TELESTE

ENABLING DIGITAL EVOLUTION

YEAR 2013

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Teleste

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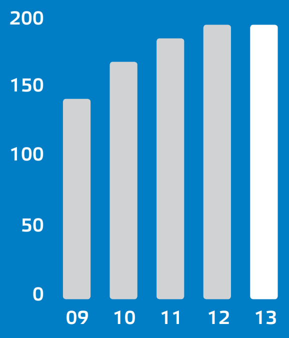
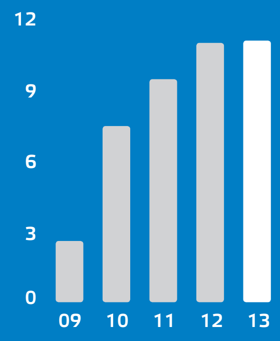
SUCCESFULL YEAR ON THE WHOLE

- Global economic growth was slow and in Europe, in particular, the growth was at a standstill.
- Performance of Teleste's customer business sectors was reasonable.
- On the whole, the year was a success – our business picked up following a quiet start.
- Fourth-quarter net sales reached record high.
- Full-year net sales remained at the previous year's level.
- Profitability improved slightly, while earnings per share improved clearly.
- Video Broadband Solutions' net sales remained at the previous year's level, while profitability improved significantly. Deliveries of video surveillance systems increased in particular.
- Net sales and profitability of Network Services declined slightly in the first half of the year due to weak demand. Development was positive towards the end of the year.
- At the beginning of 2014 demand has been weak, but in the long-term this business offers good conditions for profitable growth.

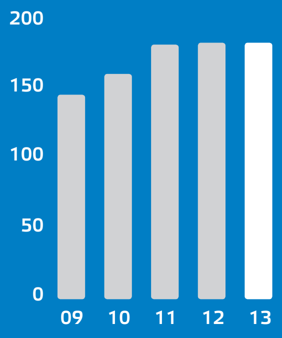
NET SALES
MEUR



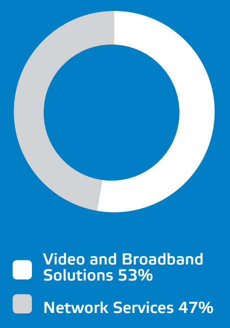
OPERATING PROFIT
MEUR



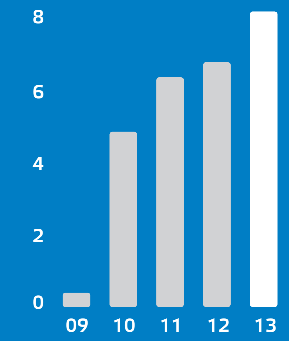
ORDER RECEIVED
MEUR



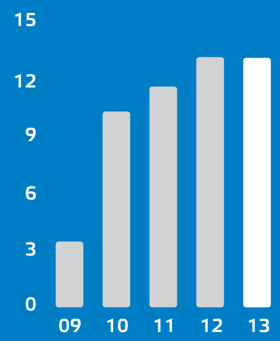
SHARE OF NET SALES



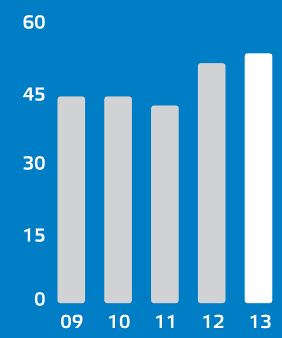
PROFIT FOR THE FINANCIAL PERIOD
MEUR



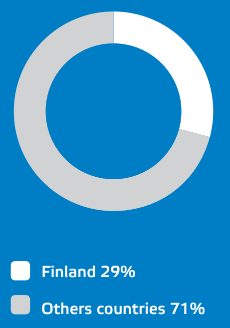
RETURN ON CAPITAL EMPLOYED
%



EQUITY RATIO
%



PERSONNEL BY LOCATION



TELESTE IN BRIEF

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

Our business is divided into two divisions, which are Video and Broadband Solutions and Network Services. In both areas, we rank among the world's leading companies and technological forerunner.

Video and Broadband Solutions focuses on access networks and product solutions in video surveillance applications. Network Services offers comprehensive services for network design, construction and maintenance.

In 2013, Teleste's net sales totaled EUR 193 million, and the company employed about 1,300 people. Teleste runs a worldwide network of offices and more than 90% of its sales are generated outside Finland.

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

GLOBAL COMPANY WITH LOCAL PRESENCE

Our main market is Europe, where we have our densest network of offices.

Besides the head office our biggest offices by number of personnel are located in Germany, the UK, Poland, Belgium and China.

IN THE PICTURE 60 1954 • 2014

TELESTE CELEBRATES 60 YEARS

Teleste turned 60 on 22 January 2014. The company was founded in Turku in 1954 by Olavi Ahonen, and on its early stages the focus was to obtain solid expertize involving aerial and audio technology. Having first secured its position in Finland, Teleste started its internationalization in the Nordic countries expanding later to Europe breaking, finally, into the global market.

Over the years, our customer base has expanded and changed, and together with its clients Teleste has advanced into new business areas. Today, our company is one of the world's leading suppliers of access networks, product solutions in video surveillance applications and the related comprehensive services.

Regardless of our strong globalization, we are still deeply rooted in Finland. Teleste's head office is located in the Turku area, where most of the company's product development and production take place.

Today, Teleste employs about 1,300 people and runs a network of offices covering more than 20 countries.

Teleste's strength lies in the wealth of know-how gathered over the decades. This accumulated expertise allows us to provide our customers with cutting edge technological solutions in the business.

We like to work close to our customers and want to understand their overall needs while maintaining confidentiality and effectiveness in all our operations.

SUCCESS
IN MANY FIELDS

For Teleste, 2013 was an eventful and in many ways also a successful year, although the made progress was characterized by seasonal fluctuations in both of our business units. Early in the year, sluggishness of the market was a cause for concern, but towards end of the year the demand increased and the final quarter met our expectations. While our access network product business went according to plan, we had anticipated the demand for our services for the early year to be clearly greater than the realized. In video surveillance, however, the high performance sustained now for a couple of years continued.

Our year ended in good spirits. Deliveries by both of our business areas succeeded excellently and this led to a clear increase in net sales during the fourth quarter. The fourth quarter ended showing all time high net sales. Net sales and operating profit for the full year ended up on the level of the previous year: net sales equaled EUR 193 million and operating profit EUR 11 million. Profit for the financial period, however, increased to EUR 8 million. This was mainly due to tax effects brought about by changes carried out in the corporate structure in Germany and a shift in business priorities between the two countries. Earnings per share increased by 22 percent to EUR 0.47. Development of profitability was particularly positive in video surveillance and on a good level in TV distribution business, whereas in network services profitability fell due to the overcapacity early in the year.

Progress in Many Sectors

Teleste's year was filled with different activities. In April, we acquired the entire share capital of the UK based Asheridge and set up a joint venture with our Chinese partners. Asheridge's expertise in BarrIER technology improves networks reliability and the cost-effectiveness of network services. In addition, this acquisition complements our existing portfolio in passive products and strengthens our position as the leading supplier of access networks to European cable operators, in particular to those operating in the UK, Spain and Poland.

The cooperation agreement signed with the Chinese governmental cable operator Gansu and the Shanghai OTEC Information Technology aims at expanding the sales of Teleste's solutions in China. The joint venture, thus created, will also become a contract manufacturer of Teleste's volume products.

In September, we received the LEAN Act of 2013 Award in recognition of the streamlining of our production chain. This credit is due to our entire production personnel, who have been actively involved in the long-term development effort. Our highly competitive production machinery is still being developed according to the principles of continuous improvement.

As to development of technology, we focused on decentralized network technology, and prepared for the introduction of the Docsis 3.1 standard in our access network products published by the network operators. This new standard will keep our product development busy even in the current year.

Successful Customer Field

Cable operators, being our largest group of customers, continued to do well in their business. Investments in network construction, modernization and maintenance remained at a good level, although the abovementioned new standard may have delayed these a bit. The market, however, was in constant change. Alongside their existing services the operators developed new products designed to expand their customer base. New technologies and solutions, as well as cost-effective maintenance of networks were introduced to gain competitive advantage.

Consolidation among the customer base continued in June as Vodafone made an offer on Kabel Deutschland. In addition, Liberty Global continued their acquisitions through the acquisition of Virgin Media in the UK. For the suppliers of products and services this emergence in the market of ever larger operators requires continuous development of competitiveness.

In video surveillance, most of our customers operate in the public sector, as the sites requiring monitoring are mostly urban areas, roads, airports or train and underground stations. Video surveillance allows for increasing the safety of such areas in a cost-effective manner. In recent years, our business has been supported especially by the growth in rail traffic.

Markets Around the World

Our business is global and we seek to grow in all markets. For many years, global economic growth has been sluggish, and the trend has leveled off even in the emerging markets. Although the current year suggests a continuation of this slow growth in the world economy, in the longer-term we see the future of our own field positive and the business environment very interesting.

The digital evolution continues strong, and its impact is visible in the market. The requirement for cable network capacity is expected to double in 18 months. Similarly, the increasing requirements for network quality keep up our customers' investments. Particularly the fast-growing transfer and use of video require higher network performance. Meanwhile, the demand for services is pushed up by the pressures the operators face in terms of costs related to the maintenance of their networks.

Enabling Digital Evolution

As a partner to its customers, Teleste is strongly involved in the promotion of the digital evolution. Our goal is to continue to grow profitably. Our strong market posi-

THE DIGITAL EVOLUTION CONTINUES STRONG, AND ITS IMPACT IS VISIBLE IN THE MARKET

tion, customer-oriented working method and comprehensive offering of products and services provide an excellent platform to achieve this objective, but a lot of work remains to be done.

As for access networks, we focus on smarter network solutions that enable the improvement of network capacity and quality characteristics at a reasonable cost. In services we continue to expand our offering while enhancing the productivity. Regarding video surveillance, we see the potential for growth particularly in the emerging markets and through the expansion of our customer base.

As to this year, we have already gathered a good momentum and I think that, given our good team, we will achieve our goal even for the current year. So here are my thanks to all the people at Teleste for your good work. It's been great to experience the enthusiasm and commitment, with which we have moved towards our common goals regardless of the market volatility. I want to give special thanks to our former CFO Erja Saarikoski for her long career, now drawn to a close, here at Teleste. I wish to thank our customers for the interesting joint projects and our shareholders for their trust in our work. I hope that our successful cooperation will continue long into the future.

Jukka Rinnevaara
CEO

MEGATRENDS BEHIND STRATEGY

Teleste's most important megatrends are recognizable in everyday life. Video and electronic data transfer are increasing and breaking over to new areas as people are using more and more video both at work and during leisure time. The need for ensuring people's safety is also growing. The third factor driving the market is the new technologies and concepts.

Increasing Use of Video and Data
The amount of content available in the form of video or data is huge. People consume the content of their choice anytime and anywhere. The number of different devices used for this is also increasing. Computers, tablets and smartphones have come to existence alongside traditional TV. People's needs and quality requirements are increasing, and especially the use of videos on the network requires a lot of capacity and high quality. Responding to the wishes of Internet and TV users requires investments in the network, i.e. more capacity. The need for network capacity increases two-fold in 18 months already now. By 2017, video services are anticipated to have more users than Facebook or Twitter.

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

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

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

Globalization and urbanization are increasing the need for control, yet at the same time the focus of such control has shifted from the borders of countries to the cities.

MEGATREND
Increasing volume of video and data traffic

TRENDS
The capacity and quality of networks are improved

There will be new players in the market and the offering to consumers will expand

MEGATREND
Technology development is fast

TRENDS
The development of new video and data transmission technologies continues

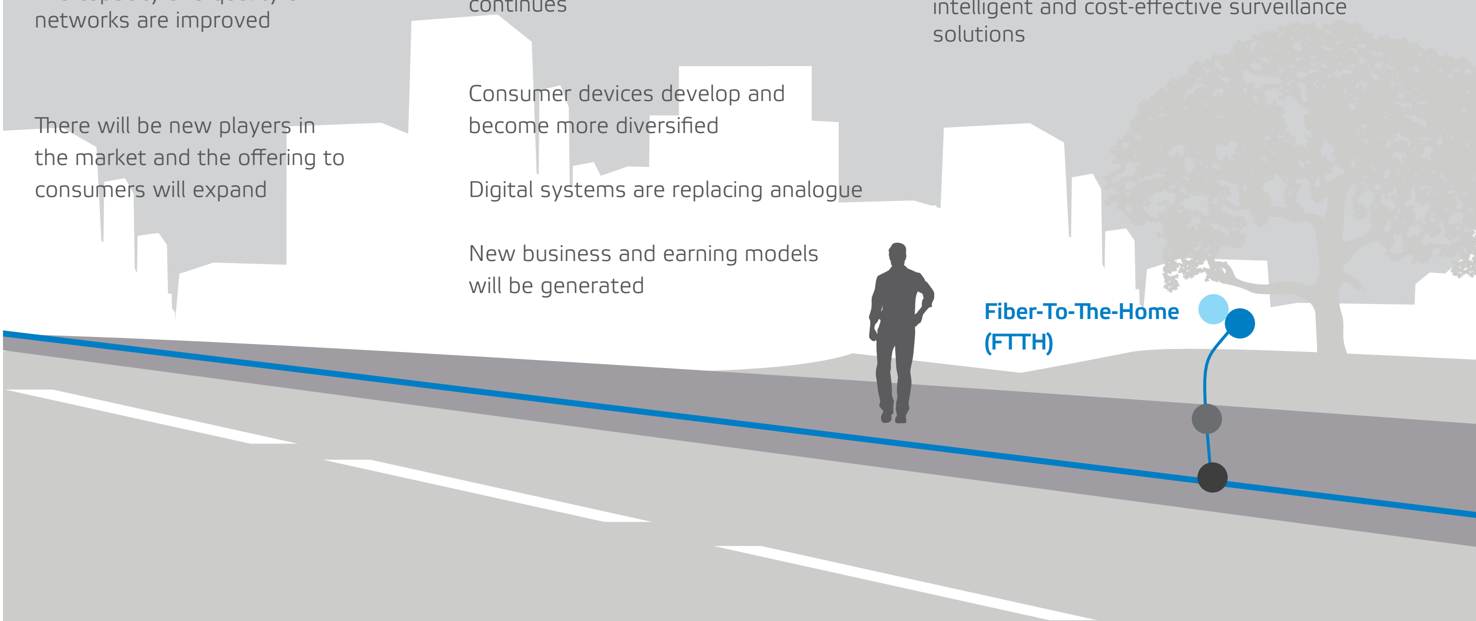
Consumer devices develop and become more diversified

Digital systems are replacing analogue

New business and earning models will be generated

MEGATREND
Growing need to ensure the safety of people

TRENDS
There is a growing demand for reliable, intelligent and cost-effective surveillance solutions



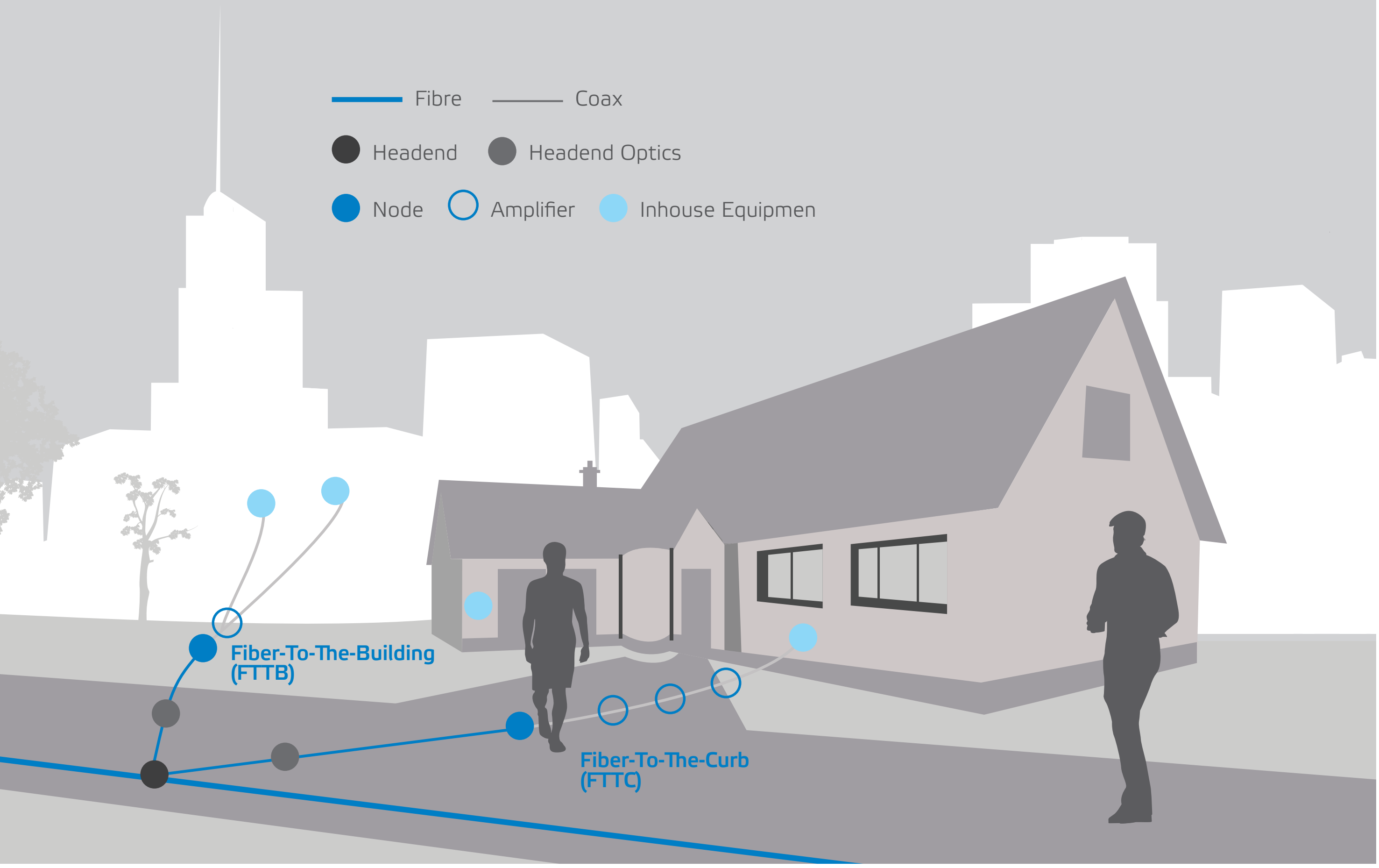
STRUCTURE OF
A MULTI SERVICE NETWORK

Conventional one-way cable TV network has undergone quite a change over the last 15 years. Operators have increased their service offerings by introducing Video-on-Demand services and high-speed Internet connections alongside the traditional linear television. These new services require a two-way communication network, which is furthermore divided into smaller segments by means of fiber optic cable connections.

Such network is split into different areas in line with the example below. The core network connects the operator's individual service areas to each other, and typically these are different cities. The regional network connects all access networks of one service area into a single manageable entity. The regional network is segmented by means of fiber-optic connections into access networks so that a single optical node serves about 100 to 1,000 households.

The more versatile a product portfolio the operator wants to offer the customers, the smaller the number of connected subscribers per node must be. From the viewpoint of the services, the best option would be a Fiber-To-The-Home network (FTTH), but at least for the foreseeable future, deployment of a comprehensive fiber network is not economically feasible.

For this reason, new innovations are expected to arise especially for the evermore efficient utilization of the legacy house network cabling.



TELESTE'S STRATEGY UP TO 2016

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

Teleste's goal is to be a respected partner by its customers and a preferred employer, and to grow profitably. To achieve these goals, we have drawn up a five-point strategy:

Strengthening of Our Market Position

Teleste is a well-known player in all of its business areas, and it has a particularly strong market position in Europe. The company's area of operation covers the entire world, and we are looking for growth increasingly in the emerging markets such as China, India, the Middle East and South America. Teleste's supply also allows the expansion of its customer base from the cable operators to telecom operators. Teleste will build up its market position by intensifying its sales and marketing efforts, as well as strengthen its international network of partners.

Development of Competitive Offering in Access Networks

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

Functionality of networks combining conventional coaxial cable and optical fiber can be improved by adding intelligent features in them. Similarly, we press on with the development of new technologies, such as Data over Coax, which enables high-speed data services through coaxial network.

Innovative Headend Solutions

As for headends, Teleste focuses completely on digital solutions. The most appropriate solutions are developed for each market.

One significant priority is the development of the efficient and compact Luminato product range and the utilization in Teleste's products of BarrIER technology, which became possible by the acquisition of Asheridge.

Wider Customer Base for Video Surveillance

Teleste has a strong position in large custom-designed multi-site video surveillance systems encompassing up to thousands of cameras. In the future, Teleste will also invest in multi-site systems, which comprise hundreds, but not necessarily thousands of cameras. This segment provides good growth opportunities, to which Teleste's offering can be adapted by modest investments.

Success also requires development of video monitoring systems with a more wide-ranging field of application. Therefore, along with mobile applications our product development focuses on the creation of software connecting various systems.

Value-Added Services

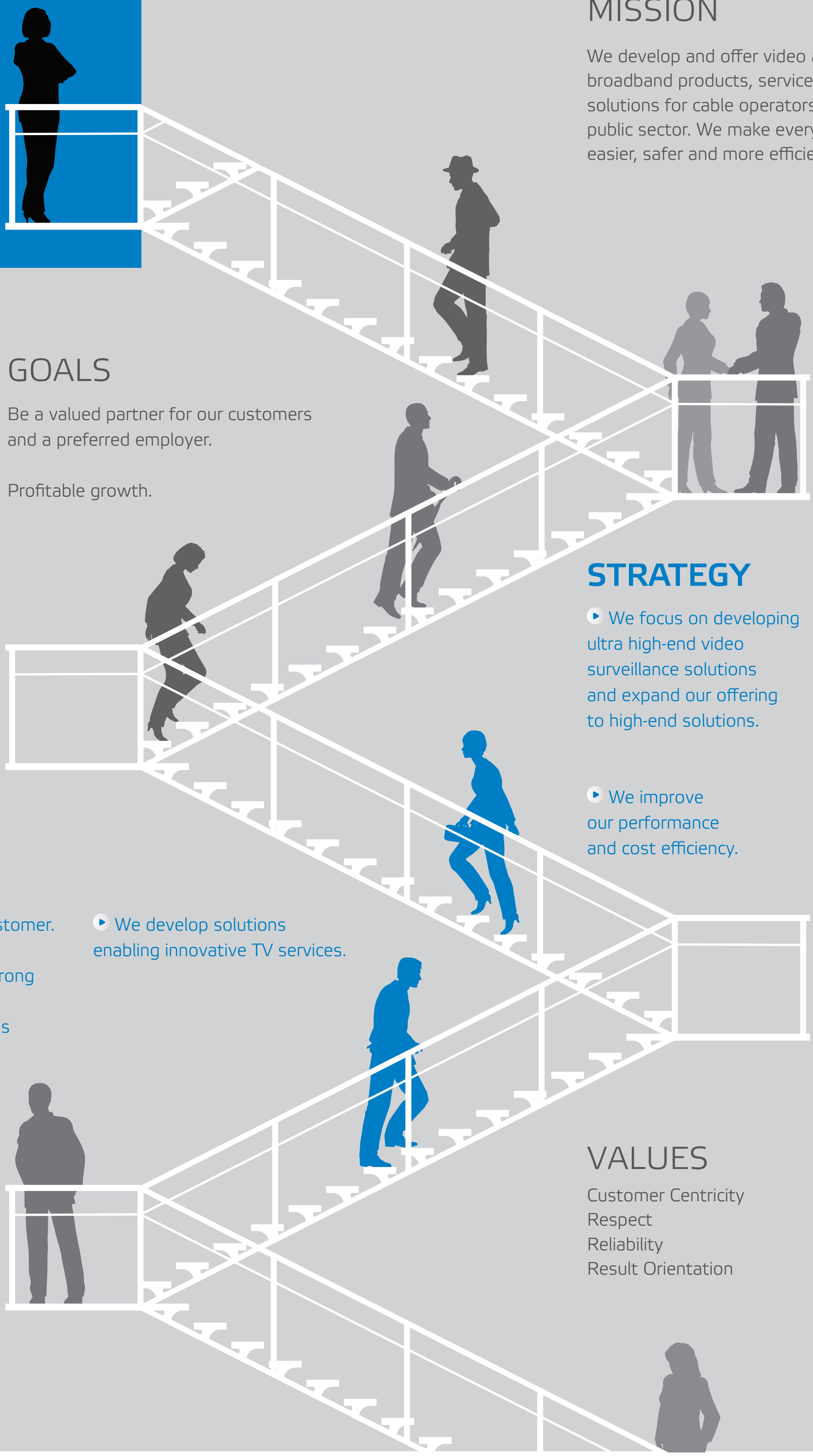
In addition to our comprehensive offering, Teleste's competitive advantage in services is based on our technological know-how, installed base, and local presence. The demand for online services is increased by the proliferation of outsourcing in the client sectors, which in turn is stimulated by the tight cost control and the introduction of new technology. In its offering, Teleste aims to increase the degree of high value-added services, and especially to develop the profitability of operations in Germany.

VISIO

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

MISSION

We develop and offer video and broadband products, services and solutions for cable operators and the public sector. We make everyday life easier, safer and more efficient.



GOALS

Be a valued partner for our customers and a preferred employer.

Profitable growth.

STRATEGY

- We focus on developing ultra high-end video surveillance solutions and expand our offering to high-end solutions.
- We improve our performance and cost efficiency.

STRATEGY

- We are close to customer.
- We continue our strong investments into the development of access network products and services.
- We develop solutions enabling innovative TV services.

VALUES

Customer Centricity
Respect
Reliability
Result Orientation

PRODUCT DEVELOPMENT IN NETWORK AND BROADBAND TECHNOLOGY

Correct technological choices and their timing are vital for Teleste's success.

As far as innovative and demanding technological solutions are concerned, to make technically complex solutions customer-friendly and functionally easy to use takes a lot of know-how and expertise on the part of the R&D personnel.

Moreover, the R&D personnel need to have expertise in tender calculation and management of large projects.

THE MAJORITY OF OUR R&D PERSONNEL WORK ON THE PREMISES OF THE COMPANY'S HEAD OFFICE, BUT ON TOP OF THAT, THERE IS A UNIT IN POLAND, WHICH IS SIGNIFICANT IN TERMS OF BOTH FUNCTION AND SIZE.

For Teleste's entire history, technical product and system innovations have provided the foundation of the company's product business. The company has made a long-term investment of at least 10% of the product business annual net sales on R&D, which has enabled the development of Teleste's wide-ranging and competitive product portfolio.

Teleste's R&D activities focus mainly on the so-called applied product development, the aim of which is to sell a new product or product feature. A prerequisite for applied R&D is the development of basic technology and research, for which Teleste relies on partners concentrating on these areas. The partners concerned include Universities and Polytechnics, among others.

For Teleste, the key success factors include experienced and skilled R&D personnel, and its continued development. Since technology develops at an increasing speed and Teleste operates in a number of different areas of technology, it is almost impossible to cover all the required needs for technological R&D on our own. For this reason, it is important to identify those technologies and key areas of expertise, the management of which by ourselves is essential for our success today as well as in years to come. Other required elements are, then, covered by means of a network consisting of Finnish and foreign partners.

Our R&D works in close interaction with Teleste's key customers. In this type of activity, Teleste's own extensive sales network plays a crucial role. Regular "workshops" set up with the key customers focusing on future technologies allow for testing of new ideas before investments are made, and thus limit the risk always involved in any development activities. This ensures that there is a real market need for the development project taken onboard and that the timing in relation to competition and market conditions is optimal. It does not seem exaggerated to say that the speed of commercialization with regard to technological innovations and the customer-oriented way of operation provide Teleste with a strategic competitive advantage.

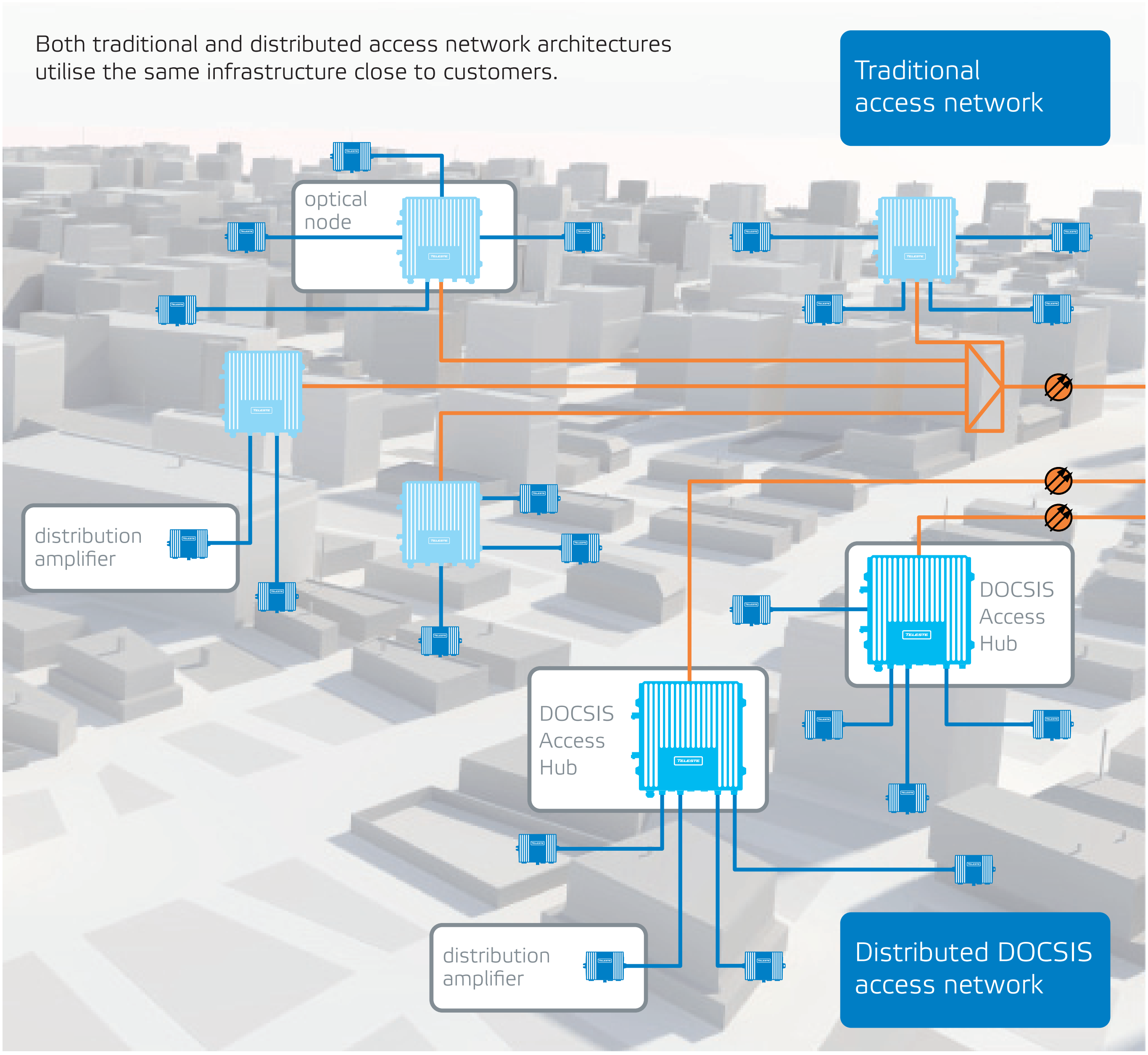
R&D Priorities

Teleste's product development efforts target the following three main areas: operators' access networks, video processing solutions, and video surveillance solutions. From the viewpoint of product development, these areas differ from each other significantly. The essence of access networks business is the ability to design product solutions suitable for large production volumes cost-efficiently. Video processing solutions of the operators require development of high-quality comprehensive solutions optimized for their respective business environment and the existing standards applied in the given market. This is in contrast to the video surveillance solutions, where the capabilities of tailoring the management software to meet the customer-specific needs are increasingly emphasized. For the development of profitable business, taking these differing priorities into account in the operational models of product development is a key requirement.

The most significant development projects in 2013 were steered by the consumers' ever-growing requirements for speed in their broadband connections. Teleste's R&D has focused on the development of the DOCSIS technology (Data-Over-Cable Service Interface Specifications, a broadband technology developed for cable networks) widely used by the operators. This technology allows for very high-speed broadband access to consumers through the cabling already present on the property. This makes it possible to avoid the costly optical fibre installation in the building. Teleste's solution is based on the so-called decentralized architecture where, instead of the traditional centralized solution, adaptation of the broadband signal to accommodate the cable and the broadband capacity management system has been taken closer to the consumers. In 2014, this project qualifies Teleste to compete for the growing investments that the operators allocate to the development of their broadband services.

Second strategically important area for development launched in 2013 was the wide-ranging further development of access network equipment to meet the standard requirements in line with the latest version of the DOCSIS broadband technology. The new standard specifies updated key parameters (frequency ranges) for the physical level of the access network, which, in turn, allow for significantly higher capacity broadband services.

The above projects provide excellent examples of Teleste's ability quickly to commercialize a demanding technical concept that also takes advantage of the progress made by the standardization working groups, developments in the supply of components and changes in the market. This exceptional capability requires a high level of expertise across Teleste's entire organization combined with a sound business strategy.



	CUSTOMERS	PRODUCTS

VIDEO AND BROADBAND SOLUTIONS

TV AND BROADBAND SERVICES

CUSTOMERS

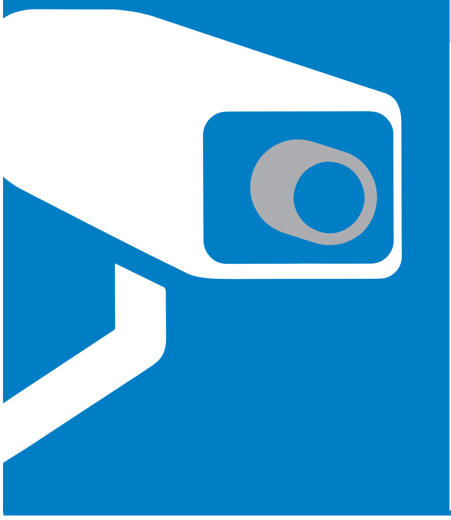
Customer base includes all largest European cable operators. Through resellers we address also mid-size and small operators, particularly in Central and Eastern Europe.

We are seeking growth particularly from European fixed-line telecom operators.

PRODUCTS

We offer to our customers all the products needed for cable operator access network from the digital IP headend all the way to subscriber wall outlet. The most important product groups are access network active equipment and passives, digital headends as well as solutions for on-demand TV services.

We complement our product offering with professional integration and maintenance services.



VIDEO NETWORKS

CUSTOMERS

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

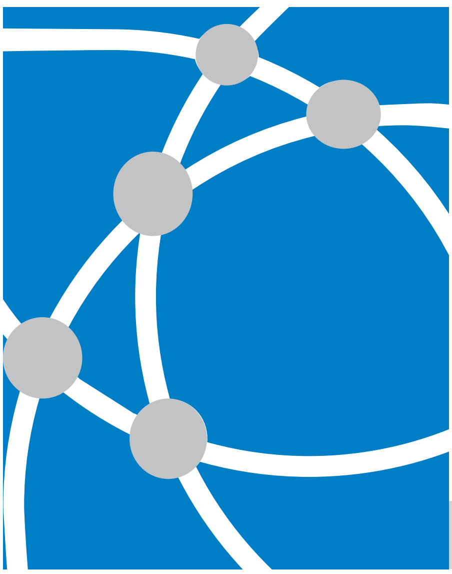
Through its own offices, Teleste Video Networks is present in all the major geographical markets: Europe, North America and Southeast Asia.

PRODUCTS

We offer comprehensive video surveillance solutions based on own and third party products and our own products cover video transmission, storage and management.

Teleste's video surveillance system is often connected to other systems, like those involving traffic control, emergency, and crisis management.

NETWORK SERVICES



CUSTOMERS

Our customers include European operators proving cable TV, Broadband and Telecommunication services. They make available services such as high-definition broadcasts on cable networks, video-on-demand and pay-TV services as well as Data and Telephony services that traverse both fixed and mobile networks.

As to geography, the current priority areas of Network Services include Belgium, Finland, Germany, Switzerland and the UK.

PRODUCTS

We offer our customers high-quality services in planning, design, engineering, documentation andconstruction of networks, as well as installation and maintenance. We also provide project management capabilities for larger programmes.

Our growing portfolio encompasses component supply, bespoke assembly, integration, testing and network management via advanced Network Operations Centre (NOC) facilities.

The range of delivered products is wide, starting from the delivery of a single installation all the way to large-scale turn-key and managed-service projects.

STRENGTHS	MARKET POSITION	GROWTH OPPORTUNITIES
The Teleste product innovations enable operators to guarantee better subscriber service availability as well as build and run their networks more efficiently. Additionally, our strength is a product portfolio which is optimized for varying needs of European markets. We are present on all the main markets and hence provide comprehensive local support services for our customers. Teleste product quality is widely appreciated and customers respect our way of working.	**We are the market leader** in Europe for cable access products. We are the only vendor present in all main cable markets in Europe with comprehensive product offering. Digital IP headends we deliver globally through our partner network.	**Delivery of TV** content over public Internet may increase significantly the need for access network capacity and hence speed up the operator investments to increase their network capacity. This disruption also opens new opportunities for Teleste to provide integrated service management solutions enabling on-demand video services for consumers. Telecom operators' stronger presence in TV distribution services may open significant growth opportunities for Teleste. Russian and Eastern European markets provide major growth potential for existing product offering.
Teleste's special area of competence is in demanding video surveillance applications, where cameras, storage devices and workstations from several sites are networked into a single video surveillance system. Teleste's references in its target segments are of world-class.	**Teleste has a strong** foothold in very large and demanding projects in the public sector. We are now expanding our offering also to smaller multi-site projects.	**There is a growing need** for video surveillance. Analog systems will be replaced by fully digital systems. The need for intelligent solutions will continue to grow and network management and storage solutions form the core of these networks. Teleste's reliable and scalable comprehensive offering combined with the company's world-class references provide a solid foundation for rapid growth.
Our angle of approach to the market differs from that of most of our competitors with contractor background. Our strength lies in our strong technological expertise, professional management and excellent reputation. This technology know-how is expressed in our ability to provide innovative and novel solutions to the network as such and also to items as network maintenance. Our long history as a European equipment supplier provides us with the necessary sector experience, market credibility and deep technology insights.	**Our market position** varies from country to country. E.g. in the UK, we rank among the most important special actors in the provision of professional services as consulting, project delivery and outsourcing to a selected segment. Here we are further expanding our knowledge-based service portfolio to cover a wide range of tangible engineering services as well, including warehousing, integration, materials supply, and I&C. In Germany, we are among the market's leading contractors providing services to all major operators.	**Our clientele** has recognized the growing position in the market for a specialized, trusted providers of network services as they continue to optimise their overheads. With increasing market consolidation of networks and the inevitable developments toward deeper optical and data-centric infrastructures, there are many Next Generation initiatives to support. Moreover, we believe that our investments in the exploitation of sales opportunities between the different business units will bear fruit, for example, in terms of monitoring solutions, NOC and professional services.

TELESTE IS A PIONEER AS A DEVELOPER OF TECHNOLOGY USED FOR THE ACCESS NETWORKS OF OPERATORS AND PROVIDER OF DEMANDING VIDEO SURVEILLANCE SOLUTIONS

VIDEO AND BROADBAND SOLUTIONS
CONTINUED GROWTH IN PROFITABILITY

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

Net sales of Video and Broadband Solutions remained at the previous year's level equaling EUR 101.7 (101.2) million. Increase in net sales was positive for video surveillance. Operating profit grew by 11.3% standing at EUR 9.5 (8.5) million. Profitability was improved by successful project deliveries and the measures taken to streamline our production. Also the access network products were successful in the market. The business area employed 559 people.

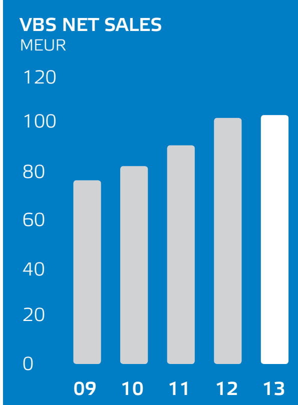
CURRENT TRENDS

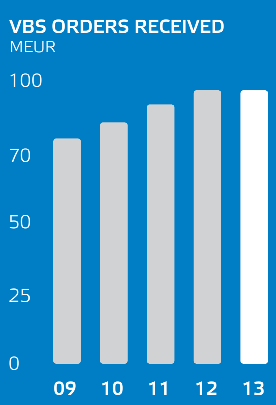
Consumers want to watch varied and high-quality video anytime, anywhere and on any device. From the cable operators this requires continous investments in the construction and development of access networks.

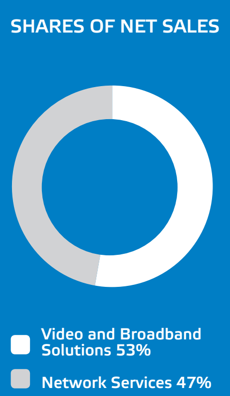
Ensuring public safety requires more and better security control. Video surveillance solutions enable reliable monitoring in a cost-effective manner.

Teleste's business operations are characterized by the company's expertise in video processing and transfer technology accumulated in the past 60 years. A shared technology platform enables us to deliver increasingly innovative system solutions to our customers cost-effectively.

Annually, Teleste invests about 10% of the product business net sales into R&D. Thanks to this, we are in the position to come up with more and more new, technologically advanced spearhead solutions tailored to the needs of our customers.







TV DISTRIBUTION BUSINESS

TV distribution business delivers access networks, headends, and video-on-demand solutions with related services to cable operators.

Concerning access networks, our product range includes all the components from the optical fiber solutions to amplifiers and passive components, such as aerial sockets. As for headends, the focus is set on fully digital solutions.

Services included in our product-related business include system design and quality assurance consultation, maintenance services for the delivered systems and training.

Stable Year

In 2013, the market continued to develop steadily and the cable operators' investments in access networks remained at a good level. In contrast, a number of changes took place in the competitor and customer field. New competitors appeared on the market, as some of those having previously operated in different product categories expanded their offerings. On the client side, business mergers continued, which increased the centralization of purchasing and hardened the price competition even further.

Teleste managed to strengthen its market position to a degree and even make a new geographical market breakthrough after having received an order on cable technology deliveries to Kenya. The largest order for the year came from France, however, where SIEA, regional authority for energy and telecommunications is building, on the European scale, the most comprehensive Fiber-to-the-Home solution based on the RFoG technology. Teleste won the first and second phase of the public tender for the delivery and installation of the relevant optical access network equipment.

The fast-growing market in China offers considerable opportunities. In this market Teleste strengthened its presence by setting up a joint venture with the Gansu province cable operator and Shanghai OTEC Information Technology. In this company, Teleste is a minority shareholder. This cooperation allows Teleste to take advantage of its product development and quality know-how in the growing Chinese cable operator market. We also seek to increase the deliveries of our headend solutions.

TAKING "LAST MILE" ACCESS IN A NEW DIRECTION

The DAH (DOCSIS Access Hub) is a new innovative approach that provides a cost-efficient solution to bring high-speed IP network connections to customers by using existing coaxial cabling, and for under one-fifth of the price compared to FttH.

The solution has been introduced in all the major cable events, like at Speaker's Corner of Cable Congress in London by SVP Hanno Narjus.

Offering Complemented by Asheridge

In early April, Teleste acquired the entire share capital of the UK based Asheridge Communications. An access network equipment supplier to cable operators, Asheridge has net sales in excess of EUR 6 million. Asheridge has strong expertise especially in the use of BarrIER technology, the purpose of which is to improve the network reliability and reduce operational costs. This acquisition expanded Teleste's offering and strengthened its position, especially in the UK, Ireland, the Netherlands and southern Europe. In addition to growth in volume, the merger will create synergies between development of technologies and products, and sales.

New Standard Keeps R&D Busy

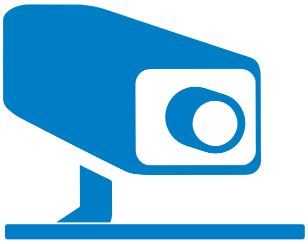
The strongly growing broadband traffic maintains modernization of the existing and construction of new capacity. Similarly, given the increasing use and quality requirements, continuous development of network technology solutions and products will improve the operational reliability of networks. During 2013, Teleste started to upgrade products of the subscriber device based on the new standard released by the cable operators. The first upgraded product was launched in the summer, but because Teleste's product offering is so wide-ranging, this upgrading of products will continue even in 2014. New product launches included the ACE8 fiber node and the MoCA home networking solution that takes advantage of coaxial cable in the transmission of the broadband service and enables preservation of full-speed within one building.

Partners for Product Sales

The continued increase in significance of the Internet and, in particular, the growth in consumption and transfer of video sustain the need for network technologies. On the other hand, tough competition brings down the prices. Teleste aims at benefiting from high-volume production while keeping the production costs down and the quality high.

For Teleste as the European leader in access networks, many extra-European territories provide excellent potential for growth. In the future, Teleste will give a greater role to its partners in support of its own sales network in the selling of its spearhead products.

VIDEO SURVEILLANCE



Teleste offers comprehensive video surveillance applications for customers primarily in the public sector.

Our emphasis is set on demanding video surveillance applications, where cameras, recorders and workstations from a number of sites will be networked into a single system.

Comprehensive solutions consist of Teleste and third-party products, system design, project implementation as well as services related to system maintenance and training.

In the system, the comprehensive solution delivered by Teleste is placed between the cameras and monitors to take care of video transmission, storage and management.

Successes in Many Areas

Year 2013 brought a wide range of business successes. Market remained positive and prices stayed reasonable in spite of tough competition. The ongoing projects and deliveries proceeded according to plan. Similarly, our goal of widening the scope of our offerings to slightly smaller systems so as to tap into broader markets also advanced.

Significant new orders included deliveries of rail traffic control solutions for the West Metro, which will be built between Helsinki and Espoo, and to the Chicago Transit Authority (CTA). Important orders were also received from SNCF, the French National Railroad Company, and Préfecture de police de Paris, the police force for the city of Paris and the surrounding areas. The order placed from Chicago was an extension of many years' cooperation. The onboard video management and storage solution now ordered by the CTA complements the previously delivered video management systems for stations into one unified system. This concept can be replicated and transferred to a number of other sites.

Information from Several Sources

The trend towards more comprehensive security solutions to improve the accuracy and coverage of monitoring in a cost-effective manner is clearly visible in the video surveillance market. Customers have an even greater need for systems that gather information from several different sources, and also communicate with other systems, such as alarm and security installations. Implementation of such centralized systems requires utilization of a number of products and services by different providers and, moreover, creation of software that will connect the various subsystems into an integral entity. This is why Teleste has prioritized the development and provision of such centralized systems in co-operation with its partners.

Technology and References Provide Competitive Edge

Teleste's offering consists of highly demanding video surveillance solutions tailored to the customer's needs, and slightly smaller systems that allow for partial utilization of standard products. The common denominators for all our solutions include customer orientation, reliability and scalability. Teleste's continuous R&D constitutes a key factor in our offering of video surveillance solutions, since proven technology, project management and references make competitive advantages more significant than only price.

From Borders to Cities

While the need for security expands the video surveillance market even further, the monitoring is shifting from borders of countries increasingly over to applications within the given country. Here, video surveillance is used for monitoring of urban areas, energy distribution networks and traffic.

As the utilization rates of trains and subways continue to climb, rail transport is an increasingly important application. Teleste can provide modern technologies for every application and, in addition, comprehensive references to go with them for demanding deliveries.

In course of history, video surveillance business has grown in scope so that today it is perceived as a solution safeguarding people's lives and promoting businesses.

In today's technologically advanced and demanding solutions, video surveillance software has gained in significance.

These solutions can manage ever larger systems, they provide a wider range of applications, and they are increasingly easy to use.

In their respective segments, Teleste's reference projects are world leaders.

NETWORK SERVICES

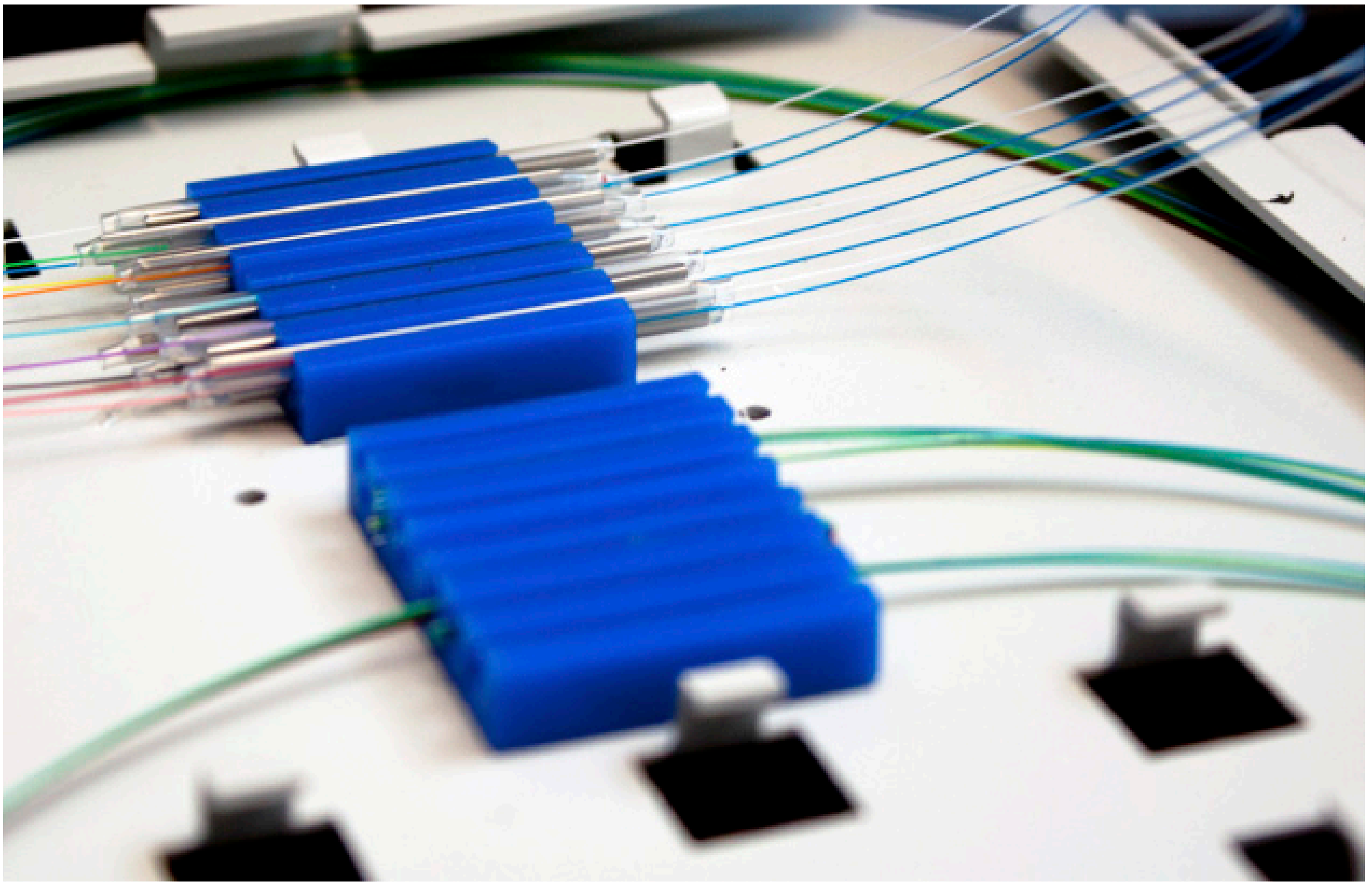
SERVICES PROVIDE CUSTOMERS **WITH ADDED VALUE**

Network Services (NS) provides network design, high-quality installation, maintenance services and professional services for cable and telecom operators across Europe.

Our customers are often leaders in their countries, with the aim of providing their subscribers with new services, such as high-speed Internet access, pay-TV, Video-on-Demand and telephony services.

Our European network of services covers the entire continent with Germany and the United Kingdom as our foremost operating countries.

Our services markets developed well with the exception of German demand, which was significantly lower than expected in the beginning of the year. We responded to the situation by re-organizing operations and adjusting human resources. Our other countries developed positively, and even in Germany we got back to the path of profitable growth in the second half of the year.



All in all, net sales generated by Network Services amounted to EUR 91.1 (92.6) million. The early year challenges in Germany caused a decline in operating profit to EUR 1.6 (2.4) million. However, the second half of the year was significantly better than the year-on-year comparative period. Orders received remained level with the previous year at EUR 91.1 (91.9) million.

Wider Range of Services

The profitability trend of our services business is improving, but did not reach the desired level yet. We have made an effort to bring in more flexibility with regard to costs and resources so as to better adapt to transient changes in demand. With regard to our development of operations, the main emphasis was now put on higher value-added professional services involving areas such as planning, engineering, programme management and network operation centers. The fast-growing data transfer market will significantly increase the need for professional services, and extending our supply will allow us to provide our customers with an end-to-end service from the project design all the way to the hand-over and network operation. This expansion of our services offering was most nicely achieved in the United Kingdom.

Our newly established Network Operations Centre Service provides the customer with the opportunity of outsourcing network monitoring and maintenance to be taken care of by professionals. The first Network Operations Centre was opened in Finland during Autumn 2013.

Changes in Customer Base

Consolidation among our clientele continued briskly. In the early year, Liberty Global bought Virgin Media, and in summer, Vodafone made a bid for Europe's largest cable TV operator Kabel Deutschland. Mergers slightly slowed down the start-up of major projects during 2013, but in the long run, they will create new opportunities and sales channels for Teleste's offering of services. Operators with a large and wide scope are actively developing their businesses and concentrating their purchases of products and services. Teleste's comprehensive offering, reputation of a reliable supplier, and continuous development of products and services, provide a good starting point for the strengthening of our cooperation with such major operators.

Our collaboration with customers proceeded smoothly and, as a result, Cable & Wireless, City Fibre Holdings and Naxoo, the cable operator of the City of Geneva, are examples for our widening customer base. Extension agreements were signed with Arqiva, among others.

Ahead with Positive Expectations

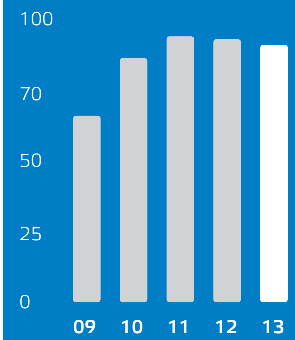
The business environment allows us to anticipate positive developments in the coming year. The objective with our services business is to continue to develop our offerings, expand our customer base and increase profitability. While measures already taken will improve our productivity, new ways and tools will also be used.

Unprofitable operations will be cut and the new resource management software will increase our efficiency accompanied by further process improvements. The use of automation will be increased, where possible, and at the same time the streamlining of services processes will be continued. Our clear priorities include strengthening of our provision in high value-added services and creating new service packages.

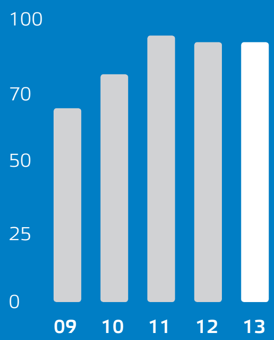
Motivated and competent employees make an essential part of Network Services' success.

In the picture, NS personnel in Finland at a kick-off meeting held in the autumn. The topics discussed included new services featured by network monitoring. Furthermore, courses of action for the unit, current state of projects and the prospects ahead were on the agenda.

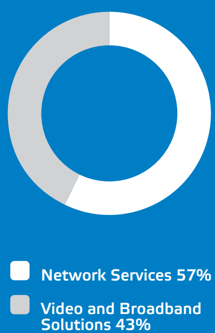
NS NET SALES
MEUR



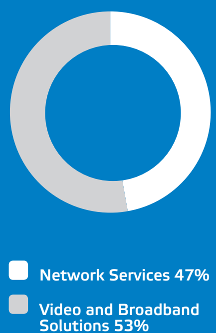
NS ORDERS RECEIVED
MEUR



SHARE OF PERSONNEL



SHARES OF NET SALES



A SIGNIFICANT RFOG DEPLOYMENT BRINGS FIBRE-TO-THE-HOME FOR THE REGION OF THE AIN IN FRANCE

Established in 1950, the Syndicat Intercommunal Energy and e-communication Ain (SIEA), is a public institute comprised of 419 municipalities in the province of Ain in the eastern France. The SIEA is responsible for the energy and telecommunications management in the region.

Numericable is the major French cable operator with leading market share of 65%. This leading position has been acquired thanks to the large investments in fiber optics worth of one billion euros over the past five years.

In partnership with Numericable, the SIEA announced the deployment of the "Box Fibre" throughout the department of Ain covering a potential of 250,000 homes. The deployment will bring to the people of Ain the very high speed Internet (up to 200 megabits per second), HD TV and Connected TV services like YouTube in HD on TV, and Facebook Twitter on TV, multi- screens, etc.

Teleste was chosen to supply and install optical access network equipment to SIEA by providing products and installation. Teleste won the first two phases in the public tender by SIEA. The aim is to build a public broadband network that covers more than 90% of homes and businesses in the region by 2015.

Teleste's advanced solution is one of first significant implementations in Europe, in which RFoG (Radio Frequency over Glass) technology will be used to provide DOCSIS based data services for customers in classical Fibre-to-the-Home (FttH) networks. Replacing the coax portion of the hybrid fiber coax (HFC) network by a passive optical network (PON), the RFoG technology opens up new business opportunities for operators especially in areas where coax network is not available. With the RFoG technology, operators are able to increase network capacity in a cost-efficient way, utilizing their existing offering and billing systems, as well as the traditional HFC network service platform.

Equipment supplied is optical transmitters and amplifiers from HDO family with RFoG end user receiver RM1160 combined with high quality filters. TV and Video services are managed in the Hubs by Luminato platforms. Teleste is also responsible of the installations, trainings and maintenance services.

"This operation covering over 400 municipalities that will now benefit from the Fibre Box, reveals the potential in the deployment of FTTH optics in France. We estimate there are more than one million homes that could benefit from very high speed connections through this type of partnership. Numericable is now ready to discuss with local authorities who have already invested in fiber deployment in France and wish to provide quality service to their subscribers, "says Jerome Yomtov, Deputy CEO of Numericable.

The partnership agreement signed with Numericable is a significant milestone for the future. Implementation of this project is significant because it is the first cooperation agreement that provides Numericable's national TV and broadband services to the FTTH subscribers on a provincial network. We are indeed delighted to note the undisputed leadership the department of Ain, being the initiator, has reached by providing its entire population with high-speed broadband", says Jean-François Pelletier, President of the SIEA.

TELESTE MONITORS ELISA'S CABLE TV AND CABLE MODEM NETWORK

Elisa is a telecommunications and ICT service company with a clientele of 2.3 million consumers, businesses and government organizations. In Finland, they are the leader in the mobile subscriptions and fixed broadband access market.

In October 2013, Elisa and Teleste signed an agreement on monitoring, remote maintenance and capacity management of cable television and cable broadband networks. Teleste's Network Operation Centre (NOC) monitors Elisa's entire CATV and cable modem network analyzing any potential problems and malfunctions. The key factor in this process is the EMS network element management system provided by Teleste as a service. This system allows for a quick location of malfunctions and guides the field technician to the right address. In addition, the system can limit the affected area, and thereby minimize any disadvantages caused to the subscribers.

As for capacity management, Teleste monitors the utilization rate of network components and suggests areas for improvement, thus preventing the emergence of potential bottlenecks in the network.

This is a new approach to Elisa, and its aim is to ensure reliable and high-quality access to network for more than 300 000 cable television subscribers in a cost-effective manner.

KARAWANKS **– IMPROVED SAFETY THROUGH VIDEO SURVEILLANCE**

The Road Authority of Slovenia (DARS), planned to replace the existing surveillance and safety systems in the Karawanks road tunnel in 2013. The almost 8 km long tunnel connects highways between Slovenia and Austria. The single line, two-way tunnel, is located in the Karawanks mountain range.

Its construction began in 1986 in communistic Jugoslavia and it was finished in 1991 in the independent Republic of Slovenia. At that time the tunnel was equipped with the best surveillance and safety systems including fire detection and carbon monoxide sensors.

Today, the rapid growth of Slovenian port in Koper and the popularity of the beautiful islands on the Croatian coast, make this tunnel a strategic object for traffic management. Hence, it was decided to modernize the safety of the tunnel with a new system for video surveillance, accident and fire detection, license plate recognition, traffic control and other critical systems. The priority is to make the tunnel safer and easier to manage, especially during the extreme weather conditions facing this mountain location in winters.

Teleste, together with its Slovenian integration partner, Tenzor, were chosen as the supplier of the video system for this project encompassing several hundred cameras. The project was handed over to DARS in December 2013.

Teleste's experience and reliability in road and transportation applications allowed quick and effective implementation of the video part of the project. Flexibility of Teleste's video management system allowed easy integration with other critical systems including SCADA. Scalability makes the system future proof for further extensions and connections with larger umbrella systems.

With the constantly increase in traffic, the road authorities of Slovenia and Austria are now considering the construction of a second tunnel in this area in the near future.

FLOMATIK NETWORK SERVICES GOES **FROM STRENGTH TO STRENGTH**

Teleste's subsidiary Flomatik Network Services has focused its efforts in 2013 into the development and growth of key transferable skills, particularly with respect to Data/IP expertise, Optical networks and Operational Support System (OSS) management systems. These reflect key expertise and knowledge that is ubiquitous to all Next Generation Network Operators.

Virgin Media

Flomatik have been working in collaboration with Virgin Media's (VM) Networks and Field Engineering divisions on re-segmenting their Broadband network to give customers higher Internet access speeds of up to 150MB.

Flomatik have played a pivotal role in many of the programme's workstreams including: Head End building surveys; producing detailed HFC/IP design plans; installation & commissioning Support work at the Head-end's; to provision of a Managed Service Programme where Flomatik has responsibility for management of logical engineers workload and business process reengineering using standard based methodologies.

These broad range of Project Management activities utilising approximately 40 people are set to continue into 2014, and will see Flomatik continue its longstanding position at Virgin Media, helping them stay at the fore of the UK's broadband explosion, where they have seen a 55% increase in high speed internet traffic in the last 12 months and are set to launch internet speeds in 2014 which will be twice as fast as any other widely available service.

Arqiva Core Dark Fibre Rings

Arqiva, the UK leading communications infrastructure and media services company, are taking the opportunity to build a number of robust and resilient core optical fibre networks through 2013 & 2014 at their broadcast transmission sites across the UK. Due to the exposed hilltop locations all inter-building connectivity will be provisioned on optic fibre cables.

As part of the Local HDTV and BBC Radio programmes of work, funding has been made available to Arqiva to build and operate this shared infrastructure.

Flomatik supported Arqiva through the initial architecture review and vendor selection process and as an existing key partner were successful in being awarded this substantial turnkey programme after working through a stringent tender process.

Flomatik's current responsibilities are for the design, supply, installation and commissioning of all fibre equipment and infrastructure.

The Flomatik design team survey and document all proposals, site risk assessments and method statements ready for submission to Arqiva for approval. Based on this proposal, Flomatik's Programme Management Office and Operations teams work collaboratively with their Arqiva counterparts in managing and scheduling the sourcing and delivery of all equipment to site as well as managing the deployment of Flomatik's engineering teams. The experienced site engineering teams assemble, install and commission all infrastructure, ready for commissioning, testing and final hand-over to Arqiva.

Due to the current success of a number of sites, Arqiva has extended Flomatik's responsibilities to include the installation and commissioning of the optical/electrical conversion units and the distribution of telecommunication circuits throughout the broadcast transmission sites.

With the Telecoms market maturing and consolidating, both Operators and large Equipment Suppliers are looking to work with Service partners that can provide complete end-to end solutions that include:

- Project Management
- Network Design
- Warehousing, staging, testing
- Installation and commissioning
- Training
- Pan European capabilities

In the UK, Flomatik Network Services finished the year announcing the launch of a large Engineering Services capability based in Birmingham to directly address the above requirements and build on the already proven capabilities of Flomatik.

We are looking forward to 2014 with the increased capability to provide a Total end to end service portfolio for our existing customers and also some major new ones!

FOCUS ON TUNNEL SAFETY IN STOCKHOLM BYPASS

The Swedish Transport Administration (STA) has today almost 100 000 km of government owned road to monitor. They have standardized their video system for road and tunnels to Teleste´s Video Management System (VMX).

The cooperation between STA and Teleste started with the first major tunnel project back in 2001 deploying the South Link tunnel in Stockholm with a comprehensive, scalable, redundant and fault tolerant system. Ever since, Teleste has deployed STA´s road and tunnel projects with video technology.

In 2014 Teleste´s goal is to continue its long lasting relationship with STA. The next major infrastructure project coming out for tendering is the Stockholm bypass project, a motorway system of 21 km out of which 18 km are under ground and with 3 lanes in each direction.

The Stockholm bypass is going through environmentally sensitive areas and therefor it's necessary to keep the majority of it below ground. The increasing need for directing traffic into tunnels also put focus on safety; tunnel safety is of absolute essence affecting everything from design to deployment.

Tunnel projects typically include monitoring the entire tunnel with cameras, automatic systems for detection of stopped vehicles and smoke and fire activation through the video system. In case of an accident the systems proposes the operator to activate predefined action plans, including among others, video streams from best located cameras, closing the barriers to stop more drivers to enter the tunnel, etc. The Teleste VMX system is working as an umbrella system supporting the operators' workflow in these types of needs.

Why STA has selected Teleste as its Video Surveillance Partner

The necessity of a reliable, scalable video surveillance system was of highest importance when STA selected Teleste for its video system. A tunnel is a very complex system. It

has at least 20 different systems, including everything from access control for service personnel, video surveillance, fire alarm, sprinkler system, emergency phones, Public Audio, radio and phone systems, ventilation, barrier system etc.

A video system is part of the core in this complex environment and must be able to interact with all of these systems.

OFFERING STRENGTHENED BY ASHERIDGE

In April 2013 Teleste acquired Asheridge Communications Ltd, the British supplier of access network equipment to cable operators. Asheridge has sales offices in the UK, Spain and Poland.

Asheridge's particular strength lies in the passives of HFC networks, as well as in the indoor network solutions of buildings.

In recent times Asheridge has invested especially in technology innovations that can significantly improve the fault tolerance of cable networks and the cost-effectiveness of operating such networks (the BarrIER technology). Asheridge has also been at the forefront of introducing new technologies, such as the MoCA home networking solution, that contribute to the distribution of new consumer services (such as the ultra-high-definition TV, video games as cloud services) inside the home.

The product offering of Asheridge complements Teleste's current portfolio of passive products and, thus, strengthens its position as the leading supplier of access networks to European cable operators. Asheridge's customerships in Spain and Portugal complement Teleste's cable operator customer base to cover the whole of Europe.

Indeed, in the coming years, Teleste will be pursuing growth in sales by marketing Asheridge's products and innovations through its international sales organization.

WELL-BEING AT WORK

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

HR CORNERSTONES

Vision: Organization in support of Teleste's strategy.

Mission: Personnel structure and expertise support the corporate strategy and objectives.

Objectives: Good governance, open and inclusive work culture, working HR processes and satisfied, committed and skilled personnel.

COMPETENCE ANALYSES OF OUR ORGANIZATION WERE FINALIZED IN 2013

At the end of 2013 Teleste employed 1,261 people. The number of employees decreased from the previous year, in particular due to the reorganization made in the German services business. As a result of the codetermination negotiations conducted at the end of 2012, personnel working in Finland were laid off temporarily in 2013, for an average of three weeks. These temporary layoffs were implemented by the end of March 2013.

Functionality and Smooth Operation through Good Workplace Skills

Teleste's objectives include satisfied, committed and skilled personnel, good leadership, open and inclusive work culture and active HR processes. In 2013, our HR projects were focused on the harmonization of processes, prevention of knowledge-based risks, development of leadership and skills as well as well-being at the work.

Supervisors were supported in their daily leadership by their participation in the training path "Working as a Supervisor at Teleste". Workplace skills were honed in joint workshops attended by supervisors and employees alike, and this resulted in the laying down of joint rules set to guide the working community. To promote well-being at work and work ability, a work ability management model was drawn up in collaboration between the employee representatives, the occupational safety and health organization, and the employee health service, with the purpose of detecting early any problems posing a threat to the work ability and to tackle any related threats in a positive way. The aim is to support the employees to cope at work while ensuring a smooth flow of work and the functionality of the working community.

Management of Well-Being at Work Is a Team Effort

Job satisfaction and personnel productivity are closely linked and together they affect the Company's productivity and competitiveness. A healthy working community signals a positive image of the employer and, by so doing, ensures permanence of skilled workers. Therefore, it is necessary to understand the meaning of well-being at work and personnel productivity and how these can be affected.

At Teleste, we have seen that well-being at work can and should be lead. At best, leading well-being at work provides one of the Company's management tools, and constitutes a significant part of the supervisor's daily management. Indicators set for the leadership of well-being at work ensure the systematic follow-up of the state and level of well-being at work. In this case, leadership of well-being at work takes shape in a structured activity with defined objectives, responsibilities, resources, and which will be monitored by regular measurements on the corporate and individual level. A well-being assessment to be conducted on the Group level in 2014 will provide a good starting point for such systematic leadership of well-being at work. Based on the obtained results, risks related to well-being and coping at work will be identified, and measures to address any unsatisfactory state of affairs will be planned. Although leadership of well-being at work provides the supervisors with a special tool of daily management, good results in support of well-being at work cannot be obtained by simple managerial work alone. Commitment to the leadership of well-being at work and its development requires also participation and commitment from the other members of the work community, employee representatives and the occupational safety and health organization.

The Organization's Knowledge-Based Risks Need To Be Managed

Measures designed to develop the organization are, in the end, based on the business strategy. In order to ensure competence, appropriate and strategic areas of competence must be identified and skills of the personnel must be developed accordingly. Competence analyses of our organization were finalized in 2013, and based on these, competence profiles were created in the HR system. These competence profiles will constitute an important part of appraisal discussions to guide professional skills and competences and their development of teams and individuals. Information obtained from the competence profiles will allow us better to identify and anticipate potential risks to the organization's competence.

Natural Interaction

Continuous interaction and communication between the personnel and the employer is ensured by means of monthly meetings and regular gatherings between the employer and the employee representatives. This has helped to create a flexible co-operation, which allows for a quick adaptation to the changing market environment. The dialogue between the Company's management and personnel representatives will take on a new dimension when Teleste's European Works Council – EWC for short – is launched during 2014.

A Wide Range of Incentives

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

Cooperation with Educational Institutions

Construction of a positive employer image for future professionals was continued through cooperation with universities and other educational institutions. This process has taken forms such as research collaboration, patronage, and Teleste's representation in various bodies of universities and educational institutes. Teleste is also represented in the Turku Chamber of Commerce Law Committee. In recognition of our long-term cooperation with educational establishments, Turku University of Applied Sciences awarded Teleste the title of "Company of the Year".

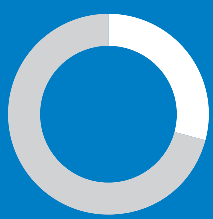
In November 2013, Teleste Electronics (SIP) Co. LTD, a subsidiary located in Suzhou, in the Chinese province of Jiangsu, celebrated its 10th anniversary. Over the years, TSIP has produced some 300,000 amplifiers, 70,000 optical nodes and more than one million smaller node units.
In addition to its manufacturing scope, the unit runs sourcing operations of its own handling the supply of RF passives, mechanics and optical products. The unit is headed by Jarmo Alppi.

To ensure overall risk management and business contingency Teleste prepares for a variety of emergency situations by setting up personnel training each year.
In 2013, a training day, where the rescue teams focused on early fire-fighting skills was carried out together with the Maaria Volunteer Fire Service. The participants were familiarized with various factors that may give rise to a fire and with the use of fire-fighting equipment in hands-on training situations.

PERSONNEL GRAPHS

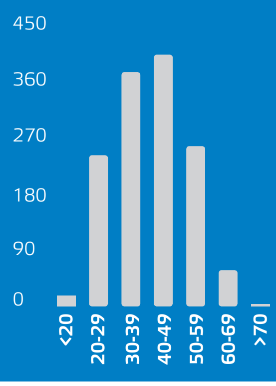
PERSONNEL BY BUSINESS AREA

PERSONNEL BY LOCATION



PERSONNEL BY GENDER

PERSONNEL BY AGE RANGE



CORPORATE RESPONSIBILITY **AS PART OF THE BUSINESS**

REDUCING THE ENVIRONMENTAL IMPACT IN 2013

As for its operations, Teleste has defined long-term environmental objectives, which are specified annually by environmental goals.

Teleste's Long-Term Environmental Goals

- Promotion of product-driven environmental thinking
- Reducing the amount of waste
- Reduction in energy consumption
- Continuous environmental improvement in logistics and transport
- Promotion of environmentally conscious thinking in supply chain
- Increasing environmental awareness among the personnel.

At Teleste, Corporate Responsibility is part of the management of the Group. Along with our Code of Conduct, our social responsibility is defined and guided by the Group's values, vision and strategy. In course of 2014, Teleste will adopt the principles specified in the Global Reporting Initiative (GRI).

Teleste offers innovative solutions that operate cost-efficiently throughout their entire life-cycle. One indication of this responsibility is the durability, upgradeability and serviceability of our products. Basically, the environmental impact of our products is brought about by their consumption of energy when used, as well as the space and cooling they require.

The challenging situation in the market and the world sets its demands to the management of the whole order to supply chain. Teleste wants to offer its customers products the materials of which come from ethically and environmentally responsible sources. This way, and together with our partners, we are building the future on a sustainable basis.

Environmental protection is part of Teleste's strategy and risk management. Teleste has been awarded ISO 14001:2004 Environmental Management System Certificate, which provides the basis for our operational development in accordance with the principles of continuous improvement. Continuous improvement also supports the achievement of financial and qualitative objectives.

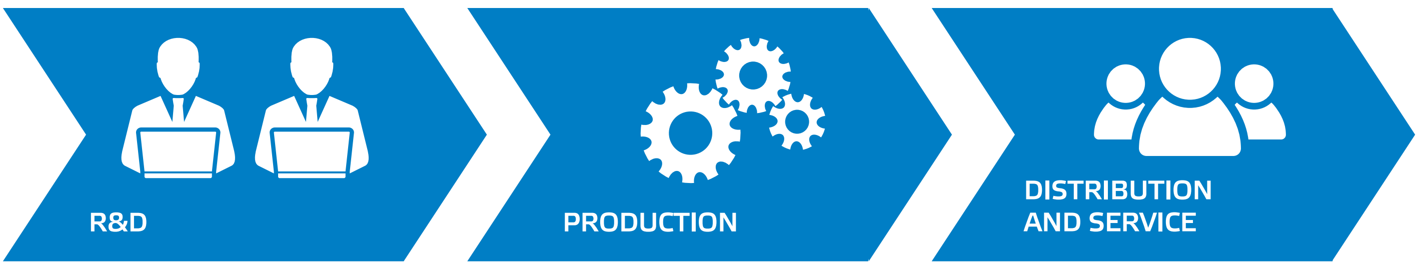
Research and Development Move On

When it comes to reducing the environmental impact, product design provides the key role. For example, compared with the previous generation of technology, the new Direct Quadrature Amplitude Modulation (DQAM) technique allows the achievement of four times the number of channels at the same power consumption and amount of components. On the system level, this translates into reduced number of power supplies and equipment cabinets/racks required. For the customer, this new DQAM technology means reduced life-cycle costs and improved service level in the form of both increased capacity and reliability.

	Current	**New DQAM**
Power consumption, W	15	**16**
Number of channels	4	**16**
Components	same number	
Example of a 48-ch system		
Racks	2	**1**
Power supplies	2	**1**
QAM modules	12	**3**
Total output, W	220	**< 70**

Attention to Raw Materials in Procurement

Teleste wants to make sure that the materials used come from ethically and environmentally responsible sources. To determine the origin of the materials requires a better understanding of the legitimate trade of natural resources and the sustainable supply chain. Therefore, Teleste has joined a service for monitoring of the origins of raw



materials used for standard components (Conflict Minerals/3TG/RoHS). For example, the use of conflict minerals can be prevented by sharing information and by working closely together with the suppliers.

Award-Winning European Production

Environmental impacts caused by Teleste's operation come from the used energy, generation of waste, logistics, and business travel. Environmental impact brought about by the development of software products and equipments is relatively low. Our manufacturing consists mainly of the assembly of printed circuit boards and electronic equipment, and no significant emissions are created during the relevant process. Items consuming energy include heating, cooling, and the power for the production facilities, testing equipment and office equipment.

In 2013, the Lean Association of Finland awarded Teleste's production in Littoinen by the LEAN Achievement of the Year Award in recognition of our long-term overall development of production and manufacturing technologies.

Having our production located in the same building with the product development allows for a close cooperation and continuous improvement.

Carbon footprint of our logistics is generated by the transportation of materials and finished products alike. Along with self-standardization, this footprint is reduced by our selection of suppliers and modes of transportation. In services business, the main source of the environmental load consists of CO_2 emissions from the installation and maintenance runs that are reduced by introducing more stringent emission limits for new cars. Our installation and packaging materials are recycled in cooperation with the local operators.

Durable Equipment

The greatest environmental impact brought about by Teleste's products comes from the energy consumption during their useful lives, as well as the space and cooling they require. Cable network equipment and video surveillance systems are relatively durable, serviceable and upgradeable, so their lifespan can be further extended.

High Recycling Rate

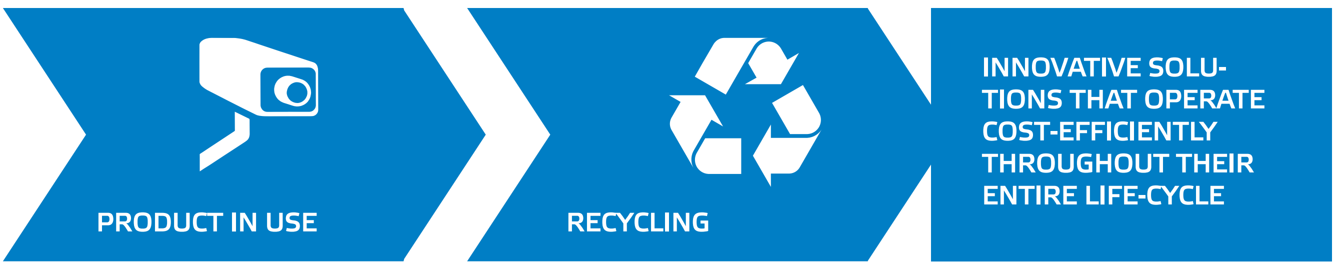
Teleste aims to reduce its generation of waste and improve its rate of recycling. Our products mainly consist of recyclable metals, and waste from our production is sorted while most of it is recycled or used for energy. The amount of produced landfill and hazardous waste is limited.

Code of Conduct

Teleste's Code of Conduct defines the working methods required to be adopted by all our stakeholders. Among other things, our Code discusses adherence to laws and regulations, as well as issues related to human rights, working environment along with environment and sustainable development. This Code and our responsibility in business are developed at the same time by engaging in a dialogue with all the stakeholders. Teleste's Code of Conduct is available on Teleste website at http://www.teleste.com/vision-sustainable-future

ACHIEVEMENTS IN 2013

- The Lean Association of Finland awarded Teleste's production in Littoinen by the 2013 LEAN Achievement Award in recognition of our overall development of long-term production and manufacturing technologies.
- Environmental aspects have been specified to support our capability areas in terms of environmental, quality and risk management systems.
- Teleste joined a third-party service, which monitors the origins of raw materials used for standard components (Conflict Minerals/3TG: tantalum, tin, tungsten, gold).
- QR codes have been taken up to intensify our customer communications and to reduce the amount of printed customer material.
- The CO_2 emission limit in the leasing contracts of new car has been brought down to 10g/km.








MARJO MIETTINEN
M.Sc. (Ed.), born in 1957
Chairman of the Board since 2009 –
EM Group Oy is a significant shareholder of Teleste

Principal occupation:
EM Group Oy, CEO 2006 –

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

Other elected positions of trust:
Componenta Corporation, Member of the Board 2004 –
Efore Plc, Member of the Board 2013 –
EM Group Oy, Member of the Board 2005 –
Ensto Oy, Member of the Board 2002–

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

Principal occupation:
Independent Consultant

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

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

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

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

Principal occupation:
Ixonos Plc, President and CEO 2013 –

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

No other elected positions of trust

KAI TELANNE
M.Sc. (Econ.), born in 1964
Member of the Board since 2008 –
Independent of Teleste and its significant shareholders

Principal occupation:
Alma Media Corporation, CEO 2005 –

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

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

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

Principal occupation:
M.Sc. (Eng.)

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

Other elected positions of trust:
Comptel Corporation, Member of the Board 2009 –
Kuusakoski Group Oy, Member of the Board 2007 –
Mesera Yhtiöt Inc., Member of the Board 2010 –
Nokia Tyres plc, Chairman of the Board 2006 –
Tikkurila Oyj, Member of the Board 2008 –

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

JOHAN SLOTTE
Deputy CEO
LL.M, EMBA, born in 1959
Joined Teleste in 1999
Member of the Management Group since 1999 –

Primary working experience:
Uponor Group, various directorial positions including MD of Uponor Poland 1989–1999

ERJA SAARIKOSKI
CFO
Business school graduate, born in 1953
Member of the Management Group 2002–2013

Primary working experience:
Teleste 1984–2013

JUHA HYYTIÄINEN
CFO as of 1.1.2014
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

HANNO NARJUS
Video and Broadband Solutions,
Senior Vice President
M.Sc. (Econ.), born in 1962
Joined Teleste in 2006

Member of the Management Group since 2007 –

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

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

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–

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

ESKO MYLLYLÄ
Strategic Projects, Senior Vice President
B.Sc. (Eng.), born in 1966
Joined Teleste in 1994

Member of the Management Group since 2006 –

INFORMATION FOR SHAREHOLDERS

Teleste Share

Teleste Corporation is listed on the NADAQ OMX Helsinki Oy in the Technology sector.

The company shares are included in the book-entry securities system. The company has one series of shares. In Annual General Meeting each share carries one vote and confers an equal right to a dividend.

On 31 December 2013, Teleste's registered share capital stood at EUR 6,966,932.80 divided in 18,816,691 shares.

As to the company share price in 2013, the low was EUR 3.78 (3.04) and the high EUR 4.47 (4.44). Closing price on 31 December 2013 stood at EUR 4.25 (4.17).

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 2014:

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

Financial Releases in 2014:

Interim Reports	
January–March	24.4.2014
January–June	7.8.2014
January–September	30.10.2014
Financial Statement Release	5.2.2015

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 Tuesday, 1 April 2014, commencing at 3 p.m., in Helsinki Hall at Finlandia Hall in Helsinki, Mannerheimintie 13. Registration and distribution of voting tickets begins at 2 p.m.

Shareholders registered on the list of shareholders with Euroclear Finland Oy on Thursday, 20 March 2014 are entitled to participate in the Annual General Meeting.

A shareholder, who wants to participate in the meeting, shall register no later than Tuesday 25 March 2014 at 4 p.m.

Sign up to the AGM:

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

Proposal for Distribution of Dividend 2013

The Board of Directors proposes to the AGM that, based on the adopted balance sheet, a dividend of EUR 0.19 per share be paid for the fiscal year that ended on 31 December 2013.

Dividend ex date	2.4.2014
Dividend record date	4.4.2014
Payment of dividend	11.4.2014

More information: www.teleste.com/AGM

NEW STREET IN HONOUR OF TELESTE

Teleste's street address changed on 1 July 2013. Our old familiar address at Seponkatu will no longer be used and our new address is Telestenkatu 1, 20660 Littoinen.

Teleste's business premises and head office have been located in Littoinen since 1984, and now the town of Kaarina decided to name a street in recognition of the company. It is hoped that the name change communicates a sense of Teleste's traditional locality and a commitment to the local region and its development.

"We at Teleste would like to thank the town of Kaarina for receiving this recognition and for their business friendly attitude. We are delighted that Teleste is perceived in Kaarina as an important and attention worthy partner.

The street named after Teleste highlights the local importance of our company and also raises our profile abroad," says Johan Slotte who proposed the change of street name.

ENABLING DIGITAL EVOLUTION

FINANCIAL STATEMENTS 2013

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REPORT OF THE **BOARD OF DIRECTORS**

Founded in 1954, Teleste is an international technology company that develops and offers video and broadband technologies and related services. Our core business is video – image and data processing, transfer and management. Our business is divided into two divisions, which are Video and Broadband Solutions and Network Services.

NET SALES AND PROFITABILITY

Net sales decreased by 0.6% to EUR 192.8 (193.9) million. This decline in net sales over the previous year was caused by the lower level of the services business in the first half of the year. Operating profit equaled EUR 11.0 (10.9) million. Operating profit of the comparative period includes a sale of a real estate and a reserve reversal of an additional purchase price related to a business acquisition totaling EUR 1.2 million. Taxes amounted to EUR 2.5 (3.4) million and the tax rate was 23.6% (33.7%). This decrease in tax rate was contributed by changes in the Group structure that enabled establishing a tax group for German subsidiaries and shifts in business priorities between the two countries. Undiluted earning per share increased by 21.9% to EUR 0.47 (0.38). Orders received totaled EUR 188.9 (189.7) million. At the year-end, the order backlog stood at EUR 13.1 (17.0) million.

BUSINESS AREAS

VIDEO AND BROADBAND SOLUTIONS

This business area focuses on broadband access networks, video services platforms and CCTV applications. The core clientele of the business area consists of cable operators but includes also resellers and public sector organizations. The main market of the business area is Europe.

The business area has 27 offices of its own and a number of retail and integration partners. Outside Europe, Video and Broadband Solutions has subsidiaries and offices in the United States, Australia, China, India, and in the United Arab Emirates.

Orders received totaled EUR 97.8 (97.7) million. Net sales amounted to EUR 101.7 (101.2) million. Operating profit increased by 11.3% to EUR 9.5 (8.5) million, representing 9.3% (8.4%) of net sales. This profit performance was affected particularly by increased deliveries of video surveillance solutions and improved profitability of the IP headend business. Product development expenses equaled EUR 10.0 (11.2) million, in other words 9.8% (11.2%) of net sales. The most significant R&D investments focused on the next generation innovative broadband solution Data Access HUB, the future access network solutions Docsis 3.1, and the video surveillance software development S-VMX. Capitalized R&D expenses stood at EUR 1.4 (0.8) million while depreciation on product development capitalizations equaled EUR 1.8 (2.0) million.

NETWORK SERVICES

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

Orders received totaled EUR 91.1 (91.9) million. Net sales decreased by 1.7% to EUR 91.1 (92.6) million. This decline in sales over the previous year was due to a decrease in invoicing in the German fiber-optic projects. Operating profit stood at EUR 1.6 (2.4) million making 1.7% (2.6%) of net sales. This year-on-year weakening of operating result was due to low sales and high human resources in relation to demand in the first half of the year. Adjustment of the resources was successfully completed by the beginning of the second half of the year, with the result that in the last quarter the business profitability rose to a good level.

INVESTMENTS

Investments by the Group for the period under review totaled EUR 6.3 (3.3) million accounting for 3.3% (1.7%) of net sales. EUR 3.5 million of these investments involved the acquisition of Asheridge. Investments in product development equaled EUR 1.4 (0.8) million. Other investments involved information systems and machines as well as equipment. Investments of EUR 0.1 (0.8) million were made under financial lease arrangements.

FINANCING AND CAPITAL STRUCTURE

Operating cash flow stood at EUR 10.0 (15.3) million. This reduction in cash flows from operating activities was caused by a decrease in trade and other payables. At the end of the period under review, the amount of unused binding stand-by credits amounted to EUR 17.0 (19.0) million. The credit limits are valid until August 2015.

The Group's equity ratio equaled 52.7% (50.5%) and net gearing 13.8% (13.7%). Interest bearing debt on 31 December 2013 stood at EUR 24.3 (22.1) million.

PERSONNEL AND ORGANIZATION

In the period under review, the average number of people employed by the Group was 1,306 people (1,326/2012, 1,297/2011); of these 559 (567) were employed by Video and Broadband Solutions, and 747 (759) by Network Services. At the end of the review period, the Group employed 1,261 people (1,325/2012, 1,319/2011) of whom 71% (73%/2012, 72%/2011) were stationed abroad. Approximately 3% of the Group's employees were working outside Europe.

Wages, salaries and social expenses decreased by 2.7% over the previous year and amounted to EUR 56.9 (58.5/2012, 54.6/2011) million. This reduction in personnel costs was primarily due to a decrease in incentive expenses and a decline in headcount. This decrease in costs was also contributed by the partial temporary layoff of the personnel in Finnish operations in the first quarter. In the first quarter, the number of German services operations personnel was reduced in line with customer´s service demand. This reduction was 85 people.

In January 2014, temporary lay-offs were initiated involving Operations unit personnel. Average length of these layoffs is three weeks, and they will be implemented before the end of the first quarter. These temporary lay-offs were launched within the framework agreed earlier in the co-determination negotiations.

ENVIRONMENTAL FACTORS

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

The greatest environmental impact is brought about by their consumption of energy when used, as well as their space and cooling requirements. Teleste's products consist mainly of recyclable materials. Cable network equipment and video surveillance systems are relatively long-lasting, serviceable and upgradeable, so their useful lives can be further extended.

Environmental effects as a result of Teleste's operation arise from generation of waste, energy consumption, material logistics and business travel. Environmental load during development and manufacturing of software products and equipment is relatively low. Our production is based on the assembly of printed circuit boards and electronic equipment giving no rise to significant discharges. In 2013, Teleste's Operations unit received the Lean Achievement of the Year Award from the Lean Association of Finland in recognition for the unit's long-term comprehensive development of production and manufacturing techniques.

As to Teleste's services business, the main source of environmental pollution is the CO_2 emissions produced by installation and maintenance runs. To reduce its carbon footprint, when it comes to the selection of new maintenance vehicles, Teleste pays attention to their $C0_2$ emissions, as well as to the route optimization enabled by the fault location feature of the new intelligent network solutions. Moreover, installation and packaging materials are recycled in cooperation with local operators.

Teleste wants to make sure that the used materials come from ethically and environmentally responsible sources. To improve our understanding of the legal trade in natural resources and sustainable supply chains, we have joined a 3rd party service, which monitors the origins of raw materials used in standard components (Conflict minerals, 3TG).

GROUP STRUCTURE

Parent company Teleste has branch offices in Australia, the Netherlands, and Denmark with subsidiaries in 14 countries outside Finland. In April 2013, Teleste Management Oy became a Group company through exchange of shares. Teleste Management II Oy, founded in December 2011, has been consolidated in the Teleste Group figures on account of financial arrangements. Suomen Turvakamera Oy has been merged with Teleste Corporation on 30 April 2013. In Germany, the group structure has been streamlined. In Sweden, PromaCom AB has been merged with Teleste Sweden AB. Asheridge Group has been consolidated with the Group figures as of 7 April 2013.

KEY RISKS FACED BY THE BUSINESS AREAS

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

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

As to Video and Broadband Solutions, client-specific and integrated deliveries of solutions create favorable conditions for growth, even if the involved resource allocation and technical implementation pose a challenge involving, therefore, also reasonable risks. Our customers' network investments vary based on the relevant need for upgrading and their financial structure. Significant part of Teleste's competition comes from the USA so the exchange rate of euro up against the US dollar affects our competitiveness. The exchange rate development of the Chinese renminbi to euro affects our material costs.

The company hedges against short-term currency exposure by means of forward contracts. The situation in the European financial markets may slow down our customers' investment plans. Furthermore, a weakening in the consumer purchasing power in Europe could slow down the network investments by the cable operators. Competition increased by the new service providers (OTT) may undermine the cable operators' ability to invest.

Availability of components is subject to natural phenomena, such as floods and earthquakes. Severe weather conditions have an impact on the business areas' ability to deliver their products and services. Correct technological choices and their timing are vital for our success.

Net sales of Network Services comes, for the most part, from a small number of large European customers, so a significant change in the demand for our services by any one of them is reflected in the actual deliveries and profitability. To ensure quality of services and cost-efficiency along with efficient service process management, customer satisfaction and improvements in productivity require innovative solutions in terms of processes, products and logistics. Smooth operation of cable networks requires effective technical management and functional hardware solutions in accordance with contractual obligations. This, in turn, demands continuous and determined development of skills and competencies in Teleste's own personnel as well as those of our subcontractors. In addition, our ability to deliver and compete may be constrained by the adequacy of our sub-contractor network capacity. Tender calculation and management of larger projects with overall responsibility are complex and include risks.

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

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

DECISIONS BY THE ANNUAL GENERAL MEETING

On 12 April 2013, the Annual General Meeting (AGM) of Teleste Corporation confirmed the financial statements for 2012 and discharged the Board of Directors and the CEO from liability for the financial period. The AGM confirmed the dividend of EUR 0.17 per share proposed by the Board. The dividend was paid out on 24 April 2013.

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

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

Valid authorizations granted by the AGM:

- Authorization to purchase treasury shares: 1,400,000
- Disposal of own shares: 1,779,985, valid until the 2014 Annual General Meeting
- Issue of new shares: 5,000,000, valid until the 2014 Annual General Meeting
- Pursuant to the special rights granted by the company, the maximum number of shares is 2,500,000; these special rights are included in the authorization to issue 5,000,000 new shares.

SHARES AND CHANGES IN SHARE CAPITAL

On 31 December 2013, EM Group Oy was the largest single shareholder with a holding of 23.44%.

In the period under review, the lowest company share price was EUR 3.78 (3.04) and the highest was EUR 4.47 (4.44). Closing price on 31 December 2013 stood at EUR 4.25 (4.17). According to Euroclear Finland Ltd the number of shareholders at the end of the period under review was 5,087 (5,182). Foreign ownership accounted for 5.1% (5.8%). From 1 January to 31 December 2013, trading with Teleste share at NASDAQ OMX Helsinki amounted to EUR 9.2 (10.8) million. In the period under review, 2.2 (2.7) million Teleste shares were traded on the stock exchange.

On 31 December 2013, the registered share capital of Teleste stood at EUR 6,966,932.80 divided in 18,816,691 shares.

On 31 December 2013, the Group held 1,189,654 (1,302,985) of its own shares, of which the parent company Teleste Corporation had 266,654 shares while the Group and controlled companies had 923,000 shares, respectively. At the end of the period, the Group's holding of the total amount of shares amounted to 6.32% (6.96%).

In the period under review, 113,331 treasury shares were conveyed. This conveyance was related to the acquisition of the share capital of the top management holding company Teleste Management Oy, which was carried out through a share exchange. Value of the consideration was EUR 4.08 per share. At the time this exchange of shares was realized, Teleste Management Oy held 381,000 Teleste Corporation shares, accounting for 2.02% of the number of shares at end of the period.

The period for subscription of Teleste 2007B options expired on 30 April 2013. No Teleste Corporation shares were subscribed by the specified options in the subscription period. During the financial year, 88,101 shares were subscribed with Teleste 2007C options. Up until 30 April 2014, 2007C options allow for subscription of maximum 280,000 Teleste Corporation shares. Teleste 2007C options have been listed on NASDAQ OMX Helsinki Oy since 2 April 2012.

OWNERSHIP BY MANAGEMENT AND MEMBERS OF THE GOVERNING BODIES ON 31 DECEMBER 2013

On the balance sheet date, CEO and the Members of the Board owned 111,079 (71,637) Teleste Corporation shares equaling to 0.59% (0.38%) of all shares and votes. The President and CEO and the members of the Board had no subscription rights based on stock options. On the balance sheet date, CEO together with other members of the Management Group owned 23,242 Teleste Corporation shares equaling to 0.12% (0.00%) of all shares and votes.

On 31 December 2013, Teleste Management II Oy (a company incorporated for the management incentive scheme) was in the possession of 542,000 (542,000) Teleste Corporation shares. Of the Teleste Management II Oy shares the CEO owns 31.25% while the others have a holding of 68.75%, respectively.

Teleste Corporation complies with the Corporate Governance Code, effective as of 1 October 2010 and issued by the Securities Market Association for the Finnish listed companies. The Corporate Governance Statement will be issued separately from the Company's Annual Report, and it will be available on Teleste's website under Investors. Since 1 March 2000, Teleste complies with the insider guidelines issued by the Board of Directors of the NASDAQ OMX Helsinki Oy in their valid form at any given time.

OUTLOOK FOR 2014

Video and Broadband Solutions aim at maintaining a strong market position in Europe and expand into selected new markets. Network capacity will continue to increase driven by the new broadband and video services provided by the operators. Limited product offering of the new Docsis 3.1 communications standard may delay the network investments in the beginning of the year. Price erosion in the market continues. The positive trend in the video surveillance market will continue, but the public sector decisions to start projects may be delayed in the current economic climate. We estimate the market for Video and Broadband Solutions to fluctuate greatly during the year and the demand to be emphasized on the second half of the year.

The business objective of Network Services is to develop the operational efficiency and give up any unprofitable services activities during the year. These measures will be taken to create conditions for better business profitability over the reference year, but these will have a slight reducing effect on net sales. We estimate the demand for comprehensive network services in our key target markets to continue at par with the comparative year.

We estimate net sales and operating profit for the first half of 2014 to fall clearly from the comparative period. Due to this, we estimate that net sales and operating profit for the full year of 2014 will not reach the 2013 level.

PROPOSAL FOR THE DISTRIBUTION OF EARNINGS

The parent company's distributable equity as of 31 December 2013 stood at EUR 46,410,554.44.

As to the Annual General Meeting scheduled for 1 April 2014, the Board proposes that a dividend of EUR 0.19 (0.17) per share be paid for the outstanding shares for the year 2013.

Signatories to the Annual Report and Financial Statements
5 February 2014

Teleste Corporation	Jukka Rinnevaara
Board of Directors	CEO

STATEMENT OF COMPREHENSIVE INCOME

1,000 €	Note	1.1. - 31.12.2013	1.1. - 31.12.2012	Change %
Net sales	1	192,775	193,875	-0.6
Other operating income	2	840	1,150	-27.0
Material and services		-94,456	-94,747	-0.3
Employee benefits expense	3	-56,949	-58,511	-2.7
Depreciation and amortisation	4	-4,628	-5,078	-8.9
Other operating expenses	5	-26,536	-25,753	3.0
Operating profit		**11,047**	**10,936**	**1.0**
Financial income	6	162	328	-50.8
Financial expenses	7	-548	-1,150	-52.3
Profit before taxes		**10,660**	**10,115**	**5.4**
Income tax expense	8	-2,513	-3,412	-26.3
PROFIT FOR THE FINANCIAL PERIOD		**8,147**	**6 703**	**21.6**
Attributable to:	9			
Equity holders of the parent		8,147	6 703	21.6
Earnings per share for profit of the year attributable to the equity holders of the parent (expressed in € per share):				
laimentamaton osakekohtainen tulos, euroa		0.47	0.38	21.9
laimennusvaikutuksella oikaistu osakekohtainen tulos, euroa		0.46	0.38	21.8
Total comprehensive income for the period (tEUR)				
Net profit		8,147	6 703	21.6
Items that may be reclassified to profit or loss:				
Translation differences		-559	631	n/a
Fair value reserve		16	144	-88.9
Total comprehensive income for the period		7,604	7 478	1.7
Attributable to:				
Equity holders of the parent		7,604	7 478	1.7

STATEMENT OF FINANCIAL POSITION

1,000 €	Note	31.12.2013	31.12.2012	Change %
ASSETS				
Non-current assets				
Property, plant and equipment	10	10,499	10,127	3.7
Goodwill	11	33,252	31,350	6.1
Other intangible assets	11	4,448	4,174	6.6
Available-for-sale investments	12	294	294	0.0
Deferred tax assets	13	2,002	2,086	-4.0
		50,494	48,031	5.1
Current assets				
Inventories	14	19,762	19,495	1.4
Trade and other receivables	15	38,537	38,524	0.0
Tax receivables	15	307	287	7.0
Cash and cash equivalents	16	15,229	13,880	9.7
		73,835	72,186	2.3
Total assets		**124,329**	**120,217**	**3.4**
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		126	685	-81.6
Fair value reserve and other reserves		3,451	2,715	27.1
Retained earnings		53,079	48,008	10.6
Equity holders of the parent company		65,127	59,879	8.8
Share of non controlling interest		425	678	-37.3
Total Equity		65,552	60,557	8.2
Non-current liabilities				
Interest-bearing liabilities	18	470	788	-40.3
Other liabilities		2,414	22	10 870.5
Deferred tax liabilities	13	1,293	1,297	-0.3
Provisions	19	634	503	26.1
		4,810	2,610	84.3
Current liabilities				
Trade and other payables	20	28,130	32,612	-13.7
Current tax payable	21	1,206	2,075	-41.9
Provisions	19	832	1,004	-17.1
Interest-bearing liabilities	18	23,799	21,360	11.4
		53,967	57,050	-5.4
Total liabilities		**58,777**	**59,660**	**-1.5**
Total equity and liabilities		**124,329**	**120,217**	**3.4**

CONSOLIDATED CASH FLOW STATEMENT

1,000 €	Note	1.1. - 31.12.2013	1.1. - 31.12.2012
Cash flows from operating activities			
Profit for the period		8,147	6,703
Adjustments for:			
Non-cash transactions	23	4,711	4,877
Interest and other financial expenses		548	1,150
Interest income		-162	-326
Dividend income		-2	-2
Income tax expense		2,513	3,412
Changes in working capital and provisions			
Increase in trade and other receivables		1,113	5,802
Increase in inventories		600	4,580
Increase in trade and other payables		-3,660	-5,901
Decrease in provisions		-41	-309
Paid interests and dividends		-565	-726
Received interests and dividends		162	328
Paid taxes		-3,402	-4,290
Net cash from operating activities		**9,961**	**15,297**
Cash flows from investing activities			
Supplementary contract price for earlier acquisition		-2,585	-828
Purchases of property, plant and equipment (PPE)		-1,180	-1,609
Proceeds from sales of PPE		0	499
Purchases of intangible assets		-1,442	-844
Acquisition of subsidiary, net of cash acquired		-965	0
Net cash used in investing activities		**-6,172**	**-2,782**
Cash flows from financing activities			
Proceeds from borrowings		5,000	0
Repayments of borrowings		-3,809	-11,500
Payment of finance lease liabilities		-369	-321
Dividends paid		-2,962	-2,440
Proceeds from issuance of ordinary shares		270	0
Net cash used in financing activities		**-1,870**	**-14,261**
Change in cash			
Cash and cash equivalents at 1 January		13,880	15,404
Effect of currency changes		-571	221
Cash and cash equivalents at 31 December		15,229	13,880

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent								
1,000 €	Share capital	Share premium	Translation differences	Retained earnings	Invested non-restricted equity	Other reserves	Total	Non controlling interest	Total equity
At 1 January 2012	6,967	1,504	54	43,559	2,737	-166	54,655	623	**55,278**
Total comprehensive income for the period			631	6,703		144	7,478	0	7,478
Total recognised income and expense for the year	0	0	631	6,703	0	144	7,478	0	7,478
Dividends				-2,569			-2,569	129	-2,440
Changes in non controlling interest				74	0		74	-74	0
Equity-settled share-based payments				240	0		240		240
	0	0	0	-2,255	0	0	-2,255	55	**-2,200**
At 31 December 2012	6,967	1,504	685	48,007	2,737	-22	59,878	678	**60,557**
Total comprehensive income for the period			-559	8,147		16	7,604	0	7,604
Total recognised income and expense for the year	0	0	-559	8,147		16	7,604	0	**7,604**
Dividends				-3,119			-3,119	157	-2,962
Changes in non controlling interest				43			43	-43	0
Excercised share options					270		270		270
Equity-settled share-based payments				0	450		450	-367	83
	0	0	0	-3,076	720	0	-2,356	-253	**-2,609**
At 31 December 2013	**6,967**	**1,504**	**126**	**53,079**	**3,457**	**-6**	**65,127**	**425**	**65,552**

ACCOUNTING PRINCIPLES

COMPANY PROFILE

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

Founded in 1954 Teleste is a technology company running its two business units Video and Broadband Solutions and Network Services; in both fields, we are among the global leaders. Video is at the core of our business activities, with a focus on the processing, transmission and management of video and data for operators and public authorities who provide multiple video-related information, entertainment and security services to end-users. Video and Broadband Solutions business segment has the emphasis on product solutions for broadband access networks, video service platforms and video surveillance applications. Network Services segment deliver comprehensive network service solutions including new construction, rebuilding, upgrading, planning and maintenance services of cable networks. The parent company of Teleste Group, Teleste Corporation, has operations in Australia, China, Denmark, the Netherlands and a subsidiary in fourteen countries outside Finland. Teleste Corporation has been listed on the Helsinki Stock Exchange since 1999.

A copy of the consolidated financial statements can be obtained either from Teleste's website www.teleste.com 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 2013. International financial reporting standards, referred to in the Finnish Accounting Act and in ordinances issued based on the provisions of this Act, refer to the standards and their interpretations adopted in accordance with the procedure laid down in regulation (EC) No 1606/2002 of the EU. The notes to the consolidated financial statements also include additional information in accordance with the Finnish accounting and company legislation.

Teleste adopted IFRSs as from 1 January 2005. Prior to IFRSs Teleste's financial statements were based on Finnish accounting standards (FAS) applicable to listed companies in Finland. IFRS 1 First-time adoption of IFRS was applied in the transition. Teleste's date of transition to IFRSs was 1 January 2004.

The Group has applied as from 1 January 2013 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 2013.

- Amendments to IAS 1 Presentation of Financial Statements: The major change is the requirement to group items of other comprehensive income as to whether or not they will be reclassified subsequently to profit or loss when specific conditions are met. The amendments have only had an impact on the presentation of Teleste's other comprehensive income.
- IFRS 13 Fair Value Measurement: IFRS 13 establishes a single source for all fair value measurements and disclosure requirements for use across IFRSs. The new standard also provides a precise definition of fair value. IFRS 13 does not extend the use of fair value accounting, but it provides guidance on how to measure fair value under IFRSs when fair value is required or permitted. IFRS 13 has expanded some notes to Teleste's consolidated financial statements.
- Annual Improvements to IFRSs 2009–2011 (May 2012): The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments cover in total five standards. Their impact has not been significant.
- Amendments to IFRS 7 Financial Instruments: Disclosures: The amendments clarify disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements.

The amended standard has not had a significant impact on Teleste's consolidated financial statements.

BASIS OF PREPARATION

The consolidated financial statements are presented in thousands of euro (TEUR) and have been prepared under the historical cost convention, unless otherwise stated in the accounting principles.

USE OF ESTIMATES

The preparation of financial statements in conformity with IFRSs requires management to make estimates and assumptions that affect the contents of the financial statements as well as use judgement when applying accounting principles. The estimates and assumptions are based on the management's current best knowledge reflecting historical experience and other reasonable assumptions. Actual results may differ from these estimates. Accounting estimates mainly relate to goodwill, obsolete inventories, credit losses and warranty provisions. The chapter "Accounting policies requiring management's judgement and key sources of estimation uncertainty" discusses judgements made by management and those financial statement items on which judgements have a significant effect.

SUBSIDIARIES

The consolidated financial statements include the accounts of the parent company Teleste Corporation and all those subsidiaries in which it holds, directly or indirectly, over 50 per cent of the voting rights or in which it otherwise has control (together referred to as "Group" or "Teleste"). Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The companies acquired during the financial periods presented have been consolidated from the date of acquisition, when control commenced.

The companies disposed during a financial period are included in the consolidated financial statements up to the date of disposal.

ASSOCIATES

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. Consequently goodwill was amortised on a straight-line basis over the expected useful life until 31 December 2003, after which the amortisation was discontinued.

Research and development costs

Research and development costs are expensed as they are incurred, except for certain development costs, which are capitalised when certain criteria are met. Significant future product platforms for which the potential demand and future cash flows can be estimated with sufficient degree of accuracy have been capitalised as intangible assets. Amortisation of such capitalised development projects is commenced after the completion of the subprojects related to the product platform concerned. They are amortised on a systematic basis over their expected useful life, which is three years.

Other intangible assets

Other intangible assets of the Group mainly consist of connection fees and these are not amortised.

Those intangible assets which have estimated useful lives are depreciated on a straight-line basis over their known or estimated useful lives.

The estimated useful lives are as follows:

- Customer relationships 2–4 years
- Trademarks 5–10 years
- Technology 3–5 years

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

A non-current asset (or disposal group) is classified as held for sale when its carrying amount will be recovered principally through a sale transaction rather than through continuing use. It is measured at the lower of carrying amount and fair value less costs to sell. Such assets and associated liabilities are presented separately in the balance sheet. Assets held for sale are not depreciated (or amortised) after the classification as held for sale.

A discontinued operation is a component of the Group's business that represents a separate major line of business or a geographical area of operations or is a subsidiary acquired exclusively with a view to resale. The result of discontinued operations is presented separately on the face of the consolidated income statement.

IMPAIRMENT

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

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

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

INVENTORIES

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

FINANCIAL ASSETS AND LIABILITIES

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

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either classified as held for trading, or they are designated by the Group as at fair value through profit or loss upon initial recognition. A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of short-term profittaking from changes in market prices or it is a derivative that does not qualify for hedge accounting. Financial assets and liabilities at fair value through profit or loss are recognised on the balance sheet using trade date accounting. They are measured at their fair values, which is the bid price at the balance sheet date based on published price quotations in an active market. Both financial assets held for trading and other financial assets maturing in 12 months after the balance sheet date are included in the current assets. A gain or loss arising from a change in the fair value, realised or unrealised, is recognised in the income statement as incurred.

Derivatives and hedge accounting

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

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

Available-for-sale assets

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

Loans and receivables

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

Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity. They are stated at amortised cost less impairment losses and presented within non-current assets. At the end of the reporting period the Group had no assets classified as held-to-maturity investments.

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

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

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

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

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

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

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

REVENUE RECOGNITION AND NET SALES
Revenue from the sale of goods is recognised in the income statement when all significant risks and rewards of ownership have been transferred to the buyer, which normally takes place when a commodity is delivered. Revenue from services is recognised when the service has been performed.

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

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

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

OTHER OPERATING INCOME

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

GOVERNMENT GRANTS

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

EMPLOYEE BENEFITS

Pension arrangements

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

Share-based payments

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

OPERATING PROFIT

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

Net sales
+ other operating income
- raw material and consumables used adjusted for changes in inventories of finished goods and work in progress
- employee benefits expense
- depreciation and amortisation expense and impairment losses
- other operating expense
= operating profit / loss

All other items not mentioned above are presented under the operating profit. Translation differences relating to sales and purchases are treated as adjustments to these items. All other translation differences are included in financial income and expenses.

BORROWING COSTS

Borrowing costs are generally expensed in the period in which they are incurred, except if they are directly attributable to the construction of an asset that meets the determined criteria, in which case they are capitalized as part of the cost of that asset. These criteria are that the borrowing costs incurred for the construction of a major investment. However, incremental transaction costs directly related to acquiring a loan are included in the initial cost and are amortised as an interest expense using the effective interest rate method. The Group had no such capitalised transaction costs in its balance sheet at the end of the reporting period.

INTEREST AND DIVIDEND INCOME

Interest income is recognised using the effective interest method. Dividend income is recognised when the right to the dividend has established.

INCOME TAXES

The income taxes in the consolidated income statement consist of current tax and the change in the deferred tax assets and liabilities. Current tax includes taxes of the Group companies calculated on the taxable profit for the period determined in accordance with local tax rules, as well as the tax adjustments related to previous years. Deferred tax relating to items charged or credited directly to comprehensive income is itself charged or credited directly to comprehensisive income and equity.

Deferred tax assets and liabilities are provided in the consolidated financial statements using the balance sheet liability method, providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The main temporary differences arise from the treatment of development costs, the depreciation difference on property, plant and equipment and effects of consolidation and eliminations. Deferred taxes are not provided for impairment of goodwill, which is not deductible for tax purposes, nor for undistributed profits of subsidiaries to the extent that is it probable that the temporary difference will not reverse in the foreseeable future. Deferred tax liabilities are recognised at their full amounts in the balance sheet, and deferred tax assets are recognised at estimated realisable amounts. The enacted or substantially enacted tax rate at the balance sheet date is used as the tax rate.

ACCOUNTING POLICIES REQUIRING MANAGEMENT'S JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Management's estimates regarding obsolete inventories, bad debts and warranties are based on approved financial models and case-specific judgments. Both historical experience and management's current view on the market situation have been employed when using the financial models. Management has used the best information available during the process of preparing the financial statements when making case-specific judgements. Impairment tests reflect assumptions made by management and underlying sensitivity analyses of the future cash flows.

By the issuance of the consolidated financial statements Teleste is not aware of any significant uncertainties regarding estimates made at the balance sheet date, nor of such future key assumptions that might have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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 2013.

- IFRS 10 Consolidated Financial Statements and subsequent amendments (in the EU effective for financial years beginning on or after 1 January 2014): IFRS 10 builds on existing principles by identifying the concept of control as the determining factor when deciding whether an entity should be incorporated within the consolidated financial statements. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess. The new standard is not assessed to have a material impact on Teleste's consolidated financial statements.
- IFRS 11 Joint Arrangements and subsequent amendments (in the EU effective for financial years beginning on or after 1 January 2014): In the accounting of joint arrangements IFRS 11 focuses on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. In future jointly controlled entities are to be accounted for using only one method, equity method, and the other alternative, proportional consolidation is no longer allowed. The new standard is not assessed to have a material impact on Teleste's consolidated financial statements.
- IFRS 12 Disclosures of Interests in Other Entities and subsequent amendments (in the EU effective for financial years beginning on or after 1 January 2014): IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including associates, joint arrangements, structured entities and other off-balance sheet vehicles. The new standard will expand the notes the Group provides for its interests in other entities. The new standard is not assessed to have a material impact on Teleste's consolidated financial statements.
- IAS 27 Separate Financial Statements (revised 2011) and subsequent amendments (in the EU effective for financial years beginning on or after 1 January 2014): The revised standard includes the provisions on separate IFRS financial statements that were left after the control provisions were included in the new IFRS 10. The revised standard will not have an impact on Teleste's consolidated financial statements.
- IAS 28 Investments in Associates and Joint Ventures (revised 2011) (in the EU effective for financial years beginning on or after 1 January 2014): Following the issue of IFRS 11 the revised IAS 28 includes the requirements for joint ventures, as well as associates, to be equity accounted. The revised standard is not assessed to have a significant impact on Teleste's consolidated financial statements.
- Amendments to IAS 32 Financial Instruments: Presentation (effective for financial years beginning on or after 1 January 2014): The amendments provide clarifications on the application of presentation requirements for offsetting financial assets and financial liabilities on the statement of financial position and give more related application guidance. The amendments are not assessed to have a significant impact on Teleste's consolidated financial statements.
- Amendments to IAS 36 Impairment of Assets (effective for financial years beginning on or after 1 January 2014): The objective of the amendments is to clarify that the scope of the disclosures of information about the recoverable amount of assets, where that amount is based on fair value less costs of disposal, is limited to impaired assets. The amended standard is not assessed to have a significant impact on Teleste's consolidated financial statements.
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement (effective for financial years beginning on or after 1 January 2014): The amendments made to IAS 39 provide an exception to the requirement to discontinue hedge accounting in certain circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations. The amendments are not assessed to have an impact on Teleste's consolidated financial statements.
- Amendments to IAS 19 Employee Benefits - Defined Benefit Plans: Employee Contributions* (effective for financial years beginning on or after 1 July 2014): The amendments clarify the accounting treatment under IAS 19 in respect of defined benefit plans that involve contributions from employees or third parties towards the cost of benefits. The amendments are not assessed to have an impact on Teleste's consolidated financial statements.
- Annual Improvements to IFRSs (2011-2013 cycle* and 2011–2012 cycle*, December 2013) (effective for financial years beginning on or after 1 July 2014): The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments cover in total four (2011–2013 cycle) and seven (2010-2012 cycle) standards. Their impacts vary standard by standard but are not significant.
- IFRS 9 Financial Instruments* and subsequent amendments (the effective date (previously 1 January 2015) has been postponed and will be determined in due course): IFRS 9 is the first step of the IASB's originally three-phase project to replace the current IAS 39 Financial Instruments: Recognition and Measurement. The amendments resulting from the first phase (published in November 2009) address the classification and measurement of financial assets. Based on measurement, financial assets are classified into two main groups: financial assets at amortised cost and financial assets at fair value. Classification depends on a company's business model and the characteristics of contractual cash flows. The amendments published in October 2010 deal with the classification and measurement of financial liabilities and the standard retains most of the related IAS 39 requirements. Amendments dealing with general hedge accounting were issued in November 2013. The unfinished part of IFRS 9, impairment of financial assets, is still a work in progress. Furthermore, the IASB is also considering limited amendments regarding the classification and measurement of financial assets. The macro hedge accounting phase has been taken apart from the IFRS 9 project as a separate project. As the IFRS 9 project is incomplete, the impacts of the standard on the consolidated financial statements cannot yet be assessed.

SEGMENT REPORTING

Teleste Group is organised in two reporting segments. These segments are based on the Group's organisational and internal reporting structure. The Group has adopted IFRS 8 since 1 January 2009 and it havn't had any impact on the reporting of operating segments.

BUSINESS SEGMENTS

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

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

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

GEOGRAPHICAL DIVISION

The two segments operates in four geographical areas:

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

The 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 od sales are shown based on customer location. Assets and investments are presented by geographical location of assets.

There are no major inter-segment sales in the Group.

UNALLOCATED ITEMS

Unallocated income statement items include costs and incomes which follow earnings after depreciations. Assets not allocated to the segments represent cash. Unallocated liabilities are interest bearing liabilities and tax liabilities.

BUSINESS SEGMENTS

2013 1,000 €	Video and Broadband Solutions	Network Services	Group
External sales			
Services	4,017	91,060	95,077
Goods	97,698	0	97,698
Total external sales	101,715	91,060	192,775
Operating profit of segments	9,460	1,587	11,047
Operating profit			11,047
Financial items			-386
Profit before taxes			10,660
Non-current assets of segment	37,551	12,943	50,494

2012 1,000 €	Video and Broadband Solutions	Network Services	Group
External sales			
Services	5,862	92,645	98,507
Goods	95,368	0	95,368
Total external sales	101,230	92,645	193,875
Operating profit of segments	8,497	2,439	10,936
Operating profit			10,936
Financial items			-821
Profit before taxes			10,115
Non-current assets of segment	34,706	13,324	48,031

Geographical division

2013 1,000 €	Finland	Nordic countries	Other Europe	Others	Group
Sales by origin	13,164	15,630	151,545	12,436	192,775
Assets	24,265	8,528	88,980	2,556	124,329
Capital expenditure	2,059	4	4,227	24	6,314

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

MAJOR CUSTOMER

Revenues from one customer of the Group's Video and Broadband Solution and Network Services segment represents approximately 64.2 Meur in 2013 (64.4 Meur in 2012), which is 33.3% (33.2%) of Group net sales.

BUSINESS COMBINATIONS **ACQUIRED DURING 2013** AND **2012**

At 8 April 2013 Video and Broadband solution segment was strengthened by acquiring 100% of share capital of Asheridge Communications Ltd, the English provider of access network equipment for cable operators. Asheridge has a particularly strong offering in HFC network passives products and customized solutions.

The acquisitions resulted in 1,263 thousand euro of intangible assets, which was allocated to customer relationships and technology. The goodwill, amounted 2,257 thousand euro, is mainly due to future revenue expectation. The goodwill include estimated amount of the conditional supplementary contract price for Asheridge. Total consideration was estimated to be 3,553 thousand euro depending on the profitability development during next two years. The total unpaid contract price of 2,408 thousand euro was booked in non current other liabilities and are classified as fair value level 3. The fair value of Asheridges trade receivables 1,126 thousand euro were 100 thousand euro less than the total value based on agreements. The difference is expected to realize as credit losses. Teleste personnel increased with 20 persons. All costs related to the acquisitions, 100 thousand euro, are expensed in other operating expenses.

The impact of the acquisition on Teleste's net sales during the period 8 April 2013 – 31 December 2013 was 5,575 thousand euro and on the net profit 163 thousand euro. If Asheridge had been consolidated since 1 January 2013, the Group net sales would have been 1,827 thousand euro higher and the Group net profit would have increased 7 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.

During 2012 there were no acquisitions. A conditional supplementary contract price of 600 thousand euro was de-recognised in other operating expenses during 2012.

THE FOLLOWING ASSETS ARE LIABILITIES WERE RECOGNISED IN THE ACQUISITION OF ASHERIDGE:

1,000 €	Recognised fair values on acquisition
Fair values used in consolidation	
Trade marks (inc. in intangible assets)	0
Customer relationship (inc. in intangible assets)	730
Technology (inc. in intangible assets)	533
Inventories	727
Trade receivables	1,126
Book values used in consolidation	
Tangible asstes	731
Other receivables	81
Cash and cash equivalents	219
Total assets	4,147
Book values used in consolidation	
Interest-bearing liabilities	1,209
Trade payables	1,084
Deferred tax liabilites	315
Other liabilities	242
Total liabilities	2,850
Net identifiable assets and liabilities	1,297
Total consideration	3,553
Goodwill on acquisition	2,257
Consideration paid in cash	-1,184
Cash and cash equivalents in acquired subsidiary	219
Total net cash outflow on the acquisition	-965

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 CONSTRUCTION CONTRACTS

Amount of preoject revenue recognised during the period 2,260 thousand euro (2,318 thousand euro in 2012).

Cumulative expenses and income reconised by the end of the period 10,691 thousand euro (8,441 thousand euro in 2012).

2 OTHER OPERATING INCOME

1,000 €	**2013**	2012
Government grants related to development costs	276	443
Rental income	5	10
Other income	558	697
Total	**840**	**1,150**

3 EMPLOYEE BENEFITS EXPENSE

Wages and salaries	-44,339	-45,247
Pension expenses		
Defined contribution plans	-9,080	-8,486
Other post employment benefits	-4,556	-5,065
Activated R&D salaries and social costs	-1,295	697
Cash & Equity-settled share-based transactions	-186	-170
Equity-settled share-based transactions	-83	-240
Total	**-56,949**	**-58,511**

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	1,306	1,326

4 DEPRECIATION, AMORTISATION AND IMPAIRMENT

1,000 €	**2013**	2012
Depreciation and amortisation by asset type:		
Tangible assets		
Buildings	-395	-308
Machinery and equipment	-1,304	-1,283
Other tangible assets	-468	-408
Total	**-2,168**	**-1,999**
Intangible assets		
Capitalised development expenses	-1,785	-1,948
Other intangible assets	-675	-1,131
Total	**-2,460**	**-3,079**
Total	**-4,628**	**-5 078**

5 OTHER OPERATING EXPENSES

Rental expenses	-7,125	-6,874
External services	-2,986	-2,497
Other variable costs	-6,645	-5,952
Travel and IT costs	-3,507	-3,854
Other R&D costs	-1,935	-2,572
Other expenses	-4,338	-4,002
Total	**-26,536**	**-25,751**

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

Audit expenses		
KPMG		
Auditing assignments	-140	-180
Tax consultancy	-60	-62
Other assignments	-30	-13
Other auditors		
Auditing assignments	-64	-60
Other assignments	-43	-41

6 FINANCIAL INCOME

Interest and other financial income	160	326
Dividend income	2	2
Total	**162**	**328**

7 FINANCIAL EXPENSES

1,000 €	**2013**	2012
Interest expenses	-414	-633
Exchange losses	-20	0
Impairment on shares	0	-424
Other financial expenses	-114	-93
Total	**-548**	**-1,150**

Other financial expenses includes interests from financial leasing expenses during the period 16 thousand euro (15 thousand euro in 2012).

Losses from forward exchange contratcs are included in operating profit.

8 INCOME TAXES

Current tax expense		
Current year	-2,861	-3,913
Adjustments for prior years	70	-468
Change in deferred tax liabilities and tax assets	279	969
Total	**-2,513**	**-3,412**

Reconciliation of the tax expense, -2,513 thousand euro, calculated using the Teleste Group's domestic corporation 24.5% tax rate. The change of domesitic tax rate has been used in deferred taxes.

Profit before tax	10,660	10,115
Income tax using the domestic corporation tax rate (24.5 %)	-2,612	-2,478
Effect of tax rates in foreign jurisdictions	67	-350
Tax debt increase related to balance sheet items	-29	0
Not recognized deferred tax assets from tax losses	27	0
Change in deferred taxes due to decrease of the domestic corporation tax rate	46	0
Non-deductible expenses	-81	-115
Taxes from prevoius year	70	-469
Income tax income/expense reported in the consolidated income statement	**-2,513**	**-3,412**

9 EARNINGS PER SHARE

The basic earnings per share is calculated as follows:

$$\frac{\text{Profit for the year attributable to equity holders of the parent}}{\text{Weighted average number of ordinary shares outstanding during the financial year}}$$

The number of ordinary shares outstanding excludes the treasury shares.

The diluted earnings per share is calculated as follows:

$$\frac{\text{Profit for the year attributable to equity holders of the parent (diluted)}}{\text{Weighted average number of ordinary shares outstanding during the financial year (diluted)}}$$

The changes in the number of the shares are presented in the note 17 Capital and reserves.

	2013	2012
Profit for the year attributable to equity holders of the parent, (1,000 €)	8,147	6,703
Weighted average number of ordinary shares outstanding during the financial year (1,000)	17,516	17,425
Basic earnings per share (€)	0.47	0.38
Weighted average number of ordinary shares outstanding during the financial year (1,000)	17,516	17,425
Effect of share options on issue (1,000)	282	284
Weighted average number of ordinary shares outstanding during the financial year (diluted) (1,000)	17,798	17,709
Diluted earnings per share (€)	0.46	0.38

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 2013	54	9,881	8,553	1,604	611	**20,704**
Translation difference +-	0	-72	-143	-31	0	**-246**
Additions	0	147	1,909	270	0	**2,326**
Disposlals	0	0	-235	0	0	**-235**
Acquisitions through business combinations	0	666	65	0	0	**731**
Transfers between classes	0	0	0	60	-98	**-38**
Balance at 31 December 2013	54	10,622	10,149	1,903	513	**23,242**
Depreciation and impairment losses						
Balance at 1 January 2013	0	-4,490	-4,854	-1,233	0	**-10,577**
Depreciation charge for the year	0	-394	-1,304	-468	0	**-2,166**
Balance at 31 December 2013	0	-4,884	-6,158	-1,701	0	**-12,743**
Carrying amounts at 1 January 2013	54	5,391	3,699	371	611	**10,127**
Carrying amounts at 31 December 2013	54	5,738	3,991	202	513	**10,499**

1,000 €	Land areas	Buildings	Machinery and equipment	Other tangible assets	Advance payments	**Total**
Balance at 1 January 2012	48	9,635	6,612	1,241	398	**17,934**
Translation difference +-	6	-11	0	-7	1	**-11**
Additions	0	0	1,908	360	212	**2,480**
Transfers between classes	0	257	33	10	0	**301**
Balance at 31 December 2012	54	9,881	8,553	1,604	611	**20,704**
Depreciation and impairment losses						
Balance at 1 January 2012	0	-4,181	-3,564	-825	0	**-8,570**
Depreciation charge for the year	0	-309	-1,290	-408	0	**-2,007**
Balance at 31 December 2012	0	-4,490	-4,854	-1,233	0	**-10,577**
Carrying amounts at 1 January 2012	48	5,454	3,048	416	398	**9,364**
Carrying amounts at 31 December 2012	54	5,391	3,699	371	611	**10,127**
Carrying amount of production machinery and equipment at 31 December 2013			4,183			
Carrying amount of production machinery and equipment at 31 December 2012			2,429			

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

1,000 €	Machinery and equipment
31.12.2013	
Balance at 1 January 2013	2,967
Additions	148
Disposals	-163
Balance at 31 December 2013	2,952
Cumulative depreciation on disposals	114
Cumulative depreciation	-1,930
Depreciation charge for the year	-353
Carrying amount at 31 December 2013	783

1,000 €	Machinery and equipment
31.12.2012	
Balance at 1 January 2012	2,216
Additions	751
Disposals	0
Balance at 31 December 2012	2,967
Cumulative depreciation on disposals	0
Cumulative depreciation	-1625
Depreciation charge for the year	-305
Carrying amounts at 31 December 2012	1,037

11 INTANGIBLE ASSETS

1,000 €	Goodwill	Development costs	Other intangible assets	Total
Balance at 1 January 2013	32,150	12,307	7,169	**51,626**
Translations differences	-355		-35	**-390**
Additions	2,257	1,442	1,328	**5,027**
Balance at 31 December 2013	34,052	13,749	8,462	**56,263**
Balance at 1 January 2013	-800	-9,407	-5,895	**-16,102**
Amortisation for the year	0	-1,785	-676	**-2,461**
Balance at 31 December 2013	-800	-11,192	-6,571	**-18,563**
Carrying amounts at 1 January 2013	31,350	2,900	1,274	**35,524**
Carrying amounts at 31 December 2013	33,252	2,557	1,891	**37,700**

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

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 33.3 million euro at 31 December 2013. Goodwill has been allocated to the following cash-generating unit:

	Million euro
Video and Broadband Solutions	25.2
Network Services	8.1

The recoverable amount of the segments is based upon value-in-use calculations. Those calculations use cash flow projections based upon the strategy and budgets approved by the management. Calculations are prepared covering a 10 years' period. The cash flow for Video and Broadband Solutions segment covers the five first years with 5% (5%) annual growth rate and for Network Services segment over 5% (30%) annual growth for the 3 first years, cash flow decrease year 4 by -26%, year 5 growth is 5%. Cash flow decrease the fourth year because the recognized tax losses are used in year 1 to 3 in the calculations The expected future cash flows for a further 5 year period are extrapolated using a 2 % (2%) growth rate for both segments. Management's view on the cash flows is cautious as the changes of the industry are difficult to foresee. A discount rate of 13,76% is used in VBS and 10.78% in NS segment (11.87% in both segments) 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. If the cashflow's yearly growth rate would stay at 2 per cent for NS segment for the period, an impairment loss of 1.2 million euro should be recognised.

Assumption used in 2013 and 2012 impairment tests

	2013		2012	
%	VBS	NS	VBS	NS
Yearly growth in cash flow years 1–5	5	5*	5	5**
Yearly growth in cash flow years 6 –10	2	2	2	2
WACC (after tax)	13.76	10.78	11.87	11.87

*NS years 1–3 average growth 5%, year 4–26% year 5 growth 5%

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

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

Impairment test		
Meur	**2013**	2012
VBS	19.3	17.9
NS	2.0	13.7

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

	2013	2012
VBS	-27%	-32%
NS	-7%	-44%

Increase in discount rate

	2013	2012
VBS	4.49%	3.33%
NS	0.72%	4.36%

The Group received a grant amounting to 0.3 million euro from Tekes (National Technology Agency of Finland) towards development costs in 2013 (2012: 0.4 million euro). From the grant received 0,04 million euro (2012: 0.04 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 €	**2013**	2012
Unlisted shares	294	294
Total	294	294

13 DEFERRED TAX ASSETS AND LIABILITIES

1,000 €	Balance 1 Jan. 2013	Recognised in the income statement	Business combinations	Balance 31 Dec. 2013
Movements in temporary differences during 2013				
Deferred tax assets				
Effects of consolidation and eliminations	511	19		530
Unused tax losses	1,123	-72		1,051
Provisions	290	24		314
Fair value adjustments to intangible and tangible assets on acquisition	162	-56		106
Total	**2,086**	**-84**		**2,002**
Deferred tax liabilities				
Capitalisation of intangible assets	-721	210		-511
Fair value adjustments to intangible and tangible assets on acquisition	-312	145	-435	-602
Cumulative depreciation difference	-264	84		-180
Total	**-1,297**	**439**	**-435**	**-1,293**

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. 2012	Recognised in the income statement	Balance 31 Dec. 2012
Movements in temporary differences during 2012			
Deferred tax assets			
Effects of consolidation and eliminations	709	-198	511
Unused tax losses	432	691	1,123
Provisions	273	17	290
Fair value adjustments to intangible and tangible assets on acquisition	228	-66	162
Other items	72	-72	0
Total	**1,714**	**372**	**2,086**
Deferred tax liabilities			
Capitalisation of intangible assets	-930	210	-721
Fair value adjustments to intangible and tangible assets on acquisition	-551	239	-312
Cumulative depreciation difference	-228	-36	-264
Other items	-237	237	0
Total	**-1,946**	**650**	**-1,297**

At 31 December 2013 the Group had unused tax losses in subsidiaries amounting 5,836 thousand euro. A tax asset has been booked from 1,051 thousand euro as this loss will not expire (31 Dec. 2012: 1,123 thousand euro). A tax asset has not been booked from 2,305 thousand euro due to the uncertainty if the Group can utilize them.
No deferred tax liability has been provided for the undistributed profits of the foreign subsidiaries amounting to 18,705 thousand euro at 31 Dec. 2013 (31 Dec. 2012: 15,077 thousand euro). This is because the realization of this tax liability is unlikely in the near future.

14 INVENTORIES

1,000 €	2013	2012
Raw materials and consumables	4,065	3,847
Work in progress	10,307	7,809
Finished goods	5,390	7,839
Total	**19,762**	**19,495**

The amount of the impairment losses of inventories to the net realisable value recognised as an expense during the financial period is 1,450 thousand euro. At the end of the financial year 4,966 thousand euro was deducted from the inventory value to the net realisable value (31 Dec. 2012: 5,150 thousand euro).

15 TRADE AND OTHER CURRENT RECEIVABLES

1,000 €	2013	2012
Trade receivables	35,238	35,453
Accrued income and prepayments	1,857	235
Other receivables	1,442	2,837
Total	**38,537**	**38,524**

16 CASH AND CASH EQUIVALENTS

	2013	2012
Cash at bank and in hand	15,229	13,880
Total	**15,229**	**13,880**
Cash and cash equivalents in the statement of cash flows	15,229	13,880

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 2012	17,426	1,302	18,728	6,967	1,504
Share options exercised by employees	0	0	0	0	0
Own shares purchased	0	0	0	0	0
Own shares sold	0	0	0	0	0
At 31 December 2012	17,426	1,302	18,728	6,967	1,504
Share options exercised by employees	89	0	89	0	0
Own shares purchased	0	0	0	0	0
Own shares sold/changed	112	-112	0	0	0
At 31 December 2013	17,627	1,190	18,817	6,967	1,504

The number of Teleste Oyj shares was 18,816,691 at 31 December 2013 (31 Dec. 2012 18,728,590 shares). All shares issued have been fully paid.

The Annual General Meeting of Teleste Oyj held on 12th of April 2013 decided to authorize the Board of Directors to decide on repurchasing the Company's own shares in accordance with the proposal of the Board of Directors. Based on the authorization, the Board of Directors may repurchase a maximum of 1,400,000 own shares of the Company otherwise than in proportion to the holdings of the shareholders by using the non-restricted equity through public trading on NASDAQ OMX Helsinki Ltd at the market price prevailing at the time of acquisition.

At the end of December 2013, the Group held 1,189,654 of its own shares, of which the parent company Teleste Corporation had 266,654 shares and the controlled companies had 923,000 shares, respectively.

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

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

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 0.19 euro per share (2012 0.17 euro per share) was proposed by the Board of Directors.

17 SHARE BASED INCENTIVES

Teleste Corporation had one option scheme in operation during the period: Stock Options 2007. The scheme was approved by Teleste annual general shareholders' meetings in 2007. The stock options have an average maturity of 6 years from the plan launch including a waiting period and a two-year share subscription period. Under the schemes outstanding at the end of the period the annual general meeting of shareholders has authorized Teleste board of directors to grant up to 840,000 options to the Group key employees or to Teleste subsidiary, which may be authorized to grant options further to the Group key personnel. The options are forfeited if the employee leaves the Group before the options vest. The options expire unless not distributed or exercised by the end of the share subscribtion period. Key characteristics and terms of the Teleste option schemes in operation at the end of the period are listed in the table below.

SHARE BASED INCENTIVES - STOCK OPTIONS DURING THE REPORTING PERIOD 1.1.2013–31.12.2013

Plan	Option Rights 2007		Total.
Instrument	2007B	2007C	TOT/WA
Annual General Shareholders` Meeting date	03 April 2007	03 April 2007	
Initial amount, pcs	280,000	280,000	560,000
The subscription ratio for underlying shares, pcs	1	1	
Initial excercise price, € *	6.94	3.57	
Dividend adjustment	Yes	Yes	
Current excercise price, € **	6.07	3.06	
Initial allocation date	15 October 2008	21 September 2009	
Vesting date	01 April 2011	01 April 2012	
Maturity date	30 April 2013	30 April 2014	
Maximum contractual life, yrs	6.1	7.1	7.1
Remaining contractual life, yrs	0.0	0.3	0.3
Number of persons at the end of the reporting year	0	12	
Payment method	Equity	Equity	

* *Share subscription price for stock options is the volume weighted average price plus 10% of Teleste share in NASDAQ OMX Helsinki Ltd during April 2008 and April 2009 for the stock options 2007B and 2007C, respectively.*

** *Share subscription price at the expiration if the stock options expired during the period.*

Changes during the period 2013	2007B	2007C	Total	Weighted average exercise price in €
1 January 2013				
Outstanding at the beginning of the reporting period, pcs	236,000	261,000	497,000	4,66
Changes during the period				
Granted	0	0	0	
Forfeited	0	0	0	
Invalidated during the period	0	0	0	
Excercised	0	88,101	88,101	3,06
Weighted average price of shares, € ***	4.18	4.17	4.17	
Expired	280,000	0	280,000	6,07
31 December 2013				
Excercised at the end of the period	0	88,101	88,101	3,06
Outstanding at the end of the period	0	172,899	172,899	3,06
Reserve at the end of the period	0	19,000	19,000	3,06

**** weighted average price for Teleste share during the time that particular option could have been exerciced in 2013.*

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

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

Fair value determination

The fair value of options have been determined at grant date and the fair value is expensed until vesting. The fair value of stock options have been determined by using Black–Scholes valuation model.

SHARE BASED INCENTIVES – SHARE PLANS DURING THE REPORTING PERIOD 1.1.2013–31.12.2013

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

Plan	Performance Share Plan 2012
Type	Share
Initial amount, pcs *	250,000
Initial allocation date	31.1.2012
Vesting date	31.3.2015
Maximum contractual life, yrs	3.2
Remaining contractual life, yrs	1.2
Number of persons at the end of the reporting year	30
Payment method	Cash & Equity

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

Changes during the period 2013	Performance Share Plan 2012	Weighted remaining contractual life in years
Type	Share	
1 January 2013		
Outstanding at the beginning of the reporting period, pcs	229,000	
Reserve at the beginning of the reporting period	21,000	
Changes during the period		
Granted	6,000	
Forfeited	8,000	
Invalidated during the period	0	
Excercised	0	
Expired	35,669	
31 December 2013		
Excercised at the end of the period	191,331	
Outstanding at the end of the period	191,331	1.2

Changes during the period 2012	Performance Share Plan 2012	Weighted remaining contractual life in years
Type	Share	
1 January 2012		
Outstanding at the beginning of the reporting period, pcs	0	
Reserve at the beginning of the reporting period	250,000	
Changes during the period		
Granted	236,000	
Forfeited	0	
Invalidated during the period	0	
Excercised	0	
Expired	0	
31 December 2012		
Excercised at the end of the period	236,000	
Outstanding at the end of the period	236,000	2.2

FAIR VALUE DETERMINATION

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

Valuation parameters for instruments granted during period

Share price at grant, €	4.17
Share price at reporting period end, €	4.25
Maturity, years	2
Dividends per year, €	0.17
Fair value 31 Dec 2013, €	867,594

Effect of Share-based Incentives on the result and financial position during the period 2013, €

Expenses for the financial year, share-based payments	185,359
Expenses for the financial year, share-based payments, equity-settled	82,840
Liabilities arising from share-based payments 31 December 2013	272,582

Effect of Share-based Incentives on the result and financial position during the period 2012, €

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

18 INTEREST-BEARING LIABILITIES

1,000 €	**2013**	2012
Non-current		
Loans from financial institutions	16	99
Finance lease liabilities	454	689
Total	**470**	**788**
Current		
Loans from financial institutions	23,458	21,000
Finance lease liabilities, current portion	342	360
Total	**23,799**	**21,360**

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

Konsernin korollisten pitkäaikaisten velkojen valuuttajakauma on seuraava:

1,000 €	**31.12.2013**	31.12.2012
EUR	470	788
	470	788

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

Bank loans	1.3%	1.6%
Finance lease liabilities	2.1%	2.2%

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

EUR	100%	100%

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

Bank loans	1.3%	1.6%
Finance lease liabilities	2.1%	2.2%

Finance lease liabilities of the Group are payable as follows:

Minimum lease payments		
Less than one year	352	377
Between one and five years	462	709
Total	814	1,086
Present value of minimum lease payments		
Less than one year	342	360
Between one and five years	454	689
Total	796	1,049
Future finance charges	18	37
Total finance lease liabilities	814	1,086

19 PROVISIONS

1,000 €	Warraties	**Total**
Balance at 1 January 2013	1,507	**1,507**
Provisions made during the year	-41	**-41**
Balance at 31 December 2013	1,466	**1,466**

	2013
Non-current	634
Current	832
Total	**1,466**

Warranties

The Group grants average 18 months guarantees for its certain products. If defects are detected during the warranty period, the Group either repairs the product or delivers a comparable new product. The amount of the warranty provision is based on the past experience on defective products and an estimate of related expenses.

20 TRADE AND OTHER CURRENT LIABILITIES

1,000 €	**2013**	2012
Current		
Trade payables	9,951	11,190
Personnel, social security and pensions	6,059	6,073
Accrued interest expenses and other financial items	9	24
Other accrued expenses and deferred income	11,856	12,178
Advances	145	101
Other liabilities	110	3,046
Total	**28,130**	**32,612**
Non current		
Other liabilties	2,414	22

21 INCOME TAX PAYABLE FOR THE PERIOD

At the end of the period there was income tax receivable 307 thousand euro and tax payable 1,206 thousand euro on the profit for the period (31 Dec. 2012 there was 287 thousand euro tax receivables and 2,075 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 6 per cent of the net sales), Swedish and Norwegian crowns (5 per cent), US dollars (4 per cent) and UK pound sterling (7 per cent). Significant part of expenses, 54 per cent, arise in euro and in US dollar almost 23 per cent and Chinese CNY 16 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

	2013					2012				
	USD	SEK	NOK	GBP	PLN	USD	SEK	NOK	GBP	PLN
Current assets	989	851	878	2,056	2,327	2,256	1,643	1,975	3,993	4,244
Current liabilities	1,186	1,057	519	1,413	1,649	1,020	1,301	945	966	1,221

Cash flow hedges at 31 Dec 2013

Currency position

Currency	Exposure	Hedge	Net	Hedge Instrument	Hedge%
USD	4,012	3,313	699	Forward exchange contract	83%
CNY	2,040	1,748	292	Forward exchange contract	86%

Cash flow hedges at 31 Dec 2012

Currency position

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

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. Reprising interval varies between 3 and 24 months.

At the year-end 2012 the fair value of currency derivatives amounted to 7.6 million euro (31. Dec 2012: 5.9 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 2013 the total non-euro-denominated equity of the Group's foreign subsidiaries amounted to 12.8 million euro (31 Dec. 2012: 6.8 million euro).

Sensitivity to market risk

	2013	**2012**
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	+-70	+-56
+-10% change in EUR/CNY exchange rate	+-29	0

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 23,458 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 11,000 thousand euro of the loans. The change in the fair value of this hedging instrument, 16 thousand euro, is recognised in profit and loss as other comprehensive income. The fair value of the interest swap contract is -6 thousand euro. All Group loans are denominated in euro. In 2013, the average interest rate of the loan portfolio was 1,45% per cent. All finance lease agreements are fixed-rate.

The Group does not hedge the risk position resulting from the fair value interest rate risk as the position is small. The average balances of the variable rate loans realized during the period have been used in calculating the sensitivity analysis required by IFRS 7. At the closing date 31 December 2012, the effect on variable rate interest-bearing liabilities on profit before taxes would have been +-120 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	12,458			**12,458**
Financial instruments with fixed interest rate				
Financial liabilities				
Loan from financial institutions	11,000			**11,000**

CREDIT RISK

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

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

	2013			2012		
Analysis of trade receivables by age	Gross	Impair-ment loss	**Net**	Gross	Impair-ment loss	**Net**
Undue trade receivables	27,662		27,622	26,377		26,377
1–30 days	5,400		5,400	7,416		7,416
31–60 days	1,460		1,460	715		715
Over 60 days	1,333	-616	717	2,109	-1,164	945
Total			**35,238**			**35,453**

The maximum exposure to credit risk at the reporting date was:	**2013**	2012
Loans and receivables	38,537	38,524
Available for sale financial assets	294	287

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 2013 the Group's cash reserves totaled 15.2 million euro and its interest-bearing net debt 24.3 million euro. The Group administration raises the Group's interest-bearing debt centrally. At 31 December 2013 Teleste had committed and available credit facilities as well as other agreed and undrawn loans amounting to 17.0 million euro. Group's loan agreements and committed loan facilities include profitability and cash flow covenants.

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

As of 31 December 2013, the contractual maturity of interest-bearing liabilities was as follows:

	2014	2015	2016	2017	2018
Loans from financial institutions	23,467				
Trade payables	9,951				
Finance lease liabilities	352	272	129	47	13
Forward exchange contracts					
Outflow	-7,842				
Inflow	7,633				
Other		2,414			

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

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

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 2013 and 2012 was as follows:

	2013	2012
Total borrowings	24,269	22,147
Cash and cash equivalents	15,229	13,880
Interest-bearing net debt	9,040	8,267
Total equity	65,552	60,557
Interest-bearing net debt and total equity	74,592	68,824
Leverage ratio	12.1%	12.0%

22 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

All other financial assets and liabilities are measured at their fair values in the consolidated balance sheet except for the long-term bank loan, which is measured at amortised cost.

DERIVATIVE INSTRUMENTS

Teleste uses forward exchage contracts to hedge its balance sheet items against transaction risk. The changes in the fair values of forward exchage contracts designated as hedging instruments are fully recognised through profit and loss. The fair value changes of forward exchange contracts amounted to -209 thousand euro in 2013 (2012: -109 thousand euro) and they are recognised as adjustements to sales. Long term bank loans are hedged by a interest swap contract. For this interest swap contract Teleste apply hedge accounting. The fair value changes of interest swap contracts amounted to -6 thousand euro. The change in fair value 16 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:

	2013	2012
Finance lease liabilities	2.1%	2.2%

Carrying amounts of financial assets and liabilities by measurment categories

	Note	Financial assets and liabilities at fair value through income statement	Loans and receivables	Available for sale financial assets	Financial liabilities measured at amortized cost	Carrying amount by balance sheet item	Fair Value
2013 Balance item							
Non current financial assets							
Other financial assets	12			294		294	294
Current financial assets							
Trade and other receivables	15		35,238			35,238	35,238
Carrying amount by category		0	35,238	294	0	35,532	35,532
Non-current financial liabilities							
Interest-bearing liabilities	18	454			16	470	470
Current financial liabilities							
Interest-bearing liabilities	18	342			23,458	23,799	23,799
Forward exchange contracts	25	209				209	209
Interest swap contracts	25	6				6	6
Trade and other payables	20				9,951	9,951	9,951
Other current liabilities	20				9	9	9
Carrying amount by category		1,011	0	0	33,434	34,445	34,445

	Note	Financial assets and liabilities at fair value through income statement	Loans and receivables	Available for sale financial assets	Financial liabilities measured at amortized cost	Carrying amount by balance sheet item	Fair Value
2012 Balance item							
Non current financial assets							
Other financial assets	12			294		294	294
Current financial assets							
Trade and other receivables	15		35,453			35,453	35,453
Carrying amount by category		0	35,453	294	0	35,747	35,747
Non-current financial liabilities							
Interest-bearing liabilities	18	689			99	788	788
Current financial liabilities							
Interest-bearing liabilities	18	360			21,024	21,384	21,384
Forward exchange contracts	25	109				109	109
Interest swap contracts	25	22				22	22
Trade and other payables	20				11,190	11,190	11,190
Other current liabilities	20				24	24	24
Carrying amount by category		1,180	0	0	32,337	33,517	33,517

23 ADJUSTMENTS TO CASH FLOWS FROM OPERATING ACTIVITIES

1,000 €	**2013**	2012
Non-cash transactions:		
Depreciation and amortisation	4,628	5,078
Employee benefits	83	241
Gains of disposals of fixed assets	0	-441
Total	**4,711**	**4,877**

24 OPERATING LEASES

Group as lessee

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

Less than one year	650	614
Between one and five years	619	1,075
More than five years	1,357	967
Total	2,626	2,656

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 €	**2013**	2012
Rental and leasing liabilities		
Rental liabilities	2,626	2,656
Lease liabilities	4,122	5,872
Currency derivatives		
Value of the underlying forward contracts	7,633	5,936
Market value of the forward contracts	-209	-109
Interest swap contracts		
Value of the underlying interest swap contracts	11,000	9,000
Market value of intersest swap contracts	-6	-22

26 RELATED PARTY TRANSACTIONS

Teleste Group has related party relationships with its Board members and CEO.

Companies owned by the Group and parent company	Group holding, %	Group voting, %
Parent company Teleste Oyj, Turku, Finland		
Asheridge Communications Ltd, Chesham, UK	100	100
Asheridge Communications Espana S.L, Alcobendas, Spain	100	100
Asheridge Communications Poland Sp z.o.o, Wroclaw, Poland	100	100
Asheridge Investments Ltd, Chesham, UK	100	100
Cableway Management GmbH, Bergisch Gladbach, Germany	100	100
Cableway AG, 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., Herstaal, Belgium	100	100
Flomatik A/S, Porsgrun, Norway	100	100
Flomatik Network Services Ltd. Fareham, UK	100	100
Kaavisio Oy, Turku, Finland	100	100
Satlan S.p.zoo, Wroclaw, Poland	100	100
Teleste Belgium SPRL, Brussels, Belgium	100	100
Teleste d.o.o.,Ljutomer, Slovenia	100	100
Teleste Electronics (SIP) Co., Ltd, Shuzhou, China	100	100
Teleste France SAS, Paris, France	100	100
Teleste FZ LLC, Fujairah, UAE	100	100
Teleste GmbH, Hildesheim, Germany	100	100
Teleste India Ptv. Mumbai, India	100	100
Teleste LLC, Georgetown Texas, USA	100	100
Teleste Networks Services S.A. Yverdon, Switzerland	100	100
Teleste Services GmbH, Hildesheim, Germany	100	100
Teleste Sweden AB, Stockholm, Sweden	100	100
Teleste UK Ltd, Cambridge, UK	100	100
Teleste Video Networks Sp z.o.o, Krakov, Poland	100	100

The key management personnel compensations

1,000 €	**2013**	2012
CEO		
Salaries and other short-term benefits	533	496

During 2013 no options were granted to the management of Teleste (2012: 0 options). The terms of the management share option plans are similar to those of other employees' share option plans, except for the terms of 2007 options. According to the 2007 option terms the recipient has to subscribe Teleste shares to the amount that equals his net annual salary. At 31 December 2013 management did not have any options (2012: 80,000 options of which 80,000 were exercisable). Management of the parent company has 0,59 % or 111,079 of the parent company's shares (2012: 0,38% or 71,637 shares) CEO holding in Teleste Management II Ltd 31.25%.

A voluntary pension fee for CEO amounted 49 thousand euro (47 thousand euro in 2012), which amount is not included in the paid salary and remuneration.

1,000 €	2013	2012
The key management personnel compensations		
Marjo Miettinen, Chairman of the Board	41	44
Pertti Ervi, Member of the Board	29	29
Jannica Fagerholm, Member of the Board	28	0
Esa Harju, Member of the Board	29	28
Tero Laaksonen, Member of the Board until 3 April 2012	0	1
Pentti Raatikainen, Member of the Board until 12 April 2013	1	29
Kai Telanne, Member of the Board	29	29
Petteri Walldén, Member of the Board	29	29
Jukka Rinnevaara, CEO	533	496
Total	**719**	**685**

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 2013 and 2012

The Board of Directors of Teleste decided 5 December 2011 on a share issue against payment directed to Teleste Management II. In the share issue, a maximum total of 542,000 new shares in Teleste will be offered for subscription by Teleste Management II, in derogation from the shareholders' pre-emptive subscription rights. There are weighty financial reasons for the derogation from the shareholders' pre-emptive subscription rights as the shares to be issued in the share issue will be used for the implementation of the incentive and commitment plan of the members of the Teleste Management Group.

For the purpose of the share ownership, some of the members of the Management Group have established a limited liability company named Teleste Management II Oy ("Teleste Management II"), whose entire capital stock they or corporations over which they exercise control own. Upon establishment of the Plan, the intention of Teleste Management II is to acquire Teleste shares for a maximum of EUR 1,600,000, in total. The share acquisition was financed by capital investments in Teleste Management II by members of the Management Group, in the maximum total amount of EUR 320,000, as well as by a loan provided by Teleste. Some of the members of the Management Group did finance their capital investments in Teleste Management II by selling the Teleste shares they currently hold.

When the plan is implemented in full, the members of the Management Group will hold 2.88% of the Teleste's shares through Teleste Management II.

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. – 31.12.2013

1,000 €	Note	2013	2012
Net sales	1	**63,807**	**67,254**
Change in inventories of finished goods		856	-1,156
Other operating income	2	2,244	3,780
Material and services	3	-29,414	-27,947
Personnel expenses	4	-20,285	-21,435
Depreciation and amortisation	5	-799	-587
Other operating expenses		-14,173	-15,967
Operating profit		**2,237**	**3,943**
Financial income and expenses	6	6,148	5,369
Profit before extraordinary items		**8,385**	**9,312**
Extra ordinary items	7	0	-222
Profit before taxes		**8,385**	**9,089**
Appropriations	8	143	-575
Direct taxes	9	-772	-1,691
Profit for the financial period		**7,757**	**6,823**

BALANCE SHEET 31.12.2013

1,000 €	Note	2013	2012
Non-current assets			
Intangible assets	10	2,053	24
Property, plant and equipment	10	5,282	5,471
Long-term receivables	11	30,013	27,552
Investments	12	24,572	23,372
		61,920	**56,420**
Current assets			
Inventories	13	6,349	6,220
Trade and other receivables	14	20,717	20,863
Cash and cash equivalents	15	3,761	5,463
		30,827	**32,546**
Total assets		**92,747**	**88,966**
Shareholders' equity			
Share capital	16	6,967	6,967
Share premium	16	1,504	1,504
Invested non-restricted equity	16	6,516	5,784
Retained earnings	16	32,138	28,435
Profit for the financial period	16	7,757	6,823
		54,881	**49,512**
Appropriations	8	**843**	**986**
Provisions	17	**1,249**	**949**
Liabilities			
Long-term liabilities	18	0	0
Short-term liabilities	19	35,774	37,519
		35,774	**37,519**
Total equity and liabilities		**92,747**	**88,966**

CASH FLOW STATEMENT

1,000 €	**2013**	2012
Cash flow from operations		
Profit before extraordinary items	8,385	9,312
Adjustments		
Depreciations according plan	799	587
Financial income and expenses	-6,148	-5,369
Other items	300	-441
Cashflow before changes in working capital	3,336	4,089
Changes in working capital		
Increase (-) /decrease (+) in trade and other receivables	146	1,721
Increase (-) / decrease (+) in inventories	-129	823
Increase (+) / decrease (-) in trade payables	-2,987	-440
Cashflow before financial items	366	6,193
Paid interest	-479	-751
Dividends received	6,125	6,544
Income taxes paid	-1,458	-1,572
Cash flow from operations	**4,554**	**10,414**
Investments		
Payment of other tangible assets	-436	-469
Investments in subsidiary shares	-2,585	-828
Proceeds from sale of tangible and intangible assets	82	499
Loans granted	-2,468	1,938
Cash flow from investments	**-5,407**	**1,140**
Financing		
Short-term liabilities	5,000	0
Long-term liabilities	-3,000	-11,500
Paid dividends and other profit distribution	-3,119	-2,569
Proceed from issue of new shares	270	0
Group contribution received and paid	0	-222
Cash flows from financing activities	**-849**	**-14,291**
Change in liquid funds	**-1,702**	**-2,738**
Liquid funds 1.1.	5,463	8,201
Liquid funds 31.12.	3,761	5,463

ACCOUNTING **PRINCIPLES**

ACCOUNTING PRINCIPLES OF TELESTE CORPORATION

Teleste Corporation is the parent company of the Teleste Group. Business ID of Teleste Corporation is 1102267-8 with registered office in Turku. The company registered address is 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 specicig long term floating interest loans to eliminate the interest risk.

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

VALUATION OF FIXED ASSETS

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

Intangible assets	3 years
Goodwill	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.

Percentage of completion method: sales and anticipated profits under significant long-term engineering and construction contracts are recorded on a percentage-of-completion basis, using units of delivery (based on predetermined milestones) or the cost-to-cost method of accounting as the measurement basis. Estimated contract profits are recorded in earnings in proportion to recorded sales. In the cost-to-cost method, sales and profits are recorded after considering the ratio of accumulated costs to estimated total costs to complete each contract. In the event that the company can be held as the main contractor of a long-term delivery contract, various product expenses, including raw materials and labour costs, will be accounted for in the calculation of the completion percentage. Possible changes in the anticipated total expenses or loss related to a long-term delivery contract are expensed as incurred.

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 31.12.2013

1 NET SALES

1,000 €	2013	2012
Net sales by segments		
Video and Broadband Solutions	62,638	66,330
Network Services	1,169	924
Total	**63,807**	**67,254**
Net sales by market area		
Finland	11,963	11,963
Nordic countries	9,615	7,503
Other Europe	35,011	35,577
Others	7,218	12,212
Total	**63,807**	**67,254**

2 OTHER OPERATING INCOME

R&D subvention and others	2,244	3,780
Total	**2,244**	**3,780**

3 MATERIAL AND SERVICES

Purchases	-28,092	-26,583
Change in inventories	-727	333
	-28,819	**-26,250**
Purchased services	-595	-1,697
Total	**-29,414**	**-27,947**

4 PERSONNEL EXPENSES

Wages and salaries	-16,492	-17,427
Pension costs	-2,886	-3,050
Other personnel costs	-907	-958
Total	**-20,285**	**-21,435**
Remuneration to Board members and Managing Directors		
Marjo Miettinen, Chairman of the Board	-41	-44
Pertti Ervi, Member of the Board	-29	-29
Jannica Fagerholm, Member of the Board	-28	0
Esa Harju, Member of the Board	-29	-28
Tero Laaksonen, Member of the Board until 3 April 2012	0	-1
Pentti Raatikainen, Member of the Board until 12 April 2013	-1	-29
Kai Telanne, Member of the Board	-29	-29
Petteri Walldén, Member of the Board	-29	-29
Jukka Rinnevaara, CEO	-533	-496
Total	**-719**	**-685**

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

Year-end personnel	373	378
Average personnel	376	385
Personnel by function at the year-end		
Research and Development	101	103
Production and Material Management	215	218
Sales and marketing	30	30
Administration	27	27
Total	**373**	**378**

5 DEPRECIATION ACCORDING TO PLAN

1,000 €	2013	2012
Other capitalized expenditure	-203	-188
Buildings	-283	-278
Machinery and equipment	-145	-113
Goodwill	-160	0
Other intangible rights	-8	-8
Total	**-799**	**-587**

6 FINANCIAL INCOME AND EXPENSES

Interest income	-16	59
Interest income from Group companies	1,384	1,598
Interest expenses	-329	-557
Interest expenses to Group companies	-81	-113
Currency differences	75	0
Other financial income and expenses	433	486
Dividend income from Group companies	4,680	3,895
Dividend income	2	2
Total	**6,148**	**5,369**

7 EXTRAORDINARY ITEMS

Paid group contribution	0	-222

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

Change in accumulated depreciation difference		
Buildings	-11	-515
Other capitalized expenditure	154	-60
Total	**143**	**-575**
Accumulated depreciation in excess of plan	843	986

9 INCOME TAXES

Direct taxes	-808	-1,331
Taxes from previous years	36	-360
Total	**-772**	**-1,691**

10 TANGIBLE AND INTANGIBLE ASSETS

	Intangible assets	Goodwill	**Total**	Buildings	Machinery	Other capi-talized expenditure	**Total**
Acquisition cost 1.1.	**7,619**	0	**7,619**	8,739	8,288	4,228	**21,255**
Increases	0	2,197	**2,197**	108	200	134	**442**
Acquisition cost 31.12.	**7,619**	2,197	**9,816**	8,847	8,488	4,362	**21,697**
Accumulated depreciation 1.1.	**-7,595**	0	**-7,595**	-3,834	-8,035	-3,915	**-15,784**
Depreciation	-8	-160	**-168**	-283	-145	-203	**-631**
Accumulated depreciation 31.12.	**-7,603**	-160	**-7,763**	-4,117	-8,180	-4,118	**-16,415**
Book value 31.12.2013	**16**	**2,037**	**2,053**	**4,730**	**308**	**244**	**5,282**
The increase in goodwill is a result of merging Suomen Turvakamera to Teleste Oyj							
Book value of machinery and equipment 31.12.2013					308		
Book value of machinery and equipment 31.12.2012					245		

11 LONG TERM RECEIVABLES

1,000 €	**2013**	2012
Subordinated loan from group company	448	456
Other long term receivables	29,565	27,097
Total	**30,013**	**27,552**

12 INVESTMENTS

Parent company	Shares in group companies	Shares others	Total
Acquisition cost 1.1.	26,359	714	27,073
Increases	3,550	0	3,550
Acquisition cost 31.12.	**29,909**	**714**	**30,623**
Accumulated depreciation 1.1.	-3,273	-428	-3,701
Disposals	-2,351	0	-2,351
Accumulated depreciation 31.12.	**-5,624**	**-428**	**-6,052**
Book value 31.12.2013	**24,285**	**286**	**24,572**

13 INVENTORIES

1,000 €	**2013**	2012
Raw materials and consumables	1,859	2,586
Work in progress	2,771	2,649
Finished goods	1,719	985
Total	**6,349**	**6,220**

14 CURRENT ASSETS

Accounts receivables	7,889	8,779
Accounts receivables from Group companies	11,570	11,276
Avoir fiscal	0	85
Accrued income	1,258	723
Total	**20,717**	**20,863**

15 LIQUID FUNDS

Cash and cash equivalents	**3,761**	**5,463**

16 CHANGES IN SHAREHOLDERS' EQUITY

1,000 €	**2013**	2012
Share issue	6,967	6,967
Share capital 31.12.	6,967	6,967
Use of own shares	1,504	1,504
Share premium fund 31.12.	1,504	1,504
Purchases of own shares	5,784	5,784
Share issues	732	0
Invested non-restricted equity 31.12	**6,516**	**5,784**
Retained earnings 1.1.	35,258	30,993
Dividends	-3,119	-2,569
Merger profit	0	12
Retained earnings 31.12.	32,138	28,435
Profit for the financial period	7,757	6,823
Accumulated profit 31.12.	39,895	35,258
Total	**54,881**	**49,512**
Companys distributable equity 31.12.	46,411	41,041

Company's registered share capital consists of one serie and is divided into 18,816,691 shares at 1 vote each.

17 OBLIGATORY PROVISIONS

1,000 €	2013	2012
Provision for pension commitments	**1,249**	**949**

18 LONG TERM LIABILITIES

Bank Loan	**0**	**0**

19 SHORT TERM LIABILITIES

Bank loans	23,000	21,000
Advance payments from Group companies	10	58
Accounts payables	0	0
Accounts payables from Group companies	2,912	2,881
Other current liabilities	680	1,557
Other current liabilities from Group companies	523	1,193
Accrued liabilities	2,927	4,679
Siirtovelat	5,722	6,152
Total	**35,774**	**37,519**

20 CONTINGENT LIABILITIES AND PLEDGED ASSETS

	2013	2012
Leasing liabilities		
For next year	782	654
For later years	870	1,074
For later years	**1,652**	**1,728**
Rental liabilities		
Less than one year	112	112
Between one and five years	128	128
More than five years	1,269	1,305
	1,509	**1,545**
Liabilities on own behalf		
Bank guarantees	0	0
Guarantees given on behalf of subsidiaries	0	0

21 CURRENCY DERIVATES

Value of underlying forward contracts	7,198	4,117
Market value of forward contracts	-159	-74
Interest rate swap	11,000	9,000
Market value of interest rate swap	-6	-22

22 COMPANIES OWNED BY THE GROUP AND PARENT COMPANY

	Group holding share %	Parent company's share %
Asheridge Communications Espana S.L, Alcobendas, Spain	100	0
Asheridge Communications Ltd, Chesham, UK	100	0
Asheridge Communications Poland SP z.o.o, Wroclaw, Poland	100	0
Asheridge Investments Ltd, Chesham, UK	100	0
Cableway Management GmbH, Bergisch Gladbach, Germany	100	0
Cableway AG, 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
Satlan s.p.zoo,Wroclaw, Poland	100	100
Teleste Belgium SPRL, Brussels, Belgium	100	100
Teleste d.o.o., Ljutomer, Slovenia	100	100
Teleste Electronics (SIP), Shuzhou, China	100	100
Teleste France SAS, Paris, France	100	100
Teleste FZ LLC, Fujairah, UAE	100	100
Teleste GmbH, Hildesheim, Germany	100	0
Teleste India Ptv., Mumbai, India	100	100
Teleste LLC, Georgetown Texas, USA	100	100
Teleste Network Services S.A., Yverdon, Switzerland	100	100
Teleste Services GmbH, Hildesheim, Germany	100	100
Teleste Sweden AB, Stockholm, Sweden	100	100
Teleste UK Ltd, Cambridge, UK	100	100
Teleste Video Networks Sp zoo , Krakov, Poland	100	100

23 OWN SHARES

	Number of shares	Percentage of share capital and votes %
Teleste Oyj owns own shares 31.12.2013	266,654	1.42

24 SHARES AND OWNERS

Management interest

	Number of shares	Percentage of share capital, %	Percentage of and votes, %
CEO and Board Members	111,079	0.59	0.59

Option programs

Number of shares entitled to subscribe with options

	Number of shares	Percentage of shares and votes, %
CEO	0	0.00
Other option holders	242,000	1.25
2007 program warrants hold by the group	19,000	0.10
Total	**261,000**	**1.35**

Audit expenses	**2013**	2012
Auditing assignments	-41	-49
Tax consultancy	-43	-42
Other assignments	-43	-13

25 SHARES AND SHAREHOLDERS

Major shareholders 31.12.2013	Number of shares	%
EM Group Oy	4,409,712	23.44
Mandatum Life Insurance Company Limited	1,679,200	8.92
Ilmarinen Mutual Pension Insurance Company	953,854	5.07
Kaleva Mutual Insurance Company	824,641	4.38
OP-Finland Small Firms Fund	630,712	3.35
Teleste Management II Oy	542,000	2.88
Varma Mutual Pension Insurance Company	521,150	2.77
The State Pension Fund	500,000	2.66
Teleste Management Oy	381,000	2.02
FIM Fenno Equity fund	271,242	1.44
Teleste Oyj	266,654	1.42
Danske Fund Finnish Small Cap	250,000	1.33
Total (12)	**11,230,165**	**59.68**

Sector Dispersion 31 December 2013	Shareholders	%	Shares	%
Corporations	283	5.56	7,326,868	38.9
Financial and insurance institutions	13	0.26	3,418,717	18.2
Public sector institutions	4	0.08	2,000,004	10.6
Non-profit institutions	32	0.63	376,067	2.0
Households	4,716	92.71	4,730,405	25.1
Foreign and nominee registered owners	39	0.77	964,630	5.1
Total	**5,087**	**100.00**	**18,816,691**	**100.0**

Holding Dispersion 31 December 2013	Shareholders	%	Shares	%
1–100	1,116	21.9	76,028	0.4
101–500	2,192	43.1	602,910	3.2
501–1,000	787	15.5	649,796	3.5
1,001–5,000	802	15.8	1,781,323	9.5
5,001–10,000	91	1.8	650,230	3.5
10,001–50,000	72	1.4	1,420,206	7.5
50,001–100,000	5	0.1	461,558	2.5
100,001–500,000	15	0.3	3,613,371	19.2
500,001–	7	0.1	9,561,269	50.8
Total	**5,087**	**100.0**	**18,816,691**	**100.0**
of which nominee registered			798,417	4.2

PROPOSAL FOR THE DISTRIBUTION OF EARNINGS

The parent company's distributable equity as of 31 December 2013 stood at EUR 46,410,554.44.

As to the Annual General Meeting scheduled for 1 April 2014, the Board proposes that a dividend of EUR 0.19 (0.17) per share be paid for the outstanding shares for the year 2013.

Signatories to the Annual Report and Financial Statements

5 February 2014

Marjo Miettinen
Chairperson of the Board

Pertti Ervi
Member of the Board

Jannica Fagerholm
Member of the Board

Esa Harju
Member of the Board

Kai Telanne
Member of the Board

Petteri Walldén
Member of the Board

Jukka Rinnevaara
CEO

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

5 February 2014

KPMG OY AB

Esa Kailiala
Authorised Public Accountant

AUDITOR'S REPORT

TO THE ANNUAL GENERAL MEETING OF TELESTE CORPORATION

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Teleste Corporation for the year ended 31 December 2013. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

RESPONSIBILITY OF THE BOARD OF DIRECTORS AND THE PRESIDENT AND CEO

The Board of Directors and the President and CEO are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the President and CEO shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the President and CEO are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

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

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

OPINION ON THE COMPANY'S FINANCIAL STATEMENTS AND THE REPORT OF THE BOARD OF DIRECTORS

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Helsinki, 5 February 2014
KPMG OY AB

Esa Kailiala
Authorized Public Accountant

CORPORATE GOVERNANCE **STATEMENT 2013**

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

CORPORATE GOVERNANCE

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

GENERAL MEETING

The General Meeting of Teleste Corporation is the highest decision-making body of the company. It is held at least once a year by the end of June as specified in the Articles of Association. The Annual General Meeting (hereafter AGM) is held in Helsinki in the customary manner.

The General Meeting decides matters specified for it to decide in the Finnish Companies Act. Issues decided by the AGM include approval of the financial statement, allocation of profit shown in the balance sheet, discharge from liability of the Board of Directors and the CEO, and the election of the members of the Board of Directors and the auditor. Responsibilities of the General Meeting also include e.g. making amendments to the Articles of Association, decision-making concerning share issues, granting of entitlements to options and other special rights, procurement and redeeming of company's own shares and reduction of share capital. Teleste Corporation's General Meeting shall be convened by the Board of Directors.

BOARD OF DIRECTORS

Rules of Procedure

It is the function of Teleste Corporation's Board of Directors to manage the company in accordance with the law, statutory regulations, Articles of Association and decisions taken by the General Meeting. The operating procedures and main duties of the Board of Directors have been specified in the Board's Rules of Procedure. The Board shall resolve any matters of great importance in terms of scope and magnitude to the Group's operation. The Board oversees and assesses the operation of the CEO and the Management Group. The Board decides on the criteria of the company's compensation system and makes decisions on any other far-reaching issues related to personnel.

In line with the view adopted by the Board of Teleste Corporation, the proceedings of the Board will be carried out in an optimum way without formation of separate committees but by involving the entire Board in the so-called committee proceedings. The Board is also carrying out the duties of the Audit Committee.

The Board shall conduct an annual evaluation of its performance and working methods. The Board of Teleste Corporation has laid down rules of procedure according to which the essential duties of the Board include the following:

- Provision for the company business strategy and its revision at regular intervals,
- Approval of annual budgets and supervision of their implementation,
- Decisions concerning major investments and divestments,
- Handling and approval of annual financial statements and interim reports,
- Appointment of the CEO and discharging him from his duties and specification of his responsibilities and conditions of work,
- Decisions concerning incentive and bonus systems involving management as well as personnel and presentation of any related proposals to the AGM as required,
- Annual revision of any essential risks related to the company operation and management thereof,
- Laying down the company values and policies.

Election and Term of Office of the Board of Directors

According to the Articles of Association, the Board consisting of a minimum of three and a maximum of eight members will be elected annually at the Annual General Meeting. Members shall hold office until the end of the next Annual General Meeting. The Board shall elect Chairman of the Board from amongst its members.

In its meeting held on April 12, 2013, the AGM elected the six persons specified below to the Board of Directors of Teleste Corporation. Marjo Miettinen was elected Chairperson by the members of the Board.

- Marjo Miettinen, Chairperson, b. 1957, M.Sc. (Ed.), EM Group Oy, CEO, Board Member since 2009
- Pertti Ervi, Member of the Board, b. 1957, B.Sc. (Eng.), Independent Consultant, Board Member since 2009
- Jannica Fagerholm, Member of the Board, b. 1961, M.Sc. (Econ.), Signe and Ane Gyllenberg Foundation, Managing Director, Board Member since 2013

- Esa Harju, Member of the Board, b. 1967, M.Sc. (Eng.), Ixonos Plc, President and CEO, Board Member since 2012
- Kai Telanne, Member of the Board, b. 1964, M.Sc. (Econ.), Alma Media Corporation, CEO, Board Member since 2008
- Petteri Walldén, Member of the Board, b. 1948, M.Sc. (Eng.), Board Member since 2009

The Members of the Board are not employed by the company, and are in line with the issued Finnish recommendations independent of the company and any significant shareholders of it with the exception of Chairperson Marjo Miettinen, who is the CEO of EM Group Oy, a significant shareholder.

In 2013, the Board of Directors of Teleste Corporation had 9 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 April 12, 2013, the AGM decided that the Chairman of the Board be paid until the next AGM EUR 40 000 per year and each Member EUR 28 000 per year. Remuneration for the Members of the Board will be paid so that 40% of the specified annual amount will be used to purchase Teleste's shares or alternatively the shares may be conveyed by using the own shares held by the company, and the rest will be paid in cash.

Salaries, remuneration and other benefits paid in 2013 to the Board of Directors were as follows:

- Marjo Miettinen, EUR 41 000 including 3 912 Teleste shares
- Pertti Ervi, EUR 29 000 including 2 739 Teleste shares
- Jannica Fagerholm, EUR 28 000 including 2 739 Teleste shares
- Esa Harju, EUR 29 000 including 2 739 Teleste shares
- Pertti Raatikainen, EUR 1 000 including 0 Teleste shares
- Kai Telanne, EUR 29 000 including 2 739 Teleste shares
- Petteri Walldén, EUR 28 500 including 2 739 Teleste shares

PRESIDENT AND CEO

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

Detailed terms of employment of the CEO are specified in a separate contract subject to the Board approval. CEO is not a member of Teleste's Board of Directors. The current President and CEO of Teleste, Jukka Rinnevaara, b. 1961, M.Sc. (Econ.), assumed his present responsibilities on November 1, 2002. The CEO is assisted by the Corporate Management Group.

The company Board of Directors decides on the salary, remuneration and other benefits received by the CEO. Salary, remuneration and other fringe benefits paid in 2013 to the CEO of Teleste Corporation totaled EUR 488 632,20. In addition, there were share based benefits in the financial year in the amount of 44 100,00 EUR and an additional pension payment of 48 645,85 EUR.

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

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

MANAGEMENT GROUP

The Teleste Corporation Management Group is chaired by the CEO who reports to the Board of Directors. On December 31, 2013, the Group's Management Group consisted of nine members including CEO, to whom the Management Group members report. Members of the Management Group are the directors of Teleste's business areas and the Group Management. Subsidiaries are operating as parts of the business areas.

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

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

Salary for all members of the Management Group consists of a fixed basic salary and a results-based bonus. The amount of results-based bonus is determined by the company performance, the business area in question and other key operative objectives.

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

INCENTIVE SCHEMES AND OWNERSHIP BY THE MANAGEMENT

SHARE OWNERSHIP AND OPTIONS OF THE MANAGEMENT GROUP

On December 31, 2013, Teleste Corporation's CEO owned 44 436 Teleste Corporation's shares. Other members of the Management Group owned 23 242 Teleste Corporation's shares.

On 31 December, 2013, Teleste had one stock option program running "Stock Options 2007". This stock option plan was issued by decision made by the AGM in 2007.

On 31 December, 2013, CEO did not have any Teleste 2007 options. On 31 December, 2013, members of Teleste Corporation's Management Group did not hold any Teleste 2007 options.

For details related to option specifics see Teleste's Annual Report 2013, Notes section: Share-based payments. For holdings and stock options held by the CEO and the Management Group, see Notes section: Related party transactions.

TELESTE MANAGEMENT II OY

On 5 December, 2011, Teleste Corporation's Board of Directors decided on two new share-based incentive schemes for the members of the Management Group and for the key personnel. The new systems are designed to unify the objectives of the owners, members of the Management Group, and the key personnel to increase the company's value, as well as to commit the members of the Management Group and the key employees by encouraging them to acquire and hold shares of the company and to offer them competitive compensation systems based on the long-term ownership of the company's shares. For such shareholding, some members of the Management Group established a company by the name of Teleste Management II Oy, the entire share capital of which they or their controlled corporations own.

This system is valid until the summer of 2015, when the system is intended to be dissolved in a manner decided later. Transfer of shares owned by Teleste Management II Oy is restricted during the system's period of validity. Holdings in Teleste Management II Oy by the members of the Management Group will be, as a rule, valid until the dissolution.

On 31 December, 2013, Teleste Management II Oy was in possession of 542 000 Teleste Corporation's shares. CEO's holding in the Teleste Management II Oy shares stands at 31.25% while the ownership by other members equals 68.75%.

TELESTE MANAGEMENT OY

In March 2010, the Board of Directors of Teleste Corporation decided on a new incentive plan directed to the members of the Teleste Management Group. The purpose of the plan was to commit the members of the Management Group to Teleste Corporation by encouraging them to acquire and hold Teleste's shares and, this way, to increase Teleste's shareholder value in the long run. For such ownership of shares, the members of the Management Group established a company under the name of Teleste Management Oy. On May 7, 2013, the shareholders of Teleste Management Oy and Teleste Corporation agreed on a share swap where the management´s ownership became a direct ownership in Teleste Corporation.

AUDITING, REVISIONS, AND AUDIT EXPENSES

The term of office of Teleste Corporation auditor expires at the closing of the first Annual General Meeting following the election. On April 12, 2013, Teleste AGM selected Authorized Public Accountants KPMG Oy Ab for the company auditor. The company's Chief Auditor is Esa Kailiala, KHT auditor (authorised public accountant). In addition to their statutory duties the auditors report to the Teleste Corporation Board of Directors and attend the Board meeting at least once a year.

In 2013, Teleste Group's auditing expenses totaled EUR 204 000 in which the share of KPMG was EUR 140 000. Moreover, auditing units of KPMG have supplied Teleste Group companies with other consultation worth total EUR 90 000 and other than KPMG auditors for EUR 43 000.

INSIDERS

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

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

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

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

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

INTERNAL SUPERVISION, RISK MANAGEMENT AND INTERNAL AUDITING

INTERNAL SUPERVISION

Teleste's internal supervision is designed to support the implementation of the strategy and to ensure the achievement of the specified goals, compliance with the regulations as well as reliability and correctness of the conducted financial reporting. Internal supervision is based on Teleste's values and corporate culture as well as on mutually supporting structures and processes within the Group and operational levels. Management of the Group and the business units monitor the internal supervision as part of their normal managerial duties while the Board evaluates and ensures its correctness and efficiency. Supported by Teleste's centralised controller function, management of the relevant business area in both of our business areas answers for the compliance with the internal supervision principles on every level of the area in question.

RISK MANAGEMENT

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

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

- strategic risks
- operational risks
- economic risks
- interest groups risks
- personnel risks
- property and business interruption risks

INTERNAL AUDITING

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

KEY FEATURES OF THE INTERNAL AUDITING AND RISK MANAGEMENT SYSTEMS RELATED TO THE FINANCIAL REPORTING PROCESS

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

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

KEY FIGURES 2009–2013

	IFRS 2013	IFRS 2012	IFRS 2011	IFRS 2010	IFRS 2009
Profit and loss account, balance sheet					
Net sales, Meur	192.8	193.9	183.6	167.8	141.7
Change %	-0.6	5.6	8.6	18.5	30.3
Sales outside Finland, %	93.2	93.4	94.1	93.3	91.8
Operating profit, Meur	11.0	10.9	9.4	7.4	2.5
% of net sales	5.7	5.6	5.1	4.4	1.8
Profit after financial items, Meur	10.7	10.1	8.8	6.7	1.4
% of net sales	5.5	5.2	4.8	4.0	1.0
Profit before taxes, Meur	10.7	10.1	8.8	6.7	1.4
% of net sales	5.5	5.2	4.8	4.0	1.0
Profit for the financial period, Meur	8.1	6.7	6.3	4.8	0.4
% of net sales	4.2	3.5	3.4	2.9	0.3
R&D expenditure, Meur	10.0	11.2	11.6	10.3	10.8
% of net sales	5.2	5.8	6.3	6.1	7.6
Gross investments, Meur	6.3	3.3	5.2	3.8	25.2
% of net sales	3.3	1.7	2.9	2.2	17.8
Interest bearing liabilities, Meur	24.3	22.1	33.2	28.1	22.8
Shareholder's equity, Meur	65.6	60.6	55.3	50.4	46.7
Total assets, Meur	124.3	120.2	133.2	116.2	110.1
Personnel and orders					
Average personnel	1,306	1,326	1,297	1,215	1,103
Order backlog at year end, Meur	13.1	17.0	21.2	17.0	33.1
Orders received, Meur	188.9	189.7	188.1	167.2	151.0
Key metrics					
Return on equity, %	12.9	11.6	11.9	9.9	0.9
Return on capital employed, %	13.0	13.0	11.5	10.2	3.3
Equity ratio, %	52.7	50.5	41.6	43.6	43.6
Gearing, %	13.8	13.7	32.2	25.5	22.0
Earnings per share, euro	0.47	0.38	0.36	0.27	0.02
Earnings per share fully diluted, euro	0.46	0.38	0.36	0.27	0.02
Shareholders equity per share, euro	3.73	3.48	3.17	2.90	2.68
Teleste share					
Highest price, euro	4.47	4.44	4.82	5.33	4.30
Lowest price, euro	3.78	3.04	2.50	3.64	2.25
Closing price, euro	4.25	4.17	3.00	4.41	3.72
Average price, euro	4.17	3.98	3.64	4.49	3.62
Price per earnings	9.1	10.8	8.3	16.3	154.1
Market capitalization, Meur	79.6	78.1	56.2	80.2	66.2
Stock turnover, Meur	9.2	10.8	6.2	14.2	28.5
Turnover, number in millions	2.2	2.7	1.7	3.2	7.8
Turnover, % of capital stock	11.7	14.4	9.1	17.4	44.0
Average number of shares	18,743,507	18,728,590	18,189,560	18,093,689	17,805,590
Number of shares at the year-end	18,816,691	18,728,590	18,728,590	18,186,590	17,805,590
Average number of shares, diluted w/o own shares	17,513,799	17,688,527	17,425,605	17,693,605	17,229,154
Number of shares at the year-end, diluted w/o own shares	17,838,599	17,709,672	17,425,605	17,693,605	17,425,605
Paid dividend, Meur	*3.3	3.0	2.4	2.1	1.4
Dividend per share, euro	*0.19	0.17	0.14	0.12	0 08
Dividend per net result, %	40.8	44.5	38.9	43.7	331.3
Effective dividend yield, %	4.5	4.1	4.7	2.7	2.2

* The Board's proposal to the AGM

CALCULATION OF KEY FIGURES

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

SHARES AND **SHAREHOLDERS**

INVESTOR RELATIONS

CEO, Mr. Jukka Rinnevaara is in charge of investor relations. In addition to the CEO, the top management of the company is committed to serving various participants of the capital market.

OBJECTIVES AND PRINCIPLES

Our communication aims at providing all the market participants with equally correct and relevant information, which supports the value formation of the company share. The principles guiding Teleste's disclosure policy include up-to-dateness, truthfulness and simultaneity. Corner stones of our regular financial communications also include coherence of the released information and continuity. For all meetings, any specified information involving corporate strategy and development is based on previously published data.

Teleste has formulated a Disclosure Policy, approved by the Board of Directors, which defines the principles and procedures by which Teleste Corporation communicates with the capital market.

CONTACT INFORMATION

Jukka Rinnevaara, CEO
Phone +358 2 2605 611

Tiina Vuorinen, Investor Relations and Press Office
Phone +358 2 2605 611, fax +358 2 2605 812
Email: investor.relations@teleste.com

SHARE BASICS

Teleste Corporation is listed on the NASDAQ OMX Helsinki Oy in the Technology sector. In 2013, the company was included in the small cap segment. The company shares are included in the book-entry securities system.

Facts about the share:

Listed on	30.3.1999
ISIN code	FI0009007728
Trading code	TLT1V
Reuter's ticker symbol	TLT1VHE
Bloomberg ticker symbol	TLT1V FH
12 months high	4.47
12 months low	3.78
All-time high (7.9.2000)	39.00
All-time low (12.12.2008)	1.90

FINANCIAL INFORMATION

Annually, Teleste releases the Financial Statement bulletin, Annual Report and three Interim Reports. Teleste meets investors, analysts and representatives of the media in news conferences set up in connection with releases of financial reports.

Teleste exercises a Silent Period of two weeks preceding publication of financial statements and interim reports. During these periods Teleste will not participate in any meetings with investors or analysts and Group representatives are not allowed to comment upon company results.

Financial Releases in 2014:

Interim Report, January–March	24.4.2014
Interim Report, January–June	7.8.2014
Interim Report, January–September	30.10.2014
Financial Statement Release	5.2.2015

These publications including the stock exchange releases are available in Finnish 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.

CHANGES IN SHAREHOLDERS' CONTACT INFORMATION

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

In the event Euroclear Finland Oy acts as the account operator, any changes should be notified to the address:
Euroclear Finland Oy
PL 1110
00101Helsinki
Street address: Urho Kekkosen katu 5c
Phone: +358 20 7706000
Email: info.finland@euroclear.eu

ANNUAL GENERAL MEETING

Teleste Corporation's Annual General Meeting (AGM) will be held on Tuesday, 1 April 2014, commencing at 3 p.m., in Helsinki Hall at Finlandia Hall in Helsinki, Mannerheimintie13 e. Registration and distribution of voting tickets begins at 2 p.m.

RIGHT TO PARTICIPATE AND REGISTRATION

Shareholders registered on the list of shareholders with Euroclear Finland Oy on Thursday, 20 March 2014 are entitled to participate in the Annual General Meeting. A shareholder whose shares have been registered on his/her personal Finnish book-entry securities account has been entered into the list of company shareholders. Shareholders wishing to attend the Annual General Meeting must sign up with the company no later than by 10:00 a.m. on Tuesday, 25 March 2014.

SIGN UP TO THE AGM BY ONE OF THE FOLLOWING:

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

The registration notice must be delivered before the deadline stated above. Please specify your name, person ID, address, telephone number and the name and person ID of assistant or representative, if any. Personal information provided by the shareholder to Teleste Corporation will be used only for the AGM and the related necessary registration purposes.

USE OF REPRESENTATIVE AND PROXIES

A shareholder is entitled to attend the AGM and exercise his/her rights at it through a representative. The appointed representative of this shareholder must produce a dated proxy, or by other reliable means confirm his/her authorization for the representation of the shareholder. Should a shareholder participate in the meeting by means of several authorized representatives representing the shareholder with shares in different book-entry accounts, the shares by which each authorized representative represents the shareholder shall be identified in connection with the registration.

Possible powers of attorney should be delivered in originals to the address Teleste Corporation, Tiina Vuorinen, P.O. Box 323, FI-20101 Turku, Finland by by Tuesday 25 March at 16:00 a.m. at the latest.

HOLDER OF NOMINEE-REGISTERED SHARES

The owner of nominee-registered shares is entitled to attend the meeting by virtue of the shares pursuant to which he would be entitled to be registered with Euroclear Finland Oy's shareholder register on 20 March 2014. Participation also requires that the shareholder of the relevant shares has been entered temporarily in the shareholder register maintained by Euroclear Finland Oy no later than 27 March 2014 at 10:00 a.m. For nominee registered shares, this shall be deemed as registration for the meeting.

A holder of nominee-registered shares is advised to request the necessary instructions regarding temporary registration in the company's shareholder register, the issuing of proxy documents and registration for the General Meeting from his/her custodian bank well in advance. The account management organization of the custodian bank must have the holder of a nominee-registered share who wishes to participate in the AGM to be temporarily entered in the shareholder register no later than the deadline specified above.

OTHER INFORMATION

Shareholders attending the AGM are entitled, as specified under the Companies Act section 5 paragraph 25, to put forth questions regarding issues dealt with in the Meeting.

DIVIDEND POLICY

Teleste wishes to be an attractive investee corporation in which the investment's increase in value and the dividend yield form a competitive combination. The annual proposal for the dividend is validated by the Board in consideration of profitability, financial situation and needs for investment necessitated by profitable growth.

PROPOSAL FOR DISTRIBUTION OF DIVIDEND 2013

The Board of Directors proposes to the Annual General Meeting that, based on the adopted balance sheet, a dividend of EUR 0.19 per share be paid for shares other than those in company possession for the fiscal year that ended on 31 December 2013. The dividend will be paid to shareholders who on the record date, 4 April 2014, have been entered in the Company's Shareholder List, which is kept by Euroclear Finland Oy. This dividend will be paid on 11 April 2014.

PAYMENT OF DIVIDEND IN 2014

Annual General Meeting 1.4.2014
Dividend ex date 2.4.2014
Dividend record date 4.4.2014
Payment of dividend 11.4.2014

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
0.10	0.12	0.16	0.08	0.08	0.12	0.16	0.20	0.24	0.12	0.08	0.12	0.14	0.17	0.19*

* Proposal by the Board

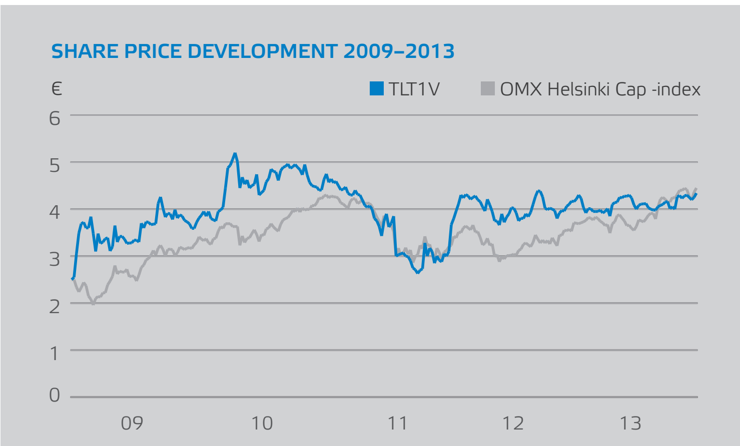
For proposals by the Board for the General Meeting and other additional information about the AGM is available at Teleste's website: www.teleste.com/Annual General Meeting.

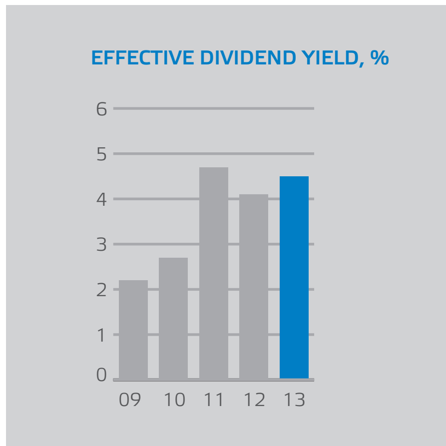
Minutes of the Annual General Meeting will be available at Teleste's website no later than 15 April 2014.

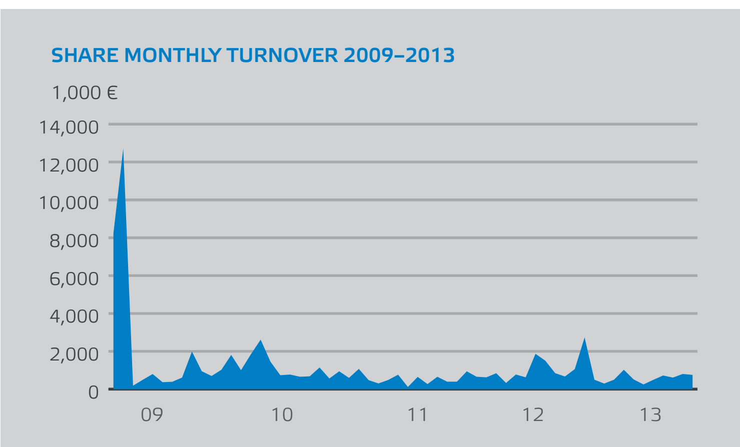
KEY FIGURES PER SHARE

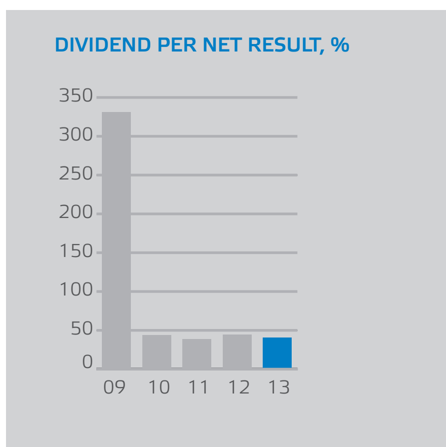
	2013	2012	2011	2010	2009
Earnings per share, euro	0.47	0.38	0.36	0.27	0.02
Earnings per share fully diluted, euro	0.46	0.38	0.36	0.27	0.02
Shareholders equity per share, euro	3.73	3.48	3.17	2.90	2.68
Paid dividend, Meur	3.3*	3.0	2.4	2.1	1.4
Dividend per share, euro	0.19*	0.17	0.14	0.12	0.08
Dividend per net result, %	40.8	44.5	38.9	43.7	331.3
Effective dividend yield, %	4.5	4.1	4.7	2.7	2.2
Closing price, euro	4.25	4.17	3.00	4.41	3.72
Price per earnings	9.1	10.8	8.3	16.3	154.1
Market capitalization, Meur	79.6	78.1	56.2	80.2	66.2
Stock turnover, Meur	9.2	10.8	6.2	14.2	28.5
Turnover, number in millions	2.2	2.7	1.7	3.2	7.8
Turnover, % of capital stock	11.7	14.4	9.1	17.4	44.0
Average number of shares	18,743,507	18,728,590	18,189,560	18,093,689	17,805,590
Number of shares at the year-end	18,816,691	18,728,590	18,728,590	18,186,590	17,805,590

** The Board's proposal to the AGM*









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