



One Teleste

YEAR
2016

WE ARE BUILDING A SMART, SAFE AND SMOOTH FUTURE

TELESTE



Dear reader,

Teleste's Annual Report 2016 is an interactive pdf.
The contents list and footer's navigation contains
links to the page, where information is located.
The different features are explained below.



Previous / Next page



Return to the Contents

Contents

CONCERN

Year 2016 in Brief	3
Teleste in Brief	4
One Teleste	5
Events in 2016	6
CEO's Review	8
Megatrends	10
Mission, Vision, Values	11
Strategy	12
Technology and Solutions	14

BUSINESS AREAS

Video and Broadband Solutions	18
Network Services	22

RESPONSIBILITY

Personnel	24
Sustainable Development	26

MANAGEMENT

Board of Directors	30
Management Group	32
Information for Shareholders	34

One Teleste

In 2016, Teleste renewed its brand, as part of which, the company got a new visual look and, at the same time through many company acquisitions, harmonised the growing company's operating methods and communications. This annual report explains what the overall objective of the reforms were, and what they mean for our clients, employees, cooperation partners, and owners.



A record year

Year 2016 ended with record-level net sales and operating profits.

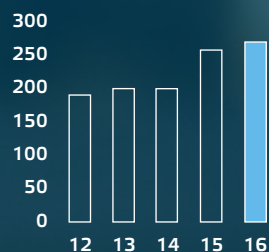
Net sales increased, reaching the highest level in Teleste's history and amounting to EUR 259.5 (247.8) million, an increase of 4.8%.

Turnover for the last quarter of the year grew to the highest level in Teleste's history.

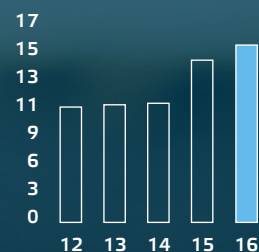
Operating profit grew by 9.3%, amounting to EUR 15.6 (14.3) million.

The year 2016 was particularly important for renewal of the access network product range. We developed and launched the leading DOC-SIS 3.1 standard-compliant products in our industry. With competitive products and high-quality customer service, we succeeded in strengthening our leading position in the European cable operator market.

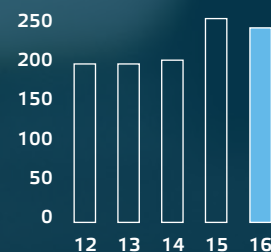
Net sales, MEUR



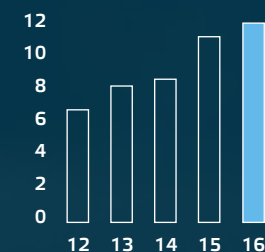
Operating profit, MEUR



Orders received, MEUR



Profit for the year, MEUR






About Teleste

Teleste offers an integrated product and service portfolio that makes it possible to build and run a better networked society. Our solutions bring television and broadband services to your home, secure your safety in public places, and guide your use of public transport. With solid industry experience and a drive for innovation, we are a leading international company in broadband, security, and information technology, and related services.

We connect with our customers through a global network of offices and partners.

In 2016, Teleste's net sales reached EUR 260 million and the company employed over 1500 people. Teleste is listed on Nasdaq Helsinki. ■

Founded in 1954	Headquarters in Finland, Turku	Personnel 1,500	Own offices in 20 countries	Manufacturing in Finland and China
---------------------------	--	---------------------------	---------------------------------------	--



Teleste is involved in creating the necessary conditions for progress in the world by designing and producing solutions that bring increased intelligence, safety, and fluency to work and other interactions between individuals and groups.



One
Teleste

Pioneering technology and innovative product development.

Strong and long-term client relationships with the largest operators in the client segments.

A first-class reputation, built up over more than 60 years, as a company that caters to all its interest groups.

A strong market position in Europe, and in certain product sectors in North America, Asia, and the Middle East.

Growing markets in all fields, and the ability to expand our offerings to new uses.

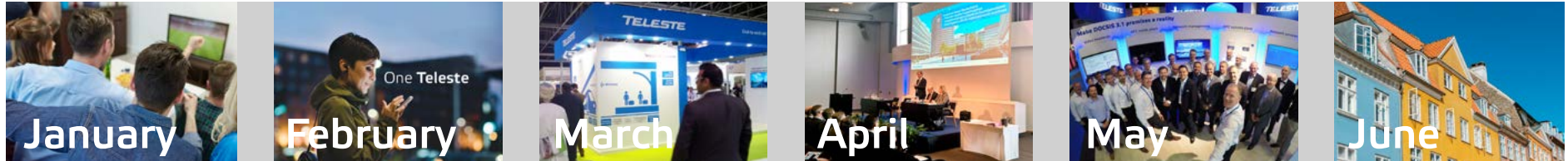
A global field of operations as well as local presence, with 1500 experts in over 20 countries.

A comprehensive product range that meets the needs of our clients, with supplementary services as well.

An inspiring work community, highly talented and skilled personnel, and competitive salaries.



Events in 2016



In early 2016, we exhibited our hospitality TV and broadband solutions at Integrated Systems Europe in Amsterdam. In partnership with Samsung Electronics, we introduced an all-in-one IPTV solution for the hospitality sector that provides a simple way of bringing IP video and interactive services to guest rooms. The solution makes it possible to utilize existing in-room coaxial cabling to bring high-speed Internet access and Wi-Fi to guests with minimal infrastructure investments and without any heavy installation work. With the solution, hotels can provide their customers with a premium guest experience during their stay.

At the beginning of the year, we launched a corporate project that aims for a brand reform, One Teleste. The objective is to harmonise Teleste's brand and visual image. Moreover, we want to find a new way of communicating about ourselves.

We want to be more human-oriented and customer-centered.

The reform will progress step by step. According to the plan, most of the subsidiaries will be operating under the Teleste brand by the end of 2017.

At the beginning of March, Teleste participated in the Middle East Rail 2016 fair in Dubai, exhibiting its end-to-end solutions for the rail industry. Teleste's rail solutions join all video management and passenger information systems, as well as fixed systems of stations and systems of mobile trains, into one application.

This enables real time communication between all devices and auxiliary systems. An end-to-end system improves the safety, reliability, and efficiency of rail transport and cuts operating costs.

The Annual General Meeting of Teleste Corporation held on 7 April 2016 adopted the Board of Director's proposal to pay a dividend of EUR 0.23 per share for 2015.

Timo Miettinen started as the new Chairman of the Board of Directors and Timo Luukkainen as a new Board member. Pertti Ervi, Jannica Fagerholm, Esa Harju, and Kai Telanne continue as Board members.

KPMG Oy Ab, Authorized Public Accountants, was elected as the auditor of the Company and KPMG Oy Ab appointed Mr. Petri Ketunen, APA, as the principal auditor.

Teleste participated in one of the most important events in the industry, the ANGA fair in Cologne, Germany.

At the fair, Teleste exhibited its state-of-the-art expertise in DOCSIS 3.1 standard-based technology and the company's comprehensive product range.

During the year, Teleste crossed the line of 100,000 delivered units of access network products complying with the DOCSIS® 3.1 standard and sold over 500,000 units of AC network products.

In June, Teleste signed an agreement with the global telecommunication company Huawei on the upgrade of the Danish TDC Group's cable network.

The upgrade project is significant on the European scale: when finished, it will be the first complete upgrade of a cable network to comply with the DOCSIS 3.1 standard. By investing in DOCSIS 3.1 upgrade, cable operators can revitalize their existing cable network assets to compete successfully with Fibre-To-The-Home operators.





July

In July, Teleste received an order to deliver an S-VMX video security solution to the Paris police. Préfecture de Police is one of Teleste's most important reference customers. The IP-based video security camera system has been expanded several times over the years. Today, it includes approximately 21,000 cameras.

Video security systems for public urban areas are designed to facilitate traffic management, maintenance of order, crime prevention, rescue work, and efforts to counter terrorism.



August

In August, the Finnish Minister of the Interior Paula Risikko and her entourage visited Teleste. At first, they visited our modern Lean production facilities, after which we described our operations and goals, state-of-the-art technological solutions, and our presence in the international markets.

Teleste values ministerial-level visits highly, because they provide an opportunity for companies operating in the regions to introduce themselves.



September

The Virtual Smart City Startup co-operation project with the University of Turku, financed by Teleste and the City of Turku, was launched in September. The participants include students from the University of Turku, and the objective was to find applications that make life in the city safer and more comfortable.

The City of Turku wants to improve the appeal, vitality and competitiveness of the city also from the perspective of entrepreneurship, employment, and innovativeness. For Teleste, the project offers a unique opportunity for new innovations.



October

In October, Teleste's subsidiary Mitron signed a frame agreement with Swarco Sverige AB concerning the delivery of passenger display equipment to the Swedish Transport Administration, Trafikverket. The agreement covers the delivery of real time RGB-LED passenger information displays for train stations in Sweden.

The displays are meant for outdoor use and demanding weather conditions.

The agreement is a continuation of the long collaboration between Mitron and Swarco.



November

About a year ago, Teleste launched the innovation programme 'Successful future – smart ideas today'. The objective of the programme was to develop Teleste's innovation culture.

The programme resulted in approximately 70 ideas for smoother running of the company's operations. Many of the ideas have been implemented in practice; they have been described in the company's publications and some of them have received the Idea of the Month award.



December

As of the 1st of December 2016, Board member Esa Harju was appointed a member of Teleste's Management Group. He is in charge of Video Security and Information business. Due to the appointment, he resigned from Teleste's Board of Directors.

At the same time, Teleste's Deputy CEO Johan Slotte took the position as the Management Group member in charge of Teleste's operations in Germany, Switzerland and, Austria (DACH). In addition, Mr Slotte continues to head corporate business development and legal affairs.





Records are made to be broken

Our financial achievement in 2016 was good. The year 2016 ended with record-level net sales and operating profit. The precious record-breaking year had set the standard high, but we succeeded in improving our financial performance still further. Our success early in the year continued strong, but the last part of the year was clearly more challenging.

Our net sales increased by 4.8 per cent to EUR 259.5 million (2015: EUR 247.8 million), and our profit by 9.3 per cent to EUR 15.6 million (2015: EUR 14.3 million). Orders received achieved last year's level, being EUR 244.3 million (2015: EUR 251.3 million).



The operating environment continued to be very positive. Demand for access network products increased in the first part of 2016, but levelled off towards the end of the year. Cable operators strengthened their position in the competition for broadband customers and invested actively in Europe in technology that complies with the new standard. Progress with new customers was promising, but orders received were postponed resulting from delayed investment decisions. In video security and information solutions, the markets remained stable, but delays in investment decisions reduced the order intake. Demand for access network services remained on a par with the previous year. In particular, we were glad about the high sales volumes of the new services that we had earlier launched in the British market.

There were many factors affecting the development of profitability. In access network products, the average margin increased slightly, even though the introduction of new products in production increased our costs. Our services business was profitable in the UK, but in Germany it turned into losses. This turn was largely due to the service area changes that we had agreed on with our main customer. Starting operations in a new service area did not go as planned. We immediately responded to the challenges by starting an extensive action plan to improve profitability in Germany.

In addition to financial success, we have reason to be proud of a number of other achievements. We received new important customers and signed framework agreements which we expect to lead to new orders in 2017. Our market position strengthened, particularly in Europe. Through our extensive product development effort we have developed products for the European

market that comply with the DOCSIS 3.1 standard, and now our offering covers the needs of the entire network. We have already delivered more than 100,000 access network products that comply with the new standard. Now we are adapting the products to meet the requirements of the North American market. In video security and information solutions, we launched new product and service concepts and improved the quality of our products.

One Teleste

One of our most important internal projects was related to the definition, mission, and objectives of Teleste's existence. Over the years, Teleste has promoted its growth through a number of acquisitions. We had reached a situation in which we operated under different names and, to some extent, different corporate cultures. We launched the One Teleste project last year and specified the harmonisation and strengthening of the Teleste brand as our goal. We formed teams representing different parts of the organisation and had productive discussions in a good spirit.

The result of the work culminated in the new visual image and new messages which we released in the latter part of the year. We aim for more customer-focused communication. Some of the company names became history and some continue under the Teleste brand. This reform gave us plenty of new energy. We now continue our work for the success of one Teleste as an even more solid team.

An interesting year ahead

The speed of change seems to continue increasing in the world, which is why it will always be slightly harder than before to

One Teleste

We are big enough to be able to influence the development of digitalisation and the networked society, but at the same time compact enough for each person in the company to be able to influence its development.



anticipate the future. The political events in 2016 certainly did not make the outlook for the future any clearer. However, the megatrends are on our side. The need for high-speed broadband connections and, in particular, the use of video will continue to increase. In an urbanising environment, safety and public transport will become more and more important. New technologies enable the development of new products and services. These trends will continue to promote Teleste's success in 2017.

Our strong market position is another factor that forecasts a positive outlook for us. Our customers are increasingly large players who centralise their purchases; turnkey deliveries are becoming more and more common. Deliveries are becoming larger, but there is also a negative side to this: the risks are higher and the price erosion continues.

This year will be full of activity with a long list of planned measures to be implemented. The results of these measures will not materialise immediately. Therefore, this year we will focus on enabling future growth and profitability. After seven consecutive years

of improved performance, we estimate that 2017 will be a gap year in terms of growth and improvement of profitability. We estimate that demand in our market continues strong, but the scheduling of investments by our customers varies. As a result of the low order backlog early in the year, the weight of net sales and operating profit will be on the second half of 2017. In addition, we are preparing to reorganise and adapt the services we provide in Germany. In North America, the markets in our field of business will grow significantly. Investments in new market areas will increase our costs to some extent in 2017. With these measures, we will ensure our opportunities for profitable growth in the long term, but we estimate that net sales and operating profit for 2017 will remain below the 2016 level.

I would like to thank our customers, partners, and employees for their excellent co-operation, which I hope will continue in a good spirit. I would also like to thank our shareholders for their strong support, which provides us with the opportunity for long-term development of our business. ■

Jukka Rinnevaara
President and CEO



Megatrends behind the strategy

Teleste's most important megatrends can be identified in everyday life. The Internet is becoming more important day-by-day. The growing demand encourages operators to invest in their networks and expand their service range. The use of video continues to rise, and most of the content published on the Internet is already in video format. Traffic increases due to rapidly progressing urbanisation, and the negative consequences of it must be reduced to curb climate change. People's needs for security and information are also growing. New technologies enable the development of more intelligent solutions.

Increasing use of video and data

Internet use is growing rapidly and the need for network capacity doubles every 18 months or so. People's needs and quality requirements are increasing, and the use of video in particular requires high network capacity and 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 any time, anywhere, and on many different devices. Computers, tablets, and smartphones are now used alongside traditional TV. Responding to the wishes of Internet users requires operators to invest in the network, meaning increasingly

efficient and high-quality network capacity in both directions, which in turn allows for a wider service offering.

Increased safety by video security

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

Smoothly flowing, clean traffic

Globalisation and urbanisation are also reflected in the strong growth in traffic

volumes. To curb climate change we must further reduce traffic emissions and focus on increasing the share of public transport. People want to get around smoothly and safely, and this can be supported with increasingly accurate video security and passenger information.

Rapidly developing technology

Video and data transfer technologies continue to develop swiftly. New technologies enable a better user experi-

ence, but they also create new ways to deploy and use networks. Networks are equipped with smart technology that can enhance capacity use and improve the quality experienced by the user. In the network, smart features are coming closer to the user. Devices are also developing rapidly. They talk to each other and with their users. Interactivity generates new kinds of commercial activity and earning models. ■



Teleste's strategy

Mission

We make your everyday life smart, safe and smooth.

Vision

Best partner for networked society.

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

requires 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.

In life, a lot happens during the course of the single 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.

Strategy

Close to the customer and keeping promises



The search for new growth areas



Developing a competitive product offering in access networks



Strengthening innovative services for access networks



Strengthening end-to-end solutions in video security and passenger information



Improving the productivity of our own operations



Values: Customer-centricity, respect, reliability, result orientation



Teleste's strategy up to 2020

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 for its customers and a preferred employer, and to grow profitably. To achieve these goals we have created a strategy with six specific priorities.



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. We operate globally and seek growth in North America and the Middle East, among other places. Teleste's offering also makes it possible to expand the company's customer base from cable operators to telecom operators and to provide an increasingly broader range of products and services to existing customers.

Teleste's market position in Europe continued to strengthen in 2016. Clear improvement was seen especially in access network products and among the key video security customers. To enhance its customer-centred approach, the company reorganised its video security and information solutions operations. The quality of information solutions was improved, for example, in the fields of product development and testing.



The search for new growth areas

In addition to new geographical growth areas, Teleste continues to explore new areas of expertise to expand its offer. Our customer base shows an increasing need for comprehensive solutions and services. Continuous technological development also provides our R&D with new growth opportunities. We can extend our product offering based on our own product development and in co-operation with our partners.

In 2016, our most significant market expansion measures focused on access network products in North America, where operators are very interested in developing their networks. We boosted our video security and information operations by expanding the global partner network. The Middle Eastern market provided new opportunities in video security. Teleste also set up an internal New Business process, which is used to survey and promote new business opportunities.





Developing a competitive product offering in access networks

Network capacity building and quality improvement continue

to drive the demand for technology, and in this business technologies are developing fast. Teleste is a pioneering developer of technologies 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 to them. We also pursue the development of new technologies, such as distributed architecture, which enables high-speed data services over the coaxial network. New access network solutions add to the intelligence of devices close to the end-users, and it is this added intelligence that makes it possible to cost-effectively increase network capacity and improve quality.

We continued to upgrade our access network products to comply with the DOCSIS 3.1 standard. We have delivered over 100,000 products designed for the European market and today our product portfolio satisfies all the needs of the access networks. The products must still be adapted to the North American market. Product development continued in this field throughout the year.



Strengthening innovative services for access networks

Teleste's competitive advantage in access network service

is based on a comprehensive offering, as well as our technological know-how, installed base and local presence. The demand for services is growing thanks to outsourcing becoming increasingly popular among customer segments and customers showing a growing interest in concentrating their purchases. Teleste seeks to increase the number of high-yield value-added services, such as design and consultancy, as well as services that reduce the customers' overall expenses.

The profitability of services developed positively in the UK market, thanks to our high-yield value-added services achieving adequate sales volumes. However, the performance of our German operations declined. In response, we launched several measures at the end of the year in order to boost operational efficiency and profitability.



Strengthening end-to-end solutions in video security and passenger information

Teleste offers comprehensive solutions to its chosen cus-

tomers, using both its own and third-party products. In the public transport segment, our range consists of video security and passenger information solutions, featuring wireless data transfer and real-time video. In other segments, such as public space security, our range consists of Teleste's own video management software with integrated third-party software and hardware products. Significant growth opportunities can be achieved by combining video security and information products in our sales and supply. Our product development therefore focuses on wireless solutions, mobile applications, display technology, and the creation of software linking different systems.

Teleste continued to develop its offer in 2016, taking advantage of its solid competence in video security and information technologies. We redefined our product and service concept and introduced new comprehensive modular solutions for rail traffic. Mitron was integrated into Teleste and its processes were streamlined. In this context, we also renewed our business organisation, making it more customer-oriented, and added airports as an independent customer segment. We improved the quality of information solutions in various ways and consequently secured the trust of new, important customers.



Improving the productivity of our own operations

To maintain Teleste's competitive edge, we keep an eye on the cost-effectiveness of our

operations. We monitor profitability continuously and respond to any deviations rapidly. Flexible production helps us tackle the seasonal variations in demand that are typical of our industry. We seek to employ the most effective tools and the best practices throughout the organisation. Well-being at work is a major factor in maintaining productivity.

The development of the Teleste brand was one of our key tasks in 2016. Over the years, Teleste has boosted its competence through numerous acquisitions. Some of the acquired businesses have retained their name. To strengthen the Teleste brand, we launched the One Teleste project and conducted a comprehensive survey of the situation. Based on the results, we decided to move some of the operations under the Teleste brand and let others continue under their own name. The new company look, core messages, and an increasingly harmonised operating culture strengthen the value of Teleste and improve the company's ability to provide service true to its promises.

Teleste complies with strict principles of corporate responsibility, ethical guidelines, and environmental management systems. We strive to take into account all our interest groups and their needs, as well as to produce value for them. In 2016, we defined of corporate responsibility as a development area of its own and allocated additional resources to it. Within HR management, we continued our efforts to improve well-being at work and enhance leadership and supervisory work. To make our operating methods more efficient, we also introduced virtual teams.



Faster internet connections and safer living environments

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 research on the underlying technology. In this area, Teleste collaborates with universities, universities of applied sciences, and other research institutes.

Experienced and skilled R&D personnel and continuous development are key success factors for Teleste. 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 that we must be able to master ourselves to ensure our success today and in years to come. The other necessary 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', with our key customers with the focus on future technologies, enable the testing of new ideas before investing in them, 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 an exaggeration to say that the speed of commercialisation with regard to technological innovations and our customer-driven way of operating 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 systems. The essence of the access networks business is our ability to cost-efficiently design product solutions suitable for large production volumes. On the other hand, cable operators' video processing solutions require end-to-end solutions 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- and mar-



Teleste's Senior Designer / EMC Mikko Nurminen is conducting electromagnetic compatibility (EMC) measurements in laboratory conditions at Turku University of Applied Sciences.

ket-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 2016, the strategically most important priority with the highest level of R&D input was the further development of access network devices. The new standard versions of the DOCSIS technology (Data-Over-Cable

Service Interface Specifications) have enabled more broader frequency ranges for network devices, as well as the distribution of broadband functions into network devices. Read more about the latter, so-called distributed architecture, on the following page. Innovations introduced by the new standards will make it possible to provide the consumers with significantly faster internet connections. ■



DOCSIS 3.1 improves broadband speed and quality

The growth of IP traffic has been intense for many years now, and this growth is expected to continue strong in the coming years. This development is greatly promoted by the viewing of IP-based video (known as 'streaming'), which will lead to a huge growth in the need for network capacity. The new services and applications that require more broadband, such as the UHD (Ultra High Definition TV), Internet TV (the so-called OTT, Over The Top), and cloud-based applications, necessitate DOCSIS 3.1.

The DOCSIS 3.1 standard supports high speeds of IP traffic transmission, useful for a variety of internet services, while, in particular, the clearly higher return path 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 DOCSIS 3.1 compliant access network products.

A new wave of reconstruction

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 in the network compared with the so-called Fibre to the Home technology. For the next 10 to 20 years, DOCSIS 3.1 will provide the cable operators with a competitive plat-

form for IP-based services. While all operators may not start using the new standard in the near future, it is still recommended to be kept in mind when considering network investments with a technical service life expectancy of clearly over 10 years. An investment decision made today will have an effect long into the next decade.

DOCSIS 3.1 and Teleste

Teleste is committed to developing a comprehensive offering of access network products that supports the new frequency bands of DOCSIS 3.1 in both directions. DOCSIS 3.1 brings new value to the operator and consumer alike 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.

Changes 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 further 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, for example, this has meant investments in new measuring instruments and training. ■

Distributed Architecture in cable networks

When it comes to building data traffic networks, an alternative to traditional architecture is emerging: distributed architecture. In distributed architecture, some of the functions are decentralised, deeper into the data traffic network.

The traditional architecture of a cable network is based on the service centre's DOCSIS centring devices, video service platforms, RF switches, optical transmitters, and receivers. In the centre, the digital video and data signals are transformed into analogue form. These analogue signals are then transferred through optical fibres to nodes, where they are modified again, this time to be compatible with the coaxial cable subscriber network.

In distributed architecture, on the other hand, rather than analogue optic transfer the method uses digital transfers, mostly 10 Gbps Ethernet technology. By transferring the data-converted portions out of the service centre from digital to analogue, what remains are the service-specific applications and algorithms. In the future, it will be possible to realise these on general-purpose platforms, and even to transfer them to cloud servers. Compared to the traditional architecture, distributed architecture does not bring any changes to cable subscriber networks.

The advantages of distributed architecture are many: more efficient and effective use of optic fibre, longer optical transfer distances and error-free optical transfers, independence of coaxial transfers from the optical link and cheaper optical technology, smaller operating costs, and savings on space and power consumption in existing service centres. It's conceivable that within a certain period of time, distributed architecture will replace the traditional, centralised technology. But the transition will take time, and for the years to come there will be demand for both types of architecture.



Mitron displays make travel easier for passengers

Passenger information displays play a key role in the running of public transport. They are used for guiding large streams of passengers as well as ensuring a successful journey for individual passengers. Teleste's Mitron display product family offers various display solutions for rail and urban transport – outdoors, indoors, and on board vehicles. The Mitron product family comprises a number of different display technologies, offering a suitable solution for each situation depending on the use and the customer's needs. First and foremost, Mitron displays are famous for their excellent quality, superior visibility, suitability for challenging operating conditions and environments, as well as their long service life.

Solutions for different customer needs

Mitron displays have a long history – they have been developed and delivered for demanding customer projects around the world for over 25 years. Teleste's long experience in different operating environments of passenger information displays guarantees its ability to provide optimal solutions for customer needs, meeting the strictest quality requirements. In addition to Mitron standard displays, Teleste provides customer-specific tailored display solutions. Various integrated additional solutions can be included in displays according to the customer's needs, such as a camera or loud-speaker integrated inside the display and various wireless communication solutions.

Totally weatherproof display solutions

The Mitron display selection has been designed for continuous 24/7/365 use. It is

an excellent choice for the most demanding operating conditions and environments. The structure of Mitron outdoor displays is designed to withstand the weather so that they are not affected by extensive changes in outdoor temperatures or air humidity. Various vandal-proof solutions ensure that Mitron displays can be safely placed in public areas where it is essentially important to be able to trust the continuous availability of the equipment.

Excellent visibility and readability

Mitron displays are an excellent choice also for conditions in which sunshine and reflections affect readability. Mitron displays provide automated brightness control as a standard feature. This combined with an anti-reflective front glass ensures maximum contrast and excellent visibility of information in any lighting conditions.



Ecological and energy-efficient displays

Ecological values are emphasised in the design of Mitron displays. In practice, this means low energy consumption, a long service life, and a high recycling rate of the materials. Unlike many other commercially

available display solutions, typically with a maximum service life of only a few years in continuous use, Teleste guarantees a service life of up to ten years for its displays. ■



Trends in the VSI unit

Trends in the video security and information unit are generally favourable, although there are also some risks. The most important trends that affect the unit's operations are:

Markets: Increased importance of software products and the entrance of new competitors

Emphasis is transforming from hardware products to software and services. Global market development is accelerating, causing increased price erosion. Consolidation of competitors continues and new large competitors emerge.

Customers: New customer demands and new business models

Customers demand mobility, open software solutions, speed, real-time access, and easiness of use. New business models are required.

Security: Increased demand for secure solutions

New safety solutions are emerging and requested more often. Public safety is a top priority. End-user privacy is more and more important.

Technology: Increased need for open solutions and utilization of data

Technology is moving faster than the need for new technology. Demand for open solutions increases. Personalization continues. Data is more and more important.

People: Increased competition of talented personnel.

New competence requirements and challenges for attracting and keeping talented people increases.

These trends obviously affect Teleste's operations, and the company has identified measures for taking advantage of the positive trends and minimising the possible negative effects.

As of December 2016, responsibility for the VSI unit has transferred to Esa Harju. The former head of the unit, Johan Slotte, has, in addition to various other functional responsibilities in the Group, also taken over coordination of operations in Germany, Austria, and Switzerland. ■



Johan Slotte
Deputy CEO

From video surveillance to video security

Traditional video surveillance solutions have either been designed for limited spaces such as shopping malls or buildings, or for wide areas such as city centers, public transport, airports, and roads. Most of these systems are designed to deliver video for a single context. One of the main challenges is how to aggregate different video systems into a single system, as replacing existing systems with new ones is both expensive and very time consuming.

Teleste's innovative approach

Teleste has developed a unique expertise that designs and offers a full array of technology diagnostic tools in order to integrate different video sources under its S-VMX umbrella providing a smooth integration of different video sources and technologies.

As part of this toolset, Teleste offers multiple tools such as native integration of third party video management systems, generic protocol integration, its universal integration tool Command& Capture®, cloud based video streaming or recording, satellite video streaming, and mobile or portable video devices. The solution provides authorities aggregated and unified video content, which is the cornerstone of any situational awareness system. All video content included in the system, is immediately available to first responders and other relevant security and safety stakeholders based on a strict access control, encryption process, and pre-defined user rights.

The spill-over effect in the Paris area

The Teleste vision has been successfully deployed in Paris where the Teleste system is planned to be expanded into a system with more than 50,000 cameras. This expansion is to a large extent based on integrating third party systems such as metro and rail network systems, small or medium city security systems as well as large entities such as systems in the Paris Charles de Gaulle Airport into the Teleste system. The initial system has also developed from standard video definition to High Definition and full-High Definition video, and is evolving to Ultra High Definition 4K video sources.

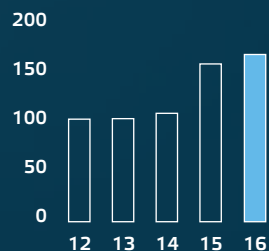


Video and Broadband Solutions

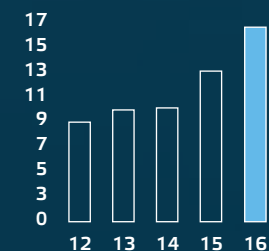
A year of strong growth

Video and Broadband Solutions increased its turnover by 6.4 percent, to EUR 164.2 (154.4) million. Demand for access network products, and video security and information solutions also remained stable. The operating result grew by 29%, amounting to EUR 16.5 (12.8) million, i.e. 10% (8.3%) of turnover. Among the contributors to this increased operating result was the positive development of profitability. The business area employs 747 (697) people on average.

VBS net sales,
MEUR



VBS operating profit,
MEUR



Share of net sales

63%

Share of personnel

49%

Multimedia Polska selects Teleste for their next generation tv services platform



In January Teleste reached an agreement with Multimedia Polska the development of a next generation TV content delivery system. With this investment, Multimedia Polska is aiming to be in the forefront of European TV services innovation. Under the agreement, Teleste will deliver best-of-breed video processing and Content Delivery Network products and technologies. Additionally, Teleste Ubique SW Suite will be used to control streaming video delivery to various consumer devices. Teleste is also acting as the overall system integrator of the service platform.

Multimedia Polska is a leading nationwide cable operator, provider of digital television with video on demand, broadband and cellular data, fixed-line and mobile voice. The company offers the full triple play combo: video, voice, and data together with other services. Multimedia Polska operates across Poland in around 2000 cities and towns. ■



Telecom Italia upgrades Siena's TV distribution network.



Telecom Italia deploys Teleste's optical network products to upgrade TV distribution network in the city of Siena. The first phase of the project was carried out in 2016 and included the upgrade of the optical headend at the central office which now guarantees high-quality TV services to all of the 24,000 service subscribers in the area. In addition one third of the optical nodes and RF-amplifiers in the network were upgraded.

With Teleste's products, the existing cable network can be utilized for TV distribution network upgrades. The solution makes it possible to bring TV services to customers without re-cabling which could harm the value of Siena's historic city scene.

The deployment guarantees high network performance and adaptability to future service requirements. In addition, the advanced HFC network management and innovative product features, such as remote adjustments, improve service quality by streamlining operations and preventing service outages. ■

UEFA Euro 2016 in France

The preparations of the football European Championships involved massive security measures. Teleste's systems were used for purposes such as ensuring the security of the areas adjacent to the stadiums, as well as the Eiffel tower and the surrounding fan zone. The authorities that Teleste co-operated with in France included the Greater Paris Police Department (Préfecture de Police) and various French ministries.

Teleste's video security system covering Paris and its adjacent areas is one of the most extensive systems in the world, currently consisting of more than 21,000 cameras. The plan is to expand the system so that it will cover all of France with more than 50,000 security cameras. In this type of demanding security project, the cameras, recorders and workstations of multiple sites, as well as the systems delivered by other suppliers, are networked into one uniform video security system.

The video security system has previously been used, for example, to ensure the security of the UN Climate Conference and for the investigation of the Charlie Hebdo terrorist attacks in Paris. In the latter case, a significant technical feature of the system was utilised: a person or vehicle visible on camera can be automatically followed on the map and from one camera to another. Teleste's systems are often connected to other systems, such as traffic control, alarm, and crisis management systems.

The Paris project has been financially significant for the company, but it is also an important reference, providing new opportunities in other major cities of the world.

The current growth of insecurity in the world and the threat of terrorist attacks will continuously increase the need for surveillance in the future. Teleste's comprehensive video security solutions have been developed to ensure the security of urban areas and their residents and to promote smooth road, rail and air traffic. ■



Network Products

Market growth continues

Development throughout 2016 was largely a continuation of the Network Products operations of the previous year. Thanks to the growth of broadband traffic, investments by our clientele, i.e. cable providers and operators, the development of the access network remained active.

The volume of orders in hand at the start of 2016 were at a record high, which kept Teleste's delivery personnel busy until the autumn, despite the increases we made in production capacity. Growth in turnover slowed down somewhat in the autumn, because the projects of some clients did not exactly go according to plan, and some deliveries were delayed until 2017. Profitability was also helped along by a levelling off of the aggressive price competition on certain products in the past, but at the same time initiation of new product production brought an increase in costs.

Teleste's clientele remains largely unchanged. Due to the mergers that have

taken place in the sector, increasingly many clients have become suppliers that concentrate their procurements on certain chosen partners. One of Teleste's first contracts of sale of 2016 was with Poland's leading cable operator, Multimedia Polska, on the development of a new type of distribution platform for TV content. This includes, for example, video processing products, a solution for content distribution, and the related technologies. At the end of the year, Liberty Global announced that its subsidiary UPC Poland has entered into an agreement to acquire the cable business of Multimedia Polska S.A. The transaction is subject e.g. to regulatory approvals.

Another notable deal we made in 2016 was the signing of an agreement with the global telecommunications company Huawei on the upgrade of the Danish TDC Group's cable network. That project is unique in many ways. For one thing, the network will be completely renewed, on a tight schedule and all at once, to comply with the

DOCSIS 3.1, thereby providing clients with 1 Gbps broadband services. Another unique feature is that the choice of TDC to order the procurement as a turnkey project from the Chinese company Huawei demonstrates the interest of telecommunications companies in sharing the cable operators' markets. For Teleste, the network renewal will be an impressive example of our ability to cooperate despite the partially competitive nature of the arrangement.

DOCSIS 3.1 products ready

Teleste's strong development in Network Products operations largely rests on the products that comply with the DOCSIS 3.1 standard, which was published in 2014. That standard enables faster access network broadband speeds, and the creation of higher-quality features at competitive prices. European operators, in particular, have been quick to launch development projects of their networks to take advantage of the benefits of this standard.

At an early stage, Teleste began to invest in developing products that complied with the DOCSIS 3.1 standard, and have brought these to market at a fast pace. During the year, Teleste crossed the line of 100,000 delivered units of access network products complying with the DOCSIS 3.1 standard. Having a broader product range than our competitors has helped not only Teleste's turnover, but also the growth of our market share.

To new markets

Our Network Products operations for 2017 got underway with positive expectations. The operators invested in their networks in order to offer their customers more comprehensive services than ever, and even higher-quality connections. The competition for customers is won by having faster-than-ever connections.

Having achieved a strong position in the European markets, Teleste is now investing in broadening its market area, above all in North America. The markets there are many times bigger than in Europe, and cable operators are undertaking major network investments.

Our competitiveness in new markets is good, especially in networks using the DOCSIS-technology. This is because Teleste has demonstrated expertise in that area, and has a comprehensive product range using that technology. Compared to the products of our American competitors, Teleste's products are more compact, smarter, and guarantee lower operational costs. Teleste has already begun modifying its products in response to local market demands, and we have also begun the search for partners to obtain a sales network. ■

Network Products provides access networks, video headends and video-on-demand solutions and related services to cable operators. In access network products, Teleste is the market leader in Europe, and is a globally significant supplier of video headends. The access networks product range contains all components, from optical fibre solutions to amplifiers and passive components, such as antenna sockets. In video headends, the emphasis is on completely digital solutions. The services related to our product operations consist of systems design, quality-assurance consulting, maintenance of delivered systems, and training.



Video Security and Information

Step forward

For Video Security and Information, the year 2016 went according to plan in many respects. Customers' investments continued at a relatively stable level. However, towards the end of the year, decision-making in the public sector slowed down, possibly due to the increased political insecurity in many areas. As a whole, the business activities were at the previous year's level.

Significant success was achieved both in our co-operation with customers and in the development of our own operations. In the latter part of the year we were successful in competitive bidding and signed frame agreements on both video security and information solutions. These will result in orders in 2017. The signing of the new agreements required passing strict audits conducted by customers. Therefore, they are a proof of Teleste's successful work to improve its processes, quality, and testing methods. The improvements have strengthened Teleste's position among existing and potential customers alike.

Towards a customer-oriented organisation

The organisation of the business area used to be based on the product offering. However, in 2016, the areas of responsibility were organised more clearly in accordance with the customer segments. The division of segments was refined and joint operating methods were developed in order to serve our customers even better.

The organisational change also finalised the joining of the operations of Mitron (acquired in January 2015) and Teleste. The name of Mitron will remain in our information solution products.

At the beginning of December, there was a change in the management of the business unit. Johan Slotte, who was in charge of the unit, took over the responsibility for the co-ordination of the Group's business operations in Germany, Austria, and Switzerland, in addition to his Corporate duties. Esa Harju, who was a member of Teleste's Board of Directors, was appointed in his place.

New service concepts

The product development and marketing functions continued to develop our offering into the direction of comprehensive video security and information solutions in areas

such as rail traffic. These solutions improve passengers' safety and make it possible to provide more information and services. In accordance with identified customer needs, we launched two new concepts: the modular video security and information solution Teleste Rail and the service concept Teleste Care for Rail. Teleste Rail connects the different systems and technologies of trains and stations to each other, enabling, among other things, real time communication between trains and stations. Teleste Care for Rail is a flexible service platform that supports the Teleste Rail solution throughout its life cycle. Both concepts were received very positively by Teleste's customers.

Fairly positive outlook

Demand for video security and information solutions is expected to remain at a fairly high level during the year. The long-term

trends, such as urbanisation and climate change, promote demand for both video security solutions and information systems. In the short term, however, positive development of the world economy is required before we can expect any significant increase in necessary investments in public transport and the security of public areas.

For Teleste, the new frame agreements for video security and information solutions will be seen in long term net sales development. More growth will be sought in new market areas, such as the Middle East, and in the expansion of the current offering into new uses. ■

// The signing of the new agreements required passing strict audits conducted by customers.

Teleste delivers comprehensive modular video security and information solutions to the public sector, railway carriage manufacturers and traffic operators. Teleste's own products cover transmission, recording and management of video, as well as passenger information solutions. Teleste's applications are often joined together with other systems, such as traffic control, alarm and crisis management systems. Teleste has a strong market position in demanding video security projects and among the leading carriage manufacturers and traffic operators. Teleste's main market areas are in Europe, North America and the Middle East.

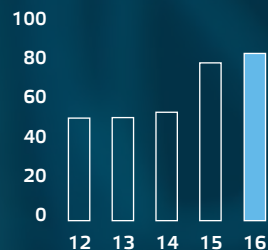


Network Services

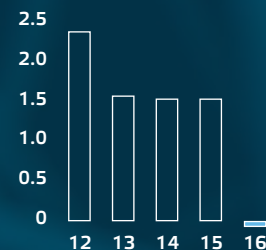
Fluctuating development

The Network Services business recorded net sales of EUR 95.3 (93.4) million, showing an increase of 2.1 per cent. Operating profit turned negative, amounting to EUR -0.8 (1.5) million. The dip in profitability followed on from the developments in Germany, whereas in the UK, the demand for new services increased and operations turned profitable. The major part of our services business sales originates in Germany and the UK. In other countries, namely Switzerland, Belgium and Finland, operations remained stable. The business area employed an average of 767 (788) people.

NS net sales,
MEUR



NS operating profit,
MEUR



Share of net sales

37%

Share of personnel

51%

Comprehensive network design services



Britain lags well behind many of its European counterparts, with just 3% of United Kingdom households and business premises able to get a true fibre connection today. Installing deep fibre infrastructure offers customers increased network speeds and capacities, reduced dependencies on third parties, as well as improved reliability and lower operating costs.

Teleste's subsidiary company Flomatik Network Services specialises in a wide range of consultancy services for the UK market. In addition, Flomatik produces over 500,000 homes of Fiber-to-the-Subscriber (FttX), and over one million metres of trunk and backhaul fibre design each year. With a bespoke development of mobile GIS software integrated to a full GIS application, Flomatik is able to provide high volumes of cost-optimised, quality assured plans with easy delivery. Supported by new talent and near-shoring across Teleste, a lean, scalable solution has been established.

Virgin Media is one of Flomatik's larger, longstanding clients, with a €3Bn investment programme to connect 4M new homes and businesses by 2019. Along with other major UK Operators and OEMs, they employ Flomatik's consulting, planning and engineering services extensively to deliver their next generation of infrastructure and services. ■



Teleste's service range varies depending on the country. We provide services with the highest added value, such as design and expert services, in Finland, Belgium, and Switzerland, while our German operations focus on installation and maintenance services. In the UK, we have introduced higher value-added expert services, such as consultancy, alongside traditional design and construction services. German services are provided by Teleste's subsidiary Cableway and UK services by Flomatik Network Services.

Downward trend in Germany

We took measures to boost profitability before the beginning of the year, making many improvements to the productivity and performance of services, expanding our range, and strengthening our personnel resources. Our UK operations turned profitable over the year, and our German business looked to be heading in the same direction, until it took a downward turn in the latter part of the year.

There were many reasons for the decline. One of them was the geographical relocation in southern Germany, agreed with our main customer. The measures taken to launch maintenance services did not succeed as planned. For example, the costs for subcontracted excavation exceeded the original estimates. The volumes in our services business remained stable, but fierce competition for customers kept the price levels down and the terms of contract strict. To achieve good profitability, the provision of services must be very efficient. We initiated corrective measures in the last quarter, and strengthened the entire German organisation in the latter part of the year. These measures will continue in 2017.

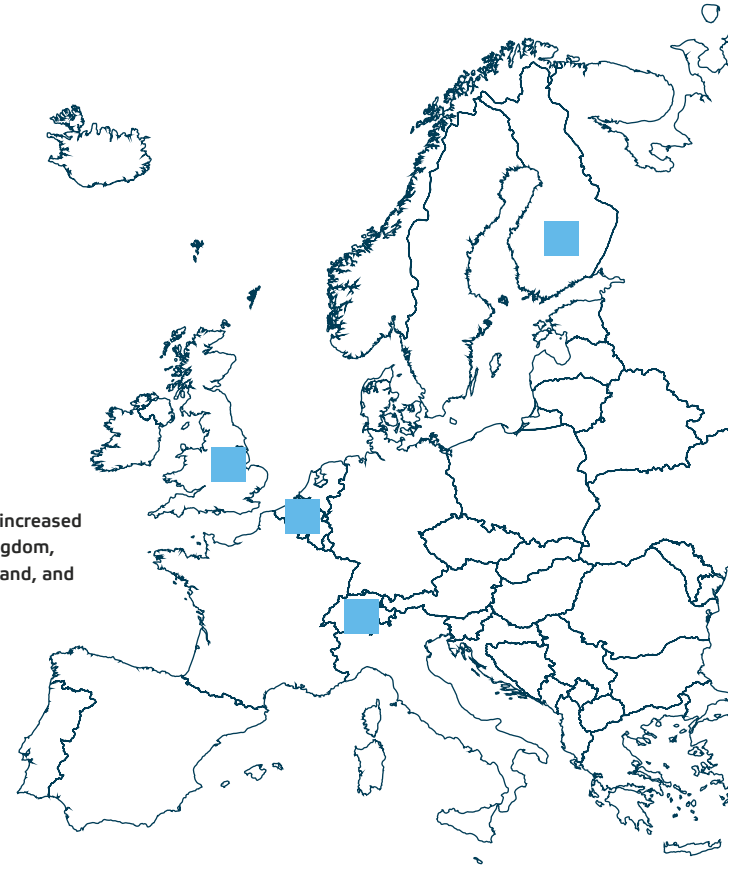
No major changes took place in the UK market. The demanding network planning services that Teleste launched in 2014 saw positive development, and the investments made in them began to show results. The field as a whole turned profitable in the latter part of the year.

Development through continuous improvement

The market for services looks stable in many respects, but many of our operating countries also show a clear growth potential. Long-term, good customer relationships benefit Teleste, as its customers grow in size and concentrate their purchases. This enables us to combine our products and services in ways that are beneficial to customers. In the development of our range, we strive towards high-yield, value-added services. ■

Several measures were taken to boost profitability by making improvements to the productivity and performance of services.

Operating profit increased in the United Kingdom, Switzerland, Finland, and Belgium.

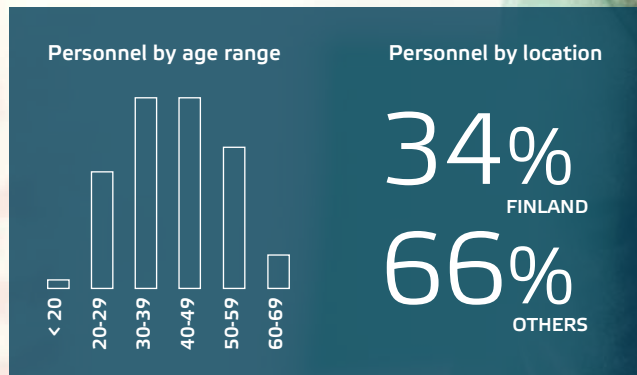


Network Services offers network design, installation, and maintenance, as well as professional services for cable and telecom operators across Europe. Our customers are often the leading players in their countries, and they aim to make available new services, such as high-speed Internet access, pay TV, video-on-demand, and telephony to their subscribers. Network Services operates in Germany, UK, Finland, Switzerland, and Belgium.



One Teleste – common rules

Teleste's competitiveness is largely based on motivated and skilled personnel. Teleste offers its employees challenging and varied tasks, the opportunity to develop their skills among the industry's best professionals, as well as an international work community. Well-being at work springs from meaningful tasks, a pleasant working environment, and a good work-life balance. At the end of 2016, Teleste had 1.511 employees (2015: 1.506). 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 (34%) and Germany (38%).



In 2016, Teleste carried out the extensive One Teleste project to promote harmonisation in the company and design a new harmonised visual image. Over the years, Teleste has grown through a number of acquisitions, and some of the acquired companies have kept their names. The situation was now reviewed and a decision was made to bring the operations of three subsidiaries, Asheridge, Dinh and Norwegian Flomatik, directly under the Teleste name. This process will continue in 2017; the company name of Mitron will be changed to Teleste Information Solutions, but Mitron will remain as a product name.

The driver of the change as a whole has been the implementation of Teleste's mission: building a networked society to make life smarter, smoother and safer for people. Teleste employees represent different backgrounds, countries and cultures. What they all have in common is Teleste and the goal of building a better future.

Improved ways of working

Teleste is a company with global operations, and international activities are part of our daily work. Virtual teams play an increasingly important role at Teleste. Global HR Community, the company's internal HR network, was established to support One Teleste and its staff. In addition, HR processes were harmonised and digitalised. We aim to manage HR affairs in a consistent, equal, and more efficient manner and also promote closer co-operation between employees representing different locations.

Focus on supervisory work

In 2016, Teleste carried out a follow-up survey of well-being at work. Compared with the previous survey carried out in 2014,

One Teleste

We aim for more customer-driven communication. Some of the company names became history and some continue under the Teleste brand.

This reform newly energises our operations. We now continue our work for the success of one Teleste as an even more solid team.



positive development was seen in many areas, but naturally there is still room for improvement. The strengths include a high motivation for work, encouragement of innovation and new ideas, good relations between colleagues, and commitment to work. In addition, employees feel that the goals set for the work community can be achieved. The most important areas that need improvement were, as before, supervisory work and communication, even though they had also developed positively.

In order to improve and support supervisory work and leadership, Teleste continues its Group-level leadership training programme. The objective of the training programme is to develop managerial practices at Teleste and to share good practices between supervisors. The target is to develop well-being, culture and spirit at Teleste and, in this way, create conditions paving the way for profitable growth in line with our objectives. The training programme consists of topical themes relating to the work

of team leaders. Three training sessions were arranged in 2016 under the themes 'Leading innovation in daily work', 'Leading virtual teams in international work environments', and 'Strategy and goal-setting'.

Focus on skills and competence

The development of technologies, products, and services, as well as continuous improvement of the efficiency of our operations, require solid expertise from our personnel. Teleste has a competence mapping system that has been specified according to the needs of the business. It was used to create competency profiles for the personnel. These profiles are used to steer the development of skills of teams and individual into the desired direction. The competence profiles are used to help in appraisal discussions. Sharing knowledge within the organisation and challenging assignments provide important means for developing personal skills.

Preferred employer

Teleste has a good reputation as an employer, and nearly all vacancies attract many candidates. Potential applicants are particularly interested in Teleste's technological expertise and the possibility of having a chance to evolve with it. Our close co-operation with educational institutions is designed to increase the company's visibility among potential employees, so as to ensure the availability of employees in the future. We also offer young people summer jobs, internships, and topics for theses.

On average, employees stay with Teleste for a long time. Many Teleste employees have made a long career in the company, developing solid professional competence and knowledge. They are committed to their employer and find their work very motivating. Careers will become even longer in the future and we take this into account by promoting well-being at work and a good work-life balance.

Teleste's incentive systems are based on achieved results, measured on the company and personal level. Incentives may consist 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. Therefore, they are naturally integrated into the work of teams and individuals alike. ■



Corporate responsibility at the core of strategy

The UN Association of Finland defines the components of corporate responsibility as economic, environmental, and social responsibility. Economic responsibility includes ensuring the commercial sustainability of operations, anti-corruption activities, and the payment of taxes. Environmental responsibility involves considering the environmental impacts arising from a company's operations, as well as their measurement and reporting. Social responsibility includes operating methods, labour practices, and working conditions that are fair and in line with human rights. Corporate responsibility is a customer requirement and, for example, ethical guidelines and compliance with them are an essential aspect of implementing corporate responsibility.

Teleste takes the aforementioned key aspects of corporate responsibility into account in the company's strategy, vision, core values, and Code of Conduct. Teleste's values are customer centricity, respect, reliability, and result orientation. Economic responsibility is addressed through customer centricity and result orientation: observing the operating environment, being open, and operating in a proactive manner. Being close to the customer now and in the future. Result orientation is ensured by making timely decisions, setting challenging goals, communicating them clearly and carrying things through. Environmental responsibility involves considering the full life cycle environmental impacts of products and monitoring development through indicators. Social responsibility is addressed in ethical

guidelines as well as through fair working conditions and practices.

Environmental friendliness is reflected in products that are long-lasting and serviceable. The environmental perspective is taken into consideration in product design and recyclable materials are used where possible. The environmental impacts of the products mainly consist of energy consumption during their use as well as their requirements concerning space and cooling. Taking environmental aspects into account throughout the chain ensures environmentally friendly products for customers.

Teleste's environmental management system is ISO14001:2004 certified and the next step will be to update it to comply with the certificate's new version, ISO14001:2015. In 2017, the visibility of environmental issues will be increased by

measures such as putting up an environmental board in a hallway in production.

Teleste also carries out an annual internal audit aimed at evaluating the efficiency of processes related to risk management, supervision, management, administration, and selected functions, as well as making proposals for their improvement. In addition, internal auditing carries out special tasks potentially assigned by the management.

Teleste has compiled GRI indicators for its operations and the results have now been monitored for a few years. The current level is now known and the next step will be to set targets.

Impact on society

Teleste is involved in building a networked world and creating a better future through video security and improved public transport through information. The fairness of operating methods is addressed in Teleste's Code of Conduct.

Teleste is also a significant employer. The newspaper Turun Sanomat and the Turku Chamber of Commerce listed the region's largest corporate employers for the ninth time in spring 2016. Companies were requested to report the number of employees they had in Southwest Finland at the end of 2014 and 2015. Teleste was ranked 29th out of 110 companies on the list. ■

Impact on society

Personnel expenses

72.6 MEUR

Corporate taxes

3.0 MEUR

Dividends for shareholders

4.2 MEUR



Virtual Smart City

The Virtual Smart City Startup project financed by Teleste and the City of Turku is the first initiative in the University of Turku's Intoa! Lean Business programme. In the project, students and researchers create solutions for a safer and smoother city in accordance with the challenge set by the project's cooperation partners.

The aim of the Virtual Smart City Startup project is to find applications that make life in the city safer and more comfortable while also potentially leading to new business opportunities. The project will gather together an interdisciplinary team of approximately 10 students from the University of Turku to combine expertise in business, law, urban research, and behavioural and social sciences. The selected team has at its disposal a budget of EUR 10,000 for product and business development as well as a board of directors consisting of financiers and external advisors.

"Teleste sees a unique opportunity for new innovation in the Virtual Smart City Startup project. The interdisciplinary know-how of the University of Turku and the fresh, technology-independent ideas of the students make it possible to find

solutions to the challenges of the modern city environment," says Jukka Rinnevaara, President and CEO of Teleste.

"The City of Turku aims to increase the attractiveness, vitality and competitiveness of the Turku region, also from the point of view of entrepreneurship, employment and innovativeness. Through smart choices and actions, the City of Turku can create opportunities for new and renewable business activity that creates well-being for the region. This completely justifies the city's participation in this cooperation project," says Pekka Sundman, Director of the City Development Group at the City of Turku.

"As an entrepreneurial university, we are always looking for ways to transfer knowledge from the university to businesses. For the University of Turku, the Intoa! Lean Business programme represents an entirely new kind of initiative aimed at closer cooperation with businesses as well as the strengthening of entrepreneurship and entrepreneurial approaches among students and faculty," says Kalervo Väänänen, Rector of the University of Turku. ■



The project was launched in September at ElectroCity Circus. In addition to CEO Jukka Rinnevaara, the concept was also presented at the event by Professor Kalervo Väänänen of the University of Turku, the City of Turku's urban development group director Pekka Sundman, and Entrepreneurship Programme Manager Mikko Pohjola of the University of Turku.



Innovative and environmentally friendly products



Design

Product development plays a key role in taking the product life cycle environmental perspective into consideration. A design-stage environmental assessment was added to Teleste's design process at the end of 2016. The first environmental assessments were conducted on the AC9200 product and the RPD module. The assessment participants were designers, the project manager, the quality manager and supervisors.

The decisions made in the design stage can help minimise the negative environmental impacts of a product throughout its life cycle. The decisions made during the design stage concern issues such as raw material sourcing as well as the manufacture, use and decommissioning of parts, components and the end product.

Environmentally conscious product design is aimed at reducing material volumes, lowering energy consumption and improving product quality:

Quantitative perspective

- Efficiency in using materials
- Minimising energy consumption
- Extending the service lives of products
- Improving product usability.

Qualitative perspective – minimising negative impacts

- Quality of inputs (materials and energy)
- Quality of emissions (production, use, waste treatment).

Decisions and choices take into account the full life cycle of the product and materials. The aim is to minimise the load on the environment at every stage. Minimising negative impacts means taking material choices and manufacturing processes into consideration. In manufacturing processes, focus is placed on their energy requirements and potential emissions.

Environmental assessments cover the following areas:

- Increasing the efficiency of material use
- Minimising energy consumption
- Extending the product life cycle
- Recyclability
- Reducing the use of hazardous substances.

Teleste also aims to determine the material balances of its products. In 2016, one product was submitted to an external party to calculate its material balance.

Modularity is one important starting point in product design, and nearly all of the HFC access network products are modular. The Luminato (digital headend platform) is also a modular product platform. Modularity has been selected as a technical-economic compromise and the benefits of modularity are reflected in the serviceability of the products and the versatility of the platform.



Production

Teleste's most significant sources of environmental impacts are energy consumption and the waste generated by the company's operations. Teleste's production operations comprise the manufacture, assembly and testing of electronics. All of the processes are environmentally safe. In late 2016, the company started a project to enhance the efficiency of waste processing by reviewing waste processing and the related instructions. The project will continue in 2017 with environmental training and a review of waste processing agreements. Teleste strives to always ensure that materials are from ethically and environmentally responsible sources. The company uses a third-party service to maintain and improve the necessary information pertaining to the legitimate trade of natural resources and supply chains in line with sustainable development. The third-party service monitors the origin of the raw materials used in standard components (conflict minerals, 3TG).

Production efficiency is maintained by using the lean management philosophy, which has also introduced a visual dimension to management. Process management and the maintenance of operational activities are highly visual. One aspect of quality development in production is the use of continuous improvement boards. Development forum





Distribution and services

follow-up meetings regularly review strategic development projects in production.

In 2016, lean methodologies were implemented in the production of the Mitron product family. This included a shift from line manufacturing to cell production, with the products completed one at a time. This has led to an increase in production efficiency. The use of the visual dimension has been increased substantially; for example, through the use of various information boards. The company has also adopted the 5S method. Developed in Japan, 5S is a method focused on organising workplaces and standardising working methods with the aim of increasing productivity. This is pursued by avoiding all kinds of waste, eliminating non-value adding activities, improving quality and safety as well as creating a visually pleasing and efficient workplace.

The carbon footprint of our logistics is mainly brought about by the transportation of materials and finished products. The carbon footprint arising from transport has been reduced by an effective forecasting process and by prioritising land and sea transport in customer deliveries. We have cooperated with our European supplier partners to develop shorter distances and flexibility. Since 2014, we have reduced the space requirements of our transports through measures such as packages that can be loaded on top of each other. In 2016, we changed the cover material of our packaging boxes from particle board to cardboard. The cardboard covers are lighter and easier to recycle than the old particle board covers.

In the service business, the main source of environmental load is CO₂ emissions from driving related to installation and servicing. Vehicle choices and route planning are used to influence CO₂ emissions. The environmental perspective is also taken into account by appropriately recycling the materials generated at installation locations. We have monitored our CO₂ emissions since 2013 and we have been able to maintain our emission levels largely unchanged for the past three years. Our aim is to maintain the current level of emissions by using low-emission vehicles and careful route planning.



Usage

Design takes into account the full product life cycle, including usability, service life and serviceability. The upgradeability of products with long life spans is part of the environmental perspective. Customer satisfaction is guaranteed by long-lasting and serviceable products whose energy consumption matches the set targets.

Teleste's products are also safe, both for employees during the production process and for end users. Teleste continuously develops its products to allow its customers, i.e. operators, to reduce their network electricity consumption relative to the amount of data transmitted. The general measurement used in the industry is W/bit, which is the amount of energy consumed to transmit one bit of data on the network. New DOCSIS 3.1 devices with an extended frequency range offer operators the opportunity to achieve a better bit per watt figure. Products completed in 2016 included the AC8810 and AC3210/3010.



Recycling

The waste generated by Teleste is appropriately recycled. However, the company will further enhance waste recycling and the location of recycling points in 2017. In late 2016, we analysed the waste we generate and the locations of waste collection containers and, in early 2017, we will review our contracts with waste processing partners.

Our waste volumes and the costs arising from waste processing were reduced in 2016 compared to the previous year.

More information on the recyclability of products will be obtained when material balance data becomes available on the first product being analysed. Teleste's products consist mainly of recyclable materials. Waste fractions from production are sorted and they can be almost entirely recycled or made use of for energy.





Esa Harju was a member of the board until 23 November 2016.



Timo Miettinen

M.Sc. (Eng.), born in 195
Chairman of the Board since 2016–

Timo Miettinen has acquired control over Tianta Oy, which owns 23.23 % in Teleste Corporation (stock exchange release dated 2 Jan 2017).

Principal occupation:

EM Group Oy, Member of the Board 2014–
Chairman of the Board 2017–

Primary working experience:

EM Group Oy, Chairman of the Board 2005–2013
Ensto Oy, CEO 1993–1995
Chairman of the Board 2006–2013
Member of the Board 2014–2017
Lännen Tehtaat Oyj (current Apetit Oyj)
Chairman of the Supervisory Board 2011–2013

Other elected positions of trust:

Ensto Invest Oy, Member of the Board
Alvar Aalto Foundation, Member of the Board
Deutsche Bibliotheks Verein in Finnland,
Chairman of the Board

Esa Harju

M.Sc.(Eng.), born in 1967
Member of the Board 2012–2016

Independent of Teleste and its significant shareholders

Primary working experience:

Independent Consultant 2015–2016
Ixonos Plc, President and CEO 2013–2015
Nokia Siemens Networks Finland Oy, CEO 2012
Nokia Siemens Networks, Head of Nordic & Baltic Region
2010–2012
Employment by Nokia and Nokia Siemens Networks since
1991

Other elected positions of trust:

Taiste Oy, Chairman of the Board 2016–

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:

Kesko Corporation, Member of the Board
Sampo plc, Member of the Board
Hanken School of Economics, Member of the Board,
Chair of Investment Committee
Veritas Pension Insurance Company,
Member of the Board of Supervisors

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:

Altia Group, Member of the Board
Varma Mutual Pension Insurance Company, Member of the
Board, Vice Chairman of the Board

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
Efecte Oy, Member of the Board, Chairman of the Board
F-Secure Corporation, Member of the Board
Chairman of the Audit Committee

Timo Luukkainen

M.Sc. (Econ.), M.Sc. (Eng.), MBA, born in 1954
Member of the Board 2016–

Independent of Teleste and its significant shareholders

Principal occupation:

Board professional

Primary working experience:

Ensto Oy, Managing Director 2009–2016
Evervent Oy, CEO 2007–2009
In France, England and in Switzerland during 1992–2008:
Member of the Management Group of French subsidiary of
General Motors
EMEA director of Hyster ja Movex -consortiums
CEO of Irrifrance
CEO of ABB subsidiaries 1985–1992
CEO of UPM Kymmene subsidiaries 1981–1985

Other elected positions of trust:

Varuboden-Osla, Deputy Chairman of the Board





Jukka Rinnevaara



Johan Slotte



Juha Hyytiäinen



Hanno Narjus



Andree Kang



Esa Harju



Pasi Järvenpää



Markus Mattila

Jukka Rinnevaara

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

Joined Teleste in 2002

Primary working experience:

ABB Installaatiot Oy, President 1999–2001
ABB Building Systems,
Group Senior Vice President 2001–2002

Other elected positions of trust:

Ventilation Holding Finland Oy,
Member of the Board
Finland Chamber of Commerce,
Member of the Board
Turku Chamber of Commerce, Chairman of
the Board 2012–2015, vice Chairman

Esa Harju

Video Security and Information,
Senior Vice President
M.Sc.(Eng.), born in 1967

Joined Teleste in 1.12.2016

Member of the Management Group
since 1.12.2016

Primary working experience:

Independent Consultant 2015–2016
Ixonos Plc, President and CEO 2013–2015
Nokia Siemens Networks Finland Oy,
CEO 2012
Nokia Siemens Networks, Head of Nordic &
Baltic Region 2010–2012
Employment by Nokia and Nokia Siemens
Networks since 1991

Other elected positions of trust:

Taiste Oy, Chairman of the Board 2016–

Johan Slotte

Deputy CEO
Regional Director of corporate operations
in Germany, Austria and Switzerland
Head of corporate business development
and legal affairs
LL.M, EMBA, born in 1959

Joined Teleste in 1999

Member of the Management Group
since 1999

Primary working experience:

Uponor Group, Various directorial positions
1989–1999

Andree Kang

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

Joined Teleste in 2012

Member of the Management Group
since 2012

Primary working experience:

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

Juha Hyytiäinen

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

Joined Teleste in November 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

Pasi Järvenpää

Research and Development
Senior Vice President
M.Sc. (Eng.), born in 1967

Joined Teleste in 1994

Member of the Management Group
since 2013

Hanno Narjus

Network Products,
Senior Vice President
M.Sc. (Econ.), born in 1962

Joined Teleste in 2006

Member of the Management Group since
2007

Primary working experience:

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

Markus Mattila

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

Joined Teleste in 2008

Member of the Management Group
since 2008

Primary working experience:

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



Information for Shareholders

Teleste share

Teleste Corporation is listed on Nasdaq Helsinki in the Technology sector. In year 2016 review, the company was raised into the mid cap segment. 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 2016 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 2016, the low was EUR 7.29 (5.32) and the high EUR 10.24 (9.88). Closing price on 31 December 2016 stood at EUR 8.86 (9.80).

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.

In Autumn 2016 Teleste updated its disclosure policy. In the future, Teleste will publish only the most significant orders as stock exchange releases. Teleste makes a case by case evaluation to determine, whether a purchase order meets the criteria set

for a stock exchange release. Additionally Teleste will regularly publish investor news and press releases of news in relation to its business and to orders received that are deemed to interest the company's stakeholders, but do not fulfil the criteria for a stock exchange release.

Financial releases in 2017

January–March 4.5.2017
Half year financial report 10.8.2017
January–September 9.11.2017
Financial Statement Release 9.2.2018

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

Changes in shareholders' contact Information

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

Annual General Meeting

Teleste Corporation's Annual General Meeting will be held on Thursday, 6 April 2017, 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 Monday, 27 March 2017 are entitled to participate in the Annual General Meeting.

A shareholder who wants to participate in the meeting shall register no later than Friday 31 March 2017 at 4 p.m.

Sign up to the AGM:

- Company website at: www.teleste.com/AGM
- investor.relations@teleste.com;
- phone +358 2 2605 611
Monday–Friday between
09:00–16:00 EET
- regular mail: Teleste Corporation,
Tiina Vuorinen, P.O. Box 323,
FI-20101 Turku, Finland.

Proposal for Distribution of Dividend 2016

The Board of Directors proposes to the AGM that, based on the adopted balance sheet,

a dividend of EUR 0.25 per share be paid for the fiscal year that ended on 31 December 2016. Dividend ex date 7.4.2017. Dividend record date 10.4.2017. Payment of dividend 19.4.2017.

More information: 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
- Share trading information and investment calculator
- Information on the shareholder meeting



One Teleste

FINANCIAL
REPORT
2016



WE ARE BUILDING A SMART, SAFE AND SMOOTH FUTURE

TELESTE



Dear reader,

Teleste's Annual Report 2016 is an interactive pdf. The contents list and footer's navigation contains links to the page, where information is located. The different features are explained below.



[Previous / Next page](#)



[Return to the Contents](#)

Content

Report of The Board Of Directors	1
Corporate Financial Statement	5
Statement of comprehensive income	5
Statement of financial position	6
Consolidated cash flow statement	7
Consolidated statement of changes in equity	8
Accounting principles	9
Segment reporting	17
Business combinations acquired during 2016 and 2015	19
Notes to the consolidated income statement and balance sheet	20
Financial Statement Of Parent Company	
Income statement	36
Balance sheet	37
Cash flow statement	38
Accounting principles	39
Notes to the parent company's income statement and balance sheet	40
Proposal for the distribution of earnings	45
Auditor's report	46
Corporate governance statement	50
Key figures	55
Calculation of key figures	56
Shares and shareholders	57

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 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.

Teleste continued to grow profitably in 2016. Net sales and operating profit were the highest ever in the company's history. The growth came from Video and Broadband Solutions. However, orders received were lower than the previous year, leading to a decline in the order backlog over the accounting period. Net sales of Network Services reached the level of the comparative period, but operating profit was predictably negative due to the difficulties experienced in Germany. Operating profit in the services business improved in the UK, Switzerland, Finland and Belgium.

NET SALES AND PROFITABILITY

Orders received by the Group decreased by 2.8%, standing at EUR 244.3 (251.3) million. Net sales increased, reaching the highest level in Teleste's history and amounting to EUR 259.5 (247.8) million, an increase of 4.8%. Expenses for material and production services increased by 6.8% to EUR 137.1 (128.3) million. Personnel expenses totalled EUR 72.6 (70.5) million, an increase of 2.9%. Personnel expenses increased because of the increased number of personnel. Depreciation, amortisation and other fixed operating expenses increased by 0.4% to EUR 37.6 (37.5) million. Operating profit grew by 9.3%, amounting to EUR 15.6 (14.3) million. Taxes for the Group amounted to EUR 3.0 (2.9) million and the effective tax rate was 20.3%

(21.0%). Undiluted earnings per share increased by 6.8% to EUR 0.65 (0.61). Cash flow from operations increased by 78.1% to EUR 8.8 (4.9) million. Cash flow was increased by changes in net working capital.

BUSINESS AREAS

Video and Broadband Solutions

Video and Broadband Solutions focuses on access network products as well as video security and information solutions. Its main customer base comprises cable operators and public sector organisations. The business area's main market is Europe, but it also operates in North America and Asia, among other places.

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

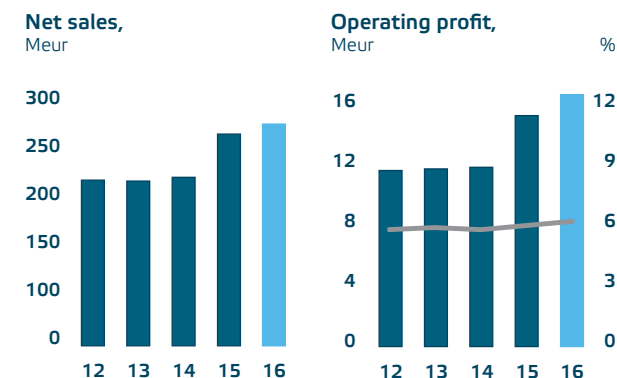
Year-on-year orders received decreased by 5.7%, standing at EUR 149.0 (158.0) million. Orders received decreased in access network products. Net sales grew by 6.4%, amounting to EUR 164.2 (154.4) million. Net sales were increased by access network product deliveries. Operating profit increased by 29.0%, standing at EUR 16.5 (12.8) million and representing 10.0% (8.3%) of net sales. Operating profit was improved by the increased net sales of access network products and the slightly higher year-on-year gross margin. In addition, operating profit included other income resulting from reversed provision of EUR 2.3 (1.1) million for earn-out related to a prior acquisition, as no earn-out became payable. R&D expenses amounted to EUR 11.0 (11.0) million, representing 6.8% (7.1%) of net sales. Capitalised R&D expenses amounted to EUR 2.5 (1.7) million. Depreciation on capitalised R&D expenses amounted to EUR 1.2 (1.1) million. Product development projects focused on network products complying with the DOCSIS 3.1 standard, distributed access architecture,

video security and information solutions, and customer-specific projects.

Network Services

Network Services offers comprehensive services for access network design, construction and maintenance. Its customer base mainly consists of large European cable operators. The implementation and scope of services range from stand-alone solutions to integrated turnkey deliveries. Most deliveries are based on frame agreements. The services also include Teleste's own product solutions. Our competence in services encompasses all the sectors related to cable network technology from the installation and maintenance of headends to the upgrading of house networks. Services are also provided through a network of subcontractors.

Orders received and net sales increased by 2.1% to EUR 95.3 (93.4) million. Net sales increased particularly in the UK and decreased in Germany. Operating profit dropped significantly, being EUR 0.8 million negative and representing -0.9% (+1.6%) of net sales. Operating profit in the comparative period was EUR 1.5 million. The



losses were incurred in Germany, resulting from deliveries of services that included subcontracted excavation work and the launching of services in a new geographical area. Operating profit improved year-on-year in the UK, Switzerland, Finland and Belgium.

INVESTMENTS

Investments by the Group totalled EUR 5.5 (16.9) million, equalling 2.1% (6.8%) of net sales. Of the investments made in the comparison period, EUR 11.5 million were related to the acquisition of Mitron. Investments in product development amounted to EUR 2.5 (1.7) million. Other investments involved information systems, machinery and equipment. Of the investments, EUR 0.6 (1.7) million were carried out under financial lease arrangements.

Product development projects focused on network products complying with the DOCSIS 3.1 standard, distributed access architecture, video security and information solutions, and customer-specific projects.

FINANCING AND CAPITAL STRUCTURE

Cash flow from operations stood at EUR 8.8 (4.9) million. The year-on-year increase in the operating cash flow resulted from a decrease in net working capital.

The parent company has at its disposal financial and credit facilities amounting to a total of EUR 45.0 million. These binding credit limits are valid until the end of March 2018. At the end of the period under review, the amount of unused binding credit facilities was EUR 19.0 (17.7) million. On 31 December 2016, the Group's interest-bearing debt stood at EUR 30.6 (33.0) million.

The Group's equity ratio was 52.5% (48.3%) and net gearing 25.0% (26.3%).

PERSONNEL AND ORGANISATION

In the period under review, the average number of people employed by the Group was 1,514 (1,485/2015, 1,302/2014); of these, 747 (697) were employed by Video and Broadband Solutions and 767 (788) by Network Services. At the end of the review period, the Group employed 1,511 people (1,506/2015, 1,343/2014), of whom 66% (68%/2015, 72%/2014) were stationed abroad. Approximately 2% of the Group's employees were working outside Europe.

Personnel expenses increased from the previous year by 2.9% to EUR 72.6 (70.5/2015, 59.5/2014) million. Personnel expenses increased mainly because of the increased number of personnel. The average number of personnel increased by 1.9%. The increase was in Video and Broadband Solutions.

ENVIRONMENTAL FACTORS

For Teleste, environmental protection is a choice that supports our strategy and risk management in line with our financial and qualitative objectives. Teleste's environmental system has been awarded the ISO 14001:2004 certificate, which provides the basis for our operational development, following the principles of continuous improvement. We will launch a project during 2017 to upgrade our environmental system to comply with ISO 14001:2015.

The greatest environmental impact from Teleste's products arises from their run-time energy consumption and their space and cooling requirements. Teleste's products consist mainly of recyclable materials. Cable network and video security equipment and systems are relatively long-lasting, serviceable and upgradeable, enabling their useful life to be extended. Product development plays a key role in our consideration of the product life cycle environmental impact. At the end of 2016, we expanded our use of design-time environmental analysis.

The environmental impact of Teleste's operations is primarily brought about by our energy use, waste generation and logistics. Our production encompasses the manufacture, assembly and testing of electronics modules and products. All of the processes are environmentally safe. We apply Lean principles in our production, and will further enhance our waste processing through a project launched at the end of 2016. The environmental load of developing and manufacturing software products and equipment is relatively low. Teleste strives to ensure that the materials it uses originate from ethically and environmentally responsible sources. To maintain and improve our information about the legitimate trade of natural resources and supply chains that support sustainable development, we rely on a third-party service that monitors the origin of raw materials used in standard components (conflict minerals, 3TG).

In our services business, the main source of environmental load is CO2 emissions from installation and main-

tenance runs. To reduce its environmental impact, Teleste pays attention to the CO2 emissions of maintenance vehicles, develops new intelligent network solutions to enable remote fault repair and optimises the routing of field work performed by technicians. Our installation and packaging materials are recycled in cooperation with local operators. We have monitored our CO2 emissions since 2013 and have been able to maintain our emissions levels unchanged even though the volume of operations has increased.

GROUP STRUCTURE

The parent company has branch offices in Australia, the Netherlands and Denmark and subsidiaries in 14 countries outside Finland. Teleste Management II Oy was merged with the parent company on 30 September 2016.

KEY RISKS FACED BY THE BUSINESS AREAS

In Video and Broadband Solutions, client-specific and integrated deliveries of solutions create favourable conditions for growth. On the other hand, the allocation of resources to the deliveries and the technical implementation are demanding tasks, which is why there are also risks involved. In particular, deliveries of integrated safety and information systems for passenger transport may be large in size, setting high demands for the project quotation calculation and management and, consequently, involving risks. Our customers' network investments vary depending on their need to upgrade and their financial structure.

Many competitors in the business area come from the USA, which is why the exchange rate of the euro against the US dollar has an effect on our competitiveness. The development of the exchange rates of the US dollar and the Chinese renminbi against the euro influences our product costs. The company hedges against short-term currency exposure by means of forward exchange contracts. The modest economic growth and the challenges faced by the European public sector may slow down the implementation of customers' investment plans. Furthermore, a reduction in consumer purchasing power in Europe may slow down the cable operators' network investments. Increased competition created by the new service providers (OTT) may undermine the cable operators' ability to invest. Consequences of natural phenomena or accidents,

such as fire, may reduce the availability of components in the order-delivery chain of electronics industry or suspend our own manufacturing operations. Correct technological choices and their timing are vital to our success. Various technologies are used in our products and solutions, and the intellectual property rights associated with the application of these technologies can be interpreted in different ways by different parties. Such difficulties of interpretation may lead to costly investigations or court proceedings. 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 come mainly from a small number of large European customers. Therefore, a significant change in the demand for our services by any one of them is reflected in the actual deliveries and profitability. Improvement of customer satisfaction and productivity requires efficient service process management, as well as innovative process, product and logistics solutions to ensure the quality and cost-efficiency of services. Smooth functioning of cable networks requires efficient technical management of the networks and suitable equipment solutions in accordance with contractual obligations. This, in turn, requires continuous and goal-directed development of the skills and knowledge of our personnel and subcontractors. In addition, the sufficiency and utilisation rates of our personnel and subcontractor network influence the Company's delivery capacity and profitability. In larger projects with overall responsibility, tender calculation and project management are complex tasks that involve risks. Severe weather conditions may affect our ability to deliver products and services.

Teleste's strategy involves risks and uncertainties: new business opportunities may fail to be identified or successfully exploited. The business areas must take into account market movements, such as consolidations among our customers and competitors. Intensified competition may decrease the prices of products and solutions faster than we are able to reduce our products' manufacturing and delivery costs. Various information systems are critical to the development, manufacturing and supply of products to our customers. The maintenance of information systems and deployment of new systems involve risks that may affect our ability to deliver products and services. Infor-

mation systems may also be exposed to external threats and we need to protect them. Recruiting and maintaining skilled personnel requires encouragement, development and recruitment efforts, which can fail.

The Board of Directors annually reviews essential business risks and their management. Risk management constitutes an integral part of the strategic and operational activities of the business areas. Risks are reported to the Board on a regular basis.

On 23 December 2016, a competitor of Teleste filed two complaints against Teleste Limited, demanding damages from the company for the infringement of two patents. Teleste denies patent infringement in both cases. According to the assessment by Teleste's management, the results of said litigations are not expected to have material effect on Teleste's financial position.

DECISIONS BY THE ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) of Teleste Corporation held on 7 April 2016 confirmed the financial statements for 2015 and discharged the Board of Directors and the CEO from liability for the financial period. The AGM confirmed the dividend of EUR 0.23 per share as proposed by the Board. Dividend was paid on 18 April 2016 on shares other than own shares held by the Company.

The AGM decided that the Board of Directors shall consist of six members. Pertti Ervi, Jannica Fagerholm, Esa Harju and Kai Telanne were re-elected as members of

Teleste Corporation's Board of Directors. Timo Luukkainen and Timo Miettinen were elected as new members. Timo Miettinen was elected Chair of the Board in the organising meeting held immediately after the AGM.

The AGM decided to elect one auditor for Teleste Corporation. Authorised public accountant firm KPMG Oy Ab was elected the Company's auditor. The auditor has appointed Petri Kettunen, APA, as the auditor in charge.

The Annual General Meeting decided to authorise the Board to decide on the purchase of the company's own shares. According to the authorisation, the Board of Directors may acquire 1,200,000 own shares of the company otherwise than in proportion to the holdings of the shareholders with unrestricted equity through trading on regulated market organised by Nasdaq Helsinki Ltd at the market price of the time of the purchase. This authorisation is valid for 18 months from the date of the AGM's decision.

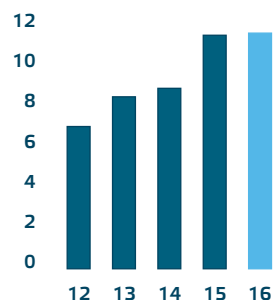
Board member Esa Harju resigned from the Board to join the company's Management Team. He is responsible for Video Security and Information from 1 December 2016.

SHARES AND CHANGES IN SHARE CAPITAL

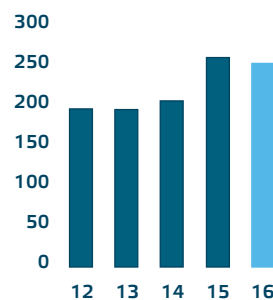
On 31 December 2016, EM Group Oy was the largest single shareholder with a holding of 23.2%.

In the period under review, the lowest company share price was EUR 7.29 (5.32) and the highest was EUR 10.24 (9.88). Closing price on 31 December 2016 stood at EUR 8.86 (9.80). According to Euroclear Finland Ltd, the number

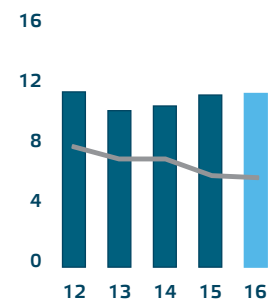
Profit for the financial period
Meur



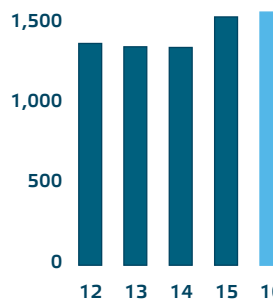
Orders received
Meur



R&D expenditure
Meur % of net sales



Average personnel



of shareholders at the end of the period under review was 5,923 (5,355). Foreign and nominee-registered holdings accounted for 5.2% (5.0%) of the holdings. The value of shares traded on the Nasdaq Helsinki from 1 January to 31 December 2016 was EUR 30.6 (24.6) million. In the period under review, 3.5 (3.3) million Teleste shares were traded on the stock exchange. As of 1 January 2017, Teleste's share is quoted on Nasdaq Helsinki, the Mid-Cap segment.

On 31 December 2016, the Group held 863,953 of its own shares, all held by the parent company Teleste Corporation. At the end of the period, the Group's holding of the total number of shares amounted to 4.6% (4.6%).

On 31 December 2016, the company's registered share capital 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: up to a maximum of 1,200,000 of the company's own shares, valid until 6 October 2017.
- Issue of new shares: up to a maximum of 4,000,000 shares, valid until 31 March 2017.
- Disposal of own shares held by the company: up to a maximum of 1,800,000 shares, valid until 31 March 2017.
- The maximum number of shares that may be subscribed for by virtue of the special rights granted by the company is 2,500,000; the special rights are included in the above maximum warrants concerning new shares and own shares held by the Group. The authorisation is valid until 31 March 2017.

OWNERSHIP BY MANAGEMENT AND MEMBERS OF THE GOVERNING BODIES ON 31 DECEMBER 2016

On the balance sheet date, the CEO and Members of the Board owned 140,091 (187,251) Teleste Corporation shares equal to 0.74% (0.99%) of all shares and votes. The CEO and the Board members did not have subscription rights based on stock options. On the balance sheet date, the CEO and the members of the Management Group or entities under their control owned 37,253 (24,748) Teleste Corporation shares equal to 0.20% (0.13%) of all shares and votes.

Teleste Corporation complies with the Finnish Securities Market Act and the Finnish Corporate Governance Code. The Corporate Governance Statement is issued separately from the Report of the Board of Directors, and it is available in full on the company'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 2017

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. Due to the low order backlog, the weight of net sales and operating profit of Video and Broadband Solutions will be on the second half of the year.

Network capacity will continue to grow, with operators responding to consumers' new and expanding broadband and video service needs. We estimate the demand for access network products in Europe to continue at par with 2016. Teleste's entire access network product portfolio has been renewed in accordance with the DOCSIS 3.1 standard, and our offering allows cable operators to increase their network capacity competitively. Our clientele is becoming consolidated and our competitors are introducing their own DOCSIS 3.1 products in the market, resulting in pressure on the pricing of products. The American markets in particular are growing strongly, providing significant growth opportunities for Teleste's access network products. In 2017, we will start investing in access network products that are suitable for new markets. The objective of the investments is the long-term increase in sales.

Demand for video security solutions for public spaces continues worldwide, but some investment decisions may be delayed by the economic situation. Teleste's video security solution for public space introduced in Paris provides new opportunities for other major cities of the world. The added value in the ecosystem has increasingly shifted to software and intelligence, and price erosion in the traditional video security equipment market continues. New innovations and solutions are also changing the rail industry passenger information solution business. It is necessary to improve the productivity and cost-efficiency of traditional business. The improvement of competitiveness requires R&D investments in new intelligent 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 added value. Our aim is to improve the profitability of the provided services particularly in Germany. We are preparing to reorganise and adapt our services in Germany in accordance with our customers' changing needs. We estimate the demand for all-inclusive network services in our key target markets to continue at least at the level of the previous year.

We estimate that net sales and operating profit for 2017 will remain below the 2016 level, due to the low order backlog in the beginning of the financial period, the adaptation measures in services business in Germany and the investments in growth in new market areas.

PROPOSAL FOR THE DISTRIBUTION OF EARNINGS

Teleste Corporation's distributable equity on the date of the financial statements equalled EUR 56,511,328.65.

The Board of Directors proposes to the Annual General Meeting of 6 April 2017 that a dividend of EUR 0.24 (0.23) per share be paid to outstanding shares for the year 2016.

Signatories to the Annual Report and the Financial Statements

8 February 2017

Timo Miettinen HP	Pertti Ervi HJ	Jannica Fagerholm HJ
----------------------	-------------------	-------------------------

Timo Luukkainen HJ	Kai Telanne HJ
-----------------------	-------------------

Jukka Rinnevaara
toimitusjohtaja

The Auditor's Note

Our auditors' report has been issued today.

8 February 2017
KPMG OY AB

Petri Kettunen
KHT

Statement of comprehensive income

1,000 €	Note	1.1.–31.12.2016	1.1.–31.12.2015	Change %
Net Sales	1	259,528	247,758	4.8
Other operating income	2	3,372	2,854	18.1
Material and services		-137,078	-128,300	6.8
Employee benefits expense	3	-72,566	-70,532	2.9
Depreciation and amortisation	4	-4,934	-4,874	1.2
Other operating expenses	5	-32,687	-32,604	0.3
Operating profit		15,635	14,302	9.3
Financial income	6	1,224	582	110.4
Financial expenses	7	-2,038	-945	115.7
Profit before taxes		14,821	13,939	6.3
Income tax expense	8	-3,001	-2,928	2.5
Profit for the financial period		11,820	11,011	7.3
Attributable to:	9			
Equity holders of the parent		11,820	11,011	7.3
Earnings per share for profit of the year attributable to the equity holders of the parent (expressed in € per share)				
Basic		0.65	0.61	6.8
Diluted		0.65	0.61	6.6
Total comprehensive income for the period (tEUR)				
Net profit		11,820	11,011	7.3
Items that may be reclassified to profit or loss:				
Translation differences		-879	240	n/a
Fair value reserve		-135	31	n/a
Total comprehensive income for the period		10,806	11,282	-4.2
Attributable to:				
Equity holders of the parent		10,806	11,282	-4.2

Statement of Financial Position

1,000 €	Note	31.12.2016	31.12.2015	Change, %
ASSETS				
Non-current assets				
Property, plant and equipment	10	11,325	11,648	-2.8
Goodwill	11	37,374	37,849	-1.3
Other intangible assets	11	7,171	6,653	7.8
Available-for-sale investments	12	693	704	-1.6
Deferred tax assets	13	1,833	1,843	-0.6
		58,396	58,698	-0.5
Current assets				
Inventories	14	33,544	32,661	2.7
Trade and other receivables	15	60,269	60,159	0.2
Tax receivables	21	407	263	54.9
Cash and cash equivalents	16	9,496	12,677	-25.1
		103,716	105,759	-1.9
Total assets		162,112	164,458	-1.4
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Share capital	17	6,967	6,967	0.0
Share premium	17	1,504	1,504	0.0
Translation differences		-978	-99	884.6
Fair value reserve and other reserves		3,004	3,140	-4.3
Retained earnings		73,924	66,033	11.9
Equity holders of the parent company		84,422	77,545	8.9
Total equity		84,422	77,545	8.9
Non-current liabilities				
Interest-bearing liabilities	18	28,036	30,723	-8.7
Other liabilities		135	2,730	-95.0
Deferred tax liabilities	13	1,630	1,662	-1.9
Provisions	19	1,081	1,026	5.4
		30,882	36,141	-14.6
Current liabilities				
Trade and other payables	20	41,900	46,505	-9.9
Current tax payable	21	1,477	1,062	39.1
Provisions	19	858	889	-3.5
Interest-bearing liabilities	18	2,573	2,315	11.1
		46,808	50,771	-7.8
Total liabilities		77,691	86,912	-10.6
Total equity and liabilities		162,112	164,458	-1.4

Consolidated Cash Flow Statement

1,000 €	Note	1.1.–31.12.2016	1.1.–31.12.2015
Cash flows from operating activities			
Profit for the period		11,820	11,011
Adjustments for:			
Non-cash transactions	23	2,924	3,856
Interest and other financial expenses		2,038	961
Interest income		-1,224	-582
Dividend income		-2	-3
Income tax expense		3,001	2,928
Changes in working capital and provisions			
Increase/decrease in trade and other receivables		-110	-5,096
Increase/decrease in inventories		-884	-6,950
Increase/decrease in trade and other payables		-4,810	1,361
Increase/decrease in provisions		-24	197
Paid interests and other financial expenses		-2,038	-945
Received interests and dividends		1,224	582
Paid taxes		-3,151	-2,400
Net cash from operating activities		8,765	4,920
Cash flows from investing activities			
A conditional supplementary contract price for prior subsidiary acquisition		-485	-1,147
Purchases of property, plant and equipment (PPE)		-1,410	-1,258
Proceeds from sales of PPE		43	17
Purchases of intangible assets		-2,507	-1,644
Acquisition of subsidiary, net of cash acquired		0	-6,826
Net cash used in investing activities		-4,359	-10,858
Cash flows from financing activities			
Proceeds from borrowings		4,170	44,300
Repayments of borrowings		-6,099	-38,130
Payment of finance lease liabilities		-611	-391
Dividends paid		-4,168	-3,694
Proceeds from issuance of ordinary shares		0	-1,382
Net cash used in financing activities		-6,708	703
Change in cash			
Cash and cash equivalents at 1 January		12,677	17,672
Effect of currency changes		-879	240
Cash and cash equivalents at 31 December		9,496	12,677

Consolidated Statement of Changes in Equity

1,000 €	Attributable to equity holders of the parent							Non controlling interest	Total equity
	Share capital	Share premium	Translation differences	Retained earn- ings	Invested non-restricted equity	Other reserves	Total		
At 1 January 2015	6,967	1,504	-339	58,139	3,954	-31	70,194	487	70,682
Total comprehensive income for the period			240	11,011		31	11,282	0	11,282
Total recognised income and expense for the year	0	0	240	11,011		31	11,282	0	11,282
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
Equity-settled share-based payments				676	0		676	-585	91
	0	0	0	-3,116	-814		-3,930	-487	-4,417
At 31 December 2015	6,967	1,504	-99	66,034	3,140	0	77,545	0	77,545
Total comprehensive income for the period			-879	11,820		-135	10,806	0	10,806
Total recognised income and expense for the year	0	0	-879	11,820		-135	10,806	0	10,806
Dividends				-4,168			-4,168	0	-4,168
Equity-settled share-based payments				235	0		235	0	235
	0	0	0	-3,932	0	0	-3,932	0	-3,932
At 31 December 2016	6,967	1,504	-978	73,922	3,140	-135	84,422	0	84,422

Notes to the Consolidated Financial Statements

1. Accounting principles for the consolidated financial statements

Company profile

Teleste Corporation (the "Company") is a Finnish public limited liability company organised under the laws of Finland and domiciled in Turku in Finland. Its registered address is Teletenkatu 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 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 2016. 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 2016 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 2016.

- 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 cycle contains amendments to four standards. Their impacts vary standard by standard but are not significant.
- Amendment to IAS 1 Presentation of Financial Statements: Disclosure Initiative (effective for financial years beginning on or after 1 January 2016). The amendments clarify the guidance in IAS 1 in relation to applying the materiality concept, disaggregating line items in the balance sheet and in the statement of profit or loss, presenting subtotals and to the structure and accounting policies in the financial statement. The amendments have had a minor impact on presentation in 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 state that revenue-based methods of depreciation cannot be used for property, plant and equipment and may only be used in limited circumstances to amortise intangible assets if revenue and the consumption of the economic benefits of the intangible assets

are highly correlated. The amendments have had no 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.
- 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* (effective for financial years beginning on or after 1 January 2016): The amendments to IFRS 10, IFRS 12 and IAS 28 clarify the requirements for preparing consolidated financial statements when there are investment entities within the group. The amendments also provide relief for non-investment entities for equity accounting of investment entities. The amendments have had no 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 require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. The amendments have had no impact on Teleste's consolidated financial statements.

Basis of preparation

The consolidated financial statements are presented in thousands of euro (EUR) 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 voting 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 subsidiary acquired exclusively with a view to resale. The result of discontinued operations is presented separately on the face of the consolidated income statement.

Impairment

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

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

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

Inventories

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

Financial assets and liabilities

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

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either classified as held for trading, or they are designated by the Group as at fair value through profit or loss upon initial recognition. A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of short-term profttaking 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
<hr/>
= 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 2016.

- IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after

1 January 2018): The new standard replaces current IAS 18 and IAS 11 -standards and related interpretations. In IFRS 15 a five-step model is applied to determine when to recognise revenue, and at what amount. Revenue is recognised when (or as) a company transfers control of goods or services to a customer either over time or at a point in time. The standard introduces also extensive new disclosure requirements. The impacts of IFRS 15 on Teleste's consolidated financial statements have been assessed as follows:

- Key concepts of IFRS 15 have been analysed for different revenue streams in Teleste and major part of the performance obligations are products and services where revenue is recognized at a point of time.
- Timeline for implementing is 1 January 2018 and Teleste will recognise the cumulative effect of applying IFRS 15 as an adjustment to the opening balance of equity as at the date of initial application
- The expected impacts are minor as major part of the revenue recognition from customer contracts are recognized when products and services are delivered.
- Amendments to IFRS 15 - Clarifications to IFRS 15 Revenue from Contracts with Customers* (effective for financial years beginning on or after 1 January 2018). The amendments include clarifications and further examples on how to apply certain aspects of the five-step recognition model. The impact assessment of the clarifications has been included in the IFRS 15 impact assessment described above.
- IFRS 9 Financial Instruments* (effective for financial years beginning on or after 1 January 2018): IFRS 9 replaces the existing guidance in IAS 39. The new standard 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 impacts of IFRS 9 on Teleste's consolidated financial statements have been assessed and the expected impacts are not significant

- IFRS 16 Leases* (effective for financial years beginning on or after 1 January 2019): The new standard replaces the current IAS 17 -standard and related interpretations. IFRS 16 requires the lessees to recognise the lease agreements on the balance sheet as a right-of-use assets and lease liabilities. The accounting model is similar to current finance lease accounting according to IAS 17. There are two exceptions available, these relate to either short term contracts in which the lease term is 12 months or less, or to low value items i.e. assets of value USD 5 000 or less. The lessor accounting remains mostly similar to current IAS 17 accounting. The preliminary impact assessment of the standard has been started in the group. Accordingly the impact on the Teleste's consolidated financial statements is about 6 per cent of the total amount on the balance sheet.
- Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative* (effective for financial years beginning on or after 1 January 2017). The changes were made to enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments have an impact on the disclosures in Teleste's consolidated financial statements.
- Amendments to IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses *(effective for financial years beginning on or after 1 January 2017). The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments have no impact on Teleste's consolidated financial statements. /The group is currently assessing the impacts of the amendments.
- Amendments to IFRS 2 Sharebased payments – Clarification and Measurement of Sharebased Payment Transactions * (effective for financial years beginning on or after 1 January 2018). The

amendments clarify the accounting for certain types of arrangements. Three accounting areas are covered: measurement of cash-settled share-based payments; classification of share-based payments settled net of tax withholdings; and accounting for a modification of a share-based payment from cash-settled to equity-settled. The amendments have no impact on Teleste's consolidated financial statements. / The group is currently assessing the impacts of the amendments.

- Amendments to IFRS 4 Insurance Contracts – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (effective for financial years beginning on or after 1 January 2018). The amendments respond to industry concerns about the impact of differing effective dates by allowing two optional solutions to alleviate temporary accounting mismatches and volatility. The amendments have no impact on Teleste's consolidated financial statements.
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (the effective date has been postponed indefinitely). The amendments address to clarify the requirements in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments have no impact on Teleste's consolidated financial statements.
- IFRIC 22 Interpretation Foreign Currency Transactions and Advance Consideration* (effective for financial years beginning on or after 1 January 2018). When foreign currency consideration is paid or received in advance of the item it relates to – which may be an asset, an expense or income – IAS 21 The Effects of Changes in Foreign Exchange Rates is not clear on how to determine the transaction date for translating the related item. The interpretation clarifies that the transaction date is the date on which the company initially recognises the prepayment or deferred income arising

from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation has no impact on Teleste's consolidated financial statements. / The group is currently assessing the impacts of the interpretation.

- Amendments to IAS 40 Investment Property – Transfers of Investment Property* (effective for financial years beginning on or after 1 January 2018). When making transfers of an investment property, the amendments clarify that a change in management's intentions, in isolation, provides no evidence of a change in use. The examples of evidences of a change in use are also amended so that they refer to property under construction or development as well as to completed property. The amendments have no impact on Teleste's consolidated financial statements.
- Annual Improvements to IFRSs (2014–2016 cycle)* (effective for financial years beginning on or after 1 January 2017 for IFRS 12 and on or after 1 January 2018 for IFRS 1 and IAS 28). 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 cycle contains amendments to three standards. Their impacts vary standard by standard but are not significant.

Segment Reporting

Teleste Group is organised in two reporting segments. These segments are based on the Group's organisational and internal reporting structure.

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

2016 1,000 €	Video and Broadband Solutions	Network Services	Group
External sales			
Services	6 813	95 297	102 110
Goods	157 418	0	157 418
Total external sales	164 231	95 297	259 528
Operating profit of segments	16 482	-847	15 635
Operating profit			15 635
Financial items			-814
Profit before taxes			14 821
Non-current assets of segment	44 127	12 436	56 563

2015 1,000 €	Video and Broadband Solutions	Network Services	Konserni
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

Geographical division

2016 1,000 €	Finland	Nordic countries	Other Europe	Others	Group
Sales by origin	17 398	22 483	202 063	17 584	259 528
Assets	42 570	97	13 679	217	56 563
Capital expenditure	4 122	37	1 312	17	5 488

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

Major customer

Revenues from one customer of the Group's Video and Broadband Solution and Network Services segment represents approximately 61.1 Meur in 2016 (64.0 Meur in 2015), which is 23.5% (25.8%) of Group net sales.

Business combinations acquired during 2016 and 2015

During 2016 there were no acquisitions. A conditional supplementary contract price from Mitron acquisition of 485 thousand euro was paid during 2016. Unpaid supplementary price 2,245 thousand euro was de-recognized in other operating income during 2016.

At 7 January 2015 Video and Broadband Solutions 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.

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 was 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, were expensed in other operating expenses.

The impact of the acquisition on Teleste's net sales during the period 7 January 2015–31.12.2015 was 27,490 thousand euro and on the net profit 962 thousand euro.

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.

Notes to the Consolidated Financial Statements

1 CONSTRUCTION CONTRACTS

Amount of project revenue recognised during the period 1,946 thousand euros (1,969 thousand euros in 2015).

Cumulative expenses and income recognised by the end of the period 16,892 thousand euros (14,946 thousand euros in 2015).

2 OTHER OPERATING INCOME

1,000 €	2016	2015
Government grants related to development costs	130	546
Rental income	0	2
Gain on disposals of non-current assets	43	19
De-recognised supplementary contract price	2,245	1,109
Other income	954	1,178
Total	3,372	2,854

3 EMPLOYEE BENEFITS EXPENSE

Wages and salaries	-57,126	-55,693
Pension expenses		
Defined contribution plans	-11,425	-11,033
Other post employment benefits	-5,857	-4,968
Activated R&D salaries and social costs	2,078	1,490
Cash & Equity-settled share-based transactions	0	-237
Equity-settled share-based transactions	-235	-91
Total	-72,566	-70,532

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	1,514	1,485
---	-------	-------

4 DEPRECIATION, AMORTISATION AND IMPAIRMENT

1,000 €	2016	2015
Depreciation and amortisation by asset type:		
Tangible assets		
Buildings	-390	-399
Machinery and equipment	-2,240	-2,079
Other tangible assets	-223	-229
Total	-2,853	-2,707
Intangible assets		
Capitalised development expenses	-1,160	-1,072
Other intangible assets	-921	-1,095
Total	-2,081	-2,167

Total	-4,934	-4,874
--------------	---------------	---------------

5 OTHER OPERATING EXPENSES

Rental expenses	-4,414	-4,276
External services	-5,158	-4,222
Other variable costs	-8,055	-6,677
Travel and IT costs	-5,005	-4,051
R&D costs	-1,135	-1,799
Other expenses	-8,920	-11,579
Total	-32,687	-32,604

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

Audit expenses

KPMG		
Auditing assignments	-168	-152
Tax consultancy	-15	-70
Other assignments	-29	-21
Other auditors		
Auditing assignments	-12	-23
Other assignments	-31	-69

6 FINANCIAL INCOME

1,000 €	2016	2015
Interest and other financial income	102	56
Foreign exchange gain	1,120	523
Dividend income	2	3
Total	1,224	582

7 FINANCIAL EXPENSES

Interest on borrowings from others	-372	-476
Foreign exchange loss	-1,515	-345
Other financial expenses	-151	-124
Total	-2,038	-945

Other financial expenses includes interests from financial leasing expenses during the period 16 thousand euro (10 thousand euro in 2015).

Losses from forward exchange contracts are included in operating profit.

8 INCOME TAXES

1,000 €	2016	2015
Recognised in the income statement		
Current tax expense		
Current year	-3,010	-2,832
Adjustments for prior years	33	-88
Change in deferred tax liabilities and tax assets	-24	-8
Total	-3,001	-2,928

Reconciliation of the tax expense, EUR -3,001 thousand, calculated using the Teleste Group's domestic corporation 20.0% tax rate.

Profit before tax	14,821	13,939
Income tax using the domestic corporation tax rate (20.0%)	-2,964	-2,788
Effect of tax rates in foreign jurisdictions	-421	-245
Tax debt increase related to balance sheet items	-7	17
Changes in conditional supplementary contract price	449	222
Non-deductible expenses	-91	-46
Taxes from previous year	33	-88
Income tax income/expense reported in the consolidated income statement	-3,001	-2,928

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.

	2016	2015
Profit for the year attributable to equity holders of the parent, (1,000 €)	11,820	11,011
Weighted average number of ordinary shares outstanding during the financial year (1,000)	18,122	18,037
Basic earnings per share (€)	0,65	0,61
Weighted average number of ordinary shares outstanding during the financial year (1000)	18,122	18,037
Effect of share options on issue (1,000)	47	0
Weighted average number of ordinary shares outstanding during the financial year (diluted) (1,000)	18,169	18,037
Diluted earnings per share (€)	0,65	0,61

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 2016	54	7,323	15,837	2,781	70	26,066
Translation difference +/-		-91	0	1		-89
Additions		256	2,002	225	353	2,835
Disposals		0	-200	-19		-219
Balance at 31 December 2016	54	7,488	17,639	2,988	423	28,592
Depreciation and impairment losses						
Balance at 1 January 2016		-2,249	-9,815	-2,353		-14,417
Depreciation charge for the year		-390	-2,240	-223		-2,853
Balance at 31 December 2016	0	-2,639	-12,055	-2,576	0	-17,270
Carrying amounts at 1 January 2016	54	5,074	6,022	428	70	11,648
Carrying amounts at 31 December 2016	54	4,850	5,585	412	423	11,325

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	21,320
Translation difference +/-		33	-113	116		36
Additions		23	3,634	89		3,746
Acquisitions through business combinations		0	944	20		964
Transfers between classes				443	-443	0
Balance at 31 December 2015	54	7,323	15,837	2,781	70	26,066
Depreciation and impairment losses						
Balance at 1 January 2015	0	-1,850	-7,735	-2,108	0	-11,693
Depreciation charge for the year	0	-399	-2,080	-245	0	-2,724
Balance at 31 December 2015	0	-2,249	-9,815	-2,353	0	-14,417
Carrying amounts at 1 January 2015	54	5,417	3,637	5	513	9,627
Carrying amounts at 31 December 2015	54	5,074	6,022	428	70	11,648
Carrying amount of production machinery and equipment at 31 December 2016			4,692			
Carrying amount of production machinery and equipment at 31 December 2015			5,265			

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

1,000 €	Machinery and equipment
31.12.2016	
Balance at 1 January 2016	4,968
Additions	633
Balance at 31 December 2016	5,601
Cumulative depreciation	-2,905
Depreciation charge for the year	-595
Carrying amount at 31 December 2016	2,101
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	-2,523
Depreciation charge for the year	-382
Carrying amounts at 31 December 2015	2,063

11 INTANGIBLE ASSETS

1,000 €	Goodwill	Development costs	Other intangible assets	Shares available for sale, unlisted	Total
Balance at 1 January 2016	38,649	16,238	11,493	1,127	67,506
Translations differences	-475	0	-3	-10	-488
Additions	0	2,507	95		2,602
Balance at 31 December 2016	38,174	18,745	11,585	1,117	69,620
Amortisation and impairment losses					
Balance at 1 January 2016	-800	-12,749	-8,330	-423	-22,302
Amortisation for the year	0	-1,160	-921		-2,081
Balance at 31 December 2016	-800	-13,909	-9,251	-423	-24,383
Carrying amounts at 1 January 2016	37,849	3,489	3,163	703	45,206
Carrying amounts at 31 December 2016	37,374	4,836	2,334	693	45,238

1,000 €	Goodwill	Development costs	Other intangible assets	Shares available for sale, unlisted	Total
Balance at 1 January 2015	33,921	14,825	8,654	1,124	58,524
Translations differences	328	-98	114	3	347
Acquisitions through business combinations		537	2,725		3,262
Additions	4,400	1,652			6,052
Disposals		-678			-678
Balance at 31 December 2015	38,649	16,238	11,493	1,127	67,507
Amortisation and impairment losses					
Balance at 1 January 2015	-800	-12,354	-7,235	-423	-20,812
Amortisation for the year		678			678
Disposals	0	-1,072	-1,095		-2,167
Balance at 31 December 2015	-800	-12,749	-8,330	-423	-22,301
Carrying amounts at 1 January 2015	33,121	2,471	1,419	701	37,713
Carrying amounts at 31 December 2015	37,849	3,489	3,163	704	45,206

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 37.4 million euro at 31 December 2016. Goodwill has been allocated to the following cash-generating unit:

	Million euro
Video and Broadband Solutions	29.2
Network Services	8.2

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 flows for the first year for both segments are based on the budget for 2017 according the business plan. From 2018 onwards the cash flows are calculated with 2% (2%) annual growth rate. Cash flow from the Network Services business is based on a successful implementation of the profitability improvement program in 2017 budget for Germany. Management's view on the cash flows is cautious as the changes of the industry are difficult to foresee. A discount rate of 9.86% is used in VBS and 9.61% in NS segment (9.41% in VBS segment and 9.53% 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 per cent. The impairment test process included the sensitivity analysis of the segment or a cash generating unit (CGU) in the segment.

Assumption used in 2016 and 2015 impairment tests

	2016		2015	
%	VBS	NS	VBS	NS
Yearly growth in cash flow years 1-5	2	2	2	2
Yearly growth in cash flow years 6-10	2	2	2	2
WACC (after tax)	9.86	9.61	9.41	9.53

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

Impairment test		
Meur	2016	2015
VBS	29.8	39.3
NS	3.0	7.3

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		
	2016	2015
VBS	-28%	-34%
NS	-10%	-22%

Increase in discount rate		
	2016	2015
VBS	2.9%	4.2%
NS	0.8%	2.2%

The Group received a grant amounting to 0.1 million euro from Tekes (National Technology Agency of Finland) towards development costs in 2016 (2015: 0.5 million euro). From the grant received 0,04 million euro (2015: 0.06 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 €	2016	2015
Unlisted shares	693	704
Total	693	704

13 DEFERRED TAX ASSETS AND LIABILITIES

1,000 €	Balance 1 Jan. 2016	Recognised in the income statement	Business combinations	Balance 31 Dec. 2016
Movements in temporary differences during 2016				
Deferred tax assets				
Effects of consolidation and eliminations	476	-30		446
Unused tax losses	772	-121		651
Provisions	567	168		735
Other taxable temporary differences	27	-27		0
Total	1,843	-10	0	1,833
Deferred tax liabilities				
Capitalisation of intangible assets	-540	-129		-669
Fair value adjustments to intangible and tangible assets on acquisition	-970	145		-825
Cumulative depreciation difference	-152	16		-136
Total	-1,662	32	0	-1,630

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. 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
Total	1,698	-171	316	1,843
Deferred tax liabilities				
Capitalisation of intangible assets	-494	-46		-540
Fair value adjustments to intangible and tangible assets on acquisition	-622	150	-498	-970
Cumulative depreciation difference	-211	59		-152
Total	-1,327	163	-498	-1,662

At 31 December 2016 the Group had unused tax losses in subsidiaries amounting 3,254 thousand euro . A tax asset has been booked from 651 thousand euro as this loss will not expire (31 Dec. 2015: 3.598 thousand euro). The usage of tax losses is based on managements best estimation.

No deferred tax liability has been provided for the undistributed profits of the foreign subsidiaries amounting to 20,797 thousand euro at 31 Dec. 2016 (31 Dec. 2015: 19,349 thousand euro). This is because the realization of this tax liability is unlikely in the near future.

14 INVENTORIES

1,000 €	2016	2015
Raw materials and consumables	10,632	9,891
Work in progress	14,416	13,062
Finished goods	8,496	9,708
Total	33,544	32,661

The amount of the impairment losses of inventories to the net realisable value recognised as an expense during the financial period is 673 thousand euro. At the end of the financial year 6,002 thousand euro was deducted from the inventory value to the net realisable value (31 Dec. 2015: 5,329 thousand euro).

15 TRADE AND OTHER CURRENT RECEIVABLES

1,000 €	2016	2015
Trade receivables	53,992	53,313
Accrued income and prepayments	5,652	5,899
Other receivables	625	947
Total	60,269	60,159

16 CASH AND CASH EQUIVALENTS

Cash at bank and in hand and call deposits	9,496	12,677
Total	9,496	12,677
Cash and cash equivalents in the statement of cash flows	9,496	12,677

17 SHARE BASED INCENTIVES

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).

Instrument	LTI 2015	LTI 2015
Type	Share	Share
Plan	2016–2018	2015–2017
Initial amount, pcs *	191,190	268,750
Initial allocation date	1.7.2015	1.7.2015
Vesting date	30.4.2019	30.4.2018
Maximum contractual life, yrs	2.77	2.83
Remaining contractual life, yrs	2.33	1.33
Number of persons at the end of the reporting year	32	31
Payment method	Cash & Equity	Cash & Equity

* Gross reward before the deduction of the applicable taxes.

Performance Share Plan 2015	Changes during 2016*	Changes during 2015*
1 January		
Outstanding at the beginning of the reporting period, pcs	268,750	0
Reserve at the beginning of the reporting period	268,750	0
Changes during the period		
Granted	191,190	268,750
Forfeited	24,500	0
Invalidated during the period	0	0
Exercised	0	0
Expired	0	0
31 December		
Exercised at the end of the period	435 440	268,750
Outstanding at the end of the period	435 440	268,750
Weighted remaining contractual life in years		

* 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 1.1.2016–31.12.2016, 1,000 €

Expenses for the financial year, share-based payments	251
Expenses for the financial year, share-based payments, equity-settled	235
Liabilities arising from share-based payments 31 December 2016	718

Effect of Share-based Incentives on the result and financial position during the 1.1.2015–31.12.2015, 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	232

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 2015	17,796	1,190	18,986	6,967	1,504
Share options exercised by employees	326	-326	0	0	0
At 31 December 2015	18,122	864	18,986	6,967	1,504
Change in own shares	0	0	0	0	0
At 31 December 2016	18,122	864	18,986	6,967	1,504

The number of Teleste Oyj shares was 18,985,588 at 31 December 2016 (31 Dec. 2015 18,985,588 shares). All shares issued have been fully paid.

The Annual General Meeting of Teleste Oyj held on 7th of April 2016 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 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.

At the end of December 2016, the Group held 863,953 of its own shares.

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

Translation reserve

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

Dividends

After the balance sheet date the dividend of 0.25 euro per share (2015 0.23 euro per share) was proposed by the Board of Directors.

18 INTEREST-BEARING LIABILITIES

1,000 €	2016	2015
Non-current		
Loans from financial institutions	26,468	29,157
Finance lease liabilities	1,568	1,566
Total	28,036	30,723
Current		
Loans from financial institutions	2,008	1,702
Finance lease liabilities, current portion	565	613
Total	2,573	2,315

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 €	31.12.2016	31.12.2015
EUR	28,036	30,723
	28,036	30,723

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

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

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%	0.9%
Finance lease liabilities	1.1%	1.4%

Finance lease liabilities of the Group are payable as follows:

Minimum lease payments

Less than one year	583	588
Between one and five years	1,593	1,622
Total	2,176	2,210

Present value of minimum lease payments

Less than one year	565	613
Between one and five years	1,568	1,566
Total	2,133	2,179

Future finance charges	43	31
Total finance lease liabilities	2,176	2,210

19 PROVISIONS

1,000 €	Warranties	Total
Balance at 1 January 2016	1,915	1,915
Provisions made during the year	24	24
Balance at 31 December 2016	1,939	1,939
		2016
Non-current		1,081
Current		858
Total		1,939

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 €	2016	2015
Current		
Trade payables	18,769	20,763
Personnel, social security and pensions	6,870	6,635
Accrued interest expenses and other financial items	123	35
Other accrued expenses and deferred income	14,623	12,840
Advances	1,239	3,939
Other liabilities	276	2,293
Total	41,900	46,505
Non current		
Other liabilities	135	2,730

21 INCOME TAX PAYABLE FOR THE PERIOD

At the end of the period there was income tax receivable 407 and tax payable 1,477 thousand euro on the profit for the period (31 Dec. 2015 there was 263 thousand euro tax receivables and 1,062 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 3 per cent of the net sales), Swedish and Norwegian crowns (5 per cent), US dollars (4 per cent) and UK pound sterling (2 per cent). Significant part of expenses, 57 per cent, arise in euro and in US dollar almost 33 per cent and Chinese CNY 6 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

	2016					2015				
	USD	SEK	NOK	GBP	PLN	USD	SEK	NOK	GBP	PLN
Current assets	1 826	622	859	7 511	3 725	1 609	1 080	202	8 813	3 477
Current liabilities	4 170	771	835	1 969	2 733	3 359	939	589	3 019	1 571

Cash flow hedges at 31 Dec 2016

Currency position

Currency	Exposure	Hedge	Net	Hedge Instrument	Hedge %
USD	14 002	11 194	2 807	Forward exchange contract	80%
CNY	2 838	2 336	502	Forward exchange contract	82%
GBP	2 972	2 394	578	Forward exchange contract	81%
PLN	1 156	930	227	Forward exchange contract	80%
NOK	747	594	153	Forward exchange contract	80%

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 %

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 2016 the fair value of currency derivatives amounted to 22.6 million euro (31. Dec 2015: 24.6 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 2016 the total non-euro-denominated equity of the Group's foreign subsidiaries amounted to 11.7 million euro (31 Dec. 2015: 10.4 million euro).

Sensitivity to market risk

	2016	2015
Sensitivity to market risks arising from financial instruments as required by IFRS 7	Profit or Loss	Profit or Loss
+10% change in EUR/USD exchange rate	+280	+239
+10% change in EUR/CNY exchange rate	+50	+63
+10% change in EUR/GBP exchange rate	+58	+348

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 28,422 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, -135 thousand euro, is recognised in profit and loss as

other comprehensive income. The fair value of the interest swap contract is -135 thousand euro. All Group loans are denominated in euro. In 2016, 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 +184 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		18,422		18,422
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	2016			2015		
	Gross	Impairment loss	Total	Gross	Impairment loss	Total
Undue trade receivables	41,254		41,254	41,931		41,931
1–30 days	8,998		8,998	7,380		7,380
31–60 days	1,908		1,908	2,241		2,241
Over 60 days	2,704	-872	1,832	2,930	-1,168	1,762
Total			53,992			53,313

The maximum exposure to credit risk at the reporting date was:

	2016	2015
Loans and receivables	60,269	60,159
Available for sale financial assets	693	704

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 2016 the Group's cash reserves totaled 9.5 million euro and its interest-bearing net debt 30.6 million euro. The Group administration raises the Group's interest-bearing debt centrally. At 31 December 2016 Teleste had committed and available credit facilities as well as other

agreed and undrawn loans amounting to 19.0 million euro. Group's loan agreements and committed loan facilities include profitability and cash flow covenants 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 2016, the contractual maturity of interest-bearing liabilities was as follows:

	2017	2018	2019	2020	2021
Loans from financial institutions	2,218	26,504			
Trade payables	18,769				
Finance lease liabilities	623	557	532	414	50
Forward exchange contracts					
Outflow	-22,160				
Inflow	22,550				
Other	34	34	34	33	

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			

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 2016 and 2015 was as follows:

	2016	2015
Total borrowings	30,609	33,038
Cash and cash equivalents	9,496	12,677
Interest-bearing net debt	21,113	20,361
Total equity	84,422	77,545
Interest-bearing net debt and total equity	105,535	97,906
Leverage ratio	20.0%	20.8%

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 334 thousand euro in 2016 (2015: -27 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 -135 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:

	2016	2015
Finance lease liabilities	1.1%	1.4%

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
2016 Balance item							
Non current financial assets							
Other financial assets	12			693		693	693
Current financial assets							
Trade and other receivables	15		53,992			53,992	53,992
Forward exchange contracts	25	334				334	334
Carrying amount by category		334	53,992	693	0	55,019	55,019
Non-current financial liabilities							
Interest-bearing liabilities	18	1,568			26,468	28,036	28,036
Current financial liabilities							
Interest-bearing liabilities	18	565			2,008	2,573	2,573
Interest swap contracts	25	135				135	135
Trade and other payables	20				18,769	18,769	18,769
Other current liabilities	20				123	123	123
Carrying amount by category		2,268	0	0	47,368	49,636	49,636
2015 Balance item							
Non current financial assets							
Other financial assets	12			704		704	704
Current financial assets							
Trade and other receivables	15		53,313			53,313	53,313
Carrying amount by category		0	53,313	704	0	54,017	54,017
Non-current financial liabilities							
Interest-bearing liabilities	18	1,566			29,157	30,723	30,723
Current financial liabilities							
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
Carrying amount by category		2,179	0	0	51,657	53,836	53,836

23 ADJUSTMENTS TO CASH FLOWS FROM OPERATING ACTIVITIES

1,000 €	2016	2015
Non-cash transactions:		
Depreciation and amortisation	4,934	4,874
Employee benefits	235	91
Changes in conditional supplementary contract price	-2,245	-1,109
Total	2,924	3,856

24 OPERATING LEASES

Group as lessee

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

Less than one year	600	554
Between one and five years	1,462	1,177
More than five years	1,193	1,249
Total	3,255	2,980

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 €	2016	2015
Rental and leasing liabilities		
Rental liabilities	3,971	2,980
Lease liabilities	5,173	4,878
Currency derivatives		
Value of the underlying forward contracts	22,550	24,599
Market value of the forward contracts	334	-27
Interest swap contracts		
Value of the underlying interest swap contracts	10,000	10,000
Market value of Interest swap contracts	-135	0
Other liabilities		
Guarantees	5,275	3,124

On 23 December 2016, a competitor of Teleste filed two complaints against Teleste Limited, demanding damages from the company for the infringement of two patents. Teleste denies patent infringement in both cases. According to the assessment by Teleste's management, the results of said litigations are not expected to have material effect on Teleste's financial position.

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	100	100
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 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
	100	100
The key management personnel compensations		
1,000 €	2016	2015
CEO		
Salaries and other short-term benefits	579	1,233

During 2016 no options were granted to the management of Teleste (2015: 0 options). At 31 December 2016 management did not have any options (2015: no options of which 0 were exercisable) .

Management of the parent company has 0,74% or 140,091 of the parent company's shares (2015: 0,66% or 125,652 shares).

A voluntary pension fee for CEO amounted 80 thousand euro (63 thousand euro in 2015), which amount is not included in the paid salary and remuneration.

The key management personnel compensations	2016	2015
1,000 €		
Timo Miettinen, Chairman of the Board	40	0
Marjo Miettinen, Chairman of the Board until 7th April 2016	0	40
Pertti Ervi, Member of the Board	28	28
Jannica Fagerholm, Member of the Board	28	28
Esa Harju, Member of the Board until 30th Nov 2016	28	28
Kai Telanne, Member of the Board	28	0
Timo Luukkainen, Member of the Board	28	28
Petteri Walldén, Member of the Board until 7th April 2016	0	28
Jukka Rinnevaara, CEO	579	1 233
Total	759	1 413

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 2016 and 2015.

There is no restrictions according 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.–31.12.2016

1,000 €	Note	2016	2015
Net sales	1	102,622	87,519
Change in inventories of finished goods		-1,227	3,680
Other operating income	2	2,253	2,557
Material and services	3	-52,954	-50,802
Personnel expenses	4	-23,702	-22,037
Depreciation and amortisation	5	-770	-825
Other operating expenses		-17,735	-15,865
Operating profit		8,489	4,226
Financial income and expenses	6	4,670	3,455
Profit before extraordinary items		13,159	7,681
Appropriations	7	-30	181
Direct taxes	8	-1,733	-994
Profit for the financial period		11,397	6,868

Balance Sheet 31.12.2016

1,000 €	Note	2016	2015
Non-current assets			
Intangible assets	9	1,213	1,488
Property, plant and equipment	9	4,755	4,464
Long-term receivables	10	20,052	25,331
Investments	11	43,265	45,592
		69,285	76,875
Current assets			
Inventories	12	13,275	12,896
Trade and other receivables	13	28,152	26,168
Cash and cash equivalents	14	6,061	6,002
		47,487	45,066
Total assets		116,772	121,941
Shareholders' equity			
Share capital	15	6,967	6,967
Share premium	15	1,504	1,504
Invested non-restricted equity	15	3,704	7,516
Retained earnings	15	41,410	38,835
Profit for the financial period	15	11,397	6,868
		64,982	61,689
Appropriations	7	424	394
Provisions	16	1,127	1,420
Liabilities			
Long-term liabilities	17	26,000	28,000
Short-term liabilities	18	24,239	30,438
		50,239	58,438
Total equity and liabilities		116,772	121,941

Cash Flow Statement

1,000 €	2016	2015
CASH FLOW FROM OPERATIONS		
Profit before extraordinary items	13,159	7,681
Adjustments		
Depreciations according plan	770	825
Financial income and expenses	-4,670	-3,455
Other items	-293	-196
Cashflow before changes in working capital	8,966	4,855
Changes in working capital		
Increase (-) /decrease(+) in trade and other receivables	-522	-2,688
Increase (-) / decrease (+) in inventories	-379	-5,867
Increase (+) / decrease (-) in trade payables	-2,294	5,240
Cashflow before financial items	5,770	1,540
Paid interest	-447	-520
Interests and dividends received	5,377	3,975
Income taxes paid	-1,044	-967
Cash flow from operations	9,657	4,028
Investments		
Payment of other tangible assets	-786	-187
Investments in subsidiary shares	-485	-7,930
Loans granted	3,079	-4,228
Cash flow from investments	1,808	-12,345
Financing		
Short-term liabilities	4,000	44,000
Long-term liabilities	-6,000	-39,000
Change in trade payables group	-3,777	9,356
Change in cash pool	-1,461	-451
Paid dividends and other profit distribution	-4,168	-3,694
Proceed from issue of new shares	0	-1,382
Cash flows from financing activities	-11,406	8,829
Change in liquid funds	59	512
Liquid funds 1.1.	6,002	5,490
Liquid funds 31.12.	6,061	6,002

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 31.12.2016

1 NET SALES

1,000 €	2016	2015
Net sales by segments		
Video and Broadband Solutions	100,695	85,916
Network Services	1,927	1,603
Total	102,622	87,519
Net sales by market area		
Finland	12,397	11,172
Nordic countries	5,801	10,749
Other Europe	70,430	57,905
Others	13,994	7,693
Total	102,622	87,519

2 OTHER OPERATING INCOME

R&D subvention and others	2,253	2,557
Total	2,253	2,557

3 MATERIAL AND SERVICES

Purchases	-53,597	-51,392
Change in inventories	1,605	2,187
	-51,992	-49,205
Purchased services	-962	-1,597
Total	-52,954	-50,802

4 PERSONNEL EXPENSES

1,000 €	2016	2015
Wages and salaries	-19,336	-17,916
Pension costs	-3,286	-3,135
Other personnel costs	-1,080	-985
Total	-23,702	-22,037
Remuneration to Board members and Managing Directors		
Timo Miettinen, Chairman of the Board	-40	0
Marjo Miettinen, Chairman of the Board until 7th April 2016	0	-40
Pertti Ervi, Member of the Board	-28	-28
Jannica Fagerholm, Member of the Board	-28	-28
Esa Harju, Member of the Board until 30th Nov 2016	-28	-28
Kai Telanne, Member of the Board	-28	-28
Timo Luukkainen, Member of the Board	-28	0
Petteri Walldén, Member of the Board until 7th April 2016	0	-28
Jukka Rinnevaara, CEO	-579	-1,233
Total	-759	-1,413

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

Year-end personnel	375	396
Average personnel	386	388

Personnel by function at the year-end

Research and Development	80	82
Production and Material Management	219	230
Sales and marketing	48	54
Administration	28	30
Total	375	396

5 DEPRECIATION ACCORDING TO PLAN

1,000 €	2016	2015
Other capitalized expenditure	-34	-61
Buildings	-305	-304
Machinery and equipment	-156	-177
Goodwill	-275	-275
Other intangible rights	0	-8
Total	-770	-825

6 FINANCIAL INCOME AND EXPENSES

Interest income	42	10
Interest income from Group companies	785	836
Interest expenses	-314	-355
Interest expenses to Group companies	-92	-59
Currency differences	-424	316
Other financial income and expenses	-8	-106
Dividend income from Group companies	4,679	2,810
Dividend income	2	3
Total	4,670	3,455

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

Change in accumulated depreciation difference

Buildings	64	48
Other capitalized expenditure	-94	134
Total	-30	181

Accumulated depreciation in excess of plan	424	394
--	-----	-----

8 INCOME TAXES

Direct taxes	-1,694	-966
Taxes from previous years	-39	-28
Total	-1,733	-994

9 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	8,830	4,376	22,069
Increases	0	0	0	40	285	107	432
Acquisition cost 31.12.	7,619	2,197	9,816	8,903	9,115	4,483	22,501
Accumulated depreciation 1.1.	-7,619	-709	-8,328	-4,727	-8,522	-4,356	-17,605
Depreciation	0	-275	-275	-305	-156	-34	-495
Accumulated depreciation 31.12.	-7,619	-984	-8,603	-5,032	-8,678	-4,390	-18,100
Advance payments 1.1.	0	0	0	0	0	0	0
Additions	0	0	0	0	0	354	354
Advance payments 31.12.	0	0	0	0	0	354	354
Book value 31.12.2016	0	1,213	1,213	3,871	436	447	4,755
Book value of machinery and equipment 31.12.2016			322				
Book value of machinery and equipment 31.12.2015			305				

10 LONG TERM RECEIVABLES

1,000 €	2016	2015
Subordinated loan from group company	466	508
Other long term receivables from group companies	19,586	24,823
Total	20,052	25,331

11 INVESTMENTS

Parent company	Shares in group companies	Shares others	Total
Acquisition cost 1.1.	50,984	1,121	52,105
Increase	485	0	485
Acquisition cost 31.12.	51,469	1,121	52,590
Accumulated depreciation 1.1.	-6,086	-428	-6,514
Disposals	-2,811	0	-2,811
Accumulated depreciation 31.12.	-8,897	-428	-9,325
Book value 31.12.2016	42,572	693	43,266

12 INVENTORIES

1,000 €	2016	2015
Raw materials and consumables	6,408	4,803
Work in progress	2,934	3,238
Finished goods	3,932	4,855
Total	13,275	12,896

13 CURRENT ASSETS

Accounts receivables	15,325	12,393
Accounts receivables from Group companies	8,116	10,465
Other receivables from Group companies	2,993	1,041
Other receivables	264	1,169
Accrued income	1,455	1,101
Total	28,152	26,168

14 LIQUID FUNDS

Cash and cash equivalents	6,061	6,002
---------------------------	-------	-------

15 CHANGES IN SHAREHOLDERS' EQUITY

1,000 €	2016	2015
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.	7,516	5,563
Proceeds from issuance of ordinary shares	-3,812	1,952
Invested non-restricted equity 31.12.	3,704	7,516
Retained earnings 1.1.	45,703	42,528
Dividends	-4,293	-3,694
Retained earnings 31.12.	41,410	38,835
Profit for the financial period	11,397	6,868
Accumulated profit 31.12.	52,807	45,703
Total	64,982	61,689
Companies distributable equity 31.12.	56,511	53,218

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

16 OBLIGATORY PROVISIONS

1,000 €	2016	2015
---------	------	------

Guarantee provision

1,127 **1,420**

17 LONG TERM LIABILITIES

Bank Loan

26,000 **28,000**

18 SHORT TERM LIABILITIES

Advance payments received

0 1,796

Accounts payables

7,572 7,335

Accounts payables from Group companies

1,039 2,774

Other current liabilities

1,217 502

Other current liabilities from Group companies

7,678 11,495

Accrued liabilities

6,734 6,536

Total

24,239 **30,438**

19 CONTINGENT LIABILITIES AND PLEDGED ASSETS

	2016	2015
Leasing liabilities		
For next year	1,144	993
For later years	2,177	2,111
Total	3,321	3,104
Rental liabilities		
Less than one year	92	92
Between one and five years	276	276
More than five years	1,005	1,097
Total	1,373	1,465
Liabilities on own behalf		
Bank guarantees	3,348	3,124
Guarantees given on behalf of subsidiaries	1,927	0

20 CURRENCY DERIVATES

Value of underlying forward contracts	22,550	24,599
Market value of forward contracts	334	-27
Interest rate swap	10,000	10,000
Market value of interest rate swap	-169	0

21 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	100	0
Mitron Information Systems Sp. Zoo, Warsaw, Poland	100	0
Mitron Oy, Forssa, Finland	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 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.

22 OWN SHARES

	Number of shares	Percentage of share capital and votes
Teleste Oyj owns own shares 31.12.2016	863,953	4.55

23 SHARES AND OWNERS

Management interest

	Number of shares	Percent- age of share capital, %	Percent- age of votes, %
CEO and Board Members	140,091	0.74	0.74

Audit expenses

	2016	2015
Auditing assignments	-50	-49
Tax consultancy	-15	-44
Other assignments	-29	-21
Total	-94	-114

24 SHARES AND SHAREHOLDERS

Major shareholders at 31 December 2016	Number of shares %	%
EM Group Oy	4,409,712	23.2
Mandatum Life Insurance Company Limited	1,679,200	8.8
Ilmarinen Mutual Pension Insurance Company	1,084,475	5.7
Teleste Oy	863,953	4.6
Kaleva Mutual Insurance Company	824,641	4.3
Varma Mutual Pension Insurance Company	521,150	2.7
The State Pension Fund	500,000	2.6
Julius Tallberg Corp.	281,608	1.5
Nieminen Jorma Juhani	250,000	1.3
Danske Invest Finnish Small Cap Fund	247,800	1.3
Total (10)	10,662,539	56.15

Sector Dispersion at 31 December 2016	Shareholders	%	Shares	%
Households	5,555	93.79	4,890,310	25.8
Public sector institutions	4	0.07	2,115,725	11.1
Financial and insurance institutions	19	0.32	4,235,347	22.3
Corporations	273	4.61	7,487,726	39.4
Non-profit institutions	28	0.47	73,000	0.4
Foreign	44	0.74	183,480	1.0
Total	5,923	100.00	18,985,588	100.0
Of which nominee registered	8	0.14	841,864	4.4

Holding Dispersion at 31 December 2016	Shareholders	%	Shares	%
1–100	1,509	25.5	94,259	0.5
101–500	2,576	43.5	698,715	3.7
501–1,000	852	14.4	684,533	3.6
1,001–5,000	799	13.5	1,738,120	9.2
5,001–10,000	87	1.5	625,361	3.3
10,001–50,000	71	1.2	1,458,723	7.7
50,001–100,000	8	0.1	539,826	2.8
100,001–500,000	14	0.2	3,258,559	17.2
500,001–	7	0.1	9,887,492	52.1
Total	5,923	100.0	18,985,588	100.0
Of which nominee registered	8	0.1	841,864	4.4

Proposal for the Distribution of Earnings

Teleste Corporation's distributable equity on the date of the financial statements equalled EUR 56,511,328.65.

The Board of Directors proposes to the Annual General Meeting of 6 April 2017 that a dividend of EUR 0.24 (0.23) per share be paid to outstanding shares for the year 2016.

Signatories to the Annual Report and the Financial Statements
8 February 2017

Timo Miettinen HP	Pertti Ervi HJ	Jannica Fagerholm HJ
----------------------	-------------------	-------------------------

Timo Luukkainen HJ	Kai Telanne HJ
-----------------------	-------------------

Jukka Rinnevaara
toimitusjohtaja

The Auditor's Note

Our auditors' report has been issued today.

8 February 2017
KPMG OY AB

Petri Kettunen
KHT

Auditor's report

To the Annual General Meeting of Teleste Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Teleste Corporation (business identity code 1102267-8) for the year ended 31 December 2016. The financial statements comprise the consolidated statement of financial position, statement of comprehensive income, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, cash flow statement and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial performance and financial position in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Impairment of goodwill (EUR 37.4 million) (Refer to accounting principles for the consolidated financial statements and note 11)	
<ul style="list-style-type: none"> In recent years the Group has expanded its operations through acquisitions. As a consequence the goodwill balance in the consolidated statement of financial position is significant. Under IFRS standards goodwill is not amortised, but it is tested for impairment at least annually. For testing purposes Teleste has allocated goodwill to cash-generating units. There is a risk that the acquired businesses may not trade in line with initial expectations and forecasts and therefore that, the carrying value of a cash-generating unit may exceed its recoverable amount and result in an impairment. Teleste determines recoverable amounts of the cash-generating units based on the value-in-use method. Value in use is calculated using on discounted cash flow forecasts. The underlying key assumptions used to support the calculations require management judgement regarding net sales growth rate, profitability, discount rate and long-term growth rate, among others. Due to the fact that forecasts and estimates involve judgements and the significance of the carrying value involved, impairment of goodwill is considered a key audit matter. 	<ul style="list-style-type: none"> We assessed the Group's process for preparing cash flow forecasts and key assumptions used in the calculations, such as net sales growth rate, profitability and discount rate, by reference to the budgets approved by the parent company's Board of Directors, third party information and our own views. We involved our valuation specialists in assessing the technical appropriateness of the calculations and comparing the assumptions used to market and industry data. In addition, we considered the appropriateness of the notes to the consolidated financial statements on goodwill and impairment testing.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Accuracy of net sales (EUR 259.5 million) (Refer to accounting principles for the consolidated financial statements and note 1)	
<ul style="list-style-type: none"> Net sales is a material item in the consolidated financial statements: there is a large number of sales transactions and the Group sells a wide variety of products, services and projects. Due to the variety and large number of sales transactions the accuracy of net sales is considered a key audit matter. 	<ul style="list-style-type: none"> We tested controls over registering sales transactions and recognising related revenue. We assessed the appropriateness of the revenue recognition principles the Group applies by comparing to currently valid IFRS standards, the Group accounting principles and contract terms. In order to assess the accuracy of revenues recognized, we performed analytical procedures by analysing the composition of net sales as well as sales of individual products and sales to single customers.
Valuation of inventories (EUR 33.5 million) (Refer to accounting principles for the consolidated financial statements and note 14)	
<p>Valuation of inventories is considered a key audit matter due to the following factors:</p> <ul style="list-style-type: none"> Inventories represent approximately 21 percent of the consolidated total assets as at 31 December 2016. Valuation of inventories requires management judgements over future sales and appropriate level of write-downs on inventory items. Demand for products may change due to customer behavior, fluctuations in market prices and technological developments. 	<ul style="list-style-type: none"> We analysed the inventory accounting process and tested the functionality of the related internal controls. We tested internal controls surrounding inventory valuation and the accuracy of inventory quantities. We also assessed the appropriateness of the company's inventory counting procedures. In addition, we considered the appropriateness of inventory write-down principles and the adequacy of the write-downs recognised in the financial statements.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director 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, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or

conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the Annual Report, but does not include the financial statements and our auditor's report thereon. We obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information

is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the report of the Board of Directors, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki February 8, 2017
KPMG OY AB

Petri Kettunen
Authorised Public Accountant, KHT

Corporate Governance Statement 2016

This Corporate Governance Statement has been prepared pursuant to Chapter 7, section 7 of the Securities Markets Act and the Finnish Corporate Governance Code 2015 issued by the Securities Market Association on 1 October 2015. The Corporate Governance Code is available on the Securities Market Association's website at <http://cgfinland.fi/en/>. The Corporate Governance Statement is issued separately from the Board of Directors' Report, and the provided data are based on the situation as at 31 December 2016.

Corporate Governance

Teleste Corporation (hereafter 'Teleste') aims to organise its management in a consistent and functional manner. The company's governance is based on Finnish legislation and Teleste's Articles of Association. Teleste shares are listed on Nasdaq Helsinki Oy (hereafter 'Stock Exchange'). Teleste complies with the Securities Markets Act, the rules and regulations for listed companies issued by the Stock Exchange, including the Finnish Corporate Governance Code 2015, and the rules and regulations of the Finnish Financial Supervisory Authority. Since 1 March 2000, Teleste complies with the insider guidelines of the Stock Exchange in their valid form at any given time. These insider guidelines are complemented by Teleste's internal guidelines. The company has confirmed the values applied to its operations.

General Meeting

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

The General Meeting decides on matters as required in the provisions of the Limited Liability Companies Act. The matters decided by the AGM include adoption of the finan-

cial statements, allocation of profit shown by the balance sheet, discharge of the Board of Directors and the CEO from liability, and election of the Board members and the auditor. In addition, responsibilities of the General Meeting include among others making amendments to the Articles of Association and deciding on share issues, granting of entitlements to options and other special rights, procurement and redeeming of the company's own shares, and reduction of share capital. Teleste's General Meeting shall be convened by the Board of Directors.

Board of Directors

Rules of Procedure

It is the responsibility of Teleste's Board of Directors to manage the company in accordance with the law, statutory regulations, Articles of Association and decisions taken by the General Meeting. The operating procedures and main duties of the Board of Directors are specified in the Board's Rules of Procedure. The Board shall resolve any matters that are of great importance to the Group when taking into account the scope and extent of the Group's operations. The Board oversees and assesses the work of the CEO and the Management Group. The Board decides on the criteria of the company's compensation system and makes decisions on other issues of great importance related to the personnel.

According to the view of Teleste's Board of Directors, the work of the Board is carried out in the most efficient way without formation of specific committees, by involving the entire Board in the so-called committee work instead. The Board of Directors is also responsible for carrying out the duties of the Audit Committee.

The Board shall conduct an annual evaluation of its performance and working methods. The Board has adopted the Rules of Procedure, according to which the essential duties of the Board include the following:

- confirming the company's business strategy and revising it at regular intervals to ensure that it is kept up-to-date,
- approving annual budgets and supervising their implementation,
- deciding on individual major investments and divestments,
- reviewing and approving financial statements and interim reports,
- appointing the CEO and discharging them from their duties and specifying their responsibilities and terms and conditions of employment,
- deciding on incentive and bonus schemes for the management and personnel and, as necessary, presenting related proposals to the General Meeting,
- annually assessing the essential risks related to the company's operations and the management of such risks,
- confirming the company's values and policies.

Members of the Board of Directors

According to the Articles of Association, the Annual General Meeting elects a minimum of three and maximum of eight Board members each year. Their term of office lasts until the end of the next Annual General Meeting. The Board shall elect a Chairman of the Board from among its members.

The Annual General Meeting held on 7 April 2016 elected the six persons specified below to Teleste's Board of Directors. Timo Miettinen was elected Chairman by the members of the Board.

- Timo Miettinen, Chairman, b. 1955, M.Sc. (Eng.), Board professional, Board member since 2016
- 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; served as Board member until 23 November 2016 and was appointed member of Teleste's Management Group as of 1 December 2016
- Timo Luukkainen, member of the Board, b.1954, B.Sc. (Econ.), M.Sc. (Eng.), MBA, Board professional, Board member since 2016
- Kai Telanne, member of the Board, b. 1964, M.Sc. (Econ.), Alma Media Corporation, CEO, Board member since 2008

The members of the Board are not employed by the company, and on the basis of assessment in accordance with the issued Finnish recommendations, they are independent of the company and its significant shareholders, with the exception of Chairman Timo Miettinen (served as Board member of EM Group Oy, a significant shareholder) and Board member Timo Luukkainen (served as the CEO of Ensto Oy until 3 April 2016). EM Group Oy, a significant shareholder of Teleste, was also a significant shareholder of Ensto Oy.

On 29 August 2016, Teleste announced in a stock exchange release that it had received a notification on the same date from Timo Miettinen, Chairman of Teleste's Board of Directors, concerning a change in the ownership of Teleste Corporation's shares: EM Group Oy's Board of Directors had signed draft terms of demerger concerning the division of EM Group Oy into three new acquiring companies. Of these companies, according to the draft terms of demerger, Tianta Oy would own EM Group Oy's current holding of approximately 23.23 per cent in Teleste Corporation, and the objective was to register the implementation of the demerger on 1 January 2017. In connection with signing the draft terms of demerger, Timo Miettinen had agreed with other shareholders of EM Group Oy that the ownership of the acquiring companies would be rearranged after the demerger, so that Timo Miettinen would own 60 per cent of Tianta Oy ('Arrangement') and Tianta Oy would come under his control. The implementation

of the Arrangement was still conditional upon settling its tax treatment, among other things. On 2 January 2017, Teleste announced in a stock exchange release that it had received a notification from Timo Miettinen, Chairman of Teleste's Board of Directors, on the same date, stating that EM Group Oy has demerged into three new companies through a full demerger, the ownership in Teleste Corporation of EM Group Oy, now ceased as a result of the demerger, has been transferred to Tianta Oy as of 1 January 2017 in connection with the demerger, and Timo Miettinen has acquired a control over Tianta Oy (60% of its shares and voting rights).

On 31 December 2016, Board members and their controlled entities held shares in Teleste Corporation and other companies included in the Teleste Group as follows:

• Timo Miettinen	1,831 shares
• Pertti Ervi	13,697 shares
• Jannica Fagerholm	8,173 shares
• Timo Luukkainen	1,282 shares
• Kai Telanne	19,693 shares

On 31 December 2016, Board members or their controlled entities held no share-based entitlements in Teleste Corporation or other companies included in the Teleste Group. In 2016, Teleste's Board of Directors held 10 meetings.

The Board members attended the meetings as follows:	
• Marjo Miettinen (Board member until 7 April 2016)	2/2
• Timo Miettinen (Board member from 7 April 2016)	8/8
• Pertti Ervi	10/10
• Jannica Fagerholm	10/10
• Esa Harju (Board member until 23 November 2016)	8/8
• Timo Luukkainen (Board member from 7 April 2016)	8/8
• Kai Telanne	10/10
• Petteri Walldén (Board member until 7 April 2016)	2/2

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

Principles concerning diversity of the Board of Directors

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

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

Teleste does not have a separate nomination committee. According to the normal procedure, the major shareholders prepare a proposal to the General Meeting on the composition of Teleste's Board of Directors, and the proposal is sent to Teleste for information.

The Annual General Meeting held on 7 April 2016 elected six members to the Board of Directors, five men and one woman. After the resignation of Esa Harju from the Board on 23 November 2016, the Board of Directors consisted of five members, four men and one woman. The Board members had a technical or business degree. Further, the other above factors and characteristics relevant to diversity were also represented in the Board of Directors in 2016.

Remuneration of Board members

The Annual General Meeting decides on the remuneration of the members of the Board of Directors. The Annual General Meeting held on 7 April 2016 decided on the following remunerations for Board service until the next AGM: the Chairman of the Board will be paid EUR 40,000 a year and each member EUR 28,000 a year. Of the specified annual amount, 40 per cent will be used to purchase Teleste's shares for Board members, 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 fringe benefits paid to the Board of Directors in 2016 were as follows:

- Marjo Miettinen, EUR 0.00, including 0 Teleste shares (member of the Board until 7 April 2016)
- Timo Miettinen, EUR 40,000, including 1,831 Teleste shares (member of the Board from 7 April 2016)
- Pertti Ervi, EUR 28,000, including 1,282 Teleste shares
- Jannica Fagerholm, EUR 28,000, including 1,282 Teleste shares
- Esa Harju, EUR 28,000, including 1,282 Teleste shares (member of the Board until 23 November 2016)
- Timo Luukkainen, EUR 28,000, including 1,282 Teleste shares (member of the Board from 7 April 2016)
- Kai Telanne, EUR 28,000, including 1,282 Teleste shares
- Petteri Walldén, EUR 0.00, including 0 Teleste shares (member of the Board until 7 April 2016)

President and CEO

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

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

The company's Board of Directors decides on the salary, remuneration and other benefits received by the CEO. Salary, remuneration and fringe benefits paid to Teleste's CEO in 2016 totalled EUR 578,821. In addition, there was an additional pension payment of EUR 79,707 in the financial year.

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

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

Management Group

On 31 December 2016, the Group's Management Group consisted of eight members including the CEO, to whom the members of the Management Group report. The members of the Management Group are directors representing Teleste's business areas and units and directors representing the Group management. The subsidiaries operate as part of the business areas. Teleste's Management Group is chaired by the CEO who reports to the Board of Directors. The Management Group has no authority under law or the Articles of Association.

On 31 December 2016, Teleste's Management Group consisted of the following members:

- Jukka Rinnevaara, born in 1961, M.Sc. (Econ.), CEO, is in charge of the Group's business operations and corporate governance in accordance with the law, Teleste's Articles of Association and the instructions and regulations issued by the Board
- Johan Slotte, born in 1959, LL.M., EMBA, Deputy CEO, is in charge of the Germany, Austria and Switzerland areas, as well as the development and legal affairs related to Teleste Group's business operations
- Juha Hyytiäinen, born in 1967, M.Sc. (Econ.), CFO, is in charge of Finance, HR and ICT
- Hanno Narjus, born in 1962, M.Sc. (Econ.), Senior Vice President in charge of Network Products business unit
- Esa Harju, born in 1967, M.Sc. (Eng.), Senior Vice President in charge of Video Security and Information business unit
- Andree Kang, born in 1964, Ph.D. (Eng.), Senior Vice President in charge of Network Services business area
- Pasi Järvenpää, born in 1967, M.Sc. (Eng.), Senior Vice President in charge of Teleste's Research and Development

- Markus Mattila, born in 1968, M.Sc. (Eng.), Senior Vice President in charge of Teleste's Operations

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

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

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

The Management Group including the CEO has a group pension plan, according to which the retirement age of Management Group members is 60 years. The planned amount of pension is 60 per cent of the regular annual earnings paid in the four years preceding retirement. Pensions payable under the Employees' Pensions Act (TyEL) are taken into account in the calculation.

Incentive schemes and ownership by the management

Management Group's shareholding and share-based entitlements

On 31 December 2016, Management Group members and their controlled entities held shares in Teleste Corporation and other companies included in the Teleste Group as follows:

• Jukka Rinnevaara	95,415 shares
• Johan Slotte	5,457 shares
• Juha Hyytiäinen	4,225 shares
• Hanno Narjus	4,598 shares
• Esa Harju	10,765 shares
• Andree Kang	5,450 shares,
controlled entity Infinity 2789 GmbH	7,550 shares
• Pasi Järvenpää	4,226 shares
• Markus Mattila	5,747 shares

On 31 December 2016, Teleste did not have any running stock option programmes, and the CEO, the members of the Management Group or their controlled entities did not hold any Teleste options or other share-based entitlements.

For shareholdings of the CEO and Management Group members, see Notes section: the Related party transactions.

In 2016, Teleste was not involved in any related party transactions that would have been of material importance for Teleste and deviated from normal business or been carried out on other than ordinary market terms.

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

LTI 2015 consists of three annually commencing plans with three main elements: an investment in Teleste shares that is required for a key employee to be included in the LTI 2015 programme; a matching share plan with a three-year vesting period based on the above investment; and a performance matching plan with a three-year performance period.

The commencement of each plan and the inclusion of eligible participants are subject to a specific approval by Teleste's Board of Directors.

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

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

The performance criterion applied to the first and second plan alike 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 plan is the above mentioned investment in Teleste shares.

If all the eligible key employees participate in the plan by meeting the investment precondition, the aggregate number of matching shares that may be delivered on the basis of their investment is in maximum approximately 65,000 shares under the plan that commenced in 2015 and 53,600 shares under the plan that commenced in 2016; and the total number of shares that may be delivered under the performance matching plan is in maximum approximately 260,000 shares for the plan that commenced in 2015 and in maximum 214,400 shares for the plan that commenced in 2016. The above figures are gross figures before the deduction of the applicable taxes. The remaining net quantity is delivered to the participants as Teleste's shares.

The Board of Directors approved 37 key employees as eligible to participate in the first three-year plan of LTI 2015 and 42 key employees as eligible to participate in the second three-year plan of LTI 2015.

Auditing, revisions and remuneration of the auditor

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

On 7 April 2016, Teleste's AGM elected Authorised Public Accountants KPMG Oy Ab for the company's auditor. The principally responsible auditor is Petri Kettunen, APA.

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

In 2016, Teleste Group's auditing expenses totalled EUR 180,000, of which the amount of KPMG was EUR 168,000. In addition, units of KPMG have supplied Teleste Group companies with other consultation worth total EUR 70,000 and other than KPMG auditors for EUR 31,000.

Insider management

Since 1 March 2000, Teleste complies with the insider guidelines issued by the Board of Directors of Nasdaq

Helsinki Oy in their valid form at any given time. These insider guidelines are complemented by the company's internal guidelines.

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

Teleste maintains a permanent insider register and project-specific insider lists prepared specifically for each project as needed. The permanent insider list includes the persons who are always up-to-date with all insider information concerning Teleste. There are no persons mentioned in the said insider list.

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

The persons discharging managerial responsibilities at Teleste with the obligation to notify are Board members, CEO, Deputy CEO and CFO. They and persons closely associated with them have the obligation notify Teleste and the Finnish Financial Supervisory Authority of transactions conducted with Teleste's financial instruments. Teleste announces the transactions reported to it in a specific stock exchange release.

It is recommended for persons discharging managerial responsibilities at Teleste to time their trading activities with financial instruments issued by Teleste at such times that as accurate as possible information affecting the value of the share is available in the market.

The persons discharging managerial responsibilities at Teleste and anyone participating in the preparation of interim reports and/or financial statements are forbidden on their own account or on behalf of others, directly or indirectly, to trade with financial instruments issued by Teleste during the 'closed window' period, that is, for thirty

(30) days prior to the publication of an interim report and financial statements. The persons participating in the preparation of interim reports and/or financial statements include the rest of Teleste's Management Group, the person in charge of investor relations and the controllers.

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

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

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 the 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. The management of the Group and the business units monitor the internal supervision as part of their normal managerial duties, while the Board evaluates and verifies the appropriateness and efficiency of the internal supervision. In both business areas, the management of the business unit, supported by Teleste's centralised controller function, is responsible for compliance with the principles of internal supervision on all levels of the areas.

Risk management

The Group's risk policy and its principles and objectives are subject to approval by Teleste's Board of Directors. Risk management is based on the strategic and business goals of Teleste Group. Risk management aims to ensure the achievement of business goals, so that material risks affecting business operations and posing a threat to the achievement of goals are identified and continuously

monitored and evaluated. The risk management methods are specified and the implementation of risk prevention is attempted through the same. In addition, 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 operations and generates added value that promotes decision-making and goal-setting by the management in charge of business operations. Monthly reporting constitutes part of the risk management system. A part of the risk management system is monthly reporting by which, in particular, 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. The Board of Directors annually reviews essential business risks and their management. Risk management constitutes an integral part of the strategic and operational activities of the business areas. Risks are reported to the Board on a regular basis.

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

- strategic risks
- operational risks
- financial risks
- interest group risks
- personnel risks
- property and business interruption risks

Internal auditing

The internal auditing unit is in charge of the internal auditing of Teleste and its subsidiaries. The results are reported to the designated member of the Board. In addition, the summary of the internal audit report is presented to Teleste's Board of Directors twice a year. Internal auditing evaluates the efficiency of the processes regarding risk management, supervision, management and selected functions, and makes proposals for their improvement. The expertise of bodies external to the auditing unit is used in the implementation of auditing as needed. In addition, internal auditing carries out special tasks assigned by the management. Internal auditing covers all the organisational levels. The

external auditor participates in the choosing of the priorities of internal auditing and the assessment of results.

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

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

Internal supervision of the financial reporting process was created by describing the reporting process, surveying its relevant risks and specifying the control points on the basis of the conducted risk assessment. The controls cover the entire reporting process from accounting by subsidiaries to monthly, quarterly and annual reporting. Controls are built into reporting systems, or controls may involve matching, inspections carried out by the management, or specified procedures or policies. The CFO is responsible for ensuring that there is a separately designated person for each control responsible for the implementation and efficiency of the control in question. The Group Accounting Manual specifies the standards for financial reporting. Financial reports to be published are reviewed by the Management Group and the Board of Directors prior to their publication. The external auditor checks the correctness of the external annual financial reporting.

Key Figures 2012–2016

	IFRS 2016	IFRS 2015	IFRS 2014	IFRS 2013	IFRS 2012
Profit and loss account, balance sheet					
Net sales, Meur	259.5	247.8	197.2	192.8	193.9
Change %	4.8	25.7	2.3	-0.6	5.6
Sales outside Finland, %	93.3	95.1	92.5	93.2	93.4
Operating profit, Meur	15.6	14.3	11.1	11.0	10.9
% of net sales	6.0	5.8	5.6	5.7	5.6
Profit after financial items, Meur	14.8	13.9	10.8	10.7	10.1
% of net sales	5.7	5.6	5.5	5.5	5.2
Profit before taxes, Meur	14.8	13.9	10.8	10.7	10.1
% of net sales	5.7	5.6	5.5	5.5	5.2
Profit for the financial period, Meur	11.8	11.0	8.5	8.1	6.7
% of net sales	4.6	4.4	4.3	4.2	3.5
R&D expenditure, Meur	11.1	11.0	10.3	10.0	11.2
% of net sales	4.3	4.4	5.2	5.2	5.8
Gross investments, Meur	5.5	16.9	3.7	6.3	3.3
% of net sales	2.1	6.8	1.9	3.3	1.7
Interest bearing liabilities, Meur	30.6	33.0	24.4	24.3	22.1
Shareholder's equity, Meur	84.4	77.5	70.7	65.6	60.6
Total assets, Meur	162.1	164.5	132.5	124.3	120.2
Personnel and orders					
Average personnel	1,514	1,485	1,302	1,306	1,326
Order backlog at year end, Meur	26.9	42.2	15.2	13.1	17.0
Orders received, Meur	244.3	251.3	199.3	188.9	189.7
Key metrics					
Return on equity, %	14.6	14.9	12.5	12.9	11.6
Return on capital employed, %	14.8	14.2	12.2	13.0	13.0
Equity ratio, %	52.5	48.3	53.4	52.7	50.5
Gearing, %	25.0	26.3	9.5	13.8	13.7
Earnings per share, euro	0.65	0.61	0.48	0.47	0.38
Earnings per share fully diluted, euro	0.65	0.61	0.48	0.46	0.38
Shareholders equity per share, euro	4.66	4.28	3.94	3.73	3.48

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

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.

Teleste meets investors, analysts and representatives of the media in news conferences set up in connection with releases of financial reports. For all meetings, any specified information involving corporate strategy and development is based on previously published data.

In Autumn 2016 Teleste updated its disclosure policy. In the future, Teleste will publish only the most significant orders as stock exchange releases. Teleste makes a case by case evaluation to determine, whether a purchase order meets the criteria set for a stock exchange release. Additionally Teleste will regularly publish investor news and press releases of news in relation to its business and to orders received that are deemed to interest the company's stakeholders, but do not fulfil the criteria for a stock exchange release.

Contact information

Jukka Rinnevaara, CEO

Tiina Vuorinen, Investor Relations and Press Office

Phone +358 2 2605 611

Email: investor.relations@teleste.com

Share basics

Teleste Corporation is listed on the Nasdaq Helsinki Oy in the Technology sector. In year 2016 review, the company was raised to the mid 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	10.24
12 months low	7.29
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, two Interim Reports and a Half Year Financial Report. 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 both as e-letter and PDF format on the website.

Financial releases in 2017

Interim report January–March	4.5.2017
Half year financial report January–June	10.8.2017
Interim report January–September	9.11.2017
Financial statement	8.2.2018

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 will be held on Thursday, 6 April 2017, 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 Monday, 27 March 2017 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 31 March 2017 at 4 p.m. by giving a prior notice of participation to the Company.

Such notice can be given

- through Company's website at www.teleste.com/AGM
- by email investor.relations@teleste.com;
- by telephone +358 (0)2 2605 611, from Monday to Friday between 9 a.m. and 4 p.m.; 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 Friday 31 March 2017 at 4 p.m. at the latest.

Holders 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 27 March 2017, 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 3 April 2017, 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 2016

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.25 per share be paid based on the adopted balance sheet for the financial period that ended on 31 December 2016 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 10 April 2017 is registered in the Company's shareholders' register maintained by Euroclear Finland Ltd. The dividend will be paid on 19 April 2017.

Payment of dividend

Annual General Meeting	6.4.2017
Dividend ex date	7.4.2017
Dividend record date	10.4.2017
Payment of dividend	19.4.2017

Dividend history, eur

2010	2011	2012	2013	2014	2015	2016
0,12	0,14	0,17	0,19	0,20	0,23	0,25*

* 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).

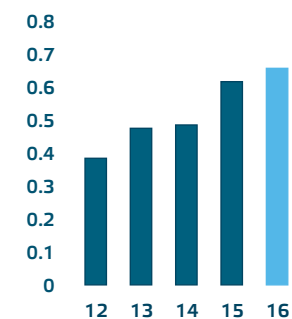
Minutes of the Annual General Meeting will be available at Teleste's website no later than 20 April 2017.

Key Figures per Share

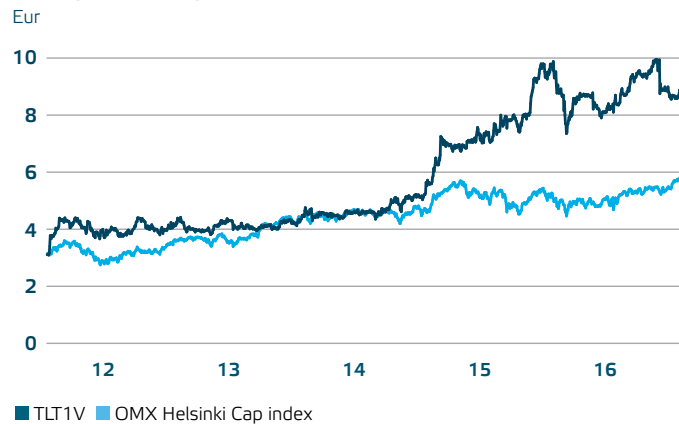
	2016	2015	2014	2013	2012
Highest price, euro	10.24	9.88	5.29	4.47	4.44
Lowest price, euro	7.29	5.32	4.25	3.78	3.04
Closing price, euro	8.86	9.80	5.27	4.25	4.17
Average price, euro	8.69	7.42	4.67	4.17	3.98
Price per earnings	13.6	16.1	11.0	9.1	10.8
Market capitalization, Meur	160.6	177.6	98.7	79.6	78.1
Stock turnover, Meur	30.6	24.6	10.9	9.2	10.8
Turnover, number in millions	3.5	3.3	2.3	2.2	2.7
Turnover, % of capital stock	18.5	17.5	12.5	11.7	14.4
Average number of shares	18,985,588	18,985,588	18,918,869	18,743,507	18,728,590
Number of shares at the year-end	18,985,588	18,985,588	18,985,588	18,816,691	18,728,590
Average number of shares, diluted w/o own shares	18,169,002	18,036,667	17,729,215	17,513,799	17,688,527
Number of shares at the year-end, diluted w/o own shares	18,216,369	18,121,635	17,795,934	17,838,599	17,709,672
Paid dividend, Meur	4.5	4.2	3.6	3.3	3.0
Dividend per share, euro	0.25*	0.23	0.20	0.19	0.17
Dividend per net result, %	38.3	37.7	41.7	40.8	44.5
Effective dividend yield, %	2.8	2.3	3.8	4.5	4.1

* The Board's proposal to the AGM

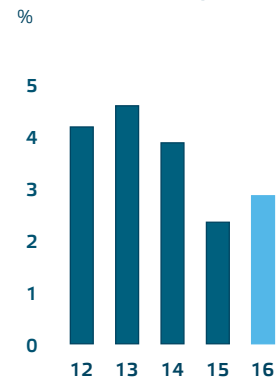
Earnings per share,
Eur



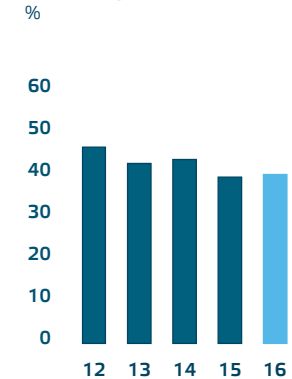
Share price develop 2012–2016



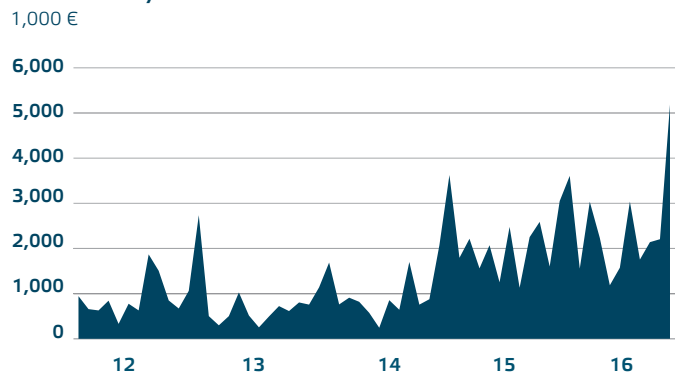
Effective dividend yield



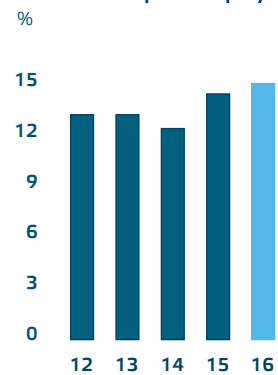
Dividend per net result



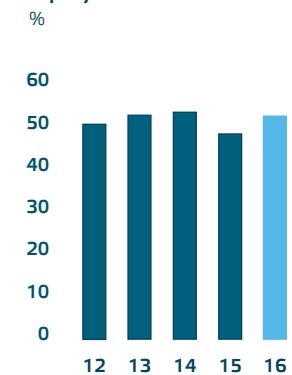
Share monthly turnover 2012–2016



Return on capital employed



Equity ratio





TELESTE CORPORATION

Postal address: P.O. Box 323, 20101 Turku, Finland

Visiting address: Telestenkatu 1, 20660 Littoinen, Finland

Telephone (switchboard) +358 2 2605 611

Telefax +358 2 2605 812

www.teleste.com

Business ID 1102267-8



www.facebook.com/telestecorporation

twitter.com/telestecorp

www.linkedin.com/company/teleste

www.slideshare.net/telestecorporation

www.youtube.com/telestecorporation

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