Teleste

TELESTE ANNUAL REPORT 1999

TELESTE – MEASUREMENTS OF SUCCESS

Owner satisfaction

Customer satisfaction

Personnel satisfaction

TELESTE

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DEAR SHAREHOLDERS,

After going public in the spring of 1999, Teleste received more strategically important orders at the end of the year, and the company's order backlog more than doubled from the previous year. This creates a very good starting point for 2000. The Group's 1999 net sales increased slightly from the previous year's and profitability was good.

Teleste's IPO went according to plan and trading of the share began on April 6, 1999 on the main list at the Helsinki Stock Exchange. In this connection, Sponsor Fund I Ky sold Teleste's shares to both foreign and domestic investors. The offering was oversubscribed eight times. In addition, an employee offering was issued to the Group's personnel in Finland. Also the new issue was oversubscribed and about 40 per cent of the personnel took part. During the roadshow that took place prior to the IPO, the feedback received from numerous investor meetings confirmed the confidence in the feasibility of the growth strategy we have chosen.

1999 was a year of investments as we moved from improving profitability to profitable growth. Investments were made in marketing, sales network development and R&D. To expand growth opportunities in the future, Teleste opened new offices in the USA, Singapore and the Baltic countries. Since 1996 Teleste has opened ten new offices around the world.

Teleste's order intake during the last tertial was 29.6 per cent higher than the corresponding period of 1998. The order backlog increased 114.8 per cent for the year and totaled 19.9 million euros at year end. The Group's net sales were 68.1 million euros, an increase of 3.1 per cent. The Group's core business, Teleste Access Systems, reported growth of more than 20 per cent, whereas the net sales of Teleste Educational and Home Networks

**One of our biggest challenges is,
How to keep top talent at Teleste,
How to find the new talent required by growth
And how to constantly develop our entire personnel.**

Timo Toivila
CEO and President

decreased from the previous year. Operating profit was 9.9 million euros, an increase of 5.6 per cent. Teleste Access Systems share of the operating profit was 8.1 million euros. Profit after financial items improved 2.4 per cent from the previous year and was 9.0 million euros. Earnings per share increased to 0.40 euros per share from 0.38 euros the previous year. Return on capital employed was 36.2 per cent. In 1999, as in previous years, the last tertial was the best in all divisions. Access Systems' orders received increased during the last tertial 31.2 per cent, net sales 36.0 per cent and operating profit 51.2 per cent.

Teleste's core division, Access Systems, which specializes in high-speed broadband network technology, developed according to plans and the year-end order backlog reached a record level. The delivery agreements for the coming years with Europe's leading cable operators and the first orders from China's rapidly developing markets are strategically very important. These, together with the establishment of new offices and strong R&D investments, will enable us to maximize the growth potential in the market place. The future for Access Systems as Teleste's core division is clearer than before.

In the Teleste Educational division, which today specializes in new multimedia environments for language learning, it was believed that the growth in demand generated by the breakthrough in the new software technology would already last year help compensate for the declining traditional language laboratory markets. The market for the new technology did not, however, develop as expected and net sales were lower than last year. The significant order received at the end of the year from Bari University creates a good starting point for the future of the evolving software company. The Educational division operates on markets that clearly offer good opportunities for profitable growth. The new possibilities created through global life long learning and internet based distribution encourage the continued investments in the division.

Development of the Teleste Home Networks division, active on the UK market, was a disappointment in 1999. Its net sales decreased and the result was negative. The results of the measures adopted to compensate for the loss of the second largest customerin the first part of the year, will not be visible until the second half of 2000. Home Networks does not belong in our core business strategy nor does it have the potential to reach the Group's objectives of profitable growth in the near future. We have launched negotiations to divest the division.

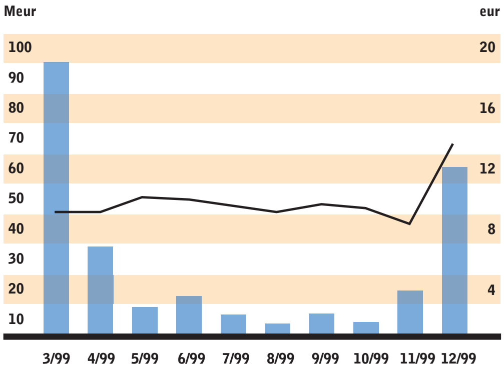
The biggest challenges for Group and division management include finding the right people, keeping them motivated and committed, and further expanding the personnel development programs. The need for developing competence based compensation systems is constantly increasing.

The market drivers for Teleste's divisions are the internet, digitalization and the increasing need for two directional, high-speed broadband network traffic. Our view is that after just a few years already over 80 per cent of voice, data and video will be transmitted over internet networks, of which Teleste's HFC and backbone solutions are an integral part.

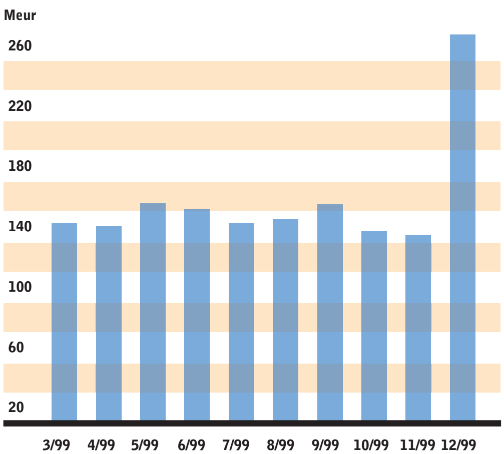
In 1999 Teleste's personnel strength increased by 23 experts. The personnel growth is continuing, and we enter the 21st century well prepared and committed to our tough targets. We believe that the Group's net sales will grow and the profitability will improve significantly in 2000. In the core division, Teleste Access Systems, we target for higher growth than the earlier published 20 per cent growth target for the whole Group. Market growth, new digital products, strong R&D investments and the ten new offices that were established during the last three years create good possibilities for us to surmount the tough challenges.

I would like to thank Teleste's shareholders, skilled colleagues and customers as well as other partners for their confidence and good co-operation that enabled Teleste to reach the excellent level of profitability in 1999.

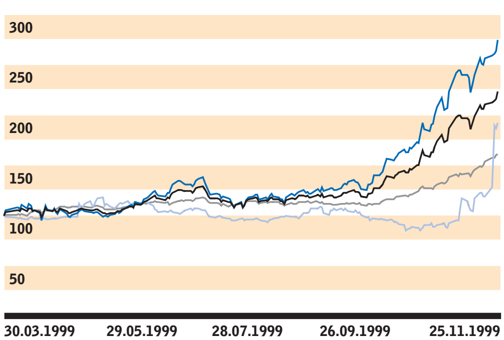
Timo Toivila
CEO and President



Share turnover and average price (line)



Market capitalisation per month 1.3.1999 - 30.12.1999



HEX index and share price index 30.3.1999 - 30.12.1999

- HEX all-share index
- HEX portfolio index
- Telecommunications and electronics
- Share price index

SHARES AND SHAREHOLDERS

The quotation of Teleste's shares began on 30 March on the pre list and on 6 April on the main list of Helsinki Exchanges. In connection to this Sponsor Fund I Ky sold Teleste's shares to both international and domestic investors. The offering was oversubscribed eight times. Sponsor Fund I Ky's ownership decreased from 97.8 per cent to 41.5 per cent. In addition to this there was a share issue for Finnish personnel. The issue was oversubscribed and about 40 per cent of personnel participated.

Sponsor Fund I Ky sold on 28 December 1999 through Helsinki Exchanges 1,200,000 shares to several investors. Due to the sale Sponsor Fund I Ky's ownership decreased to 34.0 per cent.

With warrants of Teleste's 1997 bond loan with warrants 31,500 shares were subscribed during the year. Due to this the share capital increased 12,600 euros. Teleste's registered share capital on 29 December 1999 totaled 6,438,600 euros divided to 16,096,500 shares. The nominal value of the shares is 0.40 euros.

Teleste has 3,661 shareholders. The amount of foreign ownership was 23.3 per cent at the end of the year.

The Board of Directors and CEO own totally 1.3 per cent of the share capital and votes. With warrants they can increase their shareholding to 2.6 per cent of the share. CEO owns 124,500 shares. In addition he is entitled to subscribe 240,000 shares with warrants of Teleste's 1997 bond loan with warrants.

Teleste share price in the IPO was 8.20 euros. During the year the highest price was 19.00 euros and the lowest 7.00 euros. The average price of the year was 9.06 euros. The closing price at the end of the year was 16.20 euros. The market capitalization of the share capital was at that time 261 million euros. During the year 24.8 million shares were traded in Helsinki Exchanges and they present 154 per cent of the share capital.

INFORMATION FOR THE SHAREHOLDERS

Annual General Meeting

Teleste Corporation's Annual General Meeting will be held on Wednesday 12 April 2000, commencing at 3 pm., at Finlandia Hall in Helsinki. Registration begins at 2.30 pm.

Shareholders wishing to attend the Annual General Meeting must be registered in the list of shareholders kept by Finnish Central Securities Depository Ltd no later than 7 April 2000.

Shareholders wishing to attend the Annual General Meeting must inform the company by 4 pm. On 7 April 2000 at the latest by writing to Teleste Corporation, Ms. Tiina Vuorinen, P.O. Box 323, 20101 Turku, Finland, or by telephoning + 358 2 2605 611, or by telefaxing + 358 2 2605 812, or by emailing to investor.relations@teleste.com. Written notice must arrive before the deadline stated above. Any letters of authorization must be submitted at the time the shareholders concerned inform the company of their intention to attend.

Financial publications

13 June 2000	Interim report January - April
10 October 2000	Interim report January - August

Financial information

Financial information is available in Finnish and English and may be ordered from: Teleste Corporation, Investor Relations, P.O. Box 323, 20101 Turku, Finland, or by telephoning + 358 2 2605 611, or by emailing to investor.relations@teleste.com. Financial information and stock exchange releases are published also on Teleste's internet pages, www.teleste.com.

Investor relations

The Vice President responsible for investor relations is Mr. Antti Salminen. All inquiries about the company can be address to him by telephoning + 358 2 2605 611 or by emailing to investor.relations@teleste.com.

LARGEST SHAREHOLDERS PER 10.1.2000

		Number of shares	Percentage of shares
Sponsor Fund I Ky		5 472 200	34,0 %
Varma-Sampo Mutual Pension Insurance Company		726 650	4,5 %
Gyllenberg Funds		547 850	3,4 %
Gyllenberg Momentum Fund	(295 000)		
Gyllenberg Small Firm Fund	(97 850)		
Gyllenberg Optimum Fund	(85 000)		
Gyllenberg Finlandia Fund	(70 000)		
Evli		530 911	3,3 %
Evli Select Fund	(202 200)		
Evli Nordic Small Co Fund	(171 650)		
Evli Mix Fund	(131 450)		
Evli Securities Plc	(25 611)		
Ilmarinen Mutual Pension Insurance Company		506 250	3,1 %
The Local Government Pensions Institute		300 000	1,9 %
Sampo		280 650	1,7 %
Sampo Life Insurance Company	(180 650)		
Sampo Enterprise Insurance Company	(100 000)		
Pohjola		240 000	1,5 %
Pohjola Non-Life Insurance Ltd	(120 000)		
Pohjola Life Assurance Company Ltd	(120 000)		
Leonia		227 650	1,4 %
Leonia Small Cap Fund	(124 450)		
Leonia Technology Fund	(72 000)		
Leonia Euro Fund	(31 200)		
Merita		203 300	1,3 %
Merita Life Insurance	(100 000)		
Merita Optima Fund	(50 000)		
Meritanordbanken Nordic Fund	(33 300)		
Merita Avanti Fund	(20 000)		
Nominee registeration		4 116 145	25,6 %
Others		2 944 894	18,3 %
Total		**16 096 500**	**100,0 %**

CORPORATE GOVERNANCE

The tasks and responsibilities of the Annual General Meeting, the Board of Directors and the CEO are stipulated by the Companies Act. No special tasks have been assigned in addition to the tasks required by the law. The tasks and responsibilities of the Board members conform to the relevant legislation and are not confirmed separately.

The Board of Directors and the Chairman of the are elected by the Annual General Meeting. Board members and the Chairman of the Board are elected for a period of one year from the meeting. The CEO is appointed by the Board of Directors.

The Board of directors convened 12 times during the year.

The remuneration of the members of the Board is decided by the Annual General Meeting. The salary, fees and other benefits received by the CEO are decide by the Board of Directors.

The salaries, fees and benefits paid to the members of the Board and the CEO totaled 192 thousand euros. The company has decided to take in to use from 1 March 2000 the insider regulations approved by Helsinki Exchanges' Board of Directors on 28 October 1999.

HUMAN RESOURCES

Only through profitable growth are we able to meet the expectations of the personnel, customers and shareholders. Teleste's most important success factor has been its highly qualified personnel and their ability to utilize the know-how accumulated in the company through the decades and quickly react to the sometimes nonlinear technology changes in this field. We want to maintain this high quality.

The Group's core division, Teleste Access Systems, saw growth of more than 20 per cent in 1999 and we are aiming for even faster growth in the future. One of the most important success factors for the Access Systems division has been the tailoring of products and projects, and the growth in this environment requires increasing investments for R&D personnel. In 1999 the growth in R&D personnel clearly increased faster than net sales. The growth opportunities for the coming years will be strengthened also by investing in geographical expansion, marketing and sales. In line with our strategy, we are expanding through our new offices. As the volumes decreased in Teleste Educational and Home Networks, also the number of personnel decreased in these divisions.

The role of Teleste's human resources function has clearly transformed into personnel development and into assisting the divisions in recruiting. Managing the growth, expert organization and sales offices increasingly representative of different cultures creates new challenges also in the development of the company's and key personnel's capabilities. The three-year long MBA-level "Commitment to Growth" -program launched in 1998 and expanded annually acts as the framework for a personnel development program to expand growth capabilities.

Our aim is to create for Teleste an atmosphere that encourages individuals and teams to be top performers and to break records. The results of an exhaustive organizational climate survey conducted in autumn 1999 were encouragingly positive, and there is now a focus on development needs that were detected. We believe that we can strengthen the commitment to challenging targets with shared confidence and that reward systems encourage world class performances. Now more than ever, Teleste's customers and competitors are big, global companies. The 1997 option scheme includes almost 50 people from different countries and organizational levels. The majority of Teleste's employees are covered within different bonus programs.

EXECUTIVE MANAGEMENT

Timo Toivila (Born 1950)
CEO and President
Member of the Board 1995 - 1997
Chairman of the Board 1996 - 1997
CEO 1997 (1996) -

DIVISION OFFICERS

Timo Salokoski (Born 1956)
Teleste Access Systems
Joined Teleste 1998

Juha Haltia (Born 1954)
Teleste Educational
Joined Teleste 1997 (1984)

Martin Smith (Born 1963)
Teleste Home Networks
Joined Teleste 1989

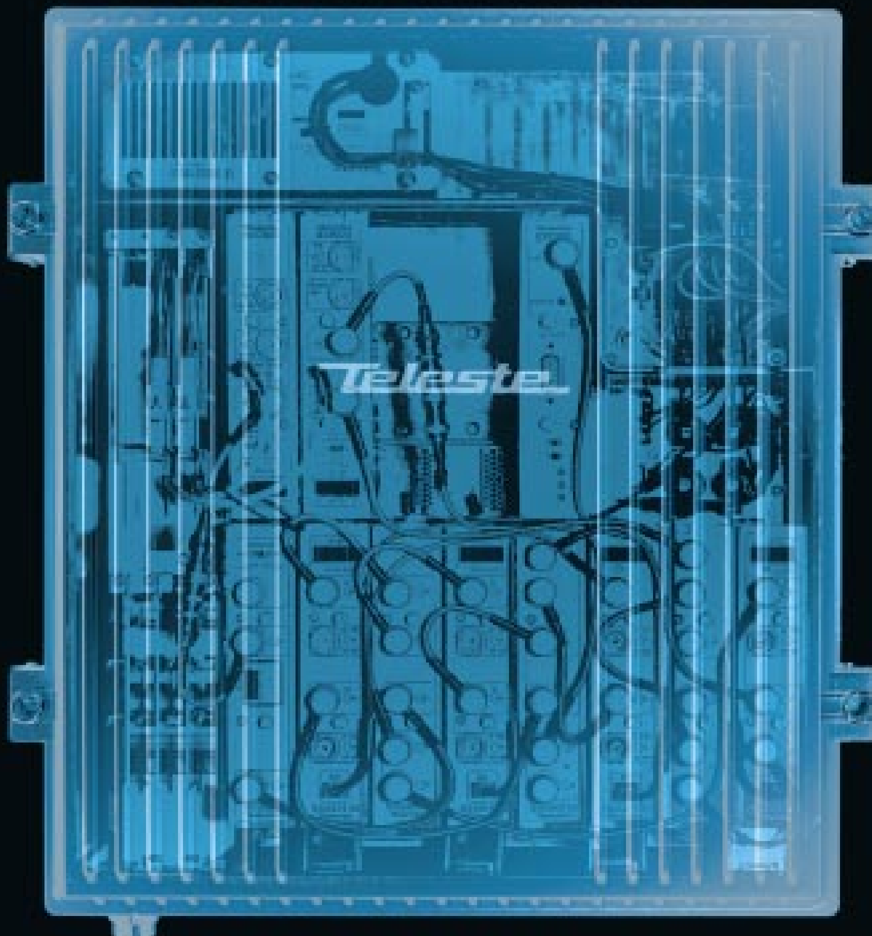
CORPORATE OFFICERS

Antti Salminen (Born 1963)
Finance and Investor Relations
Joined Teleste 1997

Johan Slotte (Born 1959)
Business Development and Legal Affairs
Joined Teleste 1999

Hannu U. Ketola (Born 1957)
HR Development
Joined Teleste 1997

PERSONNEL	1999	1998
Research and Development	105	81
Production and Material Management	357	361
Sales and Marketing	112	106
Finance and IT	30	33
Finland	404	370
Other countries	200	211
Access Systems	373	319
Educational	89	94
Home Networks	133	160
Group Management	9	8
TOTAL	**604**	**581**



TELESTE ACCESS SYSTEMS received several major orders during the year. The most strategically significant order was from Deutsche Telekom. Also during the year the first order for a full digital playout center was received.

The focus in R&D was on products for digital signal transmission in fibre-optic backbone networks.

Petri Sainio
Product Line Manager

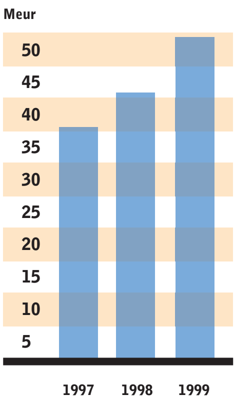
Teleste Access Systems division is one of Europe's leading developers of broadband and digital cable network technology and equipment and system suppliers. With two directional broadband cable networks households can be offered high-speed internet connections, digital television, e-commerce, video-on-demand and telephone services. Teleste Access Systems is also the world's leading developer and supplier of digital and analog video surveillance networks.

Teleste Access Systems continued to create growth possibilities by establishing three new sales offices during the past year. An office was established for cable network sales in the Baltic countries and for surveillance networks in Singapore and the USA. The sales organization was strengthened by 17 people during the year.

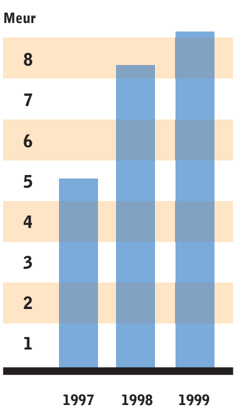
The business of Teleste Access Systems' customers continued its strong growth in 1999. They also built and upgraded their telecommunications networks more than earlier. Acquisitions and cable operator mergers continued. Business development slowed during the past year in Sweden due to the later failed merger between Telia and Telenor and in the UK due to the Comtel merger with NTL. The effect delayed projects in both cases, but now they are back on track and investments continue stronger than earlier.

The offering of new information and television services to consumers is rapidly expanding all over the world. The fast growth of the internet and digital television is the most important driver for Teleste Access Systems´ market in the future. We are already seeing very strong growth in the number of users of these services. This creates the need to build new high-speed, two- directional cable networks and to upgrade the old networks and make them two-directional.

For video related services, such as television programs, video-on-demand, e-commerce services and advertising, a cable network is the only economical solution. On the other hand, different network solutions compete with each other in the more simple internet services and in telephone services. The strength of a cable network is the possibility to phase the network investment according to the launch of new services and increased numbers of subscribers. The possibility to gradually multiply the transfer capacity of services is relatively cheap by segmenting households with intelligent fibre nodes. The share of fibre optic cable in cable networks is clearly on the rise because the new services constantly require additional transfer capacity. The deregulation of telephone services is continuing in



Teleste Access Systems, net sales.



Teleste Access Systems, operating profit.

Europe and that will unleash a new cash flow source for cable operators.

The demand for surveillance networks is climbing throughout the world as traffic jams and traffic pollution, the automation of industry, general insecurity and crime create an increasing need to control traffic, industrial facilities and city centers. For example, the European Union is currently drafting ambitious plans to bring all the main European roads and railways under video surveillance. The transfer to digital technology has begun also in video surveillance. Open fibre-optic backbones are starting to be utilized in addition to closed cable networks also for transmitting video surveillance signals. This way surveillance centers can be centralized to reduce costs.

During the past year the emphasis in R&D has been especially on signal transmission and packaging in digital fibre-optic backbone networks and in products related conditional access. Efforts also focused on new fibre nodes and amplifier product families based on German standards for the German operators. In 1999 a project was initiated for fibre-optic signal transmission products enabling the simultaneous transfer of several wavelengths (DWDM technology). The first orders for these products have been received. A new digital product family substantially lowering the total investment cost of a surveillance network was developed for surveillance network signal transmission.

R&D expenditures in 1999 further increased and were the highest in the history of the division. R&D personnel increased by 27 experts during the year. Know-how was strengthened, especially in programming skills. A new R&D center was established in Turku at the beginning of the year. Also a unit for the increasing needs of R&D was established in Germany at the end of the year.

The most strategically significant order was received from Europe's largest cable operator, Deutsche Telekom, which has over 17 million subscribers. The first delivery was for upgrading one area in the Berlin cable network. A frame agreement was made in the summer with the UK´s largest cable operator, NTL, giving Teleste the status of being one of three approved suppliers. Based on the agreement, orders were received from NTL for fibre nodes based on DWDM technology and amplifiers based on gallium-asenide technology. The second largest cable operator in the Netherlands, Castell, upgrades its networks with Teleste's products. Teleste's first order for a full digital playout center was received from Vaasan Läänin Puhelin Oy. Tele Danmark ordered digital DVX-series headends and the ATMux-series signal transmission products related to them. Teleste Access Systems also successfully penetrated the Chinese market by selling a digital DVX headend for the publicly listed Shida Group. Altogether 26 different orders were received from China during the year. Swedish Telia chose Teleste to be the preferred supplier as they upgrade their cable networks. In terms of the future, an important order was received at the end of the year from Intercomm France, which is part of the UPC Group. In video surveillance, Teleste was chosen as a supplier for the traffic surveillance network projects in Rome, Paris and Illinois (USA). In city center surveillance, Teleste is the key supplier for nationwide surveillance network investments being made in places like the UK and South Africa.

A new digital product family was developed for surveillance network signal transmission.


Teleste

TELESTE EDUCATIONAL **launched during the year several products for multimedia learning environments. Deliveries were made in fifty countries.**

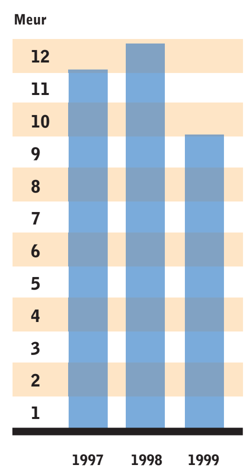
Timo Vasankari
Software Manager

Teleste Educational division is the world's leading developer and supplier of multimedia learning environments. Learning environments using the new technology enable more effective learning, and the division offers software for this world. With new software products, multimedia learning material can be produced, used and controlled, and the learning situation can be facilitated in computer classrooms and in networked environments.

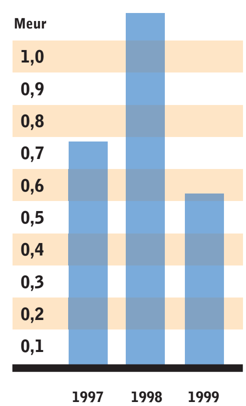
Teleste Educational was in the middle of a market transition in 1999. The demand for traditional language laboratory products decreased faster than before. Moreover, the demand for new software products did not grow as expected. Measured by student positions, the volume was eleven per cent lower than in the previous year. Out of these student positions more than half were software based, and at the end of the year the share increased to two-thirds. The distribution network was revised by educating the old distributors for the new technology and by finding partners that have mastered the new technology. Also the division's own organization was developed for the new situation. The internet became one of the marketing channels used.

Also in the educational sector, the trend is increasingly towards using computers and multimedia as tools. Studies have shown that the new tools clearly improve learning results. Distance and self-learning opportunities are rapidly growing worldwide. This development creates new growth possibilities for Teleste Educational as universities start to compete for these students. The new technology products also make it possible to broaden the customer base into, for example, the corporate world. The market development for these new software based learning environments is mostly driven by those progressive universities and schools that are the first to take these tools into use. It has been strategically very important for Teleste Educational to get these trendsetters as its reference. In R&D the focus was in further developing the product portfolio and in expanding the features. Several new products were introduced during the year. Fully software based versions of the multimedia recorder Divace (DUO, Solo and Player) were launched early in the year. ICM, which is a management software for a language learning system, was introduced in January. Imperata, which is a product for computer classroom management, was launched in the beginning of the year.

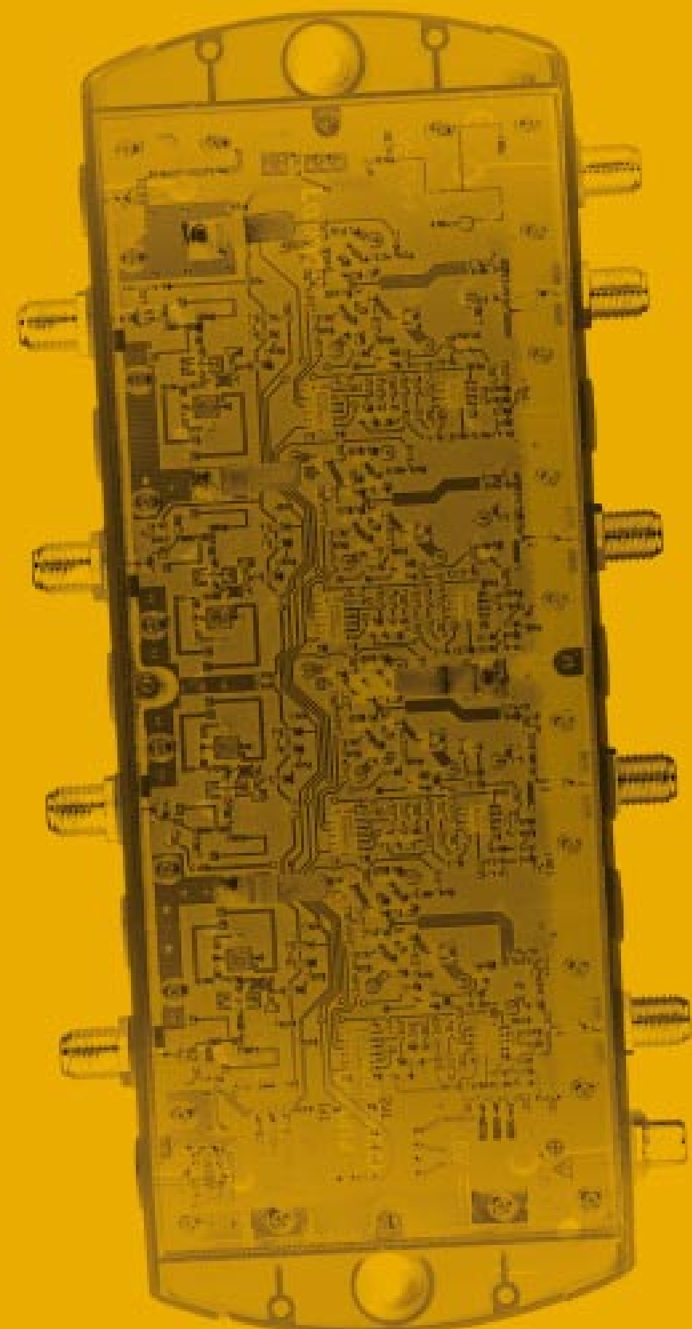
At the end of the year an important order was received from Bari University. Teleste Educational will deliver a multimedia learning environment covering 75,000 Bari students in 2000. Also an important order for 40 computer controlled language learning environments was received from China. The University of Stockholm was supplied with an expansion for their self-access system that was delivered the previous year. Other important customers included, among others, California State University and the University of Virginia in the USA, the University of York in the UK and Karel de Grote Hoge School in Belgium. Deliveries were made in a total of fifty different countries during the year.



Teleste Educational, net sales.



Teleste Educational, operating profit.



TELESTE HOME NETWORKS focused in R&D on applications required by digital TV broadcasts, as more and more consumers are believed to transfer to the digital era.

Mick Perkins
Senior Design Engineer

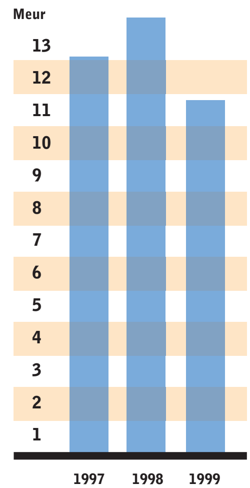
Teleste Home Networks is the industry's leading company in the UK. The division develops, markets and manufactures products for homes and businesses. The broad product range enables the reception, control and networking of TV and radio signals throughout rooms in a building. Operating in the UK, Home Networks markets its products under the country's most well known brand, Labgear, through either electronics retail chains or installation companies.

During the past year Teleste Home Networks encountered difficulties in the market place. The increased offering of products manufactured in the Far East created strong price competition in the markets. One of the division's most important distributors, Dixons, dropped most of Teleste Home Networks´ products from its offering and a replacement distribution channel could not be found.

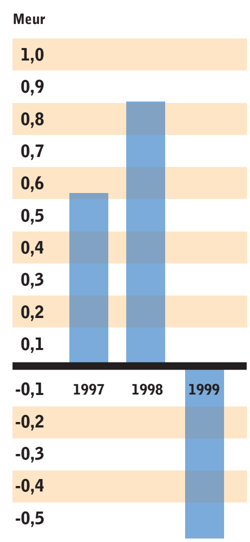
In order to secure the price competitiveness, an agreement was made with the Taiwanese Jebsee Electronics Co., Ltd at the end of the year. According to the agreement, the production of several products will be transferred to China and at the same time the product portfolio under the Labgear brand will see a substantial expansion. During the latter part of the year co-operation negotiations have been ongoing with several new distributor chains.

The demand for Teleste Home Networks´ products in the UK market decreased from previous years. The structural change in the retail market continued and the demand shifted somewhat from the retail shops in the city centers, which have been the division's strong area, to shops located outside the cities, which serve do-it-yourself customers. Digital TV broadcasts are reaching more and more consumers. It is believed that this will increase the demand in the market place in the coming years as most consumers transfer to the digital era.

In R&D the focus was mainly on changes and innovations required by digital TV broadcasts. New product launches included a digital outdoor aerial, digital house amplifier and Handylink 4 for television equipment remote control from another room.



Teleste Home Networks, net sales.



Teleste Home Networks, operating profit.

BOARD'S REPORT

Turnover and Profitability

The group's orders received were during the last tertial 29.6 per cent higher than the year before. Teleste Access Systems and Teleste Educational divisions enjoyed good order intake during the end of the year. The year-end order backlog increased 114.8 per cent from the beginning of the year to record level 19.9 million euros (1998 : 9.3 million euros). The group's full year net sales increased 3.1 per cent to 68.1 million euros (1998 : 66.1 million euros).

Group's operating profit grew 5.6 per cent to 9.9 million euros (1998 : 9.4 million euros). Operating profit was especially burdened with 404 thousand euros higher goodwill depreciation compared than previous year and with strong investments into R&D in Teleste Access Systems. Operating profit includes 1.0 million euros reduction in obligatory reserves related to an arbitration decision received in June.

The group's result after financial items increased 2.4 per cent to 9.0 million euros (1998 : 8.8 million euros). Financial expenses included one-time costs in relation to the IPO worth of 147 thousand euros. Earnings per share were 0.40 euros (1998 : 0.38 euros).

Teleste Access Systems

Teleste Access Systems proceeded as planned. Orders received increased 17.7 per cent to 53.7 million euros (1998 : 45.6 million euros). During the last tertial the level of orders received was 31.2 per cent higher than the year before. Net sales increased 20.4 per cent to 49.8 million euros (1998 : 41.3 million euros). Net sales of the last tertial grew 36.0 per cent to 22.1 million euros (1998 : 16.3 million euros). Operating profit increased 10.2 per cent to 8.1 million euros (1998 : 7.4 million euros). Operating profit was burdened especially strong investments in R&D, marketing and sales in order to secure the future growth. Teleste Access Systems opened during the year new offices in the Baltic countries, the USA and Singapore. Strategically important sales and frame agreements, that will bring orders for this and coming years, were made in several markets.

Teleste Educational

Teleste Educational division suffered from technology change in the markets. Due to the orders received during the last tertial the orders received increased 18.8 per cent to 13.1 million euros (1998 : 11.0 million euros). Net sales decreased 24.4 per cent to 9.0 million euros (1998 : 11.8 million euros). Operating profit decreased 54.5 per cent to 0.5 million euros (1998 : 1.1 million euros).

Teleste Home Networks

Teleste Home Network division lost the second largest customer at the first part of the year and it could not be compensated. Orders received decreased 15.1 per cent to 12.0 million euros (1998 : 14.1 million euros). Net sales decreased 19.6 per cent to 11.0 million euros (1998 : 13.7 million euros). Operating loss was 0.5 million euros (1998 : operating profit 0.8 million euros). Teleste Home Networks division is not a core division and it would require substantial investments during the next few years in order to reach group's growth and profitability targets. In line with group's strategy a decision has been made to divest the division.

R&D and Investments

R&D costs during the year came to 6.6 million euros (1998: 4.2 million euros), which was booked as annual expenses. The growth of the R&D expenses was mainly due to the increase in R&D personnel and measuring equipment purchases in Teleste Access Systems. During the year R&D personnel increased with 25 persons to 105 experts.

Investments for the year amounted 2.0 million euros (1998 : 2.1 million euros). The largest single investment during the year was Teleste Access Systems' new R&D center in Turku. Other investments were mainly focused on information technology.

Finance

The group's liquidity remained good during the year. Liquid funds stood at 3.2 million euros at the year-end. Group's equity ratio was 45.4 % (1998 : 34.2 %) and gearing 38.1 % (1998 : 65.9 %). The interest bearing debt at

31.12 was 10.7 million euros and the group had unused credit facilities worth of 8.0 million euros.

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 584 persons (1998 : 563). At the year-end the group employed 604 persons. New personnel were hired mainly for R&D and sales and marketing functions at Teleste Access Systems.

Management and the Auditors

The Annual General Meeting re-elected as Chairman of the Board Mr. Matti Suutarinen and as members Mr. Olli Anttila, Mr. Heikki Keränen and Mr. Tero Laaksonen. As auditors continued Mr. Johan Kronberg (Authorised Public Accountant) and SVH PricewaterhouseCoopers Oy. Mr. Timo Toivila acted as President and CEO for the company.

General Meetings

The Extraordinary General Meeting on 27 January 1999 elected Mr. Tero Laaksonen as the member of the Board.

The Annual General Meeting on 9 February 1999 decided to convert the company's share capital into euros and split the share into four. As a result the share capital was 6.400.000 euros consisting of 16.000.000 shares with a nominal value of 0.40 euros.

The Annual General Meeting decided to register the company's share in the book-entry system.

The annual general meeting confirmed the dividend to be FIM 1.80 per share (FIM 0.45 after the split). The dividend was paid on 24 February 1999.

Public Listing

The quotation of Teleste's shares began on 30 March on the pre list and on 6 April on the main list of Helsinki Exchanges. In connection to this Sponsor Fund I Ky sold Teleste's shares to both international and domestic investors. The offering was oversubscribed eight times. Sponsor Fund I Ky's ownership decreased in connection of the IPO from 97.8 per cent to 41.5 per cent. In addition to this there was a share issue for Finnish personnel. The issue was oversubscribed and about 40 per cent of personnel participated.

Changes in Share Capital

In connection of the IPO there was a share issue for Teleste's Finnish personnel. As a consequence Teleste share capital increased with 26.000 euros and 65.000 shares. The share of the new shares was 0.4 per cent of the total share capital

With warrants of Teleste's 1997 bond loan with warrants 31.500 shares were subscribed and after that Teleste's registered share capital was 6.438.600 euros divided to 16.096.500 shares.

Authorisations

The Annual General Meeting on 9 February 1999 decided to authorise the Board of Directors to decide during one year to increase the share capital, deviating from the pre-emptive subscription rights of shareholders with a maximum of 3.200.000 shares. The Board of Directors has no authorisation to decide to buy own shares.

Outlook for 2000

Teleste net sales is expected to grow and the result to improve substantially in year 2000.

Teleste will continue to invest strongly in group's core division Teleste Access Systems in order to be able to utilise the market growth. The division is expected to continue on growth path and the net sales are estimated to grow faster than last year. Profitability is forecasted to remain good.

Teleste Educational is in good position with its software products as the markets start to demand products based on the new technology. Very strong order backlog creates a basis for increased net sales and for improved profitability.

In line with the strategy the target is to find a new owner for Teleste Home Networks during the year.

Chairman **Matti Suutarinen**
Born 1954, MSc (Econ.)
Member 1991 -
Chairman 1991 - 1996 and 1997 -
Sponsor Capital Oy, CEO 1997 -
Sponsor Oy, CEO 1991 - 1997
Owns 60.160 Teleste shares

Olli Anttila
Born 1950, BSc (Econ.), MBA
Member 1990 - 1992 and 1997 -
Sponsor Capital Oy, Director 1997 -
Commercial Councellor in London 1993 - 1997
Lännen Engineering Oy, CEO 1992 - 1993
Owns 25.160 Teleste shares

Heikki Keränen
Born 1945, MSc (Eng.), MBA
Member 1995 -
Heikki Keränen & Co. Oy, CEO 1985 -
Nokia, senior executive positions 1973- 1985
Does not own Teleste shares

Tero Laaksonen
Born 1946, MSc
Member 1999 -
Telia Finland Oy, CEO 1998 -
Nokia Telecommunications Oy, Senior Vice President 1995 - 1998
ICL Plc, Financial Services Unit, President, 1993 -1994
Owns 2.000 Teleste shares

Timo Toivila
Born 1950, MSc (Eng.)
Member of the Board 1995 - 1997
Chairman of the Board 1996 - 1997
CEO 1997 (1996) -
Owns 240.000 Teleste shares and options for 240.000 shares

Stated shareholding also include shares held by under-age children and by organizations or foundations of which the person has control.

PROPOSAL FOR DISTRIBUTION OF PROFITS

Distributable funds according to consolidated balance sheet were 12.1 million euros. The parent company's distributable funds were 9,861,910.54 euros. The Board of Directors propose that a dividend of 1,609,650 euros (0.10 euros per share) will be paid and that the rest 8,252,260.54 euros will be retained and carried forward.

10th February 2000

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 for the period 1.1 - 31.12.1999. 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 6,469,142.95 euros 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 distributable assets is in compliance with the Companies Act.

Turku, March 1st , 2000

SVH Pricewaterhouse Coopers Oy
Authorised Public Accountants

Johan Kronberg
Authorised Public Accountant

Mika Kaarisalo
Authorised Public Accountant

STATEMENT OF INCOME

1.1. - 31.12.1999

1000 euros		GROUP		PARENT COMPANY	
	Note	1999	1998	1999	1998
NET SALES	1	**68 131**	**66 106**	**44 428**	**404**
Change in inventories of finished goods		484	296	80	0
Other operating income	2	2 040	325	1 784	0
Materials, supplies and services	5	-25 422	-25 946	-16 583	0
Wages, salaries and social expenses	4	-19 799	-18 014	-11 504	-422
Depreciation and amortisation	6	-3 312	-2 667	-2 057	-2
Other operating expenses		-12 225	-10 726	-8 147	-75
OPERATING PROFIT	3	**9 897**	**9 374**	**8 001**	**-95**
Financial income and expenses	7	-860	-548	-174	4 934
PROFIT AFTER FINANCIAL ITEMS		**9 037**	**8 826**	**7 828**	**4 839**
Extraordinary items	8	0	925	600	1 472
PROFIT BEFORE TAXES		**9 037**	**9 751**	**8 428**	**6 311**
Appropiations	12	0	0	75	0
Direct taxes	9	-2 604	-2 725	-2 034	-1 707
PROFIT FOR THE FINANCIAL PERIOD		**6 432**	**7 026**	**6 469**	**4 604**

BALANCE SHEET

31.12.1999

1000 euros		GROUP		PARENT COMPANY	
	Note	1999	1998	1999	1998
FIXED ASSETS					
Intangible assets	22	57	220	6 827	7 580
Goodwill	22	7 520	8 583	0	0
Tangible assets	22	7 952	8 634	5 882	5 960
Investments	22	45	45	8 684	8 297
Long-term receivables	15	0	0	1 853	2 208
		15 574	**17 483**	**23 246**	**24 046**
CURRENT ASSETS					
Inventories	16	8 521	7 318	4 982	4 506
Current/ short-term receivables	17	16 143	12 515	12 245	8 110
Cash in hand and at bank		3 235	2 442	1 319	886
		27 898	**22 275**	**18 545**	**13 503**
TOTAL ASSETS		**43 472**	**39 758**	**41 791**	**37 548**
SHAREHOLDERS' EQUITY					
Share capital	11	6 439	6 728	6 439	6 728
Share premium fund	11	912	122	912	122
Retained earnings	11	5 678	-314	3 393	0
Profit for the financial period	11	6 432	7 026	6 469	4 604
		19 461	**13 561**	**17 212**	**11 453**
APPROPRIATIONS	12	**0**	**0**	**1 976**	**2 052**
OBLIGATORY PROVISIONS	10	**1 428**	**3 379**	**925**	**2 471**
LIABILITIES					
Long-term liabilities	18	7 069	8 078	7 069	8 078
Short-term liabilities	19	15 514	14 740	14 609	13 495
		22 583	**22 818**	**21 678**	**21 573**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**43 472**	**39 758**	**41 791**	**37 548**

CASH FLOW STATEMENT

1.1. - 31.12.1999

	GROUP		PARENT COMPANY	
	1999	1998	1999	1998
CASH FLOW FROM OPERATIONS				
Operating profit	9 897	9 374	8 001	-95
Adjustments to operating profit	1 361	3 261	511	2
Change in net working capital	-4 342	-964	-3 781	12 465
Interest income	209	344	371	93
Interest expenses	-774	-606	-667	-727
Dividend income	10	3	371	5 447
Other financial items	-305	-289	-636	122
Taxes paid	-2 604	-2 725	-2 034	-1 707
Extraordinary items	0	925	0	0
CASH FLOW FROM OPERATIONS	**3 452**	**9 322**	**2 136**	**15 600**
INVESTMENTS				
Shares in Group companies	0	-8 544	0	-8 544
Other tangible assets	-1 963	-2 046	-1 235	0
Sale of shares	0	2	0	0
Sale of other tangible assets	903	98	10	0
Change in long-term investments	0	0	0	0
CASH FLOW FROM INVESTMENTS	**-1 060**	**-10 490**	**-1 225**	**-8 544**
CASH FLOW BEFORE FINANCING	**2 392**	**-1 168**	**911**	**7 055**
FINANCING				
Long-term liabilities	-1 009	-7 465	-1 009	-6 793
Long-term assets	0	0	355	0
Short-term liabilities	285	-1 742	285	-1 742
Dividend paid	-1 211	0	-1 211	0
Group contributions, net	0	0	600	1 472
Share issue	501	0	501	0
Others	-164	80	0	864
FINANCING TOTAL	**-1 599**	**-9 127**	**-479**	**-6 200**
CHANGE IN LIQUID FUNDS	**793**	**-10 295**	**432**	**857**
Liquid funds 1.1	2 442	12 737	887	30
Liquid funds 31.12	3 235	2 442	1 319	886

ACCOUNTING PRINCIPLES OF THE GROUP

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 5.2 million euros as acquisition goodwill which was written off in 1997. Teleste 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 Teleste agreed to pay an additional consideration of 5.0 million euros in August 1998 and, as final consideration, a further 3.4 million euros in December 1998. The resulting goodwill, 5.0 million and 3.4 million euros, 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 euros 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 minimize their impact on the profitability and financial position of the Company.

The group's hedging policy is to cover all material currency risks at least six months ahead. Regarding group's balance sheet items in foreign currency, the hedging part of the derivative instruments are valued according the currency rates at the closing date and the currency difference is booked into the statement of income. Rest of the derivative financial instruments are considered to hedge future currency flows and their currency difference is not booked into the closing.

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. 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 trough 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. In the parent company deferred taxes are presented in the notes. The confirmed tax rate for next year at closing date is used as the tax rate.

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.

Comparability

The figures of the parent company are not comparable between 1998 and 1999 due to the merger that took place at the end of 1998.

NOTES TO THE STATEMENT OF INCOME AND BALANCE SHEET 31.12.1999

	GROUP 1999	GROUP 1998	PARENT COMPANY 1999	PARENT COMPANY 1998
1. NET SALES BY DIVISION AND MARKET AREA				
Net sales by division				
Access Systems	49 752	41 335	44 428	0
Educational	8 957	11 847	0	0
Home Networks	11 006	13 693	0	0
Inter-company items	-1 584	-770	0	404
Total	**68 131**	**66 106**	**44 428**	**404**
Net sales by market area				
Finland	6 012	6 584	5 201	404
Scandinavia	8 744	10 037	7 302	0
Other EU	43 078	36 803	25 011	0
Other Europe	4 726	4 342	4 602	0
North America	2 200	1 568	903	0
Asia	1 369	2 436	508	0
Others	2 001	4 337	901	0
Total	**68 131**	**66 106**	**44 428**	**404**
2. OTHER OPERATING INCOME				
Profit on fixed assets sale	788	66	41	0
R&D subvention and others	1 252	259	1 103	0
Group charges	0	0	640	0
Total	**2 040**	**325**	**1 784**	**0**
3. OPERATING PROFIT BY DIVISION				
Access Systems	8 143	7 392	7 047	0
Educational	521	1 144	0	0
Home Networks	-543	800	0	0
Inter-company items/consolidation	1 776	39	954	-95
Total	**9 897**	**9 374**	**8 001**	**-95**
4. PERSONNEL EXPENSES				
Wages and salaries	16 012	14 184	9 044	258
Other renumeration	177	446	168	79
Pension costs	2 028	2 139	1 320	59
Other personnel costs	1 582	1 246	972	26
Total	**19 799**	**18 014**	**11 504**	**422**
Renumeration to Board members and Managing Directors	544	561	192	219
Year-end personnel	604	581	355	298
Average personnel	584	563	322	3
Personnel by division at the year-end				
Access Systems	373	319	346	295
Educational	89	94	0	0
Home Networks	133	160	0	0
Group management	9	8	9	3
Total	**604**	**581**	**355**	**298**

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

	GROUP 1999	GROUP 1998	PARENT COMPANY 1999	PARENT COMPANY 1998
Personnel by function at the year-end				
Research and Development	105	81	85	58
Production and Material Management	357	361	184	172
Sales and Marketing	112	106	68	51
Finance and IT	30	33	18	17
Total	**604**	**581**	**355**	**298**

5. MATERIALS AND SERVICES

	GROUP 1999	GROUP 1998	PARENT COMPANY 1999	PARENT COMPANY 1998
Purchases	24 471	24 119	16 434	0
Change in inventories	-265	103	-395	0
Subtotal	**24 207**	**24 222**	**16 039**	**0**
Purchased services	1 215	1 724	544	0
Total	**25 422**	**25 946**	**16 583**	**0**

6. DEPRECIATION ACCORDING TO PLAN

	GROUP 1999	GROUP 1998	PARENT COMPANY 1999	PARENT COMPANY 1998
Other capitalized expenditure	124	101	114	0
Buildings	245	228	224	0
Machinery and equipment	1 880	1 680	966	2
Goodwill on consolidation	1 063	659	753	0
Total	**3 312**	**2 667**	**2 057**	**2**
Change in accumulated depreciation difference				
Buildings			74	0
Machinery and equipment			1	0
Total			**75**	**0**

7. FINANCIAL INCOME AND EXPENSES

	GROUP 1999	GROUP 1998	PARENT COMPANY 1999	PARENT COMPANY 1998
Interest income	209	344	173	93
Interest income frim Group companies	0	0	198	0
Interest expenses	-774	-606	-622	-600
Interest expenses to Group companies	0	0	-45	-127
Write-down of investments	0	-3	387	0
Currency differences	-155	25	-485	142
Other financial income and expenses	-150	-311	-151	-20
Dividend income from Group companies	0	0	361	5 447
Dividend income	10	3	10	0
Total	**-860**	**-548**	**-174**	**4 934**

8. EXTRAORDINARY INCOME AND EXPENSES

	GROUP 1999	GROUP 1998	PARENT COMPANY 1999	PARENT COMPANY 1998
Income				
Group contribution	0	0	600	1 472
Deferred tax assets from previous years	0	925	0	0
Total	**0**	**925**	**600**	**1 472**

9. INCOME TAXES

	GROUP 1999	GROUP 1998	PARENT COMPANY 1999	PARENT COMPANY 1998
Change in deferred taxes	579	-210	0	0
Direct taxes	2 025	2 936	2 034	1 707
Total	**2 604**	**2 725**	**2 034**	**1 707**

10. OBLIGATORY PROVISIONS

	GROUP 1999	GROUP 1998	PARENT COMPANY 1999	PARENT COMPANY 1998
Provision for guarantees	756	1 160	601	856
Provision for an arbitration	0	1 087	0	1 087
Provision for pension commitments	321	526	321	528
Provision for restructuring	348	437	0	0
Others	3	168	3	0
Total	**1 428**	**3 379**	**925**	**2 471**

Teleste

	GROUP 1999	GROUP 1998	PARENT COMPANY 1999	PARENT COMPANY 1998
11. CHANGES IN SHAREHOLDERS' EQUITY				
Share capital 1.1.	6 728	8	6 728	8
Share issue 30.3.	26	6 719	26	6 719
Share issue 29.12.	13	0	13	0
Transfer to share premium fund	-328	0	-328	0
Share capital 31.12.	6 439	6 728	6 439	6 728
Share premium fund 1.1.	122	5	122	5
Share issue	462	4 199	462	4 199
Transfer against retained losses	0	-4 083	0	-4 083
Transfer from share capital	328	0	328	0
Share premium fund 31.12.	912	122	912	122
Share issue 1.1.	0	10 919	0	10 919
Raise of the share capital	0	-6 719	0	-6 719
Transfer to share premium fund	0	-4 199	0	-4 199
Share issue 31.12	0	0	0	0
Retained earnings 1.1.	6 712	-4 251	4 604	-4 083
Transfer from share premium fund	0	4 083	0	4 083
Translation difference	177	-146	0	0
Dividends	-1 211	0	-1 211	0
Retained earnings 31.12.	5 678	-314	3 393	0
Profit for the financial period	6 432	7 026	6 469	4 604
Accumulated profit 31.12.	12 110	6 712	9 861	4 604
Total	**19 461**	**13 561**	**17 212**	**11 453**
Distributable funds	**12 110**	**6 712**	**9 861**	**4 604**

Parent company's share capital consists of one serie and is divided into 16,096,500 shares at 1 vote each

	GROUP 1999	GROUP 1998	PARENT COMPANY 1999	PARENT COMPANY 1998
12. APPROPRIATIONS AND DEFERRED TAX ASSETS AND LIABILITIES IN THE PARENT COMPANY				
Accumulated depreciation in excess of plan			1 976	2 052

Parent company has not booked deferred tax assets and liabilities

	GROUP 1999	GROUP 1998	PARENT COMPANY 1999	PARENT COMPANY 1998
Deferred tax liability from appropriations			573	575
Deferred tax assets from timing differences			491	866
13. CONTINGENT LIABILITIES AND PLEDGED ASSETS				
For own liabilities				
Debts covered by mortages				
Bank loans	10 653	11 346	10 653	11 346
Mortages	2 985	2 985	2 985	2 985
Leasing liabilities				
For next year	373	285	135	118
For later years	267	197	112	80
Other liabilities				
Bank guarantees	332	205	332	205
Rental liabilities	1 144	1 228	318	272
For Group companies				
Guarantees			841	841

	GROUP 1999	GROUP 1998	PARENT COMPANY 1999	PARENT COMPANY 1998
14. DERIVATIVE INSTRUMENTS				
Currency derivatives				
Value of underlying forward contracts	16 548	10 522	16 548	10 522
Market value of forward contracts	401	-63	401	-63

Forward contracts are used only for hedging currency exchange risks

15. INVESTMENTS				
Long term receivables from Group companies			1 853	2 208

16. INVENTORIES				
Raw materials and consumables	3 678	3 351	2 154	1 758
Work in progress	2 258	1 916	2 020	1 488
Finished goods	2 584	2 051	808	1 260
Total	**8 521**	**7 318**	**4 982**	**4 506**

17. CURRENT ASSETS				
Accounts receivables	14 283	10 802	6 696	4 178
Accounts receivables from Group companies	0	0	4 207	1 889
Loan receivables from Group companies	0	0	0	100
Other receivables	128	433	72	0
Other receivables from Group companies	0	0	0	1 472
Deferred tax assets, note 20	0	458	0	0
Accrued income	1 732	822	1 270	471
Total	**16 143**	**12 515**	**12 245**	**8 110**

18. LONG-TERM LIABILITIES				
Bond loans	5	5	5	5
Bond loans from Group companies	0	0	0	0
Bank loans	7 064	8 073	7 064	8 073
Total	**7 069**	**8 078**	**7 069**	**8 078**
Liabilities due after 5 years	**2 355**	**3 532**	**2 355**	**3 532**

Bond loan with warrants

Bond loan with warrants consists of 320 bonds, nominal value 16.82 euros. Each bond has 1000 option certificates.

With each option certificate four shares can be subscribed. The nominal value of the shares, that can be subscribed by the options, is 499,400 euros.

The subscription price is 0.68 euros 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

19. CURRENT LIABILITIES				
Bank loans	3 589	3 304	3 589	3 304
Advance payments received	636	66	476	35
Accounts payables	3 731	4 056	2 348	2 449
Accounts payables from Group companies	0	0	214	63
Other current liabilities	965	799	598	280
Other current liabilities from Group companies	0	0	2 775	3 558
Accrued liabilities	6 472	6 515	4 609	3 806
Deferred tax liabilities, note 20	121	0	0	0
Total	**15 514**	**14 740**	**14 609**	**13 495**

Teleste

20. DEFERRED TAXES

Deferred tax liability from appropriations	608	633
Deferred tax assets from consolidation	108	93
Deferred tax assets from timing differences	379	998
Total	**121**	**-458**

21. COMPANIES OWNED BY THE GROUP AND PARENT COMPANY

	Group's share %	Parent Company's share %
Teleste Norge A/S, Oslo, Norway	100	100
Teleste Försäljning AB, Helsingborg, Sweden	100	100
Labgear Ltd , Cambridge, UK	100	100
Teleste UK Ltd, Leeds, UK	100	100
Teleste Educational Oy, Turku, Finland	100	100
Teleste GmbH, Hannover, Germany	100	100
Suomen Yhteisantennit Oy, Turku, Finland	100	100
Kaavisio Oy, Turku, Finland	100	100
Tandberg Educational A/S, Oslo, Norway	100	0
Tandberg Educational Oy, Turku, Finland	100	0
Teleste Educational UK Ltd., Leeds, UK	100	0
Teleste Educational LLC, Miami, USA	100	0
Abbey Walk Properties LTD, Cambridge, UK	100	0
C.A.T.V. Teletransmission I Malmö AB, Malmö, Sweden	100	0
Auditek S.A., Paris, France	100	0

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

Group	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.
Intangible assets	61	1	2	60	3	57
Goodwill	14 585	0	0	14 585	7 065	7 520
Other capitalized expenditure	250	287	0	537	232	305
Land and water areas	108	0	0	108	0	108
Buildings	5 213	272	861	4 623	550	4 073
Machinery and equipment	6 154	1 403	26	7 531	4 089	3 442
Advance payments	38	0	14	24	0	24
Shares	45	0	0	45	0	45
Total	**26 453**	**1 963**	**903**	**27 513**	**11 939**	**15 574**

Translation difference is included in cumulative acquisition cost

Parent company	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.
Intangible rights	7 527	0	0	7 527	753	6 774
Intangible assets	52	0	0	52	0	52
Other capitalized expenditure	106	152	0	258	114	144
Land and water areas	108	0	0	108	0	108
Buildings	3 903	273	0	4 176	224	3 952
Machinery and equipment	1 844	810	10	2 644	965	1 679
Shares	8 982	387	0	9 369	685	8 684
Total	**22 522**	**1 622**	**10**	**24 134**	**2 741**	**21 393**

23. OWNERSHIP

Largest shareholders per 10.1.2000		Number of shares	Percentage of shares
Sponsor Fund I Ky		5 472 200	34,0 %
Varma-Sampo Mutual Pension Insurance Company		726 650	4,5 %
Gyllenberg Funds		547 850	3,4 %
Gyllenberg Momentum Fund	(295 000)		
Gyllenberg Small Firm Fund	(97 850)		
Gyllenberg Optimum Fund	(85 000)		
Gyllenberg Finlandia Fund	(70 000)		
Evli		530 911	3,3 %
Evli Select Fund	(202 200)		
Evli Nordic Small Co Fund	(171 650)		
Evli Mix Fund	(131 450)		
Evli Securities Plc	(25 611)		
Ilmarinen Mutual Pension Insurance Company		506 250	3,1 %
The Local Government Pensions Institute		300 000	1,9 %
Sampo		280 650	1,7 %
Sampo Life Insurance Company	(180 650)		
Sampo Enterprise Insurance Com	(100 000)		
Pohjola		240 000	1,5 %
Pohjola Non-Life Insurance Ltd	(120 000)		
Pohjola Life Assurance Company	(120 000)		
Leonia		227 650	1,4 %
Leonia Small Cap Fund	(124 450)		
Leonia Technology Fund	(72 000)		
Leonia Euro Fund	(31 200)		
Merita		203 300	1,3 %
Merita Life Insurance	(100 000)		
Merita Optima Fund	(50 000)		
Meritanordbanken Nordic Fund	(33 300)		
Merita Avanti Fund	(20 000)		
Nominee registeration		4 116 145	25,6 %
Others		2 944 894	18,3 %
Total		**16 096 500**	**100,0 %**

Shareholders on 31 December 1999	
Corporations	45,3 %
Financial and insurance institutions	10,5 %
Public organisations	11,9 %
Non-profit organisations	1,0 %
Households	8,0 %
Foreign	23,3 %
Total	**100,0 %**

Management interest	Number of shares	Percentage of shares and votes
CEO and Board members	211 820	1,3 %

Bond loan with warrants

Number of shares entitled to subscribe with options

	Number of shares	Percentage of shares and votes after executing options
CEO and Board members	240 000	2,6 %
Other option holders	1 008 500	5,8 %
Total	**1 248 500**	**7,2 %**

KEY FIGURES

	1995 Pro forma	1996 Pro forma	1997 Pro forma	1997 Official	1998	1999
Net sales, Meur	71,4	55,6	58,7	22,4	66,1	68,1
Change %	9,0 %	-22,1 %	5,6 %		12,5 %	3,1 %
Sales outside Finland, %	88 %	90 %	88 %	88 %	90 %	91 %
Operating profit, Meur	5,3	2,8	4,5	1,2	9,4	9,9
% of net sales	7,4 %	5,0 %	7,7 %	5,5 %	14,2 %	14,5 %
Profit after finanacial items, Meur	4,8	2,9	4,1	1,2	8,8	9,0
% of net sales	6,8 %	5,2 %	7,0 %	5,6 %	13,4 %	13,3 %
Profit before taxes, Meur	3,0	1,4	-1,1	-4,0	9,8	9,0
% of net sales	4,2 %	2,5 %	-1,9 %	-17,8 %	14,8 %	13,3 %
Profit for the financial period, Meur	2,2	0,5	-2,2	-4,4	7,0	6,4
% of net sales	3,1 %	1,0 %	-3,8 %	-19,7 %	10,6 %	9,4 %
R&D expenditure, Meur	5,6	4,0	4,1	1,6	4,2	6,6
% of net sales	7,8 %	7,2 %	7,0 %	7,1 %	6,3 %	9,6 %
Gross investments, Meur	2,7	2,2	32,2	31,4	10,6	2,0
% of net sales	3,8 %	4,0 %	54,8 %	140,2 %	16,0 %	2,9 %
Average personnel	650	566	560	560	563	584
Order backlog at year end, Meur	8,7	6,2	5,1	5,1	9,3	19,9
Orders received, Meur	55,7	54,5	58,3	25,1	70,1	78,1
Return on equity, %	14,5 %	8,8 %	20,0 %		60,3 %	39,0 %
Return on capital employed, %	19,3 %	13,0 %	20,2 %		37,8 %	36,2 %
Equity ratio, %	55,5 %	60,7 %	16,9 %	16,9 %	34,2 %	45,4 %
Gearing, %	-22,5 %	-32,5 %	107,0 %	107,0 %	65,9 %	38,1 %
Earnings per share, eur	0,22	0,13	0,19	0,05	0,38	0,40
Earnings per share w/o goodwill depreciation, eur	0,26	0,16	0,21	0,05	0,42	0,47
Earnings per share, fully diluted, eur	0,21	0,12	0,17	0,05	0,35	0,37
Shareholders equity per share, eur	1,47	1,44	0,47	0,47	0,84	1,21
Highest price, eur						19,00
Lowest price, eur						7,00
Average price, eur						9,06
Price per earnings						40,5
Market capitalization, Meur						260,8
Turnover, number in millions						24,8
Turnover, % of share capital						154,2 %
Average number of shares						16 049 364
Number of shares at the year-end						16 096 500
Dividend per share, eur	0,00	0,00	0,00	0,00	0,08	0,10*
Dividend per net result, %	0,0 %	0,0 %	0,0 %	0,0 %	17,2 %	25,0 %
Effective dividend yield, %						0,6 %

* The Board's proposal to the AGM

The pro formqa figures for 1995 -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. Investments include the purchase price of Teleste Oy's shares 30.3 million euros in 1997 and 8.5 million euros in 1998. Group's official accounting period was in 1997 four months long.

CALCULATION OF KEY FIGURES

Return on equity:

$$\frac{\text{Profit before extraordinary items - taxes}}{\text{Shareholders' equity (average)}} \times 100$$

Return on capital employed:

$$\frac{\text{Profit before extraordinary items + financial expenses}}{\text{Total assets - non-interest bearing liabilities (average)}} \times 100$$

Equity ratio:

$$\frac{\text{Shareholders' equity}}{\text{Total assets - advances received}} \times 100$$

Gearing:

$$\frac{\text{Interest bearing liabilities - cash in hand and in bank - interest bearing assets}}{\text{Shareholders' equity}} \times 100$$

Earnings per share:

$$\frac{\text{Profit before extraordinary items - taxes}}{\text{Number of shares}}$$

Equity per share:

$$\frac{\text{Shareholders' equity}}{\text{Number of shares}}$$

Earnings per share:

$$\frac{\text{Share price at the end of the year}}{\text{Earnings per share}}$$

Effective dividend yield:

$$\frac{\text{Dividend per share}}{\text{Share price at the end of the year}}$$

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