

Teleste Milestones

Teleste was founded in **1954**. It launched its first own product, an antenna outlet, on the market in **1957**.

In **1960's**, Teleste manufactured audio and antenna amplifiers, and implemented modern transistor technology as early as **1966**.

A development company Sponsor Oy became Teleste's main owner in **1970** and kicked off many development projects to make the company international. Broadband technology development was started in **1973**. One of the most important decisions was to develop the company's own satellite technology.

Teleste's current business unit, Broadband Cable Networks development, can be considered to have started in early **1980's**, when Teleste developed its first satellite receiving system and a trunk amplifier and the head-end for cable TV network. At that time, Teleste started developing fibre optic technology and was one of the first companies in Europe to launch a broadband fibre optic link.

In **1990's**, Teleste focused on its core business and expanded into Europe. In **1992** Teleste entered into video surveillance business, which today is Teleste's other business unit, Video Networks. Teleste introduced digital technology into its products on a larger scale.

The first digital TV modulator was launched in **1996**, and a complete digital headend and transmission system was launched soon thereafter. For many years, Teleste invested in software expertise, which led to its own network management system being launched in **1999**.

In **1999**, Teleste was listed on the Helsinki Exchanges and started to expand into non-European markets.

At the turn of the millennium, Teleste focused on the new generation interactive broadband network and Ethernet-based network solutions. As a result, the ATMux system for receiving and broadcasting digital TV programmes was developed. The unique Virtuoso gateway was developed for video-on-demand networks.

Teleste implemented Ethernet technology and digital video in video surveillance networks in **2002**.

The Vision and the Strategic Direction

Teleste's objective is to become the leading provider of broadband cable access and video surveillance networks in the world.

We are already the market leader in Europe, but our aim is set – in terms of market shares – on becoming one of the top three companies in the world.

In support of reaching our goals we are determined to provide our customers with continuously improving and increasingly high-quality product and service packages. Our comprehensive network allows us to stay in close contact with the customer.

We are a high-tech company and our approach is characterised by products tailored to the customer's needs. Our strong expertise in video, broadband data and voice transfer technologies makes it easier for the operators to provide subscribers with a high-quality service. In the field of video surveillance we make available a technical all-round solution fully suitable for high-quality traffic, city area and security control.



Our strategy is based on profitable growth in the promising business areas. Alongside our own innovations and development projects we are not inclined to oversee any possibilities provided by potential acquisitions.

Our strengths lie in proficient, innovative and dedicated personnel whose actions are guided by the desire to fulfil the vision shared by the entire company.

Our shareholders will be requited by tangible added value achieved through profitable growth. As to our staff, our wish is to create a challenging and inspiring working environment.

We encourage open and communicative corporate culture both internally and with our external stakeholders. The cornerstone of all our operation is dependability – we deliver on our promises.

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CEO's Letter

We are Headed in the Right Direction,

Year 2003 was characterised by its eventfulness. Teleste achieved the set prime goals by making distinct progress both in terms of profitability and cash flow, the two being clearly in the black.

In our main market area the year under review continued to be marked by significant structural changes. Nevertheless, and in comparison with the previous year, the cable operator market took a step in the right direction, although the level of investments on the customer side remained very low. We believe, however, that the low point of the market was reached and passed by the end of the first half of 2003. Successfully completed rearrangements involving balance, financing and ownership operations of a number of cable operators were instrumental particularly in giving the market nudges in the desired direction. This allows our clientele to refocus on the provision of services for the continuously growing customer demand as an ever increasing number of people recognises the need for accessing the broadband flow of information and the emerging market for digital TV services.

As to the video surveillance, our second main business area, in the main market of the United Kingdom the market withered. This can be attributed to a number of factors including a change in the financing model of the UK public video surveillance networks. With the exclusion of UK, steady growth continued in the global market.

In Europe we managed either to retain or, to a degree, even strengthen our position as the leading player in both of our business areas. In both fields, fundamental growth drivers developed favourably. Perhaps the most prominent among these include growth in the number of private broadband subscriptions, on the one hand, and the public approval of video surveillance, on the other, with its useful applications in both security and traffic logistics.

...and the Direction of the Future Trend is Clear,

During 2003 we aimed at securing the profitability of our business by adapting our cost structure to the level determined by the market demand whilst carefully avoiding taking any chances with our vital development projects. In the beginning of the year we introduced a fresh design for the company vision and business strategy. Our vision is to be a global leader of broadband cable access and video surveillance networks.

In support of achieving the set goals involved in our vision and strategic objectives we have introduced a determined implementation programme. In line with the renewed strategy we are determined to move in strongly into the field of broadband data communication solutions. One indication of this is the development co-operation agreement signed with the Dutch Essent Kabelcom. Our intention here is to develop, in concert with the client, a fast IP-based Ethernet to the Home communication system. Compared to the present systems, this new solution – EttH for short – will provide significant benefits in terms of capacity, level of costs and availability. In line with the above, we also entered into a co-operation agreement with the American TUT Systems in the areas of marketing and product development. This recent joining of forces has already allowed us to provide our customers with new IP-based headend solutions. Moreover, in attempt to ensure cost-effectiveness of our operations we founded a subsidiary called Teleste Electronics SIP in SuZhou Industrial Park, China. The purpose of this new company is to ensure cost-effective sourcing of components and modules for Teleste products designed to be manufactured in Finland.

In addition, we acquired a 100 per cent holding of the Swedish software and system integration company S-Link AB. The acquisition of S-Link is part of Teleste's strategy to integrate video management applications to the scope of the company expertise. With the leverage thus obtained Teleste will be capable of providing customers with comprehensive and tailored video surveillance solutions.

All of the above and a number of internal development projects such as our process development, or the face-lift of our web site have provided our company with fresh momentum, not to mention a whole host of highly interesting commercial activities. It is especially important for us to sustain an extensive network of local offices in our main markets involving now more than 20 countries. Close contact with the client is tantamount to a successful and constructive long-term co-operation. All the specified efforts are unequivocally backed by our highly skilled and committed personnel.

...Towards Profitable Growth and Our 50th Financial Year

In 2004 Teleste will celebrate its 50th anniversary of operation. Our company has 50 years of accumulated experience in video transmission, 20 years in optical transmission systems supported by another five years in application of various digital technologies. All this knowledge and expertise combined will provide us with a competitive edge and a strong foundation to grow on in our rapidly developing business areas. Our first and foremost objective for the current year is, indeed, growth. As to achieving the set goal, the role of market development is naturally crucial. We believe that the current situation has improved from that one year ago when several crises of world politics loomed up. The present positive outlook is additionally supported by the favourable development of the financial resources and operative business of our core clientele. Strength of euro against the American dollar poses the single greatest threat to the development of the European market and, concurrently, to the competitiveness of our company. Nevertheless, we expect the market to show growth in 2004. Strategically, we are in a good position with regard to all the essential fundamentals; preconditions for our growth for 2004 will be based on proficient customer service, high-quality products and solutions, new technological solutions and potential strategic acquisitions.

Statements of Appreciation

I wish to express my thanks to our customers, partners and shareholders for the successful co-operation of 2003. Over and above, personnel of Teleste deserve a special commendation. Considering the circumstances, your commitment to the company objectives, distinct flexibility and speed of response, your proficiency and ability to co-operate have, once again, rendered ample results.



A handwritten signature in blue ink, which appears to read 'Jukka Rinnevaara'. The signature is fluid and cursive.

Jukka Rinnevaara
CEO

Management Group

Jukka Rinnevaara, M.Sc. (Econ.)

President and CEO

Born in 1961

Joined Teleste on November 1, 2002

ABB Building Systems,

Group Senior Vice President 2001–2002

ABB Installaatiot Oy, President 1999–2001

Owns 4,000 Teleste shares

Owns options for 60,000 Teleste shares

Johan Slotte, LL.M, MBA

Video Networks, General Manager

Senior Vice President, Development

Born in 1959

Joined Teleste in 1999

Owns 3,000 Teleste shares

Owns options for 56,000 Teleste shares

Erja Saarikoski, Business school graduate

Group Controller

Born in 1953

Joined Teleste in 1984

Owns 4,000 Teleste shares

Owns options for 24,000 Teleste shares

Pekka Rissanen, M.Sc. (Eng.), MBA

Broadband Cable Networks, Senior Vice President

Born in 1963

Joined Teleste in 1998

Owns options for 65,000 Teleste shares

Jyrki Hännikäinen, M.Sc. (Eng.)

Senior Vice President, Product Operations

Born in 1968

Joined Teleste in 2003

Owns options for 40,000 Teleste shares



Pekka Rissanen

Johan Slotte

Jukka Rinnevaara

Jyrki Hännikäinen

Erja Saarikoski

Personnel

Teleste promotes the professional competence of its personnel and generates a supporting environment. Our personnel represents experts of a number of fields. The company personnel management policy is based on the principle of open dialogue designed to encourage individual commitment and adoption of objectives incorporated in the company strategy. For the sake of continuous development each member of the staff is familiar with the company objectives, any specific expectations and the manner in which each and every one of us can rise up to the challenge.

During the year under review Teleste drew up a new streamlined business strategy. Instrumental in its implementation is the renewed performance assessment process. Our objective is to make the specified strategic goals increasingly integrated to personal objectives and daily activities of each member of the Teleste community.

Teleste aims at maintaining and strengthening its position as an attractive employer for current and new employees, as well.

Personnel Development

Over the year, Teleste has run multiple training programs to develop its personnel. A three-year "Commitment to Growth" program for supervisors, which partially replaces MBA studies and which was tailored to the company's needs, continued. In addition, an 18-month "Teleste JET" program, which leads to a special management degree, continued. A transfer education program that was tailored for Teleste to improve the skills of the designers in product development was launched, in co-operation with local universities. Over the year, other kinds of training were arranged to maintain and improve professional skills (e.g., project work and language training). Regular performance appraisal discussions are used to map development areas and targets for individuals and the work community.

Incentives

The incentive system supports the attainment of important objectives. The incentive systems for personnel that are used by Teleste are different bonus and reward programmes.

Personnel Policy

Well-being at work has been taken care of by organising the best environment possible, both physically and mentally. In particular, the ergonomics of those working with display terminals has been emphasised. At the end of the year, Teleste launched preparations for a new work well-being process so that it could be implemented at the beginning of 2004. The process first looks for potential development areas in the well-being of people at work and the work community and then draws up procedures for achieving them. The well-being process will be an important part of Teleste personnel policy in the future. A work community that is doing well will produce better results, both in quality and in quantity and helps maintain a positive employer image.

A free-time committee (Vapari) is elected annually from the personnel of Teleste. Vapari organises various cultural and sports activities for the personnel, which are supported by the company.

Internal Co-operation

Due to globally difficult market situation, the company had to continue adjustment actions. These actions have been carried out in good and constant dialogue with the personnel and their representatives taken their thoughts into account. The atmosphere in the work community has remained good. To ensure that this dialogue between personnel and employer continues and that information continues to flow in both directions, we have increased the meetings between employer and the representatives of the personnel to be held on monthly basis. This practice will continue.

Co-operation with Universities and Other Parties

To build a positive employer image in different target groups, we have co-operated with universities and other higher educational instances. At the same time, our contacts with student organisations at the universities of technology were maintained. The objective is to keep an attractive employer image amongst future experts.

At the end of 2003, Teleste employed 466 persons, of whom 82 were working abroad. The attached table displays the personnel distribution between various activities, etc.

Personnel 31.12.	2003	2002	2001
Total	466	467	539
Research and Development	124	116	138
Production and Material Management	230	231	260
Sales and Marketing	87	96	109
Finance and IT	25	24	32
Finland	384	401	460
Other countries	82	66	79
Female	176	177	206
Male	290	290	333
Operatives	164	170	199
Staff	302	297	340
Average age	38.2	37.5	36.7

Corporate Governance

The Teleste Corporation management policies have been designed to promote integrity and functionality. The governance is based on the Finnish Companies Act and Teleste Articles of Association. Teleste shares are listed on the Helsinki Exchanges and the company complies with the rules and regulations issued by the Helsinki Exchanges pertaining to the listed companies.

Annual General Meeting

The supreme governing body of Teleste Corporation is the General Meeting, which is held at least once a year. The General Meeting shall be held annually by the end of June. The Annual General Meeting is held in Helsinki. The General Meeting shall decide on statutory duties related to the Companies Act such as adoption of the financial statements and dividend distribution, discharge of liability for the members of the Board of Directors and the CEO.

The notice to the General Meeting shall be announced in a newspaper decided by the Board of Directors or in other demonstrable form delivered to the address specified in the register of shareholders no earlier than two months and no later than 17 days before the date of the meeting.

The Board of Directors

It is the function of the Teleste Board of Directors to carry out the administrative duties in accordance with the law, statutory regulations, Articles of Association and resolutions of the General Meeting.

The Board shall resolve matters of great importance in terms of scope and magnitude to the group's operation. The Board shall, among others, confirm the Teleste business strategy, long-term plan of action, and general guidelines related to the implementation of Teleste risk management and internal supervision. The Board shall also answer for the appropriate arrangements of the company activities.

The Board appoints the CEO, accepts his resignation and determines his emoluments. The Board oversees and assesses the operation of the CEO and the Management Group. The Board also determines any extensive personnel issues including the basis of the company compensatory system.

Election and Term of Office of the Board

The Chairman and other members of the Board of Directors are elected by the Annual General Meeting. According to the Articles of Association the Board of Directors shall have a minimum of three and a maximum of eight members. In its meeting held on April 8, 2003 the Teleste Corporation AGM elected five members to the Board of Directors. The term of office of a member of the Board of Directors expires at the closing of the first Annual General Meeting following the election. The current Teleste Board of Directors is presented in more detail on page 14.

During 2003 the company Board has held nine meetings. The remuneration of the members of the Board is decided by the Annual General Meeting.

President and CEO

The scope of duties of the Teleste Corporation CEO is determined by the law, the Articles of Association and instructions issued by the Board. Detailed terms of employment of the CEO are specified in a separate contract subject to the Board approval.

The current CEO of Teleste, Jukka Rinnevaara, assumed his present responsibilities on November 1, 2002. The salary, fees and other benefits received by the CEO are determined by the Board of Directors. The CEO is not a member of the Board.

In 2003 the salaries, fees and benefits paid to the members of the Board and the CEO totalled EUR 354,000.

Management Group

The company Management Group is chaired by the CEO. Members of the Management Group consist of the directors of Teleste Corporation business sectors and the group management. In addition to preparing investments subject to the Board approval the Management Group deals with essential matters related to company management including strategy, budgeting, interim reports and company acquisitions. The Management Group meets ordinarily once a month and otherwise as required. See page 6 for presentation of the Teleste Corporation Management Group.

Auditing and Revisions

The term of office of the company auditor expires at the closing of the first Annual General Meeting following the election. On April 8, 2003 the Teleste AGM selected KPMG Wideri Oy Ab as the company auditor and decided that the auditor's remuneration shall be paid as invoiced. The company's chief auditor is Sixten Nyman.

In addition to their statutory duties the auditors report to the Teleste Corporation Board of Directors and attend the Board meeting at least once a year.

Internal revision is part of the company's financial administration. Financial management reports on issues related to internal revision to the CEO and the Board.

Insider Register

Membership in the Teleste permanent inner circle is based on position. Thus, the group consists of members of the Board of Directors, the CEO and the auditors. Furthermore, the extended inner register includes members of the Management Group and the CEO's secretary. As from March 1, 2000 the company has complied with the insider regulations approved by Helsinki Exchanges' Board of Directors. To support these regulations the company has introduced a set of internal guidelines. The Teleste insider register with the related holdings can be viewed at www.teleste.com.

Our Business Units

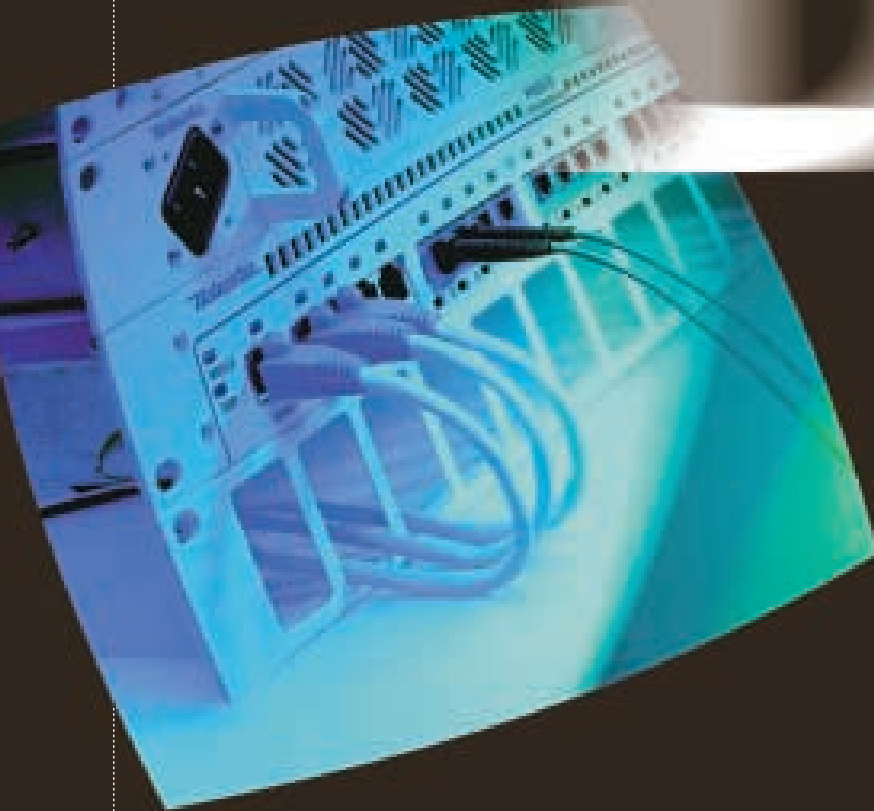
The Teleste way of making business is based on solid competence and innovative operation in two business areas characterised by vigorous growth and intense development.

*Our **Broadband Cable Networks** business aims at promoting the business of cable operators making up our clientele. This is achieved by making available network solutions, which allow the operators to respond to the increasing expectations of the consumers whilst facing the challenges involved in the ever toughening market competition.*

*Our **Video Networks** business designs and manufactures comprehensive and controlled digital transmission and network solutions for video surveillance and security networks. We operate in the upper segment of the market, where TV quality real-time video, sound and data are essential requirements.*

Our goal is to become the market leader in both of our key business areas. In this respect, we should like to see ourselves as a pioneer of technical solutions and a reliable business partner.

Broadband Cable Networks



Business Description and Vision

Teleste Broadband Cable Networks Business Unit aims at improving our customers' business by introducing innovative, reliable and cost-efficient network solutions for cable operators. We have a solid track record as the leading European provider and our goal is to be recognized as a global leader in cable access solutions. By the term global leader, we mean an industry forerunner that is recognised by the leading operators worldwide, which does not necessarily have to be the largest company.

Teleste offers solutions in two categories: signal processing equipment for the processing and manipulation of video streams and network transmission equipment for the delivery of video and data signal to subscribers over the HFC (Hybrid Fibre Coax) access network.

Markets and Industry Specific Drivers

The fastest growing money-maker for Teleste's customers is high speed data. The penetration of the Internet in residential households is constantly rising and the percentage of the subscribers demanding a broader band is increasing. The definition of broadband data is somewhat unclear, but anything above 250kb/s can be considered to belong to this category; Teleste's own limit starts from 2Mb/s.

Increased penetration and faster data speeds force operators to look at the ability of their networks to deliver the required data service. Typically, they are forced to resegment their networks in certain phases, extending the fibre closer to the subscriber and reducing the number of households per fibre node, thereby generating the need for more optical solutions for the HFC network. This investment in bi-directionality often includes replacing amplifiers.

Digital TV continues to gain momentum while more and more households are signing up with either a cable, terrestrial or satellite service. The increased penetration on any segment feeds the competition amongst the others, resulting in a competitive landscape that has alternative solution providers available for subscribers. Teleste is one of the leading providers in digital video for cable operators with reference deliveries in 16 countries; in terms of geographical coverage, this is second to none.

Telephony services over a cable network are very rare in Europe, although the technology is not setting any absolute bottle-necks for this.

Strategic Focus

Teleste will maintain a strong product offering in its two chosen cable TV segments: digital video processing and transmission. Teleste is simultaneously investigating the opportunities to extend its digital video offering to operators with different access networks, i.e. telecom operators with plans for video over DSL.

In its HFC network segment, Teleste is putting more emphasis on complementing its own product portfolio with outsourced third-party products that would be engineered so that they are part of Teleste's offering.

Teleste also complements its access network offering by entering the data market in order to provide the next generation technology solutions for data over the HFC application. Teleste's Ethernet to the Home (EtH) concept aims at providing guaranteed 10Mb/s connections to residential subscribers over existing coaxial cables while making the home passive in the sense of removing the need for any Consumer Premise Equipment. In the future, it will be possible to upgrade the connections up to 100Mb/s.

Products and Services

The past year saw the full introduction and launch of the new AC platform, which is being developed to gradually replace the old DXX product family. The success of the AC ramp-up surpassed many expectations and it has already become one of the best-selling product families. In 2004, it is expected to take over the number one spot. The AC platform consists of a number of solutions for both optical nodes and broadband amplifiers.

Teleste also took its first steps towards establishing a full-blown service concept that includes the ability to actively monitor our customers' networks on a 24-hour basis, in addition to being able to remotely guide problem-solving activities. This service was tested during the year by a handful of key customers, both nearby and far away.

Highlights in 2003

The beginning of 2003 was quite difficult and disappointing, which resulted in the Broadband Cable Networks Business Unit taking immediate cost savings actions. The impact these actions had was visible during the latter half of the year, when the Business Unit had a good return on profits.

In May, Teleste's video-on-demand (VOD) product, Virtuoso, was awarded the "Best content-on-demand Product" by the Cable & Satellite and Mediacast Exhibition in London.

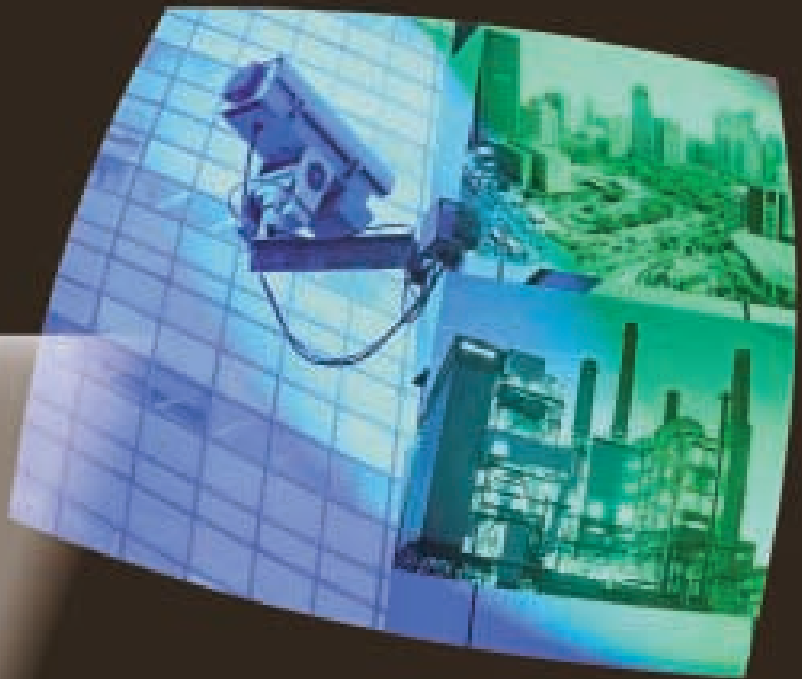
Teleste expanded its reference list for digital systems so that it covers 16 countries; the most distant countries are Egypt, India and Pakistan.

Teleste was awarded a number of major network upgrade projects in the HFC segment by leading European cable operators such as Cablecom in Switzerland, Numericable in France and comhem in Sweden.

Teleste's EtH concept attracted a major pilot customer, Essent Kabelcom in the Netherlands. During the first half of 2004, Teleste will be introducing 2-3 more trial customers. The launch of the new data business product range will strengthen Teleste's offering in access networks.

- Demand for broadband data and digital TV increasing
- Teleste will maintain a strong product offering to cable operators
- The success of the AC ramp-up surpassed expectations
- Ethernet to the Home solution to a pilot phase

Video Networks



Business Description and Vision

Teleste Video Networks Business Unit designs, manufactures and supplies fully managed end-to-end digital transmission and networking solutions for surveillance, monitoring and security. Video Networks focuses on the high-end segment of the market with requirements for TV quality real-time video, audio and data. The main deployment areas are traffic management and monitoring systems; city centre and urban surveillance systems; and high-profile corporate security-type applications. Teleste Video Networks covers all of the main geographical markets: Europe, the Americas and APAC with its own presence. Teleste Video Networks' core products consist of fibre modems, encoders, switches, decoders, management software systems and digital video recorders (DVR). In addition, it has the broadest offering for between the camera and the monitor on the market.

Video Networks' vision is to be a global leader of video surveillance networks where: Global leader refers to a leader, especially in technical solutions; Video Surveillance focuses on the video surveillance market segment; and Networks refer to an offering of optical communications as well as IP-based and ATM-based networks, including management software and recording.

Markets and Industry Specific Drivers

There are two clear market drivers in the video surveillance and security market: the optimised use of transportation infrastructure and an increased need to protect assets and people with real-time video.

The need to optimise the transportation infrastructure is due to an increase in traffic and higher environmental concerns. These concerns also drive governments to upgrade their public transport infrastructure to provide commuters with an increased selection of transportation options.

The protection of assets and people is becoming an increasingly important issue. It is also expected that the general acceptance of deploying video surveillance in city centres will increase, especially within Europe.

All of Teleste Video Networks' target market segments are expected to experience growth in upcoming years. Growth is also expected in all geographical markets. There is a risk, however, that the depressed situation in the public economy in some countries will delay the realisation of projects.

The high-end video surveillance and security market is a niche market. The market is also expected to remain so, despite its growth in upcoming years. The introduction of IP/Ethernet networks will, however, change the situation in the market as to both the market players and the technology used. Furthermore, the systems will require an increase in intelligence and automation (recognition and analysis, patterns of behaviour, etc.). Teleste believes that it is well positioned for this change, because as the encoding and decoding of video becomes simpler and more commonplace; software, management and recording will often become the differentiators. Teleste is in the unique position of being able to offer a comprehensive system that includes all of these elements.

Strategic Focus

Video Networks' focus markets will continue to be traffic management and monitoring systems, city centre and urban surveillance systems, and high profile corporate security type applications. In addition, existing technologies will be deployed in other markets that are new to Teleste. Emphasis will be placed on strengthening key accounts and increasing our own technology competences. The work of forming technology clusters will continue.

Products and Services

Teleste Video Networks offering consists of the end-to-end, managed transmission of video, audio and data between the camera and monitor locations. Video Networks' main product lines are divided into three basic groups, which can be used independently or combined: (i) non-compressed video and data transmission solutions based on analogue and baseband digital systems over fibre optic cable connections that include multiplexing backbone systems (CFO product family), (ii) compressed video networking systems operating over telecommunication networks utilising ATM and/or IP/Ethernet technologies (EASI product family), and (iii) software management and control systems including local and distributed storage solutions (Teleste S-Link products). Video Networks is therefore able to offer complete video transmission solutions in all of the main technologies dependent on the need of the customer.

Highlights in 2003

From the point of view of sales, 2003 was a disappointment. This was mainly caused by lower than expected sales in one specific area. In most other areas sales grew compared to year 2002. The realisation of many projects – network projects in particular – was also delayed, partly due to a change in technology (IP-based replacing ATM-based networks) as well as due to the tightening of the financial situation at public authorities.

In November 2003 Teleste purchased the entire share capital of S-Link Sweden, which has operations in both Sweden and Poland. This was a very important step in the strategic goal of increasing in-house software competence and offering. S-Link will continue its operations under the S-Link name, although it will have the Teleste brand visible in its products and operations.

In EMEA (Europe, Middle East and Africa), the major events included us winning several video surveillance projects in the south of Africa such as Namibia Diamond Mining and a major CCM project in the area (Cape Town). The first IP-based network system was delivered to the Turku–Helsinki motorway, which is a reference project for other similar projects. Teleste products were also delivered to several sites in Greece for the 2004 Olympic Games.

S-Link successfully continued supplying the Swedish Road Administration and the ASFINAG project, which is linking the video surveillance of all Austrian motorways under one management system.

In the Americas, the highlights include winning our first large IP network order from Las Vegas and receiving an award for a one-year IP network contract from the Utah Department of Traffic. Deliveries for the latter project will start in 2004. Teleste also delivered a video surveillance system for the Ground Zero project in New York City and continued supplying the US Navy as well.

In APAC, the most prestigious project won this past year has been for the system installed at the Formula 1 racetrack in Shanghai. The sales volume to this area is expected to increase in 2004. During 2003, the sales office in Singapore was closed and the sales office in Shanghai strengthened by new personnel.

In product development, the development of a new platform for network systems was started. This platform will be launched in year 2004.

- Video Networks' markets are expected to grow
- Teleste purchased Swedish S-Link in November 2003
- IP-based network system to the Turku–Helsinki motorway
- Important deliveries to the United States and Southern Africa
- Surveillance system installed at the Formula 1 racetrack in Shanghai

The Board of Directors

Tapio Hintikka, M.Sc. (Eng.)

Born in 1942

Chairman of the Board since 2003

Vice Chairman of the Board 2001–2002

Member of the Board since 2001

TeliaSonera AB (Publ.), Chairman of the Board since 2002

Sonera Corporation, Chairman of the Board 2001–2002

Hackman Oyj Abp, CEO 1997–2002

Onninen Oy, Member of the Board since 2000

Owens 4,804 Teleste shares

Tero Laaksonen, M.Sc. (Math.)

Born in 1946

Member of the Board since 1999

Comptel Corporation, CEO since 2002

Telia Finland Oy, CEO 1998–2001

Nokia Telecommunication Oy, Senior Vice President 1995–1998

Owens 17,778 Teleste shares

Pertti Raatikainen, Dr.Sc. (Technology)

Born in 1956

Member of the Board since 2003

VTT Information Technology, Research professor since 1998

Owens 2,169 Teleste shares

Timo Toivila, M.Sc. (Eng.)

Born in 1950

Member of the Board since 2003

Chairman of the Board 1996–1997

Member of the Board 1995–1997

Teleste Corporation, CEO 1997 (1996)–2002

Tecnomen Corporation, Member of the Board since 2001

Owens 139,119 Teleste shares

Own options for 50,000 Teleste shares

Pekka Vennamo, Student in technology

Born in 1944

Member of the Board since 2000

Chairman of the Board 2000–2001

Aldata Solution Oyj, Chairman of the Board since 2002

Saunalahti Group Oyj, Chairman of the Board 2001–2003,

Member of the Board since 2003

Soprano Group, Chairman of the Board since 2000

Sijoitus Oy, Chairman of the Board since 1998

Owens 7,000 Teleste shares



Pertti Raatikainen

Tero Laaksonen

Timo Toivila

Tapio Hintikka

Pekka Vennamo

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

Annual Report of the Board of Directors

Business Activities and Group Structure

Broadband Cable Networks and Video Networks are still the core business of Teleste. During the financial period, the offering for video surveillance solutions of the Video Networks Business Unit was expanded by purchasing Swedish S-Link AB. At the same time, a company was established to continue the development of S-Link software management in Poland. In order to improve competitiveness, a sourcing company was established in China to utilise local purchase opportunities. Our Singapore branch was closed down during 2003. Teleste has branch offices in Belgium, China, Denmark, France, India, the Netherlands, Poland and Spain, as well as a subsidiary in six countries outside Finland.

Market Situation and Business Environment

In the cable operator business, 2003 meant concentrating on financial issues like improving profitability and increasing cash flow. Most of Teleste's customers were concentrating to make the necessary network maintenance investments and hence postponed large scale investments. The development of the Video Networks business slowed due to savings in the public sector, both in Europe and in America.

Turnover and Profitability

The Group had net sales of EUR 54.2 million (EUR 66.8 million), which is 18.8% less than for the previous year. Operating profit increased EUR 6.1 million to EUR 1.8 million (EUR -4.3 million). It was decided to cancel the Enterprise Resource Planning (ERP) project, whose costs of EUR 1 million that were activated in 2002 have been entered as a provision in the operating profit. The improvement in the operating profit was due to a successful scaling of expenses and an improved efficiency of material activities. The operating profit for 2003 included a one time write-off of EUR 1 million, whereas the operating profit for 2002 included one time write-offs of EUR 4.4 million. Profit after financial items was EUR 1.5 million (EUR -5.1 million). The group's earnings per share was EUR 0.10 (EUR -0.25). The return on capital employed was 5.3% (-7.6%) and the return on equity was 7.1% (-14.2%).

The group's orders received decreased by 12.2%, ending at EUR 52.2 million (EUR 59.5 million). Broadband Cable Networks orders received amounted to EUR 40 million (EUR 44.7 million), a decrease of 10% from the previous year. The orders received by Video Networks decreased by 18%, ending at EUR 12.2 million (EUR 14.8 million). The group's order backlog was EUR 6.6 million (EUR 9.7 million) at the end of the year.

During the last quarter, 3% (-31.6%) more orders were received when compared to the last quarter of the previous year; these amounted to EUR 15.0 million (EUR 14.6 million). Turnover stood at EUR 16.7 million (EUR 18.1 million). Operating profit for the last quarter stood at EUR 0.5 million (EUR -2.2 million). Operating profit for the last quarter, without the ERP project write-off, stood at EUR 1.5 million.

Research and Development and Investments

R&D expenses for the financial year amounted to EUR 5.8 million (EUR 6.6 million). R&D expenses totalled 10.7% of net sales (9.9%).

Investments for the financial year amounted to EUR 3.4 million (EUR 1.3 million) and included the purchase of S-Link AB. Other investments were mainly for IT and for manufacturing machinery and equipment.

Financing

The group's liquidity was good during the year. Cash flow from operations stood at EUR 9.6 million (EUR -2.7 million). Accounts receivables decreased by EUR 4.9 million and the released cash flow was used to pay all of the investments of EUR 3.4 million in the financial period and the interest bearing debt was reduced by EUR 5 million. The group's equity ratio was 49.3% (44.8%) and gearing -17.7% (5.8%). The interest bearing debt on December 31, 2003 was EUR 10 million.

The strengthening of the euro reduced net sales from the English pound and US dollar by EUR 1.8 million when compared to the previous year's currency rates.

Teleste Group will adopt IFRS standards (International Financial Reporting Standards) in its financial reporting from the beginning of 2005. The preparations for the transition have been started in 2003. During the year the Group has begun to identify the major differences between its present accounting policies under Finnish GAAP as applied by the Group and IFRS on various sectors. The decisions regarding the application of the alternative accounting treatments, the preparation of the opening IFRS balance sheet as well as the restatement of the comparative information of the current financial period for the interim reports in 2005 will follow this year. Also the changes required for the information systems in order to facilitate IFRS reporting from 2005 onwards will be carried out during the year 2004. The transition project has proceeded as planned.

Based on a preliminary analysis the transition will have a major impact on segment reporting, treasury shares, option schemes, defined benefit plans, abolition of goodwill amortisation and deferred taxes.

Personnel

During the year, the group employed an average of 452 people (506). At the end of the year, the group employed 466 persons (467), of which 82 (66) were employed outside of Finland. The average number of personnel decreased by 56 (72) people. In the last quarter, personnel grew by 24 people. This growth was mainly caused by S-Link AB as well as the Polish and Chinese companies starting their operations in the Teleste Group.

Decisions by the Annual General Meeting

The Annual General Meeting on April 8, 2003 approved the financial statements for 2002 and discharged the Board of Directors and the CEO from liability for the financial period. The Annual General Meeting confirmed the dividend of EUR 0.08 per share as proposed by the Board of Directors.

The Annual General Meeting elected Mr. Tapio Hintikka as Chairman of the Board of Directors, and Mr. Tero Laaksonen, Mr. Pertti Raatikainen, Mr. Timo Toivola and Mr. Pekka Vennamo as members of the Board of Directors.

The Annual General Meeting decided to authorize the Board of Directors to decide on the acquisition and on the conveyance of the company's own shares as well as to authorise the Board of Directors to decide on the increase of the share capital through a new issue. The authorisations given to the Board of Directors by the Annual General Meeting to purchase or convey own shares and increase share capital have not been used.

Management and Auditors

Mr. Jukka Rinnevaara acted as CEO for the company. KPMG Wideri Oy Ab was elected to be the auditor.

Shares and Changes in Share Capital

At the end of 2003, the Sampo Life Insurance Company Ltd was the largest single shareholder with 9.39% holdings.

During 2003, the highest share price was EUR 6.49 and the lowest EUR 2.40. The closing price at the end of the year was EUR 5.41. During the year, 9.9 million shares were traded on the Helsinki Exchanges; these shares represented 57% of the share capital.

Based on Teleste's 1997 bond loan, 292,152 shares were subscribed during the year, bringing Teleste's share capital to EUR 6,931,020.80, which is divided among 17,327,552 shares. 23,304 of the subscriptions had not been registered as share capital as of December 31, 2003.

The company's registered share capital on December 31, 2003 was EUR 6,921,699.20, divided up into 17,304,248 shares, of which the company holds 620,000 shares.

Outlook for 2004

The increasing demand for fast Internet connections and interactive digital services will support our growth in the coming next years. In light of the current situation, we believe that the market of our core business, Broadband Cable Networks, has passed the bottom level and therefore a period of careful growth will start in 2004. Due to the corporate acquisition and expected economical growth, we believe that Video Networks' business activities will get back to a growth path again during 2004. The recovering market, the constant development of internal processes and the utilisation of the sourcing channels of China will improve competitiveness and pave the way for continued profitability in 2004 as well. We therefore expect both net sales and operating profit to be better than the previous year.

Statement of Income 1.1.–31.12.2003

1000 euros	Note	2003	Group 2002	2003	Parent company 2002
Net sales	1	54 204	66 778	49 817	58 115
Change in inventories of finished goods		-343	-3 173	322	-3 263
Other operating income	2	1 126	994	1 073	994
Materials, supplies and services	3	-21 320	-30 930	-19 033	-23 840
Wages, salaries and social expenses	4	-18 034	-21 034	-15 010	-17 628
Depreciation and amortisation	5	-2 741	-3 016	-2 506	-2 810
Other operating expenses		-11 125	-13 904	-12 874	-16 867
Operating profit		1 767	-4 286	1 789	-5 299
Financial income and expenses	6	-239	-843	4 392	3 450
Profit after financial items		1 528	-5 129	6 181	-1 849
Extraordinary items	7	0	-3 065	0	-3 065
Profit before taxes		1 528	-8 194	6 181	-4 914
Appropriations	5	0	0	137	145
Direct taxes	9	133	1 076	-1 248	-81
Profit for the financial period		1 661	-7 118	5 070	-4 850

Balance Sheet 31.12.2003

1000 euros	Note	2003	Group	2002	2003	Parent company	2002
Fixed assets							
Intangible assets	10	59		1 036	3 816		5 540
Goodwill	10	6 628		4 954	0		0
Tangible assets	10	5 644		7 083	5 544		6 906
Investments	11	4 470		2 649	10 350		5 437
Long-term receivables	12	0		0	849		849
		16 801		15 722	20 559		18 732
Current assets							
Inventories	13	5 322		5 935	4 690		4 862
Current/short-term receivables	14	11 802		16 726	8 860		13 893
Short-term investments	15	9 303		8 539	9 303		8 539
Cash and cash equivalents	15	4 889		5 127	4 053		4 762
		31 316		36 327	26 906		32 056
Total assets		48 117		52 049	47 465		50 788
Shareholders' equity							
Share capital	16	6 921		6 814	6 921		6 814
Share premium fund	16	1 250		1 175	1 250		1 175
Treasury shares	16	3 354		1 531	3 354		1 531
Retained earnings	16	13 784		22 238	3 188		9 350
Profit for the financial period	16	1 661		-7 118	5 070		-4 850
		26 971		24 640	19 784		14 020
Appropriations	8	0		0	1 553		1 690
Obligatory provisions	17	1 994		1 882	1 959		1 831
Liabilities							
Long-term liabilities	19	10 000		10 000	10 000		10 000
Short-term liabilities	20	9 152		15 527	14 169		23 247
		19 152		25 527	24 169		33 247
Total liabilities and shareholders' equity		48 117		52 049	47 465		50 788

Cash Flow Statement

1000 euros	2003	Group	2002	2003	Parent company	2002
Cash flow from operations						
Operating profit	1 767		-4 286	1 789		-5 299
Adjustments to operating profit	3 834		3 435	3 607		3 618
Change in net working capital	4 743		-815	1 480		-3 181
Interest income	268		536	322		595
Interest expenses	-337		-845	-332		-853
Dividend income	8		4	3 378		3 371
Other financial items	-178		-538	-178		-538
Taxes paid	-536		-189	-399		-81
Extraordinary items	0		0	0		0
Cash flow from operations	9 569		-2 698	9 667		-2 368
Investments						
Other tangible assets	-448		-1 311	-396		-1 150
Advance payments	0		-971	0		-971
Sale of other tangible assets	43		48	5		48
Investments in subsidiary shares	-2 487		0	-3 092		0
Cash flow from investments	-2 892		-2 234	-3 483		-2 073
Cash flow before financing	6 677		-4 932	6 184		-4 441
Financing						
Long-term liabilities	0		-10 148	0		-10 378
Long-term assets	0		325	0		663
Short-term liabilities	-5 000		5 000	-5 000		5 000
Paid dividends	-1 312		-2 640	-1 312		-2 640
Group contributions, net	0		0	0		0
Share issue	183		94	183		94
Others	-22		96	0		0
Own shares	0		-1 072	0		-1 072
Financing total	-6 151		-8 345	-6 129		-8 333
Change in liquid funds	526		-13 277	55		-12 774
Liquid funds 1.1.2003	13 666		26 943	13 301		26 075
Liquid funds 31.12.2003	14 192		13 666	13 356		13 301

Accounting Principles of the Group

Consolidated Accounts

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 inter-company transactions and balances are eliminated as a part the consolidation process. Minority interests in earnings and shareholders' 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 amortized over its estimated useful life, not exceeding 10 years.

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 the essential part of currency risks six months ahead. Regarding the 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 amortization. Depreciation and amortization 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	3–5 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 recognized on the balance sheet, and the lease payments are charged as incurred.

Inventories

Inventories are stated at the lower of cost or net realizable 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 and cash at banks. Short-term investments include other funds equivalent to cash, such as commercial papers.

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 recognized when services are rendered, or when the goods are delivered to the customer.

Percentage of completion method: sales and anticipated profits under significant long-term engineering and construction contracts are recorded on a percentage-of-completion basis, using either units of delivery (based on predetermined milestones) or the cost-to-cost method of accounting as the measurement basis. Estimated contract profits are recorded in earnings in proportion to recorded sales. In the cost-to-cost method, sales and profits are recorded after considering the ratio of accumulated costs to estimated total costs to complete each contract.

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.

Extraordinary Items

Events that differ from normal activities, are by nature one time and relevant, are handled as extraordinary items. Extraordinary items are adjusted with their tax effect. As an exception from this principle the deferred tax receivable from long-term loan receivable write-off during accounting period 2002 has not been booked.

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 recognized at their full amounts in the balance sheet, and deferred tax assets are recognized 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 confirmed tax rate for next year at closing date is used as the tax rate.

Social Costs of Options

Social costs have been expensed regarding those options, whose subscription period has begun and whose subscription price is higher than the share price.

Own Shares

Own shares acquired by the company are presented in the fixed assets in the balance sheet. The acquisition cost of the acquired shares is recognized as undistributable equity. The value of own shares is limited to acquired price. The value of own shares in the balance sheet December 31, 2003 is the closing price of the share December 31, 2003.

Notes to the Statement of Income and Balance Sheet

1000 euros	2003	Group	2002	2003	Parent company	2002
1. Net sales and orders received						
Net sales by business unit						
Broadband Cable Networks	43 180		52 178	38 793		43 515
Video Networks	11 024		14 600	11 024		14 600
	54 204		66 778	49 817		58 115
Orders received						
Broadband Cable Networks	40 052		44 745	38 052		37 545
Video Networks	12 162		14 781	12 162		14 781
	52 214		59 526	50 214		52 326
Net sales by market area						
Finland	9 530		11 604	9 530		11 604
Scandinavia	8 828		9 364	8 276		9 284
Other EU	21 935		36 491	18 100		27 902
Other Europe	8 879		6 624	8 879		6 624
North America	1 583		914	1 583		921
Asia	1 981		884	1 981		884
Others	1 469		895	1 469		895
Total	54 204		66 778	49 817		58 115
2. Other operating income						
R&D subvention and others	1 126		994	1 073		994
Total	1 126		994	1 073		994
3. Materials and services						
Purchases	17 636		23 714	17 240		20 811
Change in inventories	630		2 475	493		2 475
	18 266		26 189	17 733		23 286
Purchased services	3 054		4 741	1 300		554
Total	21 320		30 930	19 033		23 840
4. Personnel expenses						
Wages and salaries	14 835		17 172	12 219		14 190
Pension costs	2 067		2 565	1 871		2 349
Other personnel costs	1 132		1 297	920		1 089
Total	18 034		21 034	15 010		17 628
Remuneration to Board members and Managing Directors	588		768	354		547
Cash loans, securities or contingent liabilities were not granted to the Managing Directors or to the members of the Board of Directors						
Year-end personnel	466		467	407		430
Average personnel	452		506	420		459
Personnel by function at the year-end						
Research and Development	124		116	114		116
Production and Material Management	230		231	231		231
Sales and Marketing	87		96	40		59
Finance and IT	25		24	22		24
Total	466		467	407		430

	2003	Group	2002	2003	Parent company	2002
5. Depreciation according to plan						
Other capitalized expenditure	288		489	288		489
Buildings	296		304	296		304
Machinery and equipment	1 260		1 369	1 170		1 265
Goodwill on consolidation	897		854	752		752
Total	2 741		3 016	2 506		2 810
Change in accumulated depreciation difference						
Buildings				139		145
Other capitalized expenditure				-2		0
Total				137		145
6. Financial income and expenses						
Interest income	268		536	250		523
Interest income from group companies	0		0	72		72
Interest expenses	-337		-845	-332		-844
Interest expenses to group companies	0		0	0		-9
Currency differences	-51		-236	-51		-236
Other financial income and expenses	-127		-302	-127		-302
Dividend income from group companies	0		0	3 303		3 367
Avoir fiscal	0		0	1 269		875
Dividend income	8		4	8		4
Total	-239		-843	4 392		3 450
7. Extraordinary items						
Expenses						
Long-term loan receivables excluding deferred tax assets 2002	0		-3 065	0		-3 065
8. Appropriations and deferred tax assets and liabilities in the parent company						
Accumulated depreciation in excess of plan				1 553		1 690
9. Income taxes						
Change in deferred taxes	-316		-1 265	0		0
Direct taxes	183		189	1 248		81
Total	-133		-1 076	1 248		81

10. Tangible and intangible assets

Group	Intangible assets			Tangible assets				
	Intangible rights	Goodwill	Total	Land	Buildings	Machinery	Other capitalized expenditure	Total
Acquisition cost 1.1.2003*	1 036	13 752	15 621	108	5 316	10 948	1 984	18 356
Translation difference	0	0	0	0	0	0	0	0
Increases	18	2 569	2 587	0	0	415	33	448
Decreases**	-995	0	-995	0	0	-43	0	-43
Transfer between items	0	0	0	0	0	0	0	0
Acquisition cost 31.12.2003	59	16 321	17 213	108	5 316	11 320	2 017	18 761
* includes advance payment 971								
** includes advance payments -995								
Accumulated depreciation 1.1.2003	0	8 797	9 631	0	1 382	8 400	1 491	11 273
Translation difference	0	-1	-1	0	0	0	0	0
Accumulated depreciation of decreases and transfers	0	0	0	0	0	0	0	0
Depreciation	0	897	897	0	296	1 260	288	1 844
Accumulated depreciation 31.12.2003	0	9 693	10 527	0	1 678	9 660	1 779	13 117
Book value 31.12.2003	59	6 628	6 686	108	3 638	1 660	238	5 644
Book value of machinery and equipment 31.12.2003						1 507		
Book value of machinery and equipment 31.12.2002						2 347		
Parent company								
Acquisition cost 1.1.2003*	8 551	0	8 551	108	4 983	6 929	1 731	13 799
Translation difference	0	0	0	0	0	0	0	0
Increases	23	0	23	0	0	363	33	396
Decreases**	-995	0	-995	0	0	-5	0	-5
Transfer between items	0	0	0	0	0	0	0	0
Acquisition cost 31.12.2003	7 579	0	7 579	108	4 983	7 287	1 764	14 142
* includes advance payment 971								
** includes advance payments -995								
Accumulated depreciation 1.1.2003	3 011	0	3 011	0	1 049	4 457	1 339	6 845
Translation difference	0	0	0	0	0	0	0	0
Accumulated depreciation of decreases and transfers	0	0	0	0	0	0	0	0
Depreciation	752	0	752	0	296	1 170	288	1 754
Accumulated depreciation 31.12.2003	3 763	0	3 763	0	1 345	5 627	1 627	8 599
Book value 31.12.2003	3 816	0	3 816	108	3 638	1 660	137	5 544
Book value of machinery and equipment 31.12.2003						1 487		
Book value of machinery and equipment 31.12.2002						2 320		

11. Investments	<i>Shares associated companies</i>	<i>Shares others</i>	<i>Treasury shares</i>	<i>Receivables others</i>	<i>Total</i>
Group					
<i>Acquisition cost 1.1.2003</i>	0	1 118	5 818	0	6 936
<i>Translation difference</i>	0	0	0	0	0
<i>Increases</i>	0	0	0	0	0
<i>Decreases</i>	0	-2	0	0	-2
<i>Transfer between items</i>	0	0	0	0	0
Acquisition cost 31.12.2003	0	1 116	5 818	0	6 934
<i>Accumulated depreciation 1.1.2003</i>	0	0	-4 287	0	-4 287
<i>Translation difference</i>	0	0	0	0	0
<i>Accumulated depreciation of decreases and transfers</i>	0	0	0	0	0
<i>Depreciation</i>	0	0	1 823	0	1 823
Accumulated depreciation 31.12.2003	0	0	-2 464	0	-2 464
Book value 31.12.2003	0	1 116	3 354	0	4 470
Parent company					
<i>Acquisition cost 1.1.2003</i>	3 473	1 118	5 818	0	10 409
<i>Translation difference</i>	0	0	0	0	0
<i>Increases</i>	3 092	0	0	0	3 092
<i>Decreases</i>	0	-2	0	0	-2
<i>Transfer between items</i>	0	0	0	0	0
Acquisition cost 31.12.2003	6 565	1 116	5 818	0	13 499
<i>Accumulated depreciation 1.1.2003</i>	-685	0	-4 287	0	-4 972
<i>Translation difference</i>	0	0	0	0	0
<i>Accumulated depreciation of decreases and transfers</i>	0	0	0	0	0
<i>Depreciation</i>	0	0	1 823	0	1 823
Accumulated depreciation 31.12.2003	-685	0	-2 464	0	-3 149
Book value 31.12.2003	5 880	1 116	3 354	0	10 350

	2003	Group	2002	2003	Parent company	2002
12. Long-term receivables						
<i>Long-term receivables from group companies</i>	0		0	849		849
Total	0		0	849		849
13. Inventories						
<i>Raw materials and consumables</i>	1 338		1 972	1 478		1 972
<i>Work in progress</i>	2 644		2 186	2 370		2 010
<i>Finished goods</i>	1 340		1 777	842		880
Total	5 322		5 935	4 690		4 862
14. Current assets						
<i>Accounts receivables</i>	8 600		13 452	6 884		9 702
<i>Accounts receivables from group companies</i>	0		0	0		1 281
<i>Loan receivables from group companies</i>	0		0	19		784
<i>Other receivables</i>	462		562	0		43
<i>Deferred tax assets, note 18</i>	739		583	0		0
<i>Avoir fiscal</i>	943		875	942		875
<i>Accrued income</i>	1 058		1 253	1 015		1 208
Total	11 802		16 726	8 860		13 893
15. Liquid funds						
<i>Short-term investments</i>	9 303		8 539	9 303		8 539
<i>Cash and cash equivalents</i>	4 889		5 127	4 053		4 762
16. Changes in shareholders' equity						
<i>Share capital 1.1.2003</i>	6 814		6 759	6 814		6 759
<i>Share issues</i>	107		55	107		55
<i>Share capital 31.12.2003</i>	6 921		6 814	6 921		6 814
<i>Share premium fund 1.1.2003</i>	1 175		1 136	1 175		1 136
<i>Share issues</i>	75		39	75		39
<i>Share premium fund 31.12.2003</i>	1 250		1 175	1 250		1 175
<i>Treasury shares 1.1.2003</i>	1 531		4 746	1 531		4 746
<i>Transfer from retained earnings</i>	0		1 072	0		1 072
<i>Change in value</i>	1 823		-4 287	1 823		-4 287
<i>Treasury shares 31.12.2003</i>	3 354		1 531	3 354		1 531
<i>Retained earnings 1.1.2003</i>	15 120		25 908	4 500		13 062
<i>Translation difference</i>	-22		42	0		0
<i>Dividends</i>	-1 312		-2 640	-1 312		-2 640
<i>Transfer to treasury shares</i>	0		-1 072	0		-1 072
<i>Retained earnings 31.12.2003</i>	13 786		22 238	3 188		9 350
<i>Profit for the financial period</i>	1 661		-7 118	5 070		-4 850
<i>Accumulated profit 31.12.2003</i>	15 446		15 120	8 258		4 500
Total	26 971		24 640	19 784		14 020
Distributable funds	8 258		4 500	8 258		4 500

Parent company's registered share capital consists of one serie and is divided into 17,304,248 shares at 1 vote each.

	2003	Group	2002	2003	Parent company	2002
17. Obligatory provisions						
Provision for guarantees	902		718	868		667
Provision for pension commitments	160		100	160		100
Provision for restructuring	180		1 054	180		1 054
Others	752		10	751		10
Total	1 994		1 882	1 959		1 831
18. Deferred taxes						
Deferred tax assets						
From timing differences	1 250		1 000	0		0
From consolidation	52		73	0		0
Total	1 302		1 073	0		0
Deferred tax liabilities						
From appropriations	563		490	0		0
Total	739		583	0		0
19. Long-term liabilities						
Bank loans	10 000		10 000	10 000		10 000
Total	10 000		10 000	10 000		10 000
Liabilities due after 5 years	4 286		0	4 286		0
20. Short-term liabilities						
Bank loans	0		5 000	0		5 000
Advance payments received	189		453	99		453
Accounts payables	3 349		3 834	2 734		3 005
Accounts payables from group companies	0		0	362		350
Other current liabilities	657		1 121	409		738
Other current liabilities from group companies	0		0	6 083		9 297
Accrued liabilities	4 957		5 119	4 482		4 404
Total	9 152		15 527	14 169		23 247
21. Contingent liabilities and pledged assets						
Debts covered by company mortgages and pledged assets						
Bank loans	10 000		15 000	10 000		15 000
Leasing liabilities						
For next year	335		383	174		191
For later years	143		333	52		169
Total	478		716	226		360
Rental liabilities	943		774	581		461
Liabilities on own behalf						
Mortgages	7 000		2 985	7 000		2 985
Company mortgages	10 000		40 000	10 000		40 000
22. Currency derivatives						
Value of underlying forward contracts	4 258		7 607	4 258		7 607
Market value of forward contracts	4 210		7 493	4 210		7 493
Forward contracts are used only for hedging currency exchange risks.						

23. 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, Malmö, Sweden	100	100
Teleste UK Ltd, Cambridge, UK	100	100
Teleste Kaurakatu Oy, Turku, Finland	100	100
Teleste GmbH, Hannover, Germany	100	100
Suomen Yhteisantennit Oy, Turku, Finland	100	100
Kaavisio Oy, Turku, Finland	100	100
S-Link AB, Täby, Sweden	100	100
S-Link ssp, Krakowa, Poland	100	100
Teleste Electronics SIP, Shanghai, China	60	60
Teleste LLC, Texas, USA	100	100

24. Own shares

	Number of shares	Nominal value EUR	Percentage of share capital	Percentage of votes
Parent company owns own shares 31.12.2003	620 000	248 000	3.6%	3.6%

25. Owners

The information on shareholders is based on register data kept by the Finnish Central Securities Depository and includes only direct registered holdings.

Major Shareholders 31.12.2003	Number of shares	Percentage of shares
Sampo Life Insurance Company Ltd	1 624 200	9.39%
Nordea Pankki Suomi Oyj, nominee register account	944 285	5.46%
Ilmarinen Mutual Pension Ins. Company	820 350	4.74%
Varma Mutual Pension Insurance Company	789 150	4.56%
Teleste Corporation	620 000	3.58%
Kaleva Mutual Insurance Company	588 900	3.40%
HSS/Skandinaviska Enskildabanken AB, nominee register account	516 150	2.98%
Merivirta Jyri Tapio	415 000	2.40%
State Pension Fund	400 000	2.31%
Nordea Nordic Small Cap Mutual Fund	225 350	1.30%
FIM Fenno Mutual Fund	220 000	1.27%
Aktia Capital Mutual Fund	211 100	1.22%
Gyllenberg Small Firm Fund	196 450	1.14%
FIM Forte Mutual Fund	182 500	1.05%
Mutual Insurance Company Pension-Fennia	157 000	0.91%
Fondita Nordic Small Cap Placfond	142 000	0.82%
Nordea Avanti Mutual Fund	141 350	0.82%
Toivila Timo Tapio	139 119	0.80%
Aktia Secura Mutual Fund	130 000	0.75%
Mandatum Suomi Kasvuosake Mutual Fund	113 950	0.66%
Total	8 576 854	49.56%

Ownership structure 31.12.2003

Shares	Number of shareholders	Percentage of shareholders	Number of shares	Percentage of shares
1-1 000	5 335	82.79%	1 707 831	9.87%
1 001-10 000	975	15.13%	3 001 769	17.35%
10 001-100 000	112	1.74%	3 449 248	19.93%
100 001-	22	0.34%	7 545 279	43.60%
Total	6 444	100.00%	15 704 127	90.75%
Nominee register accounts			1 600 121	9.25%
Total			17 304 248	100.00%

Shareholder groups	Number of shares	Percentage of shares
Corporations	2 273 605	13.14%
Financial and insurance institutions	4 907 698	28.36%
Public organizations	2 568 027	14.84%
Non-profit organizations	1 014 486	5.86%
Households	4 714 413	27.24%
Foreign and nominee register accounts	1 826 019	10.55%
Total	17 304 248	100.00%

Management interest	Number of shares	Percentage of shares and votes
CEO and Board Members	174 870	1.01%

Option programs

Number of shares entitled to subscribe with options

	Number of shares	Percentage of shares and votes
CEO and Board members	110 000	0.6%
Other option holders	883 700	4.7%
Subscribed, not registered 31.12.2003	23 304	0.1%
1997 program warrants hold by the group	5 248	0.0%
2000 program warrants hold by the group	270 500	1.4%
2002 program warrants hold by the group	118 000	0.6%
Total	1 410 752	7.5%

The Annual General Meeting decided on November 14, 1997 to issue a bond loan with warrants for Teleste's key personnel. With warrants attached to the bonds totally 1,280,000 shares at 0.68 euros a piece can be subscribed by the holders. The subscription period for 50% of the warrants began on December 1, 1999, for 25% on December 1, 2000 and for 25% on December 1, 2001. The subscription period for all the warrants ended on January 31, 2004. The Board has the right to decide on transferring the option rights.

The Annual General Meeting decided on April 12, 2000 to issue a bond loan with warrants for Teleste's personnel. On June 18, 2001 the Board decided to cancel the B warrants attached to the bonds. After that with warrants attached to the bonds totally 820,000 shares can be subscribed by the holders. The subscription period for 63% of the warrants began on October 1, 2002 and their subscription price is 25.35 euros a piece. The subscription period for 37% of the warrants began on October 1, 2003 and their subscription price is 10.21 euros a piece. The subscription period for all the warrants ends on October 31, 2005. The subscription price is lowered with paid dividends. The Board has the right to decide on transferring the option rights.

The Annual General Meeting decided on April 8, 2002 to issue a bond loan with warrants for Teleste's personnel. With warrants attached to the bonds totally 550,000 shares can be subscribed by the holders. The subscription period for A warrants, which represent 50% of the warrants begins on February 1, 2005 and the subscription price is 7.47 euros a piece. The subscription period for A warrants ends on October 1, 2007. The subscription period for B warrants, which represent 50% of warrants, begins on February 1, 2006 and ends on October 1, 2008. The subscription price is 2.73 euros a piece. The subscription price is lowered with paid dividends. The Board has the right to decide on transferring the option rights.

Proposal for Distribution of Profits

According to the consolidated balance sheet, the distributable funds stood at EUR 8,257,235.23. Considering the dividend policy and the near future growth plans, the Board of Directors proposes that from the parent company's distributable funds disposable for the Annual General Meeting a dividend of EUR 0.08 per outstanding share will be paid, and that the remaining distributable funds remain as retained earnings.

Helsinki, January 28, 2004

Teleste Corporation
Board of Directors

Tapio Hintikka

Tero Laaksonen

Pertti Raatikainen

Timo Toivila

Pekka Vennamo

Jukka Rinnevaara
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.–31.12.2003. 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 CEO. 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 CEO have legally complied with the rules of the Companies' Act.

In our opinion the financial statements 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 CEO of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distributable assets is in compliance with the Companies' Act.

Helsinki, January 28, 2004

KPMG Wideri Oy Ab

Sixten Nyman
Authorised Public Accountant

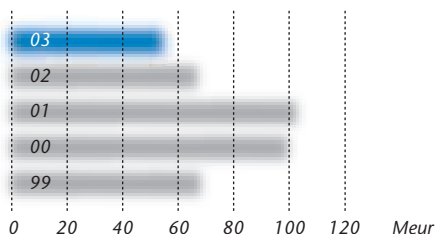
Most Important Releases in 2003

Teleste published a total of 21 stock exchange releases or announcements in 2003. Short summaries of the most significant releases are given below:

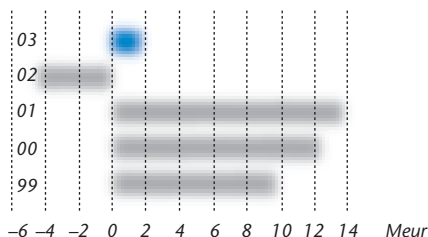
- 15.1. A strategically important order received from China
- 4.2. Financial Statements 2002
- 8.4. Decisions of the Annual General Meeting
The Annual General Meeting confirmed the financial statements for 2002 and discharged the Board and the CEO from liability for the financial period. The Annual General Meeting confirmed the Board's proposed dividend of EUR 0.08 per share for free floating shares. The AGM decided the number of the members of the Board of Directors to be five. Mr. Tapio Hintikka was elected as the Chairman of the Board and Mr. Tero Laaksonen, Mr. Pertti Raatikainen, Mr. Timo Toivila and Mr. Pekka Vennamo were elected as members of the Board of Directors. KPMG Wideri Oy Ab was elected as the auditor. The AGM approved the proposal of the Board of Directors to amend the company's Articles of Association and approved the proposals to authorize the Board to acquire own shares, to convey own shares and to increase share capital by a new issue.
- 23.4. Interim Report 1.1.–31.3.2003
- 22.7. Interim Report 1.1.–30.6.2003
- 8.8. Teleste received the first order from Poland
- 4.9. Teleste to develop a revolutionary fast IP-based data access technology, named Ethernet to the Home (EtH) in co-operation with Essent Kabelcom
- 13.10. Teleste strives for better profitability through Far East sourcing by establishing an affiliated company, Teleste Electronics SIP (SuZhou Industrial Park) in China
- 20.10. Interim Report 1.1.–30.9.2003
- 13.11. Teleste purchases S-Link AB, a Swedish network management software company as part of Teleste Video Network's strategy to extend its competence into management software

Teleste in Graphs

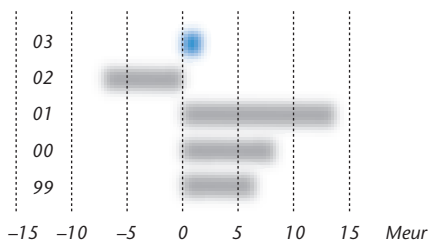
Net Sales



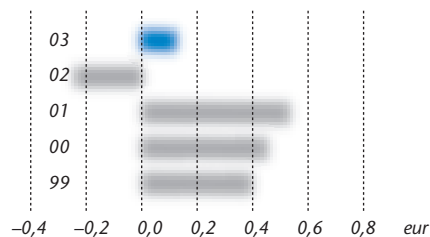
Operating Profit



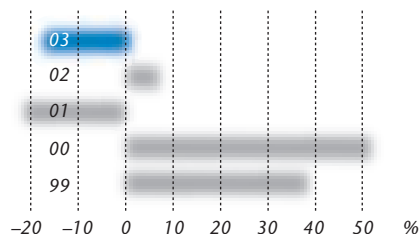
Profit for the Financial Period



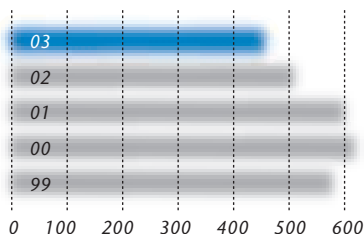
Earnings per Share



Gearing



Personnel on Average



Home Networks division included years 1999–2000. Educational division included years 1999–2001.

Key Figures

	1999	2000	2001	2002	2003
Net sales, Meur	68.1	99.4	102.6	66.8	54.2
Change, %	3.1	46.0	3.2	-34.9	-18.8
Sales outside Finland, %	91.0	91.0	87.0	82.6	81.9
Operating profit, Meur	9.9	12.2	13.8	-4.3	1.8
% of net sales	14.5	12.3	13.5	-6.4	3.3
Profit after financial items, Meur	9.0	10.9	13.1	-5.1	1.5
% of net sales	13.3	11.0	12.8	-7.6	2.8
Profit before taxes, Meur	9.0	12.3	17.9	-8.2	1.5
% of net sales	13.3	12.4	17.4	-12.3	2.8
Profit for the financial period, Meur	6.4	8.6	13.5	-7.1	1.7
% of net sales	9.4	8.7	13.1	-10.6	3.1
R&D expenditure, Meur	6.6	9.0	9.2	6.6	5.8
% of net sales	9.6	9.0	9.0	9.9	10.7
Gross investments, Meur	2.0	3.1	3.7	1.3	3.4
% of net sales	2.9	3.1	3.6	1.9	6.3
Average personnel	584	616	594	506	452
Order backlog at the year-end, Meur	19.9	26.4	17.8	9.7	6.6
Orders received, Meur	78.1	108.9	97.7	59.5	52.2
Return on equity, %	39.0	31.4	28.9	-14.2	7.1
Return on capital employed, %	36.2	31.4	27.4	-7.6	5.3
Equity ratio, %	45.4	42.7	44.5	44.8	49.3
Gearing, %	38.1	51.1	-20.5	5.8	-17.7
Earnings per share, eur	0.39	0.44	0.53	-0.25	0.10
Earnings per share w/o goodwill depreciation, eur	0.45	0.49	0.58	-0.19	0.16
Earnings per share fully diluted, eur	0.37	0.46	0.51	-0.25	
Shareholders equity per share, eur	1.17	1.61	2.05	1.41	1.41
Highest price, eur	19.00	39.00	24.00	14.00	6.49
Lowest price, eur	7.00	12.90	7.80	2.21	2.40
Closing price, eur	16.20	23.50	12.49	2.47	5.41
Average price, eur	9.06	24.06	13.64	5.52	4.41
Price per earnings	40.5	53.8	23.7	-10.0	53.7
Market capitalization, Meur	260.8	390.4	206.1	40.5	90.3
Turnover, number in millions	24.8	25.7	19.3	15.0	9.9
Turnover, % of share capital	154.2	154.5	114.1	88.0	57.2
Average number of shares	16 049 364	16 360 488	16 732 918	16 974 287	17 094 910
Number of shares at the year-end	16 096 500	16 612 100	16 897 980	17 035 400	17 304 248
Number of shares subscribed, not registered 31.12.2003					23 304
Average number of shares, diluted	17 345 000	18 153 402	18 306 219	18 567 329	18 715 000
Number of shares at the year-end, diluted	17 345 000	18 470 000	18 165 000	18 715 000	18 715 000
Dividend per share, eur	0.10	0.12	0.16	0.08	0.08*
Dividend per net result, %	25.0	27.5	30.3	-32.5	79.4
Effective dividend yield, %	0.6	0.5	1.3	3.2	1.5

*The Board's proposal to the AGM

Calculation of Key Figures

Return on equity:

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

Return on capital employed:

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

Equity ratio:

$$\frac{\text{Shareholders' equity – own shares}}{\text{Total assets – advances received}} \times 100$$

Gearing:

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

Earnings per share:

$$\frac{\text{Profit before extraordinary items – taxes}}{\text{Number of shares – number of own shares}}$$

Equity per share:

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

Price per earnings:

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

Effective dividend yield:

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

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Information for the Shareholders

Annual General Meeting

Teleste Corporation's Annual General Meeting will be held on Tuesday, March 16, 2004, 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 March 5, 2004.

Notification of Attendance

Shareholders wishing to attend the Annual General Meeting must inform the company (address information below) by 4 pm. on Monday, March 8, 2004 at the latest.

Attendance information 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.

Dividend Policy

The company's intent is to propose to the Annual General Meeting, that approximately one-fifth of group's annual after tax profits shall be paid.

Payment of Dividend in 2004

The Board of Directors proposes that a dividend of EUR 0.08 per share for 2003 will be paid to free floating shares. The dividend will be paid to shareholders who are registered, on the record date March 19, 2004 in the company's Shareholder List, which is kept by Finnish Central Securities Depository Ltd.

Annual General Meeting March 16, 2004

Dividend ex date March 17, 2004

Dividend record date March 19, 2004

Payment of dividend March 26, 2004

Financial Information in 2004

Financial Statements January 28, 2004

Interim report January–March April 20, 2004

Interim report January–June July 20, 2004

Interim report January–September October 19, 2004

Financial information is available in Finnish and in English. Financial reports are not printed, but instead they are published on Teleste's internet pages, www.teleste.com. Stock exchange releases can be found from the same address. Paper copies of the financial publications may be ordered from the company.

Share Register

Shareholder mailings are made based on the information in the shareholder's register kept by the Finnish Central Securities Depository Ltd. Shareholders are kindly requested to inform the custodian of their book-entry account of any changes in contact details.

New Issuer Code

HEX Helsinki will start using OM HEX's common trading platform SAXESS in Autumn 2004. NOREX Exchanges (Stockholm, Copenhagen, Oslo and Iceland) have already SAXESS in use and there are overlapping Issuer Codes. Therefore our issuer code is going to be changed.

New Issuer Code shall be TLT1V.

New Issuer code shall be used in HETI-trading platform as of June 1, 2004.

Share Basics

Teleste's shares are traded on the main list of Helsinki Exchanges (since March 30, 1999).

Category	Telecommunications and Electronics
ISIN code	FI0009007728
Trading code	TEL1V
Reuters ticker symbol	TEL1V.HE
Bloomberg ticker symbol	TEL1V FH
Lot size	50
Face value	0.40
Number of shares at the year-end 2003	17,304,248

During the year the highest share price was EUR 6.49 and the lowest EUR 2.40. The average price of the year was EUR 4.41. The closing price at the end of the year was EUR 5.41. The market capitalization of the share capital with out shares owned by company itself was at that time EUR 90.3 million. During the year 9.9 million shares were traded in Helsinki Exchanges and they present 57.2% of the free floating share capital.

With warrants of Teleste's 1997 bond loan with warrants 292,152 shares were subscribed during the year. From the subscribed shares 23,304 was not registered as at December 31, 2003. Due to registered shares the share capital increased EUR 107,539.20. Teleste's registered share capital on December 31, 2003 totaled EUR 6,921,699.20 divided into 17,304,248 shares.

The Board of Directors and CEO own totally 1.01% of the share capital and votes. CEO owns 4,000 Teleste shares. One Board Member owns Teleste 2000 A warrants which entitle to subscribe 50,000 Teleste shares. CEO owns Teleste 2002 A and B warrants with which CEO can subscribe in the future 60,000 Teleste shares.

Teleste had 6,444 shareholders at the year-end. The amount of foreign ownership was 9.25% at the end of the year.

Investor Relations

CEO, Mr. Jukka Rinnevaara is responsible for Teleste's investor relations. Inquiries about the company can be addressed to him by phone: +358 2 2605 611 or by email: investor.relations@teleste.com

Attendance notification to the Annual General Meeting, material orders and meeting requests, please contact:

Teleste Corporation

Tiina Vuorinen

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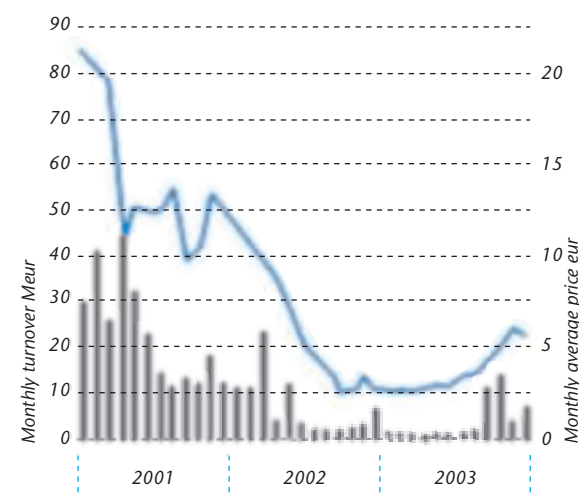
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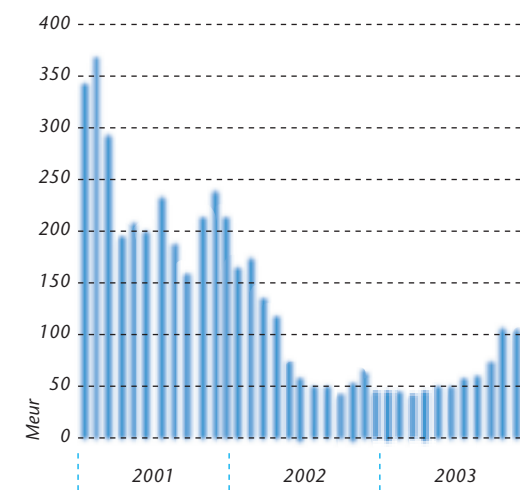
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Share turnover
Average price



Market capitalization per month



Share price development



Analyst Coverage

According to our information the analysts listed below monitor Teleste's performance (the list might not be complete). Teleste takes no responsibility for the opinions expressed by analysts or for any evaluations presented by them.

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