

Corporate Governance Statement 2018

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 2018.

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 financial statements, allocation of profit shown by the balance sheet, discharge of the Board of Directors and the CEO from liability, and election of the Board members and the auditor. In addition, responsibilities of the General Meeting include 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.

According to the Board's Rules of Procedure valid until 18th of September 2018, 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 said Rules of Procedure, 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.

In its meeting held on 18 September 2018, the Board of Directors adopted new Rules of Procedure. According to the new Rules of Procedure, the Board of Directors represents all the shareholders and always acts in the best interests of the company and its shareholders. The objective of the Board of Directors is to guide the company's business in such a manner that it provides the company's shareholders with the best possible return in the long run. The Board of Directors regularly monitors the achievement of the company's financial and strategic targets as well as the development of the company in accordance with the long-term goals. The Board of Directors provides the company management with external opinions and support. The Board is also responsible for ensuring that accounting, financial management and risk management in the company are appropriately organised. In addition, as applicable, the Board of Directors is responsible for matters related to the preparation of the shareholders' meeting and the implementation of its decisions.

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

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

- confirms the company's ethical values and policies and monitors their implementation
- monitors the company management's communications with shareholders and the security market and, when necessary, discusses the formation of shareholder interest and the response of the market
- defines the company's dividend policy
- annually confirms the company's basic strategy as well as the business objectives for the planning period derived from the basic strategy
- annually studies the technical development as well as the general demand and competition environment in the industry and assesses the company's key risks on the basis of the analysis prepared by the CEO
- reviews and approves interim financial statements and interim reports as well as the annual financial statements and the Report of the Board of Directors
- holds a meeting with the chief auditors at least once a year
- appoints and, when necessary, dismisses the CEO
- makes the necessary proposals to the shareholders' meeting
- grants authorisation to sign for the company and power of procuration
- establishes Board committees, when necessary

- considers any other matters that the Chairman of the Board and/or CEO have decided to place on the agenda for a meeting and matters that Board members have requested to be considered at a meeting by informing the Chairman about their request, and
- performs any other duties required by the Limited Liability Companies Act, the Articles of Association and other regulations.

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

Members of the Board of Directors

According to the Articles of Association, the Annual General Meeting elects a minimum of three and maximum of eight Board members each year. The Annual General Meeting decides on the number of Board members and their election. The Board elects a Chairman of the Board from among its members. A person designated by the Board of Directors acts as the secretary of the Board. The candidates for the Board of Directors are chosen in co-operation between the Chairman of the Board and the major shareholders of the company. In addition to the required experience and areas of expertise, the guidelines on the diversity of the Board are taken into account when choosing candidates. The term of office of Board members is one year, lasting until the close of the Annual General Meeting following the election. The number of terms of a Board member is not limited.

The Annual General Meeting held on 5 April 2018 elected the six persons specified below to Teleste's Board of Directors. Pertti Ervi was elected Chairman on 5 April 2018 by the members of the Board.

- Pertti Ervi, Chairman, 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
- Timo Luukkainen, member of the Board, b. 1954, B.Sc. (Econ.), M.Sc. (Eng.), MBA, Board professional, Board member since 2016
- Timo Miettinen, member of the Board, b. 1955, M.Sc. (Eng.), Chairman in EM Group Oy, Board member since 2016
- Heikki Mäkijärvi, member of the Board, b. 1959, M.Sc. (Eng.), Telia Ventures, CEO, Board member since 5.4.2018
- 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 following Board members:

- Timo Luukkainen – Board member in Tianta Oy since 6.4.2018. Tianta Oy is a significant shareholder of Teleste.
- Timo Miettinen – control over Tianta Oy (60% of the shares and voting rights). Tianta Oy is a significant shareholder of Teleste.

On 31 December 2018, Board members and their controlled entities held shares in Teleste Corporation and other companies included in the Teleste Group as follows:

- Pertti Ervi 18,983 shares
- Jannica Fagerholm 11,543 shares
- Timo Luukkainen 4,652 shares
- Timo Miettinen 5,929 shares, controlled entity Tianta Oy 4,409,712 shares
- Heikki Mäkijärvi 1,916 shares
- Kai Telanne 23,063 shares

On 31 December 2018, Board members or their controlled entities held no share-based entitlements in Teleste Corporation or other companies included in the Teleste Group.

In 2018, Teleste's Board of Directors held 9 meetings.

The Board members attended the meetings as follows:

- Pertti Ervi 9/9
- Jannica Fagerholm 9/9
- Timo Luukkainen 9/9
- Timo Miettinen 9/9
- Heikki Mäkijärvi 9/9
- Kai Telanne 9/9

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. The candidates for the Board of Directors are chosen in co-operation between the Chairman of the Board and the major shareholders of the company. In addition to the required experience and areas of expertise, the guidelines on the diversity of the Board are taken into account when choosing candidates.

The Annual General Meeting held on 5 April 2018 elected six members to the Board of Directors, five 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 2018.

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 5 April 2018 decided on the following remunerations for Board service until the next AGM: The Chairman of the Board will be paid EUR 64,000 a year and each member EUR 32,000 a year. Out of the annual remuneration to be paid to the Board members, 40 per cent of the total gross remuneration amount will be used to purchase Teleste Corporation's shares for the Board members through trading on regulated market organized by Nasdaq Helsinki Ltd, and the rest will be paid in cash. If committees of the Board of Directors are established for the Company, the following meeting fees will be paid: chairman EUR 600 and each member EUR 400 per meeting of the committee.

Salaries, remuneration and fringe benefits paid to the Board of Directors in 2018 were as follows:

- Pertti Ervi, EUR 65,200, including 3,832 Teleste shares
- Jannica Fagerholm, EUR 33,800, including 1,916 Teleste shares
- Timo Luukkainen, EUR 32,000, including 1,916 Teleste shares

- Timo Miettinen, EUR 32,000, including 1,916 Teleste shares
- Heikki Mäkijärvi, EUR 32,000, including 1,916 Teleste shares
- Kai Telanne, EUR 33,200, including 1,916 Teleste shares

Audit Committee

On 5 April 2018, Teleste's Board of Directors established an audit committee to prepare matters concerning the company's financial reporting and supervision. The audit committee assists the Board of Directors by preparing the matters that fall within the responsibilities of the audit committee. The audit committee convenes at least four times a year.

The majority of the members of the audit committee must be independent of the company, and at least one member must be independent of the company's significant shareholders. The audit committee must have the expertise and experience required to fulfill the responsibilities of the committee. The audit committee consists of a minimum of three Board members, each of whom fulfills the requirements on independence and understanding of financial information as well as any other requirements specified in Finnish law and regulations concerning Finnish listed companies.

The audit committee consists of Jannica Fagerholm (Chair), Pertti Ervi and Kai Telanne (members). The Chair of the audit committee reports the committee's meetings to the Board of Directors in a summary.

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

The responsibilities of the audit committee include

- monitoring of Teleste Corporation's economic and financial situation as well as the financial statement reporting process
- supervision of the company's financial reporting process
- supervision of compliance with the accounting policies for consolidated financial statements and with the IFRS
- reviewing interim reports and financial statements and giving recommendations to the Board of Directors before the publication of stock exchange releases on interim reports and financial statements
- assessment of the efficiency of the company's internal control and risk management systems
- supervision of compliance with policies and principles confirmed by the Board as well as internal auditing
- processing of the Corporate Governance Statement
- monitoring of the company's information management strategy and data security-related policies
- monitoring of the statutory audit of the financial statements and consolidated financial statements
- evaluation of the independence of the statutory auditor or audit firm
- monitoring of the additional services provided by the audit firm
- preparation of a proposal to the Annual General Meeting on the election of auditor and communication with the auditor
- performing other tasks assigned to the committee by the Board of Directors.

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 2018 totalled EUR 489,996. In addition, there was an additional pension payment of EUR 94,231 and capital redemption payment of EUR 71,500 in the financial year.

The contractual retirement age of CEO Jukka Rinnevaara is 60 years. CEO's contract includes defined contribution supplementary pension. The CEO's pension plan is arranged through group pension insurance and a capital redemption policy. The payment level of the group pension is 25 per cent of basic pay, excluding bonuses. Payment under the capital redemption policy is subject to the same adjustment procedure as the CEO's basic pay excluding bonuses.

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

Management Group

On 31 December 2018, the Group's Management Group consisted of seven 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 2018, 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 including CEO of the Cableway companies, 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
- 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 and payment is based on the annual pay of the insured person, excluding bonuses. The payment is 25 per cent of the above pay.

Incentive schemes and ownership by the management

Management Group's shareholding and share-based entitlements

On 31 December 2018, Management Group members and their controlled entities held shares in Teleste Corporation and other companies included in the Teleste Group as follows:

- Jukka Rinnevaara 101,311 shares
- Johan Slotte 9,634 shares
- Juha Hyytiäinen 7,724 shares
- Hanno Narjus 5,861 shares
- Esa Harju 6,650 shares
- Pasi Järvenpää 3,890 shares
- Markus Mattila 9,304 shares

On 31 December 2018, 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 2018, 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.

Share-based incentive programme LTI 2015

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

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

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

The performance criterion applied to the all three plans 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 was the above mentioned investment in Teleste shares. The Board of Directors approved 37 key employees as eligible to participate in the first LTI 2015 program on 2015-2017, 42 key employees to participate on 2016-2018 and 40 key employees to participate on 2017-2019.

The gross quantity of matching shares delivered under the 2015–2017 plan ending in April 2018 was 47,250 shares, and the gross quantity of performance matching shares was 39,724 shares. A net quantity of 42,771 shares were delivered to the key employees entitled to reward through a directed share issue on 6 April 2018. The maximum gross quantities of shares delivered under the 2016–2018 plan starting in 2016 are 53,600 matching shares and 214,400 performance matching shares. The maximum gross quantities of shares delivered under the 2017–2019 plan starting in 2017 are 58,300 matching shares and 233,200 performance matching shares. Applicable taxes are deducted from the gross quantities, and the remaining net quantity is delivered to the participants as Teleste shares.

Share-based incentive programme LTI 2018

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

The first plans within the programme are the matching share plan 2018–2020 and the performance share plan 2018–2020. The commencement of each new plan, its eligible participants and the matching ratio and performance targets applied to the individual plan is subject to a separate approval of Teleste's Board of Directors in each case. The matching share plan 2018–2020 comprises the individual key employee's investment in Teleste's shares and the delivery of a specific number of matching shares without consideration as a share reward based on the share investment after the three-year vesting period. The matching shares are delivered according to a fixed matching ratio determined by the Board of Directors for each individual plan. The matching ratio applied to the matching share plan 2018–2020 is one matching share for each two shares invested. The maximum aggregate gross quantity of matching shares that may be delivered on the basis of the matching share plan 2018–2020 is approximately 24,400 shares. The performance share plan 2018–2020 comprises a three-year performance period. The potential share rewards will be delivered if the performance targets set by the Board of Directors are achieved. The performance measure applied in the performance share plan is the total shareholder return (TSR) of Teleste share. The above investment in Teleste's shares is the requirement for an individual key employee to be included in the plan. If all the eligible key employees participate in the plan by fulfilling the investment precondition and the performance targets set for this performance share plan are fully achieved, the maximum number of shares that may be delivered under the performance share

plan 2018–2020 is approximately 292,800 shares (gross before the deduction of the applicable taxes). The Board of Directors approved 35 key employees as eligible to participate in the plans beginning in 2018.

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 5 April 2018, 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 2018, Teleste Group’s auditing expenses totalled EUR 177,651, of which the amount of KPMG was EUR 166,651. In addition, units of KPMG have supplied Teleste Group companies with other consultation worth total EUR 14,900 and other than KPMG auditors for EUR 46,036.

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 to 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 persons from financial administration participating in group accounting and management reporting.

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

People employed by Teleste may report 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 centralized controlling function, is responsible for compliance with the principles of internal supervision on all levels of the areas.

Risk management

Risk management is based on the strategic and business goals of Teleste Group. The Group risk principles and objectives are subject to approval by Teleste’s Board of Directors. 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

Internal auditing evaluates the efficiency of the processes regarding risk management, supervision, management and selected functions, and makes proposals for their improvement. Internal audit acts under the supervision of Audit Committee and CEO. The responsible person for audit is a director appointed by the CEO and the expertise of bodies external to the auditing unit is used as needed. In addition, internal auditing may carry out special tasks assigned by the Audit Committee. 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 included 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, Audit Committee and the Board of Directors prior to their publication. Auditor checks the correctness of the financial statement.