Annual Report 2005

Teleste

Contents

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.

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.

Even if we are now already the market leader in Europe, as far as both of our businesses are concerned, our aim is set 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 approach is based on continuous improvement and high quality. Excellent customer satisfaction is one of our core targets. Thanks to our comprehensive network of sales offices we can keep a close contact with the customer.

We are a high-tech company and our approach is characterised by products tailored precisely to the customer's needs. As to our own organisation or to that of our chosen partners, our product development is based on solid world-class R&D procedures.

Our strategy is based on organic growth in the promising business areas. To support this, we are also prepared to consider benefits provided by acquisitions and mergers.

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

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

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

CEO's Letter

For Teleste, 2005 was, in many respects, a successful year. In the financial sense, we reached the goals of profitable growth. Net sales grew by 25% amounting to EUR 83 million, profitability – in terms of operating profit – improved by no less than 52% over the previous year and we exceeded the 10% operating profit level set as intermediate target. As to the net sales, Broadband Cable Networks accounted for EUR 67.2 million (81%) while Video Networks brought in the remaining EUR 15.4 million. Return on capital employed rose to 24% and the equity ratio stood at 59%. In the light of these criteria we can confidently set new ambitious goals for profitable growth for the coming years.

Areas of Growth

The positive development stems from determined implementation of our company strategy. In our main business of Broadband Cable Networks we have, firstly, focused on promoting comprehensive know-how, products and services relevant to cable networks. Broadband data access solutions provide the second key strategic area. We have launched the first EttH products providing households on cable with a data transfer rate of 10 Mbps. In the current year, by making available the EttH 100 solution we will be the first supplier in the world to increase the transfer rate of the HFC network ten-fold up to 100 Mbps. Thirdly, we have developed our service business as a response designed to meet the increased requirements of our customers and to support our traditionally strong expertise in products and technology. Currently, no less than 23% of Broadband Cable Networks' net sales consist of service-related business. Fourth, we have launched deliveries of integrated head-end solutions using the Internet Protocol. In 2005, we already delivered this type of solutions to seven customers.

As to Video Networks, our focus is set on strengthening the competitiveness by renewing the fibre modem product range and by improving functionality and reliability of the related products. Moreover, we have developed some standard products for the growing network-based video surveillance market; one of these is the MP-X, which was well received in the American market. In terms of transfer and processing of video in surveillance networks this flexible and modular product platform clearly outperforms the competition. Demand for large-scale comprehensive video surveillance solutions has been on the increase and therefore, our third strategic priority area involves advancing our expertise in technical system integration. Teleste has one of the most outstanding track records in large-scale integrated video surveillance solutions: our co-operation with SNFC, the French National Railroad Authority. Video surveillance of the French rail service in the Paris area will be implemented using Teleste's technology, in addition to which we are involved in the project as the turnkey system integrator. The project will be completed in summer 2006. Our fourth priority has been our strong emphasis on key customer strategy. Our ties with British Telecom provide a good indication of this as we are proud of having been their sole supplier of video network technology for the last seven years.

Close to the Customer

Essential part of our operation consists of maintaining an extended service network close to the customer. Currently, Teleste runs a network of 28 sales offices in 15 countries across the globe. Typically, these offices provide a sales and technical support service with some additional functions depending on location. Our network in the European marketplace is, indeed, in a class of its own and this enables us to offer customers in our main market area a readily available service. In selected market areas we have entered into distribution partnerships to complement our own service network.

Operative Excellence

Our operative functions have been enhanced and made more cost-effective across the field. Our on-going effort to develop processes and personnel competence and our readiness to make related adjustments enable us to respond faster to the customers' requirements. Improvements in logistics and in the distribution chain, components supplies from China with manufacturing of bulk products in China have all contributed to the improvement of our competitive edge. In the past year we introduced a new enterprise resource planning system and customer relations management systems, ERP and CRM, for short. The effects of these investments will come into view in the course of this year. Improving productivity will continue to be one of our key objectives.

Strong Technology Base

The Teleste R&D unit consists of multiskilled and motivated professionals in the field of product development. This provides us with a strong technological basis for successful conduct of business. In the past year the R&D organisation underwent a reorganisation in which persons with the same technical expertise were grouped into teams supported by application specialists in the matrix. This was designed to ensure effective utilisation of resources between various projects, on the one hand, and to maximise the technological synergy available in our business units, on the other. Our in-house R&D development personnel covers the most essential technological core areas and is complemented, in turn, by our partners. As to R&D, market demand and customer requirements constitute our starting point supported by our efforts related to keeping a direct contact with our key customers also in product development. Our work is conducted in compliance with systematically specified processes, which in combination with the selected development tools allow competitive products and systems to be launched into market in a fast and controlled manner. Our main development projects of the past year include the broadband solution EttH, optical product range HDO, video surveillance solution MP-X, the AC amplifier and the node product families. The R&D expenses for year 2005 stood at 10.5% of net sales.

Profitable Growth

Our strategic measures have been – and will continue to be – designed to ensure the company's profitable growth. This goal is supported by the conducted acquisitions. In 2005, we focused on integrating our previous acquisitions, i.e. S-Link AB (2003) and Flomatik AS (2004), into Teleste. Thanks to S-Link's video network management system and solid expertise, we have managed to bring home significant comprehensive projects such as the Austrian road network and the French railroad video surveillance systems. Flomatik, in turn, has added to our provision of products and services and improved our customer service in the Norwegian, Swedish and Eastern European markets.

Along with the implemented strategic measures, the profitable growth development was also contributed by a pick-up in the market. The European cable operators have become active providing of new services. Out of these, provision of broadband or Internet access is clearly the single most notable one but the Internet-based telephony, VoIP, is also on the increase. Moreover, selected operators make available the so-called Triple Play service in which the customer is provided with TV, broadband and VoIP services by one and the same operator. As to Central Europe, in 2005 the particularly active markets included UK, Holland, France and Switzerland with the German market showing signs of improvement. In the Nordic Countries, Norway and Sweden were very active in the past year. The Eastern

European market appears to be picking up and we can look forward to see more growth in the area. In our main market area of Europe we continue to be the market leader. In China, we have succeeded in deliveries where financing from the Nordic Investment Bank (NIB) has been part of the delivery.

Growth in the video surveillance market in our target areas – high-quality traffic control and urban area surveillance solutions and safeguards – is driven mainly by needs for increased safety and more flexible traffic control. In addition, the solutions provide more intelligence and automation. Our main market areas include UK, France and the USA; the export potential for France and the United States looks particularly promising. In global terms, with regard to our targeted market segments, we are now third by our market share.

Know-how and Values

Skilful and motivated personnel are the key to our success. Along with long-term cumulated expertise, Teleste also has cutting-edge knowledge based on research about various segments of our business. We carry out regular performance appraisal discussions with the employees, conduct climate studies and – based on the received feedback – take constructive action with the object of furthering our areas of knowledge and methods of work.

Motivation is maintained by just management, challenging work tasks and incentive reward systems supported by our set of values. I dare say that our professional standards represent the state-of-the-art in the industry. The foundation of our operation is provided by shared values, which include customer-orientation, reliability, respect and performance. For more on these, see page 2.

Outlook

Signs of the global economy for the current year are relatively favourable. The trends for the areas represented by our company look fairly positive. We continue to be convinced that networking and the need for high-speed interactive communication in the data communications networks will increase. Particularly the use of video in the information networks will grow. For cable networks this means continued growth in terms of broadband access and data transfer rates. Similarly, future trends of our customer environment include Triple Play services, digitalisation, IPTV and HDTV as well as outsourcing of operator functions. Video surveillance is driven by the increased demand for safety, fear of terrorism and the need to control traffic. In addition of these trends, taking into account our good market position and our customer relations, high-quality products and services, I believe that we will continue on our path of profitable growth in 2006. Our vision is to be the leading supplier of cable-based broadband subscriber networks and video surveillance networks in the world.

Statements of Appreciation

I wish to express my heartfelt thanks to our customers, partners and our owners for successful co-operation in 2005. As to our personnel, I especially wish to thank you for your strong commitment in the company development and the achievement of goals. Guided by our values and supported by our good teamwork we have reached our objectives as we are bound to do in the future.

Jukka Rinnevaara

Year 2005 in Brief

	2005	2004	Change, %
Orders received, Meur	85.4	80.5	6
Net sales, Meur	82.6	66.0	25
Operating profit, Meur	8.6	5.6	53
Profit for the financial period, Meur	6.0	3.9	52
Earnings per share, eur	0.35	0.23	52
Shareholder's equity per share, eur	1.92	1.65	16
Return on capital employed, %	23.7	16.1	47
Turnover, % of share capital	62.3	70.9	–12

Information for the Shareholders

Annual General Meeting and Investor Relations

Annual General Meeting

Teleste Corporation's Annual General Meeting will be held on 4 April 2006, commencing at 3 p.m., at Finlandia Hall in Helsinki. Registration begins at 2 p.m.

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 Friday, 24 March 2006.

Registration

Shareholders wishing to attend the Annual General Meeting must inform the company (address information below) no later than Monday, 27 March 2006 by 4 p.m.

Attendance information must be delivered before the deadline specified above. Any letters of authorisation are requested to be submitted when the shareholder in question notifies the company of his/her intention to attend.

Proposal for Distribution of Dividend 2005

The Board of Directors proposes that a dividend of EUR 0.16 per share for 2005 will be paid to free-floating shares. The dividend will be paid to shareholders who are registered on the record date of 7 April 2006 on the company's Shareholder List, which is kept by the Finnish Central Securities Depository Ltd.

Annual General Meeting	4.4.2006
Dividend ex date	5.4.2006
Dividend record date	7.4.2006
Dividend payment date	18.4.2006

Dividend History eur

1999	2000	2001	2002	2003	2004	2005*
0.10	0.12	0.16	0.08	0.08	0.12	0.16

*The Board's proposal to the AGM

IR Policy

Teleste's communication objectives include openness and active support to business operations. Our key guidelines involve truthfulness, simultaneity, timeliness and balanced approach. CEO Jukka Rinnevaara is in charge of company communications. In addition to the CEO, the top management of the company is committed to serving various parties of the capital market. Practical matters related to communications, meetings and contact maintenance are handled by the IR assistant in cooperation with the CEO.

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. Roadshow trips conducted in connection with reporting of results have been made to the Nordic Countries, Central Europe and the USA.

As to Finland, besides individual analyst and investor meetings the company has participated in technology seminars and investor events. In autumn 2005, we set up a capital market day designed to provide key analysts and significant institutional investors with in-depth information about the company's standing and, in particular, its strategic direction. Special highlights in this CMD included presentations of the EttH and the video surveillance solutions. For the used presentation material see the IR section on our Website. The event was participated by an significant number of analysts and institutional investors. Moreover, we also organised several events for various groups including private investors and the press.

In line with our open information policy, all these activities were designed to raise awareness among the participants about the company in general, to promote interaction between the company and the participants as well as to provide an accurate and open view for the analysis of investment opportunities.

Investor Relations

CEO, Mr. Jukka Rinnevaara is in charge of Teleste's investor relations.
Please address any inquiries concerning the company to him as follows:
Phone +358 (0)2 2605 611
E-mail investor.relations@teleste.com

Attendance notifications to AGM, inquiries, requests for materials and appointments:
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Teleste Corporation Share and Shareholders

Share Capital

On 31 December 2005 registered share capital of Teleste Corporation amounted to EUR 6,935,900.80, which is divided into 17,339,752 shares.

Nominal value of the share is EUR 0.40. Teleste Corporation has one share class and in the AGM each share has one vote.

The company shares are included in the book-entry securities system.

According to Articles of Association, the minimum share capital of Teleste Corporation is EUR 6,400,000, while the maximum authorised capital amounts to EUR 25,600,000. Thus, the company share capital may be increased or decreased within these limits without amending the Articles of Association.

Dividend Policy

Teleste intends to be an interesting investee corporation in which the investment's increase in value and the dividend yield form a competitive combination. The annual proposal for the dividend is validated by the Board in consideration of profitability, financial situation and needs for investment necessitated by profitable growth.

Redemption Obligation

Teleste Corporation's Articles of Association include a clause related to redemption obligation. This article stipulates that a shareholder whose proportional holding of all Company shares, either individually or jointly with other shareholders is or exceeds 33 1/3 per cent or 50 per cent is obliged on demand by other shareholders to redeem such shareholders' shares, and securities giving entitlement to them under the Companies Act, in the amount so demanded by such shareholders. The redemption obligation has been specified in detail in the Articles of Association (Article 12).

Decisions by the AGM 2005

The AGM authorised the Board to acquire the maximum of 370,000 Teleste's own shares, convey at most 860,000 own shares and increase the share capital by a new issue of maximum 3,400,000 shares. These authorisations given to the Board by the AGM for acquisition of own shares and increasing the share capital were not used.

Own Shares

At the end of 2005 Teleste possessed 485,000 of the company's own shares. In August 2005, the number of own shares conveyed upon the payment of the additional purchase price for Flomatik A/S was 5,000.

Liquidity Providing

In August 2005 Teleste Corporation and Kaupthing Bank concluded a market making agreement, which fulfils the requirements of Helsinki Exchanges' Liquidity Providing (LP) operation. According to the agreement, Kaupthing Bank will provide Teleste Corporation's share with bids and offers so that the maximum difference between a bid and offer price is 2% of the bid. Bids or offers include at least 500 shares, which equals ten round lots. Kaupthing Bank undertakes to submit bids and offers for Teleste Corporation in the trading system of the Helsinki Stock Exchange's main list on each trading day for at least 85% of the time of continuous trading and in the Exchange's opening and closing auction procedures applicable to Teleste Corporation.

Liquidity providing is designed to increase liquidity of the share and reduce volatility in the relevant price stability and, by so means, facilitate trading by private investors.

Share Basics

Teleste's shares are listed on the main list of Helsinki Exchanges in the Information Technology sector (listing 30 March 1999).

ISIN code	FI0009007728
Trading code	TLT1V
Reuters ticker symbol	TLT1V.HE
Bloomberg ticker symbol	TLT1V FH
Currency	eur
Lot size	50
Nominal value	0.40
All-time high	eur 39.00
All-time low	eur 2.21

Publication Schedule for Financial Information

Interim report January–March	25.4.2006
Interim report January–June	13.7.2006
Interim report January–September	24.10.2006
Financial Statements	30.1.2007

Financial information is available in Finnish and in English. Financial reports will not be printed, instead, they are made public on Teleste's Website at 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 based on the information in the shareholder's register kept by the Finnish Central Securities Depository Ltd. Stock exchange releases published by the company can be subscribed in the IR section on the company Website at www.teleste.com.

Shareholders are kindly requested to inform the custodian of their book-entry account of any changes in contact details.

Information for the Shareholders

Option Programs

Date of AGM	Share option program	Number of shares	Subscription period	Subscription price 31.12.2005	Period of subscription price
8.4.2002	2002A	275 000	1.2.2005–1.10.2007	7.11	1.–30.4.2002
	2002B	275 000	1.2.2006–1.10.2008	2.45	1.–30.4.2003
16.3.2004	2004A1	150 000	1.4.2007–30.4.2009	5.86	1.–30.4.2004
	2004A2 *	150 000		5.86	1.–30.4.2004
	2004B1	150 000	1.4.2008–30.4.2010	6.47	1.–30.4.2005
	2004B2 **	150 000		6.47	1.–30.4.2005

* Options are free for subscription only when certain financial goals determined in advance by the Board of Teleste Corporation are met on 31 December 2006.
** Options are free for subscription only when certain financial goals determined in advance by the Board of Teleste Corporation are met on 31 December 2007.

Option Programs

The Teleste reward programs include two share option programs for the management and key personnel.

The 2002 A and B options will be listed on the Helsinki Exchanges in the beginning of 2006.

Dividend rights of the shares subscribed with Teleste Corporation stock options 2002 and other shareholder rights will commence when the increase in the share capital based on share subscriptions with stock options has been entered into the Trade Register. Share capital increases will be entered into the Trade Register immediately after the expiry of predetermined deadlines for submitting the subscription lists. For subscription of shares 2002 with first refusal rights see company Website.

Insider Register

As from 1 March 2000 the company has complied with the insider regulations approved by Helsinki Exchanges' Board of Directors (revised on September 1, 2005). 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.

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.

Public Insider Register on 31 December 2005

Name	Criteria	Shares	Options
Hintikka Tapio Jussi Anselmi	Chairman of the Board of Directors	8 703	–
Järvenreuna Juha Pekka	Other criteria for disclosure requirement	2 000	40 000
Kailiala Esa	Deputy auditor	–	–
Laaksonen Tero Mikael	Member of the Board of Directors	19 793	–
Myllylä Esko Olavi	Other criteria for disclosure requirement	2 880	25 000
Nyman Sixten Ove	Auditor with chief responsibility for audits	–	–
Raatikainen Kari Pertti	Member of the Board of Directors	4 184	–
Rinnevaara Jukka Tapani	Managing Director	4 000	140 000
Rissanen Pekka	Other criteria for disclosure requirement	–	80 000
Saarikoski Erja Pirkko Marjatta	Other criteria for disclosure requirement	4 000	50 000
Slotte Johan	Other criteria for disclosure requirement	1 900	80 000
Toivila Timo Tapio	Member of the Board of Directors	71 134	–
Vennamo Pekka Veikko	Member of the Board of Directors	9 015	–
Vuorinen Tiina	Other criteria for disclosure requirement	330	8 000
Total		**127 939**	**423 000**

Largest Shareholders

At year-end 2005, the number of Teleste shareholders totalled 6,228, where the comparable figure for 2004 was 5,904. At the end of the year, foreign and nominee-registered accounted for 13.6% (13.1%).

After the period under review Teleste Corporation has been informed that shareholding of Ilmarinen Mutual Pension Insurance Company (trade register number 162.625) has exceeded 5%. Including stock purchase carried out on 24 January 2006, Ilmarinen's holding was 940,350 Teleste shares, which equals 5.42% of the company share capital and the voting rights.

Major Shareholders on 31 December 2005

		Shares	Percentage of shares
1.	Sampo Life Insurance Company Ltd	1 624 200	9.37
2.	Ilmarinen Mutual Pension Insurance Company	840 350	4.85
3.	Varma Mutual Pension Insurance Company	712 350	4.11
4.	Kaleva Mutual Insurance Company	588 900	3.40
5.	FIM Fenno Mutual Fund	529 900	3.06
6.	Teleste Corporation	485 000	2.80
7.	Aktia Capital Mutual Fund	479 450	2.77
8.	Op-Suomi Kasvu Mutual Fund	411 200	2.37
9.	The State Pension Fund	400 000	2.31
10.	Mutual Insurance Company Pension-Fennia	300 000	1.73
11.	Nordea Nordic Small Cap Mutual Fund	275 350	1.59
12.	Fondita Nordic Small Cap Placfond	270 000	1.56
13.	FIM Forte Mutual Fund	253 350	1.46
14.	Odin Forvaltnings As	234 050	1.35
15.	Evli Pankki Plc	212 900	1.23
16.	Finanssi-Sampo Oy	197 000	1.14
17.	Pension Insurance Company Veritas	175 000	1.01
18.	Mandatum Suomi Kasvuosake Mutual Fund	170 600	0.98
19.	Aktia Secura Mutual Fund	146 150	0.84
20.	Gyllenberg Momentum	119 000	0.69
21.	Pohjola Finland Kasvu	118 100	0.68
22.	Sv. litteratursällskapet i Finland r.f.	111 000	0.64
23.	Sumato Oy	107 660	0.62
24.	Fondita 2000 + Mutual Fund	95 000	0.55
25.	Renkkeli Oy	94 400	0.54

Distribution of Ownership

	Shares	Percentage of shares
Companies	1 906 270	10.99
Financial institutions	5 523 197	31.85
Public instutions	2 487 292	14.34
Non-profit organisations	1 065 895	6.15
Private individuals	3 994 604	23.04
Foreign and nominee register	2 362 494	13.62
Total	**17 339 752**	**100.00**

Shareholders by Holding

Number of shares	Number of shareholders	Percentage of shares	Shares	Percentage of shares
1–1 000	5 233	84.02	1 675 684	9.66
1 001–10 000	895	14.37	2 591 410	14.94
10 001–100 000	77	1.24	2 385 682	13.76
100 001–	23	0.37	8 761 510	50.53
Total	**6 228**	**100.00**	**15 414 286**	**88.90**
Nominee registered			1 925 466	11.10
Total			**17 339 752**	**100.00**

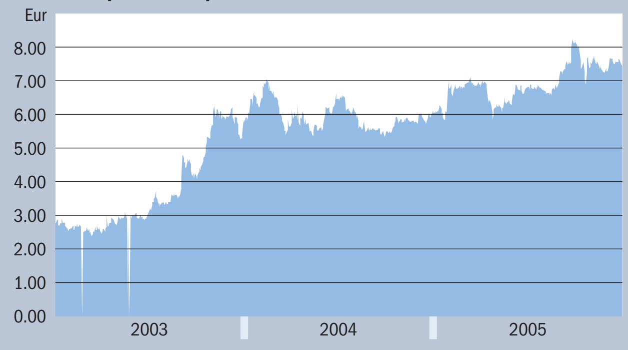
Key Figures by Share

	2005	2004
Earnings per share, eur	0.35	0.23
Earnings per share fully diluted, eur	0.33	0.22
Shareholders equity per share, eur	1.92	1.65
Diventend distribution, Meur	2.7	2.0
Dividend per share, eur	*0.16	0.12
Dividend per net result, %	45.7	52.2
Effective dividend yield, %	2.1	2.0
* The Board's proposal to the AMG		
Closing price, eur	7.45	6.02
Price per earnings	21.0	25.8
Market capitalisation, Meur	129.2	101.4
Turnover, Meur	75.3	74.2
Turnover, number in million	10.8	12.3
Turnover, % of share capital	62.3 %	70.9 %
Average number of shares	17 339 752	17 334 235
Number of shares at the year-end	17 339 752	17 339 752

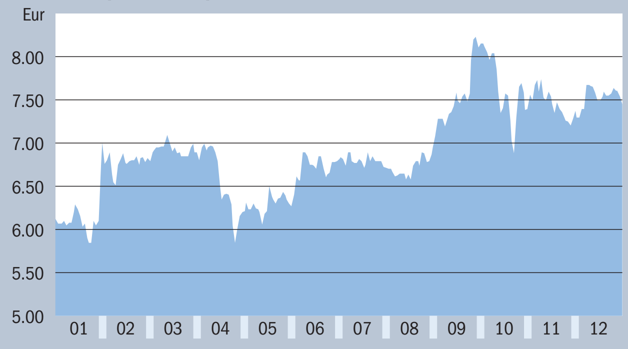
Information for the Shareholders

Market Value Development 2003–2005

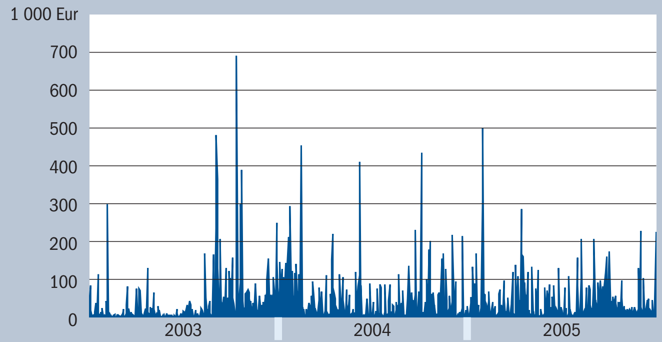
Share price Development 2003–2005



Share price Development 2005



Share Turnover 2003–2005



Analyst Coverage

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

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Stock Exchange Releases 2005

Teleste Corporation published a total of 19 stock exchange releases or announcements in 2005. Short summaries of the most significant releases are given below.

February 1, 2005
Teleste's Financial Statements 2004
(FAS Financial Statement)

Teleste announced of continued strong and profitable growth. Offering of products and services expanded. Teleste's net sales grew by 22.1% amounting to EUR 66.2 million. Operating profit rose to 8.0% of net sales standing at EUR 5.3 million. Orders received increased by 54.2% amounting to EUR 80.5 million. The order backlog more than trebled standing at EUR 20.7 million. In the last quarter of 2004 profitable growth and the streamlining of processes returned the cash flow from operations clearly to the black to EUR 6.3 million. Operating cash flow for the whole year stood at EUR 6.9 million. The Board of Directors proposes that a dividend of EUR 0.12 per outstanding share will be paid. Future outlook statement: "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."

March 21, 2005
Teleste upgrades Germany

Teleste announced having received an order from Germany's largest cable operator KDG for an upgrade in their BK network. The upgrade is meant for raising the network capacity from 450 MHz to 630 MHz in several German cities. The order value was EUR 1.0 million.

March 30, 2005
Teleste Group's Financial Information According to IFRS for 2004

Teleste announced having adopted IFRS (International Financial Reporting Standards) in its financial reporting from the beginning of 2005 and of substantial changes to financial information reported for 2004.

April 5, 2005
Decisions of the Annual General Meeting of Teleste

The Annual General Meeting (AGM) of Teleste Corporation held on April 5, 2005 resolved to distribute a dividend of EUR 0.12 per share for 2004 in accordance with the proposal of the Board of Directors. Mr. Tapio Hintikka was re-elected as the Chairman of the Board and Mr. Tero Laaksonen, Mr. Pertti Raatikainen, Mr. Timo Toivila and Mr. Pekka Vennamo were re-elected as members of the Board of Directors. KPMG Oy Ab was elected as the auditor of Teleste Corporation. 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 authorizations are effective until April 5, 2006 at the latest.

April 19, 2005
Interim Report 1 January to 31 March 2005

Teleste announced that the net sales grew by 76% over the previous year amounting to EUR 19.7 million. Operating profit increased manifold over the previous year totaling EUR 1.3 million. Orders received improved by 48% over the previous year standing at EUR 16.6 million. Broadband Cable Networks' orders received grew by 59% and Video Networks' by 7%. Future outlook statement: "In comparison with the previous period, Teleste's sales and profitability will improve for the entire year."

April 26, 2005
Teleste to supply an extension to the EttH network of Essent Kabelcom

At the end of 2003, Teleste and Essent Kabelcom signed a co-operation agreement for the development of a fast residential data access technology, currently known as Ethernet to the Home (EttH). Due to the technical success of the trial and the positive feedback from the test users of the system Essent Kabelcom decided to expand the availability of the EttH Network.

May 20, 2005
Teleste continues as the leading fibre optics provider in France

Teleste announced having received an order for EUR 2.0 million and signed a frame agreement for EUR 12.0 million with Altice Group, for the supply of FTTLA (Fiber to the Last Amplifier) equipment. The total project duration is 3 years.

June 7, 2005
Teleste accelerates BK upgrades in Germany

Teleste announced having received an additional order for more than two million euros from Germany's largest cable operator KDG for an upgrade in their BK network. The delivery was during 2005.

June 10, 2005
Teleste confirms its market leader position in the French broadband networks market

Teleste announced having signed a frame agreement with a major cable operator in France. The contract concerns broadband network upgrade of approximately two million households. The deliveries will take place during the coming three years.

June 30, 2005
Teleste receives an order from China

Teleste announced having received an order for delivering a comprehensive end-to-end cable access network solution to cable operator in Huainan, China. The order value exceeds one million euros and the delivery will partly take place during year 2005 with rest delivery in 2006. The project is partially financed by Nordic Investment Bank. Ekpac International is Teleste's direct customer and the project's responsible contractor. Teleste and Ekpac agreed already in the end of 2004 to co-operate in creating financial opportunities into China market in the field of cable and video surveillance network projects.

Stock Exchange Releases 2005

July 19, 2005
Interim Report 1 January to 30 June 2005

Teleste announced that the net sales grew by 52.6% over the previous year amounting to EUR 37.9 million. Operating profit more than trebled over the previous year totalling EUR 2.8 million. Orders received increased by 6.5% in comparison with the corresponding period last year standing at EUR 36.9 million. Combined, orders received and the made framework agreements spanning 2005 to 2007 amounted to EUR 50.9 million indicating a continuous favourable market development. Future outlook statement: ”In comparison with the previous period, Teleste’s net sales and profitability will improve for the entire year.”

July 28, 2005
Liquidity providing for Teleste’s share

Teleste announced having concluded a market making agreement with Kaupthing Bank, which fulfils the requirements of Helsinki Exchanges’ Liquidity Providing (LP) operation. The market making operation commenced on 1 August 2005.

September 12, 2005
New order for Teleste Video Networks for the U.S. transportation sector

Teleste announced having received multiple purchase orders in the value of EUR 1.5 million (1.8 million USD) from the Chicago Transit Authority (CTA) through a number of local contractors in the Chicago area. The CTA had selected Teleste Video Networks for providing the MP-X, an MPEG-4 video networking platform, for its plan to improve city-wide video surveillance of subway platforms, tunnels, bridges and river-crossings.

October 25, 2005
Interim Report 1 January to 30 September 2005

Teleste announced that the net sales grew by 36.1% over the previous year amounting to EUR 58.3 million. Operating profit nearly doubled over the previous year totaling EUR 5.5 million. Orders received increased by 14.3% in comparison with the corresponding period last year standing at EUR 60.9 million. Future outlook statement: ”As to the entire 2005, Teleste’s sales and profitability show a clear improvement over the previous year. We believe Teleste’s business environment will continue its favourable development also in 2006.”

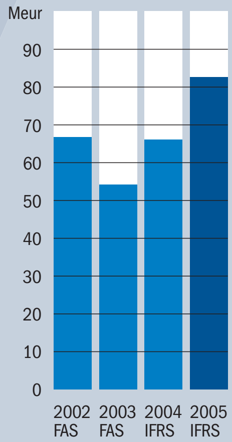
November 29, 2005
Teleste delivers an IP headend to Tele2Vision in Sweden

Teleste announced having received an order from the Swedish Tele2Vision AB which is part of the Tele2 Group. The order is a turn-key solution of a platform for digital (IP) video. The digital platform is planned to be implemented during 2006.

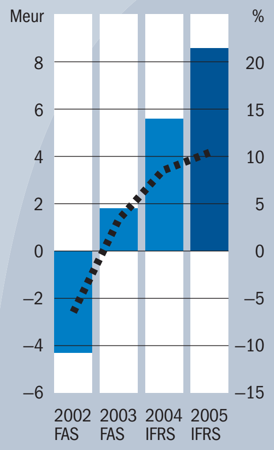
December 7, 2005
Upgrade pace of the German cable networks is accelerating

Teleste announced having received an order from Kabel Deutschland AG (KDG), the value of which exceeds five million euros. The order involves Teleste’s BK Optiflex product family that is used in KDG’s upgrade project for bi-directionality and capacity upgrades. The deliveries will take place during year 2006.

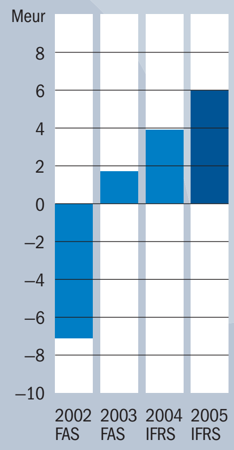
Net Sales



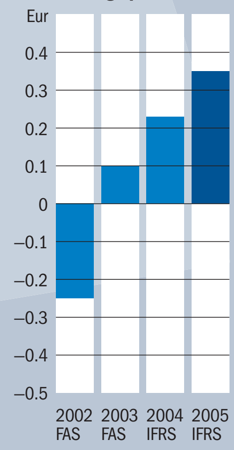
Operating Profit
% of net sales



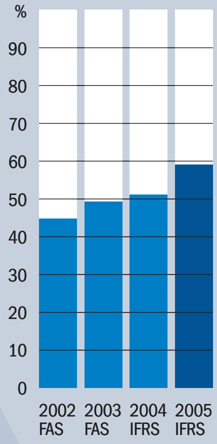
Profit for the Financial Period



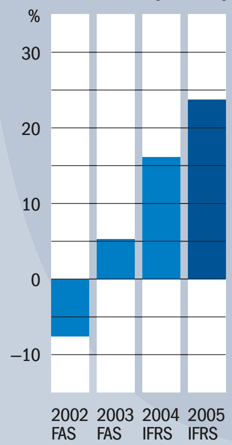
Earnings per Share



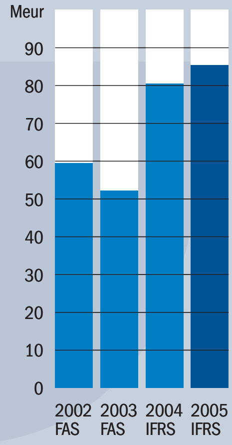
Equity Ratio



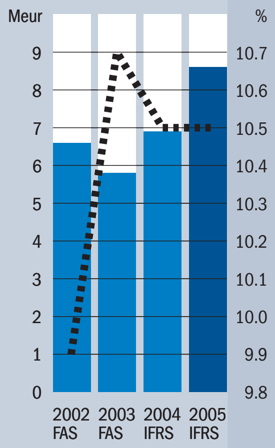
Return on Capital Employed



Orders Received



R&D Expenditure
% of net sales



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 by making available network solutions, which enable the operators to provide their customers with new services. These services typically include new dynamic TV services, broadband Internet and VoIP telephony.

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	2005	2004	Growth
Net Sales	67.2	53.9	25 %
Order intake	72.9	64.5	13 %

Net sales			Export sales share	
	2005	2004	2005	2004
Finland	8.2	9.1		
Export	59.0	44.8	88 %	83 %
Total	**67.2**	**53.9**		

Video Networks

Meur	2005	2004	Growth
Net Sales	15.4	12.1	27 %
Order intake	12.5	16.0	–22 %

Net Sales			Export sales share	
	2005	2004	2005	2004
Finland	0.6	0.7		
Export	14.8	11.4	96 %	94 %
Total	**15.4**	**12.1**		

Broadband Cable Networks

Business Description

Broadband Cable Networks' clientele consists almost exclusively of cable operators. Originally, the business idea of cable operators was to relay TV programming to housing companies and private households in urban areas. Later on they have started to expand their scope of available services to provision of other telecommunication services.

Teleste provides cable operators with equipment and systems designed for the construction of transfer networks and signal processing. Deliveries include both individual pieces of equipment and turnkey networks. Teleste also provides a number of services related to the maintenance and upkeep of network infrastructure.

Transfer network includes solutions for transmission of signal in both fibre optic and copper cable. Fibre optic solutions include designs based on both digital and analogue optics. In straightforward terms, national main back bone is based on digital fibre optics whereas city level networks stand for analogue fibre optics and a subscriber access – "the last mile – consists of coaxial copper cable.

Signal processing involves several functions related to reception, modulation, encryption and transmission of TV programs into the operator's own network. Moreover, even analog-to-digital and digital-to-analog transformations are in the picture. As to the data solutions, Teleste is capable of delivering a complete set including the required back office equipment with routers and switches.

The main market area of Teleste Broadband Cable Networks is Europe where the business unit is present with its 17 dedicated offices supported by several retail and integration partners. Apart from Europe, offices have been established in China and India.

Growth Driven by Broadband Access

Development of the customers' business is increasingly shifting out of its traditional core. In addition to conventional TV programming, households are now looking for broadband data communications to enable efficient use of services from home. Provision of telephony services through data links, Voice Over Internet Protocol, VoIP for short, is another upcoming feature.

Digitalisation of traditional TV programming is moving ahead with leaps and bounds. In several countries, terrestrial digital TV broadcasting provides an external factor stirring the competition by forcing the cable operators to develop their existing programming. An advantage with regard to the competing video technologies is that a cable network provides the added bonus of aggregating satellite and terrestrial offering into one media and one consumer premise terminal.

As to the HFC access network, 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 analogue television programming and it is perfectly suited for broadband data communications. Transmission capacity of the existing copper cable is over 4 Gbps divided between the different subscribers. 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 transmission of data, which the cable network is well suited for.

Use of fibre optics increases all the time but the high investments required to connect each household ensures that its progress remains slow. Teleste Broadband Cable Networks believe that the established coaxial copper network provides the most economic way of connecting homes to the services even in the future. For the operators, the vital questions of the near future are 'how deep into the network should fibre be extended' and 'how to make most of the existing copper architecture'.

Shift of ownership among the clients continued in 2005. In Germany, Iesy and ISH merged under the name of Unity Media. UPC moved in Switzerland by acquiring Cablecom. Even the Swedish com.hem changed hands from one investment bank to another. Similarly, the Danish TDC Group found a new owner and intends to go private. In Norway, UPC gave up business and sold the local company to a capital investor.

Direction and the Steps to be taken

The strategy pursued by Teleste Broadband Cable Networks is based on the following four corner stones: access network technology, data solutions over the coaxial cable, IP based video technology and the chosen service products.

As to the access network, for the cable operators Teleste wishes to make available a solution to all the segments of the network. Even if only a handful of operators have chosen one supplier of equipment for the whole network, Teleste can provide a comprehensive solution. Most deliveries are intended to increase the network capacity.

As far as the data technology is concerned, Teleste aims to take the 100-megabit solution into commercial use in 2006. In the near future, Teleste's objective is to make available a series of solutions, which enable the use of technology regardless of how the last mile has been constructed. Teleste also intends to introduce solutions supporting transfer rates in the order of 1 gigabit over the coaxial copper cable.

Even though Teleste delivered the first IP based video solutions in 2005, the actual market still lies ahead. Teleste bases the made solutions on co-operation with selected partners. Normally, the role adopted by Teleste in projects is that of a system integrator.

Teleste has long supplied its customers with specific services such as network design, control and monitoring services intended to facilitate maintenance, equipment repair and system integration. These have been completed by introducing provision of customer companies' operational development, delivery and storage logistics and technical product support. Similarly, optimising the network performance and ensuring availability of new data and IP telephony services are gaining in importance.

Highlights of 2005

An extension was delivered to Essent Kabelcom's EttH pilot network. When embarking on this pioneering course Essent concluded that the originally presented solution with its 10-megabit rate was insufficient in the future. Teleste began the work for development of a 100-megabit solution with Essent Kabelcom as the pilot customer. The first-generation products are scheduled for delivery late in spring of 2006.

Teleste's AC product family turned out to be something of a hit as the demand for it tripled from the previous year. In fact, this demand stretched the production capacity to the limit so much so that several measures were designed to increase the capacity to ensure smooth customer deliveries for 2006.

In June, the next generation optical solution HDO was introduced to customers at the ANGA show in

Germany. HDO took off with flying colours as the prominent French cable operator Altice came to choose the introduced HDO product range for their solution. In 2005, HDO was also chosen for the tool of network refurbishment by ntl, among others.

The single most important delivery contract in 2005 was secured with Altice in May. This three-year project, which brings fibre down to the last amplifier is the most outstanding project involving fibre optics in Teleste's history. KDG, the leading operator in Germany, continued its deliveries from Teleste. The first ever Video over IP solutions were delivered in Finland, Denmark and Sweden.

In the year under review, decision was made concerning launch of a new sales office in Bratislava, capital of Slovakia, going officially operational on 1 January 2006.

In 2006, 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.

Teleste is committed to improve cable operators' business by providing innovative and reliable cable access network solutions.

Vision	Mission	Solution	Main market	Primary clientele
A global leader in broadband cable access solutions	To enable the development of home entertainment by providing innovative and reliable solutions for the development and maintenance of the access network	Turnkey solutions for network construction, services in support of customers' business	Europe	Cable operators, constructors of fibre networks

Business Description

Video Networks delivers comprehensive video surveillance solutions for the parts of the video surveillance networks between camera and the control room locations. The primary area involves 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 key applications include traffic control systems for both road and rail transport, urban surveillance systems and applications related to public safety in areas such as border control facilities, ports and airports.

Meeting the requirements of the majority of video surveillance systems, the range of products we provide is one of the most inclusive in the market. Our solutions are based on open architecture and public standards, which allow them to be used alone or as part of a third-party network. Furthermore, Teleste solutions are modular and expandable without limitations. Indeed, one of our fields of special expertise is integration of video surveillance networks consisting of several hundreds of cameras into one unified system. Another fact to note is that Teleste is one of those rare companies in the market with hands-on experience in delivering functional large-scale video surveillance networks.

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

Market Outlook

In 2005, the defining trends in video surveillance business such as optimised use of transportation infrastructure and the growing need for protection of property and people by means of live video became even more apparent. This was contributed to by a growing concern about the environment, general sense of insecurity and the increased threat of terrorism. However, cycles related to public undertakings are long, which is why the time it takes for the trends to take shape of tangible projects is so often long, sometimes even frustratingly so.

Networking technologies enables video surveillance solutions, which are superior to anything seen before and the investments are increasingly directed to modernisation of the existing systems. It can also be expected that the use of video surveillance in urban centres will gain a wider public approval in Continental Europe and parts of the United States. This development is visible in France, for instance, where video surveillance, as suggested by a piece of new legislation, will become mandatory for a number of public facilities.

Teleste's target market – advanced video surveillance systems requiring high-quality and real-time video, audio and data – is a highly specialised segment distinguishing itself from the mainstream video surveillance market by the level of technical requirements. Technical development sets increasing demands of the intelligence and degree of automation of the video surveillance networks. These are, for instance, expected to support independent identification and analysis of video images. This is one priority area we are working on in co-operation with our technical partners. However, the core of video surveillance networks will continue to be in their management and recording software, and this is an area where we at Teleste excel, putting forward our highly competitive solutions with other applications required for video transfer.

In the coming years we expect to see growth in every Teleste Video Networks' target market segment. We expect this growth to spread out to all geographical markets even if some specified regions such as the United States and France provide a more promising potential. Another unfolding feature is that the share of large-scale network solutions will further gain in importance.

Direction and the Steps to be taken

Teleste Video Networks has the following four priority areas: operative excellence, upgrading of the CFO solution, network products and technical integration, and establishing partnerships with key customers.

Operative excellence is designed to strengthen processes and correcting faults in the operation. This is an overriding objective for which the entire Video Networks organisation has been employed.

In the near future, besides network product solutions, there will be a demand in the market for fibre modem solutions. The Teleste fibre modem solution – the CFO product family – is known in the market as a very reliable and high-quality solution. By investing in this product family Teleste is ensuring and strengthening its position as a supplier of these solutions.

As to the networks, Teleste follows a two-footed approach with one foot in the network products and the other in technical integration. In network products Teleste has a chance to improve it's market share by making available solutions such as MoRIS and those included in the new MP-X product family as stand-alone to integrators and other customers. Technical integration means taking responsibility for the functionality of a video surveillance network. This includes services such as network design, integration of the video surveillance network as a component of a greater system and maintenance services, although not the installation of actual products. Demand for technical integration is on the increase as the technology becomes increasingly challenging to manage and the end-customers want turnkey deliveries. Teleste Video Networks is one of the companies few and far between having accomplished large-scale video surveillance solutions and is, therefore, in a good position to offer related services to its customers.

Teleste intends to enter into close partnerships with its key customers among which British Telecommunications plc is in a class of it's own. Our goal is to promote mutual profitable growth by getting to know the market and the partner's business.

Year 2005

In 2005, most of the project received at the end of 2004 from the SNCF, the French National Railroad Authority, was delivered to the customer. The deal is scheduled to be completed during the first half of 2006. For the time being the deliveries have been running as planned. The project includes a comprehensive IP based management system, which brings together a number of local video surveillance networks covering some 120 railway stations in the Paris metropolitan area making up one integrated whole system. This system will simultaneously manage over 3,000 high-quality real-time video signals for a number of requirements and ranks among the world's largest video surveillance systems. The project does not, however, include all the railway stations in Paris, let alone SNCF stations in other cities, and this means that, with the project succeeding, Teleste retains a favourable position with regard to additional orders placed by the customer.

In 2005, Teleste also received a series of orders worth EUR 1.5 million placed by the contractor for the Chicago Transit Authority, CTA for short. CTA has chosen Teleste Video Networks for the delivery of a video surveillance system based on Teleste MP-X and MPEG-4 products to improve the monitoring and management of the city communications within the underground network, tunnels, bridges and river

intersections. The received orders strengthen even more the position held by Teleste's MP-X product platform in the MPEG-4 video transfer solutions of the Chicago Metropolitan area. Orders can be expected to continue in 2006.

Teleste's new MP-X product family was launched in 2005, and it was received very well indeed in the markets. In 2005, deliveries of the products were made for projects in the United States, Europe and Asia. Intensive product development of the product family continues in 2006. Furthermore, the MoRIS line of products is another one scheduled for enhanced R&D efforts in 2006. Along with industrial PC-based transfer solutions the MoRIS product family includes a video surveillance network management and recording solution. The CFO fibre modem family by Teleste will also undergo an upgrading in 2006.

Teleste Video Networks expects the market situation to continue to develop favourably in 2006.

Vision	Mission	Solution	Key markets	Key clientele
A leading supplier of professional video surveillance network solutions globally	To apply the technology to enable reliable, real-time and high-quality video for security and identification over transmission networks	Fully managed end-to-end video surveillance solutions	Europe, USA and selected markets in Asia	Teleste supplies solutions to its main end-user group of authorities typically through system integrators

MoRIS
MP-X
CFO

Personnel

In line with Teleste's vision we are an innovative organisation attractive for the best people. Our personnel policy is designed to ensure that number, availability, competence and motivation of our staff is optimal from the viewpoint of achieving the strategic objectives. Teleste personnel consist of experts of various fields led in compliance with the principle of open dialogue. Open dialogue promotes personal commitment and internalisation of goals in compliance with the company strategy. At the end of 2005, the number of Teleste's employees stood at 557. The corresponding figure of the previous year was 513.

HR Development

In 2005, the provided staff training focused primarily on promoting skills related to information technology and knowledge of languages. As to our human resource development, the single most important contribution of the past year was the precision-tailored management and leadership training programme – Leading Excellence – set up together with a couple of local high-tech companies. The programme contents were geared towards comprehensive development of corporate management and leadership skills as well as improving business competence. Started in autumn 2005, this training programme spans a whole calendar year running to the end of spring 2006.

Appraisal discussions conducted annually with each Teleste employee provide the essential tool for development of staff and the entire community. The specified priority areas for 2006 in HR development include development of supervisor approach and skills related to project management.

Incentives

Teleste's system of payroll and incentives is targeted to support the corporate business strategy. 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 emphasis on personal development.

Incentive schemes are designed 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 for key personnel. These schemes have been – and will continue to be – 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

Teleste's process related to well-being at work, launched in 2003, was continued. At Teleste, job satisfaction and company climate are assessed by means of personnel queries conducted every other year. In the light of the mainly positive findings made in the climate survey performed in November and December last year we can state that Teleste's particular strong points include atmosphere, motivation and well-being at work. The specific needs for development were related to internal communication. As to putting the made findings into practical use, performance reviews provide a vital tool allowing us to set apart, by groups, 2 to 3 tangible objects to be developed for the benefit of health and well-being at work. Teleste's employees participate actively in the development of their well-being exemplified, for instance, by the fact that no less than 84% of staff answered the personnel questionnaire. Part of this well-being is workplace ergonomics, which is subject to ongoing development in forms, for instance, of visits by physical therapist.

We at Teleste believe that a good atmosphere and work motivation strongly affect well-being at work and that besides signaling a positive image of the company and contributing to the willingness to stay of competent employees, a healthy work community is more productive both in terms of quality and quantity.

A free-time committee called Vapari is elected annually from among Teleste personnel. Over and above, the company supports exercise opportunities for the personnel.

Co-operation

In 2005, the market situation in the sector remained good. Continuous interaction and communication between the staff and the company is ensured by monthly meetings between the representatives of the employer and the employees. This interaction was further enhanced by introduction of joint meetings of the entire management group and the staff representatives. Thus, we have succeeded in establishing a flexible mode of collaboration, which allows us quickly to adapt to quiet spells and peaks in demand alike. Use of hired labour in production could be agreed upon in mutual understanding so that our capacity could be increased in a flexible manner to meet the demand set by the market. Development of various arrangements related to flexibility in work will continue in co-operation between the staff and the company.

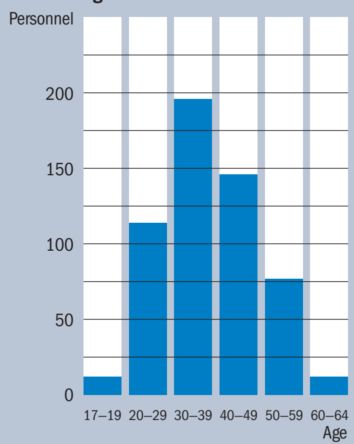
Co-operation with Universities and Third Parties

We have continued co-operation with universities and other educational establishments to promote the image of a positive workplace for future top professionals. This process has taken forms such as collaboration 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 been promoted towards future top professionals by staying in touch – through excursions, for instance – with student organisations of Universities of Technology.

Personnel on December 31	2003	2004	2005
Total	**466**	**513**	**557**
Research and Development	124	130	127
Production, Logistics and Material Management	230	256	286
Sales and Marketing	87	101	114
Finance + IT	25	26	30
Finland	384	401	408
Other countries	82	112	149
Female	176	180	194
Male	290	333	363

Finland
Norway
Sweden
USA
Lithuania
Denmark
Poland
Netherlands
Germany
Belgium
Slovenia
United Kingdom
China
France
Spain
India

Age Distribution



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
CFO

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

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 1 March, 2000, the company has followed the insider regulations drawn up by the Board of Directors of the Helsinki Exchanges (revised 1 September, 2005). 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. The General Meeting shall be held annually by the end of June. The Annual General Meeting is held in Helsinki. The Annual General Meeting decides on any specified tasks in compliance with the Finnish Companies Act.

Issues decided by the AGM include:
- Approval of the financial statement
- Payment of dividends
- Discharging the Board of Directors and President and CEO from liability
- Selection of the members of the Board of Directors, Chairman of the Board and the Auditor.

Responsibilities of the AGM also include:
- Making amendments to the Articles of Association
- 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 and 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 AGM 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

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 5 April, 2005, 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:
Tapio Hintikka, Chairman of the Board
Tero Laaksonen, Member of the Board
Pertti Raatikainen, Member of the Board
Timo Toivila, Member of the Board
Pekka Vennamo, Member of the Board.

With the exception of Timo Toivila (CEO until 30 October, 2002) and Professor Pertti Raatikainen (expert member of the steering group in charge of the company technological development convening approximately two 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.

During 2005 the Board of Directors of Teleste Corporation held 9 meetings one 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 CFO 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 5 April, 2005 the AGM 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 2005 to the Board of Directors were as follows:
- Tapio Hintikka EUR 32,000, of which were remitted in Teleste shares EUR 12,000 (2,025 pcs)
- Tero Laaksonen EUR 17,750, of which were remitted in Teleste shares EUR 6,200 (1,046 pcs)
- Pertti Raatikainen EUR 17,750, of which were remitted in Teleste shares EUR 6,200 (1,046 pcs)
- Timo Toivila EUR 17,750, of which were remitted in Teleste shares EUR 6,200 (1,046 pcs)
- Pekka Vennamo EUR 17,250, of which were remitted in Teleste shares EUR 6,200 (1,046 pcs).

Moreover, Pertti 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 1 November, 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 2005 to the CEO of Teleste Corporation totalled EUR 390,586.

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.

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 8 for a detailed description of the option specifics. See page 8 for holdings and stock options for the President and CEO and the Management Group.

Auditing and Revisions

The term of office of the company auditor expires at the closing of the first Annual General Meeting following the election. On 5 April, 2005 the Teleste AGM 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. In 2005, the Group's auditing expenses totalled EUR 59,437 in which the share of KPMG was EUR 37,478. Moreover, auditing units of KPMG have supplied the Group companies with other consultation worth total EUR 58,000 and other than KPMG auditors for EUR 11,804.

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 director/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 director/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 decisionmaking 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, the following classes of risk:

- Operational prerequisites
- Personnel risks
- Property and business interruption risks
- Interest groups
- Operational organisation
- 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 1 March, 2000 the company has complied with the insider regulations approved by Helsinki Exchanges' Board of Directors (revised on September 1, 2005). 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

CapMan Plc, Member of the Board since 2004
Evli Bank Plc, Member of the Board 2003–2004,
Vice Chairman since 2005



Tero Laaksonen · M.Sc. (Math.) · born in 1946
Member of the Board since 1999

Nokia Telecommunications Oy, Senior Vice President 1995–1998
Telia Finland Oy, CEO 1998–2001
Comptel Corporation CEO 2002–2004

Tieto-X Plc, Member of the Board 2004–2005,
Chairman of the Board since 2005



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

Huurre Group Oy, Managing Director 1994–1995
Sponsor Oy, Director 1994–1997
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

Sijoitus Oy, Chairman of the Board and CEO since 1998
Soprano Group, Chairman of the Board since 2000
Aldata Solution Oyj, Chairman of the Board since 2002
Saunalahti Group Oyj, Chairman of the Board 2001–2003,
Member of the Board 2003–2005, Chairman of the Board since 2005
Plusdial Oy, Chairman of the Board since 2004
Videra Oy, Chairman of the Board since 2005

Report of the Board of Directors

Net Sales and Profitability

The Group net sales amounted to EUR 82.6 million (EUR 66.0 million), an increase of 25.1% over the previous year. Operating profit was EUR 8.6 million (EUR 5.6 million), an increase of 53.3% over the previous year. Profit after financial items totalled EUR 8.3 million (EUR 5.4 million), and the Group's earnings per share stood at EUR 0.35 (EUR 0.23). Return on capital employed amounted to 23.7% (16.1%) while return on equity was 19.8% (15.1%).

Group's orders received went up by 6% standing at EUR 85.4 million (EUR 80.5 million). At the end of the year, the Group's order backlog totalled EUR 22.7 million (EUR 20.7 million).

Net sales for the last quarter stood at EUR 24.3 million (EUR 23.2 million). Operating profit stood at EUR 3.1 million (EUR 2.7 million). In the last quarter, orders received were EUR 24.5 million (EUR 27.3 million).

R&D and Investments

Research and development expenditure for the financial period was EUR 8.6 million (EUR 6.9 million) standing at 10.5% (10.4%) of net sales. Our R&D efforts focused mainly on customer-specific projects and development of new product platforms. Capitalised R&D expenses stood at EUR 1.8 million (EUR 1.0 million). A number of Teleste's development projects involved co-operation with Finnish universities and research institutes.

Investments for the financial period amounted to EUR 4.1 million, 4.9% of net sales (EUR 5.4 million and 8.2%), including minority interest amounting EUR 0.4 million of Teleste's company in China and the conditional additional purchase price of S-Link AB EUR 0.4 million due in spring 2007. Other investments included IT, manufacturing machinery and equipment as well as research and development. In the financial period, EUR 0.8 million (EUR 0.4 million) of the investments were covered with financial leasing contracts.

Finance

The Group's liquidity was good in 2005. Operating cash flow stood at EUR 5.5 million (EUR 6.9 million). Reduced cash flow from operations was mainly due to increase in current assets. Due to new financing decisions the total cash flow amounted to EUR –8.6 million (EUR 2.9 million). The company advanced schedule of payments for the long-term bank loans and repaid all the long-term interest bearing bank loans of EUR 8.8 million. In November 2005, the company agreed with two Finnish banks on a three-year financing arrangement involving an overdraft facility of EUR 30 million in total, of which, by the end of the period under review, a short-term loan of EUR 3 million had been used. The Group's equity ratio was 59.1% (51.1%) and gearing –14.3% (–22.9%). On 31 December 2005 the Group's interest-bearing debt was EUR 3.9 million (EUR 10.8 million).

Personnel

In the year under review, the Group employed an average of 546 people (492), an increase of 11%. At the year-end, the figure totalled 557 (513) people of which 27% (22%) were stationed overseas. At the end of 2005, employees working outside Europe accounted for less than 10% of the personnel.

Development of Business Areas

Founded in 1954, Teleste is a technology company currently running the business units of Broadband Cable Networks and Video Networks.

Broadband Cable Networks

Broadband Cable Networks supplies its clientele of cable TV operators with equipment and systems for construction of transmission networks and signal processing. Deliveries include individual pieces of equipment and turnkey networks alike. Teleste also provides a number of services related to the maintenance of network infrastructure. The main market area of Broadband Cable Networks is Europe where the business unit is present through its 17 dedicated sales offices supported by a number of support and integration partners. Outside Europe, the business unit has sales offices of its own in China and India.

In 2005, customers' operative business continued to develop favourably. Developments concerning the clientele were characterised by shifting ownerships. Besides traditional TV programming, the range of services provided by the cable TV operators is increasingly including broadband Internet access. Another upcoming feature is the provision of telephony services through data links, Voice Over Internet Protocol, VoIP for short.

Broadband Cable Networks' growth in 2005 was sustained by investments in R&D and improvements in logistics and local presence. Net sales grew by 24.6% amounting to EUR 67.2 million (EUR 53.9 million). Operating profit grew by 46.6% amounting to EUR 7.4 million (EUR 5.0 million). Orders received by Broadband Cable Networks increased by 12.9% amounting to EUR 72.9 million (EUR 64.5 million). In the end of 2005, the unit's backlog of orders was EUR 19.4 million (EUR 14.6 million). In the last quarter of 2005, net sales totalled EUR 19.2 million (EUR 18.8 million) while operating profit stood at EUR 2.5 million (EUR 2.2 million). Orders received in the period under review amounted to EUR 21.0 million (EUR 19.3 million). We expect the profitable growth of Broadband Cable Networks to continue in 2006.

Video Networks

Clientele of Video Networks mainly includes public sector organisations and system integrators. Video Networks specialises in high-quality video surveillance solutions for the transfer of real-time video, audio and data. Our applications are used for traffic control and urban surveillance systems. In 2005, the business unit focused on the implementation of the French delivery project (SNCF) and on increasing the market share of network management projects in its main markets of Europe and the United States. Network management refers to the control and monitoring of video equipment, network usage and network operation. The unit has seven sales offices in Europe and two overseas, in the United States and China, more specifically. Our R&D efforts involved mainly development of network systems.

Video Networks' net sales grew by 27.1% amounting to EUR 15.4 million (EUR 12.1 million). Operating profit doubled amounting to EUR 1.2 million (EUR 0.6 million). Orders received fell by 21.9% standing at EUR 12.5 million (EUR 16.0 million). In the end of 2005, the unit's backlog of orders was EUR 3.3 million (EUR 6.1 million).

In the last quarter of 2005, net sales totalled EUR 5.1 million (EUR 4.4 million) while operating profit stood at EUR 0.6 million (EUR 0.5 million). Orders received in the period under review amounted to EUR 3.5 million (EUR 7.9 million). The order of five million euros received from the French National Railroad Authority (SNCF) in December 2004 was incorporated in orders received for 2004. In 2006, we expect the growth of Video Networks to be driven by network management projects.

Geographical Business Segments

In geographical terms, Teleste's business segments are divided up into Scandinavia, rest of Europe and others.

Scandinavia:
Operating cash flow in the Nordic countries stood at EUR 31.4 million (EUR 25.0 million) while investments for the area stood at EUR 3.3 million (EUR 5.3 million).

Rest of Europe:
Net sales for the rest of Europe amounted to EUR 45.7 million (EUR 37.2 million) with investments standing at EUR 0.2 million (EUR 0.05 million).

Others:
Net sales stood at EUR 5.5 million (EUR 3.8 million). Investments totalled EUR 0.6 million (EUR 0.05 million).

Group Structure and Operations

In the period under review, we redeemed the 40% minority holding in the Teleste Electronics (Sip) Co. Ltd operating in China. 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 exclusive of Finland. At the end of the period under review, actions of establishing subsidiaries in France and Slovakia were initiated and the registration procedures were pending.

As to the company operation, the essential risks-include typical for the technology industry R&D risks related to functionality and market demand for the products. Moreover, any changes taking place in the exchange rate between the US dollar and the euro affect the company price competitiveness and profitability.

General Meetings

The Annual General Meeting on 5 April 2005 confirmed the financial statements for 2004 and discharged the Board and the CEO from liability for the financial period. The AGM presented a reform of dividend policy put forth by the Board. The Meeting confirmed the Board's proposed dividend of EUR 0.12 per share.

Moreover, the AGM elected Mr. Tapio Hintikka as Chairman of the Board of Directors while Mr. Tero Laaksonen, Mr. Pertti Raatikainen, Mr. Timo Toivila and Mr. Pekka Vennamo were elected as members of the Board of Directors.

The AGM authorised the Board to acquire the maximum of 370,000 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 AGM for acquisition of own shares and increasing the share capital were not used. In August 2005, the number of own shares conveyed upon the payment of the additional purchase price for Flomatik A/S was 5,000.

Management and the Auditors

CEO of the company was Mr. Jukka Rinnevaara. The AGM elected KPMG Oy Ab as the auditor.

Shares and Changes in Share Capital

At the end of 2005, Sampo Life Insurance Company Ltd was the largest single shareholder with its holding of 9.37%.

In 2005, the lowest share price was EUR 5.85 and the highest EUR 8.35. Closing price at the end of the year was EUR 7.45 (6.02). In the year, 10.8 million (12.3 million) shares were traded on the Helsinki Exchanges; these shares represented 62.3% (70.9%) of the share capital.

The company's registered share capital of EUR 6,935,900.80 is divided into 17,339,752 shares, of which 485,000 shares are in the company possession. Treasury shares account for 2.8% of the total number of shares and voting rights.

Outlook for 2006

New services provided by the cable TV operators such as broadband Internet, VoIP and interactive digital services require investments in upgrading networks for bidirectionality while calling for increased capacity. Thus, we believe the favourable market situation will continue in the business area of Broadband Cable Networks. The wide range of products and services of the business unit enables continued profitable growth also in 2006. Increased need for security and more effective traffic infrastructure will lead to growing demand in the Video Networks' market. Therefore, we are confident that deliveries of our high-quality network management applications will increase in 2006.

In addition to increased capacity and shorter delivery times, we will continue to focus on R&D and local presence in our main markets. The two significant orders received in January 2006 (Brutélé and Tele Columbus) will strengthen our order backlog. Teleste's profitable growth will continue in 2006.

Statement of Income

1 000 euros	Note	1.1.–31.12.2005	1.1.–31.12.2004	Change, %
Net Sales	1	82 588	66 025	25.1
Other operating income	2	1 530	264	479.6
Changes in inventories of finished goods and work in progress		761	65	1 074.7
Raw material and consumables used		–36 443	–27 670	31.7
Employee benefits expense	3	–24 124	–20 344	18.6
Depreciation and amortisation expense	4	–1 940	–1 795	8.1
Other operating expenses	5	–13 791	–10 945	26.0
Operating profit		**8 582**	**5 599**	**53.3**
Financial income	6	280	292	–4.3
Financial expenses	7	–541	–483	12.0
Profit before tax		**8 321**	**5 408**	**53.9**
Income tax expense	8	-2 363	–1 530	54.5
Minority interest		0	32	n/a
Profit for the period		**5 956**	**3 909**	**52.4**
Attributable to:	9			
Equity holders of the parent		5 956	3 909	52.4
Minority interest		0	-32	n/a
		5 956	3 877	53.7
Earnings per share for profit of the year attributable to the equity holders of the parent (expressed in euros per share):				
Basic		0.35	0.23	51.6
Diluted		0.33	0.22	50.0

1 000 euros	Note	31.12.2005	31.12.2004	Change, %
Assets				
Non-current assets				
Property, plant and equipment	10	5 860	5 336	9.8
Goodwill	11	9 205	8 526	8.0
Other intangible assets	11	2 589	1 590	62.8
Available-for-sale investments	12	1 116	1 116	0,0
Deferred tax assets	13	0	348	n/a
		18 770	16 916	11.0
Current assets				
Inventories	14	9 623	7 908	21.7
Trade and other receivables	15	17 878	12 428	43.9
Financial assets at fair value through profit or loss	16	2 000	13 623	-85.3
Cash and cash equivalents	16	6 524	3 485	87.2
		36 025	37 444	-3.8
Total assets		**54 795**	**54 360**	**0.8**
Equity and liabilities				
Equity attributable to equity holders of the parent				
Share capital	17	6 935	6 935	0.0
Share premium	17	1 276	1 277	-0.1
Translation differences	17	70	34	105.9
Retained earnings	17	24 025	19 496	23.2
		32 306	27 742	16.5
Non-current liabilities				
Interest-bearning liabilities	18	706	9 059	-92.2
Other liabilities		373	0	n/a
Deferred tax liabilities	13	60	0	n/a
Provisions	19	515	394	30.7
		1 654	9 453	-82.5
Current liabilities				
Trade and other payables	20	15 022	12 432	20.8
Current tax payable	21	1 101	1 371	-19.7
Provisions	19	1 502	1 671	-10.1
Interest-bearing liabilities	18	3 210	1 691	89.8
		20 835	17 165	21.4
Total liabilities		**22 489**	**26 618**	**-15.5**
Total equity and liabilities		**54 795**	**54 360**	**0.8**

Cash Flow Statement

1 000 euros	Note	1.1.–31.12.2005	1.1.–31.12.2004
Cash flows from operating activities			
Profit for the period		5 956	3 909
Adjustments for:			
Non-cash transactions	23	2 908	2 356
Interest and other financial expenses		–781	–484
Interest income		276	282
Dividend income		4	10
Income tax expense		–855	–159
Changes in working capital and provisions			
Increase in trade and other receivables		–5 450	–1 472
Increase in inventories		–1 715	–2 536
Increase in trade and other payables		5 242	4 953
Decrease in provisions		–48	71
Net cash from operating activities		**5 537**	**6 929**
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		–1 854	–137
Purchases of property, plant and equipment (PPE)		–968	–1 086
Purchases of intangible assets		–1 790	–1 026
Proceeds from sale of PPE		0	81
Net cash used in investing activities		**–4 612**	**–2 168**
Cash flows from financing activities			
Proceeds from borrowings		3 000	394
Repayments of borrowings		-10 386	-930
Payment of finance lease liabilities		–137	–30
Dividends paid		–2 022	–1 337
Proceeds from issuance of ordinary shares		0	24
Net cash used in financing activities		**–9 545**	**–1 879**
Change in cash			
Cash and cash equivalents 1.1.		17 108	14 192
Effect of currency changes		36	34
Cash and cash equivalents 31.12.		8 524	17 108

1 000 euros	Attributable to equity holders of the parent Share capital	Share premium	Translation differences	Treasury shares	Retained earnings	Total	Minority interest	Total equity
31.12.2003	6 921	1 250	0	3 354	15 414	**26 939**	32	**26 971**
Effect of adopting IFRS				–3 354	454	**–2 900**		**–2 900**
1.1.2004 (restated)	6 921	1 250	0	0	15 868	**24 039**	32	**24 071**
Exchange differences			34			**34**		**34**
Profit for the year					3 909	**3 909**	–32	**3 877**
Total recognised income and expense for the year	0	0	34	0	3 909	**3 943**	–32	**3 911**
Dividends					–1 337	**–1 337**		**–1 337**
Issue of share capital	14	10	0			**24**		**24**
Equity-settled share-based payments		17			1 056	**1 073**		**1 073**
	14	27	0	0	–281	**–240**		**–240**
31.12.2004	6 935	1 277	34	0	19 496	**27 742**	0	**27 742**
Exchange differences			36			**36**		**36**
Profit for the year					5 956	**5 956**	0	**5 956**
Total recognised income and expense for the year	0	0	36	0	5 956	**5 992**	0	**5 992**
Dividends					–2 022	**–2 022**		**–2 022**
Equity-settled share-based payments		–1		0	594	**593**		**593**
	0	–1	0	0	–1 428	**–1 429**	0	**–1 429**
31.12.2005	6 935	1 276	70	0	24 025	**32 306**	**0**	**32 306**

Accounting Principles

Company profile

Teleste Corporation is a Finnish public limited liability company organised under the laws of Finland and domiciled in Turku in Finland. Its registered address is Seponkatu 1, 20660 Littoinen.

Founded in 1954 Teleste is a technology company running its two business units Broadband Cable Networks and Video Networks. 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. Our Video Networks business manufactures and delivers high-quality video surveillance network solutions for the transmission of video, data and audio with official authorities and integrators as the primary clientele. The parent company of Teleste Group, Teleste Corporation, has operations in Belgium, China, Denmark, France, India, the Netherlands, Poland and Spain, and a subsidiary in eight countries outside Finland. Teleste Corporation has been listed on the Helsinki Stock Exchange since 1999.

A copy of the consolidated financial statements can be obtained either from Teleste's website (www.teleste.com) or from the parent company's head office, the address of which is mentioned above.

Statement of compliance

These are the first consolidated financial statements of Teleste prepared in accordance with International Financial Reporting Standards (IFRS) in force as at 31 December 2005. International financial reporting standards, referred to in the Finnish Accounting Act and in ordinances issued based on the provisions of this Act, refer to the standards and their interpretations adopted in accordance with the procedure laid down in regulation (EC) No 1606/2002 of the EU. The notes to the consolidated financial statements also conform with the Finnish accounting and company legislation.

Teleste adopted IFRS as from 1 January 2005. Prior to IFRS Teleste's financial statements were based on Finnish accounting standards (FAS) applicable to listed companies in Finland. IFRS 1 First-time adoption of IFRS was applied in the transition. Teleste's date of transition to IFRS was 1 January 2004. The opening balance sheet at 1 January 2004 and the comparative information for the financial year 2004 have been restated to comply with IFRS. An explanation of the effects of the IFRS adjustments made to the consolidated income statement, balance sheet and cash flow statement is provided in the reconciliations included in the Transition to IFRS part to the consolidated financial statements.

Basis of preparation

The consolidated financial statements are presented in thousands of euro (TEUR) and have been prepared under the historical cost convention, unless otherwise stated in the accounting policies.

Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the contents of the financial statements as well as use judgement when applying accounting principles. The estimates and assumptions are based on the management's current best knowledge reflecting historical experience and other reasonable assumptions. Actual results may differ from these estimates. Accounting estimates mainly relate to goodwill, obsolete inventories and warranty provisions. The chapter "Accounting policies requiring management's judgement and key sources of estimation uncertainty" discusses judgements made by management and those financial statement items on which judgements have a significant effect.

Subsidiaries

The consolidated financial statements include the accounts of the parent company Teleste Corporation and all those subsidiaries in which it holds, directly or indirectly, over 50 per cent of the voting rights or in which it otherwise has control (together referred to as "Group" or "Teleste"). Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The companies acquired during the financial periods presented have been consolidated from the date of acquisition, when control commenced. The companies disposed during a financial period are included in the consolidated financial statements up to the date of disposal.

Associates

Associates included in the consolidated financial statements are those entities in which Teleste Group holds voting rights over 20 per cent or in which it otherwise has significant influence, but not control, over the financial and operating policies. Holdings in associates are accounted for using the equity method from the date that significant influence commences until the date that significant influence ceases. The Group's proportionate share of associates' net income for the financial year is presented as a separate line item in the consolidated income statement. The unrealised profits between the Group and associates are eliminated in proportion to share ownership. The carrying amount of an investment in an associate includes the carrying amount of goodwill resulted from its acquisition. When Teleste's share in an associate's losses exceeds its interest in the associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate or made payments on behalf of the associate. As at 31 December 2005 the Group had no investments in associates.

Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's proportionate share of the joint ventures' assets, liabilities, revenue and expenses on a line by line basis, from the date that joint control commences until the date that joint control ceases. As at 31 December 2005 the Group had no interests in joint ventures.

Principles of consolidation

Acquisitions of companies are accounted for by using the purchase method. All intercompany income and expenses, receivables, liabilities and unrealised profits arising from intercompany transactions, as well as distribution of profits within the Group are eliminated as part of the consolidation process. The allocation of the profit for the period attributable to equity holders of the parent company and minority interest is presented on the face of the income statement and minority interest is also disclosed as a separate item within equity. Minority interest in the loss is recorded in the consolidated financial statements at the investment value at most.

Teleste has applied the exemption under IFRS 1 according to which the classification and accounting treatment of business combinations occurred prior to the IFRS transition date do not have to be restated but previous values under FAS are taken as a deemed cost.

Financial statements of foreign subsidiaries

The functional currency of the parent company is euro and the consolidated financial statements are presented in euro. The functional currency is the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity. In preparing the consolidated financial statements income statements and cash flows of those foreign subsidiaries whose functional and presentation currency are not the euro, are translated into euro at the average exchange rate during the financial period. Their balance sheets are translated at the closing rate at the balance sheet date. Goodwill and fair value adjustments to assets and liabilities that arose on the acquisition of a foreign entity occurred prior to 1 January 2004 are translated into euro using the rate that prevailed on the date of the acquisition. Goodwill and fair value adjustments arisen on the acquisitions after 1 January 2004 are treated as part of the assets and liabilities of the acquired entity and are translated at the closing rate.

All translation differences arising from consolidation of foreign shareholdings are recognised as a separate item to equity. In accordance with the exemption included in IFRS 1 those cumulative translation differences arisen until the transition date have been reclassified to retained earnings and consequently they will not be later released in the income statement. From the transition date onwards translation differences arising on the consolidation are presented as a separate component of equity. If an interest in a foreign entity is disposed of all, or part of, that entity, related cumulative translation differences deferred in equity are recognised on the income statement as part of the gain or loss on sale.

Foreign currency transactions

Transactions in foreign currencies are translated at the rates of exchange prevailing on the dates of the transactions. At the end of the accounting period, foreign currency monetary balances are translated at the closing rate at the balance sheet date. Non-monetary items stated at fair value in a foreign currency are translated at foreign exchange rates ruling at the dates the fair value was determined. Other non-monetary items are translated using the exchange rate at the date of the transaction. Gains and losses resulting from transactions in foreign currencies and translation of monetary items are recognised in the income statement. Foreign exchange gains and losses on trade receivables and payables are adjusted to revenues and operating expenses, respectively. Other foreign exchange gains and losses are presented as financial income and expenses.

Property, plant and equipment

Items of property, plant and equipment are stated at historical cost less cumulative depreciation and any impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Interest expenses are not capitalised as part of the cost of non-current assets. Ordinary maintenance, repairs and renewals are expensed during the financial period in which they are incurred. In Teleste there are no such significant inspection or maintenance costs that should be capitalised. The Group recognises in the carrying amount of an item of property, plant and equipment the subsequent costs when that cost is incurred if it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group and the cost of the item can be measured reliably. Such renewals and repairs are depreciated on a systematic basis over the remaining useful life of the related asset. Gains and losses on sales and disposals are calculated as a difference between the received proceeds and the carrying amount and are included in other operating income and expenses, respectively.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Expected useful lives and residual values of non-current assets are reassessed at each balance sheet date and where they differ from previous estimates, depreciation periods are changed accordingly. The estimated useful lives are as follows:

Buildings	25–33 years
Machinery and equipment	3–5 years
Computers	0–3 years
Software	3 years

Land is not depreciated.

Leases

Group as lessee

Leases of property, plant and equipment where substantially all the risks and rewards incidental to ownership have been transferred to the Group are classified as finance leases. These assets are capitalised and are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease less cumulative depreciation and any impairment losses. The associated lease liabilities are included in interest-bearing liabilities in accordance with their maturity.

These assets acquired under finance leases are depreciated as comparable owned assets over the shorter of the useful lives disclosed above for property, plant and equipment or lease period and are adjusted for impairment charges, if any. Lease payments are apportioned between the reduction of the outstanding lease liability and finance charge. In respect of finance leases, the depreciation on the leased assets and the financial charge on the lease liability are shown in the income statement. The financial charge is allocated to the income statement so as to achieve a constant interest rate on the outstanding liability during the lease term.

An operating lease is a lease of property, plant and equipment where the lessor retains significant risks and rewards incidental to ownership. Payments made thereunder are charged to the income statement as rental expense on a straight-line basis over the lease term.

Group as lessor

Those leases under which Teleste is a lessor are classified as operating leases. Leased assets are presented in the lessor's balance sheet under property, plant and equipment according to the nature of the asset. They are depreciated over their estimated useful lives in accordance with the depreciation policy used for comparable assets in own use. Lease income is recognised in the income statement on a straight-line basis over the lease term.

Intangible assets

An intangible asset is recognised only when it is probable that future economic benefits that are attributable to the asset will flow to the Group and if the cost of the asset can be measured reliably. All other expenditure is expensed as incurred.

Goodwill

After 1 January 2004 goodwill represents the Group's share of difference between the cost of the acquisition and the fair value measured at the acquisition date of the net identifiable assets, liabilities and contingent liabilities acquired. The difference is first allocated, where applicable, to the underlying assets. The rest of the excess is presented as goodwill as a separate item in the consolidated balance sheet. Goodwill has been allocated to segments and in respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate. Goodwill is stated at cost less any cumulative impairment losses. Goodwill (together with other intangible assets with indefinite lives) is

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not amortised but is tested annually for impairment. Consequently goodwill was amortised on a straight-line basis over the expected useful life until 31 December 2003, after which the amortisation was discontinued.

Research and development costs

Research and development costs are expensed as they are incurred, except for certain development costs, which are capitalised when certain criteria are met. Significant future product platforms for which the potential demand and future cash flows can be estimated with sufficient degree of accuracy have been capitalised as intangible assets. Amortisation of such capitalised development projects is commenced after the completion of the subprojects related to the product platform concerned. They are amortised on a systematic basis over their expected useful lives, which is three years.

Other intangible assets

Other intangible assets of the Group mainly consist of connection fees and these are not amortised.

Non-current assets held for sale and discontinued operations

A non-current asset (or disposal group) is classified as held for sale when its carrying amount will be recovered principally through a sale transaction rather than through continuing use. It is measured at the lower of carrying amount and fair value less costs to sell. Such assets and associated liabilities are presented separately in the balance sheet. Assets held for sale are not depreciated (or amortised) after the classification as held for sale.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale. The result of discontinued operations is presented separately on the face of the consolidated income statement.

Impairment

The carrying amounts of assets are assessed for potential impairment at each balance sheet date and whenever there is any indication that an asset may be impaired. For the purposes of assessing impairment, assets are grouped at the cash generating unit level, which is the lowest level for which there are separately identifiable, mainly independent, cash inflows and outflows. Goodwill, unfinished intangible assets and intangible assets with indefinite useful lives, if any, are in all cases tested annually. All goodwill items of the Group have been allocated to segments. If there is an indication of an impairment, the Group estimates the recoverable amount of the asset or cash generating unit. When the recoverable amount of the asset or cash generating unit is lower than the carrying amount, the difference is immediately recognised as an impairment loss in the income statement. If the impairment loss is to be allocated for a cash-generating unit, it is allocated first by writing down any goodwill and then on pro rata basis to other assets of the unit.

The recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell or value in use. Teleste has applied value in use in its calculations in which case the estimated future net cash flows expected to be derived from the asset or cash generating unit are discounted to their present value. Expenditures to improve assets' performance, investments or future restructurings are excluded from the cash flow estimates.

An impairment loss relating to property, plant and equipment and other intangible assets excluding goodwill is reversed if there is an indication that the impairment loss may no longer exist and there has been a positive change in the estimates used to determine the recoverable amount of an asset or cash generating unit. An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. However, an impairment loss in respect of goodwill is never reversed.

Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is assigned by using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. The cost of inventories comprises all direct costs incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Financial instruments

In Teleste IAS 32 and IAS 39 have been applied since 1 January 2004, hedge accounting as defined under IAS 39 is not applied.

Financial assets

Financial assets are classified as follows since 1 January 2004: financial assets at fair value through profit or loss, held-to-maturity assets, loans or receivables (assets) and available-for-sale assets. Financial assets are classified when originally acquired based on their purpose of use. In the case of a financial asset not measured at fair value through profit or loss, transaction costs are included in the acquisition cost. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. All purchases or sales of financial assets are recognised or derecognised using trade date accounting.

A financial asset is derecognised when the Group has lost its contractual rights to the cash flows from the financial asset or when it has transferred substantially all the significant risks and rewards of ownership of the financial asset to an external party.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either classified as held for trading, or they are designated by the Group as at fair value through profit or loss upon initial recognition. A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of short-term profittaking from changes in market prices or it is a derivative that does not qualify for hedge accounting. Currently Teleste does not apply hedge accounting as defined under IAS 39. Financial assets and liabilities at fair value through profit or loss are recognised on the balance sheet using trade date accounting. They are measured at their fair values, which is the bid price at the balance sheet date based on published price quotations in an active market. Both financial assets held for trading and other financial assets maturing in 12 months after the balance sheet date are included in current assets. A gain or loss arising from a change in the fair value, realised or unrealised, is recognised on the income statement as incurred.

Derivatives

Derivatives, including embedded derivatives, are included in financial assets at fair value through profit or loss. They are recognised on the balance sheet at cost, equivalent to the fair value, and are subsequently fair valued at each balance sheet date. The Group uses forward exchange agreements and the Group's hedging policy is to cover all material currency risks at least six months ahead. Since Teleste does not currently apply hedge accounting as defined under IAS 39, changes in fair value of instruments designated as hedging instruments are recognised in profit or loss. Gains and losses arising from changes in fair value are included in operating profit unless the hedged item relates to financing when fair value changes are recognised in financial income or expenses. Fair values are determined utilising public price quotations and rates as well as generally used valuation models. The data and assumptions used in the valuation model are based on verifiable market prices. Derivatives that mature within 12 months after the balance sheet date are included in current assets or liabilities. Derivatives are not used for speculative purposes.

Available-for-sale assets

This category comprises those non-derivative financial assets that are designated as available for sale or are not classified into other categories. In Teleste available-for-sale investments consist of holdings in listed and unlisted companies and they are normally measured at their fair value. Investments in listed companies are measured at the bid price at the balance sheet date based on published price quotations in an active market. Such unlisted shares whose fair value cannot be reliably determined, are measured at cost. Unrealised changes in value of available-for-sale investments, net of tax, are recognised in equity in fair value reserve. Cumulative fair value changes are released to the income statement when the investment is sold or disposed of. Such significant impairment losses for which there is objective evidence, are recognised in the income statement immediately. Normally available-for-sale investments are included in non-current assets unless the Group has the intention to hold them for less than 12 months after the balance sheet date.

Loans and receivables

Financial assets that belong to this category meet the following criteria: they are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group does not hold them for trading purposes either. Loans and receivables arise when money, goods or services are delivered to a debtor. They are included in current or non-current assets in accordance with their maturity. Loans granted by the Group are measured at cost. An impairment loss is recognised on loan receivables if their carrying amount exceeds their recoverable amount.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity. They are stated at amortised cost less impairment losses and presented within non-current assets. As at 31 December, 2005 the Group had no assets classified as held-to-maturity investments.

Financial liabilities

Since 1 January 2004 financial liabilities are classified either as financial liabilities at fair value through profit or loss or as other liabilities. Teleste only has liabilities classified to the latter category. On initial recognition a loan is measured at its fair value that is based on the consideration received. Subsequent to initial recognition, these liabilities are stated at amortised cost calculated using the effective interest method. Interest expenses are recognised in the income statement over the term of the loan using the effective interest method.

Trade receivables

Trade receivables are recognised at the original invoice amount to customers and stated at their cost less impairment losses, if any. The amount of doubtful receivables and assessment of a potential impairment is based on risk of individual receivables. Trade receivables are measured at their probable value at the highest. An impairment loss is recorded when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Bad debts recognised in the income statement are included in other operating expenses.

Cash and cash equivalents

Cash and cash equivalents comprises cash balances, call deposits and other short-term highly liquid investments with original maturities of three months or less from the date of acquisition. Bank overdrafts, if any, are included within current liabilities.

Treasury shares

Teleste Corporation's own shares acquired by the Group, including directly attributable costs, are presented as a deduction from total equity in the consolidated financial statements. Purchases or subsequent sales of treasury shares are presented as changes in equity.

Dividends

The dividend proposed by the Board of Directors is not recognised until approved by a general meeting of shareholders.

Provisions

A provision is recognised on the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, a reliable estimate can be made of the amount of the obligation and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the effect of the time value of money on the amount of a provision is material, a provision is discounted. Provisions can arise from warranties, onerous contracts and restructurings. A warranty provision is recognised when the underlying products are sold. The provision is based on historical warranty data and an estimate. A provision for non-cancellable purchase commitments of the Group is recognised, if these commitments result in inventory in excess of forecasted requirements. A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. A reimbursement from a third party related to a provision is recognised as a receivable only when the reimbursement is virtually certain.

A provision for restructuring is recognised when the Group has a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly to those it concerns. The plan identifies at least the following: the business concerned, the principal locations affected, the location, function, and approximate number of employees who will be compensated for terminating their services, the expenditures that will be undertaken and when the plan will be implemented. Future operating costs are not provided for.

Revenue recognition and net sales

Revenue from the sale of goods is recognised in the income statement when all significant risks and rewards of ownership have been transferred to the buyer, which normally takes place when a commodity

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is delivered. Revenue from services is recognised when the service has been performed.

Revenue from construction contracts is recognised either on a percentage-of-completion basis, using units of delivery (based on predetermined milestones) or by applying the cost-to-cost method of accounting as the measurement basis. Estimated contract profits are recognised in earnings in proportion to recorded sales, when a certain predetermined milestone has been achieved. In the cost-to-cost method, revenue and profits are recognised after considering the ratio of cumulative costs incurred to estimated total costs to complete each contract (the stage of completion). Recognition of profit requires the outcome of a construction contract be estimated reliably. If this is not the case, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable; and contract costs are expensed in the period in which they are incurred. In the event that the Group can be held as the main contractor of a construction contract, various product expenses including raw materials and labour costs will be accounted for in the calculation of the stage of completion. Possible changes in the expected total expenses of a construction contract are expensed as incurred. The expected loss is charged to the income statement immediately.

Costs related to a construction contract for which revenue is not yet recognised are included in inventories under unfinished construction contracts. If costs incurred together with recognised profits exceed the amount billed, the difference is included in the balance sheet item “trade and other receivables”. When costs incurred together with recognised profits are lower than the amount billed, the difference is shown under “trade and other payables”.

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

Other operating income

Other operating income comprises income not generated from primary activities, such as rental income and gains from disposal of assets.

Government grants

Government grants that compensate the Group for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised by deducting the grant from the carrying amount of the asset.

Employee benefits

Pension arrangements

Pension plans are classified as either defined contribution plans or defined benefit plans. The plans the Group has currently are classified as defined contribution plans. Contributions to defined contribution pension plans are recognised as an expense in the income statement in the year to which they relate. The statutory pension plans of Finnish subsidiaries in the Group are funded through pension insurance. Subsidiaries outside Finland have various pension schemes in accordance with local requirements and practices.

Share-based payments

Teleste has applied IFRS 2 Share-based payments to granted share options to the extent that such share option plans are in the scope of this standard, i.e. to those share option arrangements in which share options have been granted after 7 November 2002 that had not yet vested until 1 January 2005. The options granted before this have not been expensed in the income statement. The granted share options are measured at their fair values using the Black-Scholes option pricing model at the grant date and are recognised as an employee expense during the vesting period with a corresponding increase in equity. When the options are exercised, the proceeds received, net of any transactions costs, are credited to share capital (nominal value) and the share premium reserve.

Operating profit

Operating profit is not defined under IAS 1 Presentation of Financial Statements. In Teleste it is defined as a net amount that is comprised of the following items:

net sales
+ other operating income
– raw material and consumables used adjusted for changes in inventories of finished goods and work in progress
– employee benefits expense
– depreciation and amortisation expense and impairment losses
– other operating expense

= operating profit/loss

All other items not mentioned above are presented under the operating profit. Translation differences relating to sales and purchases are treated as adjustments to these items, all other translation differences are included in financial income and expenses.

Borrowing costs

Borrowing costs are generally expensed in the period in which they are incurred. However, incremental transaction costs directly related to acquiring a loan are included in the initial cost and are amortised as an interest expense using the effective interest rate method. The Group had no such capitalised transaction costs in its balance sheet at 31 December 2005.

Interest and dividend income

Interest income is recognised using the effective interest method. Dividend income is recognised when the right to the dividend has established.

Income taxes

The income taxes in the consolidated income statement consist of current tax and the change in the deferred tax assets and liabilities. Current tax includes taxes of the Group companies calculated on the taxable profit for the period determined in accordance with local tax rules, as well as the tax adjustments related to previous years. Deferred tax relating to items charged or credited directly to equity is itself charged or credited directly to equity.

Deferred tax assets and liabilities are provided in the consolidated financial statements using the balance sheet liability method, providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The main temporary differences arise from the treatment of development costs, the depreciation difference on property, plant and equipment and effects of consolidation and eliminations. Deferred taxes are not provided for impairment of goodwill, which is not deductible for tax purposes, nor for undistributed profits of subsidiaries to the extent that is it probable that the temporary difference will not reverse in the foreseeable future. Deferred tax liabilities are recognised at their full amounts in the balance sheet, and deferred tax assets are recognised at estimated realisable amounts. The enacted or substantially enacted tax rate at the balance sheet date is used as the tax rate.

Accounting policies requiring management's judgement and key sources of estimation uncertainty

Management's estimates regarding obsolete inventories, bad debts and warranties are based on approved financial models and case-specific judgments. Both historical experience and management's current view on the market situation have been employed when using the financial models. Management has used the best information available during the process of preparing the financial statements when making case-specific judgements. Impairment tests reflect assumptions made by management and underlying sensitivity analyses of the future cash flows.

By the issuance of the consolidated financial statements Teleste is not aware of any significant uncertainties regarding estimates made at the balance sheet date, nor of such future key assumptions that might have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

New and amended standards and interpretations

Teleste will adopt the following new interpretations in 2006:

- IFRIC 4 Determining Whether an Arrangement Contains a Lease
- IFRIC 8 Scope of IFRS 2

In 2007 the Group will adopt the new standard IFRS 7 Financial Instruments: Disclosures and the amendment of IAS 1 – Capital Disclosures.

The Group does not expect the adoption of the new and amended pronouncements will have a material impact on the Group's financial statements.

Segment Reporting

Teleste Group is organised in the primary reporting segments that are its business segments and secondary reporting segments that are geographical segments. These segments are based on the Group's organisational and internal reporting structure.

Business segments

The Group comprises two business segments that are Broadband Cable Networks and Video Networks.

Broadband Cable Networks segment's clientele consists almost exclusively of cable operators. 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.

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 special know-how area is to integrate video surveillance network with hundreds cameras to one entirety.

Geographical segments

Secondary geographical segment is divided into three geographical areas:

· Nordic countries
· Other Europe
· Others (North America, Asia and Other countries)

The main market area of Broadband Cable Networks is Europe where the business unit is present with its 17 dedicated offices supported by several support and integration partners. Apart from Europe, offices have been established in China and India. Through its own offices Teleste Video Networks is present locally in all the major geographical markets: Europe, America and Southeast Asia.

Sales of geographical segments are shown based on customer location. Assets and investments are presented by geographical location of assets.

There are no inter-segment sales in the Group.

Segment assets and liabilities

Segment assets and liabilities include items directly attributable to the segment as well as those that can be allocated on a reasonable basis.

Unallocated items

Unallocated income statement items include costs and incomes which follow earnings after depreciations. Assets not allocated to the segments represent cash. Unallocated liabilities are interest bearing liabilities and tax liabilities.

Business segments

2005	1 000 euros	Broadband Cable Networks	Video Networks	Group
External sales				
Services		2 291	87	2 378
Goods		64 888	15 322	80 210
Total externals sales		67 179	15 409	82 588
Inter-segment revenue		0	0	0
Total revenue		67 179	15 409	82 588
Operating profit of segments		7 374	1 208	8 582
Unallocated expenses				–2 626
Profit for the period				5 956
Segment assets		35 786	10 485	46 271
Unallocated assets				8 524
Total assets				54 795
Segment liabilities		13 648	3 757	17 405
Unallocated liabilities				5 084
Total liabilities				22 489
Capital expenditure		2 726	1 347	4 073
Depreciation and amortisation		1 607	333	1 940

2004	1 000 euros	Broadband Cable Networks	Video Networks	Group
External sales				
Services		2 284	137	2 421
Goods		51 616	11 988	63 604
Total externals sales		53 900	12 125	66 025
Inter-segment revenue		0	0	0
Total revenue		53 900	12 125	66 025
Operating profit of segments		5 030	569	5 599
Unallocated expenses				–1 690
Profit for the period				3 909
Segment assets		28 292	8 612	36 904
Unallocated assets				17 456
Total assets				54 360
Segment liabilities		11 598	2 899	14 497
Unallocated liabilities				12 121
Total liabilities				26 618
Capital expenditure		4 956	470	5 426
Depreciation and amortisation		1 501	294	1 795

Geographical segments

2005	1 000 euros	Nordic countries	Other Europe	Others	Group
Sales by origin		31 354	45 728	5 506	82 588
Assets		43 010	8 799	2 986	54 795
Capital expenditure		3 323	200	550	4 073

2004	1 000 euros	Nordic countries	Other Europe	Others	Group
Sales by origin		25 018	37 191	3 816	66 025
Assets		45 990	7 236	1 134	54 360
Capital expenditure		5 326	50	50	5 426

Business Combinations acquired during 2005 and 2004

During the last guarter 40% minority share of Teleste Electronics (SIP) Ltd was acquired. The purchase price of EUR 429 thousand, of which EUR 314 thousand was booked as goodwill. A conditional supplementary contract price EUR 369 thousand related to the acquisition of S-Link AB was entered in the books in the last quarter of 2005. S-Link AB's final acquisition price will be recognized 31.12.2006 and it will be paid during spring 2007.

The range of products and services of Broadband Cable Networks was widened by the acquisition of the Norwegian business associate Flomatik AS with its subsidiaries in Norway, Sweden and Slovenia on 1 July 2004. Flomatik AS is present mainly in Scandinavia and Eastern Europe by making available products and services to the cable operator market. Teleste's product range was expanded by the inclusion of passive products and even more so by Flomatik's provision of services. Teleste acquired the entire share capital of Flomatik AS with EUR 3.0 million. The consideration included cash and treasury shares and the price was paid partly during 2005 and 2004. The cost of acquisition also comprised directly attributable costs (expert's fees) EUR 25 thousand.

Treasury shares were conveyed as the payment for the contingent consideration EUR 33 thousand i.e. 5 thousand numbers (EUR 809 thousand/130 thousand pcs.). The conveyance was based on the authorisation granted by the annual general meeting of 5.4.2005 (16.3.2004). The shares conveyed were measured at the average trading share price quoted in the Helsinki Stock Exchange during the time period 1 June–30 June 2005 (1–30.6.2004) being EUR 6.60 per share (EUR 6.11 per share). The number of the shares then conveyed accounted for 0.75% (0.03%) of the total number of the shares of Teleste Corporation.

In the 7 months to 31 December 2004 Flomatik AS contributed net profit of EUR 1.0 million to the consolidated profit for the year. Had Flomatik AS been consolidated since 1 January 2004, Group revenue would have been EUR 71.1 million and profit for the period would have been EUR 4.0 million in 2004.

The goodwill arising on the acquisition of Flomarik AS, EUR 1.9 million, is attributable to the anticipated future synergy benefits. Goodwill initially recognised to EUR 473 thousand was adjusted in the fourth quarter of 2004 as a supplementary contract price of EUR 1.43 million as was booked. The supplementary price was paid in August 2005.

The following assets and liabilities were recognised in the acquisition:

1 000 euros	Recognised fair values on acquisition
Property, plant and equipment	376
Inventories	1 880
Trade receivables	2 263
Cash and cash equivalents	690
Total assets	5 209
Interest-bearing liabilites	–1 175
Other liabilities	–2 965
Total liabilities	–4 140
Net identifiable assets and liabilities	1 069
Total consideration	–3 061
Flomatik group internal group reservation	94
Goodwill on acquisition	–1 898
Consideration paid in cash	–827
Cash and cash equivalents in acquired subsidiary	690
Total net cash outflow on the aquisition	–137

The subsidiary Teleste Norge AS with no operation in 2004 was discontinued in the financial year 2004.

1 Construction contracts

Group revenue includes EUR 3.74 million (EUR 1.48 million) of income from construction contracts.

Revenue recognised in the consolidated income statement from construction contracts in progress amounted to EUR 3.74 million (EUR 1.48 million). No advance payments included to balance sheet at the closing time.

1 000 euros	2005	2004
2 Other operating income		
Government grants related to development costs	1 379	128
Rental income	151	135
Government grants	0	1
Total	**1 530**	**264**

3 Employee benefits

Wages and salaries	–19 821	–17 673
Pension expenses		
Defined contribution plans	–3 086	–2 416
Other post employment benefits	–1 603	–1 274
Activated R&D salaries and social costs	946	1 291
Equity-settled share-based transactions	–560	–272
Total	**–24 124**	**–20 344**

Information on the remuneration of (and loans to) the Group management is presented in the note Related party transactions.

The average number of employees in the Group during the financial year broken down by following categories

Research and Development	121	126
Production and Material Management	274	226
Sales and Marketing, Log. Services	124	114
Finance and IT	27	26
Total	**546**	**492**

4 Depreciation, amortisation and impairment

Depreciation and amortisation by asset type:

Tangible assets		
Buildings	–306	–308
Machinery and equipment	–876	–1 028
Other tangible assets	–165	–135
Total	**–1 347**	**–1 471**
Intangible assets		
Capitalised development expenses	–593	–324
Other intangible assets	0	0
Total	**–593**	**–324**

None impairement test losses are booked to Profit and Loss Account during 2005 or 2004.

Notes

1 000 euros	2005	2004
5 Other operating expenses		
Losses on disposal of tangible and intangible assets	0	-91
Rental expenses	–1 246	–1 017
External services	–1 200	–1 008
Impairment loss on trade receivables	–130	83
Other carriable costs	–1 740	-890
Travel and IT costs	–3 534	–2 776
R&D costs	–1 945	–1 538
Other expenses	–3 996	–3 708
Total	**–13 791**	**–10 945**

6 Financial income		
Interest income	277	282
Dividend income	3	10
Total	**280**	**292**

7 Financial expenses		
Interest expenses	–465	–342
Exchange losses	–29	–57
Other financial expenses	–47	–85
Total	**–541**	**–483**

8 Income taxes		
Recognised in the income statement		
Current year	–2 016	–1 149
Adjustments for prior years	61	–174
Deferred tax expense	–408	–207
Total	**–2 363**	**–1 530**

Reconciliation of the income tax expense in the income statement, EUR 2.36 million, and the income tax expense calculated using the Teleste Group's domestic corporation tax rate (26% in 2005 and 29% in 2004):

Profit before tax	8 321	5 408
Income tax using the domestic corporation tax rate (26 %/29%)	–2 163	–1 568
Effect of tax rates in foreign jurisdictions	25	–7
Tax exempt revenues	7	214
Tax debt increase related to balance sheet items	-263	0
Non-deductible expenses	-46	–79
Taxes from prevoius year	61	–174
Effect of tax losses utilised	19	191
Change in deferred taxes due to decrease of the domestic corporation tax rate	0	–102
Other items	–2	–6
Income tax expense reported in the consolidated income statement	**–2 363**	**–1 530**

The Finnish corporate tax rate was decreased from 29% to 26% in 2004. The new tax rate will be applied for the first time in the taxation for the fiscal year 2005.

9 Earnings per share

The basic earnings per share is calculated as follows:

$$\frac{\text{Profit for the year attributable to equity holders of the parent}}{\text{Weighted average number of ordinary shares outstanding during the financial year}}$$

The number of ordinary shares outstanding excludes the treasury shares.

The diluted earnings per share is calculated as follows:

$$\frac{\text{Profit for the year attributable to equity holders of the parent (diluted)}}{\text{Weighted average number of ordinary shares outstanding during the financial year (diluted)}}$$

The changes in the number of the shares are presented in the note 17.

	2005	2004
Profit for the year attributable to equity holders of the parent (1 000 euros)	5 956	3 909
Weighted average number of ordinary shares outstanding during the financial year (1 000 shares)	16 851	16 769
Basic earnings per share (euros)	0.35	0.23
Weighted average number of ordinary shares outstanding during the financial year (1 000 shares)	16 851	16 769
Effect of share options on issue (1 000 shares)	1 150	1 150
Weighted average number of ordinary shares outstanding during the financial year (diluted) (1 000 shares)	18 001	17 919
Diluted earnings per share (euros)	0.33	0.22

The share options granted by the Group have a dilutive effect, i.e. they increase the number of the ordinary shares when their subscription price is below the fair value of the share. The fair value is calculated based on the average share price during the period. The dilutive effect equals the number of the shares gratuitously issued; this difference arises when the Group can not issue the same number of shares at their fair value using the proceeds received on the exercise of the options.
Teleste's transition to IFRS as at 30 March 2005 included all valid options while calculating diluted earning per share.

Notes

10 Property, plant and equipment

1 000 euros	Land areas	Buildings	Machinery and equipment	Other tangible assets	Advance payments	**Total**
Balance 1.1.2005	108	5 506	12 204	2 106	0	**19 924**
Additions	0	14	1 217	380	59	**1 670**
Transfers between classes	0	0	0	198	0	**198**
Effect of movements in foreign exchange	0	3	0	0	0	**3**
Balance 31.12.2005	108	5 523	13 421	2 684	59	**21 795**
Depreciation and impairment losses, balance 1.1.2005	0	–1 986	–10 688	–1 914	0	**–14 588**
Depreciation charge for the year	0	–306	–876	–165	0	**–1 347**
Depreciation and impairment losses, balance 31.12.2005	0	–2 292	–11 564	–2 079	0	**–15 935**
Carrying amounts 1.1.2005	108	3 520	1 516	192	0	**5 336**
Carrying amounts 31.12.2005	108	3 231	1 857	605	59	**5 860**

1 000 euros	Land areas	Buildings	Machinery and equipment	Other tangible assets	Advance payments	**Total**
Balance 1.1.2004	108	5 316	11 320	2 017	0	**18 761**
Additions	0	0	813	89	0	**902**
Acquisitions through business combinations	0	185	186	0	0	**371**
Disposals	0	0	–120	0	0	**–120**
Effect of movements in foreign exchange	0	5	5	0	0	**10**
Balance 31.12.2004	108	5 506	12 204	2 106	0	**19 924**
Depreciation and impairment losses, balance 1.1.2004	0	–1 678	–9 660	–1 779	0	**–13 117**
Depreciation charge for the year	0	–308	–1 028	–135	0	**–1 471**
Depreciation and impairment losses, balance 31.12.2004	0	–1 986	–10 688	–1 914	0	**–14 588**
Carrying amounts 1.1.2004	108	3 638	1 660	238	0	**5 644**
Carrying amounts 31.12.2004	108	3 520	1 516	192	0	**5 336**

Carrying amount of production	31.12.2005		1 603
machinery and equipment	31.12.2004		1 233

Property, plant and equipment include assets leased under financial leases as follows:

1 000 euros	Machinery and equipment
Historical cost	1046
Cumulative depreciation	–154
Carrying amount 31.12.2005	892
Historical cost	383
Cumulative depreciation	–19
Carrying amount 31.12.2004	364

11 Intangible assets

1 000 euros	Goodwill	Development costs	Other intagible assets	Advance payments	**Total**
Balance 1.1.2005	18 219	1 982	59	205	**20 465**
Additions	679	1 781	16	0	**2 476**
Balance 31.12.2005	18 898	3 763	75	205	**22 941**
Amortisation and impairment losses, balance 1.1.2005	–9 693	–656	0	0	**–10 349**
Transfers between classes			0	–205	**–205**
Amortisation for the year		–593			**–593**
Amortisation and impairment losses, balance 31.12.2005	–9 693	–1 249	0	–205	**–11 147**
Carrying amounts 1.1.2005	8 526	1 326	59	205	**10 116**
Carrying amounts 31.12.2005	9 205	2 514	75	0	**11 794**

1 000 euros	Goodwill	Development costs	Other intangible assets	Advance payments	**Total**
Balance 1.1.2004	16 321	956	59	0	**17 336**
Additions		1 026		205	**1 231**
Acquisitions through business combinations	1 898	0	0	0	**1 898**
Balance 31.12.2004	18 219	1 982	59	205	**20 465**
Amortisation and impairment losses, balance 1.1.2004	–9 693	–332	0	0	**–10 025**
Amortisation for the year	0	–324	0	0	**–324**
Amortisation and impairment losses, balance 31.12.2004	–9 693	–656	0	0	**–10 349**
Carrying amounts 1.1.2004	6 628	624	59	0	**7 311**
Carrying amounts 31.12.2004	8 526	1 326	59	205	**10 116**

For the purposes of impairment testing goodwill items of the Group have been allocated to the segments, each of which represents a separate cash-generating unit. The aggregate goodwill amount totalled EUR 9.21 million at 31 December 2005. Goodwill has been allocated to the following cash-generating units: Teleste BCN EUR 5.5 million (including Flomatik AS and Teleste Electronics (SIP) Co. Ltd.) Teleste Video Networks EUR 3.7 million (including S-Link).

The recoverable amount of the segments is based on value-in-use calculations. Those calculations use cash flow projections based on the strategy approved by management. Calculations prepared cover 10 year period and the expected growth rate during the first five years is 20%. The expected future cash flows for a further 5-year period are extrapolated using a 5% growth rate. Management's view on the cash flows after the first 5 year period is cautious as the changes of the industry are difficult to foresee. This growth rate has been used for all segments. A discount rate of 12% has been used in discounting the projected cash flows and it has not changed from the previous year. The terminal value of the segments is nil.

Management is of the opinion that potential changes of any key parameters used in the calculations moderately assessed would not result in the carrying amount of the segment to exceed the recoverable amount.

The Group received a grant amounting to EUR 1.61 million from Tekes (National Technology Agency of Finland) towards development costs in 2005 (EUR 377 thousand). From the grant received EUR 232 thousand (EUR 249 thousand) has been recognised to deduct the carrying amount of the asset.

The grant has the condition, according to which 10% of the total costs of the project have to be incurred through subcontracting work in Finnish small and medium-sized companies.

12 Available-for-sale investments

1 000 euros	2005	2004
Unlisted shares	1116	1116
Total	1116	1116

The Group has not sold unlisted shares during the years 2005 and 2004.

13 Deferred tax assets and liabilities

1 000 euros	1.1.2005	Recognised in the income statement	31.12.2005
Movements in temporary differences during 2005			
Deferred tax assets			
Effects of consolidation and eliminations	9	191	200
Provisions	366	66	432
Tax losses carried forward	81	–56	25
Cumulative depreciation difference	487	–37	450
Total	**943**	**164**	**1 107**
Deferred tax liabilities			
Capitalisation of intangible assets	–100	–553	–653
Cumulative depreciation difference	–495	–19	–514
Total	**–595**	**–572**	**–1 167**

In the consolidated financial statements deferred tax receivables and liabilities have been offset.

1 000 euros	1.1.2004	Recognised in the income statement	31.12.2004
Movements in temporary differences during 2004			
Deferred tax assets			
Effects of consolidation and eliminations	0	9	9
Cumulative depreciation difference	690	–203	487
Provisions	612	–246	366
Tax losses carried forward	0	81	81
Total	**1 302**	**–359**	**943**
Deferred tax liabilities			
Capitalisation of intangible assets	–184	84	–100
Cumulative depriciation difference	–563	68	–495
Total	**–747**	**152**	**–595**

The change of the Finnish corporate tax rate from 29% to 26% in 2004 has been taken into account in the amounts specified in the table above, consequently the effect of the change is not presented separately.

In the consolidated financial statements deferred tax receivables and liabilities have been offset.

At 31 December 2005 the Group had unused tax losses in foreign subsidiaries amounting to EUR 684 thousand. No deferred tax asset has been recognised in respect of this because it is not probable that future taxable profit will be available against which the Group can utilise the benefit therefrom. This tax loss has no expiry date.

No deferred tax liability has been provided for the undistributed profits of the foreign subsidiaries amounting to EUR 3.76 million at 31 December 2005 (EUR 2.99 million). This is because dividend distribution in these countries is tax neutral.

1 000 euros	2005	2004

14 Inventories

Raw materials and consumables	3 084	1 905
Work in progress	1 979	2 838
Finished goods	4 559	3 165
Total	**9 623**	**7 908**

The amount of the impairment losses of inventories to the net realisable value recognised as an expense during the financial period is EUR 200 thousand. At the end of the financial year EUR 3.08 million was deducted from the inventory value to the net realisable value (EUR 2.83 million). In 2004 impairment losses previously recognised were reversed up to EUR 350 thousand.

15 Trade and other current receivables

Trade receivables	14 745	10 376
Receivables from associates	(3 147)	(1 602)
Accrued income and prepayments	2 862	1 860
Other receivables	271	192
Total	**17 878**	**12 428**

During the financial year ended the Group has recognised impairment losses on trade receivables totalling EUR 399 thousand (2004: reversals of previously recognised impairment losses amounting to EUR 4 thousand). Carrying amounts best represent the amount that is the maximum credit risk exposure, without taking account of the fair value of any collateral, in the event of other parties failing to perform their obligations. There are no significant concentrations of credit risk with respect to the current receivables of the Group.

The accrued income and prepayments include VAT receivables amounting to EUR 800 thousand and receivables from construction contracts EUR 1.52 million (EUR 693 thousand). At the balance sheet date 2004 accrued income and prepayment included a receivable of EUR 892 thousand from Tekes (National Technology Agency of Finland).

16 Cash and cash equivalents

Cash at bank and in hand and call deposits	6 524	3 485
Liquid investments (maturity of 1–3 months)	2 000	13 623
Total	**8 524**	**17 108**
Cash and cash equivalents in the statements of cash flows	8 524	17 108

17 Capital and reserves

	Number of shares, 1 000	Number of own shares, 1 000	Number of shares total, 1 000	Share capital, 1 000 euros	Reserve fund, 1 000 euros
1.1.2004	16 684	620	17 304	6 921	1 250
Share options exercised by employees	36		36	14	10
Own shares sold	130	–130	0		17
31.12.2004	16 850	490	17 340	6 935	1 277
Own shares sold	5	–5	0	0	–1
31.12.2005	16 855	485	17 340	6 935	1 276

The number of Teleste Corporation shares was 17,339,752 at 31 December 2005 (17,339,752 shares). The nominal value of a share is EUR 0.40. The maximum share capital is EUR 25.6 million, i.e. 64 million shares (EUR 25.6 million and 64 million shares) and the minimum share capital is EUR 6.4 million (EUR 6.4 million) according to the parent company's articles of association. All shares issued have been fully paid.

The Annual General Meeting of Teleste Corporation held on 5 April 2005 authorised the Board to acquire the maximum of 370,000 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 during 2005. The number of treasury shares conveyed for the additional purchase price of Flomatik AS was 5,000 in 2005.

The Annual General Meeting of Teleste Corporation held on 16 March 2004 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 treasury shares conveyed in the acquisition of Flomatik AS was 130,000 in 2004.

The Annual General Meeting on 5 April 2005 decided to annul the company-owned year 2000 share options, which entitled to a subscription of 270,500 shares. The annual general meeting decided to issue new share options to key personnel. Hereby, the option holders are entitled to subscribe 600,000 Teleste Corporation shares. See the note on page 49 Share-based payments (information on management shareholding).

Shares subscribed for pursuant to the share option plans will entitle to dividend when the increase of the share capital is registered with the Finnish trade register. Voting and other shareholder rights will commence on the date on which the increase of the share capital is registered with the Finnish trade register.

Translation reserve
The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Dividends
After the balance sheet date the dividend of EUR 0.16 per share (EUR 0.12 per share) was proposed by the Board of Directors.

17 Share-based payments

The Group has had share option plans since the year 1997. Teleste has applied IFRS 2 Share-based payments to those option arrangements in which the options have been granted after 7 November 2002 that had not yet vested until 1 January 2005. During the financial period ended the Group has had 6 different option plans with the employees of which two expired without any value during the last quarter of 2005.

The Annual General Meeting of Teleste Corporation held on 16 March 2004 decided to annul the company-owned year 2000 share options, which entitled to a subscription of 270,500 shares. The Annual General Meeting decided to issue new options to key personnel. Hereby, the option holders are entitled to subscribe 600,000 Teleste Corporation shares, of which 275,000 have been granted during financial period.

The options expire unless they have been redeemed within the subscription time. If the employee leaves the Group before the options ultimately vest, the options are forfeited. The options granted are fair valued at the grant date using the Black-Scholes (BS) option pricing model and are recognised as an employee expense during the vesting period. The fair value of the shares for the arrangements in which shares are granted was based on the quoted share price. The measurement of the options' fair value did not consider expected dividends.

The following tables illustrate the terms and conditions of the option plans.

Arrangement	Share options, granted to key management 2002 A	Share options, granted to key management 2002 B	Share options, granted to key management 2004 A	Share options, granted to key management 2004 B
Nature of the arrangement	Share options	Share options	Share options	Share options
Date of Annual General Meeting	8.4.2002	8.4.2002	16.3.2004	16.3.2004
Grant date	15.4.2003, 15.10.2004	15.4.2003, 15.10.2004	15.6.2004	15.6.2005
Number of instrument granted	242 000	240 000	264 000	275 000
Exercise price 31.12.2005	7.11	2.45	5.86	6.47
Share price at the date of grant	2.57–5.62	2.78–5.62	6.19	6.75
Contractual life (years)	5.5	6.5	5	6
Vesting conditions	3 years of service	4 years of service	3 years of service. 50 % of the options vest only, when EPS is at least EUR 0.30 and ROCE % is at least 20% 31.12.2006	4 years of service. 50 % of the options vest only, when EPS is at least EUR 0.35 and ROCE % is at least 25% 31.12.2007

Settlement	Shares	Shares	Shares	Shares
Expected volatility	40%	40%	35%	30%
Expected option life at grant date (years)	4.5	5.5	4.8	4.9
Risk-free interest rate	4%	4%	4%	4%
Expected dividend (dividend yield)	0%	0%	0%	0%
Expected departures (grant date)	0%	0%	0%	0%
Expected outcome of meeting performance criteria (at the grant date)	–	–	90%	90%
Fair value per granted instrument determined at the grant date	0.26–0.75	1.12–3.25	2.26	1.98
Valuation model	BS	BS	BS	BS

The expected volatility has been determined by using the historical volatility of the share price adjusted for any expected changes to future volatility due to publicly available information. The historical volatility is calculated based on the weighted average remaining life of the share options.

Notes

The changes in the number of options and weighted average exercise prices were as follows (options granted to key management):

	2005 Weighted average exercise price per share, euros	Number of options	2004 Weighted average exercise price per share, euros	Number of options
Outstanding at the beginning of the year	5.33	748 000	4.98	432 000
Granted during the year	6.47	275 000	5.68	376 000
Forfeited during the year	2.53	–2 000	4.98	–60 000
Outstanding at the end of the year	5.64	1 021 000	5.33	748 000

No options were exercised during 2005. In January 2004 35,504 options were exercised at exercise price of EUR 0.68. Of the amount received for the exercised year 1997 options, EUR 14 thousand were credited to the share capital and EUR 10 thousand to the share premium. These year 1997 options are excluded from the table presented above. At the year-end 2004 there were 549,500 exercisable options (year 2000 options) but they are not included in the table presented above nor in the calculation of diluted earnings per share, as the exercise price of these options was higher than the fair value of the share.

Options outstanding at the end of the year granted to key management – exercise prices and remaining life

Expire in	Range of exercise prices, euros	2005 Number of options	2004 Number of options
2005	0	0	0
2006	0	0	0
2007	7.11	242 000	244 000
2008	2.45	240 000	240 000
2009	5.86	264 000	264 000
2010	6.47	275 000	0
Total		**1 021 000**	**748 000**

18 Interest-bearing liabilities

1 000 euros	2005	2004
Non-current		
Loans from financial institutions	0	8 779
Finance lease liabilities	706	280
Total	**706**	**9 059**
Current		
Loans from financial institutions	3 000	0
Finance lease liabilities, current portion	210	84
Loans from financial institutions, current portion	0	1 607
Total	**3 210**	**1 691**

Interest-bearing loans from financial institutions are carried at amortised cost and finance lease liabilities are carried at fair value.

The long-term liabilities mature as follows:

2005 1 000 euros	2006	2007	2008	2009	2010	thereafter
Finance lease liabilities	210	210	210	210	75	0
Total	**210**	**210**	**210**	**210**	**75**	**0**

2004 1 000 euros	2005	2006	2007	2008	2009	thereafter
Floating rate bank loans	1 607	1 607	1 607	1 607	1 607	2 351
Finance lease liabilities	84	84	84	84	28	0
Total	**1 691**	**1 691**	**1 691**	**1 691**	**1 635**	**2 351**

1 000 euros	2005	2004
The currency mix of the Group long-term interest-bearing liabilities was as follows:		
EUR	706	8 673
NOK	0	386
	706	9 059
Group long-term interest-bearing liabilities – interest rates:		
Bank loans	–	2.9%
Finance lease liabilities	3.7%–4.1%	4.1%
The currency mix of the Group short-term interest-bearing liabilities:		
EUR	100%	89%
NOK	–	11%
	100%	100%
Group short-team interest-bearing liabilities – interest rates are as follows:		
Bank loans	3.0%	2.9%
Finance lease liabilities	3.7%–4.1%	4.1%
Finance lease liabilities of the Group are payable as follows:		
Minimum lease payments		
Less than one year	210	84
Between one and five years	770	320
Total	980	404
Present value of minimum lease payments		
Less than one year	210	84
Between one and five years	705	280
Total	915	364
Future finance charges	65	40
Total finance lease liabilities	980	404

19 Provisions

1 000 euros	Warranties	Restructuring	Onerous contracts	Other	**Total**
1.1.2005	1 182	107	298	478	**2 065**
Effect of movements in foreign exchange	0	0	0	0	**0**
Provisions made during the year	600	0	0	0	**600**
Provisions used during the year	–338	0	0	–50	**–388**
Provisions reserved during the year	0	0	0	–260	**–260**
31.12.2005	1 444	107	298	168	**2 017**

	2005	2004
Non-current	515	394
Current	1 502	1 671
Total	**2 017**	**2 065**

Warranties
The Group grants 12–36 months guarantees for its certain products. If defects are detected during the warranty period, the Group either repairs the product or delivers a comparable new product. The amount of the warranty provision is based on the past experience on defective products and an estimate of related expenses.

Restructuring
The provision is based on the restructuring of sales organisation carried out in 2002.

20 Trade and other current liabilities

1 000 euros	2005	2004
Current		
Trade payables	6 347	4 790
Liabilities due to associates	(7 189)	(6 464)
Personnel, social security and pensions	3 822	3 020
Accrued interest expenses and other financial items	8	240
Other accrued expenses and deferred income	2 485	2 440
Other liabilities	3 461	3 313
Total	**16 123**	**13 803**

Includes the income tax payable for the period.

21 Income tax payable for the period

The item other accrued expenses and deferred income includes the income tax payable, EUR 1.71 million on the profit for the period (EUR 1.99 million), from which a tax receivable amounting to EUR 609 thousand (EUR 609 thousand) has been deducted.

The objective of the Group's financial risk management is to identify, evaluate and hedge financial risks to reduce the impacts of price fluctuations in financial markets and of other factors on earnings, balance sheet and cash flows as well as to guarantee cost-efficient funding for the Group at all times.

The Board has approved financial risk management guidelines and the allocation of responsibilities defined in the Group risk management policy and related operating policies covering specific areas. The Board oversees the Group's risk management framework. The Group's administration is responsible for the coordination and control of the Group's total financial risk position and for external hedging transactions with banks in the name of the parent company. Teleste is risk averse in its treasury activities. The identification of the exposure is a common task of the business units and the Group administration.

Currently the hedge accounting principles as defined by IAS 39 are not applied in Teleste as the Group's volatility has not increased to a major extent.

Financial risks comprise market, credit, liquidity and cash flow interest rate risk, which are discussed more in detail below. The Group's exposure to price risk is low.

Market risk

Market risk includes three types of risk: currency risk, price risk and fair value interest rate risk. Fluctuations of foreign exchange rates, market prices or market interest rates may cause a change in the value of a financial instrument. These changes may have a impact on the consolidated earnings, balance sheet and cash flows.

Currency risk

The Group's currency position is divided into the transaction position and net investments in foreign operations. Foreign exchange exposures of the Group's units arise from receivables and accounts payables denominated in foreign currency, sales and purchase contracts and from forecast sales and purchases. Major part of the Group's sales is in Euro. The most significant non-euro sales currencies are US dollar (accounts for 10% of the net sales), Swedish and Norwegian crowns (22%) and UK pound sterling (8%). Significant part of expenses, 60%, arise in euro and in US dollar almost 30%. The hedging decisions are based on the expected net cash flow for the following six months.

Since the Group's currency risk exposure regarding net investments in foreign operations is relatively low, the equity position, i.e. differences in the calculatory euro values of these amounts (translation risk) is not actively hedged. At 31 December 2005 the total non-euro-denominated equity of the Group's foreign subsidiaries amounted to EUR 4.2 million (EUR 3.4 million).

In principle Teleste hedges forecast and probable cash flows. The Group only uses forward exchange agreements. According to the Group's currency risk management policy all material currency risks are hedged at least six months ahead and the Group's transaction position shall at all times be hedged 80–100% by currency. The level of hedges is monitored on a monthly basis. Currency risk is also managed through, among others, operational planning, pricing and offer terms.

At the year-end 2005 the fair value of currency derivatives amounted to EUR 16.6 million (EUR 9.4 million).

Fair value interest rate risk and cash flow interest rate risk

Teleste's interest rate risk mainly comprises cash flow interest rate risk that arises from the interest-bearing liabilities. The loans have short-term interest rate as a reference rate. The interest period is of less than one year in all Group's interest-bearing liabilities at the year-end 2005. All Group loans are denominated in euro. In 2005, the average interest rate of the loan portfolio was 3%. The Group does not hedge the risk position resulting from the fair value interest rate risk as the position is small.

Credit risk

The Group's accounts receivables are dispersed to a number of customers worldwide. Thus the primary responsibility for commercial credit risks lies with the Group's geographical areas. Commercial credit risks are managed in accordance with the Group's credit policy and are reduced for example with collaterals. Credit risks are approved and monitored by the Group management team.

The credit risk related to financial instruments, i.e. counterparty risk is managed in the Group administration. Counterparty risk realises if a counterparty is unable to meet its obligations. In order to minimise counterparty risks, Teleste seeks to limit the counterparties, such as banks and other financial institutions, to those which have good credit rating. Liquid funds are invested in liquid instruments with low credit risk, e.g. in short-term bank deposits and commercial papers.

Liquidity risk

Liquidity risk is monitored through Group's cash flow forecasts. The Group seeks to reduce liquidity risk through sufficient cash reserves and credit facility arrangements as well as with balanced maturity profile of loans. Efficient cash and liquidity management also reduces liquidity risk. At the year-end 2005 the Group's cash reserves totaled EUR 8.5 million and its interest-bearing net debt EUR 3.9 million. The Group administration raises the Group's interest-bearing debt centrally. At 31 December 2005, Teleste had committed and available credit facilities as well as other agreed and undrawn loans amounting to EUR 27 million. Group's loan agreements and committed loan facilities include profitability and cash flow covenants.

The recognition and measurement principles applied to derivatives are described in the accounting principles for the consolidated financial statements. The year-end nominal and fair values of derivatives are presented in the note Commitments and contingencies to the consolidated financial statements.

22 Fair values of financial assets and liabilities

All other financial assets and liabilities are measured at their fair values in the consolidated balance sheet except for the long-term bank loan, which is measured at amortised cost.

Derivative instruments

Teleste uses forward exchange contracts to hedge its balance sheet items against transaction risk. So far Teleste does not apply hedge accounting as defined under IAS 39 in its IFRS financial statements. Consequently the changes in the fair values of financial instruments designated as hedging instruments are fully recognised through profit and loss. The fair value changes of forward exchange contracts amounted to EUR 94 thousand in 2005 (EUR –185 thousand) and they are recognised as adjustements to sales.

Available-for-sale financial assets

Available-for-sale financial assets comprise unlisted shares that are measured at cost. The fair value of this investment could not be determined reliably and the estimate fluctuates significantly or the probabilities within the range of different estimates are not reasonably determinable to be used to estimate the fair value.

Bank loans

Fair value is calculated based on discounted expected future cash flows. The discount rate used is the interest rate for similar loans for the Group from an external party at the balance sheet date. The components of the discount rate are risk-free interest rate and company-specific risk premium. As of 31 December 2004 the fair value of bank loans amounted to EUR 9.3 million (the carrying amount EUR 10.4 million).

Finance lease liabilities

The fair values of finance lease liabilities are based on the discounted future cash flows. The discount rate used is the market interest rates for homogeneous lease agreements.

Trade and other payables or receivables

For trade payables and other receivables than those arising from derivative instruments the notional amount equals their fair value as the discounting has no material effect considering the short maturity of these items.

Following discount rates were used for determining fair value:

	2005	2004
Bank loans	0%	3%
Finance lease liabilities	3.9%	4%

23 Adjustment to cash flows from operating activities

1 000 euros	2005	2004
Non-cash transactions:		
Depreciation and amortisation	1 940	1 795
Employee benefits	560	272
Change in inventories	0	50
Deferred taxes	408	207
Minority interest	0	32
Total	**2 908**	**2 356**

24 Operating leases

Group as lessee

Minimum lease payments on non-cancellable operating leases are payable as follows:

1 000 euros	2005	2004
Less than one year	1 119	947
Between one and five years	660	733
Total	**1 779**	**1 680**

The Group leases factory and office facilities outside Finland under operating leases. The leases typically run for a period of 2–5 years, normally with an option to renew the lease after that date. According to the index clauses of the leases lease payments are increased every two years.

The Group has sublet part of its production and office property in Finland to an external company. The agreement is valid until further notice. In 2005 the lease payments in respect of this part of property amounted to EUR 135 thousand (EUR 135 thousand).

25 Commitments and contingencies

1 000 euros	2005	2004
Collateral for own commitments		
Guarantees	340	0
Property under mortgages	0	7 000
Corporate mortgage	0	10 582
Rental and leasing liabilities		
Rental liabilities	707	748
Lease liabilities	1 072	932
Currency derivatives		
Value of the underlying forward contracts	16 503	9 624
Market value of the forward contracts	16 597	9 438

Notes

26 Related party transactions

Teleste Group has related party relationships with its Board members and CEO.

Companies owned by the Group and parent company

	Group holding, %	Group voting, %
Parent company Teleste Corporation, Turku, Finland		
Flomatik AB, Tukholma, Sweden	100	100
Flomatik A/S, Porsgrun, Norway	100	100
Teleste d.o.o., Ljutomer, Slovenia	100	100
Teleste Försäljning AB, Malmö, Sweden	100	100
Teleste UK Ltd, Cambridge, UK	100	100
Teleste Kaurakatu Oy, Turku, Finland	100	100
Teleste GmbH, Hannover, Germany	100	100
Suomen Yhteisantennit Oy, Turku, Finland	100	100
Kaavisio Oy, Turku, Finland	100	100
S-Link AB, Täby, Sweden	100	100
S-Link ssp, Krakowa, Poland	100	100
Teleste Electronics (SIP), Shuzhou, PRC	100	100
Teleste LLC, Georgetown Texas, USA	100	100

Following business transactions have been fulfilled with related parties.

a) The key management personnel compensations

1 000 euros	2005	2004
Salaries and other short-term benefits	391	352
Share-based salaries	62	33
Total	**453**	**385**

During 2005 management of Teleste was granted 40,000 share options (40,000). The terms of the management share option plans are similar to those of other employees' share option plans, except for the terms of 2004 options. According to the 2004 option terms the recipient has to subscripe Teleste shares to the amount that equals his net annual salary. At 31 December 2005 management had 140,000 (100,000) options, of which 30,000 were exercisable (nil). Management of the parent company has 0.67% of the parent company's shares.

1 000 euros	2005	2004
Remuneration to Board members and Managing Director:		
Chairman of the Board Tapio Hintikka	**32**	**32**
Members of the Board	**68**	**73**
Tero Laaksonen	17	18
Pertti Raatikainen	17	20
Timo Toivila	17	18
Pekka Vennamo	17	17
CEO Jukka Rinnevaara	**453**	**385**
Total	**553**	**490**

The contractual age of retirement of CEO of the parent company, Jukka Rinnevaara, is 60. As to the contract, 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.

b) Loans to related parties

No cash loans were granted to nor commitments assumed or collaterals given regarding CEO or the members of the Board of Directors in 2004 and 2005.

27 Subsequent events

The Group management is not aware of any significant events occured after the balance sheet date, which would have had an impact on the financial statements.

As previously stated in the note 1, these are the Group's first consolidated financial statements prepared in accordance with IFRS. Previously Teleste's financial statements were based on Finnish Accounting Standards (FAS) applicable to Finnish companies quoted in Finland. The date of transition from FAS to IFRS is 1 January 2004.

The transition to IFRS has affected the financial statements previously presented, notes thereto as well as accounting principles. The financial statements for the year ended 31 December 2005, the comparative information presented in these financial statements for the year ended 31 December 2004 and the opening IFRS balance sheet at 1 January 2004 have been prepared applying the accounting principles presented under the note 1 Accounting principles for the consolidated financial statements.

An explanation for the differences between FAS and IFRS for the year 2004 and on the day of transition at 1 January 2004 is set out in the following tables and the notes that accompany the tables.

From Teleste's point of view, the most significant effects of the transition to IFRS related to the accounting treatment of treasury shares (IAS 32), goodwill (IFRS 3) as well as share-based payments (IFRS 2).

Reconciliations of equity 1.1.2004 and 31.12.2004:

	Note	1.1.2004	31.12.2004
FAS		26 971	29 618
IFRS adjustments			
Intangible assets, IAS 38	a)	636	312
Business combinations, IFRS 3	b)	0	1 040
Employee benefits, IAS 19	c)	0	0
Share-based payments, IFRS 2	d)	0	0
Financial instruments, IAS 39	e)	–48	–186
Income taxes, IAS 12	f)	–184	–142
Financial intruments, IAS 32	g)	–3 354	–2 950
Inventories, IAS 2	h)	50	50
Total IFRS adjustments		**–2 900**	**–1 876**
IFRS		24 071	27 742

Reconciliation of profit for 2004

	Note	
FAS		3 520
IFRS adjustments		
Intangible assets, IAS 38	a)	–324
Business combinations, IFRS 3	b)	1 040
Employee benefits, IAS 19	c)	0
Share-based payments, IFRS 2	d)	–272
Financial instruments, IAS 39	e)	–138
Income taxes, IAS 12	f)	84
Total IFRS adjustments		**389**
IFRS		3 909

Notes to the reconciliations of equity at 1 January and 31 December 2004 and to the reconciliation of profit for 2004

a) Intangible assets, IAS 38

Development costs in Teleste Group are principally expensed as incurred. With the objective to anticipate the requirements under IFRS development costs relating to significant future product platforms for which the potential demand and future cash flows could be estimated with adequate reliability have been capitalised as intangible assets. The amortisation period of product platforms is three years and amortisation begins when the subprojects relating to product platforms are completed.

Owing to the transition to IFRS product platform development projects prior to the financial year 2004 were examined. Those development project costs incurred that met the criteria described above were capitalised in the balance sheet. The amortisation charges of these assets regarded to be capitalised prior to the financial year 2004 affect the 2004 profit for the period accounted for in accordance with IFRS.

Transition to IFRS

b) Business combinations, IFRS 3

According to IFRS 3 goodwill and other intangible assets with indefinite useful lives are not amortised. They are tested annually for impairment in accordance with IAS 36. Goodwill amortisation recognised under FAS has been reversed in the transition.

In the transition to IFRS goodwill has been allocated to segments. The recoverable amount of the business segments has been determined on the basis of the cash flow approach. The cash flow projections are based on the forecasts prepared by the Group management valid at the balance sheet date. The impairment tests carried out at the end of 2003 and 2004 did not indicate any impairment.

c) Employee benefits, IAS 19

Pension plans and other employee benefits provided by the Group were examined in the transition to IFRS. Pension plans and other employee benefits in the foreign Group companies have been classified as defined contribution plans and their accounting treatment has been in compliance with IAS 19.

On 14 October 2004 the pension consultative committee of the central labour market organisations agreed on the proposal concerning the premium level of the TEL pension insurance contributions for 2005 (the Finnish statutory employment pension scheme, TEL). The consultative committee also recommended the current major employers' disability pension technique with a deductible in the TEL pension system be replaced by one based on premium categories affected by a company's own actual development of disability cases. The base for contribution categories in the TEL basic insurance was approved on 22 December 2004 in accordance with the proposal.

Teleste has treated the disability pension part as a defined contribution plan. The transition to IFRS has not therefore caused any adjustements to the opening balance nor to the quarterly figures of 2004.

d) Share-based payments, IFRS 2

In its IFRS financial statements Teleste has applied IFRS 2 to its granted share options to the extent that such share option plans are in the scope of this standard. Teleste has applied the standard to those share option arrangements in which share options have been granted after 7 November 2002 that had not yet vested until 1 January 2005. The granted share options are measured at their fair value in accordance with the Black-Scholes option pricing model at the grant date and are recognised as an expense under personnel expenses during the vesting period.

e) Financial instruments, IAS 39

So far Teleste does not apply hedge accounting in its IFRS financial statements. The changes in value of financial instruments designated as hedging instruments are recognised through profit and loss. The difference compared to the financial statements prepared in compliance with FAS arises from the fact that under IFRS changes in fair values on foreign currency derivatives entered into to hedge transaction risk of balance sheet items are recognised in the income statement in full. Previously only the portion hedging the Group's balance sheet items denominated in a foreign currency at that date was recognised through profit and loss for derivatives in Teleste.

f) Income taxes, IAS 12

Deferred taxes have been provided on all those material taxable or tax deductible IFRS adjustments in accordance with IAS 12. The tax rate in the transition balance sheet as at 1 January 2004 is 29%, in the 2004 balance sheet 26%.

g) Financial instruments, IAS 32

Under IFRS treasury shares are not presented as assets in the consolidated balance sheet but they are debited to equity. Purchases and resales of treasury shares are presented as changes in equity.

h) Inventories, IAS 2

The adjustments are due to the change in the inventory cost principle as inventory cost now comprises an allocation of fixed production overheads. The adjustment made to the Group accounting principles in the transition to IFRS has not been material in this area.

Other changes

In addition to the changes described above the transition to IFRS has resulted in some minor regrouping in the income statement and balance sheet. No significant adjustments have been made to the cash flow statement.

Statement of Income

1 000 euros	Note	1.1.–31.12.2005	1.1.–31.12.2004
Net sales	1	**66 030**	**55 216**
Change in inventories of finished goods		1 234	–100
Other operating income	2	1 763	508
Materials, supplies and services	3	–28 396	–20 927
Wages, salaries and social expenses	4	–19 691	–17 007
Depreciation and amortisation	5	–1 850	–2 068
Other operating expenses		–14 493	–13 063
Operating profit		**4 597**	**2 559**
Financial income and expenses	6	1 515	254
Profit before taxes		**6 112**	**2 813**
Appropriations	7	44	225
Direct taxes	8	–1 099	–852
Profit for the financial period		**5 057**	**2 186**

Assets

1 000 euros	Note	31.12.2005	31.12.2004
Non-current assets			
Intangible assets	9	2 310	3 261
Property, plant and equipment	9	4 467	4 511
Investments	10	10 798	10 027
Long-term receivables	11	0	344
		17 575	**18 143**
Current assets			
Inventories	12	7 145	4 870
Trade and other receivables	13	16 503	9 591
Short-term investments	14	2 000	13 623
Cash and cash equivalents	14	3 402	1 707
		29 050	**29 791**
Total assets		**46 625**	**47 934**
Shareholders' equity			
Share capital	15	6 935	6 935
Share premium	15	1 276	1 277
Retained earnings	15	7 911	7 713
Profit for the financial period	15	5 057	2 186
		21 180	**18 111**
Appropriations	7	**1 284**	**1 328**
Provisions	16	**1 661**	**1 837**
Liabilities			
Long-term liabilities	17	373	8 571
Short-term liabilities	18	22 127	18 087
		22 500	**26 658**
Total equity and liabilities		**46 625**	**47 934**

Cash Flow Statement

1 000 euros	2005	2004
Cash flow from operations		
Operating profit	4 597	2 559
Adjustments to operating profit	1 674	2 868
Change in net working capital	–5 854	–547
Interest income	216	261
Interest expenses	–294	–288
Dividend income	1 755	429
Other financial items	–162	–148
Taxes paid	–528	–152
Cash flow from operations	**1 404**	**4 982**
Investments		
Other tangible assets	–858	–403
Advance payments	0	–198
Sale of other tangible assets	0	81
Investments in subsidiary shares	–1 796	–831
Cash flow from investments	**–2 654**	**–1 351**
Cash flow before financing	**–1 250**	**3 631**
Financing		
Long-term liabilities	–8 571	–1 429
Long-term assets	344	–344
Short-term liabilities	1 571	1 429
Paid dividends	–2 022	–1 337
Share issue	0	24
Others	0	0
Financing total	**–8 678**	**–1 657**
Change in liquid funds	**–9 928**	**1 974**
Liquid funds 1.1.	15 330	13 356
Liquid funds 31.12.	5 402	15 330

Accounting Principles

Final Accounts of the Parent Company Teleste Corporation

Teleste Corporation is the parent company of the Teleste Group. Business ID of Teleste Corporation is 1102267-8 with registered office in Turku. The company registered address is Seponkatu 1, 20660 Littoinen.

Foreign Currency Transactions

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.

Currency Derivatives

The company has no other currency derivatives except for forward exchange agreements. Exchange agreements are designed to eliminate the effect of currency exposures on the company performance and financial standing.

Our corporate hedging policy is to cover all material currency risks at least six months ahead. The effect on company performance of the exchange rate agreements is recorded on their exercise day.

Valuation of Fixed Assets

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:

Intangible assets	3 years
Goodwill	10 years
Other capitalised expenditure	3 years
Buildings	25 to 33 years
Machinery	3 to 5 years
Computers	0 to 3 years

Write-downs on permanent impairment of the assets are recorded when it becomes evident that the carrying amount is not recoverable. Companies acquired or established during the financial period are included in the subsidiary shares as of date of acquisition or formation. Companies disposed of in the financial period have been included in the subsidiary shares up to the date of disposal.

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

Leased Assets

Purchases made under operating leases and capital leases are entered into income statement as renting expenses.

Inventories

Inventories are stated at the lower of cost or net realisable value. Acquisition cost is determined using the first-in-first-out (FIFO) method. In addition to variable expenditure, value of inventory includes their share of the fixed expenditure under purchases and manufacturing.

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.

Net Sales

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

R&D expenses are recorded as expenditure.

Pension Arrangements

The statutory pension liabilities of Finnish subsidiaries in the company are funded through pension insurance.

Income Taxes

Income tax includes tax on profit for the current financial period and the accrual adjustment for the preceding financial period.

Treasury shares

Treasury shares acquired by the Group are not included in balance. As to this, final accounts for the year of comparison have been adjusted by eliminating the value of treasury shares from the company fixed assets and the equity. This adjustment is based on an amendment of the Finnish accounting legislation.

1 000 euros	31.12.2005	31.12.2004
1 Net sales		
Net sales by segments		
Broadband Cable Networks	52 472	45 020
Video Networks	13 558	10 196
	66 030	**55 216**
Net sales by market area		
Finland	8 804	9 930
Scandinavia	12 957	9 026
Other Europe	37 549	32 854
Others	6 720	3 406
Total	**66 030**	**55 216**
2 Other operating income		
R&D subvention and others	1 763	508
Total	**1 763**	**508**
3 Materials and services		
Purchases	26 160	19 855
Change in inventories	–1 041	–278
	25 119	**19 577**
Purchased services	3 277	1 350
Total	**28 396**	**20 927**
4 Personnel expenses		
Wages and salaries	15 969	13 958
Pension costs	2 626	2 095
Other personnel costs	1 097	954
Total	**19 691**	**17 007**
Remuneration to Board members and Managing Director	492	452

Cash loans, securities or contingent liabilities were not granted to the President or to the members of the Board of Directors.

	31.12.2005	31.12.2004
Year-end personnel	433	419
Average personnel	428	434
Personnel by function at the year-end		
Research and Development	109	117
Production and Material Management	260	243
Sales and marketing	39	36
Finance and IT	25	23
Total	**433**	**419**
5 Depreciation according to plan		
Other capitalized expenditure	161	135
Buildings	297	307
Machinery and equipment	640	874
Goodwill on consolidation	752	752
Total	**1 850**	**2 068**
Change in accumulated depreciation difference		
Buildings	162	153
Other capitalized expenditure	–118	72
Total	**44**	**225**

Notes

1 000 euros	2005	2004
6 Financial income and expenses		
Interest income	178	228
Interest income from Group companies	38	33
Interest expenses	–294	–287
Interest expenses to Group companies	0	–1
Currency differences	–6	–86
Other financial income and expenses	–156	–103
Dividend income from Group companies	1 752	419
Avoir fiscal	0	41
Dividend income	3	10
Total	**1 515**	**254**
7 Appropriations and deferred tax assets and liabilities in the parent company		
Accumulated depriciation in excess of plan	1 284	1 328
8 Income taxes		
Direct taxes	1 160	685
Taxes from previous year	–61	167
Total	**1 099**	**852**

9 Tangible and intangible assets

	Intangible rights	Tangible assets: Land	Buildings	Machinery	Other capitalized expenditure	**Total**
Acquisition cost 1.1.	**7 777**	108	4 983	7 484	1 850	**14 425**
Increases	0	0	0	268	588	**856**
Decreases	0	0	0	0	0	**0**
Transfer between items	–198	0	0	0	198	**198**
Acquisition cost 31.12.	**7 579**	108	4 983	7 752	2 636	**15 479**
Accumulated depreciation 1.1.	**4 515**	0	1 652	6 501	1 762	**9 915**
Depreciation	752	0	297	640	161	**1 098**
Accumulated depreciation 31.12.	**5 268**	0	1 949	7 141	1 923	**11 013**
Book value 31.12.2005	**2 310**	108	3 033	611	714	**4 467**
Book value of machinery and equipment 31.12.2005				536		
Book value of machinery and equipment 31.12.2004				601		

10 Investments

Parent company

	Shares in group companies	Shares others	**Total**
Acquisition cost 1.1.	9 596	1 116	10 712
Increase	771	0	771
Acquisition cost 31.12.	**10 367**	**1 116**	**11 483**
Accumulated depreciation 1.1.	–685	0	–685
Accumulated depreciation 31.12.	**–685**	**0**	**–685**
Book value 31.12.2005	**9 682**	**1 116**	**10 798**

1 000 euros	2005	2004
11 Long-term receivables		
Long term receivables form Group companies	0	344
Total	**0**	**344**
12 Inventories		
Raw materials and consumables	2 799	1 758
Work in progress	2 153	2 157
Finished goods	2 193	955
Total	**7 145**	**4 870**
13 Current assets		
Accounts receivables	11 795	6 663
Accounts receivables from Group companies	2 325	1 589
Other receivables from Group companies	822	13
Avoir fiscal	0	282
Accrued income	1 560	1 044
Total	**16 503**	**9 591**
14 Liquid funds		
Short-term investments	2 000	13 623
Cash and cash equivalents	3 402	1 707
15 Changes in shareholders' equity		
Share capital 1.1.	6 935	6 921
Share issue	0	14
Share capital 31.12.	6 935	6 935
Share premium fund 1.1.	1 277	1 250
Share issues	0	10
Use of own shares	–1	17
Share premium fund 31.12.	1 276	1 277
Retained earnings 1.1.	9 898	8 258
Dividends	–2 022	–1 337
Transfer from treasury shares	34	792
Retained earnings 31.12.	7 911	7 713
Profit for the financial period	5 057	2 186
Accumulated profit 31.12.	12 968	9 898
Total	**21 180**	**18 111**
Distributable funds	**12 968**	**9 898**

Company's registered share capital consist of one serie and is dividend into 17,339,752 shares at 1 vote each.

16 Obligatory provisions		
Provision for guarantees	1 096	954
Provisions for pension commitments	160	160
Provision for restructuring	107	107
Others	298	616
Total	**1 661**	**1 837**

Notes

1 000 euros	2005	2004
17 Long-term liabilities		
Bank loans	0	8 571
Other interest bearing liabilities	373	0
Total	**373**	**8 571**
Liabilities due after 5 years	**0**	**2 857**
18 Short term liabilities		
Bank loans	3 000	1 429
Advance payments received	112	158
Accounts payables	4 847	3 148
Accounts payables from Group companies	1 228	471
Other current liabilities	1 972	2 131
Other current liabilities from Group companies	5 961	5 993
Accrued liabilities	5 007	4 757
Total	**22 127**	**18 087**
19 Contingent liabilities and pledged assets		
Debts covered by company mortages and pledged assets		
Bank loans	0	10 000
Leasing liabilities		
For next year	614	376
For later years	616	1 082
Total	**1 230**	**1 458**
Rental liabilities	**365**	**460**
Liabilities on own behalf		
Mortages	0	7 000
Company mortages	0	10 000
Bank guarantees	320	0
20 Currency derivates		
Value of underlying forward contracts	16 503	9 624
Market value of forward contracts	16 597	9 438

Forward contracts are used only for hedging currency exchange risks.

21 Companies owned by the Group and parent company

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

22 Own shares

	Number of shares	Nominal value, euros	Percentage of share capital	Percentage of votes
Teleste Corporation owns own shares 31.12.2005	485 000	194 000	2.80	2.80

23 Owners

	Number of Shares	Percentage of shares
1. Sampo Life Insurance Company Ltd.	1 624 200	9.37
2. Ilmarinen Mutual Pension Insurance Company	840 350	4.85
3. Varma Mutual Insurance Company	712 350	4.11
4. Kaleva Mutual Insurance Company	588 900	3.40
5. FIM Fenno Mutual Fund	529 900	3.06
6. Teleste Corporation	485 000	2.80
7. Aktia Capital Mutual Found	479 450	2.77
8. Sijoiturahasto OP-Suomi Kasvu	411 200	2.37
9. State Pension Fund	400 000	2.31
10. Mutual Insurance Company Pension-Fennia	300 000	1.73
11. Nordea Nordic Small Cap Mutual Fund	275 350	1.59
12. Fondita Nordic Small Cap Placfond	270 000	1.56
13. FIM Forte Mutual Fund	253 350	1.46
14. Odin Forvaltnings As	234 050	1.35
15. Evli Pankki Plc.	212 900	1.23
16. Finanssi-Sampo Oy	197 000	1.14
17. Veritas Pension Insurance Company	175 000	1.01
18. Mandatum Suomi Kasvuosake Mutual Fund	170 600	0.98
19. Aktia Secura Mutual Fund	146 150	0.84
20. Gyllenberg Momentum	119 000	0.69
Foreign and nominee register accounts	2 362 494	13.62
Others	6 552 508	37.79
Total	**17 339 752**	**100.00**

Shareholder's by segments 31.12.2005

Corporations	1 906 270	10.99
Financial and insurance institutions	5 523 197	31.85
Public organizations	2 487 292	14.34
Non-profit organizations	1 065 895	6.15
Households	3 994 604	23.04
Foreign and nominee register accounts	2 362 494	13.62
Total	**17 339 752**	**100.00**

Shares	Number of shareholders	Percentage of shares	Number of shares	Percentage of shares
1–1 000	5 233	84.02	1 675 684	9.66
1 001–10 000	895	14.37	2 591 410	14.94
10 001–100 000	77	1.24	2 385 682	13.76
100 001–	23	0.37	8 761 510	50.53
Total	6 228	100.00	15 414 286	88.90
Nominee register accounts			1 925 466	11.10
Total			**17 339 752**	**100.00**

Management interest

	Number of shares	Percentage of shares	Percentage of votes
CEO and Board Members	116 829	0.67	0.67

Option programs

Number of shares entitled to subscribe with options

	Number of shares	Percentage of shares and votes
CEO	140 000	0.8
Other options holders	881 000	4.8
2002 program warrants hold by the group	68 000	0.4
2004 program warrants hold by the group	61 000	0.3
Total	**1 150 000**	**6.2**

Proposal for the Distribution of Earnings

Board of Directors' Proposal for the Distribution of Earnings

According to consolidated balance sheet, distributable funds totalled EUR 12,968,227.10. As to the Annual General Meeting scheduled for 4 April 2006, the Board proposes that a dividend of EUR 0.16 (EUR 0.12) per share be paid for the outstanding shares for the year 2005.

Helsinki 31 January 2006

TELESTE CORPORATION
Board of Directors

Tapio Hintikka	Tero Laaksonen	Pertti Raatikainen
Timo Toivila	Pekka Vennamo	Jukka Rinnevaara President and CEO

Auditor’s Report

To the shareholders of Teleste Corporation

We have audited the accounting records, the financial statements and the administration of Teleste Corporation for the period 1.1.–31.12.2005. The Board of Directors and the Managing Director have prepared the Report of the Board of Directors and the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU and the parent company’s financial statements prepared in accordance with prevailing regulations in Finland, that include parent company’s balance sheet, income statement, cash flow statement and the notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, the parent company’s financial statements and on the administration of the parent company.

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. The purpose of our audit of administration is to examine that the members of the Board of Directors and the Managing Director of the parent company have complied with the rules of the Companies Act.

Consolidated financial statements

In our opinion the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU give a true and fair view, as referred to in the International Financial Reporting Standards as adopted by the EU and defined in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position. The consolidated financial statements can be adopted.

Parent company’s financial statements and administration

In our opinion the parent company’s financial statements have been prepared in accordance with the Finnish 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 Finnish Accounting Act, of the parent company’s result of operations as well as of the financial position. The financial statements can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distribution of retained earnings is in compliance with the Companies Act.

Helsinki, January 31, 2006

KPMG OY AB

Sixten Nyman
Authorised Public Accountant

Financial Indicators 2001–2005

	FAS 2001	FAS 2002	FAS 2003	IFRS 2004	IFRS 2005
Profit and loss account, balance sheet					
Net sales, Meur	102.6	66.8	54.2	66.0	82.6
Change %	3.2	-34.9	-18.8	21.8	25.1
Sales outside Finland, %	87	82.6	81.9	85.1	89.3
Operating profit, Meur	13.8	-4.3	1.8	5.6	8.6
% of net sales	13.5	-6.4	3.3	8.5	10.4
Profit after financial items, Meur	13.1	-5.1	1.5	5.4	8.3
% of net sales	12.8	-7.6	2.8	8.2	10.1
Profit before taxes, Meur	17.9	-8.2	1.5	5.4	8.3
% of net sales	17.4	-12.3	2.8	8.2	10.1
Profit for the financial period, Meur	13.5	-7.1	1.7	3.9	6.0
% of net sales	13.1	-10.6	3.1	5.9	7.2
R&D expenditure, Meur	9.2	6.6	5.8	6.9	8.6
% of net sales	9.0	9.9	10.7	10.4	10.5
Gross investments, Meur	3.7	1.3	3.4	5.4	4.1
% of net sales	3.6	1.9	6.3	8.2	4.9
Interest bearing liabilities, Meur	20.0	15.0	10.0	10.8	3.9
Shareholder's equity, Meur	38.5	24.6	27.0	27.7	32.4
Total assets, Meur	76.8	52.0	48.1	54.4	54.8
Personnel and orders					
Average personnel	594	506	452	492	546
Order backlog at year end, Meur	17.8	9.7	6.6	20.7	22.7
Order received, Meur	97.7	59.5	52.2	80.5	85.4
Key metrics					
Return on equity, %	28.9	-14.2	7.1	15.1	19.8
Return on capital employed, %	27.4	-7.6	5.3	16.1	23.7
Equity ratio, %	44.5	44.8	49.3	51.1	59.1
Gearing, %	-20.5	5.8	-17.7	-22.9	-14.3
Earnings per share, eur	0.53	-0.25	0.10	0.23	0.35
Earnings per share fully diluted, eur	0.51	-0.25	n/a	0.22	0.33
Shareholders equity per share, eur	2.05	1.41	1.41	1.65	1.92
Teleste share					
Highest price, eur	24.00	14.00	6.49	7.06	8.35
Lowest price, eur	7.80	2.21	2.40	5.14	5.85
Closing price, eur	12.49	2.47	5.41	6.02	7.45
Average price, eur	13.64	5.52	4.41	6.03	6.97
Price per earnings	23.7	-10.0	53.7	25.8	21.0
Market capitalization, Meur	206.1	40.5	90.3	101.4	129.2
Stock turnover, Meur	263.3	82.7	43.7	74.2	75.3
Turnover, number in millions	19.3	15.0	9.9	12.3	10.8
Turnover, % of share capital	114.1	88.0	57.2	70.9	62.3
Average number of shares	16 732 918	16 974 287	17 094 910	17 334 235	17 339 752
Number of shares at the year-end	16 897 980	17 035 400	17 304 248	17 339 752	17 339 752
Number of shares subscribed, not registered 31.12.			23 304	0	0
Average number of shares, diluted	18 306 219	18 567 329	18 715 000	17 918 580	18 001 437
Number of shares at the year-end, diluted	18 165 000	18 715 000	18 715 000	17 999 752	18 004 752
Paid dividend, Meur	2.6	1.3	1.3	2.0	2.7
Dividend per share, eur	0.16	0.08	0.08	0.12	* 0.16
Dividend per net result, %	30.3	-32.5	79.4	52.2	45.7
Effective dividend yield, %	1.3	3.2	1.5	2.0	2.1

* The Board's proposal to the AGM

Calculation of key Figures

Return on equity: $\dfrac{\text{Profit/loss for the financial period}}{\text{Shareholders' equity (average)}} * 100$

Return on capital employed: $\dfrac{\text{Profit/loss for the period after financial items + financing charges}}{\text{Total assets – non-interest-bearing liabilities (average)}} * 100$

Equity ratio: $\dfrac{\text{Shareholders' equity}}{\text{Total assets – advances received}} * 100$

Gearing: $\dfrac{\text{Interest bearing liabilities – cash in hand and in bank – interest bearing assets}}{\text{Shareholders' equity}} * 100$

Earnings per share: $\dfrac{\text{Profit/loss for the financial period} \pm \text{minority interest}}{\text{Average number of shares – own shares}}$

Earnings per share, diluted: $\dfrac{\text{Profit/loss for the financial period} \pm \text{minority interest}}{\text{Average number of shares – own shares + number of options at the year-end}}$

Equity per share: $\dfrac{\text{Shareholders' equity}}{\text{Number of shares – number of own shares at year-end}}$

Price per earnings (P/E): $\dfrac{\text{Share price at year-end}}{\text{Earnings per share}}$

Effective dividend yield: $\dfrac{\text{Dividend per share}}{\text{Share price at year-end}}$

AAL	ATM Adaptation Layer
ADSL	Asymmetric Digital Subscriber Line
ANGA	German Association of Private CATV Operators
ANSI	American National Standards Institute
ARPU	Average Revenue Per User
ASP	Advanced Simple Profile
ATM	Asynchronous Transfer Mode
AVC	Advanced Video Coding
BAT	Broadband Access Technology
CA	Conditional Access
CAPEX	Capital Expenditure
CATV	Cable Television
CCIR	Consultative Committee International Radio (see ITU-R)
CCITT	Consultative Committee International Telephone and Telegraph (see ITU-T)
CCM	City Center Monitoring
CCTV	Closed Circuit Television
CD	Compact Disk
CDM	Cable Data Modem
CDMA	Code Division Multiple Access
CD-ROM	Compact Disk Read-Only-Memory
CE	Consumer Electronics
CEC	European Committee for Standardisation
CENELEC	European Electrotechnical Standards Committee
CI	Common Interface (standard)
CIF	Common Image Format
CLI	Command Line (user) Interface
CMTS	Cable Modem Termination System
CPE	Customer Premises Equipment
CPU	Central Processing Unit
CVBS	Composite Video Baseband Signal
CWDM	Coarse Wavelength Division Multiplexing
DCN	Data Communications Network
DES	Data Encryption Standard (U.S.)
DOCSIS	Data Over Cable System Interface Standard
DTH	Direct To Home (satellite broadcasting)
DVB	Digital Video Broadcasting
DVB-C	DVB transmission standard for cable networks
DVB-S	DVB transmission standard for satellite networks
DVB-S2	DVB transmission standard for satellite networks – extended version
DVB-T	DVB transmission standard for terrestrial networks
DVD	Digital Versatile Disk
DVR	Digital Video Recorder
DWDM	Dense Wavelength Division Multiplexing
ECCA	European Cable Communication Association
EIA	Electronic Industries Association
EMC	Electromagnetic Compatibility
EMS	Element Management System
EPG	Electronic Program Guide
ESW	Embedded Software
ETSI	European Telecommunications Standards Institute
EttH	Ethernet to the Home
FE	Fast Ethernet
FCC	Federal Communications Commission
FTP	File Transfer Protocol
FTTB	Fibre To The Building
FTTH	Fibre To The Home
FTTLA	Fibre To The Last Amplifier
FTTP	Fibre To The Premises
GE	Gigabit Ethernet

Glossary

GUI	Graphical User Interface
HD(TV)	High Definition Television
HE	Head End
HES	High End Security
HF	High Frequency
HFC	Hybrid Fiber Coax (network)
HMTS	Hybrid Management Termination System
HTML	Hyper Text Markup Language
HTTP	Hypertext Transfer Protocol
HW	Hardware
IANA	Internet Assigned Numbers Authority
IEEE	Institute of Electrical and Electronic Engineers
IETF	Internet Engineering Task Force
IF	Intermediate Frequency
IFSEC	International Fire and Security Exhibition and Conference
IGMP	Internet Group Management Protocol (TCP/IP family)
IP	Internet Protocol
IPC	Industrial Personal Computer
IPR	Intellectual Property Rights
ISO	International Standards Organization
ISP	Internet Service Provider
ITS	Intelligent Transport (Traffic) System
ITU-R	ITU Radio communications Sector
ITU-T	ITU Telecommunications Sector
JPEG	Joint Photographics Expert Group
LAN	Local Area Network
LCD	Liquid Crystal Display
LMDS	Local Multi-point Distribution Service
MAC	Media Access Control
MDI	Medium Dependent Interface
MDIX	Medium Dependent Interface Crossover
MHEG	Multimedia and Hypermedia Experts Group
MIB	Management Information Base
MJPEG	Moving JPEG
MMDS	Multichannel Multipoint Distribution Service
MMF	Multimode Fibre
MOU	Memorandum of Understanding
MPEG	Motion Picture Experts Group
MPLS	Multi Protocol Label Switching
MSO	Multiple Systems Operator
NAT	Network Address Translation
NCTA	National Cable Television Association
NE	Network Element
NEMA	National Electrical Manufacturers Association
NMS	Network Management System
NTSC	National Television System Committee (TV standard)
NVOD	Near Video On Demand
NVR	Network Video Recorder
OA&M	Operations, Administration, and Maintenance
OEM	Original Equipment Manufacturer, After Market Manufacturers
OFDM	Orthogonal Frequency Division Multiplexing
OPEX	Operations Expenditure
OSI	Open System Interconnection
OSS	Operations Support System
PA	Public Address
PAL	Phase Alternating Line (TV standard)
PC	Personal Computer
PCMCIA	Personal Computer Memory Card International Association
PHY	Physical Layer Working Group of ATM Forum
PLC	Programmable Logic Controller
POTS	Plain Old Telephone Service
PSTN	Public Switched Telephone Network
PTZ	Pan Tilt Zoom
PVC	Permanent Virtual Channel
QAM	Quadrature Amplitude Modulation
QoS	Quality of Service
QPSK	Quadrature Phase Shift Keying
RAID	Redundant Array of Inexpensive (Independent) Disks
RF	Radio Frequency
RFC	Request for Comments
RFI	Radio Frequency Interference, Request For Information
RFP	Request For Proposal
RFQ	Request For Quotation
RSA	Public Key Cryptosystem invented by Rivest, Shamir and Adleman
RSTP	Rapid Spanning Tree Protocol
RTP	Real-Time Protocol (TCP/IP family)
RX	Receiver
SAP	Session Announcement Protocol
SCTE	Society of Cable Television Engineers
SDH	Synchronous Data Hierarchy
SD(TV)	Standard Definition Television
SECAM	Systeme Electronique Couleur Avec Memoire (TV standard)
SFN	Single Frequency Network
SIP	Session Initiation Protocol (see VoIP)
SLA	Service Level Agreement
SMF	Single Mode Fibre
SNMP	Simple Network Management Protocol (TCP/IP family)
SNR	Signal to Noise Ratio
SONET	Synchronous Optical Network
SQL	Structured Query Language
SSH	Secure Shell
SSL	Secure Socket Layer
STB	Set-Top Box
STM	Synchronous Transmission Mode
STP	Spanning Tree Protocol
SVC	Switched Virtual Channel
TCP/IP	Transmission Control Protocol/Internet Protocol
TDM	Time Division Multiplexing
TFTP	Trivial File Transfer Protocol
TMN	Telecommunications Management Network
TX	Transmitter
UDP	User Datagram Protocol (TCP/IP family)
UHF	Ultra High Frequency
UL	Underwriters Laboratory Inc.
UTP	Unshielded Twisted Pair
VCI	Virtual Channel Identifier
VF	Virtual Fibre
VHF	Very High Frequency
VIA	Video Image Analysis
VLAN	Virtual Local Area Network
VOD	Video on Demand
VoIP	Voice Over Internet Protocol
VPI	Virtual Path Identifier
VPN	Virtual Private Network
WAN	Wide Area Network
WDM	Wavelength Division Multiplexing
WLAN	Wireless Local Area Network
XML	eXtended Markup Language

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