

Teleste



ANNUAL REPORT 1998

TELESTE

Key financial goals

– average for the five years period*

Sales growth	20 %
Earning per share growth	20 %
Operating profit margin	15 %
Dividend/net profit	20 %

* the growth is expected to accelerate towards the end of the period

DEAR SHAREHOLDERS

In 1998, Teleste achieved the best results of its 45 year long history, creating a firm foundation for its 1999 public listing. At the time of this writing, Teleste is going through its listing process and we expect that all preparations will proceed as planned. We are looking to be listed as of the beginning of April.

In recent years our main target has been to increase company value, and through this to increase the value of the owner's investment. In 1996, when profitability weakened and problems were beginning to pile up, we set two main strategic targets. First of all, we decided to concentrate specifically on profitability enhancement. Secondly, we decided to establish a basis for, and to create platform for future growth. At that time our strategy was, "moving from profitability enhancement towards profitable growth". Especially in the Educational division, we quickly shifted from a phase of heavy restructuring to a more creative mode of development. Since then, all divisions have been able to substantially improve their profitability each year.

During the first part of the decade, Teleste was concentrated in the Nordic countries and the UK. After a good year in 1995, we saw growth possibilities starting to diminish, and it became evident that long-term growth could only be achieved through geographical expansion. The offices in Belgium, Netherlands and Germany, which Teleste Access Systems division established in 1996, were already profitable in

1998. Last year the largest order in Teleste's history, valued at FIM 70 million, was won from Belgium. In 1998, operations were expanded to new market areas. The Educational division opened a sales office in the USA. In autumn 1998 we opened an R&D center in Tampere, Finland. Offices were established in France, Spain and China, thus creating new

Measurements of Teleste's success

Personnel satisfaction

Customer satisfaction

Owner satisfaction



Timo Toivola CEO and President

possibilities for the long-term growth in Teleste Access Systems division. In accordance with a new growth strategy which was created and set into action last year, we have strengthened our resources not only in sales and marketing, but also in our R&D section. We are thus quite positive about being able to attain the challenging growth targets that have been set for the next five years.

In 1998, Teleste's net sales increased by 13 % to FIM 393,0 million. Orders received increased 20 % to FIM 417,1 million. The



Teleste Access Systems is manufacturer and supplier of signal transmission systems for broadband data communication networks.



Teleste Educational is a world leading manufacturer and supplier of language learning systems. The products are marketed under the brand names Tandberg Educational and Auditek.



Operating in the UK market Teleste Home Networks manufactures products for handling TV signals in the home environment.

profitability of the company improved substantially. Operating profit and profit before extraordinary items more than doubled to FIM 55,7 million and FIM 52,5 million accordingly. Return of capital employed was 37,8 % and return on equity 60,3 %. The last tertial was clearly the best regarding growth and profitability development. In all divisions the first tertial has traditionally been the weakest.

Teleste Access Systems division, which specializes in technology for fast broadband networks, increased its net sales to FIM 245,8 million. Despite investments in R&D and new market areas, operating profit improved 65 % to FIM 43,9 million. The economic crisis in the Far East, Russia and the Baltic countries slowed down most of the growth possibilities which had been set for these areas.

Teleste Educational division, which specializes in multimedia environments for language learning, managed to improve its profitability, with its operating profit increasing 65 % to FIM 6,8 million. Faster than estimated change in technology as well as economic crises in Far East and South America made it more difficult to reach growth targets, and the net sales remained at the previous year's level of FIM 70,4 million.

Teleste Home Networks division, which operates solely in the UK, grew to FIM 81,4 million. Profitability improved and operating profit increased 52 % to FIM 4,8 million. Because of a slight recession in the UK, the division remained a bit behind in its growth targets.

Teleste's vision of the future anticipates an explosion of traffic in the networks. The main driver for this will be data transfer, which will amalgamate over time together with telecommunication to form new Internet-based data communications. We believe that in less than five years, over 80 per cent of voice, data and video will be transferred through Internet, and that none of the transfer technologies will attain, or be able to maintain a dominant position. We can, though, expect to see an integration of cable networks, wireless connections and fast twisted pair modems. Also, we expect that the need for bi-directional transfer will increase substantially in the future. As Teleste is one of the leading cable network companies in Europe, and as Teleste has an understanding of this technology which is well-grounded in experience, the future offers us some interesting challenges.

The positive growth development for the whole group is expected to continue in 1999 and profitability level is expected to remain good. Also this year, most of the growth is estimated to happen in the last tertial. We have set for ourselves two main goals for the next five years. First of all the company has to grow at an average rate of 20% during this period. Secondly, the growth has to be profitable, with the operating profit margin target set at an average level of 15 %. The growth is expected to accelerate in the latter part of the period. The effects of new market areas on our business' net sales are normally seen only after two to three years.

Teleste Access Systems will continue its investments to increase turnover. The new products which were launched in 1998, and the sales offices in France, Spain and China all create good possibilities to increase net sales in the coming years. Profitability is forecasted to remain good in 1999 as well.

Teleste Educational will continue to face the reality of the market's shift from traditional language laboratories to new generation multimedia products. This shift, together with the unstable economical situation in Latin America and Far East, makes it somewhat difficult to forecast specific business development in 1999. The introduction of new technology into the market is expected to create in long term possibilities for substantially increasing turnover, and thus for improving profitability.

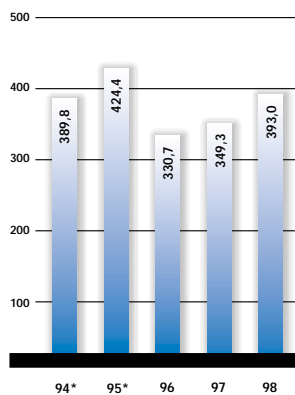
Teleste Home Networks' turnover is forecasted to increase. There are possibilities to improve profitability during the current year. Changes in the ownership and structures of the largest customers as well as the possibility of a slight recession in the UK market might have an effect on the division's development in 1999.

I would like to thank all of Teleste's customers, skilled colleagues and shareholders, as well as our other partners for their confidence and good cooperation, which enabled us to reach the excellent level of profitability we achieved in 1998.

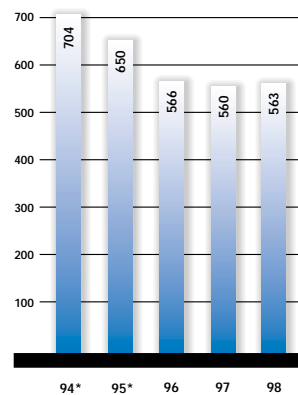
March 1999

Timo Toivola
CEO and President

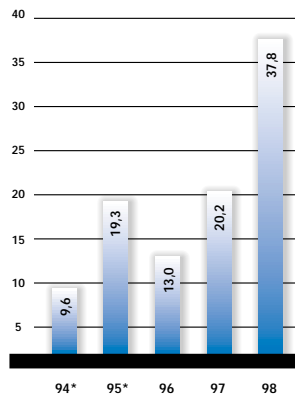
Net sales, MFIM



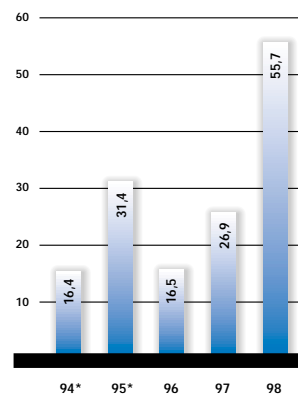
Average personnel



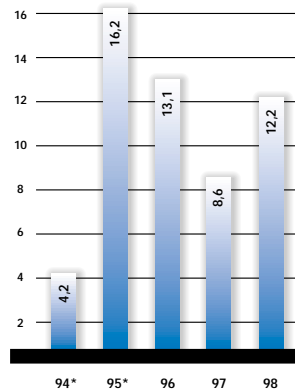
Return on capital employed %



Operating profit, MFIM



Gross Investments, MFIN



*) includes Communications division that was divested at the end of 1995

PERSONNEL

Teleste operates in a specialized field that is of interest to many top professionals and top talents. However, we must acknowledge that we are in competition with some large Finnish and international companies in the data communication business who are also seeking to employ these talented professionals. Our future is based on growth. Today, our most important challenges relate to the questions of how we will be able to keep top talents at Teleste, where we will be able to attract the new talents required by and for growth, and how we can develop our entire personnel.

Teleste's Commitment to Growth program is part of extensive program portfolio which focuses on personnel development and which supports continuous learning. The Commitment to Growth program is a three-year program which begins annually and which can be utilized, for example, as part of an employee's MBA examination.

Teleste has also set a high priority on continued development of management com-

munication skills. Firstly, how to provide managers with the ability to communicate Teleste's vision, targets and strategies with clarity and a clear understanding of the company and their place within it. Secondly, how to be able to recognize and reward good and excellent performance. Teleste's tradition of annual development discussions, which focus on mutual personal feedback, establishes ongoing communications between employees and management, which allows employees to take an active part in development and helps us to develop our processes continuously.

Motivated personnel meeting challenging targets with enthusiasm and commitment: these are the cornerstones of Teleste's profitable future growth. It is important that Teleste's atmosphere continues to encourage people to reach top performance and even to exceed their own expectations. Organizational climate survey of our operations and working environment, which will be conducted again in the autumn, will hopefully bring new development considerations to light.

We understand that rewarding and encouraging personnel positively affects their motivation. We actively monitor all international developments and we are continuously seeking to improve our current rewarding programs.

In 1997, Teleste launched a stock option program to complement each division's result-based bonus systems. This new program includes 42 persons from several countries and various organizational levels. The options are released in three stages, the last of which will be in December 2001.

EXECUTIVE MANAGEMENT

Timo Toivila President and CEO

DIVISION DIRECTORS

Timo Salokoski

Teleste Access Systems

Juha Haltia

Teleste Educational

Martin Smith

Teleste Home Networks

GROUP MANAGEMENT

Antti Salminen

Chief Financial Officer

Hannu U. Ketola

HR Development Manager

PERSONNEL	1997	1998
Research and Development	75	81
Production and Material Management	355	361
Sales and Marketing	91	106
Finance and IT	34	33
Finland	357	370
Other countries	198	211
Access Systems	308	319
Educational	92	94
Home Networks	148	160
Group Management	7	8
Total	555	581



TELESTE ACCESS SYSTEMS

Teleste
CONVERTER
TYPE SAC 322

51
⊕
100



TELESTE ACCESS SYSTEMS designs and supplies
economical and future proof broadband networks
for cable operators around the world.

Teleste Access Systems division is a leading developer of broadband cable network technology, and one of the largest broadband cable network equipment and system suppliers in Europe. In the cable networks it is possible to transmit video, audio and data fast and bi-directionally. Teleste Access Systems is also a leading equipment developer and supplier for signal transmission networks for video surveillance.

Access Systems designs and supplies economical and future proof broadband networks for worldwide markets, while serving the needs of individual cable operators. The target is to improve each operator's own competitiveness and flexibility in programming by utilizing the division's extensive experience in analog technology – experience that spans the course of several decades – as well as experience with the latest know-how in digital technology. The division has established many close customer contacts within a wide sales network.

MARKET OUTLOOK

The availability of new information and TV services is growing very rapidly. This fast growth is the main driver in the development of the market. The number of Internet and digital television users is increasing very fast all over the world.

In 1998, businesses of Teleste Access Systems' customers continued to grow strongly as they built and renewed telecommunication networks more than ever before.

The transition to digital technology is best exemplified by the already ongoing transmission of digital content. About one third of all channels are broadcasting their signal digitally. This means that only the changed data within the TV picture is being transmitted at any particular moment, not the whole picture all the time. The biggest advantages of the digital cable networks are eight

times larger transmission capacity, better picture quality, and the segmentation of services. So far, though, only a small percentage of cable networks are able to transmit digital programs to consumers. The UK, Finland and Sweden are the forerunners in this field, with digital broadcasting to begin in the near future. Within 10 to 15 years all programming will be digital, which means that by that time the majority of the old cable networks will be upgraded to digital and bi-directional.

These days, cable networks are the only economical solution for video related services such as TV programs. In data and phone services,

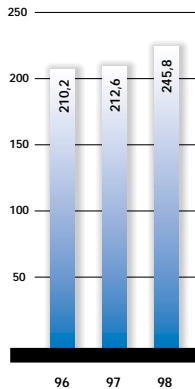
Rein Brijssinck
Country Manager, Belgium



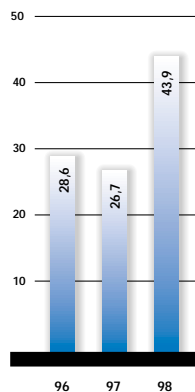
For transferring video, audio and data both fibre optical and coaxial cables are used. Teleste Access Systems masters both technologies and this can be seen in the results.

though, different network solutions are still competing with each other. Large media companies are looking for a dominant position in content development in light of the potential for vast sums of money to be brought in through advertising and sponsoring. The authorities will continue to open the telecommunication market to competition, which will serve to speed up the offering of new services to consumers. The tightening of competition between operators has resulted in numerous acquisitions and alliances, which has in turn led to the merging of networks into larger entities.

Growth in the surveillance network business continues worldwide; an overall insecurity and an increase in crime has created an increased demand for surveillance systems in city centers and industrial estates. Yet the tightening of surveillance costs has increased the need for centralizing



Teleste Access Systems, net sales, MFIM.



Teleste Access Systems, operating profit, MFIM.

traffic monitoring. Long cable networks have been built for the use of transferring video picture. Video surveillance is also beginning to make the transition to digital technology.

During the past year the most important export countries for Teleste Access Systems were the UK, Belgium, Sweden, Denmark and Switzerland. The most important new market areas were France, Spain and China, where networks are already being built, or where building is expected to start in the next few years. Investments have already been made in these countries; e.g. our own sales organizations have been established. In Germany, network investments are expected to start grow substantially in the coming years. In Spain, the building of large new networks is also beginning. The upgrading of the UK networks, which had been quite extensive in earlier years, is beginning to come to an end. Yet even as demand has begun to drop sharply, we are still able to maintain our market share in the UK. In Asia, with the exception of China, the opening of new markets has been postponed due to the area's economic problems.

PRODUCTS

During this past year, the emphasis within R&D has been on headends in the broadband cable networks with particular focus on the reception, retransmission, and conversion of signals as well as on the segmentation of services. As a result of this work, a new competitive headend family is now finalized; the first deliveries have already taken place. We consider this product a direct response to the market's need to decentralize smaller and more economical headends in the cable network in order to effect economical and efficient control of larger and larger networks.

For digital signal transmission in the fiber backbone, a new competitive solution is being developed which supports this convergence of networks. Other areas of emphasis are amplifiers in the distribution network, and fiber optic links for segmenting services.

Teleste's new products and solutions provide the means for bi-directional transmission of both analog and digital signals.

The requirements for network reliability have been continuously tightening, and because of this, the demand for network management systems has increased. The first products of Teleste Access Systems' new network management system were delivered in autumn. Development of a new digital product family for video surveillance was initiated.

IMPORTANT ORDERS

In 1998, Teleste Access Systems got the largest order of its history from Interelectra, a company in Belgium. The order will be worth FIM 70 million spread over the course of four years. Other important orders were received from Telenet (Belgium), Castel (Netherlands), and CityCom Münster (Germany).

YEAR 1998


Teleste Access Systems division turnover reached FIM 245,8 million (1997: FIM 212,7 million) growing by 16 %. The division's operating profit increased 65 % to FIM 43,9 million (1997: FIM 26,7 million). Order intake was FIM 271,1 million (1997: FIM 202,0 million), or 34 % higher than last year.

OUTLOOK FOR 1999

Teleste Access Systems will continue its investments for growth. Turnover is expected to grow further and profitability is forecasted to remain good in 1999.



TELESTE EDUCATIONAL



Movies

The historic 1933 seizure of the Russian parliament building, the dramatic repair of the Hubble Space Telescope, the 1963 civil rights march on Washington, D.C. — Encarta videos offer a unique way to explore history.

Look for Encarta animations to explain complex subjects easily: watch how the honeybee communicates, or learn about the DDT effect. Find all the videos and animations in the Media Gallery.

TELESTE EDUCATIONAL develops tools
that make learning more effective within
modern multi-media
environments.



Teleste Educational division is the world's leading developer and supplier of analog and digital language learning environments.

The division aims to be at the forefront of technical development, by developing tools that make learning more effective within modern multi-media environments. Educational division's several decades-long experience with the learning process is a valuable competitive edge when new innovative products are being developed.

MARKET OUTLOOK

1998 was a year of substantial changes in Teleste Educational division's business. The transition from traditional analog language learning systems to modern digital multi-media systems accelerated substantially, and digital systems gained ground over analog systems. This transition from traditional language laboratories to a more software-oriented provided the incentive to begin developing new distribution channels.

Language learning requires carefully structured exercises. The use of alternative media enriches and makes performance more effective from the teacher's as well as the pupil's point of view. The media facilitated can include audio, video, text or pictures or any combination of these. Teleste Educational's products enable the teacher both to produce learning material easily and to control the pupil's exercises simply and with minimal distractions.

Despite the large investment in computers made by many schools, the utilization of these investments has remained relatively low due to the lack of good quality software content. Teleste Educational's long experience and understanding of pedagogical methods has helped it to establish

a strong position in the field of software products, both for effective learning systems and for content-producing tools.

Success in international trade, as well as in most competitive comparisons in general, has often been associated with the level and quality of a country's education. The amount of importance some countries place on education is evidenced by their increased educational investments despite other problems within the country. One aspect of the beginning tendencies towards global economic integration is the growing emphasis on the importance of language teaching.

Teleste's new software is by nature suitable for a much broader use than just language learning. It can, in principle, be used in virtually any area of study or field of interest or business, even within corporate IT environments.

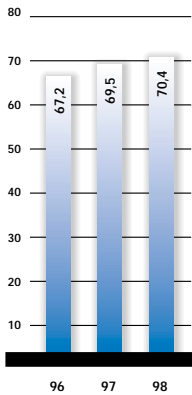
PRODUCTS

Although competition in new software production has increased in the areas of education and learning, Teleste Educational has responded quite successfully to the challenge. This was done by creating a more effective marketing strategy for Divace, Teleste Educational's digital audio and video recorder, and by launching Library Pilot,

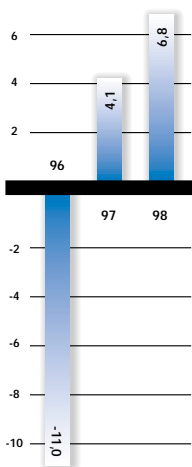
Language learning systems are switching from analog to digital technology and from hardware to software. The focus of Teleste Educational's R&D has been set accordingly.



Fabio Moretti Sales Director



Teleste Educational, net sales, MFIM.



Teleste Educational, operating profit, MFIM.

a database program that is especially targeted for schools. Partner Tools, a software program for producing content to be used for lessons, was also launched.

At the year-end, ICM (Information and Communication Manager) which succeeds the graphical user interface for Auditek Prisma and Tandberg TLC-3000, was launched. ICM fully supports traditional teaching methods while allowing for the possibility of combining digital material when learning material is produced or used.

Software based Divace is the next generation multi-media recorder, which was launched in January 1999. At present the Divace product line comprises of two products, the first one being the traditional system version Divace Duo and the second one being a work station version Divace Solo. The control program for computer classrooms was launched in February 1999 under the name Imperata.

IMPORTANT ORDERS

Adult education, as well as secondary and even elementary education to an increasing degree,

has proven to be fruitful ground for new products.

In 1998 important higher education references for digital multi-media products were, for example, Stockholm University and University of Monterey in California. New customers, who represent an ever-broadening customer base, include Oak Park and River Forest High School in Chicago and Puiching Middle School in Hong Kong.

YEAR 1998

Teleste Educational's turnover was FIM 70,4 million (1997: FIM 69,5 million), an increase of 1 %. Operating profit was 66 % higher than previous year, reaching FIM 6,8 million (1997: FIM 4,1 million). Order intake decreased 5 % to FIM 66,0 million (1997: FIM 69,3 million).

OUTLOOK FOR 1999

Teleste Educational faces the challenges of a continued and continuing transition to new generation products in the market. This makes it more difficult to forecast business development, but in the long term it also creates many new possibilities to increase turnover. Profitability is expected to remain at the current level.

Modern multimedia language laboratory is based on video and audio, which are transferred over a network. Teleste Educational has all the keys for success. We have sound experience about language learning systems.





TELESTE HOME NETWORKS

TELESTE HOME NETWORKS

designs, manufactures and markets

products for distribution of broadcast signals
around the home and within business environments.



Teleste Home Networks is the industry's leading company in the UK.

The division designs, manufactures and markets products for distribution of broadcast signals around the home and within business environments. A broad range of product solutions enables the reception, control and networking of incoming TV or radio signals throughout rooms in a building. Operating in the UK market, Teleste Home Networks markets its products under the country's most well known brand, Labgear.

MARKET OUTLOOK

The division takes products to market via two important routes: directly to professional customers or to domestic end users through major retail chains such as Argos and Dixons. Home Networks has strengthened its position as market leader in the UK market in 1998 by creating the possibility for consumers to access the company directly through its telephone call center. In order to strengthen the brand, the name of the juridical company was changed to Labgear Ltd.

Teleste Home Networks operations were affected by three key business drivers; continued proliferation of broadcast channels, fragmentation of consumer viewing habits and house building. In addition the worlds first digital terrestrial TV services were launched in autumn in the UK.

As part of the division's business strategy, customer development and product introduction

plans were implemented to increase market share. Throughout the year, actions that focused on improving cost effectiveness and speed to the market improved the division's profitability.

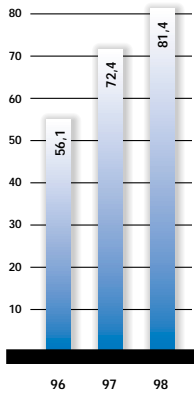
John Summerfield
Sales & Marketing Director



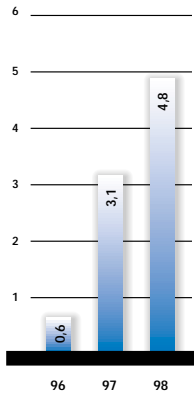
Transition to digital TV broadcasts offers us huge possibilities. People will learn to demand better picture and sound quality also on Teleste Home Networks' market area – in their own homes.

During 1998 no substantial changes took place in the market, although industry experts anticipated that digital broadcasting's arrival would actually depress growth in the professional sector, with end users taking a "wait and see" approach. "Cheap products" manufactured in the Far East brought additional challenges to keep and further develop the market position. In 1998 the division was able to further improve its competitive position.

The rapid change in viewing habits continues to challenge the industry. After the beginning of digital broadcasts, the increasing



Teleste Home Networks, net sales, MFIM.



Teleste Home Networks, operating profit, MFIM.

number of channels available for consumers will increase TV watching, which will create strong business possibilities through various distribution channels.

PRODUCTS

The majority of new product launches were aimed at securing long term relationships with retailer partners. This contrasted sharply with development programs started later in the year targeted at securing an early market lead in the technically more complex digital environment of year 2000 and beyond.

YEAR 1998

Teleste Home Network's turnover was FIM 81,4 million (1997: FIM 72,3 million), 12 %

higher than last year. Operating profit increased 52 % to FIM 4,8 million (1997: FIM 3,1 million). Division's order intake was FIM 83,9 million (1997: FIM 79,9 million), an increase of 5 %.

OUTLOOK FOR 1999

Teleste Home Networks is forecasted to increase its turnover. There are good possibilities to improve profitability during the current year. Changes in the ownership of the largest customers might have an effect on the development in 1999.

Home Networks' product portfolio includes aerials, indoor antennas and amplifiers. Products are marketed under Labgear brand.





BOARD'S REPORT



In the back row from left Olli Anttila, Heikki Keränen, Tero Laaksonen, in the front row Timo Toivila and Matti Suutarinen.

GENERAL

This was the first full year for the Group. Due to this as comparative data a proforma statement of income is presented. The calculation principles of the proforma are explained in the notes.

ADDITIONAL PURCHASE PRICE

Established in 1997, Teleste Corporation (previously Teleste Group Oy) acquired Teleste Oy's entire share capital on August 29, 1997. Teleste Corporation's main owner is Sponsor Fund I Ky, an equity fund representing some of the most significant insurance companies and financial institutions in Finland. In connection with this arrangement, it was agreed that a possible additional purchase price, based on the result of 1997 and 1998, was to be paid to the former owner, Merita Invest Oy (formerly Sponsor Oy). Teleste Group Oy committed itself to this decision when it acquired the shares of Teleste Oy. Teleste Corporation made an additional agreement on August 31, 1998. Based on it, Teleste Corporation paid FIM 30 million. This created goodwill of FIM 30 million, which will be depreciated over the following ten years, beginning September 1, 1998. Teleste Corporation made on December 2, 1998, an agreement, based on which, the latter part of the additional purchase price, FIM 20 million, was agreed to be paid in cash before the year end 1998. This created goodwill of FIM 20 million, which will be depreciated over the following ten years, beginning January 1, 1999.

GENERAL MEETINGS

The Annual General Meeting on April 14, 1998 decided that cumulative losses are covered from reserve fund. Teleste Corporation showed a loss of FIM 24,3 million in its closing of 1997. This loss included a onetime write-off of FIM 23,0 million, which was related to acquisition of Teleste Oy.

The Extraordinary General Meeting on December 7, 1998 decided to change the juridical form of the company to a public company. Also the Meeting decided to the name of the company to Teleste Corporation (previously Teleste Group Oy).

CHANGES IN GROUP STRUCTURE

Group structure was simplified by merging Teleste Oy to Teleste Corporation on December 31, 1998. In the UK the name of Teleste Cablevision Ltd was changed to Labgear Ltd and in Germany Teleste Antenni GmbH to Teleste GmbH.

During the year Teleste Access Systems division established sales offices in Spain, France and China. Teleste Educational division opened a sales office in the USA in the beginning of 1999. On the other hand the French operations of Teleste Educational were outsourced and the activities in the subsidiary Auditek SA. will be closed during the first part of 1999.

TURNOVER AND PROFITABILITY

The Group's turnover was FIM 393,0 million (1997: FIM 349,3 million), which was FIM 43,7 million (13%) higher than the year before. 90 % of the turnover was generated outside Finland.

Order intake increased by FIM 70,4 million (20%) to FIM 417,1 million. Teleste Access Systems made the largest deal in its history in the spring. A Belgian company Interelectra will purchase for its own cableTV network equipment worth of FIM 70 million during four years. The Group's order backlog stood at FIM 55 million at the yearend (1997: FIM 30,2 million).

Operating profit was FIM 55,7 million (1997: FIM 26,9 million), which was FIM 28,8 million (107 %) higher than previous year.

Teleste Access System's turnover reached FIM 245,8 million (1997: FIM 212,7 million) growing 16 %. Division's operating profit increased 65 % to FIM 43,9 million (1997: FIM 26,7 million). Order intake was FIM 271,1 million (1997: FIM 202,0 million), or 34 % higher than last year.

Teleste Educational's turnover was FIM 70,4 million (1997: FIM 69,5 million), an increase of 1 %. Operating profit was 66 % higher than previous year, reaching FIM 6,8 million (1997: FIM 4,1 million). Order intake decreased 5 % to FIM 66,0 million (1997: FIM 69,3 million).

Teleste Home Network's turnover was FIM 81,4 million (1997: FIM 72,3 million), 12 % higher than last year. Operating profit increased 52 % to FIM 4,8 million (1997: FIM 3,1 million). Division's order intake was FIM 83,9 million (1997: FIM 79,9 million), an increase of 5 %.

The Group's net profit was FIM 41,8 million. Return of capital employed stood at 38 % and return on equity at 60 %.

R&D AND INVESTMENTS

R&D costs during the period came to FIM 24,9 million (1997: FIM 24,6 million), which was booked as annual expenses. The expenses include mostly R&D personnel costs, that increased 12 %, and purchases of equipment.

Investments for the year, excluding previously mentioned additional purchase price of FIM 50,8 million, amounted FIM 12,2 million (1997: FIM 8,6 million). Investments were mainly focused on information technology and measuring equipment for production. The single largest investment was a surface mounting machine for Teleste Home Networks. The Group renewed its operative computer systems in all three divisions.

FINANCE

The Group's liquidity remained good during the year. Liquid funds stood at FIM 14,5 million at the year-end. Group's equity ratio was 34 % and gearing 66 %. The interest bearing debt at 31.12 was FIM 67,6 million. The Group had unused credit facilities worth of FIM 30 million.

The Group's hedging policy is to cover all material currency risks at least six months ahead.

PERSONNEL

The Group employed during the year on average 563 persons (1997: 560). At the year-end the Group employed 581 persons. New personnel were hired mainly for R&D and sales functions.

MANAGEMENT AND THE AUDITORS

Mr. Timo Toivola has acted as President and CEO for Teleste Corporation. The Board of Directors consisted of Mr. Matti Suutarinen (Chairman), Mr.

Olli Anttila, Mr. Heikki Keränen (from April 14) and Mr. Mikael Leskinen (until April 14). These persons previously formed the Board of Directors for old Teleste Oy. Extraordinary General Meeting on January 27, 1999, elected Mr. Tero Laaksonen as a Member of the Board.

Auditors used were Mr. Johan Kronberg, (Authorised Public Accountant,) and SVH Price-waterhouseCoopers Oy, (Authorised Public Accountants,) who also carried out the control audit.

YEAR 2000 AND EURO

The Group established during the year a project to ensure; that the possible computer problems generated by year 2000 would not have an impact on Group's business activities. The target is to bring all IT systems in the Group year 2000 compatible before next summer.

The Group will publish its financial information in euros starting from the first interim closing in 1999.

AUTHORISATIONS

The Board of Directors has no authorisation to issue shares, convertible bonds of bonds with warrants.

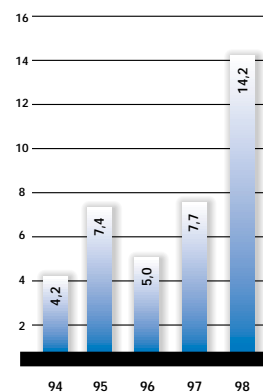
OUTLOOK FOR 1999

The positive growth development for the whole Group is expected to continue during this year and the level of profitability to remain good.

Teleste Access Systems will continue its investments to increase turnover. Turnover is expected grow further and profitability is forecasted to remain good also in year 1999.

Teleste Educational will face in the market place continuing transfer to new generation products, which makes it more difficult to forecast the business development, but in the long term creates possibilities to increase turnover. The profitability is expected to remain on current level.

Teleste Home Networks is forecasted to increase its turnover. There are good possibilities to improve profitability during the current year. Changes in the ownership of the largest customers might have an effect on the development in 1999.



Teleste's operating profit percentage

PROPOSAL FOR DISTRIBUTION OF PROFITS

Distributable funds according to consolidated balance sheet were FIM 39,9 million. The parent company's distributable funds were FIM 27.372.480,16. The Board of Directors propose that a dividend of FIM 7.200.000 (FIM 1,80 per share) will be paid and that the rest FIM 20.172.480,16 will be retained and carried forward.

February 3, 1999

Matti Suutarinen

Heikki Keränen

Olli Anttila

Tero Laaksonen

Timo Toivila
President and CEO

AUDITOR'S REPORT

To the shareholders of Teleste Corporation

We have audited the accounting, the financial statements and the corporate governance of Teleste Corporation (previous Teleste Group Oy) for the period 1.1.–31.12.1998. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the Managing Director. Based on our audit we express an opinion on these financial statements and on corporate governance.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement presentation. The purpose of our audit of corporate governance is to examine that the members of the Board of Directors and the Managing Director have legally complied with the rules of the Companies' Act.

In our opinion the financial statements, which show a profit of FIM 27.372.480,16 for the parent company, have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company's result of operations as well as of the financial position. The financial statements with the consolidated financial statements can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distribution of retained earnings is in compliance with the Companies Act.

Turku, February 5, 1999

Johan Kronberg
Authorised Public Accountant

SVH Pricewaterhouse Coopers Oy
Authorised Public Accountants

Mika Kaarisalo
Authorised Public Accountant

STATEMENT OF INCOME

1.1.-31.12.1998

FIM 1 000		GROUP			PARENT COMPANY	
		1998	1997 27.8.-31.12.	1997 Proforma	1998	1997 27.8.-31.12.
	Note					
NET SALES	1	393 046	132 521	349 326	2 400	400
Change in inventories of finished goods		1 760	3 257	3 674	0	0
Other operating income		1 930	1 538	3 239	0	0
Materials, supplies and services	4	-154 267	-55 992	-144 257	0	0
Wages, salaries and social expenses	3	-107 107	-40 011	-101 627	-2 510	-762
Depreciation and amortisation	6	-15 857	-4 649	-13 454	-12	-1
Other operating expenses	5	-63 772	-29 317	-70 000	-445	-99
OPERATING PROFIT	2	55 733	7 347	26 901	-567	-462
Financial income and expenses	7	-3 256	88	-2 458	29 339	-798
PROFIT AFTER FINANCIAL ITEMS		52 477	7 435	24 443	28 772	-1 260
Extraordinary items	8	5 500	-30 970	-30 970	8 750	-23 000
PROFIT BEFORE TAXES		57 977	-23 535	-6 527	37 522	-24 260
Appropriations		0	0	0	-1	-17
Direct taxes	9	-16 203	-2 523	-6 661	-10 149	0
Minority interest		0	5	4	0	0
PROFIT FOR THE FINANCIAL PERIOD		41 774	-26 053	-13 184	27 372	-24 277

BALANCE SHEET

31.12.1998

FIM 1 000		GROUP			PARENT COMPANY	
		1998	1997	1997 Pro forma	1998	1997
	Note					
FIXED ASSETS						
		1 310	1 013	1 013	45 067	0
Intangible assets	22					
Goodwill	22	51 032	3 999	3 999	0	0
Tangible assets	22	51 338	52 904	52 904	35 439	58
Investments	22	267	276	276	49 333	159 880
Long-term receivables		0	0	0	13 130	0
		103 947	58 192	58 192	142 969	159 938
CURRENT ASSETS						
Inventories	17	43 513	43 933	43 933	26 791	0
Current/short-term receivables	18	74 413	57 902	57 902	48 222	197
Cash in hand and at bank		14 517	75 729	75 729	5 271	177
		132 443	177 564	177 564	80 284	374
TOTAL ASSETS		236 389	235 755	235 755	223 253	160 313
SHAREHOLDERS' EQUITY						
Share capital	11	40 000	50	50	40 000	50
Share issue		0	64 919	64 919	0	64 919
Share premium fund		723	31	31	723	31
Retained earnings		-1 865	778	-12 091	0	0
Profit for the financial period		41 774	-26 053	-13 184	27 372	-24 277
		80 632	39 725	39 725	68 096	40 723
APPROPRIATIONS		0	0	0	12 199	17
OBLIGATORY PROVISIONS		20 088	15 974	15 974	14 690	0
LIABILITIES						
Long-term liabilities	19	48 031	92 385	92 385	48 032	88 420
Short-term liabilities	20	87 638	87 671	87 671	80 237	31 152
		135 669	180 056	180 056	128 269	119 572
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		236 389	235 755	235 755	223 253	160 313

CASH FLOW

1.1.-31.12.1998

FIM 1 000	GROUP			PARENT COMPANY	
	1998	1997	1997 Proforma	1998	1997
CASH FLOW FROM OPERATIONS					
Operating profit	55 733	7 347	26 901	-567	-461
Adjustments to operating profit	19 387	20 623	23 967	12	0
Change in net working capital	-5 734	-44 165	-3 163	74 115	958
Interest income	2 048	1 218	2 304	0	0
Interest expenses	-3 603	-201	-5 236	-3 774	-451
Dividend income	18	0	21	32 384	0
Other financial items	-1 719	-924	453	730	-347
Taxes paid	-16 203	-2 522	-6 661	-10 149	0
Extraordinary items	5 500	0	0	0	0
CASH FLOW FROM OPERATIONS	55 426	-18 624	38 586	92 751	-301
INVESTMENTS					
Shares in Group companies	-50 800	-35 916	-182 880	-50 800	-159 880
Other shares	0	-276	-19	-2	-62
Other tangible assets	-12 163	-57 626	-8 594	0	0
Sale of shares	9	0	0	0	0
Sale of other tangible assets	584	8	839	0	0
CASH FLOW FROM INVESTMENTS	-62 370	-93 810	-190 654	-50 802	-159 942
CASH FLOW BEFORE FINANCING	-6 944	-112 434	-152 068	41 949	-160 243
FINANCING					
Long-term liabilities	-44 386	92 385	76 443	-40 388	88 420
Short-term liabilities	-10 358	30 000	30 000	-10 358	30 000
Group contributions, net	0	0	0	8 750	-23 000
Share issue	0	65 000	65 000	0	65 000
Others	476	778	91	5 141	0
FINANCING TOTAL	-54 268	188 163	171 534	-36 855	160 420
CHANGE IN LIQUID FUNDS	-61 212	75 729	19 466	5 094	177
Liquid funds 1.1.	75 729	0	56 263	177	0
Liquid funds 31.12.	14 517	75 729	75 729	5 271	177

ACCOUNTING PRINCIPLES OF THE GROUP

The Consolidated Financial Statements include the financial statements of the parent company and the following subsidiaries: Tandberg Educational Oy, Tandberg Educational A/S, Tandberg Educational Ltd, Teleste Försäljning Ab, Teleste Norge A/S, Labgear Ltd, Kaavisio Oy, Abbey Walk Properties Ltd, C.A.T.V.Teletransmission i Malmö, Teleste Educational Oy, Teleste UK Ltd, Auditek S/A, Suomen Yhteisantennit Oy, Teleste GmbH. The consolidated pro forma financial statements for 1997 include also Teleste Oy.

The Consolidated Financial Statements are presented in thousands of Finnish markka, except for per share amounts, and are prepared under historical cost convention.

PRINCIPLES OF CONSOLIDATION

The consolidated Financial Statements include the accounts of the Company and those companies in which it holds, directly or indirectly, over 50 per cent of the shares and voting rights.

The companies acquired or established during the financial period have been consolidated from the date of acquisition or formation. The companies disposed during the financial period have been consolidated up to the date of disposal.

All intercompany transactions and balances are eliminated as a part the consolidation process. Minority interests in earnings and shareholder's equity are presented separately in the income statements and balance sheet.

Acquisitions of companies are accounted for by using purchase method. The excess of purchase consideration over the fair value of net assets acquired is carried as goodwill on consolidation and amortised over its estimated useful life, not exceeding 10 years. An exception to this principle was made when the Group's ownership structure changed in 1997. As a result of this, the Group recorded FIM 31 million as acquisition goodwill which was written off in 1997. The company also agreed with the seller, Merita Invest Oy, that an additional consideration would be payable based on the financial performance of the Group in 1997 and 1998. Pursuant to the agreement, the Company agreed to pay an additional

consideration of FIM 30 million in August 1998 and, as final consideration, a further FIM 20 million in December 1998. The resulting goodwill, FIM 30 million and FIM 20 million, is being amortized over a period of 10 years, beginning from 1 September 1998 and 1 January 1999, respectively.

Shareholdings below 20 per cent of the shares and voting rights are carried at cost, and only dividends are included in the consolidated income statement.

FOREIGN CURRENCY TRANSLATION

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. In relation to revenues and operating expenses, these exchange gains and losses are insignificant. Other foreign exchange gains and losses are recorded as financial income and expenses.

The income statements of foreign subsidiaries are translated into Finnish markka at the average exchange rate for the accounting period, and the balance sheets are translated at the closing rate at the balance sheet date.

All the translation differences arising from consolidation of foreign shareholdings are credited or charged directly to retained earnings.

DERIVATIVE FINANCIAL INSTRUMENTS

The business and the operations of the Company give rise to certain exposure to currency related risks. These risks are managed to minimise their impact on the profitability and financial position of the Company.

Unsettled foreign currency balances covered by forward exchange contracts have been valued at contract rates.

Derivative financial instruments are not used for speculative purposes.

FIXED ASSETS AND OTHER LONG-TERM INVESTMENTS

The balance sheet values 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, except for the land, which is not depreciated. Estimated useful lives for various assets are:

Intangible rights	3 years
Goodwill and goodwill on consolidation	10 years
Other long-term expenses	3 years
Buildings	25–33 years
Machinery and equipment	3–7 years

Write-downs on permanent impairment of the assets are recorded when it becomes evident that the carrying amount is not recoverable.

Long-term investments and receivables include financial assets, which are intended to be held for over one year.

LEASED ASSETS

The company does not currently hold any significant assets under capital lease terms. If such contracts are entered in the future, these contracts are accounted for as a purchase of asset and an incurred of a interest bearing liability. Assets held under operating leases are not recognised on the balance sheet, and the lease payments are charged as incurred.

INVENTORIES

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the first-in-first out (FIFO) method. The value of inventory does not include indirect costs.

CASH

Cash and cash equivalents include cash on hand, cash in banks and other highly liquid funds equivalent to cash money.

NET SALES

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

exchange rate differences. Revenue is recognised when services are rendered, or when the goods are delivered to the customer.

RESEARCH AND DEVELOPMENT

All costs relating to research and development activities are expensed as incurred.

PENSION PLANS AND COVERAGE OF PENSION LIABILITIES

The statutory pension liabilities of Finnish subsidiaries in the Group are funded through pension insurance. Subsidiaries outside Finland have various pension schemes in accordance of local requirements and practices. The statutory pension benefits in the United Kingdom for Teleste UK Ltd and Labgear Ltd are mainly funded through the companies own pension fund. The company is responsible for ensuring that its pension liabilities are sufficiently funded at all times. Liability for the statutory pension benefits is fully funded.

TAXES

Income taxes consist of current and deferred taxes. Current taxes in the income statement include tax refunds for the financial year, as well as the adjustments to tax accruals related to previous years.

Deferred tax liabilities or assets result from temporary differences in accounting profit and taxable profit, adjustments or eliminations. Deferred tax liabilities are recognised at their full amounts in the balance sheet, and deferred tax assets are recognised at estimated realisable amounts. The change in deferred tax liabilities and assets during the financial year has been booked to income taxes in the income statement.

The Company's accounting principles regarding deferred tax assets and liabilities changed in 1998, reflecting a corresponding change in Finnish GAAP. A deferred tax asset was booked in the statutory accounts for the first time for the financial year ended 31 December 1998. The deferred tax asset arising from a temporary difference in accounting profit and taxable profit for the years prior to 1998 has been booked as extraordinary income.

NOTES TO THE STATEMENT OF INCOME AND BALANCE SHEET 31.12.1998

FIM 1 000	GROUP			PARENT COMPANY	
	1998	27.8.-31.12.97	Proforma 1997	1998	27.8.-31.12.97
1. NET SALES BY DIVISION AND MARKET AREA					
Net sales by division					
Access Systems	245 769	71 100	212 577	0	0
Educational	70 438	31 200	69 500	0	0
Home Networks	81 416	30 899	72 399	0	0
Inter-company items	-4 577	-678	-5 150	2 400	400
Total	393 046	132 521	349 326	2 400	400
Net sales by market area					
Finland	39 145	16 129	42 000	2 400	400
Scandinavia	59 675	20 315	51 000	0	0
Other EU	218 818	73 542	202 626	0	0
Other Europe	25 819	8 456	23 700	0	0
North America	9 320	3 488	6 865	0	0
Asia	14 483	5 811	13 834	0	0
Others	25 786	4 779	9 301	0	0
Total	393 046	132 521	349 326	2 400	400
2. OPERATING PROFIT BY DIVISION					
Access Systems	43 950	6 450	26 750	0	0
Educational	6 800	5 130	4 130	0	0
Home Networks	4 754	3 700	3 100	0	0
Inter-company items/consolidation*	229	-7 933	-7 079	-567	-463
Total	55 733	7 347	26 901	-567	-463
*v 1997 includes obligatory provision for a ongoing arbitration					
3. PERSONNEL EXPENSES					
Wages and salaries	84 334	31 431	80 480	1 535	250
Other remuneration	2 650	500	1 909	472	316
Pension costs	12 716	5 279	11 859	348	110
Other personnel costs	7 407	2 801	7 379	154	86
Total	107 107	40 011	101 627	2 509	762
of which booked remuneration to					
Board members and Managing Directors	3 335	1 274	2 423	1 300	446
Personnel					
Year-end personnel	581	555	555	298	3
Average personnel	563	560	560	3	3
Personnel by division					
- Access Systems	319	308	308	295	0
- Educational	94	92	92	0	0
- Home Networks	160	148	148	0	0
- Group management	8	7	7	3	3
Total	581	555	555	298	3

The personnel at 31.12.1998 in the parent company includes Teleste Oy's personnel that was transferred in connection of the merger

FIM 1 000	GROUP			PARENT COMPANY	
	1998	27.8.-31.12.97	Proforma 1997	1998	27.8.-31.12.97
4. MATERIALS, SUPPLIES AND SERVICES					
Purchases	143 408	47 696	136 508	0	0
Change in inventories	612	6 285	2 593	0	0
Subtotal	144 020	53 981	139 101	0	0
Purchased services	10 248	2 011	5 156	0	0
Total	154 267	55 992	144 257	0	0
5. OTHER OPERATING EXPENSES					
Rents	6 380	1 955	5 136	63	11
Other expenses	57 392	27 362	64 864	382	89
Total	63 772	29 317	70 000	445	100
6. DEPRECIATION ACCORDING TO PLAN					
Other capitalized expenditure	598	130	390	0	0
Buildings	1 353	460	1 379	0	0
Machinery and equipment	9 987	3 143	8 934	12	1
Goodwill on consolidation	3 919	917	2 751	0	0
Total	15 857	4 649	13 454	12	1
Change in accumulated depreciation difference					
Buildings				0	0
Machinery and equipment				-1	-17
Total				-1	-17
7. FINANCIAL INCOME AND EXPENSES					
Interest income	2 048	1 218	2 304	550	12
Interest expenses	-3 603	-201	-5 236	-3 570	-463
Interest expenses to Group companies				-754	0
Write-down of investments	-17	0	0	0	0
Currency differences	148	-64	1 813	846	-122
Other financial income and expenses	-1 851	-865	-1 360	-117	-225
Dividend income from Group companies				32 384	0
Dividend income	18	0	21	0	0
Total	-3 256	88	-2 458	29 339	-798
8. EXTRAORDINARY INCOME AND EXPENSES					
Expenses					
One time write-off of the goodwill on consolidation relating to formation of current group structure	0	30 970	30 970	0	23 000
Expected merger loss of Teleste Oy				0	23 000
Total	0	30 970	30 970	0	23 000
Income					
Group contribution				8 750	0
Deferred tax assets from previous years	5 500	0	0	0	0
Total	5 500	0	0	8 750	0
9. INCOME TAXES					
Change in deferred taxes	-1 251	76	-2 173	0	0
Direct taxes	17 454	2 446	8 834	10 149	0
Total	16 203	2 522	6 661	10 149	0

FIM 1 000	GROUP			PARENT COMPANY	
	1998	27.8.-31.12.97	Proforma 1997	1998	27.8.-31.12.97
10. OBLIGATORY PROVISIONS					
Provision for guarantees	6 899	4 500	4 500	5 089	0
Provision for an arbitration*	6 462	6 212	6 212	6 462	0
Provision for pension commitments	3 129	2 250	2 250	3 139	0
Provision for restructuring	2 598	3 012	3 012	0	0
Provision for year 2000 and euro	1 000	0	0	0	0
Total	20 088	15 974	15 974	14 690	0
* the process that started in 1997 is not yet finished. Decision is expected to be made during 1999.					
11. CHANGES IN SHAREHOLDERS' EQUITY					
Founding 27.8.1997	50	50	50	50	50
Share issue	39 950	0	0	39 950	0
Share capital 31.12.	40 000	50	50	40 000	50
Share premium fund 27.8.1997	31	31	31	31	31
Share issue	24 969	0	0	24 969	0
Transfer against retained losses	-24 277	0	0	-24 277	0
Share premium fund 31.12.	723	31	31	723	31
Share issue 27.8.1997	64 919	64 919	64 919	64 919	64 919
Raise of the share capital	-39 950	0	0	-39 950	0
Transfer to share premium fund	-24 969	0	0	-24 969	0
Share issue 31.12.	0	64 919	64 919	0	64 919
Retained earnings 27.8.1997	-25 274	0	0	-24 277	0
Transfer from share premium fund	24 277	0	0	24 277	0
Pro forma adjustments	0	0	-12 869	0	0
Translation difference	-868	778	778	0	0
Retained earnings 31.12.	-1 865	778	-12 091	0	0
Profit for the financial period	41 774	-26 053	-13 184	27 372	-24 277
Accumulated profit 31.12.	39 909	-25 275	-25 275	27 372	-24 277
Total	80 632	39 725	39 725	68 095	40 723
Distributable equity	39 909			27 372	
Share issue registered 12.2.1998					
Parent company's share capital consists of one serie and is divided into 4.000.000 shares at 1 vote each					
12. APPROPRIATIONS AND DEFERRED TAX ASSETS AND LIABILITIES IN THE PARENT COMPANY					
Accumulated depreciation in excess of plan				12 199	17
Parent company has not booked deferred tax assets and liabilities					
Deferred tax liability appropriations				3 416	5
Deferred tax assets from timing differences				5 149	357
13. CONTINGENT LIABILITIES AND PLEDGED ASSETS					
Debts covered by mortgages					
Bank loans	67 462	118 390	118 390	67 462	
Mortgages	17 750	17 750	17 750	17 750	
Debts covered by pledged subsidiary shares					
Bank loans					118 390
Book value for pledged shares					159 880

FIM 1 000	GROUP			PARENT COMPANY	
	1998	27.8.-31.12.97	Proforma 1997	1998	27.8.-31.12.97
Leasing liabilities					
For next year	1 697	1 228	1 228	0	0
For later years	1 173	1 112	1 112	0	0
Other liabilities					
Bank guarantees	1 216	1 591	1 591	1 216	0
Rental liabilities	7 300	10 100	10 100	1 620	0
For Group companies					
Bank guarantees				125	0
14. DERIVATIVE INSTRUMENTS					
Foreign exchange forward contracts	62 184	53 625	53 625	62 184	0
Forward contracts are used only for hedging currency exchange risks					
15. TAXABLE VALUES					
Land	2 075	2 075	2 075	2 075	0
Buildings	20 064	21 697	21 697	15 892	0
Shares and participating interest	267	276	276	49 334	134 720
Total	22 406	24 048	24 048	67 301	134 720
If taxable values are not available, book values have been used.					
16. INVESTMENTS					
Long term receivables from Group companies				13 130	0
17. INVENTORIES					
Raw materials and consumables	19 924	20 660	20 660	10 459	0
Work in progress	11 392	10 175	10 175	8 848	0
Finished goods	12 198	13 098	13 098	7 484	0
Total	43 513	43 933	43 933	26 791	0
18. CURRENT ASSETS					
Accounts receivables	64 224	50 439	50 439	36 072	0
Deferred tax assets, of which	2 722	0	0		
Deferred tax assets from consolidation	554	0	0		
Deferred tax assets from timing differences	5 934	0	0		
Deferred tax liability from appropriations	3 766	0	0		
Loan receivables, Group companies				595	0
Other receivables	2 575	2 911	2 911	3	0
Other receivables, Group companies				8 750	0
Accrued income	4 892	4 552	4 552	2 800	197
Total	74 413	57 902	57 902	48 220	197
19. LONG-TERM LIABILITIES					
Bond loans	31	23	23	31	0
Bond loans, Group companies				1	23
Bank loans	48 000	88 390	88 390	48 000	88 397
Deferred tax liability	0	3 972	3 972	0	0
Total	48 031	92 385	92 385	48 032	88 420
Liabilities due after 5 years	21 000			21 000	

FIM 1 000	GROUP			PARENT COMPANY	
	1998	27.8.–31.12.97	Proforma 1997	1998	27.8.–31.12.97
20. CURRENT LIABILITIES					
Bank loans	19 642	30 000	30 000	19 642	30 000
Advance payments received	390	1 031	1 031	210	0
Accounts payables	24 115	15 496	15 496	14 564	0
Accounts payables, Group companies				375	0
Other current liabilities	4 751	10 996	10 996	1 664	102
Other current liabilities, Group companies				21 152	0
Accrued liabilities	38 740	30 148	30 148	22 630	1 050
Total	87 638	87 671	87 671	80 237	31 152

21. SUBSIDIARY SHARES	Holding %	Groups share %	Number of shares	Nominal value/share	Book value	Net result for the year	Group's share of shareholders' equity
Companies owned by the parent company							
Teleste Norge A/S	100	100	2 900	NOK 100	204	-7	3 796
Teleste Försäljning AB	100	100	2 500	SEK 100	165	141	368
Labgear Ltd	100	100	1 456 935	£ 1	38 449	2 044	14 909
Teleste UK Ltd	100	100	999	£ 1	8	-302	-51
Teleste GmbH	100	100	1	DEM 50 000	174	-814	164
Suomen Yhteisantennit Oy	100	100	1 300	FIM 100	61	0	217
Kaavisio Oy	100	100	10	FIM 100	15	230	247
Teleste Educational Oy	100	100	310 000	FIM 10	10 030	649	27 956
Total					49 106	1 940	47 606
Owned by Group companies							
Tandberg Educational A/S	100	100	1 100 000	NOK 10	1 787	2 238	3 077
Tandberg Educational Oy	100	100	1 500	FIM 10	15	0	14
Tandberg Educational Ltd	100	100	211 667	£ 1	4 903	36	2 284
Abbey Walk Properties Ltd	100	100	1 000	£ 1	7	0	0
C.A.T.V. Teletransmission I Malmö AB	100	100	2 500	SEK 100	202	0	188
Auditek S.A.	100	100	2 500	FRF 100	221	-2 511	307
Total					7 135	-238	5 870
Other shares owned by the parent company							
Richard Lewis Comm. Ltd	6	6	120 295	£ 1	0		
Auditek India Systems Ltd	45	5	400 000	IR 10	0		
Audico Systems Oy	12	12	120	FIM 1 000	120		
Others					107		
Total					227		

22. FIXED ASSETS, INTANGIBLE ASSETS AND OTHER NON-CURRENT INVESTMENTS

	Acquisition cost 1.1.	Increases 1.1.–31.12.	Decreases 1.1.–31.12.	Acquisition cost 31.12.	Accumulated depreciation 31.12.	Book value 31.12.
Group						
Intangible assets	380	0	20	360	0	360
Goodwill	35 916	50 800	0	86 716	35 684	51 032
Other capitalized expenditure	410	1 041	0	1 451	728	723
Land and water areas	644	0	0	644	0	644
Buildings	29 849	0	0	29 849	1 814	28 035
Other tangible assets	169	0	136	33	0	33
Machinery and equipment	24 927	11 123	294	35 756	13 129	22 626
Advance payments	361	0	134	227	0	227
Shares	276	0	9	267	0	267
Total	92 932	62 964	593	155 303	51 355	103 947

	Acquisition cost 1.1.	Increases 1.1.–31.12.	Decreases 1.1.–31.12.	Acquisition cost 31.12.	Accumulated depreciation 31.12.	Book value 31.12.
FIM 1 000						
Parent company						
Intangible assets	0	45 067	0	45 067	0	45 067
Other capitalized expenditure	0	628	0	628	0	628
Land and water areas	0	644	0	644	0	644
Buildings	0	23 206	0	23 206	0	23 206
Machinery and equipment	58	10 914	0	10 972	12	10 960
Shares	159 880	100 133	210 680	49 333	0	49 333

23. OWNERSHIP

Distribution of ownership at 31.12.1998 %

Private companies 97,92

Individuals 2,08

Shareholders	Number of shares	Percentage of shares	Percentage of votes
Sponsor Fund 1 Ky	3 910 600	97,77	97,77
Timo Toivila	31 000	0,78	0,78
Mikael von Frenckell	18 500	0,46	0,46
Matti Suutarinen	15 000	0,38	0,38
Olli Anttila	12 500	0,31	0,31
Sponsor Capital Oy	6 200	0,16	0,16
Juuso Kivinen	6 200	0,16	0,16
Total	4 000 000	100	100

Management interest

CEO and Board members 58 500 1,46 1,46

Bond loan with warrants

Number of shares entitled to subscribe with options

	Number of shares	Percentage of shares and votes after executing options
Timo Toivila	60 000	1,39
Other option holders	260 000	6,02
Total	320 000	7,41

Bond loan with warrants consists of 320 bonds, nominal value FIM 100. Each bond has 1 000 option certificates. The nominal value of the shares, that can be subscribed by the options, is FIM 320.000. The subscription price is FIM 16,25 per share as follows :

Amount	Subscription period
50 %	1.12.1999–31.1.2004
25 %	1.12.2000–31.1.2004
25 %	1.12.2001–31.1.2004

KEY FIGURES

	1994	1995	1996	1997	1997	1998
	Proforma	Proforma	Proforma	Proforma	Official	
Business development						
Net sales, MFIM	389,8	424,4	330,7	349,3	133,0	393,0
Change, %	4,0 %	9,0 %	-22,0 %	5,6 %		12,5 %
Sales outside Finland, %	83 %	88 %	90 %	88 %	88 %	90 %
R&D expenditure, MFIM	28,1	33,1	23,7	24,6	9,5	24,9
% of net sales	7,2 %	7,8 %	7,2 %	7,0 %	7,1 %	6,3 %
Gross investments, MFIM	4,2	16,2	13,1	191,5	186,5	63,0
% of net sales	1,1 %	3,8 %	4,0 %	54,8 %	140,2 %	16,0 %
Average personnel	704	650	566	560	560	563
Net sales/capita, 1 000 FIM	554	653	584	624	713	698
Order backlog at year end, MFIM	74,0	52,0	36,8	30,2	30,2	55,0
Profitability						
Operating profit, MFIM	16,4	31,4	16,5	26,9	7,3	55,7
% of net sales	4,2 %	7,4 %	5,0 %	7,7 %	5,5 %	14,2 %
Profit after financial items, MFIM	13,7	28,8	17,3	24,4	7,4	52,5
% of net sales	3,5 %	6,8 %	5,2 %	7,0 %	5,6 %	13,4 %
Profit before taxes, MFIM	7,4	17,8	8,3	-6,5	-23,5	58,0
% of net sales	1,9 %	4,2 %	2,5 %	-1,9 %	-17,8 %	14,8 %
Profit for the financial period, MFIM	5,8	13,1	3,2	-13,2	-26,1	41,8
% of net sales	1,5 %	3,1 %	1,0 %	-3,8 %	-19,7 %	10,6 %
Return on equity, %	7,3 %	14,5 %	8,8 %	20,0 %		60,3 %
Return on capital employed, %	9,6 %	19,3 %	13,0 %	20,2 %		37,8 %
Equity ratio, %	59,4 %	55,5 %	60,7 %	16,9 %	16,9 %	34,2 %
Gearing, %	-5,8 %	-22,5 %	-32,5 %	107,0 %	107,0 %	65,9 %

The proforma figures for 1994–1996 are based on consolidated figures of Teleste Oy. Group contributions are cancelled and the tax effect on this has been taken into account. No corrections are made into the balance sheets.

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