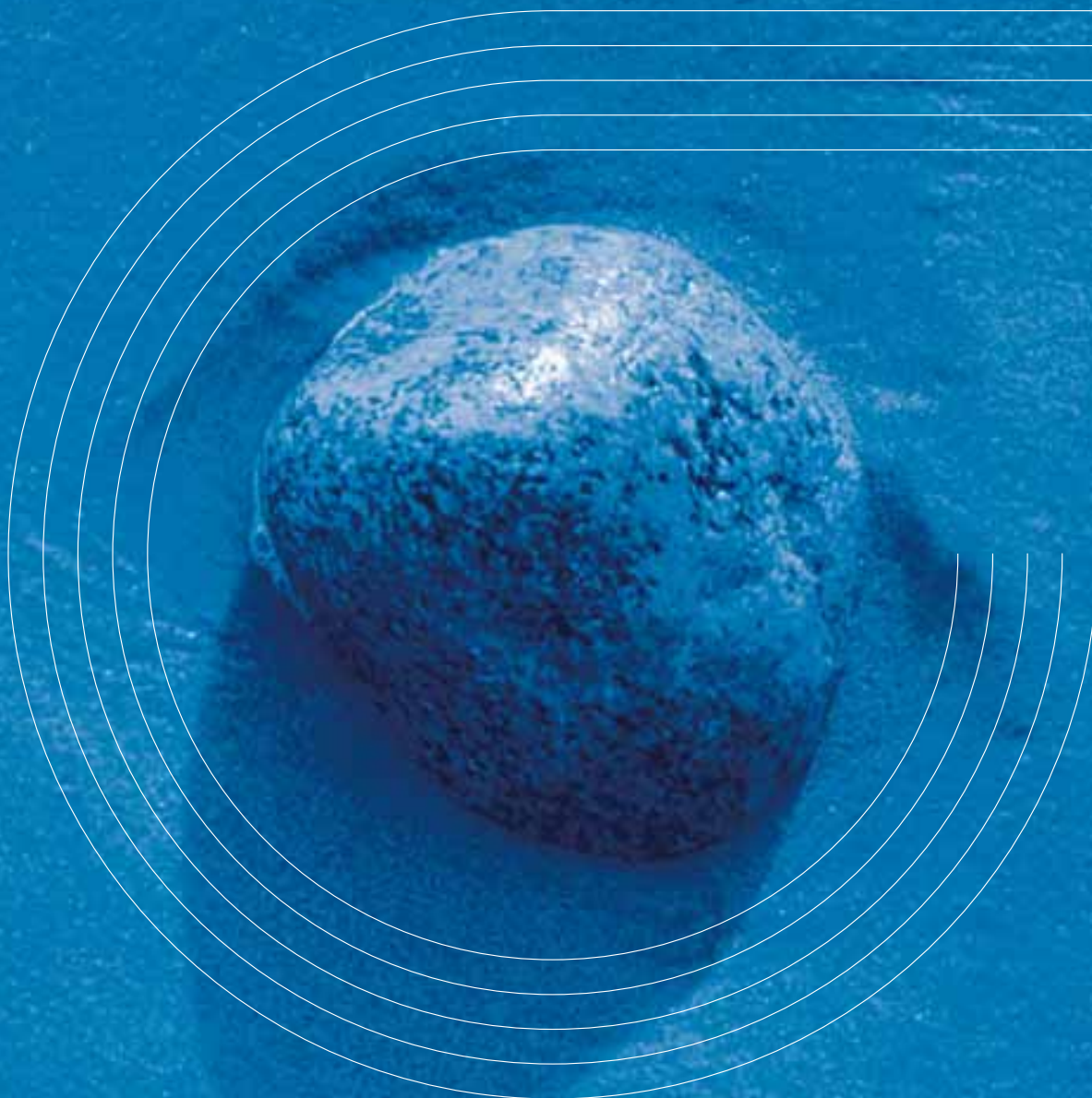


# ***Annual Report 2004***



***Teleste***

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## **Teleste's Current Business Milestones**

Founded in **1954**, Teleste launched its first own product, an aerial outlet, on the market in **1957**.

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

In **1970** the development company Sponsor Oy became Teleste's main owner kicking off a number of development projects designed to turn the company international. The development of broadband technology was started in **1973**. One of the most important decisions was to develop the company's own satellite technology.

The development of Teleste's current business unit, Broadband Cable Networks, can be considered to have started in early **1980's**, when Teleste came up with its first satellite receiving system, a trunk amplifier and the head-end for a cable TV network. At that time, Teleste started to focus on fibre optic technology being 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. Digital technology was incorporated in Teleste's products on an increasing scale. The first digital TV modulator was launched in **1996** followed soon by a complete digital head-end and transmission system. For a number of years Teleste had invested in software expertise, which in **1999** led to the launch of its own network management system.

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

**At the turn of the millennium**, along with Ethernet-based cable television and video surveillance network solutions Teleste started to focus on the new generation interactive broadband network. As a result the company came up with the ATMux system for reception and broadcasting of digital TV programmes and the ATM-based video surveillance system. The new Virtuoso gateway video-on-demand service solution was developed for the VoD networks.

**By the turn of the millennium** Broadband Cable Networks commenced the development of a dedicated data communications solution. The Ethernet to the Home concept is designed to maximise the transfer capacity of the cable operators' existing networks enabling data transfer to households at the staggering rate of up to 100 Mbps.

As to the video surveillance networks, in **2002** Teleste introduced the video surveillance system based on the Ethernet technology. At the end of **2003** Teleste expanded its range of available video surveillance supply by acquiring S-Link AB specialising in network management software and storage technology. In **2005** MP-X, the new modular product platform for digital signal processing will be launched.

## **Values**

### **Customer Centricity**

*We will monitor our business environment, be open and operate proactively. We will understand the customer's overall needs and meet them together. We will be close to the customer – now and in the future. Customer centricity also involves the understanding and appreciation of internal customer relationships.*

### **Respect**

*We will respect people and treat them with equal human dignity. We will give recognition, listen and be fair and just. We will communicate openly and give constructive feedback. We will encourage trust and an open, relaxed atmosphere.*

### **Reliability**

*We will do what we promise and follow jointly established procedures and policies. We are all responsible for Teleste's success and each employee is entitled to good leadership. We will act responsibly and abide by laws and regulations.*

### **Result Orientation**

*We will make well-timed decisions, set challenging goals, communicate them clearly and complete tasks we set out to accomplish. We will renew and develop ourselves in order to grow profitably.*

*Our values will serve as beacons, guiding our journey towards a common goal – the Teleste vision.*

## **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 required 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.*

***At the top of Europe, Matterhorn towers above the city of Zermatt known as an Alpine centre. The data and television network of Zermatt has been delivered by Teleste, the leading European supplier of broadband networks.***

## CEO's Letter

### **2004 – Building on 50 Years of Solid Expertise**

The year 2004 marked Teleste's 50th Anniversary. We celebrated our official birthday in the beginning of the year, January 22, 2004, by putting our best foot forward in a highly challenging market situation. We have been involved in signal transmission technology all our history. 50 years back, our first ever products involved an aerial plug socket and aerial amplifier. With this background, our company – with its current businesses of Broadband Cable Networks and Video Networks – has five decades of strong accumulated expertise.

After the second quarter the long-awaited upturn in the market kicked in and this was soon reflected in the positive development in the volume of orders received and profitability. As our cost structure had already been adapted to an appropriate level, the positive turn in sales was soon followed by a significantly improved profitability. Summing up, in terms of profitable growth, we reached our goals specified for the whole year, orders received were up by no less than 54%, net sales showed an improvement of 22% while the operating profit more than trebled over the previous year.

Our main business – Broadband Cable Networks – supplies comprehensive high-tech broadband network solutions with related products and services to cable operators. Our core field of expertise is signal processing and transfer technology in cable networks. In straightforward terms, we deliver products and solutions that transfer and process video, audio and data in a cable network environment. In 2002 and 2003 this market was fairly quiet as the cable operators focused primarily on bringing about improvements in their financial standing. But quiet or not, we persistently pressed on with our R&D efforts thereby strengthening our leadership in the European market. Then last spring, the pent up demand for our cable operator services and the improved profitability led to gradual implementation of long-planned investment plans. In addition to increased television services offered by the cable operators, provision of broadband Internet services showed a particularly robust growth. In line with the above, the so-called Triple Play – a bundled package including cable television, access to the Internet and voice telephony – was successfully launched by a few selected European operators. In turn, greater demand for these services gave rise to pressures concerning upgrading of the existing networks, mainly in terms of increased capacity, full duplexing and digitalisation. Even though we operate globally, Europe remains our key market. The main competition comes from the USA, but even the strong euro has not undermined our position in the markets.

Market for the Video Networks' business didn't quite perform the way we expected. In spite of all the positive trends, network investments were delayed by the general stringency in the public sector. Moreover, the whole business is undergoing a technology breakthrough characterised by the shift from fibre modem technology over to the IP-based network solutions. Our key market areas including traffic control and city centre monitoring as well as high-end public security control systems have all developed favourably. The approximately five million euro order placed at the end of the year by the French National Railroad Authority for the video network management solution of the Paris railway system is a good case in point. By magnitude this network consisting of approximately 3,000 surveillance cameras ranks among the largest centrally controlled systems in the world. This is one market segment we expect to keep on growing in the future.

### **Adding Value to Our Customers by Way of High Technology and Good Service**

Now as in the future our essential goal is to create better solutions for our customers, add value to our shareholders and develop a meaningful work environment for our employees. As a company engaged in high technology, innovations and R&D are crucial to our business. These make up the foundation of our future by creating new improved solutions to the customers. We have been determined in our strong commitment in R&D. Our product development engages approximately 140 R&D engineers with the related expenses covering just slightly less than 11% of our net sales. Currently, our key development project involves Ethernet to the Home, EttH for short, which is a record-breakingly fast broadband data communications solution for households. The system is based on Teleste's technology and Ethernet standard taking virtually everything out of the existing HFC cable network and in a cost-effective manner. The first commercial application of the EttH has been successfully delivered, but we will press on by moving in to various network topologies whipping up the data transfer rates even more as we go along. Another significant development involves our flexible video surveillance solution known as MP-X. This is a system designed for traffic control, city centre monitoring and high-end security control applications. The platform easily connects to our network management system, other video surveillance products and third-party solutions supporting motion detection, face identification and various biometric applications. As a result we have a comprehensive and flexible solution meeting virtually any requirements related to video surveillance. Over and above, a number of other projects are about to bear fruit providing our customers with advanced solutions and our employees with inspiring challenges.

As to our customers, in addition to our extensive range of supplied products we have decided to widen the scope of the provided services. By provision of services we mean items such as network planning, integration services, supply of passive components, services related to network maintenance and network management systems. We believe that our customers look for comprehensive services encompassing the whole delivery from beginning to end. For us, one milestone in this road was the acquisition of Flomatik Group last July. Thanks to Flomatik, we can now provide cable operators with an even wider range of products and services, mainly in Norway, Sweden and Eastern Europe. I am delighted to point out that this strategic step met with warm reception amongst our clientele. Similarly, in Video Networks business we have significantly promoted the development of integration services.

### **Focus on Operational Development**

Achieving customer satisfaction and success in the international market requires continuous efforts in developing our business. In compliance with our process development programme, we are determined in shaping our operations to reach the combination of optimum quality and efficiency. Each member of our Management Group is responsible for one of our core processes, which are subject to joint development with the process owners and development teams. Equally, our cost structure is under constant scrutiny. Effective procurement is instrumental in the maintenance of our price competitiveness. Moreover, we are selectively shifting manufacturing of the so-called volume items to our facility in Suzhou, China.

In line with our strategy, all our development efforts require strong performance and commitment on the part of our employees. Improvement processes among the employees have been promoted through performance reviews and supported by findings from conducted surveys gauging well-being at work. Based on the obtained results we have targeted training and operational development measures with pinpoint accuracy. The same applies to the company values defined as customer centricity, result orientation, respect and reliability. Forming the basis of our commitment these stand for the values shared by the entire personnel.

**Market Outlook – Reaching Profitable Growth**

2004 marked a turning point characterised by three-quarters of upbeat market development. We have a strong market position, good customer relations, high-quality products and comprehensive range of services. On top of all this, we also have a solid financial standing. With preconditions like these we are confident that the present profitable growth will be sustained. However, the current global market place is never free of risks with a potential impact on market development. As for us, the two greatest current threats include the strong euro against the US dollar and the impact of the price trend of crude oil on the general economic development. Regardless of these I am prepared to take the chance of being optimistic about the market development of our businesses in 2005. Broadband Internet is advancing by leaps and bounds while the cable operators are busy making available new digital and interactive services. And what this requires is relentless development and maintenance of networks. Threats posed by increased crime and terrorism together with problems related to traffic call for new and increasingly versatile video surveillance solutions. We are determined in our commitment of implementing our strategy for the development of new products and services. Naturally, any chances of complementing our know-how through acquisitions will not go unnoticed.

**Statements of Appreciation**

I wish to express my heartfelt thanks to our customers, partners and our shareholders for successful co-operation in 2004. I thank our personnel for your strong commitment to our goals and for the flexibility you have shown in the ever-changing market environment. Guided by our values and supported by our good teamwork we have reached our goals as we are bound to do in the future.

  
 Jukka Rinnevaara  
 CEO

**Year 2004 in Brief**

	2004	2003	Change, %
Orders received, Meur	80.5	52.2	54.2
Net sales, Meur	66.2	54.2	22.1
Operating profit, Meur	5.3	1.8	194.4
Profit for the financial period, Meur	3.5	1.7	111.9
Earnings per share, eur	0.21	0.10	110.0
Equity per share, %	1.58	1.41	12.1
Return on capital employed, %	15.6	5.3	194.3
Turnover, % of share capital	70.9	57.2	24.0



Good service and high-quality products, efficient processes and above all competent and committed personnel enable reaching the goal of profitable growth even in the future.

## Information for the Shareholders

### Annual General Meeting

Teleste Corporation's Annual General Meeting will be held on April 5, 2005, commencing at 3 pm., at Finlandia Hall in Helsinki. Registration begins at 2 pm.

Shareholders wishing to attend the Annual General Meeting must be registered on the list of shareholders kept by the Finnish Central Securities Depository Ltd no later than March 24, 2005.

### Registration

Shareholders wishing to attend the Annual General Meeting must inform the company (see Investor Relations Contacts) on March 29, 2005 by 4 pm. at the latest.

Attendance information must be delivered before the deadline specified above. Any letters of authorisation must be submitted when the shareholders in question notify the company of their intention to attend.

### Dividend History

1999	2000	2001	2002	2003
0.10 eur	0.12 eur	0.16 eur	0.08 eur	0.08 eur

### Dividend Distribution Proposal 2005

The Board of Directors proposes that a dividend of EUR 0.12 per share for 2004 will be paid to free-floating shares. The dividend will be paid to shareholders who are registered on the record date of April 8, 2005 on the company's Shareholder List, which is kept by the Finnish Central Securities Depository Ltd.

Annual General Meeting	April 5, 2005
Dividend ex. date	April 6, 2005
Dividend record date	April 8, 2005
Dividend payment date	April 15, 2005

### Publication Schedule for Financial Information

Financial Statements	February 1, 2005
Interim report January–March	April 19, 2005
Interim report January–June	July 19, 2005
Interim report January–September	October 25, 2005

Financial information will be available in Finnish and English. Financial reports will not be printed, instead they are made public on Teleste's website at [www.teleste.com](http://www.teleste.com). Stock exchange releases are available at the same address. Printed copies of our financial publications can 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.

### Share Basics

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

Category	Telecommunications and Electronics
ISIN code	FI0009007728
Trading code	TLT1V
Reuters ticker symbol	TLT1V.HE
Bloomberg ticker symbol	TLT1V FH
Lot size	50
Nominal value	0.40
Number of shares 31.12.2004	17,339,752
12-month high	7.06
12-month low	5.14
All-time high	39.00
All-time low	2.21
The company's market value 31.12.2004	104,385,307

### Investor Relations Contacts

CEO, Mr. Jukka Rinnevaara is responsible for Teleste's investor relations. Inquiries about the company may be addressed to him by phone +358 2 2605 611 or by e-mail at [investor.relations@teleste.com](mailto:investor.relations@teleste.com)

Attendance notifications to Annual General Meeting, inquiries, requests for materials and appointments: Teleste Corporation, Tiina Vuorinen, P.O. Box 323, FI-20101 Turku, phone +358 2 2605 611, fax +358 2 2605 812, e-mail: [investor.relations@teleste.com](mailto:investor.relations@teleste.com)

### Investor Meetings

Teleste's communication objectives include openness and active support to business operations. The key guidelines involve truthfulness, simultaneity and timeliness. CEO Jukka Rinnevaara is in charge of company communications. Investor relations contact personnel carry out any practical issues related to meetings and maintenance of contacts.

In the past year, communication with shareholders and analysts following our company has been active. The company has set up meetings with groups of foreign and Finnish investors alike. Meetings with foreign investors took place mainly in the context of result communication conferences. Roadshow trips have been made to the Nordic Countries and Europe. As to Finland, along with individual analyst and investor meetings the company has participated in investor events of the field. In compliance with Teleste Corporation's insider regulations the company does not engage in investor meetings or comment on the company result in the 14-day Silent Period preceding publication of interim reports and financial statements.

### Share options

Date of Annual General Meeting	Share option program	Number of shares	Subscribed	Target group	Subscription period	Subscription price 31.12.2004	Period of subscription price	Deducted dividends as at 31.12.2004
14.11.1997	1997 A, B, C	1 280 000	1 274 980	Key personnel	1.10.1999–31.1.2004	0.68		0
12.4.2000	2000 A	364 500	0	Personnel	1.10.2002–31.10.2005	25.27	April 2000	0.44
	2000 C	185 000	0	Personnel	1.10.2003–31.10.2005	10.13	2.–12.4.2001	0.32
8.4.2002	2002 A	275 000	0	Key personnel	1.2.2005–1.10.2007	7.23	1.–30.4.2002	0.32
	2002 B	275 000	0	Key personnel	1.2.2006–1.10.2008	2.57	1.–30.4.2003	0.16
16.3.2004	2004 A1	150 000	0	Key personnel	1.4.2007–30.4.2009	5.98	1.–30.4.2004	0
	2004 A2*	150 000	0	Key personnel	1.4.2007–30.4.2009	5.98	1.–30.4.2004	0
	2004 B1	150 000	0	Key personnel	1.4.2008–30.4.2010	n/a	1.–30.4.2005	0
	2004 B2*	150 000	0	Key personnel	1.4.2008–30.4.2010	n/a	1.–30.4.2005	0

Valid share options **1 699 500**

\*Will be free for subscription only when certain Teleste Board's determined financial goals are met as at 31.12.2006.



## Owners 31.12.2004

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

<b>Major shareholders 31.12.2004</b>	Number of shares	Percentage of shares
Sampo Life Insurance Company Ltd	1 624 200	9.37
Ilmarinen Mutual Pension Insurance Company	840 350	4.85
Varma Mutual Pension Insurance Company	724 150	4.18
State Pension Fund	600 000	3.46
Kaleva Mutual Insurance Company	588 900	3.40
Teleste Corporation	490 000	2.83
FIM Fenno Mutual Fund	485 050	2.80
OP-Suomi Kasvu Mutual Fund	430 750	2.48
Gyllenberg Finlandia Mutual Fund	349 325	2.01
Fondita Nordic Small Cap Placfond	260 000	1.50
Nordea Nordic Small Cap Mutual Fund	225 350	1.30
Aktia Capital Mutual Fund	211 100	1.22
Nordea Life Assurance Company Finland Ltd	172 150	0.99
Gyllenberg Small Firm Mutual Fund	148 150	0.81
Toivila Timo Tapio	140 165	0.81
FIM Forte Mutual Fund	138 250	0.80
Nordea Avanti Mutual Fund	130 040	0.75
Mutual Insurance Company Pension-Fennia	120 950	0.70
Fondita 2000 + Mutual Fund	115 500	0.67
Svenska litteratursällskapet i Finland r.f.	111 000	0.64
<b>Total</b>	<b>7 905 380</b>	<b>45.59</b>

### Shareholders by numbers of shares

Shares	Number of shareholders	Percentage of shares	Number of shares	Percentage of shares
1–1 000	4 885	82.74	1 544 089	8.90
1 001–10 000	907	15.36	2 730 487	15.75
10 001–100 000	89	1.51	2 889 972	16.67
100 001–	23	0.39	8 220 940	47.41
<b>Total</b>	<b>5 904</b>	<b>100.00</b>	<b>15 385 488</b>	<b>88.73</b>

Nominee register accounts

<b>Total</b>			1 954 264	11.27
			<b>17 339 752</b>	<b>100.00</b>

<b>Shareholder groups</b>	Number of shares	Percentage of shares
Corporations	1 846 211	10.65
Financial and insurance institutions	5 359 472	30.91
Public organizations	2 604 310	15.02
Non-profit organizations	1 277 415	7.37
Households	3 980 992	22.96
Foreign and nominee register accounts	2 271 352	13.10
<b>Total</b>	<b>17 339 752</b>	<b>100.00</b>

<b>Management interest</b>	Number of shares	Percentage of shares and votes
CEO and Board members	181 079	1.04

<b>Option programs</b>	Number of shares	Percentage of shares and votes
Number of shares entitled to subscribe with options		
CEO and Board members	150 000	0.80
Other option holders	1 187 500	6.20
2002 program warrants hold by the group	26 000	0.10
2004 program warrants hold by the group	336 000	1.80
<b>Total</b>	<b>1 699 500</b>	<b>8.90</b>

### Insider holdings of shares and options

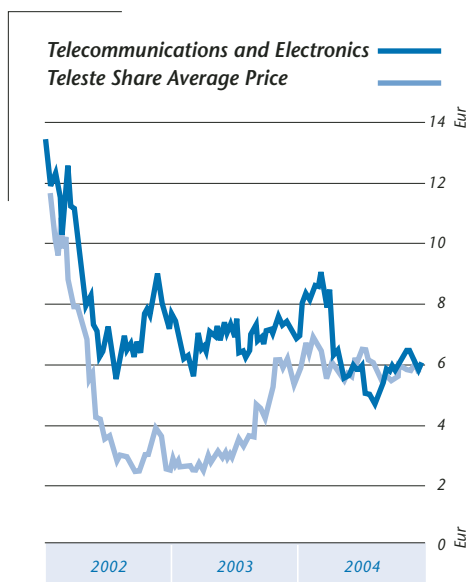
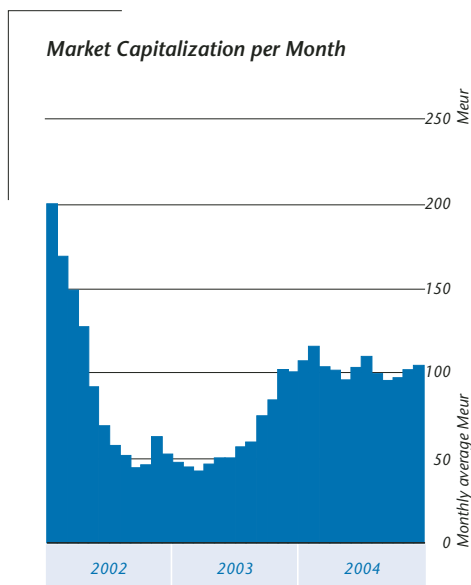
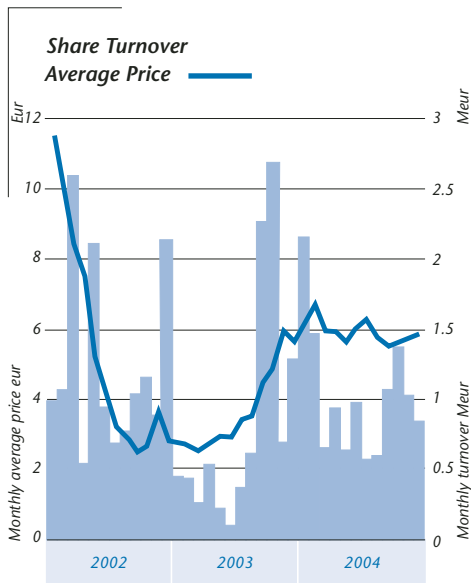
Name	Position	Shares	Shares to be subscribed by options
Tapio Hintikka	Chairman of the Board	6 829	
Tero Laaksonen	Member of the Board	18 824	
Pertti Raatikainen	Member of the Board	3 215	
Timo Toivila	Member of the Board	140 165	50 000
Pekka Vennamo	Member of the Board	8 046	
Esa Kailiala	Auditor		
Sixten Nyman	Auditor		
Jukka Rinnevaara	CEO	4 000	100 000
Juha Järvenreuna	Senior Vice President, Product Operations and Services	6 000	10 000
Pekka Rissanen	Senior Vice President, Broadband Cable Networks		85 000
Erja Saarikoski	Group Controller	4 000	39 000
Johan Slotte	Senior Vice President, Video Networks	2 900	76 000
Tiina Vuorinen	Executive Assistant	330	8 750
<b>Total</b>		<b>194 309</b>	<b>368 750</b>

## Stock Exchange Releases 2004

Teleste Corporation published a total of 24 stock exchange releases or announcements in 2004. Short summaries of the most significant releases are given below.

- 16.3.** *Decisions of the Annual General Meeting*  
The Annual General Meeting (AGM) of Teleste Corporation held on March 16, 2004 approved the accounts and the Board as well as the CEO were discharged from liability for the financial period. It was resolved by the AGM to distribute a dividend of EUR 0.08 per outstanding share for 2003. The AGM approved the proposals of the Board of Directors to authorize the Board to acquire own shares, to convey own shares and to increase share capital by a new issue. The AGM approved the proposal of the Board of Directors to issue options to key personnel. The AGM approved that all undistributed Teleste Corporation 2000 stock options shall be annulled.
- 15.4.** *Teleste selected the main technology provider of access network build for Norway's largest cable operator, Canal Digital Kabel-TV.*
- 19.4.** *After a stand still of about two years Teleste receives an order from the second biggest Dutch cable operator, Essent Kabelcom. Teleste has been the major technology provider for Essent since 2000.*
- 19.4.** *Teleste receives an order of network upgrade from its partner in Switzerland, Helltec Engineering AG.*
- 20.4.** *Interim Report January–March 2004*  
Orders received were on a par with the previous year, EUR 11.2 million. The orders received by the main business unit grew by 6 per cent amounting EUR 8.9 million. Teleste's net sales decreased by 11 per cent to EUR 11.1 million. The operating profit improved, but remained, nevertheless, at a loss of EUR 0.1 million. However, signs of market upswing in sight.
- 22.4.** *Teleste receives an order from ERT Technologies for upgrading of the networks both in Belgium and France.*
- 27.4.** *Teleste receives an order from Tele Columbus in Germany for upgrading of the network in the city of Berlin. Teleste has been one of the main technology providers for the company since 1997.*
- 17.5.** *Teleste continues winning ground at Tele Columbus in Germany. ImmoMediaNet, a company belonging in the Tele Columbus Group orders a network upgrade.*
- 8.6.** *Elisa selects Teleste as the main supplier for broadband cable networks in Finland covering the next two years.*
- 16.6.** *The Board of Directors of Teleste Corporation has approved the distribution of the stock options directed to the key persons of the Group and to the wholly-owned subsidiary of Teleste Corporation issued by the Annual General Meeting of Shareholders on March 16, 2004.*
- 1.7.** *Teleste acquires the entire share capital of Flomatik AS, its Norwegian business associate and strengthens its position as the leading technology provider for Scandinavian cable operators.*
- 1.7.** *Teleste receives an order from ish Network GmbH in Germany for upgrading of the BK access network in the city of Bonn.*
- 20.7.** *Interim Report January–June 2004*  
The net sales EUR 24.8 million and the operating profit amounting to EUR 0.4 million. Orders received stood at EUR 34.7 million, an increase of 44 per cent over the previous year. The order back log grew by 78 per cent. European cable operators have started network investments. Video Networks clientele investment decisions about to be activated.
- 10.9.** *Teleste receives an order from the US/Texas Department of Transportation for delivering of a traffic monitoring network. The order confirms Teleste's position as one of the leading suppliers of Intelligent Transportation System (ITS) within USA.*
- 19.10.** *Interim Report January–September 2004*  
Net sales increased by 14 per cent over the previous year amounting to EUR 42.8 million. Operating profit improved by 93 per cent standing at EUR 2.4 million. Orders received stood at EUR 53.3 million showing a growth of 43 per cent over the previous year. Broadband Cable Networks business unit strengthened its market position by acquisition carried out to widen the offering.
- 2.12.** *Teleste receives an order from the French National Railway Organisation, SNCF. The order concerns of a delivery of one of world's biggest networked CCTV systems, which connects more than 120 railway stations into one large networked CCTV solution. One of the main drivers for the project is to increase the security level in rail networks.*
- 9.12.** *Teleste receives an order for delivering the first comprehensive end-to-end cable access network solution to Suzhou, China.*

Teleste's stock exchange releases and announcements are posted in full on the company's website at [www.teleste.com](http://www.teleste.com)



## 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.

### CAI Cheuvreux Nordic Ab

Johan Eliason  
Tel. +46 8 723 5177

### Conventum

Jari Honko  
jari.honko@conventum.fi

### Carnegie Investment Bank Ab

Janne Rantanen  
janne.rantanen@carnegie.fi

### Enskilda Securities

Albert Hæggström  
albert.haeggstrom@enskilda.fi

### Evli Bank Plc

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matti.riikonen@evli.com

### FIM Securities

Paavo Ahonen  
paavo.ahonen@fim.com

### Kaupthing Bank Oyj

Mikko Koskela  
mikko.koskela@kaupthing.fi

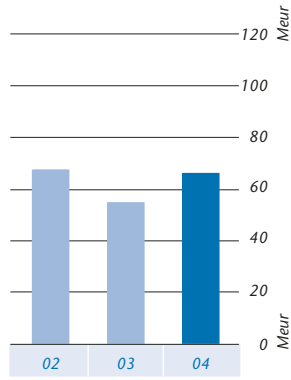
### Mandatum Stockbrokers Ltd

Erkki Vesola  
erkki.vesola@mandatum.fi

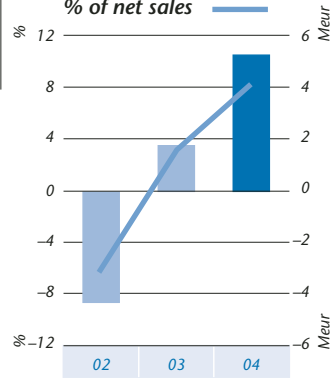
### Opstock Securities

Antti Karessuo  
antti.karessuo@oko.fi

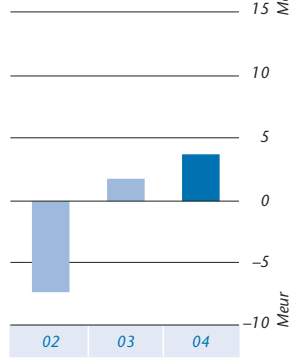
**Net Sales**



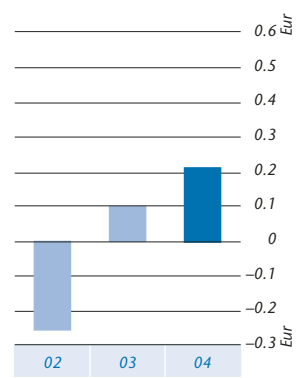
**Operating Profit  
% of net sales**



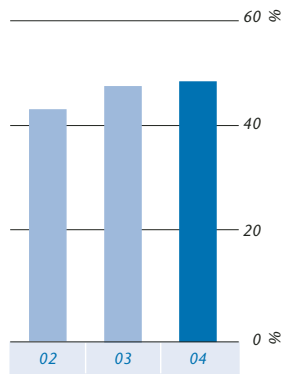
**Profit for the Financial  
Period**



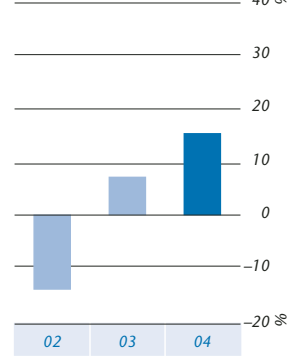
**Earnings per Share**



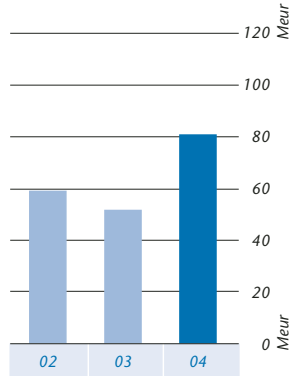
**Equity Ratio**



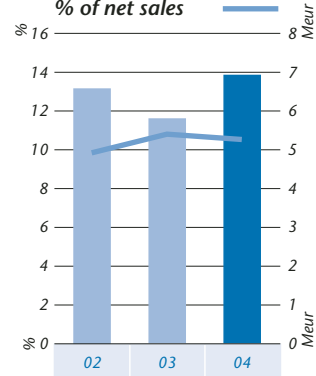
**Return on Capital  
Employed**



**Orders Received**



**R&D Expenditure  
% of net sales**



## Management Group

### **Jukka Rinnevaara**

*M.Sc. (Econ.),  
born in 1961*

*President  
and CEO  
Joined Teleste  
in November 1,  
2002*

*ABB Installaatiot,  
President  
1999–2001  
ABB Building  
Systems,  
Group Senior  
Vice President  
2001–2002*

### **Johan Slotte**

*LL.M, MBA,  
born in 1959*

*Senior Vice  
President,  
Video Networks  
Business  
Development  
Joined Teleste  
in 1999*

*Uponor Poland,  
Managing Director  
1995–1999*

### **Erja Saarikoski**

*Business school  
graduate,  
born in 1953*

*Group Controller  
Joined Teleste  
in 1984*

### **Pekka Rissanen**

*M.Sc. (Eng.), MBA,  
born in 1963*

*Senior Vice  
President,  
Broadband  
Cable Networks  
Joined Teleste  
in 1998*

*Oy INA Group Ltd,  
Managing Director  
1995–1998*

### **Juha Järvenreuna**

*M.Sc. (Eng.),  
born in 1964*

*Senior Vice  
President,  
Operations  
and Services  
Joined Teleste  
in 2004*

*Teleste Corporation,  
Director,  
Product Operations  
1998–2003  
Nokia Group,  
Nokia Networks,  
Quality Director  
2003–2004*



## **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 manufactures and delivers high-quality video surveillance network solutions for the transmission of video, data and audio with official authorities as the primary clientele.*

*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

Meur

	2003	2004	Growth	
Sales	43.2	54.1	25%	
Order intake	40.1	64.5	61%	
<b>Sales</b>				
	2003	2004	Export sales share	
Finland	9.5	10.0	2003	2004
Export	33.7	44.1	78%	82%
<b>Total</b>	<b>43.2</b>	<b>54.1</b>		

### Video Networks

Meur

	2003	2004	Growth	
Sales	11.0	12.1	10%	
Order intake	12.2	16.0	32%	
<b>Sales</b>				
	2003	2004	Export sales share	
Finland	0.7	0.7	2003	2004
Export	10.3	11.4	94%	94%
<b>Total</b>	<b>11.0</b>	<b>12.1</b>		

## Broadband Cable Networks

### Business Description

Broadband Cable Networks' clientele consists almost exclusively of cable operators. These involve companies with their primary focus on supplying analogue television services in urban areas to housing associations and households. Cable operators have subsequently started to utilise their network by expanding the scope of available services.

Teleste supplies cable operators with equipment and systems designed to be used for building transmission networks and processing of video and data signals. Deliveries by Teleste include both individual pieces of equipment and comprehensive networks. Teleste also makes available a number of services related to the maintenance of network infrastructure.

The main market area of Teleste Broadband Cable Networks is Europe where the business unit is present with its 13 dedicated offices supported by several support and integration partners. Apart from Europe, offices have been established in China and India.

### Growing Number of Broadband Connections Pushes Up Investments

Cable operator business increasingly involves provision of data connections. Clientele having previously had access to just television services are now provided with broadband connections to make available effective use of the Internet from home. Another interesting new application is the provision of services related to telephony already introduced by operators such as com.hem in Sweden.

In line with the above, digitalisation of the conventional supply of television programming is underway. Digital television transmissions can be relayed to homes via satellites or by terrestrial broadcasting drawing on aerial network. Cable network provides the added bonus of being capable of delivering satellite and terrestrial services to the consumer requiring only one piece of terminal equipment.

The range of competing technologies includes everything from wireless solutions to Fibre to the Home systems. The cable network was originally designed for transmission of large data packages (analogue television programming) and it is perfectly suited for broadband data communications. Transmission capacity of the existing copper cable is no less than 4 Gbps divided between the different services. Therefore,

all the currently available data services can be supplied to homes over the cable network. Television programming itself may become entirely based on IP technology but even then the question involves just regular forwarding of data, which the cable network is well suited for.

Although solutions based on fibre optics are steadily gaining ground, the advance will be slow because of the large investments involved. Teleste Broadband Cable Networks intends to address this market by developing appropriate products. Nevertheless, as far as technical and economical considerations are concerned, solutions based on the conventional cable network will remain superior the near future.

### The Teleste Solution – The Concept of Turnkey

Teleste expands the capacity of the cable operators' existing networks. Thus, the surplus can be used to accommodate either a greater number of channels or faster access to the network. Teleste supplies all the equipment required for the transmission network providing also any necessary network planning and installation. Over and above, Teleste's service concept also includes other functions designed for the operator environment such as warehousing, outsourcing to Teleste of procurement, all-round network monitoring, surveillance and maintenance services, as well as performing the duties of main contractor in any large-scale projects.

In the segment of digital programming Teleste has delivered solutions to over 20 countries in four continents. In project assignments Teleste normally takes up the duties of a system integrator providing a comprehensive solution to the system construction while drawing on third-party products and our own equipment alike.

Ethernet to the Home (EttH) is Teleste's solution for achieving top-speed data communications based on existing cable networks. Full-duplex 10-megabit connection using conventional coaxial copper cabling has already been implemented by means of existing facilities. The next generation solution currently under development will provide no less than 100 Mbps connection and is expected to become available during 2006.

The EttH concept springs from the cable operators' need for maximum utilisation of their existing network infrastructure. Another objective is to make available top-speed communi-



cations without massive investments in fibre optics. We share the view of the Fibre to the Home solutions becoming a reality at some stage but before that the price must come down to justify the investments.

### Highlights of 2004

Teleste's first ever ETT solution was delivered to the residence of the Danish Crown Prince as a wedding present from the leading Danish cable operator TDC Cable. The first commercial ETT launch in Boxmeer, Holland, by Essent Kabelcom achieved a penetration of over 40% within just one month from the installation.

Teleste's AC brand became the single largest product by sales volume. Development of the next generation fibre optic solution was commenced.

For Broadband Cable Networks, in terms of order backlog development, April was the peak month. In course of one month, significant orders were received from the German Tele Columbus, the Swiss Helltec, the Dutch Essent and the French-Belgian ERT. And no sooner than May, another important order was received from Tele Columbus while Essent followed suit in August. Moreover, important framework agreements were reached with the Finnish Elisa and the Norwegian Canal Digital Cable (former Telenor) along with the publication of an order placed by the German ish.

In July the acquisition of Flomatik significantly strengthened Broadband Cable Networks' position as the leading provider of cable operator equipment and services in the Nordic Countries and Europe. Teleste's product range was expanded by the inclusion of passive products and even more so by Flomatik's provision of services.

In 2005 Broadband Cable Networks expects the market situation to develop favourably. The focus is set on increasing the European market shares by continued strengthening of the sales organisation.

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<b>Vision:</b>	The world's leading supplier of broadband cable networks
<b>Mission:</b>	To promote our customers' business by means of innovative and reliable system and network solutions
<b>Solution:</b>	Systems for video processing, subscriber network equipment, and services supporting equipment and network deliveries
<b>Key markets:</b>	The main focus of our business is in Europe
<b>Primary clientele:</b>	Cablecom, Canal Digital Cable, com.hem, Essent Kabelkom, ntl

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## Video Networks

### Business Description

Teleste Video Networks is in the business of manufacturing and supplying solutions for video surveillance networks between camera outputs and control rooms. The focus area is video surveillance applications requiring high-quality and real-time video, audio and data. With authorities as the main end-user group of Teleste systems, the most important applications are traffic control systems for both road and rail transport, urban surveillance systems and applications related to public safety in areas such as border control, ports and airports. One of Teleste's fields of special expertise is integration of large networked video surveillance systems consisting of several hundreds of cameras into one unified system.

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

### Enhancing Safety

The video surveillance market features two distinct drivers: optimised use of transportation infrastructure and the growing need for protecting property and people by means of live video.

The need for optimising transportation infrastructure stems from increased volumes of traffic and growing environmental concerns. As a consequence, investments in applications involving video surveillance solutions that promote traffic flexibility such as traffic management are on the increase.

The latter trend – need for protecting property and people with live video surveillance – has strengthened clearly over the past few years partly due to the weakening in public safety. Since the currently available technology allows for development of a lot more effective video surveillance solutions, investments are, apart from procuring entirely new systems, directed in an increasing amount to upgrading existing systems. The project Teleste was awarded at the end of 2004 involving the renewal of the Paris rail traffic control is a good example of such a trend. It can also be expected that the use of video surveillance in urban centres will gain a wider public approval spilling over from the United Kingdom to Continental Europe and parts of the United States.

Teleste's target market – video surveillance systems requiring high-quality and real-time video, audio and data – is a niche segment distinguishing itself from the mainstream video surveillance market by matters such as the level of technical requirements. Even if the gap between this and the mainstream

market will, in the future, become narrower, thanks to the technical development and wide-spread introduction of IP/Ethernet network technology, it is not likely to melt away completely. Technical development tends to set increasing demands to the intelligence and degree of automation of video surveillance networks. Networks are, for instance, expected to be able to identify and analyse video images. Teleste is investing into this area in co-operation with its technical partners. However, the core of video surveillance networks will continue to be in their management and recording software, and Teleste has a highly competitive offering for these needs as well as for the transmission part of the network.

Every Teleste Video Networks' target market segment is expected to show growth in the coming years. Growth is also expected in all the geographical markets. A weak financial situation of the public sector may, however, slow down the realisation of planned projects in some areas.

### The Teleste Solution – Present and Future

Video surveillance solutions by Teleste Video Networks can be divided into two categories that can be used in combination or separately: (i) analogue or digital non-compressed video and data optical fibre transmission solutions, and (ii) compressed video applications for network solutions, i.e. IP or ATM networks. Teleste focuses on developing products that fall between the camera and the control room. These products transfer the video signal from the camera to the control room (fibre modems, encoders, switches, decoders), record video either at the camera or in the control room (NVR), control the entire system and integrate the video surveillance network with other networks (management software systems).

Teleste is also capable of providing competitive services related to network planning, management and system integration especially for projects involving large-scale road and rail traffic control solutions. This is made possible by the technology and expertise of S-Link acquired at the end of 2003 combined with Teleste's previous technology and know-how. Teleste is simultaneously, through partnerships, actively pursuing a number of complementing technical solutions related to applications such as image analysis designed to be included in its overall range of supply. Teleste's offering of products and services is one of the most comprehensive in the market meeting the requirements set by the majority of video surveillance systems.



## Highlights of 2004

In 2004 the single largest received project was the agreement signed towards the end of the year with the French National Railway Authority, SNFC. The order includes delivery of a comprehensive IP-based network, connecting existing local video surveillance systems covering more than 120 railway stations in the greater Paris area. This network will simultaneously manage over 3,000 high-quality real-time video streams for numerous users and ranks among one of the world's largest video surveillance systems. Teleste estimates its share of the project to be around five million euros and the main part of the project is designed to be implemented within year 2005.

Another significant agreement reached in the autumn of 2004 was the framework agreement of 1.4 million euros signed with the state of Texas Department of Traffic. According to this, Teleste will deliver networked video surveillance systems to be used by local traffic authorities. Equipment deliveries will be performed over the next two years.

Thanks to the two aforementioned projects, Teleste will strengthen its position as one of the world's leading suppliers of large-scale video surveillance network solutions for the Intelligent Transportation System, ITS, market segment.

Other successful projects include the video surveillance project for the world's highest bridge of Millau Viaduct in France, the IP-based video surveillance project of the world's longest bridge of Lake Pontchartrain Causeway in New Orleans, USA, and the IP-based traffic video control project of Hillsborough County, Tampa, USA. In the latter, applications of Teleste's equipment will be used also in the networking of traffic control signals. Through its subsidiary S-Link, Teleste continued deliveries for the Swedish National Road Administration and the ASFINAG project. The latter involves integration of existing video surveillance systems of the Austrian motorways into one managed network and its first phase was successfully completed at the end of 2004.

Teleste's R&D continued the development of the new MP-X network system platform scheduled to be introduced to the market in the first half of 2005.

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**Vision:** *Leading supplier of professional video surveillance network solutions globally*

**Mission:** *Application of technology to enable reliable video surveillance networks for security, identification and other related needs*

**Solution:** *Comprehensive video surveillance network solutions for the area between the camera and the control room*

**Key markets:** *The business focus is on high-quality video surveillance networks for traffic control systems (road and rail traffic), urban surveillance system and security systems (including border, port and airport control) on a global scale*

**Primary clientele:** *Mainly the public sector through system integrators the most notable of which is British Telecommunications Plc*

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## Personnel

At the end of 2004 the number of Teleste's employees stood at 513. The corresponding figure of the previous year was 466. Teleste's vision is to be an innovative organisation attracting the best people. For this the company must promote employees' professional development together with fostering an encouraging working climate. Our personnel consist of experts of various fields managed in line with the principle of open dialogue. Open dialogue promotes personal commitment and internalisation of goals in compliance with the strategy. Continuous development requires that all employees are familiar with the company objectives, know what they are expected to do personally as well as how each and every one can do one's bit as well as possible. The company vision and strategy were successfully linked to the daily working practises by developing the procedures related to performance appraisal discussions. In 2004 the personnel took part, on a broad basis, in the process of emphasising the company values. Designed to provide guidelines for daily decision-making, these have been specified as customer centricity, respect, reliability and result orientation.

### HR Development

In 2004 the main focus in human resource development was on a transfer education programme tailored for Teleste and instrumental in widening the scope of professional abilities of R&D planning personnel. The programme is implemented in co-operation with local universities. Over the year, a number of training courses were carried out to maintain and improve professional skills such as project work and language proficiency. In 2004 Teleste, in co-operation with a few local high-tech companies and service providers, kicked off the development of a modular training programme designed to address the company business needs. The objective is that some modules will be implemented company-internally whereas others are intended to be performed together with the other participating companies. The training programme is scheduled to be introduced in 2005.

### Incentives

The target with Teleste's system of payroll and incentives is to support the business strategy. Teleste maintains a climate characterised by result orientation and support. Performance reviews and target setting discussions provide a setting for the definition of personal goals, which, in turn, are designed to promote performance while placing a special focus on personal development.

Incentive schemes are geared to promote performance within the company in general as well as individually. Teleste's personnel incentive schemes consist of a number of intangible and tangible inducements. The material incentives in place include systems of bonus pay and payment by results as well as options. These schemes have been – and are being – developed better to accommodate opportunities of participation by units, teams and individuals with the overall purpose of establishing a better linkage of personal goals and performance outputs with the strategic goals of the company.

### Well-being at Work

Started in 2003 the process of well-being at work continued with a conducted survey, which was conducted to outline the areas of priority in personal and organisational well-being. In view of the made findings Teleste's personnel can be said to experience their work environment primarily in positive terms. Particular strengths included interaction with colleagues and supervisors as well as the stimulating nature of the work. Nevertheless, there is still room for improvement. Based on the made findings and in order to achieve improvements in well-being at work and overall wellness, 2 to 3 tangible development areas were specified on a group-by-group basis. Promotion of well-being is an on-going process since it constitutes and will continue to do so an essential part of Teleste's personnel policy. A sound working community is more productive both in qualitative and quantitative terms, it gives out a positive signal of the employer and contributes to loyalty among the employees.



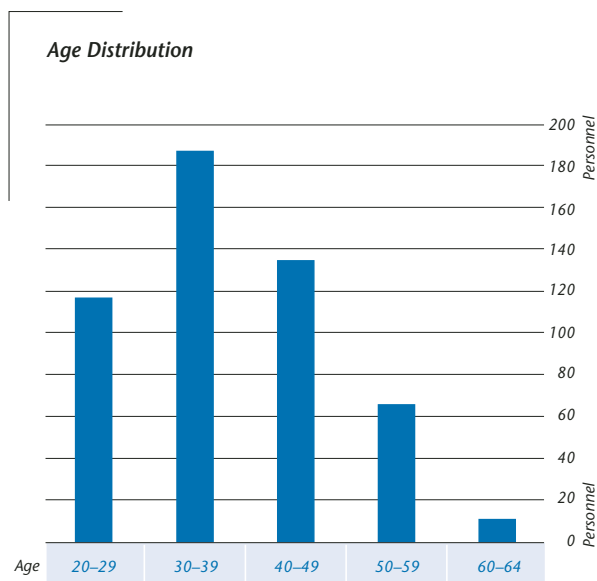
Engaged in organising various cultural and sports activities for the personnel, our free-time committee is called Vapari. It is elected annually from amongst the personnel of Teleste. Moreover, the company supports exercise opportunities for the personnel. One of the highlights of 2004 for the personnel was the historical staff festivities held in the context of Teleste's 50th anniversary that pulled in the entire international personnel of the group.

### Co-operation

2004 marked an improvement in the business market situation, thus allowing the made adjustments to be called off. To ensure the on-going dialogue between the personnel and the employer, and the continued two-way flow of information, the monthly meetings went on between the employer and the representatives of the personnel at Teleste. Thus, a flexible community has been created by means of which we have been able quickly to adapt to quiet spells and peaks in demand alike. The range of options regarding flexible working opportunities will be expanded in co-operation with the staff and the employer.

### Co-operation with Universities and Other Parties

To promote a positive employer image among the future professionals, we have engaged in co-operation with universities and other educational facilities. This process has taken forms such as co-operation in the fields of testing and research or Teleste's representation in various bodies of universities and educational institutes. This activity is designed to ensure that utilisation of top expertise of the scientific community and the strategic requirements of the company will be taken into account in the drafting of curriculums of the respective institutes. Positive employer image has also been maintained by sustained contact with the student organisations of universities of technology.



### Personnel 31.12.

	2002	2003	2004
<b>Total</b>	<b>467</b>	<b>466</b>	<b>513</b>
Research and Development	116	124	130
Production and Material Management	231	230	256
Sales and Marketing	96	87	101
Finance and IT	24	25	26
Finland	401	384	401
Other countries	66	82	112*
Female	177	176	180
Male	290	290	333

\*In Europe 79, outside Europe 33 persons.



## Corporate Governance

Teleste Corporation aims at organising its management in a consistent and functional manner. The governance is based on the Finnish Companies Act and Teleste Articles of Association. Teleste's shares are listed on the Helsinki Exchanges. The company complies with the rules and regulations for listed companies as set by the Helsinki Exchanges. As of March 1, 2000, the company has followed the insider regulations drawn up by the Board of Directors of the Helsinki Exchanges. These regulations have been supplemented by the Company's internal guidelines. Teleste's corporate governance practices comply with the Corporate Governance Recommendation for Listed Companies approved by Hex Plc, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers in December 2003. The company has confirmed the set of applied key values.

### Annual General Meeting

The Annual General Meeting of Teleste Corporation is the highest decision-making body of the company. The Annual General Meeting is held at least once a year, by the end of June in Helsinki. The Annual General Meeting decides on any specified tasks in compliance with the Finnish Companies Act.

Issues decided by the Annual General Meeting include approval of the financial statement, payment of dividends, discharging the Board of Directors and President and CEO from liability, and selection of the members of the Board of Directors, Chairman of the Board and the Auditor.

Responsibilities of the Annual General Meeting also include making amendments to the Articles of Association and decision-making concerning alteration of share capital.

Notice of the Annual General Meeting shall be announced in a newspaper as determined by the Board of Directors or verifiably delivered, in writing, to each shareholder using the address marked in the register of shareholders, no earlier than two months and no later than 17 days prior to the meeting.

### The Board of Directors

#### Rules of Procedure

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 operating procedures and main duties of the Board of Directors have been specified in the Board's Rules of Procedure.

The Board shall resolve matters of great importance in terms of scope and magnitude to the group's operation. The Board oversees and assesses the operation of the CEO and the Management Group. The Board decides on the criteria of the company's compensation system and makes decisions on any other far-reaching issues related to personnel.

In line with the view adopted by the Board of Teleste Corporation, the proceedings of the Board will be carried out in an optimum way without formation of separate committees but by involving the entire Board in the so-called committee proceedings. The Board shall conduct an annual evaluation of its performance and working methods.

The Board of Teleste Corporation has laid down rules of procedure including the following fundamental issues:

- **provision for the company business strategy and its revision at regular intervals**
- **approval of annual budgets and supervision of their implementation**
- **decisions concerning major investments and divestments**
- **handling and approval of annual financial statements and interim reports**

- **appointment of the President and CEO and discharging him from his duties as well as specification of his responsibilities and conditions of work**
- **decisions concerning incentive and bonus systems involving management as well as staff and presentation of any related proposals to the Annual General Meeting as required**
- **annual revision of any essential risks related to the company operation and management thereof**
- **laying down the company values and policies**

### Election and Term of Office of the Board of Directors Board Members

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 March 16, 2004, the Annual General Meeting elected five members to the Board of Directors of Teleste Corporation for a term of one year.

The Teleste Corporation Board of Directors are Tapio Hintikka, Chairman of the Board, and Tero Laaksonen, Pertti Raatikainen, Timo Toivila and Pekka Vennamo, Members of the Board.

With the exception of Timo Toivila (CEO until October 30, 2002) and Professor Pertti Raatikainen (expert member of the steering group in charge of the company technological development convening approximately five times a year) the Members of the Board are not employed by the company and can be considered independent in line with the Finnish recommendations.

The current Board of Directors of Teleste is presented in page 22. During 2004 the Board of Directors of Teleste Corporation held 11 meetings two of which was set up as a telephone conference. The attendance of the Directors at the Board meetings was 95%. In addition to the Members of the Board the meetings were attended by the CEO, the Group Controller and persons invited separately as required.

### Remuneration for the Members of the Board

The remuneration of the Members of the Board is decided by the Annual General Meeting. On March 16, 2004 the Annual General Meeting decided that the Chairman of the Board be paid annually EUR 30,000 and each member will receive EUR 15,500 a year. Attendance allowance, which is paid separately, stands at EUR 250 per meeting. Remuneration for the Members of the Board will be paid so that 40% of the specified amount will be company shares and the rest will be remitted in money.

Salaries, remuneration and other benefits paid in 2004 to the Board of Directors were as follows: Tapio Hintikka EUR 32,000, of which in Teleste shares EUR 12,000 (2,025 shares), Tero Laaksonen EUR 17,750, of which in Teleste shares EUR 6,200 (1,046 shares), Pertti Raatikainen EUR 17,750, of which in Teleste shares EUR 6,200 (1,046 shares), Timo Toivila EUR 17,750, of which in Teleste shares EUR 6,200 (1,046 shares), and Pekka Vennamo EUR 17,250, of which in Teleste shares EUR 6,200 (1,046 shares).

Moreover, Pentti Raatikainen has received EUR 2,000 as remuneration for his expert membership in the steering group guiding the company technological development.

### 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 CEO is not a member of the Board of Directors.

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.

Salary, remuneration and other benefits paid in 2004 to the President and CEO of Teleste Corporation totalled EUR 351,683.

The contractual age of retirement of CEO Jukka Rinnevaara is 60. As to the contract of Mr. Rinnevaara, his term of notice has been specified as six (6) months in case the President and CEO decides to withdraw, and eighteen (18) months should the contract be terminated by the company.

## **Management Group**

The company Management Group is chaired by the CEO who reports to the Board of Directors. Members of the Management Group consist of the directors of Teleste Corporation business sectors and the group management. The Management Group handles the issues that concern managing the company, such as issues related to strategy, budget, interim reports and corporation deals, and prepares investments for approval by the Board of Directors.

The Management Group meets once a month or at other times, as required. The Management Group of Teleste Corporation is presented in page 11.

Salary for all members of the Management Group consists of a fixed basic salary and a results-based bonus. The amount of results-based bonus is determined by the company performance, the business area in question and other key operative objectives. All members of the company Management Group are included in the share option scheme. The Board is in charge of bonus systems applied to the Management Group. See page 6 for a detailed description of the option specifics and page 7 for holdings and stock options for the President and CEO and the Management Group.

## **Auditing and Revisions**

### **Auditors**

The term of office of the company auditor expires at the closing of the first Annual General Meeting following the election. On March 16, 2004 the Teleste Annual General Meeting selected KPMG Oy Ab as the company auditor and decided that the auditor's fee will 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 meetings at least once a year.

The auditor's fee for 2004 totals EUR 23,447. Moreover, KPMG Oy Ab has received payments for services not related to auditing in total EUR 52,373.

## **Internal Auditing, Internal Supervision and Risk Management**

The Teleste Board of Directors has laid down principles for the company's internal control, internal supervision and risk management.

### **Internal Auditing**

Internal auditing in the Teleste Group is the responsibility of the company's manager/legal affairs, who reports to a member of the Board appointed from within the same. The tasks connected with internal auditing are handled by means of control measures included in the company's operational processes. The internal assessors, controller function and chartered accountants report to the manager/legal affairs on their observations.

## **Internal Supervision and Risk Management**

The task of internal supervision is to ensure that the company's operations are effective and profitable, the information produced is reliable, and that the rules and operational principles are observed.

Risk management is an essential part of Teleste's internal supervision. By means of risk management, there is an attempt to ensure that Teleste achieves its operational goals and that the essential risks impacting business activity are recognised and followed up appropriately.

The risk management system is based on monthly reporting, by which the development of the orders received, turnover, order backlog, trade receivables and cash flow is monitored and, through the same, the profit development of the entire group. Risk management supports the business activity and generates added value, assisting decision-making for the management in charge of business. The point of departure rests in Teleste's most pivotal business aims and processes. The reporting is dealt with in the monthly meetings of the Management Group.

In risk management, the regular evaluation of more significant risks and exercising control in a cost-effective manner are emphasised. The starting point for risk management is found in Teleste's business objectives. The risks threatening these objectives are identified, and they are monitored and assessed on a continuous basis.

Teleste's risk management system covers, for instance, operational prerequisites, personnel risks, property and business interruption risks, interest groups, operational organisation and economic risks.

The risk management methods are specified and the implementation of risk prevention is carried out through the same. Similarly, all risks which are reasonable to insure for economic or other reasons, are also covered.

### **Insider Register**

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. 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 assistant.

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

It is recommendable for those included in the insider register to time any intended trading involving company shares and derivatives in such a manner that optimum information affecting the value of the shares is available in the market at the time. The permanent members of Teleste's insider register are obliged by the so-called Silent Period during which trading on company shares is banned completely for 14 days preceding publication of interim reports and the financial statements. During the specified period Teleste will not engage in any meetings with investors or analysts and group representatives are not allowed to comment upon company results.

The company insider administration is included in the SIRE system of the Finnish Central Securities Depository.

## The Board of Directors

### **Tapio Hintikka**

*M.Sc. (Eng.),  
born in 1942*

*Member  
of the Board  
since 2001  
Vice Chairman  
of the Board  
2001–2002  
Chairman  
of the Board  
since 2003*

*Hackman Oyj Abp,  
CEO 1997–2002  
Sonera Corporation,  
Chairman  
of the Board  
2001–2002  
TeliaSonera AB  
(Publ.),  
Chairman  
of the Board  
2002–2004*

*Onninen Oy,  
Member  
of the Board  
since 2000  
Evli Bank Plc,  
Member  
of the Board  
since 2003  
CapMan Plc,  
Member  
of the Board  
since 2004*

### **Tero Laaksonen**

*M.Sc. (Math.),  
born in 1946*

*Member  
of the Board  
since 1999*

*Nokia  
Telecommuni-  
cations Oy,  
Senior Vice  
President  
1995–1998  
Telia Finland Oy,  
CEO 1998–2001  
Comptel Corporation,  
CEO 2002–2004*

*Tieto-X Plc,  
Member  
of the Board  
since 2004*

### **Pertti Raatikainen**

*Dr.Sc. (Technology),  
born in 1956*

*Member  
of the Board  
since 2003*

*Teleste  
Corporation,  
Product Manager  
1995–1997  
Helsinki University  
of Technology,  
professor  
(fixed term)  
1997  
VTT Information  
Technology,  
Research  
professor  
since 1998*

*University  
of Jyväskylä,  
Docent  
since 1998  
Helsinki University  
of Technology,  
Docent  
since 2002*

### **Timo Toivila**

*M.Sc. (Eng.),  
born in 1950*

*Member  
of the Board  
1995–1997  
Chairman  
of the Board  
1996–1997  
Member  
of the Board  
since 2003*

*Sponsor Oy,  
Director  
1994–1997  
Huurre Group Oy,  
Managing Director  
1994–1995  
Teleste  
Corporation,  
CEO 1997  
(1996)–2002*

*Tecnomen  
Corporation,  
Member  
of the Board  
since 2001*

### **Pekka Vennamo**

*Student in technology,  
born in 1944*

*Chairman  
of the Board  
2000–2001  
Member  
of the Board  
since 2000*

*Suomen PT Oy,  
CEO 1994–1998  
Sonera  
Corporation,  
CEO 1998–1999*

*Sijointus Oy,  
Chairman  
of the Board and  
CEO since 1998  
Soprano Group,  
Chairman  
of the Board  
since 2000  
Saunalahti  
Group Oyj,  
Chairman  
of the Board  
2001–2003,  
Member  
of the Board  
since 2003  
Aldata Solution Oyj,  
Chairman  
of the Board  
since 2002*





## Annual Report of the Board of Directors

### Business Units and Group Structure

Founded in 1954 Teleste is a technology company running its two business units Broadband Cable Networks and Video Networks. In the period under review the range of products and services of Broadband Cable Networks was widened to include the Norwegian company Flomatik AS operational in Norway, Sweden and Slovenia. Flomatik AS is present mainly in Scandinavia and Eastern Europe by making available products and services to the cable operator market. Teleste Norge AS with no operation in 2004 was discontinued. The parent company of Teleste Group has branch offices in Belgium, China, Denmark, France, India, the Netherlands, Poland and Spain, and a subsidiary in eight countries outside Finland.

### Market Situation and Business Environment

There has been a general improvement in the financial standing among the Broadband Cable Networks' clientele. Growth in the number of consumer broadband subscriptions as well as cable operators' competition with other service providers for private household broadband connections has activated investments in the maintenance and expansion of networks. Similarly, Internet telephony (VoIP) and digital television broadcast increase the operators' investments in backbone networks and head-end equipment. Teleste's extended range of products and services, flexible product solutions, improved logistics and local presence in several countries ensured the robust growth shown by Broadband Cable Networks.

The financial environment of Video Networks business remained challenging. Investment decisions in the video surveillance and safety networks mature slowly, mainly because of the stringent budgetary conditions faced by the public sector, which is the unit's primary clientele. Teleste has focused on high-quality video surveillance systems, which transfer real-time video, audio and data. The related applications are used in traffic control and urban surveillance systems. Here, Teleste has strengthened its position as a supplier of comprehensive network management and surveillance projects.

The strength of the euro against the US dollar has tightened the price competition. Nevertheless, Teleste has managed to keep its position as the leading supplier in the European market.

### Turnover and Profitability

The group had net sales of EUR 66.2 million (EUR 54.2 million), which is up by 22.1% over the previous year. The impact on net sales of Flomatik AS acquisition in the early July was EUR 6 million. Operating profit improved by EUR 3.5 million amounting to EUR 5.3 million (EUR 1.8 million). Share of Flomatik AS acquisition in the operating profit was EUR 1.0 million. Profit after financial items totalled EUR 5.1 million (EUR 1.5 million), the group's earnings per share stood at EUR 0.21 (EUR 0.10), return on capital employed amounted to 15.6% (5.3%) and the return on equity was 13.9% (7.1%).

The group's volume of orders received was up by 54.2% amounting to EUR 80.5 million (EUR 52.2 million). Broadband Cable Networks' orders received stood at EUR 64.5 million

(EUR 40.0 million), an increase of 61% over the previous year. Video Networks' orders received grew by 32% to EUR 16.0 million (EUR 12.2 million). At the end of the year the group's order backlog totalled EUR 20.7 million (EUR 6.6 million).

In comparison with the corresponding quarter of the previous year, 83% (3%) more orders were received amounting to EUR 27.3 million (EUR 15.0 million). Turnover stood at EUR 23.4 million (EUR 16.7 million). Operating profit for the last quarter amounted to EUR 2.9 million (EUR 0.5 million). Operating profit for 2003 last quarter excluding the write-off of the enterprise resource planning system was EUR 1.5 million.

### Research & Development and Investments

R&D expenses for the financial year totalled EUR 6.9 million (EUR 5.8 million) accounting for 10.4% of net sales (10.7%). Product development involved mainly projects related to customer-specific products and widening the range of offered product platforms. Net expenditure amounting to EUR 1.0 million and arising from development projects including the fast IP-based data transmission system EtH by Broadband Cable Networks and the IP-based flexible video surveillance solution by Video Networks have been entered under the assets side as intangible rights. For development of future product platforms, Tekes – the National Technology Agency of Finland – granted Teleste an R&D allowance of EUR 2.1 million, valid until June 30, 2005. A number of Teleste's product development projects involve co-operation with Finnish universities and research institutes.

In the period under review, investments totalled EUR 5.4 million (EUR 3.4 million) including the acquisition of Flomatik AS amounting to EUR 3.0 million and advance payments of EUR 1.6 million. A conditional supplementary contract price of EUR 1.4 million related to the acquisition of Flomatik AS was entered in the books in the last quarter of 2004. Other investments included IT, manufacturing machinery and equipment. Teleste has launched renewal of its enterprise resource planning system. The new system will become operational in the first half of 2005.

### Finance

In the period under review the group's liquidity was good. Operating cash flow stood at EUR 6.9 million (EUR 9.6 million) and the total cash flow amounted to EUR 2.9 million (EUR 0.5 million). There was an increase in cash assets due to enhanced profitability, improved material flows and faster circulation of accounts receivable, particularly in the last quarter. The group's equity ratio was 50.2% (49.3%) and gearing –23.8% (–17.7%). Interest bearing debt on December 31, 2004 was EUR 10.8 million.

### IFRS Reporting

Teleste will adopt IFRS reporting as of the beginning of 2005. The first IFRS interim report will come out for the period January 1 to March 31, 2005.

Preparations for the transition have proceeded to plan. Decisions regarding application of the alternative accounting principles, preparation of the opening IFRS balance sheet as

well as restatement of the comparative information of the period under review for the interim reports of 2005 were made in 2004. In March 2005 Teleste will issue a separate account of the related effects in the group balance sheet for December 31, 2003.

The transition will have major impact in segment reporting, treasury shares, option schemes, defined benefit plans, abolition of goodwill amortisation and deferred taxes.

The division in segments has been accepted by Teleste's Board of Directors. The primary segment will include Broadband Cable Networks and Video Networks; the secondary segment will contain geographical regions. Similarly, the Board has decided not to apply hedging calculation in the IFRS accounts.

### Personnel

During the year, the group employed an average of 492 people (452). At the year-end the figure totalled 513 (466) people of which 22% (18%) were stationed overseas. At the end of 2004 employees working outside Europe was less than 10% of the personnel.

Average number of personnel increased by 40 (decreased by 56) people. Increased number of personnel is mainly attributable to the acquisition of Flomatik AS and the increased personnel in the Chinese subsidiary in the last quarter of the year 2004. At the year-end Flomatik companies employed 26 people.

### General Meetings

The Annual General Meeting held on March 16, 2004 confirmed the financial statements for 2003 and discharged the Board 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.

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

The Annual General Meeting authorised the Board to acquire the maximum of 240,000 Teleste's own shares, convey at most 860,000 own shares and increase the share capital by a new issue of no more than 3,400,000 shares. The authorisations given to the Board by the Annual General Meeting for acquisition of own shares and increasing the share capital were not used. The number of own shares conveyed in the acquisition of Flomatik AS was 130,000.

The Annual General Meeting decided to annul the company-owned year 2000 stock options, which entitled to a subscription of 270,500 shares.

The Annual General Meeting decided to issue stock options to key personnel. Hereby, the option holders are entitled to subscribe 600,000 Teleste Corporation shares. The subscription will begin with 2004A1 and 2004A2 options on April 1, 2007 closing on April 30, 2009. These represent 50% of the 2004 options. Subscription price of 2004A1 and 2004A2 options is EUR 5.98 per share. 2004A2 options represent 50% of 2004A options and will be released for

subscription only if the set of financial criteria specified by Teleste's Board of Directors will materialise on December 31, 2006. Subscription involving issues 2004B1 and 2004B2 begins on April 1, 2008 and closes on April 30, 2010. Issues 2004B1 and 2004B2 represent 50% of the total number of the year 2004 options. The subscription price will be determined by average share price in April 2005. 2004B2 options representing 50% of 2004B options will be released for subscription only if the set of financial criteria specified by Teleste's Board of Directors will materialise on December 31, 2006.

The subscription price is reduced by the paid dividends. The Board retains the right to decide on transfer of the right of first refusal.

### Management and the Auditors

Mr. Jukka Rinnevaara acted as CEO for the company. KPMG Oy Ab (formerly KPMG Wideri Oy Ab) was elected as the auditor.

### Shares and Changes in Share Capital

At the end of 2004, Sampo Life Insurance Company Ltd was the largest single shareholder with a holding of 9.37%.

In 2004, the highest share price was EUR 7.06 and the lowest EUR 5.14. The closing price at the end of the year stood at EUR 6.02. During the year, 12.3 million shares were traded in Helsinki Exchanges representing 70.9% of the share capital.

In the year under review, following the issue of Teleste 1997 bond loan with warrants, the number of subscriptions amounted to 12,200, thus bringing Teleste's registered share capital to EUR 6,935,900.80. This is divided among 17,339,752 shares of which the number of those in company holding is 490,000.

### Outlook for 2005

Fast Internet connections and increasing demand for interactive digital services will support our growth in the coming next years. Judging by the current trends we believe that the market for our main business Broadband Cable Networks will develop favourably in 2005. As to Video Networks, we expect particularly the comprehensive network management projects to grow further.

The recovering market, strong local presence close to the customers, wider range of Teleste's products and services, continuous improvement of processes and the utilisation of the Chinese procurement channels to increase our competitive edge will continue to form the basis of our profitable growth in 2005.

Our efforts involving strong R&D and local presence in our target countries will be intensified. In Europe we expect to maintain the leading market position and outside Europe to grow further in the specified market areas.

## Statement of Income 1.1.–31.12.2004

1000 euros	Note	2004	Group 2003	2004	Parent Company 2003
<b>Net sales</b>	1	<b>66 163</b>	<b>54 204</b>	<b>55 216</b>	<b>49 817</b>
Change in inventories of finished goods		65	-343	-100	322
Other operating income	2	264	1 126	508	1 073
Materials, supplies and services	3	-27 670	-21 320	-20 927	-19 033
Wages, salaries and social expenses	4	-20 072	-18 034	-17 007	-15 010
Depreciation and amortisation	5	-2 511	-2 741	-2 068	-2 506
Other operating expenses		-10 945	-11 125	-13 063	-12 874
<b>Operating profit</b>		<b>5 294</b>	<b>1 767</b>	<b>2 559</b>	<b>1 789</b>
Financial income and expenses	6	-192	-239	254	4 392
<b>Profit after financial items</b>		<b>5 101</b>	<b>1 528</b>	<b>2 813</b>	<b>6 181</b>
<b>Profit before taxes</b>		<b>5 101</b>	<b>1 528</b>	<b>2 813</b>	<b>6 181</b>
Appropriations	5	0	0	225	137
Direct taxes	8	-1 614	133	-852	-1 248
Minority share		32			
<b>Profit for the financial period</b>		<b>3 520</b>	<b>1 661</b>	<b>2 186</b>	<b>5 070</b>

## Balance Sheet 31.12.2004

1000 euros	Note	2004	Group	2003	2004	Parent Company	2003
<b>Fixed assets</b>							
Intangible assets	9	1 278		59	3 261		3 816
Goodwill	9	7 486		6 628	0		0
Tangible assets	9	5 336		5 644	4 511		5 544
Investments	10	4 066		4 470	12 977		10 350
Long-term receivables	11	0		0	344		849
		<b>18 166</b>		<b>16 801</b>	<b>21 093</b>		<b>20 559</b>
<b>Current assets</b>							
Inventories	12	7 858		5 322	4 870		4 690
Current/short-term receivables	13	13 104		11 802	9 591		8 860
Short-term investments	14	13 623		9 303	13 623		9 303
Cash and cash equivalents	14	3 485		4 889	1 707		4 053
		<b>38 071</b>		<b>31 316</b>	<b>29 791</b>		<b>26 906</b>
<b>Total assets</b>		<b>56 237</b>		<b>48 117</b>	<b>50 884</b>		<b>47 465</b>
<b>Shareholders' equity</b>							
Share capital	15	6 935		6 921	6 935		6 921
Share Premium Fund	15	1 277		1 250	1 277		1 250
Treasury shares	15	2 950		3 354	2 950		3 354
Retained earnings	15	14 936		13 786	7 713		3 188
Profit for the financial period	15	3 520		1 661	2 186		5 070
		<b>29 618</b>		<b>26 971</b>	<b>21 061</b>		<b>19 784</b>
<b>Appropriations</b>	7	<b>0</b>		<b>0</b>	<b>1 328</b>		<b>1 553</b>
<b>Obligatory provisions</b>	16	<b>2 065</b>		<b>1 994</b>	<b>1 837</b>		<b>1 959</b>
<b>Liabilities</b>							
Long-term liabilities	18	9 059		10 000	8 571		10 000
Short-term liabilities	19	15 495		9 152	18 087		14 169
		<b>24 554</b>		<b>19 152</b>	<b>26 658</b>		<b>24 169</b>
<b>Total liabilities and shareholders' equity</b>		<b>56 237</b>		<b>48 117</b>	<b>50 884</b>		<b>47 465</b>

## Cash Flow Statement

1000 euros	2004	Group	2003	2004	Parent Company	2003
<b>Cash flow from operations</b>						
Operating profit	5 294		1 767	2 559		1 789
Adjustments to operating profit	2 582		3 834	2 868		3 607
Change in net working capital	-595		4 743	-547		1 480
Interest income	282		268	261		322
Interest expenses	-342		-337	-288		-332
Dividend income	10		8	429		3 378
Other financial items	-142		-178	-148		-178
Taxes paid	-159		-536	-152		-399
<b>Cash flow from operations</b>	<b>6 929</b>		<b>9 569</b>	<b>4 982</b>		<b>9 667</b>
<b>Investments</b>						
Other tangible assets	-546		-448	-403		-396
Advance payments	-1 566		0	-198		0
Sale of other tangible assets	81		43	81		5
Investments in subsidiary shares	-137		-2 487	-831		-3 092
<b>Cash flow from investments</b>	<b>-2 168</b>		<b>-2 892</b>	<b>-1 351</b>		<b>-3 483</b>
<b>Cash flow before financing</b>	<b>4 761</b>		<b>6 677</b>	<b>3 631</b>		<b>6 184</b>
<b>Financing</b>						
Long-term liabilities	-1 213		0	-1 429		0
Long-term assets	0		0	-344		0
Short-term liabilities	647		-5 000	1 429		-5 000
Paid dividends	-1 337		-1 312	-1 337		-1 312
Share issue	24		183	24		183
Others	34		-22	0		0
<b>Financing total</b>	<b>-1 845</b>		<b>-6 151</b>	<b>-1 657</b>		<b>-6 129</b>
<b>Change in liquid funds</b>	<b>2 916</b>		<b>526</b>	<b>1 974</b>		<b>55</b>
Liquid funds 1.1.2004	14 192		13 666	13 356		13 301
Liquid funds 31.12.2004	17 108		14 192	15 330		13 356

## Accounting Principles of the Group

### Consolidated Accounts

Consolidated Financial Statements include the accounts of the company and those companies in which it holds, directly or indirectly, over 50% 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 part of 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.

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

Minority interest in the profit of the company concerned is recorded in the consolidated Financial Statements in proportion to the made investment. Minority interest in the loss is recorded in the consolidated Financial Statements at the investment value at most.

### 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. 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 translation differences arising from consolidation of foreign shareholdings are credited or debited directly to retained earnings.

### Derivative Financial Instruments

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

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

<b>Intangible rights</b>	3 years
<b>Goodwill and goodwill on consolidation</b>	10 years
<b>Other capitalised expenditure</b>	3 years
<b>Buildings</b>	25–33 years
<b>Machinery</b>	3–5 years
<b>Computers</b>	0–3 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

Purchases made under capital lease terms are entered into consolidated income statement as tangible fixed assets, on the one hand, and as interest bearing liability, on the other.

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 in hand and in bank. Short-term investments include other funds equivalent to cash, such as commercial papers.*

### **Turnover**

*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.*

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

### **Research & Development**

*In the main, R&D expenses are recorded as revenue expenditure. Since 2004 significant future product platforms, the demand potential and future cash flow of which can be estimated with any sufficient degree of accuracy, have been activated in intangible rights. Depreciation of such activated R&D projects is commenced after the completion of the product platform concerned.*

### **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.*

### **Taxes**

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

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

### **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 recognised as undistributable equity. The value of own shares is limited to acquired price. The value of own shares in the balance sheet is the closing price of the share December 31, 2004 multiplied by number of own shares.*

## Notes to the Statement of Income and Balance Sheet 31.12.2004

1000 euros	2004	Group	2003	2004	Parent Company	2003
<b>1. Net sales and orders received</b>						
<b>Net sales by business unit</b>						
Broadband Cable Networks	54 056		43 180	45 020		38 793
Video Networks	12 107		11 024	10 196		11 024
	<b>66 163</b>		<b>54 204</b>	<b>55 216</b>		<b>49 817</b>
<b>Orders received</b>						
Broadband Cable Networks	64 500		40 052	45 925		38 052
Video Networks	16 000		12 162	15 550		12 162
	<b>80 500</b>		<b>52 214</b>	<b>61 475</b>		<b>50 214</b>
<b>Net sales by market area</b>						
Finland	9 930		9 530	9 930		9 530
Scandinavia	15 117		8 828	9 026		8 276
Other EU	32 395		21 935	27 739		18 100
Other Europe	5 315		8 879	5 115		8 879
North America	1 332		1 583	1 332		1 583
Asia	1 007		1 981	1 007		1 981
Others	1 067		1 469	1 067		1 469
<b>Total</b>	<b>66 163</b>		<b>54 204</b>	<b>55 216</b>		<b>49 817</b>
<b>2. Other operating income</b>						
R&D subvention and others	264		1 126	508		1 073
<b>Total</b>	<b>264</b>		<b>1 126</b>	<b>508</b>		<b>1 073</b>
<b>3. Materials and services</b>						
Purchases	24 608		17 636	19 855		17 240
Change in inventories	-388		630	-278		493
	<b>24 220</b>		<b>18 266</b>	<b>19 577</b>		<b>17 733</b>
Purchased services	3 450		3 054	1 350		1 300
<b>Total</b>	<b>27 670</b>		<b>21 320</b>	<b>20 927</b>		<b>19 033</b>
<b>4. Personnel expenses</b>						
Wages and salaries	17 673		14 835	13 958		12 219
Pension costs	2 416		2 067	2 095		1 871
Other personnel costs	1 274		1 132	954		920
<b>Total gross</b>	<b>21 363</b>		<b>18 034</b>	<b>17 007</b>		<b>15 010</b>
Activated R&D personnel expenses	-1 291		0	0		0
<b>Total</b>	<b>20 072</b>		<b>18 034</b>	<b>17 007</b>		<b>15 010</b>
Remuneration to Board members and Managing Directors	890		588	452		354
Cash loans, securities or contingent liabilities were not granted to the Managing Director or to the members of the Board of Directors.						
Year-end personnel	513		466	419		407
Average personnel	492		452	434		420
<b>Personnel by function at the year-end</b>						
Research and Development	130		124	117		114
Production and Material Management	256		230	240		231
Sales and Marketing, Log. Services	101		87	39		40
Finance and IT	26		25	23		22
<b>Total</b>	<b>513</b>		<b>466</b>	<b>419</b>		<b>407</b>



	2004	Group	2003	2004	Parent Company	2003
<b>5. Depreciation according to plan</b>						
<i>Other capitalized expenditure</i>	135		288	135		288
<i>Buildings</i>	308		296	307		296
<i>Machinery and equipment</i>	1 028		1 260	874		1 170
<i>Goodwill on consolidation</i>	1 040		897	752		752
<b>Total</b>	<b>2 511</b>		<b>2 741</b>	<b>2 068</b>		<b>2 506</b>
<b>Change in accumulated depreciation difference</b>						
<i>Buildings</i>				153		139
<i>Other capitalized expenditure</i>				72		-2
<b>Total</b>				<b>225</b>		<b>137</b>
<b>6. Financial income and expenses</b>						
<i>Interest income</i>	282		268	228		250
<i>Interest income from group companies</i>	0		0	33		72
<i>Interest expenses</i>	-342		-337	-287		-332
<i>Interest expenses to group companies</i>	0		0	-1		0
<i>Currency differences</i>	-57		-51	-86		-51
<i>Other financial income and expenses</i>	-85		-127	-103		-127
<i>Dividend income from group companies</i>	0		0	419		3 303
<i>Avoir fiscal</i>	0		0	41		1 269
<i>Dividend income</i>	10		8	10		8
<b>Total</b>	<b>-192</b>		<b>-239</b>	<b>254</b>		<b>4 392</b>
<b>7. Appropriations and deferred tax assets and liabilities in the parent company</b>						
<i>Accumulated depreciation in excess of plan</i>				1 328		1 553
<b>8. Income taxes</b>						
<i>Change in deferred taxes</i>	291		-316	0		0
<i>Direct taxes</i>	1 149		183	685		1 248
<i>Taxes from previous years</i>	174		0	167		0
<b>Total</b>	<b>1 614</b>		<b>-133</b>	<b>852</b>		<b>1 248</b>

## 9. Tangible and intangible assets

Group	Intangible assets			Tangible assets				
	Intangible rights	Goodwill	Total	Land	Buildings	Machinery	Other capitalized expenditure	Total
Acquisition cost 1.1.2004	59	16 321	16 380	108	5 316	11 320	2 017	18 761
Translation difference	0	0	0	0	0	0	0	0
Increases*	1 219	1 898	3 117	0	190	1 004	89	1 283
Decreases	0	0	0	0	0	-120	0	-120
Transfer between items	0	0	0	0	0	0	0	0
<b>Acquisition cost 31.12.2004</b>	<b>1 278</b>	<b>18 219</b>	<b>19 497</b>	<b>108</b>	<b>5 506</b>	<b>12 204</b>	<b>2 106</b>	<b>19 924</b>
<i>*includes advance payment 1,219</i>								
Accumulated depreciation 1.1.2004	0	9 693	9 693	0	1 678	9 660	1 779	13 117
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	0	1 040	1 040	0	308	1 028	135	1 471
<b>Accumulated depreciation 31.12.2004</b>	<b>0</b>	<b>10 733</b>	<b>10 733</b>	<b>0</b>	<b>1 986</b>	<b>10 688</b>	<b>1 914</b>	<b>14 588</b>
<b>Book value 31.12.2004</b>	<b>1 278</b>	<b>7 486</b>	<b>8 764</b>	<b>108</b>	<b>3 520</b>	<b>1 516</b>	<b>192</b>	<b>5 336</b>
Book value of machinery and equipment 31.12.2004						1 233		
Book value of machinery and equipment 31.12.2003						1 507		
<b>Parent company</b>								
Acquisition cost 1.1.2004	7 579	0	7 579	108	4 983	7 287	1 764	14 142
Translation difference	0	0	0	0	0	0	0	0
Increases*	198	0	198	0	0	317	86	403
Decreases	0	0	0	0	0	-120	0	-120
Transfer between items	0	0	0	0	0	0	0	0
<b>Acquisition cost 31.12.2004</b>	<b>7 777</b>	<b>0</b>	<b>7 777</b>	<b>108</b>	<b>4 983</b>	<b>7 484</b>	<b>1 850</b>	<b>14 425</b>
<i>*includes advance payment 198</i>								
Accumulated depreciation 1.1.2004	3 763	0	3 763	0	1 345	5 627	1 627	8 599
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	307	874	135	1 316
<b>Accumulated depreciation 31.12.2004</b>	<b>4 515</b>	<b>0</b>	<b>4 515</b>	<b>0</b>	<b>1 652</b>	<b>6 501</b>	<b>1 762</b>	<b>9 915</b>
<b>Book value 31.12.2004</b>	<b>3 261</b>	<b>0</b>	<b>3 261</b>	<b>108</b>	<b>3 331</b>	<b>983</b>	<b>88</b>	<b>4 511</b>
Book value of machinery and equipment 31.12.2004						601		
Book value of machinery and equipment 31.12.2003						1 487		

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**10. Investments**

	<i>Shares associated companies</i>	<i>Shares others</i>	<i>Treasury shares</i>	<i>Receivables others</i>	<i>Total</i>
<b>Group</b>					
<i>Acquisition cost 1.1.2004</i>	0	1 116	5 818	0	6 934
<i>Translation difference</i>	0	0	0	0	0
<i>Increases</i>	0	0	0	0	0
<i>Decreases</i>	0	0	-792	0	-792
<i>Transfer between items</i>	0	0	0	0	0
<b>Acquisition cost 31.12.2004</b>	<b>0</b>	<b>1 116</b>	<b>5 026</b>	<b>0</b>	<b>6 142</b>
<i>Accumulated depreciation 1.1.2004</i>	0	0	-2 464	0	-2 464
<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	388	0	388
<b>Accumulated depreciation 31.12.2004</b>	<b>0</b>	<b>0</b>	<b>-2 076</b>	<b>0</b>	<b>-2 076</b>
<b>Book value 31.12.2004</b>	<b>0</b>	<b>1 116</b>	<b>2 950</b>	<b>0</b>	<b>4 066</b>

	<i>Shares associated companies</i>	<i>Shares others</i>	<i>Treasury shares</i>	<i>Receivables others</i>	<i>Total</i>
<b>Parent company</b>					
<i>Acquisition cost 1.1.2004</i>	6 565	1 116	5 818	0	13 499
<i>Translation difference</i>	0	0	0	0	0
<i>Increases</i>	3 065	0	0	0	3 065
<i>Decreases</i>	-34	0	-792	0	-826
<i>Transfer between items</i>	0	0	0	0	0
<b>Acquisition cost 31.12.2004</b>	<b>9 596</b>	<b>1 116</b>	<b>5 026</b>	<b>0</b>	<b>15 738</b>
<i>Accumulated depreciation 1.1.2004</i>	-685	0	-2 464	0	-3 149
<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	388	0	388
<b>Accumulated depreciation 31.12.2004</b>	<b>-685</b>	<b>0</b>	<b>-2 076</b>	<b>0</b>	<b>-2 761</b>
<b>Book value 31.12.2004</b>	<b>8 911</b>	<b>1 116</b>	<b>2 950</b>	<b>0</b>	<b>12 977</b>

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	2004	Group	2003	2004	Parent Company	2003
<b>11. Long-term receivables</b>						
<i>Long-term receivables from group companies</i>	0		0	344		849
<b>Total</b>	<b>0</b>		<b>0</b>	<b>344</b>		<b>849</b>
<b>12. Inventories</b>						
<i>Raw materials and consumables</i>	1 905		1 338	1 758		1 478
<i>Work in progress</i>	2 838		2 644	2 157		2 370
<i>Finished goods</i>	3 115		1 340	955		842
<b>Total</b>	<b>7 858</b>		<b>5 322</b>	<b>4 870</b>		<b>4 690</b>
<b>13. Current assets</b>						
<i>Accounts receivables</i>	10 376		8 600	6 663		6 884
<i>Accounts receivables from group companies</i>	0		0	1 589		0
<i>Loan receivables from group companies</i>	0		0	13		19
<i>Other receivables</i>	192		462	0		0
<i>Deferred tax assets, note 17</i>	448		739	0		0
<i>Avoir fiscal</i>	282		942	282		942
<i>Accrued income</i>	1 805		1 058	1 044		1 015
<b>Total</b>	<b>13 104</b>		<b>11 802</b>	<b>9 591</b>		<b>8 860</b>
<b>14. Liquid funds</b>						
<i>Short-term investments</i>	13 623		9 303	13 623		9 303
<i>Cash and cash equivalents</i>	3 485		4 889	1 707		4 053

	2004	Group	2003	2004	Parent Company	2003
<b>15. Changes in shareholders' equity</b>						
Share capital 1.1.	6 921		6 814	6 921		6 814
Share issues	14		107	14		107
Share capital 31.12.	6 935		6 921	6 935		6 921
Share premium fund 1.1.	1 250		1 175	1 250		1 175
Share issues	10		75	10		75
Gain from treasury shares	17		0	17		0
Share premium fund 31.12.	1 277		1 250	1 277		1 250
Treasury shares 1.1.	3 354		1 531	3 354		1 531
Conveyed, transfer back to retained earnings	-792		0	-792		0
Change in value	388		1 823	388		1 823
Treasury shares 31.12.	2 950		3 354	2 950		3 354
Retained earnings 1.1.	15 446		15 120	8 258		4 500
Translation difference	34		-22	0		0
Dividends	-1 337		-1 312	-1 337		-1 312
Transfer from treasury shares	792		0	792		0
Retained earnings 31.12.	14 936		13 786	7 713		3 188
Profit for the financial period	3 520		1 661	2 186		5 070
Accumulated profit 31.12.	18 456		15 446	9 898		8 258
<b>Total</b>	<b>29 618</b>		<b>26 971</b>	<b>21 061</b>		<b>19 784</b>
<b>Distributable funds</b>	<b>9 898</b>		<b>8 258</b>	<b>9 898</b>		<b>8 258</b>
<i>Parent company's registered share capital consists of one serie and is divided into 17,339,752 shares at 1 vote each.</i>						
<b>16. Obligatory provisions</b>						
Provision for guarantees	1 182		902	954		868
Provision for pension commitments	160		160	160		160
Provision for restructuring	107		180	107		180
Others	616		752	616		751
<b>Total</b>	<b>2 065</b>		<b>1 994</b>	<b>1 837</b>		<b>1 959</b>
<b>17. Deferred taxes</b>						
<b>Deferred tax assets</b>						
From timing differences	839		1 250	0		0
From consolidation	104		52	0		0
<b>Total</b>	<b>943</b>		<b>1 302</b>	<b>0</b>		<b>0</b>
<b>Deferred tax liabilities</b>						
From appropriations	495		563	0		0
<b>Total</b>	<b>448</b>		<b>739</b>	<b>0</b>		<b>0</b>

	2004	Group	2003	2004	Parent Company	2003
<b>18. Long-term liabilities</b>						
<i>Bank loans</i>	8 779		10 000	8 571		10 000
<i>Other interest bearing liabilities</i>	280		0	0		0
<b>Total</b>	<b>9 059</b>		<b>10 000</b>	<b>8 571</b>		<b>10 000</b>
<b>Liabilities due after 5 years</b>	<b>2 857</b>		<b>4 286</b>	<b>2 857</b>		<b>4 286</b>
<b>19. Short-term liabilities</b>						
<i>Bank loans</i>	1 607		0	1 429		0
<i>Other interest bearing liabilities</i>	84		0	0		0
<i>Advance payments received</i>	161		189	158		99
<i>Accounts payables</i>	4 790		3 349	3 148		2 734
<i>Accounts payables from group companies</i>	0		0	471		362
<i>Other current liabilities</i>	3 152		657	2 131		409
<i>Other current liabilities from group companies</i>	0		0	5 993		6 083
<i>Accrued liabilities</i>	5 701		4 957	4 757		4 482
<b>Total</b>	<b>15 495</b>		<b>9 152</b>	<b>18 087</b>		<b>14 169</b>
<b>20. Contingent liabilities and pledged assets</b>						
<b>Debts covered by company mortgages and pledged assets</b>						
<i>Bank loans</i>	10 582		10 000	10 000		10 000
<b>Leasing liabilities</b>						
<i>For next year</i>	452		335	376		174
<i>For later years</i>	480		143	1 082		52
<b>Total</b>	<b>932</b>		<b>478</b>	<b>1 458</b>		<b>226</b>
<b>Rental liabilities</b>	<b>748</b>		<b>943</b>	<b>460</b>		<b>581</b>
<b>Liabilities on own behalf</b>						
<i>Mortgages</i>	7 000		7 000	7 000		7 000
<i>Company mortgages</i>	10 582		10 000	10 000		10 000
<b>21. Currency derivatives</b>						
<i>Value of underlying forward contracts</i>	9 624		4 258	9 624		4 258
<i>Market value of forward contracts</i>	9 438		4 210	9 438		4 210
<i>Forward contracts are used only for hedging currency exchange risks.</i>						

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**22. Companies owned by the group and parent company**

	<i>Group's share, %</i>	<i>Parent company's share, %</i>
<i>Flomatik AB, Stockholm, Sweden</i>	100	0
<i>Flomatik AS, Porsgrun, Norway</i>	100	100
<i>Teleste d.o.o., Ljutomer, Slovenia</i>	100	0
<i>Teleste Försäljning AB, Malmö, Sweden</i>	100	100
<i>Teleste UK Ltd, Cambridge, UK</i>	100	100
<i>Teleste Kaurakatu Oy, Turku, Finland</i>	100	100
<i>Teleste GmbH, Hannover, Germany</i>	100	100
<i>Suomen Yhteisantennit Oy, Turku, Finland</i>	100	100
<i>Kaavisio Oy, Turku, Finland</i>	100	100
<i>S-Link AB, Täby, Sweden</i>	100	100
<i>S-Link ssp, Krakowa, Poland</i>	100	100
<i>Teleste Electronics (SIP), Suzhou, China</i>	60	60
<i>Teleste LLC, Georgetown Texas, USA</i>	100	100

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**23. Own shares**

	<i>Number of shares</i>	<i>Nominal value, EUR</i>	<i>Percentage of share capital</i>	<i>Percentage of votes,</i>
<i>Parent company owns own shares 31.12.2004</i>	490 000	196 000	2.83	2.83

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## Proposal for the Distribution of Earnings

According to the consolidated balance sheet, distributable funds totalled EUR 9,898,350.64. As to the Annual General Meeting to be held on April 5, 2005, the Board proposes that a dividend of EUR 0.12 per share will be paid to the 16,849,752 outstanding shares for the year 2004. According to this proposal the payable dividend will amount to EUR 2,021,970.24 accounting for 57.2% of the profit for the financial year.

Helsinki, February 1, 2005

Teleste Corporation  
Board of Directors

Tapio Hintikka

Tero Laaksonen

Pertti Raatikainen

Timo Toivola

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 Corporate for the period 1.1.–31.12.2004. 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 Finnish 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 in Finland. 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 distributable funds is in compliance with the Finnish Companies Act.*

Helsinki, February 1, 2005

KPMG Oy Ab

Sixten Nyman  
Authorised Public Accountant

## Financial Indicators

	2000	2001	2002	2003	2004
<b>RESULT AND PROFITABILITY</b>					
Net sales, Meur	99.4	102.6	66.8	54.2	66.2
Change, %	46.0	3.2	-34.9	-18.8	22.1
Sales outside Finland, %	91.0	87.0	82.6	81.9	84.9
Operating profit, Meur	12.2	13.8	-4.3	1.8	5.3
% of net sales	12.3	13.5	-6.4	3.3	8.0
Profit after financial items, Meur	10.9	13.1	-5.1	1.5	5.1
% of net sales	11.0	12.8	-7.6	2.8	7.7
Profit before taxes, Meur	12.3	17.9	-8.2	1.5	5.1
% of net sales	12.4	17.4	-12.3	2.8	7.7
Profit for the financial period, Meur	8.6	13.5	-7.1	1.7	3.5
% of net sales	8.7	13.1	-10.6	3.1	5.3
R&D expenditure, Meur	9.0	9.2	6.6	5.8	6.9
% of net sales	9.0	9.0	9.9	10.7	10.4
Gross investments, Meur	3.1	3.7	1.3	3.4	5.4
% of net sales	3.1	3.6	1.9	6.3	8.2
Interest bearing liabilities, Meur	21.0	20.0	15.0	10.0	10.8
Shareholders' equity, Meur	26.8	38.5	24.6	27.0	29.6
Balance sheet total, Meur	63.6	76.8	52.0	48.1	56.2
<b>PERSONNEL AND ORDERS</b>					
Average personnel	616	594	506	452	492
Order backlog at the year-end, Meur	26.4	17.8	9.7	6.6	20.7
Orders received, Meur	108.9	97.7	59.5	52.2	80.5
<b>KEY METRICS</b>					
Return on equity, %	31.4	28.9	-14.2	7.1	13.9
Return on capital employed, %	31.4	27.4	-7.6	5.3	15.6
Equity ratio, %	42.7	44.5	44.8	49.3	50.2
Gearing, %	51.1	-20.5	5.8	-17.7	-23.8
Earnings per share, eur	0.44	0.53	-0.25	0.10	0.21
Earnings per share w/o goodwill depreciation, eur	0.49	0.58	-0.19	0.16	0.27
Earnings per share fully diluted, eur		0.51	-0.25		
Shareholders' equity per share, eur	1.61	2.05	1.41	1.41	1.58
<b>TELESTE SHARE</b>					
Highest price, eur	39.00	24.00	14.00	6.49	7.06
Lowest price, eur	12.90	7.80	2.21	2.40	5.14
Closing price, eur	23.50	12.49	2.47	5.41	6.02
Average price, eur	24.06	13.64	5.52	4.41	6.03
Price per earnings, Meur	53.8	23.7	-10.0	53.7	28.6
Market capitalization, Meur	390.4	206.1	40.5	90.3	101.4
Turnover, Meur	618.3	263.3	82.7	43.7	74.2
Turnover, number in millions	25.7	19.3	15.0	9.9	12.3
Turnover, % of share capital	154.5	114.1	88.0	57.2	70.9
Average number of shares	16 360 488	16 732 918	16 974 287	17 094 910	17 334 235
Number of shares at the year-end	16 612 100	16 897 980	17 035 400	17 304 248	17 339 752
Number of shares subscribed, not registered 31.12.2004				23 304	
Average number of shares, diluted	18 153 402	18 306 219	18 567 329	18 715 000	18 971 090
Number of share at the year-end, diluted	18 470 000	18 165 000	18 715 000	18 715 000	19 039 252
Paid dividend, Meur	2.0	2.6	1.3	1.3	2.0*
Dividend per share, eur	0.12	0.16	0.08	0.08	0.12*
Dividend per net result, %	27.5	30.3	-32.5	79.4	57.2
Effective dividend yield, %	0.5	1.3	3.2	1.5	2.0

\*the Board's proposal to the Annual General Meeting

## Glossary

<b>AAL</b>	ATM Adaptation Layer	<b>MDI</b>	Medium Dependent Interface
<b>ADSL</b>	Asymmetric Digital Subscriber Line	<b>MDIX</b>	Medium Dependent Interface Crossover
<b>AGC</b>	Automatic Gain Control	<b>MHEG</b>	Multimedia and Hypermedia Experts Group
<b>ANSI</b>	American National Standards Institute	<b>MIB</b>	Management Information Base
<b>ASP</b>	Advanced Simple Profile	<b>MJPEG</b>	Moving JPEG
<b>ATM</b>	Asynchronous Transfer Mode	<b>MMDS</b>	Multichannel Multipoint Distribution Service
<b>AVC</b>	Advanced Video Coding	<b>MMF</b>	Multimode Fibre
<b>CA</b>	Conditional Access	<b>MOU</b>	Memorandum of Understanding
<b>CATV</b>	Cable Television	<b>MPEG</b>	Motion Picture Experts Group
<b>CCIR</b>	Consultative Committee International Radio (see ITU-R)	<b>MPLS</b>	Multi Protocol Label Switching
<b>CCITT</b>	Consultative Committee International Telephone and Telegraph (see ITU-T)	<b>NCTA</b>	National Cable Television Association
<b>CCM</b>	City Center Monitoring	<b>NE</b>	Network Element
<b>CCTV</b>	Closed Circuit Television	<b>NEMA</b>	National Electrical Manufacturers Association
<b>CD-ROM</b>	Compact Disk Read-Only-Memory	<b>NMS</b>	Network Management System
<b>CE</b>	Consumer Electronics	<b>NTSC</b>	National Television System Committee
<b>CEC</b>	European Committee for Standardisation	<b>NVR</b>	Network Video Recorder
<b>CENELEC</b>	European Electrotechnical Standards Committee	<b>OA&amp;M</b>	Operations, Administration, and Maintenance
<b>CI</b>	Common Interface (standard)	<b>OEM</b>	After Market Manufacturers
<b>CIF</b>	Common Image Format	<b>OFDM</b>	Orthogonal Frequency Division Multiplexing
<b>CLI</b>	Command Line Interface	<b>OSI</b>	Open System Interconnection
<b>CPE</b>	Customer Premise Equipment	<b>OTS</b>	Off The Shelf
<b>CPU</b>	Central Processing Unit	<b>PA</b>	Public Address
<b>CVBS</b>	Composite Video Baseband Signal	<b>PAL</b>	Phase Alternating Line
<b>CWDM</b>	Coarse Wavelength Division Multiplexing	<b>PC</b>	Personal Computer
<b>DES</b>	Data Encryption Standard (U.S.)	<b>PCMCIA</b>	Personal Computer Memory Card International Association
<b>DOCSIS</b>	Data Over Cable System Interface Standard	<b>PHY</b>	Physical Layer Working Group of ATM Forum
<b>DVD</b>	Digital Versatile Disk	<b>PLC</b>	Programmable Logic Controller
<b>DVR</b>	Digital Video Recorder	<b>POTS</b>	Plain Old Telephone Service
<b>DWDM</b>	Dense Wavelength Division Multiplexing	<b>PSTN</b>	Public Switched Telephone Network
<b>ECCA</b>	European Cable Communication Association	<b>PTZ</b>	Pan Tilt Zoom
<b>EIA</b>	Electronic Industries Association	<b>PVC</b>	Permanent Virtual Channel
<b>EMC</b>	Electromagnetic Compatibility	<b>QAM</b>	Quadrature Amplitude Modulation
<b>EMS</b>	Element Management System	<b>QoS</b>	Quality of Service
<b>EPG</b>	Electronic Program Guide	<b>QPSK</b>	Quadrature Phase Shift Keying
<b>ESW</b>	Embedded Software	<b>RF</b>	Radio Frequency
<b>ETSI</b>	European Telecommunications Standards Institute	<b>RFC</b>	Request for Comments
<b>EttH</b>	Ethernet to the Home	<b>RFI</b>	Radio Frequency Interference
<b>FCC</b>	Federal Communications Commission	<b>RSA</b>	Public Key Cryptosystem invented by Rivest, Shamir and Adleman
<b>GUI</b>	Graphical User Interface	<b>RTP</b>	Real Time Protocol
<b>HDTV</b>	High Definition Television	<b>SAP</b>	Session Announcement Protocol
<b>HES</b>	High End Security	<b>SCTE</b>	Society of Cable Television Engineers
<b>HFC</b>	Hybrid Fiber Coax	<b>SDH</b>	Synchronous Digital Hierarchy
<b>HTML</b>	Hyper Text Markup Language	<b>SECAM</b>	Systeme Electronique Couleur Avec Memoire
<b>HW</b>	Hardware	<b>SFN</b>	Single Frequency Network
<b>IANA</b>	Internet Assigned Numbers Authority	<b>SMF</b>	Single Mode Fibre
<b>IEEE</b>	Institute of Electrical and Electronic Engineers	<b>SNMP</b>	Simple Network Management Protocol
<b>IETF</b>	Internet Engineering Task Force	<b>SNR</b>	Signal to Noise Ratio
<b>IP</b>	Internet Protocol	<b>SONET</b>	Synchronous Optical Network
<b>IPC</b>	Industrial Personal Computer	<b>STB</b>	Set-Top Box
<b>IPR</b>	Intellectual Property Rights	<b>STM</b>	Synchronous Transmission Mode
<b>ISO</b>	International Standards Organization	<b>TCP/IP</b>	Transmission Control Protocol/Internet Protocol
<b>ITS</b>	Intelligent Transport (Traffic) System	<b>TMN</b>	Telecommunications Management Network
<b>ITU-R</b>	ITU Radiocommunications Sector	<b>UHF</b>	Ultra High Frequency
<b>ITU-T</b>	ITU Telecommunications Sector	<b>UTP</b>	Unshielded Twisted Pair
<b>JPEG</b>	Joint Photographic Experts Group	<b>VHF</b>	Very High Frequency
<b>LAN</b>	Local Area Network	<b>VOD</b>	Video on Demand
<b>LMDS</b>	Local Multi-point Distribution Service	<b>VPN</b>	Virtual Private Network
<b>MAC</b>	Media Access Control	<b>WAN</b>	Wide Area Network

### Calculation of the Key Figures

#### Return on equity:

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

#### Return on capital employed:

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

#### Equity ratio:

$$\frac{\text{Shareholders' equity}}{\text{Total assets} - \text{own shares at the year-end} - \text{advances received}} \times 100$$

#### Gearing:

$$\frac{\text{Interest bearing liabilities} - \text{cash in hand and in bank} - \text{interest bearing assets}}{\text{Shareholders' equity} - \text{own shares at the year-end}} \times 100$$

#### Earnings per share:

$$\frac{\text{Profit before extraordinary items} - \text{taxes} + \text{minority interest}}{\text{Number of average shares without own shares}}$$

#### Equity per share:

$$\frac{\text{Shareholders' equity} - \text{own shares}}{\text{Number of shares} - \text{number of own shares at the year-end}}$$

#### Price per earnings:

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

#### Effective dividend yield:

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

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