

## TELESTE CORPORATION'S CORPORATE GOVERNANCE STATEMENT 2009

This Corporate Governance Statement report has been drawn up on the basis of Chapter 2 Section 6 of the Securities Markets Act and of the recommendation 51 specified in the Finnish Corporate Governance Code 2008 available in the Securities Market Association website at [www.cgfinland.fi](http://www.cgfinland.fi).

### **Corporate Governance**

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

### **Annual General Meeting**

The Annual General Meeting (hereafter AGM) of Teleste Corporation is the highest decision-making body of the company, it is held at least once a year by the end of June. The Annual General Meeting is held in Helsinki in the customary manner, and it decides on any specified tasks in compliance with the Finnish Companies Act. Issues decided by the AGM include approval of the financial statement, allocation of profit shown in the balance sheet, discharge from liability of the Board of Directors and the Managing Director, and the election of the members of the Board of Directors and the auditor. Responsibilities of the AGM also include making amendments to the Articles of Association, decision-making concerning share issues, granting of entitlements to options and other special rights, procurement and redeeming of company's own shares and reduction of share capital. Notice of the Annual General Meeting shall be announced in a newspaper as specified by the Board of Directors, or verifiably delivered, in writing, to each shareholder using the address entered into the register of shareholders, no earlier than two months and no later than 17 days prior to the meeting. Since Teleste complies with the recommendation included in the Finnish Corporate Governance Code, it issues the notice no later than 21 days prior to the AGM hereby also observing the regulations of the Companies Act.

### **The Board of Directors**

#### *Rules of Procedure*

It is the function of Teleste Corporation's Board of Directors to carry out any administrative duties in accordance with the law, statutory regulations, Articles of Association and decisions taken by the General Meeting. The operating procedures and main duties of the Board of Directors have been specified in the Board's Rules of Procedure. The Board shall resolve any matters of great importance in terms of scope and magnitude to the Group's operation. The Board oversees and assesses the operation of the CEO and the Management Group. The Board decides on the criteria of the company's compensation system and makes decisions on any other far-reaching issues related to personnel. In line with the view adopted by the Board of Teleste Corporation, the proceedings of the Board will be carried out in an optimum way without formation of separate committees but by involving the entire Board in the so-called committee proceedings. The Board shall conduct an annual evaluation of its performance and working methods. The Board of Teleste Corporation has laid down rules of procedure according to which the essential duties of the Board include the following:

- Provision for the company business strategy and its revision at regular intervals,
- Approval of annual budgets and supervision of their implementation,
- Decisions concerning major investments and divestments,
- Handling and approval of annual financial statements and interim reports,

- Appointment of the President and CEO and discharging him from his duties and specification of his responsibilities and conditions of work,
- Decisions concerning incentive and bonus systems involving management as well as staff and presentation of any related proposals to the General Meeting as required,
- Annual revision of any essential risks related to the company operation and management thereof,
- Laying down the company values and policies.

#### *Election and Term of Office of the Board of Directors*

The Chairman and other members of the Board of Directors are elected by the Annual General Meeting on an annual basis. According to the Articles of Association the Board of Directors shall have a minimum of three and a maximum of eight members. In its meeting held on 7 April 2009, the Annual General Meeting elected six members to the Board of Directors of Teleste Corporation for a term that expires at the closing of the first Annual General Meeting following the election.

The Teleste Corporation Board of Directors:

Marjo Miettinen, Chairperson, b. 1957, M.Sc. (Ed.), EM Group Oy, CEO

Pertti Ervi, Member of the Board, b. 1957, B.Sc. (Eng.), Independent Consultant

Tero Laaksonen, Member of the Board, b. 1946, M.Sc. (Math.), Professional Board Member

Pertti Raatikainen, Member of the Board, b. 1956, Dr. Sc. (Technology), VTT ICT, Director Technology

Kai Telanne, Member of the Board, b. 1964, M.Sc. (Econ.), Alma Media Corporation, CEO

Petteri Walldén, Member of the Board, b. 1948, M.Sc. (Eng.), Alteams Oy, CEO

The Members of the Board are not employed by the company, and are in line with the issued Finnish recommendations independent of the company and any significant shareholders of it with the exception of Chairperson Marjo Miettinen, who is CEO of EM Group Oy, a significant shareholder. In 2009, the Board of Directors of Teleste Corporation had ten meetings. The attendance of the Directors at the Board meetings was 98%. In addition to the Members of the Board the meetings were attended by the CEO, the deputy CEO and concerning interim reports also the CFO and persons invited separately as required.

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

The remuneration of the Members of the Board of Directors is decided on by the Annual General Meeting. On 7 April 2009 the AGM decided that the Chairman of the Board be paid annually EUR 40,000 and each Member will receive EUR 25,500 a year. Attendance allowance, which is paid separately, stands at EUR 250 per meeting. Remuneration for the Members of the Board will be paid so that 40% of the specified annual amount will be company shares and the rest will be remitted in money.

Salaries, remuneration and other benefits paid in 2009 to the Board of Directors were as follows:

Marjo Miettinen, EUR 37,500 including 3900 Teleste shares

Pertti Ervi, EUR 24,000 including 2437 Teleste shares

Tero Laaksonen EUR 24,250 including 2437 Teleste shares

Pertti Raatikainen, EUR 24,500 including 2437 Teleste shares

Kai Telanne, EUR 24,750 including 2437 Teleste shares

Petteri Walldén, EUR 24,000 including 2437 Teleste shares

Tapio Hintikka, Member of the Board until 7 April 2009, EUR 500

Timo Toivila, Member of the Board until 7 April 2009, EUR 500

Pekka Vennamo, Member of the Board until 7 April 2009, EUR 500

#### *President and CEO*

The scope of duties of the Teleste Corporation CEO is determined by the law, the Articles of Association and instructions issued by the Board. Detailed terms of employment of the CEO are specified in a separate contract subject to the Board approval. CEO is not a member of Teleste's Board of Directors. The current CEO of Teleste, Jukka Rinnevaara, b. 1961, M.Sc. (Econ.), assumed his present responsibilities on 1 November 2002. Salary, fees and other benefits received by the CEO are determined by the company Board of Directors. Salary, remuneration and other benefits paid in 2009 to the CEO of Teleste Corporation totalled EUR 358,931. The contractual age of retirement of CEO Jukka Rinnevaara is 60. The insurance premium of the voluntary retirement insurance policy of the Managing Director was EUR 71,000, which amount is not included in the paid salary and remuneration. As to the contract of CEO

Rinnevaara, his term of notice has been specified as six (6) months in case the President and CEO decides to withdraw, and eighteen (18) months should the contract be terminated by the company.

### Management Group

The Teleste Corporation Management Group is chaired by the CEO who reports to the Board of Directors. Members of the Management Group consist of the directors of Teleste Corporation business sectors and the group management.

The Management Group handles the issues that concern managing the company, such as issues related to strategy, budget, interim reports and corporation deals, and prepares investments for approval by the Board of Directors. The Management Group meets once a month or at other times, when necessary. Salary for all Members of the Management Group consists of a fixed basic salary and a results-based bonus. The amount of results-based bonus is determined by the company performance, the business area in question and other key operative objectives. The Board is in charge of bonus systems applied to the Management Group. For details related to option specifics see Teleste's Annual Report 2009, Notes section: Share-based payments. For holdings and stock options of the President and CEO and the Management Group see Notes section: Related party transactions.

### Auditing and Revisions

The term of office of Teleste Corporation auditor expires at the closing of the first Annual General Meeting following the election. On 7 April 2009 the Teleste AGM selected KPMG Oy Ab as the company auditor and decided that the auditor's fee will be paid as invoiced. The company's chief auditor is Esa Kailiala, KHT auditor (authorised public accountant). In addition to their statutory duties the auditors report to the Teleste Corporation Board of Directors and attend the Board meeting at least once a year. In 2009, Teleste Corporation's auditing expenses totalled EUR 188 000 in which the share of KPMG was EUR 165 000. Moreover, auditing units of KPMG have supplied Teleste Group companies with other consultation worth total EUR 66 000 and other than KPMG auditors for EUR 37 000.

### Insider Register

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

Membership in the Teleste Corporation permanent inner circle is based on position. Thus, the group consists of members of the Board of Directors, CEO and the auditors. Furthermore, the extended inner register includes members of the Management Group and the CEO's assistant.

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

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

## Internal Supervision, Risk Management and Internal Auditing

### Internal Supervision

Teleste's internal supervision is designed to support the implementation of the strategy and to ensure the achievement of the specified goals, compliance with the regulations as well as reliability and correctness of the conducted financial reporting. Internal supervision is based on Teleste's values and corporate culture as well as on mutually supporting structures and processes on the Group and operational levels.

Management of the Group and the business units monitor the internal supervision as part of their normal managerial duties while the Board evaluates and ensures its correctness and efficiency. Supported by Teleste's centralised controller function, management of the relevant business unit in both of our business units answers for the compliance with the internal supervision principles on every level of the unit in question.

### Risk Management

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

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

- Operational prerequisites
- Personnel risks
- Property and business interruption risks
- Interest groups
- Economic risks
- Strategic risks

### Internal Auditing

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

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

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

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