participants will be subject to a separate approval of Teleste's Board of Directors.

### The share investment and the matching share plan

The matching share plan comprises the individual key employee's investment in Teleste's shares and the delivery of matching shares as a long-term incentive reward against the invested shares. After the three-year vesting period the key employee receives one matching share for each invested share free of charge. If all the eligible key employees participate in the matching plan by fulfilling the investment precondition, the maximum aggregate amount of matching shares that may be delivered based on the first three-year matching share plan commencing in 2015 is approximately 65,000 shares (gross before the deduction of the applicable taxes and the remaining net amount is delivered to the participants as Teleste's shares).

### The performance matching plan

The performance matching plan comprises a three-year performance period. The potential share rewards will be delivered if the performance targets set by the Board of Directors are attained. The performance measure applied in the first three-year plan is the total shareholder return (TSR) of Teleste's share in the three-year performance period. A precondition for an individual key employee's participation in the performance matching plan is the above mentioned investment in Teleste's shares.

If all the eligible key employees participate in the performance matching plan by fulfilling the investment precondition and if the performance targets set for the first performance matching plan commencing in 2015 are attained in full, the maximum number of shares that may be delivered based on the first three-year performance matching plan is approximately 260,000 shares (gross before the deduction of the applicable taxes).

Plan	Performance Share Plan 2015
Type	Share
Instrument	
Initial amount, pcs *	268 750
Initial allocation date	01 July 2015
Vesting date	30 April 2018
Maximum contractual life, yrs	2.83
Remaining contractual life, yrs	2.3
Number of persons at the end of the reporting year	37
Payment method	Cash & Equity

\* Gross reward before the deduction of the applicable taxes.

Changes during the period 2015 *	Performance Share Plan 2015	Weighted remaining contractual life in years
01 January 2015		
Outstanding at the beginning of the reporting period, pcs	0	
Reserve at the beginning of the reporting period	0	
Changes during the period		
Granted	268,750	
Forfeited	0	
Invalidated during the period	0	
Exercised	0	
Expired	0	
31 December 2015		
Exercised at the end of the period	268,750	
Outstanding at the end of the period	268,750	2.3

\* Consists of the gross reward given as shares before the deduction of the applicable taxes.

### Effect of Share-based Incentives on the result and financial position during the 1.1.–31.12.2015, 1,000 €

Expenses for the financial year, share-based payments	152
Expenses for the financial year, share-based payments, equity-settled	80
Liabilities arising from share-based payments 31 December 2015	152

## 18 INTEREST-BEARING LIABILITIES

1,000 €	2015	2014
Non-current		
Loans from financial institutions	29,157	196
Finance lease liabilities	1,566	399
<b>Total</b>	<b>30,723</b>	<b>595</b>
Current		
Loans from financial institutions	1,702	23,465
Finance lease liabilities, current portion	613	319
<b>Total</b>	<b>2,315</b>	<b>23,784</b>

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 €	31.12.2015	31.12.2014
EUR	30,723	595
	30,723	595

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

Bank loans	0.9%	1.1%
Finance lease liabilities	1.0%	1.5%

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	0.9%	1.1%
Finance lease liabilities	1.4%	1.5%

Finance lease liabilities of the Group are payable as follows:

Minimum lease payments

Less than one year	588	327
Between one and five years	1,622	405
<b>Total</b>	<b>2,210</b>	<b>732</b>

Present value of minimum lease payments

Less than one year	613	319
Between one and five years	1,566	399
<b>Total</b>	<b>2,179</b>	<b>718</b>

Future finance charges	31	14
<b>Total finance lease liabilities</b>	<b>2,210</b>	<b>732</b>



## 19 PROVISIONS

1,000 €	Takuu- varaukset	Total
Balance at 1 January 2015	1 718	<b>1 718</b>
Provisions made during the year	197	<b>197</b>
Balance at 31 December 2014	1 915	<b>1 915</b>
		<b>2015</b>
Non-current		1 026
Current		889
<b>Total</b>		<b>1 915</b>

### Warranties

The Group grants average 30 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 €	2015	2014
Current		
Trade payables	20,763	12,515
Personnel, social security and pensions	6,635	6,265
Accrued interest expenses and other financial items	35	23
Other accrued expenses and deferred income	12,840	13,051
Advances	3,939	26
Other liabilities	2,293	1,656
<b>Total</b>	<b>46,505</b>	<b>33,536</b>
Includes the income tax payable for the period.		
Non current		
Other liabilities	2,730	31

## 21 INCOME TAX PAYABLE FOR THE PERIOD

At the end of the period there was income tax receivable 263 and tax payable 1,062 thousand euro on the profit for the period (31 Dec. 2014 there was 581 thousand euro tax receivables and 793 thousand euro tax payables).

# 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 per cent of the net sales), Swedish and Norwegian crowns (5 per cent), US dollars (3 per cent) and UK pound sterling (9 per cent). Significant part of expenses, 57 per cent, arise in euro and in US dollar almost 26 per cent and Chinese CNY 9 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

	2015					2014				
	USD	SEK	NOK	GBP	PLN	USD	SEK	NOK	GBP	PLN
Current assets	1,609	1,080	202	8,813	3,477	971	773	859,	4,170	4,092
Current liabilities	3,359	939	589	3,019	1,571	1,463	1,093	1,721	2,250	1,689

Cash flow hedges at 31 Dec 2015

### Currency position

Currency	Exposure	Hedge	Net	Hedge Instrument	Hedge%
USD	13,180	10,793	2,388	Forward exchange contract	82%
CNY	3,701	3,073	627	Forward exchange contract	83%
GBP	7,457,	4,019	3,437	Forward exchange contract	54%
PLN	940	1,595	-654	Forward exchange contract	170%
NOK	183	104	78	Forward exchange contract	57%

Cash flow hedges at 31 Dec 2014

### Currency position

Currency	Exposure	Hedge	Net	Hedge Instrument	Hedge%
USD	6,762,	6,013,	750,	Forward exchange contract	89%
CNY	3,368,	2,986,	382,	Forward exchange contract	89%
GBP	2,631,	2,054,	576,	Forward exchange contract	78%
PLN	1,510,	1,240,	270,	Forward exchange contract	82%
NOK	863,	691,	171,	Forward exchange contract	80%

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

At the year-end 2015 the fair value of currency derivatives amounted to 24.6 million euro (31. Dec 2014: 11.4 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 2015 the total non-euro-denominated equity of the Group's foreign subsidiaries amounted to 10.4 million euro (31 Dec. 2014: 10.9 million euro).

### Sensitivity to market risk

Sensitivity to market risks arising from financial instruments as required by IFRS 7	2015 Profit or Loss	2014 Profit or Loss
+10% change in EUR/USD exchange rate	+239	+75
+10% change in EUR/CNY exchange rate	+63	+38
+10% change in EUR/GBP exchange rate	+348	+58

### 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 30,859 thousand euro have short-term interest as a reference rate. The interest period is of less than one year. Hedge accounting is applied for interest swap contracts hedging the interest risk for 10,000 thousand euro of the loans. The change in the fair value of this hedging instrument, 31 thousand euro, is recognised in profit and loss as other comprehensive income. The fair value of the interest swap contract is 0 thousand

euro. All Group loans are denominated in euro. In 2015, the average interest rate of the loan portfolio was 0,9% 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 2015, the effect on variable rate interest-bearing liabilities on profit before taxes would have been +-190 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	20,859			20,859
Financial instruments with fixed interest rate				
Financial liabilities				
Loan from financial institutions	10,000			10,000

### 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, e.g. in short-term bank deposits and commercial papers.

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

Analysis of trade receivables by age	2015			2014		
	Gross	Impairment loss	Net	Gross	Impairment loss	Net
Undue trade receivables	41,931		41,931	31,823		31,823
1–30 days	7,380		7,380	4,319		4,319
31–60 days	2,241		2,241	1,362		1,362
Over 60 days	2,930	-1,168	1,762	2,777	-646	2,131
<b>Total</b>			<b>53,313</b>			<b>39,635</b>

The maximum exposure to credit risk at the reporting date was:	<b>2015</b>	2014
Loans and receivables	60,159	44,694
Available for sale financial assets	704	701

## 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 2015 the Group's cash reserves totaled 12.7 million euro and its interest-bearing net debt 33.0 million euro. The Group administration raises the Group's interest-bearing debt centrally. At 31 December 2015 Teleste had committed and available credit facilities as well as other

agreed and undrawn loans amounting to 17.7 million euro. Group's loan agreements and committed loan facilities include profitability and cash flow covenants like netdebt/EBITDA and equity-ratio.

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 2015, the contractual maturity of interest-bearing liabilities was as follows:

	2016	2017	2018	2019	2020
Loans from financial institutions	1,737	1,157	28,000		
Trade payables	20,763				
Finance lease liabilities	613	446	418	394	331
Forward exchange contracts					
Outflow	-24,747				
Inflow	24,599				
Other		2,730			

As of 31 December 2014, the contractual maturity of interest-bearing liabilities was as follows:

	2015	2016	2017	2018	2019
Loans from financial institutions	23,488				
Trade payables	12,515				
Finance lease liabilities	327	184	103	75	43
Forward exchange contracts					
Outflow	-13,427				
Inflow	13,141				
Other	1,517				

## 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 2015 and 2014 was as follows:

	2015	2014
Total borrowings	33,038	24,379
Cash and cash equivalents	12,677	17,672
Interest-bearing net debt	20,361	6,707
Total equity	77,545	70,682
Interest-bearing net debt and total equity	97,906	77,389
Leverage ratio	20.8%	8.7%

## 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 exchange contracts to hedge its balance sheet items against transaction risk. The changes in the fair values of forward exchange contracts designated as hedging instruments are fully recognised through profit and loss. The fair value changes of forward exchange contracts amounted to -27 thousand euro in 2015 (2014: 65 thousand euro) and they are recognised as adjustments 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 0 thousand euro. The change in fair value 31 thousand euro is entered in the total comprehensive income. The currency exchange contracts and interest swap contracts are in level 2.

### Available-for-sale financial assets

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

### Finance lease liabilities

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

### Trade and other payables or receivables

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

Following discount rates were used for determining fair value:

	2015	2014
Finance lease liabilities	1.4%	1.5%



# Carrying amounts of financial assets and liabilities by measurement 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
<b>2015 Balance item</b>							
<b>Non current financial assets</b>							
Other financial assets	12			704		704	704
<b>Current financial assets</b>							
Trade and other receivables	15		53,313			53,313	53,313
<b>Carrying amount by category</b>		<b>0</b>	<b>53,313</b>	<b>704</b>	<b>0</b>	<b>54,017</b>	<b>54,017</b>
<b>Non-current financial liabilities</b>							
Interest-bearing liabilities	18	1,566			29,157	30,723	30,723
<b>Current financial liabilities</b>							
Interest-bearing liabilities	18	613			1,702	2,315	2,315
Trade and other payables	20				20,763	20,763	20,763
Other current liabilities	20				35	35	35
<b>Carrying amount by category</b>		<b>2,179</b>	<b>0</b>	<b>0</b>	<b>51,657</b>	<b>53,836</b>	<b>53,836</b>
	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
<b>2014 Balance item</b>							
<b>Non current financial assets</b>							
Other financial assets	12			701		701	701
<b>Current financial assets</b>							
Trade and other receivables	15		39,635			39,635	39,635
Forward exchange contracts	25	65				65	65
<b>Carrying amount by category</b>		<b>65</b>	<b>39,635</b>	<b>701</b>	<b>0</b>	<b>40,401</b>	<b>40,401</b>
<b>Non-current financial liabilities</b>							
Interest-bearing liabilities	18	399			196	595	595
<b>Current financial liabilities</b>							
Interest-bearing liabilities	18	319			23,465	23,784	23,784
Forward exchange contracts	25	31				31	31
Trade and other payables	20				12,515	12,515	12,515
Other current liabilities	20				23	23	23
<b>Carrying amount by category</b>		<b>749</b>	<b>0</b>	<b>0</b>	<b>36,199</b>	<b>36,948</b>	<b>36,948</b>

## 23 ADJUSTMENTS TO CASH FLOWS FROM OPERATING ACTIVITIES

1,000 €	2015	2014
Non-cash transactions:		
Depreciation and amortisation	4,874	4,211
Employee benefits	91	0
Changes in conditional supplementary contract price	-1,109	0
<b>Total</b>	<b>3,856</b>	<b>4,211</b>

## 24 OPERATING LEASES

Group as lessee

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

Less than one year	554	565
Between one and five years	1,177	665
More than five years	1,249	1,337
<b>Total</b>	<b>2,980</b>	<b>2,567</b>

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 €	2015	2014
Rental and leasing liabilities		
Rental liabilities	2 980	2 567
Lease liabilities	4 878	2 992
Currency derivatives		
Value of the underlying forward contracts	24 599	13 141
Market value of the forward contracts	-27	65
Interest swap contracts		
Value of the underlying interest swap contracts	10 000	11 000
Market value of interest swap contracts	0	-31

## 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		
Asheridge Investments Ltd, Chesham, UK	100	100
Cableway AG, Bergisch Gladbach, Germany	100	100
Cableway Management GmbH, Bergisch Gladbach, Germany	100	100
Cableway Nord GmbH, Bergisch Gladbach, Germany	100	100
Cableway Süd GmbH & Co. KG, München, 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
Mitron Group Oy Ltd, Forssa, Finland	100	100
Mitron Information Systems GmbH, Bergisch Gladbach, Germany	100	100
Mitron Information Systems Sp. Zoo, Warsaw, Poland	100	100
Mitron Oy, Forssa, Finland	100	100
Satlan S.p.zoo, Wroclaw, Poland	100	100
Teleste Belgium SPRL, Bryssel, Belgium	100	100
Teleste Corporation Iberica S.L, Alcobendas, Spain	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 FZ LLC, Fujairah, UAE	100	100
Teleste GmbH, Hildesheim, Germany	100	100
Teleste India Pvt. Mumbai, India	100	100
Teleste LLC, Georgetown Texas, USA	100	100
Teleste Ltd, Chesham, UK	100	100
Teleste Management II Oy, Turku, Finland	100	100
Teleste Networks Services S.A. Yverdon, Switzerland	100	100
Teleste Services GmbH, Hildesheim, Germany	100	100
Teleste SP z.o.o, Wroclaw, Poland	100	100
Teleste Sweden AB, Stockholm, Sweden	100	100
Teleste UK Ltd, Cambridge, UK	100	100
Teleste Video Networks Sp zoo, Krakow, Poland	100	100
<b>The key management personnel compensations</b>		
1,000 €	<b>2015</b>	2014
CEO		
Salaries and other short-term benefits	1,233	438

During 2015 no options were granted to the management of Teleste (2014: 0 options). The terms of the management share option plans are similar to those of other employees' share option plans, except for the terms of 2007 options. According to the 2007 option terms the recipient has to subscribe Teleste shares to the amount that equals his net annual salary. At 31 December 2015 management did not have any options (2014: no options of which 0 were exercisable). Management of the parent company has 0,99% or 187,251 of the parent company's shares (2014: 0,66% or 125,652 shares).

A voluntary pension fee for CEO amounted 63 thousand euro (50 thousand euro in 2014), which amount is not included in the paid salary and remuneration.

1,000 €	2015	2014
The key management personnel compensations		
Marjo Miettinen, Chairman of the Board	40	40
Pertti Ervi, Member of the Board	28	28
Jannica Fagerholm, Member of the Board	28	28
Esa Harju, Member of the Board	28	28
Kai Telanne, Member of the Board	28	28
Petteri Walldén, Member of the Board	28	28
Jukka Rinnevaara, CEO	1,233	438
<b>Total</b>	<b>1,413</b>	<b>618</b>

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 2015 and 2014.

The Board of Directors of Teleste decided 5 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.

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.

When the plan is implemented in full, the members of the Management Group (non controlling interest) will hold 2.85% of the Teleste's shares through Teleste Management II. This arrangement was dissolved with shares and cash during first half of 2015. As a result of this Teleste Management II Ltd became a 100% owned subsidiary of the parent company. There are no restrictions according to IFRS 12.

**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.–31.12.2015

1,000 €	Note	2015	2014
<b>NET SALES</b>	1	<b>87,519</b>	<b>67,677</b>
Change in inventories of finished goods		3,680	-77
Other operating income	2	2,557	2,669
Material and services	3	-50,802	-29,088
Personnel expenses	4	-22,037	-21,930
Depreciation and amortisation	5	-825	-930
Other operating expenses		-15,865	-14,905
<b>Operating profit</b>		<b>4,226</b>	<b>3,417</b>
Financial income and expenses	6	3,455	3,319
<b>Profit before extraordinary items</b>		<b>7,681</b>	<b>6,737</b>
Extra ordinary items	7	0	0
<b>Profit before taxes</b>		<b>7,681</b>	<b>6,737</b>
Appropriations	8	181	267
Direct taxes	9	-994	-907
<b>Profit for the financial period</b>		<b>6,868</b>	<b>6,096</b>

## BALANCE SHEET 31.12.2015

1,000 €	Note	2015	2014
<b>Non-current assets</b>			
Intangible assets	10	1,488	1,771
Property, plant and equipment	10	4,464	4,819
Long-term receivables	11	25,331	20,789
Investments	12	45,592	34,597
		<b>76,875</b>	<b>61,975</b>
<b>Current assets</b>			
Inventories	13	12,896	7,029
Trade and other receivables	14	26,168	23,030
Cash and cash equivalents	15	6,002	5,490
		<b>45,066</b>	<b>35,549</b>
<b>Total assets</b>		<b>121,941</b>	<b>97,524</b>
<b>Shareholders' equity</b>			
Share capital	16	6,967	6,967
Share premium	16	1,504	1,504
Invested non-restricted equity	16	7,516	5,563
Retained earnings	16	38,835	36,432
Profit for the financial period	16	6,868	6,096
		<b>61,689</b>	<b>56,562</b>
<b>Appropriations</b>	8	<b>394</b>	<b>576</b>
<b>Provisions</b>	17	<b>1,420</b>	<b>1,616</b>
<b>Liabilities</b>			
Long-term liabilities	18	28,000	0
Short-term liabilities	19	30,438	38,770
		<b>58,438</b>	<b>38,770</b>
<b>Total equity and liabilities</b>		<b>121,941</b>	<b>97,524</b>



## CASH FLOW STATEMENT

1,000 €	2015	2014
<b>CASH FLOW FROM OPERATIONS</b>		
Profit before extraordinary items	7,681	6,737
Adjustments		
Depreciations according plan	825	930
Financial income and expenses	-3,455	-3,319
Other items	-196	-367
Cashflow before changes in working capital	4,855	3,980
Changes in working capital		
Increase (-) /decrease(+) in trade and other receivables	-2,688	-2,313
Increase (-) / decrease (+) in inventories	-5,867	-680
Increase (+) / decrease (-) in trade payables	5,240	3,159
Cashflow before financial items	1,540	4,147
Paid interest	-520	-630
Interests and dividends received	3,975	3,949
Income taxes paid	-967	-1,092
<b>Cash flow from operations</b>	<b>4,028</b>	<b>6,374</b>
<b>Investments</b>		
Payment of other tangible assets	-187	-184
Investments in subsidiary shares	-7,930	0
Proceeds from sale of tangible and intangible assets	0	0
Loans granted	-4,228	-1,086
Available-for-sale investments	0	-407
<b>Cash flow from investments</b>	<b>-12,345</b>	<b>-1,677</b>
<b>Financing</b>		
Short-term liabilities	44,000	1,000
Long-term liabilities	-39,000	-1,000
Change in trade payables group	9,356	0
Change in cash pool	-451	0
Paid dividends and other profit distribution	-3,694	-3,463
Proceed from issue of new shares	-1,382	496
<b>Cash flows from financing activities</b>	<b>8,829</b>	<b>-2,967</b>
<b>Change in liquid funds</b>	<b>512</b>	<b>1,729</b>
Liquid funds 1.1	5,490	3,761
Liquid funds 31.12	6,002	5,490

# 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 Telestenkatu 1 20660 Littoinen.

## FOREIGN CURRENCY TRANSACTIONS

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

## DERIVATIVES

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

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

## VALUATION OF FIXED ASSETS

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

Intangible assets	3 years
Goodwill	8 years
Other capitalised expenditure	3 years
Buildings	25 to 33 years
Machinery	3 to 5 years
Computers	0 to 3 years

Write-downs on permanent impairment of the assets are recorded when it becomes evident that the carrying amount is not recoverable. Companies acquired or established during the financial period are included in the subsidiary shares as of date of acquisition or formation. Companies disposed of in the financial period have been included in the subsidiary shares up to the date of disposal. Long-term investments and receivables include financial assets, which are intended to be held for over one year.

## LEASED ASSETS

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

## INVENTORIES

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

## CASH

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

## NET SALES

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

## RESEARCH AND DEVELOPMENT

R&D expenses are recorded as revenue expenditure.

## PENSION ARRANGEMENTS

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

## INCOME TAXES

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

## TREASURY SHARES

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

# NOTES TO THE CONSOLIDATED INCOME STATEMENT AND BALANCE SHEET OF PARENT COMPANY 31.12.2015

## 1 NET SALES

1,000 €	2015	2014
<b>Net sales by segments</b>		
Video and Broadband Solutions	85,916	66,190
Network Services	1,603	1,487
<b>Total</b>	<b>87,519</b>	<b>67,677</b>
<b>Net sales by market area</b>		
Finland	11,172	13,710
Nordic countries	10,749	8,577
Other Europe	57,905	39,934
Others	7,693	5,456
<b>Total</b>	<b>87,519</b>	<b>67,677</b>

## 2 OTHER OPERATING INCOME

R&D subvention and others	2,557	2,669
<b>Total</b>	<b>2,557</b>	<b>2,669</b>

## 3 MATERIAL AND SERVICES

Purchases	-51,392	-28,685
Change in inventories	2,187	757
	<b>-49,205</b>	<b>-27,928</b>
Purchased services	-1,597	-1,160
<b>Total</b>	<b>-50,802</b>	<b>-29,088</b>

## 4 PERSONNEL EXPENSES

1,000 €	2015	2014
Wages and salaries	-17,916	-17,829
Pension costs	-3,135	-3,120
Other personnel costs	-985	-981
<b>Total</b>	<b>-22,037</b>	<b>-21,930</b>
Remuneration to Board members and Managing Directors		
Marjo Miettinen, Chairman of the Board	-40	-40
Pertti Ervi, Member of the Board	-28	-28
Jannica Fagerholm, Member of the Board	-28	-28
Esa Harju, Member of the Board	-28	-28
Kai Telanne, Member of the Board	-28	-28
Petteri Walldén, Member of the Board	-28	-28
Jukka Rinnevaara, CEO	-1,233	-438
<b>Total</b>	<b>-1,413</b>	<b>-618</b>

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

Year-end personnel	396	382
Average personnel	388	379

### Personnel by function at the year-end

Research and Development	82	81
Production and Material Management	230	218
Sales and marketing	54	54
Administration	30	29
<b>Total</b>	<b>396</b>	<b>382</b>

## 5 DEPRECIATION ACCORDING TO PLAN

1,000 €	2015	2014
Other capitalized expenditure	-61	-177
Buildings	-304	-306
Machinery and equipment	-177	-165
Goodwill	-275	-274
Other intangible rights	-8	-8
<b>Total</b>	<b>-825</b>	<b>-930</b>

## 6 FINANCIAL INCOME AND EXPENSES

Interest income	10	5
Interest income from Group companies	836	944
Interest expenses	-355	-323
Interest expenses to Group companies	-59	-73
Currency differences	316	92
Other financial income and expenses	-106	-66
Dividend income from Group companies	2,810	2,739
Dividend income	3	2
<b>Total</b>	<b>3,455</b>	<b>3,319</b>

## 7 EXTRA ORDINARY ITEMS

Paid group contribution	0	0
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## 8 APPROPRIATIONS AND DEFERRED TAX ASSETS AND LIABILITIES IN THE PARENT COMPANY

<b>Change in accumulated depreciation difference</b>		
Buildings	48	29
Other capitalized expenditure	134	238
<b>Total</b>	<b>181</b>	<b>267</b>

Accumulated depreciation in excess of plan	394	576
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## 9 INCOME TAXES

Direct taxes	-966	-931
Taxes from previous years	-28	24
<b>Total</b>	<b>-994</b>	<b>-907</b>

## 10 TANGIBLE AND INTANGIBLE ASSETS

	Intangible assets	Goodwill	Total	Buildings	Machinery	Other capitalized expenditure	Total
Acquisition cost 1.1.	7,619	2,197	9,816	8,863	8,643	4,376	21,882
Increases	0	0	0	0	187	0	187
Acquisition cost 31.12.	7,619	2,197	9,816	8,863	8,830	4,376	22,069
Accumulated depreciation 1.1.	-7,611	-434	-8,045	-4,423	-8,345	-4,295	-17,063
Depreciation	-8	-275	-283	-304	-177	-61	-542
Accumulated depreciation 31.12.	-7,619	-709	-8,328	-4,727	-8,522	-4,356	-17,605
<b>Book value 31.12.2015</b>	<b>0</b>	<b>1,488</b>	<b>1,488</b>	<b>4,136</b>	<b>308</b>	<b>20</b>	<b>4,464</b>
Book value of machinery and equipment 31.12.2015			305				
Book value of machinery and equipment 31.12.2014			273				

## 11 LONG TERM RECEIVABLES

1,000 €	2015	2014
Subordinated loan from group company	508	457
Other long term receivables from group companies	24,823	20,331
<b>Total</b>	<b>25,331</b>	<b>20,788</b>

## 12 INVESTMENTS

Parent company	Shares in group companies	Shares others	Total
Acquisition cost 1.1.	39,989	1,121	41,110
Increase	10,995	0	10,995
<b>Acquisition cost 31.12.</b>	<b>50,984</b>	<b>1,121</b>	<b>52,105</b>
Accumulated depreciation 1.1.	-6,086	-428	-6,514
Disposals	0	0	0
<b>Accumulated depreciation 31.12.</b>	<b>-6,086</b>	<b>-428</b>	<b>-6,514</b>
<b>Book value 31.12.2015</b>	<b>44,898</b>	<b>693</b>	<b>45,592</b>

## 13 INVENTORIES

1,000 €	2015	2014
Raw materials and consumables	4,803	2,616
Work in progress	3,238	2,450
Finished goods	4,855	1,963
<b>Total</b>	<b>12,896</b>	<b>7,029</b>

## 14 CURRENT ASSETS

Accounts receivables	12,393	10,325
Accounts receivables from Group companies	10,465	11,089
Other receivables from Group companies	1,041	70
Other receivables	1,169	677
Accrued income	1,101	869
<b>Total</b>	<b>26,168</b>	<b>23,030</b>

## 15 LIQUID FUNDS

Cash and cash equivalents	6,002	5,490
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## 16 CHANGES IN SHAREHOLDERS' EQUITY

1,000 €	2015	2014
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.	5,563	6,516
Proceeds from issuance of ordinary shares	1,952	-952
Invested non-restricted equity 31.12.	<b>7,516</b>	<b>5,563</b>
Retained earnings 1.1.	42,528	39,895
Dividends	-3,694	-3,463
Retained earnings 31.12.	38,835	36,432
Profit for the financial period	6,868	6,096
Accumulated profit 31.12.	45,703	42,528
<b>Total</b>	<b>61,689</b>	<b>56,562</b>
Company's distributable equity 31.12.	53,218	48,091

Company's registered share capital consists of one serie and is divided into 18,985,588 shares at 1 vote each.

## 17 OBLIGATORY PROVISIONS

1,000 €	2015	2014
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Guarantee provision

**1,420**      **1,616**

## 18 LONG TERM LIABILITIES

Bank Loan

**28,000**      **0**

## 19 SHORT TERM LIABILITIES

Bank loans	0	23,000
Advance payments received	1,796	0
Accounts payables	7,335	4,146
Accounts payables from Group companies	2,774	1,381
Other current liabilities	502	486
Other current liabilities from Group companies	11,495	3,080
Accrued liabilities	6,536	6,676
<b>Total</b>	<b>30,438</b>	<b>38,770</b>

## 20 CONTINGENT LIABILITIES AND PLEDGED ASSETS

	2015	2014
<b>Leasing liabilities</b>		
For next year	993	658
For later years	2,111	824
<b>Total</b>	<b>3,104</b>	<b>1,482</b>
<b>Rental liabilities</b>		
Less than one year	92	117
Between one and five years	276	216
More than five years	1,097	1,154
<b>Total</b>	<b>1,465</b>	<b>1,487</b>
<b>Liabilities on own behalf</b>		
Bank guarantees	0	0
Guarantees given on behalf of subsidiaries	0	0
<b>21 CURRENCY DERIVATES</b>		
Value of underlying forward contracts	24,599	13,427
Market value of forward contracts	-27	65
Interest rate swap	10,000	11,000
Market value of interest rate swap	0	-31

## 22 COMPANIES OWNED BY THE GROUP AND PARENT COMPANY

	Group holding share %	Parent company's share %
Asheridge Investments Ltd, Chesham, UK	100	0
Cableway AG, Bergisch Gladbach, Germany	100	0
Cableway Management GmbH, Bergisch Gladbach, Germany	100	0
Cableway Nord GmbH, Bergisch Gladbach, Germany	100	0
Cableway Süd GmbH & Co. KG, München, Germany	100	0
Dinh TeleCom S.A., Herstal, Belgium	100	1
Flomatik A/S, Porsgrun, Norway	100	100
Flomatik Network Services Ltd., Fareham, UK	100	100
Kaavisio Oy, Turku, Finland	100	100
Mitron Group Oy Ltd, Forssa, Finland, starting from 7.1.2015	100	100
Mitron Information Systems GmbH, Bergisch Gladbach, Germany, starting from 7.1.2015	100	0
Mitron Information Systems Sp. Zoo, Warsaw, Poland, starting from 7.1.2015	100	0
Mitron Oy, Forssa, Finland, starting from 7.1.2015	100	0
Satlan S.p.zoo, Wroclaw, Poland	100	100
Teleste Belgium SPRL, Bryssel, Belgium	100	100
Teleste Corporation Iberica S.L, Alcobendas, Spain	100	0
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 FZ LLC, Fujairah, UAE	100	100
Teleste GmbH, Hildesheim, Germany	100	0
Teleste India Pvt., Mumbai, India	100	100
Teleste LLC, Georgetown Texas, USA	100	100
Teleste Ltd, Chesham, UK	100	0
Teleste Management II Oy, Turku, Finland	100	100
Teleste Network Services S.A., Yverdon, Switzerland	100	100
Teleste Services GmbH, Hildesheim, Germany	100	100
Teleste SP z.o.o, Wroclaw, Poland	100	0
Teleste Sweden AB, Stockholm, Sweden	100	100
Teleste UK Ltd, Cambridge, UK	100	100
Teleste Video Networks Sp zoo, Krakow, Poland	100	100

Teleste Ltd. (02704083) and Asheridge Investments Ltd. (05418313) have taken advantage of the audit exemption provisions under section 479A of the Companies Act 2006 in the UK relating to subsidiary companies.

## 23 OWN SHARES

	Number of shares	Percentage of share capital and votes
Teleste Oyj owns own shares 31.12.2015	321,953	1.70

## 24 SHARES AND OWNERS

### Management interest

	Number of shares	Percent- age of share capital, %	Percent- age of votes, %
CEO and Board Members	187,251	0.99	0.99

### Audit expenses

	2015	2014
KPMG		
Auditing assignments	-49	-44
Tax consultancy	-44	-24
Other assignments	-21	-8
<b>Total</b>	<b>-114</b>	<b>-76</b>



## 25 SHARES AND SHAREHOLDERS

	Number of shares	%
<b>Major shareholders 31 December 2015</b>		
EM Group Oy	4,409,712	23.2
Mandatum Life Insurance Company Limited	1,679,200	8.8
Ilmarinen Mutual Pension Insurance Company	963,860	5.1
Kaleva Mutual Insurance Company	824,641	4.3
Teleste Management II Ltd	542,000	2.9
Varma Mutual Pension Insurance Company	521,150	2.7
The State Pension Fund	500,000	2.6
Teleste Oyj	321,953	1.7
Danske Invest Finnish Small Cap Fund	290,000	1.5
FIM Fenno Equity fund	277,520	1.5
<b>Total (10)</b>	<b>10,330,036</b>	<b>54.4</b>

<b>Sector Dispersion 31 December 2015</b>	Shareholders	%	Shares	%
Households	5,015	93.65	4,785,023	25.2
Public sector institutions	3	0.06	1,985,010	10.5
Financial and insurance institutions	20	0.37	3,457,533	18.2
Corporations	251	4.69	7,105,394	37.4
Non-profit institutions	29	0.54	360,531	1.9
Foreign and nominee registered owners	37	0.69	1,292,097	6.8
<b>Total</b>	<b>5,355</b>	<b>100.00</b>	<b>18,985,588</b>	<b>100.0</b>

<b>Holding Dispersion 31 December 2015</b>	Shareholders	%	Shares	%
1-100	1,300	24.3	84,146	0.4
101-500	2,343	43.8	634,303	3.3
501-1 000	767	14.3	627,507	3.3
1 001-5 000	768	14.3	1,686,218	8.9
5 001-10 000	78	1.5	550,011	2.9
10 001-50 000	67	1.3	1,447,835	7.6
50 001-100 000	10	0.2	759,875	4.0
100 001-500 000	15	0.3	3,638,547	19.2
500 001-	7	0.1	9,557,146	50.3
<b>Total</b>	<b>5,355</b>	<b>100.0</b>	<b>18,985,588</b>	<b>100.0</b>
of which nominee registered			1,078,100	5.7

# PROPOSAL FOR THE DISTRIBUTION OF EARNINGS

## **Proposal for the distribution of earnings**

Teleste Corporation's distributable equity on 31 December 2015 stood at EUR 53,218,409.13.

As to the Annual General Meeting scheduled for 7 April 2016, the Board proposes that a dividend of EUR 0.23 (0.20) per share be paid for the outstanding shares for the year 2015.

## ***Signatories to the Annual Report and Financial Statements***

3 February 2016

Marjo Miettinen, CB      Pertti Ervi, MB      Jannica Fagerholm, MB

Esa Harju, MB      Kai Telanne, MB      Petteri Walldén, MB

Jukka Rinnevaara, CEO

## ***The Auditor's Note***

Our auditors' report has been issued today.

3 February 2016

KPMG OY AB

Esa Kailiala  
Authorised Public Accountant

# AUDITOR'S REPORT

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

## 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 2015. 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, 3 February 2016  
KPMG OY AB

Esa Kailiala  
Authorized Public Accountant

# CORPORATE GOVERNANCE STATEMENT 2015

This Corporate Governance Statement 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](http://www.cgfinland.fi). The Corporate Governance Statement will be issued separately from the Board of Directors' Report, and the provided data is based on situation dated on December 31, 2015.

## 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 Corporation's Articles of Association. Teleste shares are listed on the Nasdaq 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 March 1, 2000, Teleste complies with the insider guidelines of the Stock Exchange in their valid form at any given time. These insider guidelines are complemented by Teleste's internal guidelines. The company has confirmed the set of applied values.

## General Meeting

The General Meeting 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 Annual General Meeting (hereafter AGM) is held in Helsinki in the customary manner.

The General Meeting decides matters specified for it to decide in the Finnish Companies Act. Issues decided by the AGM include approval of the financial statements, alloca-

tion 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 General Meeting also include e.g. 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 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 manage the company in accordance with the law, statutory regulations, Articles of Association and decisions taken by the General Meeting. The operating procedures and main duties of the Board of Directors 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 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 AGM. The Board shall elect Chairman of the Board from amongst its members.

In its meeting held on April 9, 2015, the AGM elected the six persons specified below to the Board of Directors of Teleste Corporation. Marjo Miettinen was elected Chairman by the members of the Board.

- Marjo Miettinen, Chairman, b. 1957, M.Sc. (Ed.), EM Group Oy, Board Professional, Board Member since 2009

- Pertti Ervi, Member of the Board, b. 1957, B.Sc. (Eng.), Independent Consultant, Board Member since 2009
- Jannica Fagerholm, Member of the Board, b. 1961, M.Sc. (Econ.), Signe and Ane Gyllenberg Foundation, Managing Director, Board Member since 2013
- Esa Harju, Member of the Board, b. 1967, M.Sc. (Eng.), Independent Consultant, Board Member since 2012
- Kai Telanne, Member of the Board, b. 1964, M.Sc. (Econ.), Alma Media Corporation, CEO, Board Member since 2008
- Petteri Walldén, Member of the Board, b. 1948, M.Sc. (Eng.), Board Member since 2009

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 Chairman Marjo Miettinen, who is a Board Member of EM Group Oy, a significant shareholder.

In 2015, the Board of Directors of Teleste Corporation had 9 meetings. The attendance of the Directors at the Board meetings was 94 %. In addition to the Members of the Board the meetings were attended by the CEO, the Deputy CEO and the CFO and also persons invited separately as required.

#### **Remuneration for the Members of the Board**

The remuneration for the Members of the Board of Directors is decided on by the Annual General Meeting. On April 9, 2015, the AGM decided that the Chairman of the Board be paid until the next AGM EUR 40 000 per year and each Member EUR 28 000 per year. Remuneration for the Members of the Board will be paid so that 40% of the specified

annual amount will be used to purchase Teleste's shares or alternatively the shares may be conveyed by using the own shares held by the company, and the rest will be paid in cash.

Salaries, remuneration and other benefits paid in 2015 to the Board of Directors were as follows:

- Marjo Miettinen, EUR 40 000 including 2 360 Teleste shares
- Pertti Ervi, EUR 28 000 including 1 652 Teleste shares
- Jannica Fagerholm, EUR 28 000 including 1 652 Teleste shares
- Esa Harju, EUR 28 000 including 1 652 Teleste shares
- Kai Telanne, EUR 28 000 including 1 652 Teleste shares
- Petteri Walldén, EUR 28 000 including 1 652 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 which has been approved by the Board. CEO is not a member of Teleste's Board of Directors. The current President and CEO of Teleste Corporation, Jukka Rinnevaara, b. 1961, M.Sc. (Econ.), assumed his present responsibilities on November 1, 2002. The CEO is assisted by the Management Group.

The company's Board of Directors decides on the salary, remuneration and other benefits received by the CEO. Salary, remuneration and other fringe benefits paid in 2015 to the CEO of Teleste Corporation totaled EUR 472 721. In

addition, there was an additional pension payment of EUR 62 728 in the financial year.

When Teleste Corporation acquired all the shares in Teleste Management II Oy, the CEO received as a shareholder of Teleste Management II Oy, in return, shares in Teleste Corporation and cash. The net value of the compensation was EUR 760 421.

The contractual age of retirement of CEO Jukka Rinnevaara is 60. Charges resulting from additional voluntary pension scheme are included in the post-employment benefits. Pension liability of EUR 70 000 related to this additional pension plan is included in Teleste Corporation's balance sheet.

As to the contract of CEO Rinnevaara, his term of notice has been specified as six (6) months in case the CEO decides to withdraw, and eighteen (18) months should the contract be terminated by the company. Upon termination of contract of the CEO by the company, the CEO will be paid a compensation corresponding to eighteen (18) months without benefits.

#### **Management Group**

The Teleste Corporation Management Group is chaired by the CEO who reports to the Board of Directors. On December 31, 2015, the Group's Management Group consisted of seven members including the CEO, to whom the Management Group members report. Members of the Management Group are directors of Teleste's business areas and the Group Management. Subsidiaries are operating as parts of the business areas.

The Management Group handles the main 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, as a rule, once a month and at other times, when necessary.

Decisions concerning incentive and remuneration systems for the management are made by the Board of Directors based on proposal made by the CEO.

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 Management Group including the CEO has a group pension plan in which the members' retirement age is 60 years. The planned amount of pension is 60% of the regular annual earnings paid in the four years preceding the occurrence of retirement. In this calculation, pensions to be paid in line with the Employees' Pensions Act (TyEL) will be taken into account.

## INCENTIVE SCHEMES AND OWNERSHIP BY THE MANAGEMENT

### Share Ownership and

#### Options of the Management Group

On December 31, 2015, Teleste Corporation's CEO owned 95 415 Teleste Corporation's shares. Other members of the Management Group owned 24 748 Teleste Corporation's shares.

On December 31, 2015, Teleste did not have any running stock option programs and the CEO and the members of Teleste Corporation's Management Group did not hold any Teleste options.

For holdings held by the CEO and the Management Group, see Notes section: Related party transactions.

### Teleste Management II Oy

On 5 December, 2011, Teleste Corporation's Board of Directors decided on two new share-based incentive schemes for the members of the Management Group and for the key personnel. For such shareholding, some members of the Management Group established a company by the name of Teleste Management II Oy, the entire share capital of which they or their controlled entities owned.

Teleste Management II Oy was in possession of 542 000 Teleste Corporation's shares. CEO's holding in the

Teleste Management II Oy shares stood at 31.25% while the ownership by other members equalled 68.75%.

The shareholders of Teleste Management II Oy and Teleste Corporation agreed on May 12, 2015, that Teleste Corporation will acquire all the shares in Teleste Management II Oy. The shareholders of Teleste Management II Oy received, in return, shares in Teleste Corporation and cash. The Board of Directors of Teleste Corporation decided on May 12, 2015, on a directed share issue and transferred on May 15, 2015, in derogation from the shareholders' preemptive subscription rights, 195 133 Teleste Corporation shares held by the company to the shareholders of Teleste Management II Oy against share consideration.

## AUDITING, REVISIONS, AND AUDIT EXPENSES

The term of office of Teleste Corporation auditor expires at the closing of the first Annual General Meeting following the election. On April 9, 2015, Teleste's 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 2015, Teleste Group's auditing expenses totaled EUR 175 000 in which the share of KPMG was EUR 152 000. Moreover, units of KPMG have supplied Teleste Group companies with other consultation worth total EUR 91 000 and other than KPMG auditors for EUR 69 000.

## INSIDERS

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

Membership in Teleste's permanent public insider 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's project-specific 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 30 days preceding publication of interim reports and the financial statements.

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 within 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 business areas answers for the compliance with the internal supervision principles on every level of the areas in question.

### Risk Management

Group risk policy with the relevant principles and objectives are subject to approval by the Teleste's Board of Directors. Risk management is based on the specified strategic and business objectives of the Teleste Group. Risk manage-



ment 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 evaluated 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 by insurance. In risk management, the regular evaluation of most significant risks and exercising control thereof 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. In addition, the summary of the internal audit report is presented twice a year to the Board of Directors of Teleste Corporation. The internal auditing evaluates the efficiency of the processes regarding risk management, supervision, management and selected functions, and makes suggestions for their developmental measures. The internal auditing is made in cooperation with the company's 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. 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 each control to have 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 2011–2015

	IFRS 2015	IFRS 2014	IFRS 2013	IFRS 2012	IFRS 2011
<b>Profit and loss account, balance sheet</b>					
Net sales, Meur	247.8	197.2	192.8	193.9	183.6
Change %	25.7	2.3	-0.6	5.6	8.6
Sales outside Finland, %	95.1	92.5	93.2	93.4	94.1
Operating profit, Meur	14.3	11.1	11.0	10.9	9.4
% of net sales	5.8	5.6	5.7	5.6	5.1
Profit after financial items, Meur	13.9	10.8	10.7	10.1	8.8
% of net sales	5.6	5.5	5.5	5.2	4.8
Profit before taxes, Meur	13.9	10.8	10.7	10.1	8.8
% of net sales	5.6	5.5	5.5	5.2	4.8
Profit for the financial period, Meur	11.0	8.5	8.1	6.7	6.3
% of net sales	4.4	4.3	4.2	3.5	3.4
R&D expenditure, Meur	11.0	10.3	10.0	11.2	11.6
% of net sales	4.4	5.2	5.2	5.8	6.3
Gross investments, Meur	16.9	3.7	6.3	3.3	5.2
% of net sales	6.8	1.9	3.3	1.7	2.9
Interest bearing liabilities, Meur	33.0	24.4	24.3	22.1	33.2
Shareholder's equity, Meur	77.5	70.7	65.6	60.6	55.3
Total assets, Meur	164.5	132.5	124.3	120.2	133.2
<b>Personnel and orders</b>					
Average personnel	1 485	1 302	1 306	1 326	1 297
Order backlog at year end, Meur	42.2	15.2	13.1	17.0	21.2
Orders received, Meur	251.3	199.3	188.9	189.7	188.1
<b>Key metrics</b>					
Return on equity, %	14.9	12.5	12.9	11.6	11.9
Return on capital employed, %	14.2	12.2	13.0	13.0	11.5
Equity ratio, %	48.3	53.4	52.7	50.5	41.6
Gearing, %	26.3	9.5	13.8	13.7	32.2
Earnings per share, euro	0.61	0.48	0.47	0.38	0.36
Earnings per share fully diluted, euro	0.61	0.48	0.46	0.38	0.36
Shareholders equity per share, euro	4.28	3.94	3.73	3.48	3.17

## CALCULATION OF KEY FIGURES

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

# 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 OF COMMUNICATION

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. Cornerstones of our regular financial communications also include coherence of the released information and continuity. For all meetings, any specified information involving corporate strategy and development is based on previously published data.

Teleste has formulated a Disclosure Policy, approved by the Board of Directors, which defines the principles and procedures by which Teleste 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 Helsinki Oy in the Technology sector. In 2015, the company was included in the small cap segment.

## Facts about the share:

Listed on	30.3.1999
ISIN code	FI0009007728
Trading code	TLT1V
Reuter's ticker symbol	TLT1VHE
Bloomberg ticker symbol	TLT1V FH
12 months high	9.88
12 months low	5.32
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. These publications including the stock exchange releases are available in Finnish (official language) and English at the company website. 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. The Annual Report is available in PDF format on the website.

Teleste meets investors, analysts and representatives of the media in news conferences set up in connection with releases of financial reports.

## Financial Releases in 2016:

Interim Report, January–March	28.4.2016
Interim Report, January–June	11.8.2016
Interim Report, January–September	2.11.2016
Financial Statement Release	9.2.2017

## CHANGES IN SHAREHOLDERS' CONTACT INFORMATION

The company shares are included in the book-entry securities system. The shareholder register is maintained by Euroclear Finland Oy.

Shareholders should notify the particular register holding their Book Entry Account about changes in address or account numbers for payment of dividends and other matters related to their holdings in the share.

## ANNUAL GENERAL MEETING

Teleste Corporation's Annual General Meeting (AGM) will be held on Thursday, 7 April 2016, at 3:00 p.m., in Helsinki Hall of Finlandia Hall at the address of Mannerheimintie 13 e, 00100 Helsinki, Finland. The reception of persons who have registered for the meeting will commence at 2:00 p.m.

## RIGHT TO PARTICIPATE AND REGISTRATION

Each shareholder, who is registered on Thursday, 24 March 2016 in the shareholders' register of the Company maintained by Euroclear Finland Ltd, has the right to participate in the Annual General Meeting. A shareholder, whose shares are registered on his/her personal Finnish book-entry account, is registered in the shareholders' register of the Company.

A shareholder, who wants to participate in the Annual General Meeting, shall register for the meeting no later than Friday 1 April 2016 at 4 p.m. by giving a prior notice of participation to the Company.

## Sign up to the AGM by one of the following:

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

The notice of participation shall be delivered to the Company before the deadline for registration. In connection with the registration, a shareholder shall notify his/her name, personal identification number, address, telephone number and the name of a possible assistant or proxy representative and the personal identification number of the proxy representative. The personal data given to Teleste Corporation is used only in connection with the Annual General Meeting and with the processing of thereto related necessary registrations.

### Use of Representative and Proxies

A shareholder may participate in the Annual General Meeting and exercise his/her rights at the meeting by way of proxy representation.

A proxy representative shall produce a dated proxy document or otherwise in reliable manner demonstrate his/her right to represent the shareholder. Should a shareholder participate in the meeting by means of several proxy representatives representing the shareholder with shares in different book-entry accounts, the shares by which each proxy representative represents the shareholder shall be identified in connection with the registration.

Possible proxy documents should be delivered in originals to the address Teleste Corporation, Tiina Vuorinen, P.O.Box 323, FI-20101 Turku, Finland by 1 April 2016 at 4 p.m. at the latest.

### Holder of Nominee-registered Shares

A holder of nominee registered shares has the right to participate in the Annual General Meeting by virtue of such shares, based on which he/she on the record date of the Annual General Meeting, i.e. on 24 March 2016, would be entitled to be registered in the shareholders' register of the Company held by Euroclear Finland Ltd. The right to participate in the Annual General Meeting requires, in addition, that the shareholder on the basis of such shares has been temporarily registered into the shareholders' register

held by Euroclear Finland Ltd. at the latest by 4 April 2016, by 10 a.m. As regards nominee registered shares this constitutes due registration for the Annual General Meeting.

A holder of nominee registered shares is advised without delay to request necessary instructions regarding the temporary registration in the shareholders' register of the Company, the issuing of proxy documents and the registration for the Annual General Meeting from his/her custodian bank. The account manager of the custodian bank has to register a holder of nominee registered shares, who wants to participate in the Annual General Meeting, to be temporarily entered in the shareholders' register of the Company at the latest by the time stated above.

### Other Information

Pursuant to Chapter 5, Section 25 of the Finnish Companies Act, a shareholder who is present at the shareholders' meeting has the right to request information with respect to the matters to be considered at 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 2015

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.23 per share be paid based on the adopted balance sheet for the financial period that ended on 31 December 2015 for shares other than those held by the Company. The dividend will be paid to a shareholder who on the record date of dividend payment 11 April 2016 is registered in the Company's shareholders' register maintained by Euroclear Finland Ltd. The dividend will be paid on 18 April 2016.

### Payment of dividend in 2015

Annual General Meeting	7.4.2016
Dividend ex date	8.4.2016
Dividend record date	11.4.2016
Payment of dividend	18.4.2016

1999	2000	2001	2002	2003	2004	2005	2006
0.10	0.12	0.16	0.08	0.08	0.12	0.16	0.20

2007	2008	2009	2010	2011	2012	2013	2014
0.24	0.12	0.08	0.12	0.14	0.17	0.19	0.20

2015
0.23*

\* Proposal by the Board

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

Minutes of the Annual General Meeting will be available at Teleste's website no later than 21 April 2016.

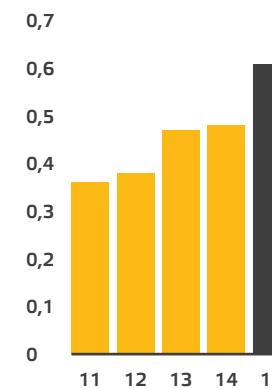
## KEY FIGURES PER SHARE

	2015	2014	2013	2012	2011
Highest price, euro	9,88	5,29	4,47	4,44	4,82
Lowest price, euro	5,32	4,25	3,78	3,04	2,50
Closing price, euro	9,80	5,27	4,25	4,17	3,00
Average price, euro	7,42	4,67	4,17	3,98	3,64
Price per earnings	16,1	11,0	9,1	10,8	8,3
Market capitalization, Meur	177,6	98,7	79,6	78,1	56,2
Stock turnover, Meur	24,6	10,9	9,2	10,8	6,2
Turnover, number in millions	3,3	2,3	2,2	2,7	1,7
Turnover, % of capital stock	17,5	12,5	11,7	14,4	9,1
Average number of shares	18 985 588	18 918 869	18 743 507	18 728 590	18 189 560
Number of shares at the year-end	18 985 588	18 985 588	18 816 691	18 728 590	18 728 590
Average number of shares, diluted w/o own shares	18 036 667	17 729 215	17 513 799	17 688 527	17 425 605
Number of shares at the year-end, diluted w/o own shares	18 121 635	17 795 934	17 838 599	17 709 672	17 425 605
Paid dividend, Meur	4,2	3,6	3,3	3,0	2,4
Dividend per share, euro	0,23*	0,20	0,19	0,17	0,14
Dividend per net result, %	37,7	41,7	40,8	44,5	38,9
Effective dividend yield, %	2,3	3,8	4,5	4,1	4,7

\* The Board's proposal to the AGM

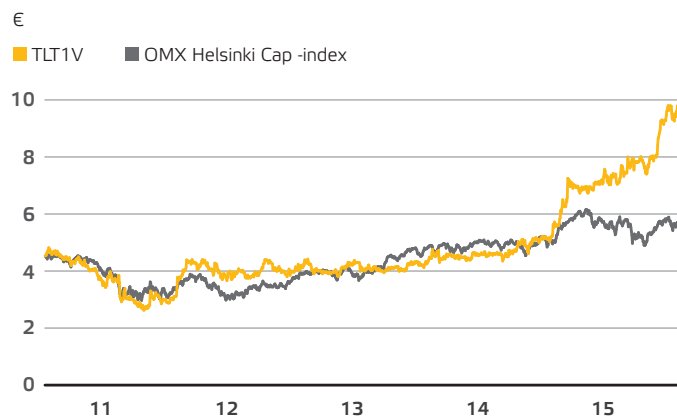
## EARNINGS PER SHARE,

Eur

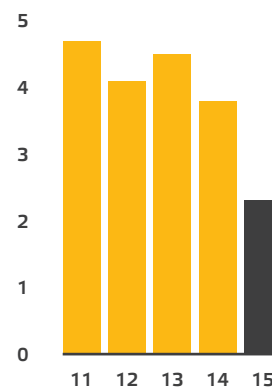




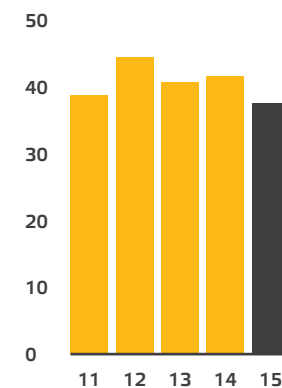
### SHARE PRICE DEVELOPMENT 2011–2015



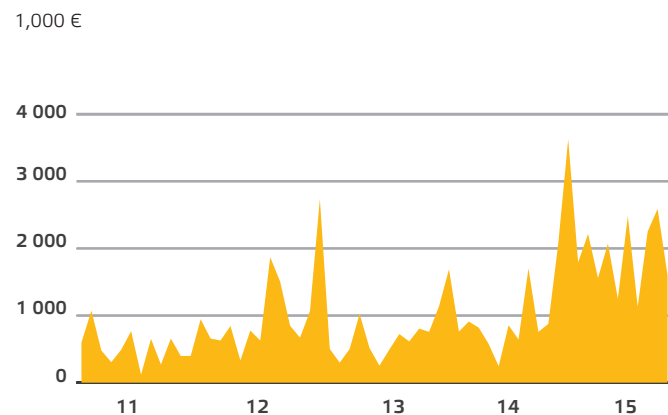
### EFFECTIVE DIVIDEND YIELD, %



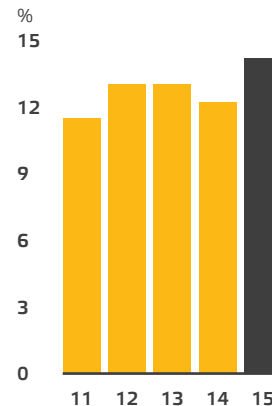
### DIVIDEND PER NET RESULT, %



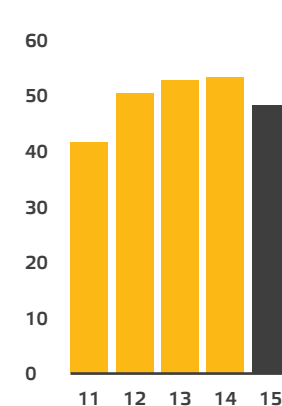
### SHARE MONTHLY TURNOVER 2011–2015



### RETURN ON CAPITAL EMPLOYED, %



### EQUITY RATIO, %





## TELESTE CORPORATION

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[twitter.com/telestecorp](https://twitter.com/telestecorp)

[www.linkedin.com/company/teleste](http://www.linkedin.com/company/teleste)

[www.youtube.com/telestecorporation](http://www.youtube.com/telestecorporation)

[www.slideshare.net/telestecorporation](http://www.slideshare.net/telestecorporation)



Teleste's website is responsive, and as such, in mobile-optimised format.