



FINANCIAL
STATEMENT
2016

JANUARY 1-DECEMBER 31, 2016

TELESTE

FINANCIAL STATEMENTS OF TELESTE CORPORATION 1 JANUARY TO 31 DECEMBER 2016**INCREASED NET SALES AND OPERATING PROFIT IN 2016****Fourth quarter of 2016**

- Net sales amounted to EUR 68.6 (68.4) million, an increase of 0.2%
- Operating profit stood at EUR 4.3 (3.3) million, an increase of 32.4%
- Undiluted result per share was EUR 0.21 (0.16) per share, an increase of 28.7%
- Orders received totalled EUR 64.6 (68.2) million, a decrease of 5.3%
- Cash flow from operations was EUR 0.5 (3.5) million, a decrease of 86.9%

January–December 2016

- Net sales amounted to EUR 259.5 (247.8) million, an increase of 4.8%
- Operating profit stood at EUR 15.6 (14.3) million, an increase of 9.3%
- Undiluted result per share was EUR 0.65 (0.61) per share, an increase of 6.8%
- Orders received totalled EUR 244.3 (251.3) million, a decrease of 2.8%
- Cash flow from operations was EUR 8.8 (4.9) million, an increase of 78.1%

The Board of Directors proposes a dividend of EUR 0.25 (0.23) per outstanding share.

Outlook for 2017

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

Comments by CEO Jukka Rinnevaara:

'In the fourth quarter, net sales increased and were the highest in Teleste's history, but orders received decreased year-on-year. As a result of this, the order backlog continued to decrease. Net sales were improved by increased services business in the UK. Operating profit increased significantly as a result of the performance of Video and Broadband Solutions, but services business made a loss. Our full-year net sales and operating profit were the highest in Teleste's history.

Orders received by Video and Broadband Solutions in the fourth quarter decreased in Video Security and Information solutions. Net sales reached the level of the comparative period. The biggest increase in deliveries of access network products was seen in Denmark, Belgium and Norway. We estimate that Teleste's position remained strong in access network products. Operating profit increased significantly. Operating profit was improved by the higher year-on-year average gross margin in access network products. In addition, operating profit included other income resulting from reversed provision for earn-out related to a prior acquisition.

In the fourth quarter, net sales of Network Services reached the level of the comparative period, but operating profit was predictably negative. The losses were incurred in Germany, where deliveries of services that included subcontracted excavation work showed a loss. Corrective measures were initiated in the autumn, but they have not yet improved the performance. Business operations and operating profit developed positively in the UK, and we can be satisfied with the performance in Switzerland, Finland and Belgium.'

Year 2016 was particularly important with regard to the renewal of the access network product range. We developed and launched in the market the leading products in our industry that comply with the DOCSIS 3.1 standard. With our competitive products and good customer service, we were able to strengthen our leading position in the European cable operator market. In the video security and passenger information market, we continued to develop competitive solutions and to deliver solutions to important reference customers, such as the police organisation of Paris. Our progress with new customers was promising, but orders were postponed as a result of delayed investment decisions. Operational problems were experienced in services business in Germany in the latter part of the year. In the other markets, services business progressed according to plan.

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

Group Operations in October–December 2016

| Key figures (M€) | 10-12/2016 | 10-12/2015 | Change |
|-------------------------------|------------|------------|--------|
| Orders received | 64.6 | 68.2 | -5.3% |
| Net sales | 68.6 | 68.4 | +0.2% |
| EBIT | 4.3 | 3.3 | +32.4% |
| EBIT % | 6.3% | 4.8% | |
| Profit for the period | 3.7 | 2.9 | 28.7% |
| Other important key figures | | | |
| Earnings per share, EUR | 0.21 | 0.16 | +28.7% |
| Cash flow from operations, M€ | 0.5 | 3.5 | -86.9% |

Fourth-quarter orders received by Teleste Group decreased by 5.3% and stood at EUR 64.6 (68.2) million. Order backlog decreased during the quarter by EUR 3.9 million to EUR 26.9 (42.2) million. Net sales grew by 0.2% to EUR 68.6 (68.4) million, the highest quarterly net sales in Teleste's history.

Expenses for material and production services decreased by 1.2% to EUR 36.8 (37.2) million. Personnel expenses totalled EUR 19.1 (18.1) million, an increase of 5.8%. These expenses were pushed up by the 1.6% increase in the number of personnel and the allocation of incentives. Depreciation, amortisation and other fixed operating expenses decreased by 5.3% to EUR 10.2 (10.8) million. Operating profit increased by 32.4% to EUR 4.3 (3.3) million, representing 6.3% (4.8%) of net sales. Other income included reversed provision of EUR 1.3 million for earn-out related to the Mitron acquisition. Taxes stood at EUR 0.6 (0.2) million. Undiluted result per share was EUR 0.21 (0.16). Cash flow from operations was EUR 0.5 (3.5) million, a decrease of 86.9% resulting from changes in net working capital.

Group Operations in January–December 2016

| Key figures (M€) | 1-12/2016 | 1-12/2015 | Change |
|---------------------------------|-----------|-----------|--------|
| Orders received | 244.3 | 251.3 | -2.8% |
| Net sales | 259.5 | 247.8 | +4.8% |
| EBIT | 15.6 | 14.3 | +9.3% |
| EBIT % | 6.0% | 5.8% | |
| Profit for the financial period | 11.8 | 11.0 | +7.3% |
| Other important key figures | | | |
| Earnings per share, EUR | 0.65 | 0.61 | +6.8% |
| Cash flow from operations, M€ | 8.8 | 4.9 | +78.1% |
| Net gearing, % | 25.0% | 26.3% | |
| Equity ratio, % | 52.5% | 48.3% | |
| Personnel at period-end | 1,511 | 1,506 | +0.3% |

Orders received by the Group decreased by 2.8%, standing at EUR 244.3 (251.3) million. Net sales increased, reaching the highest level in Teleste's history and amounting to EUR 259.5 (247.8) million, an increase of 4.8%.

Expenses for material and production services increased by 6.8% to EUR 137.1 (128.3) million. Personnel expenses totalled EUR 72.6 (70.5) million, an increase of 2.9%. Personnel expenses increased because of the increased number of personnel. Depreciation, amortisation and other fixed operating expenses increased by 0.4% to EUR 37.6 (37.5) million. Operating profit grew by 9.3%, amounting to EUR 15.6 (14.3) million. Taxes for the Group amounted to EUR 3.0 (2.9) million and the effective tax rate was 20.3% (21.0%). Undiluted earnings per share increased by 6.8% to EUR 0.65 (0.61). Cash flow from operations increased by 78.1% to EUR 8.8 (4.9) million. Cash flow was increased by changes in net working capital.

Video and Broadband Solutions October–December 2016

| EUR 1,000 | 10-12/2016 | 10-12/2015 | Change |
|-----------------|------------|------------|--------|
| Orders received | 39,548 | 43,419 | -8.9% |
| Net sales | 43,496 | 43,584 | -0.2% |
| EBIT | 5,309 | 2,666 | +99.1% |
| EBIT, % | 12.2% | 6.1% | |

Orders received decreased year-on-year by 8.9% to EUR 39.5 (43.4) million. The biggest decrease in orders received was seen in video security and information solutions. Order backlog decreased during the quarter by EUR 3.9 million to EUR 26.9 (42.2) million. Net sales decreased by 0.2% to EUR 43.5 (43.6) million. Operating profit increased by 99.1%, standing at EUR 5.3 (2.7) million and representing 12.2% (6.1%) of net sales. Operating profit was improved by the higher year-on-year average gross margin in access network products. In addition, operating profit included other income resulting from reversed provision of EUR 1.3 (0.7) million for earn-out related to a prior acquisition, as no earn-out became payable.

R&D expenses amounted to EUR 3.0 (3.2) million, representing 7.0% (7.4%) of the business area's net sales. Capitalised R&D expenses amounted to EUR 0.9 (0.8) million. Depreciation on capitalised R&D expenses was EUR 0.3 (0.4) million. Product development projects focused on network products complying with the DOCSIS 3.1 standard, distributed access architecture, video security and information solutions and customer-specific projects.

Video and Broadband Solutions in January–December 2016

| EUR 1,000 | 1-12/2016 | 1-12/2015 | Change |
|-----------------|-----------|-----------|--------|
| Orders received | 149,011 | 157,951 | -5.7% |
| Net sales | 164,231 | 154,396 | +6.4% |
| EBIT | 16,482 | 12,781 | +29.0% |
| EBIT % | 10.0% | 8.3% | |

Year-on-year orders received decreased by 5.7%, standing at EUR 149.0 (158.0) million. Orders received decreased in access network products. Net sales grew by 6.4%, amounting to EUR 164.2 (154.4) million. Net sales were increased by access network product deliveries. Operating profit increased by 29.0%, standing at EUR 16.5 (12.8) million and representing 10.0% (8.3%) of net sales. Operating profit was improved by the increased net sales of access network products and the slightly higher year-on-year gross margin. In addition, operating profit included other income resulting from reversed provision of EUR 2.3 (1.1) million for earn-out related to a prior acquisition, as no earn-out became payable.

R&D expenses amounted to EUR 11.0 (11.0) million, representing 6.8% (7.1%) of net sales. Capitalised R&D expenses amounted to EUR 2.5 (1.7) million. Depreciation on capitalised R&D expenses amounted to EUR 1.2 (1.1) million. Product development projects focused on network products complying with the DOCSIS 3.1 standard, distributed access architecture, video security and information solutions and customer-specific projects.

Network Services in October–December 2016

| 1,000 euros | 10-12/2016 | 10-12/2015 | Change |
|-----------------|------------|------------|---------|
| Orders received | 25,066 | 24,809 | +1.0% |
| Net sales | 25,066 | 24,809 | +1.0% |
| EBIT | -975 | 607 | -260.7% |
| EBIT % | -3.9% | 2.4% | |

Year-on-year orders received and net sales increased by 1.0% to EUR 25.1 (24.8) million. The highest increase in net sales was seen in the UK, while in Germany net sales decreased. Operating profit dropped significantly, being EUR 1.0 million negative and representing -3.9% (+2.4%) of net sales. Operating profit in the comparative period was EUR 0.6 million. The losses were incurred in Germany, where the service deliveries that included subcontracted excavation work showed a loss. Corrective measures were initiated in the autumn, but they have not yet improved the performance. Business and operating profit developed favourably in the UK, Switzerland, Finland and Belgium.

Network Services in January–December 2016

| EUR 1,000 | 1-12/2016 | 1-12/2015 | Change |
|-----------------|-----------|-----------|---------|
| Orders received | 95,297 | 93,362 | +2.1% |
| Net sales | 95,297 | 93,362 | +2.1% |
| EBIT | -847 | 1,520 | -155.7% |
| EBIT % | -0.9% | 1.6% | |

Orders received and net sales increased by 2.1% to EUR 95.3 (93.4) million. Net sales increased particularly in the UK and decreased in Germany. Operating profit dropped significantly, being EUR 0.8 million negative and representing -0.9% (+1.6%) of net sales. Operating profit in the comparative period was EUR 1.5 million. The losses were incurred in Germany, resulting from deliveries of services that included subcontracted excavation work and the launching of services in a new geographical area. Operating profit improved year-on-year in the UK, Switzerland, Finland and Belgium.

Personnel and organisation in January–December 2016

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

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

Investments in January–December 2016

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

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

Financing and Capital Structure in January–December 2016

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

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

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

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 organisations in the public sector.

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

Many competitors in the business area come from the USA, which is why the exchange rate of the euro against the US dollar has an effect on our competitiveness. The development of the exchange rates of the US dollar and the Chinese renminbi against the euro influences our product costs. The company hedges against short-term currency exposure by means of forward exchange contracts. The modest economic growth and the challenges faced by the European public sector may slow down the implementation of customers' investment plans. Furthermore, a reduction in consumer purchasing power in Europe may slow down the cable operators' network investments. Increased competition created by the new service providers (OTT) may undermine the cable operators' ability to invest. Consequences of natural phenomena or accidents, such as fire, may reduce the availability of components in the order-delivery chain of electronics industry or suspend our own manufacturing operations. Correct technological choices and their timing are vital to our success. Various technologies are used in our products and solutions, and the intellectual property rights associated with the application of these technologies can be interpreted in different ways by different parties. Such difficulties of interpretation may lead to costly investigations or court proceedings. Regardless of careful planning and quality assurance, complex products may fail in the customer's network and lead to expensive repair obligations.

Net sales of Network Services come mainly from a small number of large European customers. Therefore, a significant change in the demand for our services by any one of them is reflected in the actual deliveries and profitability. Improvement of customer satisfaction and productivity requires efficient service process management, as well as innovative process, product and logistics solutions to ensure the quality and cost-efficiency of services. Smooth functioning of cable networks requires efficient technical management of the networks and suitable equipment solutions in accordance with contractual obligations. This, in turn, requires continuous and goal-directed development of the skills and knowledge of our personnel and subcontractors. In addition, the sufficiency and utilisation rates of our personnel and subcontractor network influence the Company's delivery capacity and profitability. In larger projects with overall responsibility, tender calculation and project management are complex tasks that involve risks. Severe weather conditions may affect our ability to deliver products and services.

Teleste's strategy involves risks and uncertainties: new business opportunities may fail to be identified or successfully exploited. The business areas must take into account market movements, such as consolidations among our customers and competitors. Intensified competition may decrease the prices of products and solutions faster than we are able to reduce our products' manufacturing and delivery costs. Various information systems are critical to the development, manufacturing and supply of products to our customers. The maintenance of information systems and deployment of new systems involve risks that may affect our ability to deliver products and services. Information systems may also be exposed to external threats and we need to protect them. Recruiting and maintaining skilled personnel requires encouragement, development and recruitment efforts, which can fail.

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

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

Group Structure

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

Shares and Changes in Share Capital

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

In the period under review, the lowest company share price was EUR 7.29 (5.32) and the highest was EUR 10.24 (9.88). Closing price on 31 December 2016 stood at EUR 8.86 (9.80). According to Euroclear Finland Ltd, the number of shareholders at the end of the period under review was 5,923 (5,355). Foreign and nominee-registered holdings accounted for 5.2% (5.0%) of the holdings. The value of shares traded on the Nasdaq Helsinki from 1 January to 31 December 2016 was EUR 30.6 (24.6) million. In the period under review, 3.5 (3.3) million Teleste shares were traded on the stock exchange. As of 1 January 2017 Teleste's share is quoted on Nasdaq Helsinki, the Mid-Cap segment.

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

On 31 December 2016, the company's registered share capital stood at EUR 6,966,932.80, divided into 18,985,588 shares.

Valid authorisations at the end of the review period:

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

Decisions by the Annual General Meeting

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

The AGM decided that the Board of Directors shall consist of six members. Pertti Ervi, Jannica Fagerholm, Esa Harju and Kai Telanne were re-elected as members of Teleste Corporation's Board of Directors. Timo Luukkainen and Timo Miettinen were elected as new members. Timo Miettinen was elected Chair of the Board in the organising meeting held immediately after the AGM.

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

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

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

Outlook for 2017

The business objective of Video and Broadband Solutions is to maintain its strong market position in Europe and to strengthen this market position in selected new markets outside Europe. Due to the low order backlog, the weight of net sales and operating profit of Video and Broadband Solutions will be on the second half of the year.

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

Demand for video security solutions for public spaces continues worldwide, but some investment decisions may be delayed by the economic situation. Teleste's video security solution for public space introduced in Paris provides new opportunities for other major cities of the world. The added value in the ecosystem has increasingly shifted to software and intelligence, and price erosion in the traditional video security equipment market continues. New innovations and solutions are also changing the rail industry passenger information solution business. It is necessary to improve the productivity and cost-efficiency of traditional business. The improvement of competitiveness requires R&D investments in new intelligent solutions.

As to Network Services, our business objective is to further develop the operational efficiency and increase the share of those services that provide our customers with higher added value. Our aim is to improve the profitability of the provided services particularly in Germany. We are preparing to reorganise and adapt our services in Germany in accordance with our customers' changing needs. We estimate the demand for all-inclusive network services in our key target markets to continue at least at the level of the previous year.

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

8 February 2017

Teleste Corporation
Board of Directors

Jukka Rinnevaara
President and CEO

Teleste's Annual Report for 2016, which includes the audited financial statements, will be published no later than 17th of March 2017. The Company will issue a statement of its corporate governance as a separate report, which will be published together with the Annual Report, and will be simultaneously available on the Company's web site.

This interim report has been compiled in compliance with IAS 34, as it is accepted within EU, using the recognition and valuation principles with those used in the Annual Report. The data stated in this report is audited.

STATEMENT OF COMPREHENSIVE INCOME, 1000 euros

| | 10-12/2016 | 10-12/2015 | Change % |
|--|-------------------|-------------------|-----------------|
| Net sales | 68,562 | 68,393 | 0.2 % |
| Other operating income | 1,914 | 1,001 | 91.2 % |
| Raw material and consumables used | -36,789 | -37,248 | -1.2 % |
| Employee benefits expense | -19,138 | -18,083 | 5.8 % |
| Depreciations | -1,294 | -1,313 | -1.5 % |
| Other operating expenses | -8,921 | -9,478 | -5.9 % |
| Operating profit | 4,334 | 3,273 | 32.4 % |
| Financial income | 835 | 5 | n/a |
| Financial expenses | -841 | -169 | 398.1 % |
| Profit before taxes | 4,328 | 3,109 | 39.2 % |
| Taxes | -598 | -211 | 183.6 % |
| Profit for the period | 3,729 | 2,898 | 28.7 % |
| Attributable to: | | | |
| Equity holders of the parent | 3,729 | 2,898 | 28.7 % |
| Earnings per share for profit of the year attributable to the equity holders of the parent | | | |
| Basic (expressed in euro per share) | 0.21 | 0.16 | 28.7 % |
| Diluted (expressed in euro per share) | 0.20 | 0.16 | 28.0 % |
| Total comprehensive income for the period, 1000 euros | | | |
| Net profit | 3,729 | 2,898 | 28.7 % |
| Items that may be reclassified to profit or loss: | | | |
| Translation differences | 5 | 273 | -98.2 % |
| Fair value reserve | 71 | 11 | 545.5 % |
| Total comprehensive income for the period | 3,805 | 3,181 | 19.6 % |
| Attributable to: | | | |
| Equity holders of the parent | 3,805 | 3,181 | 19.6 % |

STATEMENT OF COMPREHENSIVE INCOME, 1000 euros

| | 1-12/2016 | 1-12/2015 | Change % |
|-----------------------------------|------------------|------------------|-----------------|
| Net sales | 259,528 | 247,758 | 4.8 % |
| Other operating income | 3,372 | 2,854 | 18.1 % |
| Raw material and consumables used | -137,078 | -128,300 | 6.8 % |
| Employee benefits expense | -72,566 | -70,532 | 2.9 % |
| Depreciation | -4,934 | -4,874 | 1.2 % |
| Other operating expenses | -32,687 | -32,604 | 0.3 % |
| Operating profit | 15,635 | 14,302 | 9.3 % |

| | | | |
|--|--------|--------|---------|
| Financial income | 1,224 | 582 | 110.4 % |
| Financial expenses | -2,038 | -945 | 115.7 % |
| Profit before taxes | 14,821 | 13,939 | 6.3 % |
| Taxes | -3,001 | -2,928 | 2.5 % |
| Profit for the period | 11,820 | 11,011 | 7.3 % |
| Attributable to: | | | |
| Equity holders of the parent | 11,820 | 11,011 | 7.3 % |
| Earnings per share for profit of the year attributable to the equity holders of the parent | | | |
| Basic (expressed in euro per share) | 0.65 | 0.61 | 6.8 % |
| Diluted (expressed in euro per share) | 0.65 | 0.61 | 6.6 % |
| Total comprehensive income for the period (tEUR) | | | |
| Net profit | 11,820 | 11,011 | 7.3 % |
| Items that may be reclassified to profit or loss: | | | |
| Translation differences | -879 | 240 | n/a |
| Fair value reserve | -135 | 31 | n/a |
| Total comprehensive income for the period | 10,806 | 11,282 | -4.2 % |
| Attributable to: | | | |
| Equity holders of the parent | 10,806 | 11,282 | -4.2 % |

STATEMENT OF FINANCIAL POSITION, 1000 euros

Assets 1000 euros

| | 31.12.2016 | 31.12.2015 | Change % |
|---|------------|------------|----------|
| Non-current assets | | | |
| Property, plant and equipment | 11,325 | 11,648 | -2.8 % |
| Goodwill | 37,374 | 37,849 | -1.3 % |
| Other intangible assets | 7,171 | 6,653 | 7.8 % |
| Available-for-sale investments | 693 | 704 | -1.6 % |
| Deferred tax assets | 1,833 | 1,843 | -0.6 % |
| Total | 58,396 | 58,698 | -0.5 % |
| Current assets | | | |
| Inventories | 33,544 | 32,661 | 2.7 % |
| Trade and other receivables | 60,269 | 60,159 | 0.2 % |
| Income tax receivables | 407 | 263 | 54.9 % |
| Cash | 9,496 | 12,677 | -25.1 % |
| Total | 103,716 | 105,759 | -1.9 % |
| Total assets | 162,112 | 164,458 | -1.4 % |
| Equity and liabilities | | | |
| Equity attributable to equity holders of the parent | | | |
| Share capital | 6,967 | 6,967 | 0.0 % |
| Share premium | 1,504 | 1,504 | 0.0 % |
| Translation differences | -978 | -99 | 884.6 % |
| Invested non restricted equity | 3,004 | 3,140 | -4.3 % |
| Retained profits | 73,924 | 66,033 | 11.9 % |
| Total | 84,422 | 77,545 | 8.9 % |

| | | | |
|------------------------------|---------|---------|---------|
| Non-current liabilities | | | |
| Interest-bearing liabilities | 28,036 | 30,723 | -8.7 % |
| Other liabilities | 135 | 2,730 | -95.0 % |
| Deferred tax liabilities | 1,630 | 1,662 | -1.9 % |
| Provisions | 1,081 | 1,026 | 5.4 % |
| Total | 30,882 | 36,141 | -14.6 % |
| Current liabilities | | | |
| Trade and other liabilities | 41,900 | 46,505 | -9.9 % |
| Current tax payable | 1,477 | 1,062 | 39.1 % |
| Provisions | 858 | 889 | -3.5 % |
| Interest-bearing liabilities | 2,573 | 2,315 | 11.1 % |
| Total | 46,808 | 50,771 | -7.8 % |
| Total liabilities | 77,691 | 86,912 | -10.6 % |
| Equity and liabilities total | 162,112 | 164,458 | -1.4 % |

CONSOLIDATED CASH FLOW STATEMENT, 1000 euros

| | 1.1.-31.12. 2016 | 1.1.-31.12. 2015 | Change % |
|---|---------------------|---------------------|----------|
| Cash flows from operating activities | | | |
| Profit for the period | 11,820 | 11,011 | 7.3 % |
| Adjustments for: | | | |
| Non-cash transactions | 2,924 | 3,856 | -24.2 % |
| Interest and other financial expenses | 2,038 | 961 | 112.1 % |
| Interest income and other financial income | -1,224 | -582 | 110.4 % |
| Dividends | -2 | -3 | -33.3 % |
| Taxes | 3,001 | 2,928 | 2.5 % |
| Change in working capital | | | |
| Increase/decrease in trade and other receivables | -110 | -5,096 | -97.8 % |
| Increase/decrease in inventories | -884 | -6,950 | -87.3 % |
| Increase/decrease in trade and other payables | -4,810 | 1,361 | n/a |
| Increase/decrease in provisions | -24 | 197 | n/a |
| Paid interests and other financial expenses | -2,038 | -945 | 115.7 % |
| Received interests and dividends | 1,224 | 582 | 110.4 % |
| Paid taxes | -3,151 | -2,400 | 31.3 % |
| Cash flow from operating activities | 8,765 | 4,920 | 78.1 % |
| Cash flow from investing activities | | | |
| A conditional supplementary contract price for prior subsidiary acquisition | -485 | -1,147 | -57.7 % |
| Purchases of property, plant and equipment (PPE) | -1,410 | -1,258 | 12.1 % |
| Proceeds from sales of PPE | 43 | 17 | 152.9 % |
| Purchases of intangible assets | -2,507 | -1,644 | 52.5 % |
| Acquisition of subsidiary, net of cash acquired | 0 | -6,826 | n/a |
| Net cash used in investing activities | -4,359 | -10,858 | -59.9 % |
| Cash flow from financing activities | | | |
| Proceeds from borrowings | 4,170 | 44,300 | -90.6 % |
| Payments of borrowings | -6,099 | -38,130 | -84.0 % |
| Payment of finance lease liabilities | -611 | -391 | 56.3 % |
| Dividends paid | -4,168 | -3,694 | 12.8 % |
| Proceeds from issuance of ordinary shares | 0 | -1,382 | n/a |

| | | | |
|---------------------------------------|--------|--------|---------|
| Net cash used in financing activities | -6,708 | 703 | n/a |
| Change in cash | | | |
| Cash and cash equivalents 1.1. | 12,677 | 17,672 | -28.3 % |
| Effect of currency changes | -879 | 240 | n/a |
| Cash and cash equivalents 31.12. | 9,496 | 12,677 | -25.1 % |

Consolidated statement of changes in equity, 1000 euros

Attributable to equity holders of the parent (tEUR)

| | | | | | | | | | | |
|----------------|-----------------------------------|-------|-------|------|--------|-------|------|--------|---|--------|
| A | Share capital | | | | | | | | | |
| B | Share premium | | | | | | | | | |
| C | Translation differences | | | | | | | | | |
| D | Retained earnings | | | | | | | | | |
| E | Invested free capital | | | | | | | | | |
| F | Other funds | | | | | | | | | |
| G | Total | | | | | | | | | |
| H | Share of non-controlling interest | | | | | | | | | |
| I | Total equity | | | | | | | | | |
| | | A | B | C | D | E | F | G | H | I |
| Equity | | | | | | | | | | |
| 31.12.2015 | | 6,967 | 1,504 | -99 | 66,034 | 3,140 | 0 | 77,545 | 0 | 77,545 |
| Total | | | | | | | | | | |
| comprehensive | | | | | | | | | | |
| income for the | | | | | | | | | | |
| period | | 0 | 0 | -879 | 11,820 | 0 | -135 | 10,806 | 0 | 10,806 |
| Dividends | | 0 | 0 | 0 | -4,168 | 0 | 0 | -4,168 | 0 | -4,168 |
| Equity-settled | | | | | | | | | | |
| share-based | | | | | | | | | | |
| payments | | | | | 235 | | | 235 | 0 | 235 |
| Equity | | | | | | | | | | |
| 31.12.2016 | | 6,967 | 1,504 | -978 | 73,922 | 3,140 | -135 | 84,422 | 0 | 84,422 |

| | | | | |
|---|--|---|-----------------------------|--------------|
| | | Video and Broadband Solutios | Network Services | Group |
| Business segments 2016, 1000 euros | | | | |
| External sales | | | | |
| Services | | 6,813 | 95,297 | 102,110 |
| Goods | | 157,418 | 0 | 157,418 |
| External sales total | | 164,231 | 95,297 | 259,528 |
| Operating profit of segments | | 16,482 | -847 | 15,635 |
| Financial items | | | | -814 |
| Profit before taxes | | | | 14,821 |

| | | | | |
|---|--|--|-----------------------------|--------------|
| | | Video and Broadband Solutions | Network Services | Group |
| Business segments 2015, 1000 euros | | | | |
| External sales | | | | |
| Services | | 7,860 | 93,362 | 101,222 |
| Goods | | 146,536 | 0 | 146,536 |
| External sales total | | 154,396 | 93,362 | 247,758 |
| Operating profits of the segments | | 12,781 | 1,520 | 14,302 |
| Financial items | | | | -363 |
| Profit before taxes | | | | 13,939 |

| Geographical segments 2016, 1000 euros | Nordic countries | Other Europe | Finland | Others | Group |
|---|-------------------------|---------------------|----------------|---------------|--------------|
| Sales by origin | 22,483 | 202,063 | 17,398 | 17,584 | 259,528 |
| Assets | 97 | 13,679 | 42,570 | 217 | 56,563 |
| Capital expenditure for the period | 37 | 1,312 | 4,122 | 17 | 5,488 |

| Geographical segments 2015, 1000 euros | Nordic countries | Other Europe | Finland | Others | Group |
|---|-------------------------|---------------------|----------------|---------------|--------------|
| Sales by origin | 20,290 | 209,172 | 12,223 | 6,073 | 247,758 |
| Assets | 82 | 13,750 | 42,763 | 260 | 56,855 |
| Capital expenditure for the period | 0 | 1,843 | 14,982 | 123 | 16,948 |

Information per quarter, 1000 euros

| | 10-12/16 | 7-9/16 | 4-6/16 | 1-3/16 | 10-12/15 | 1-12/2016 | 1-12/2015 |
|--------------------------------------|-----------------|---------------|---------------|---------------|-----------------|------------------|------------------|
| Video and Broadband Solutions | | | | | | | |
| Order intake | 39,548 | 30,601 | 42,470 | 36,392 | 43,419 | 149,011 | 157,951 |
| Net sales | 43,496 | 40,273 | 42,769 | 37,693 | 43,584 | 164,231 | 154,396 |
| EBIT | 5,309 | 5,545 | 3,180 | 2,449 | 2,666 | 16,482 | 12,781 |
| EBIT % | 12.2 % | 13.8 % | 7.4 % | 6.5 % | 6.1 % | 10.0 % | 8.3 % |
| Network Services | | | | | | | |
| Order intake | 25,066 | 22,589 | 24,719 | 22,923 | 24,809 | 95,297 | 93,362 |
| Net sales | 25,066 | 22,589 | 24,719 | 22,923 | 24,809 | 95,297 | 93,362 |
| EBIT | -975 | -717 | 691 | 154 | 607 | -847 | 1,520 |
| EBIT % | -3.9 % | -3.2 % | 2.8 % | 0.7 % | 2.4 % | -0.9 % | 1.6 % |
| Total | | | | | | | |
| Order intake | 64,614 | 53,190 | 67,189 | 59,315 | 68,228 | 244,308 | 251,313 |
| Net sales | 68,562 | 62,862 | 67,488 | 60,616 | 68,393 | 259,528 | 247,758 |
| EBIT | 4,334 | 4,828 | 3,871 | 2,603 | 3,273 | 15,635 | 14,302 |
| EBIT % | 6.3 % | 7.7 % | 5.7 % | 4.3 % | 4.8 % | 6.0 % | 5.8 % |

Commitments and contingencies, 1000 euros

| | 2016 | 2015 | Change % |
|---------------------------------------|-------------|-------------|-----------------|
| Rental liabilities | 3,971 | 2,980 | 33.3 % |
| Lease liabilities | 5,173 | 4,878 | 6.0 % |
| Value of underlying forward contracts | 22,550 | 24,599 | -8.3 % |
| Market value of forward contracts | 334 | -27 | n/a |
| Interest rate swap | 10,000 | 10,000 | 0.0 % |
| Market value of interest swap | -135 | 0 | n/a |
| Guarantees | 5,275 | 3,124 | 68.9 % |

The number of employees broken down by following categories 31.12.

| | 2016 | 2015 | Change % |
|------------------------------------|-------------|-------------|-----------------|
| Research and development | 149 | 149 | 0.0 % |
| Production and material management | 1,090 | 1,089 | 0.1 % |
| Sales and marketing | 198 | 197 | 0.5 % |
| Administration | 74 | 71 | 4.2 % |
| Total | 1,511 | 1,506 | 0.3 % |

| KEY FIGURES | IFRS 2016 | IFRS 2015 | IFRS 2014 | IFRS 2013 | IFRS 2012 |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| Profit and loss account, balance sheet | | | | | |
| Net sales, Meur | 259.5 | 247.8 | 197.2 | 192.8 | 193.9 |
| Change % | 4.8 % | 25.7 % | 2.3 % | -0.6 % | 5.6 % |
| Sales outside Finland, % | 93.3 % | 95.1 % | 92.5 % | 93.2 % | 93.4 % |
| Operating profit, Meur | 15.6 | 14.3 | 11.1 | 11.0 | 10.9 |
| % of net sales | 6.0 % | 5.8 % | 5.6 % | 5.7 % | 5.6 % |
| Profit after financial items, Meur | 14.8 | 13.9 | 10.8 | 10.7 | 10.1 |
| % of net sales | 5.7 % | 5.6 % | 5.5 % | 5.5 % | 5.2 % |
| Profit before taxes, Meur | 14.8 | 13.9 | 10.8 | 10.7 | 10.1 |
| % of net sales | 5.7 % | 5.6 % | 5.5 % | 5.5 % | 5.2 % |
| Profit for the financial period, Meur | 11.8 | 11.0 | 8.5 | 8.1 | 6.7 |
| % of net sales | 4.6 % | 4.4 % | 4.3 % | 4.2 % | 3.5 % |
| R&D expenditure, Meur | 11.1 | 11.0 | 10.3 | 10.0 | 11.2 |
| % of net sales | 4.3 % | 4.4 % | 5.2 % | 5.2 % | 5.8 % |
| Gross investments, Meur | 5.5 | 16.9 | 3.7 | 6.3 | 3.3 |
| % of net sales | 2.1 % | 6.8 % | 1.9 % | 3.3 % | 1.7 % |
| Interest bearing liabilities, Meur | 30.6 | 33.0 | 24.4 | 24.3 | 22.1 |
| Shareholder's equity, Meur | 84.4 | 77.5 | 70.7 | 65.6 | 60.6 |
| Total assets, Meur | 162.1 | 164.5 | 132.5 | 124.3 | 120.2 |
| Personnel and orders | | | | | |
| Average personnel | 1,514 | 1,485 | 1,302 | 1,306 | 1,326 |
| Order backlog at year end, Meur | 26.9 | 42.2 | 15.2 | 13.1 | 17.0 |
| Orders received, Meur | 244.3 | 251.3 | 199.3 | 188.9 | 189.7 |
| Key metrics | | | | | |
| Return on equity, % | 14.6 % | 14.9 % | 12.5 % | 12.9 % | 11.6 % |
| Return on capital employed, % | 14.8 % | 14.2 % | 12.2 % | 13.0 % | 13.0 % |
| Equity ratio, % | 52.5 % | 48.3 % | 53.4 % | 52.7 % | 50.5 % |
| Net gearing, % | 25.0 % | 26.3 % | 9.5 % | 13.8 % | 13.7 % |
| Earnings per share, euro | 0.65 | 0.61 | 0.48 | 0.47 | 0.38 |
| Earnings per share fully diluted, euro | 0.65 | 0.61 | 0.48 | 0.46 | 0.38 |
| Shareholders equity per share, euro | 4.66 | 4.28 | 3.94 | 3.73 | 3.48 |
| Teleste share | | | | | |
| Highest price, euro | 10.24 | 9.88 | 5.29 | 4.47 | 4.44 |
| Lowest price, euro | 7.29 | 5.32 | 4.25 | 3.78 | 3.04 |
| Closing price, euro | 8.86 | 9.80 | 5.27 | 4.25 | 4.17 |
| Average price, euro | 8.69 | 7.42 | 4.67 | 4.17 | 3.98 |
| Price per earnings | 13.6 | 16.1 | 11.0 | 9.1 | 10.8 |
| Market capitalization, Meur | 160.6 | 177.6 | 98.7 | 79.6 | 78.1 |
| Stock turnover, Meur | 30.6 | 24.6 | 10.9 | 9.2 | 10.8 |
| Turnover, number in millions | 3.5 | 3.3 | 2.3 | 2.2 | 2.7 |
| Turnover, % of share capital | 18.5 % | 17.5 % | 12.5 % | 11.7 % | 14.4 % |
| Average number of shares | 18985588 | 18985588 | 18918869 | 18743507 | 18728590 |
| Number of shares at the year-end | 18985588 | 18985588 | 18985588 | 18816691 | 18728590 |
| Average number of shares, diluted w/o own shares | 18169002 | 18036667 | 17729215 | 17513799 | 17688527 |
| Number of shares at the year-end, diluted w/o own shares | 18216369 | 18121635 | 17795934 | 17838599 | 17709672 |
| Paid dividend, Meur | 4.5 | 4.2 | 3.6 | 3.3 | 3.0 |
| Dividend per share, euro | 0.25* | 0.23 | 0.20 | 0.19 | 0.17 |
| Dividend per net result, % | 38.3 % | 37.7 % | 41.7 % | 40.8 % | 44.5 % |
| Effective dividend yield, % | 2.8 % | 2.3 % | 3.8 % | 4.5 % | 4.1 % |

* The Board's proposal to the AGM

| | Number of shares | % of shares | % of votes |
|---|------------------|-------------|------------|
| Treasury shares | | | |
| Teleste companies own shares 31.12.2016 | 863,953 | 4.55% | 4.55% |

CALCULATION OF KEY FIGURES

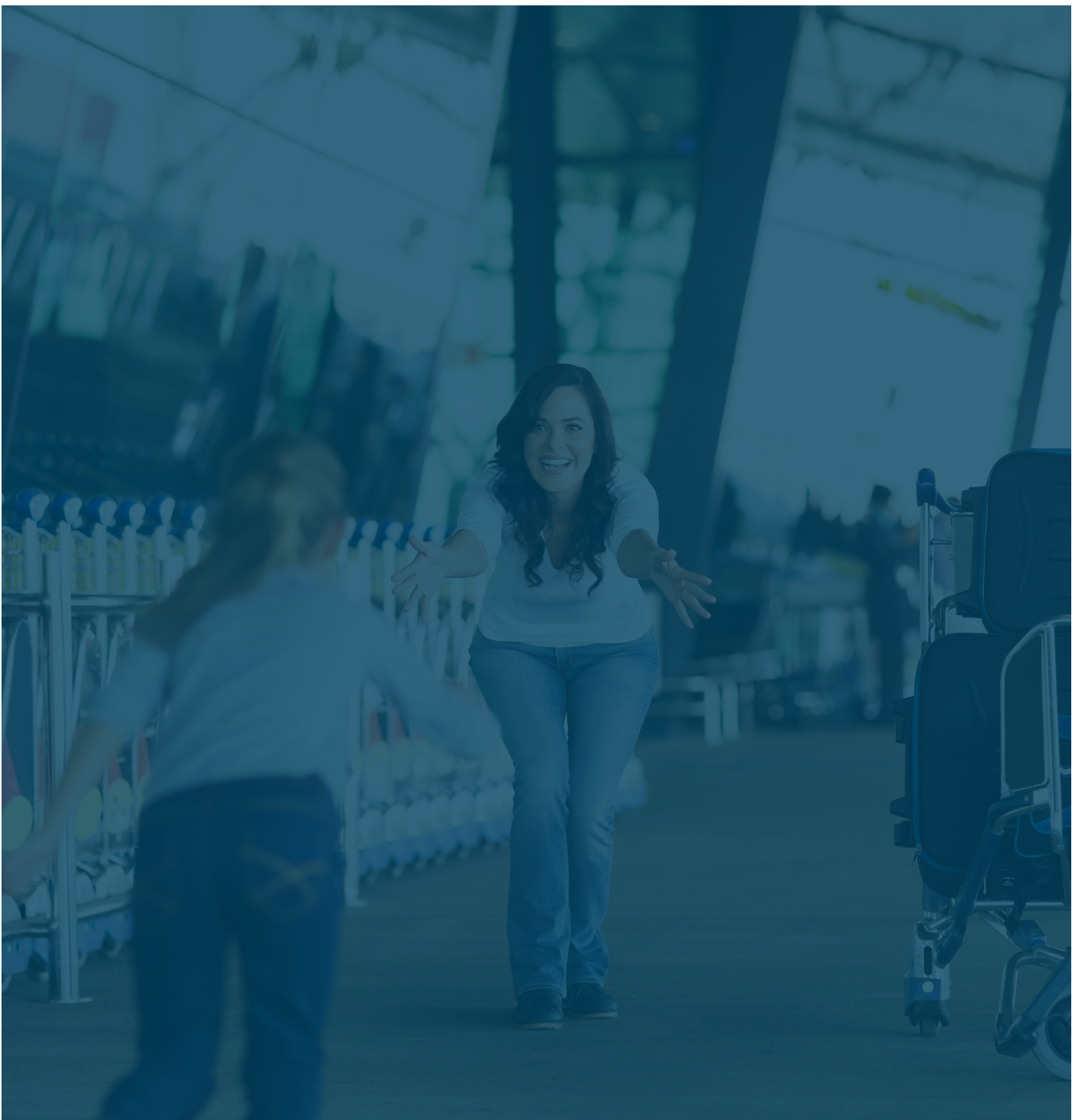
| | |
|------------------------------|---|
| Return on equity: | Profit/loss for the financial period ----- * 100 Shareholders' equity (average) |
| Return on capital employed: | Profit/loss for the period after financial items + financing charges ----- * 100 Total assets - non-interest-bearing liabilities (average) |
| Equity ratio: | Shareholders' equity ----- * 100 Total assets - advances received |
| Gearing: | Interest bearing liabilities - cash in hand and in bank - interest bearing assets ----- * 100 Shareholders' equity |
| Earnings per share: | Profit for the period attributable to equity holder of the parent ----- Weighted average number of ordinary shares outstanding during the period |
| Earnings per share, diluted: | Profit for the period attributable to equity holder of the parent (diluted) ----- Average number of shares - own shares + number of options at the period-end |

| Major shareholders 31.12.2016 | Number of shares | % of share capital |
|--|------------------|--------------------|
| EM Group Oy | 4,409,712 | 23.2 |
| Mandatum Life Insurance Company Limited | 1,679,200 | 8.8 |
| Ilmarinen Mutual Pension Insurance Company | 1,084,475 | 5.7 |
| Teleste Oyj | 863,953 | 4.6 |
| Kaleva Mutual Insurance Company | 824,641 | 4.3 |
| Varma Mutual Pension Insurance Company | 521,150 | 2.7 |
| The State Pension Fund | 500,000 | 2.6 |
| Julius Tallberg Corp. | 281,608 | 1.5 |
| Nieminen Jorma Juhani | 250,000 | 1.3 |
| Danske Invest Finnish Small Cap Fund | 247,800 | 1.3 |

| Shareholders by sector | Number of shareholders | % of Owners | Number of shares | % of shares |
|--------------------------------------|------------------------|-------------|------------------|-------------|
| Households | 5,555 | 93,79 | 4,890,310 | 27.0 |
| Public sector institutions | 4 | 0,07 | 2,115,725 | 11.7 |
| Financial and insurance institutions | 19 | 0,32 | 3,431,114 | 18.9 |
| Corporations | 273 | 4,61 | 7,487,726 | 41.3 |
| Non-profit institutions | 28 | 0,47 | 73,000 | 0.4 |

| | | | | |
|-----------------------------|-------|--------|------------|-------|
| Foreign | 44 | 0,74 | 145,849 | 0.8 |
| Total | 5,923 | 100,00 | 18,143,724 | 100.0 |
| Of which nominee registered | 8 | 0,10 | 841,864 | 4.4 |

| Number of shares | Number of shareholders | % of shareholders | Number of shares | % of shares |
|-----------------------------|-------------------------------|--------------------------|-------------------------|--------------------|
| 1 - 100 | 1,509 | 25,5 | 94,259 | 0,5 |
| 101 - 500 | 2,576 | 43,5 | 698,715 | 3,7 |
| 501 - 1,000 | 852 | 14,4 | 684,533 | 3,6 |
| 1,001 - 5,000 | 799 | 13,5 | 1,738,120 | 9,2 |
| 5,001 - 10,000 | 87 | 1,5 | 625,361 | 3,3 |
| 10,001 - 50,000 | 71 | 1,2 | 1,458,723 | 7,7 |
| 50,001 - 100,000 | 8 | 0,1 | 539,826 | 2,8 |
| 100,001 - 500,000 | 14 | 0,2 | 3,258,559 | 17,2 |
| 500,001 - | 7 | 0,1 | 9,887,492 | 52,1 |
| Total | 5,923 | 100,0 | 18,985,588 | 100,0 |
| of which nominee registered | 8 | 0,1 | 841,864 | 4,4 |



TELESTE CORPORATION

P.O.BOX 323, FI-20101 Turku, Finland
Telestenkatu 1, FI-20660 Littoinen, Finland
Phone: +358 2 2605 611 (switchboard)
investor.relation@teleste.com
Business ID 1102267-8
www.teleste.com



www.facebook.com/telestecorporation
twitter.com/telestecorp
www.linkedin.com/company/teleste
www.slideshare.net/telestecorporation
www.youtube.com/telestecorporation