Annual Report 2007

CEO's Letter 6

Concern for the Environment 16

Teleste Vision and Values 4

4 Teleste – Sign of Intelligent Networks
4 Teleste Values

Information for the Investors 9

9 Shares and Shareholders
15 Teleste in Graphs

Teleste Business Operations 18

18 Our Business Units
20 **Business Area Broadband Cable Networks**
20 Business Unit HFC Networks and Services
22 Business Unit Digital Video and Broadband Solutions
24 **Business Area Video Networks**
24 Business Unit Video Networks

Financial Statements

33 Report of the Board of Directors

36 **Teleste Group Financial Statement**
36 Statement of Income
37 Balance Sheet
38 Cash Flow Statement
39 Statement of Changes in Equity
40 Accounting Principles
46 Segment Reporting
48 Business Combinations acquired during 2007 and 2006
49 Notes to the Teleste Group Financial Statement

68 **Teleste Corporation Financial Statement**
68 Statement of Income
69 Assets
70 Cash Flow Statement
71 Accounting Principles
72 Notes to the Teleste Corporation Financial Statement

78 Proposal for the Distribution of Earnings
79 Auditors' Report

26

32

80

82

Group in Numbers

80 Financial Indicators
81 Calculation of Key Figures

Teleste Globally

82 Offices
83 Contact Information

Personnel and Administration

26 Personnel
28 Corporate Governance
29 Management Group
31 The Board of Directors

Teleste

Sign of Intelligent Networks

Advancement of data transfer is shaping both work and leisure perhaps even more than we image at the moment. A good case in point is the rapid spread of video on the Internet.

Often the available network technology poses the only bottleneck for new services distributed over the network. This is precisely the type of challenge where the special expertise and new technology by Teleste comes into view. Our vision is to be the leading provider of Broadband Video Technology and the related services.

We pave the way towards the new, more interactive world of media by making available today video quality and data transfer rates of the future.

We do our bit by contributing to public safety and functionality by developing new generation network solutions for professional video surveillance applications. Teleste stands for intelligent network solutions.

Values

CUSTOMER CENTRICITY We will monitor our business environment 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. We proceed in a responsible manner. We are all responsible for Teleste's success and each employee is entitled to good leadership.

RESULT ORIENTATION We will set challenging goals, communicate them clearly and complete tasks we set out to accomplish. We act promptly. We are open to change. We will renew and develop ourselves in order to grow profitably.

CEO's Letter

For Teleste, 2007 will go in history as a record-breaking year in many respects. Economically, in terms of net sales and operating profit, it was the best year on record for the current company structure. Production-wise, we got up to a record speed once the capacity constraints in the beginning of the year were put behind us. One more time, Teleste succeeded in its objective of profitable growth. We are on the right track approaching our vision of becoming the leading provider of broadband video technology and the related services to the operators.

Clear Growth on Almost Every Front

For Teleste, year 2007 was a time of rapid development and growth. Net sales increased by 22.9% amounting to EUR 125.1 (101.8) million. At the same time, operating profit grew by 35.1% standing at EUR 13.2 (9.8) million. Earnings per share was EUR 0.55 (0.41). The trend with orders received followed the same pattern being up by 10.5% and amounting to EUR 118.5 (107.2) million. Value of order backlog ended up with EUR 21.5 (28.1) million; return on capital employed was 27.1% (24.3%) while return on equity amounted to 22.2% (19.7%).

We can be satisfied with these results for a good reason, and I believe this positive development will continue in 2008. The need for, and use of, broadband video are increasing strongly. In our key markets we have reached a solid position with regard to both our established and new products and services.

Broadband Cable Networks Met With Success in Central Europe and South Korea

Our main business Broadband Cable Networks (BCN) includes two business units: HFC Networks and Services (HFCNS) and Digital Video and Broadband Solutions (DVBS). The main clients of the business include cable operators but other players such as integrators and telecommunications companies are in a significant role. As to the HFC technology, Teleste is the leading supplier in Europe in terms of market share and know-how. The demand for fibre-optical and amplifier solutions will also continue to be strong. Moreover, service business involving network maintenance, repair and upgrades provides a promising potential for growth. On the other hand, in addition to the headend systems for analogue, digital and IP based solutions the product portfolio of our business unit DVBS includes data transmission technologies with outstanding potential such as EttH (Ethernet to the Home) and FttH (Fiber to the Home).

The market of BCN continued to develop favourably in 2007. Consumers required broadband connections with higher capacity, video transferred over network increased and IP technology gained ground. In the developed markets competition between cable, telephone and satellite operators became tougher resulting in increased demand for broadband services such as Tripleplay, Quadplay, HDTV, OnDemand and IPTV. This all, in turn, provided the force driving the upgrading of the existing cable networks into full duplex while making them ever faster. Operators were increasingly focused on the development of their service offering, outsourcing their technical services and trusting them to reliable partners like Teleste.

The key deliveries of the year went to France, South Korea and Belgium. Teleste supplied the Altice Group with amplifiers and fibre-optical solutions, Hanaro Telecom with telecommunications connections based on the EttH 100 Mb/s and a major Belgian operator with a comprehensive range of upgraded amplifiers. Our recent substantial successes include order placed by Kabel Deutschland on amplifiers in compliance with the BK Standard, network planning order to the UK from Virgin Media and a headend order to India placed by Digicable Networks.

Net sales of Broadband Cable Networks grew by 26.5% (27.3%) standing at EUR 108.2 (85.6) million. Simultanously, operating profit went up by no less than 41.7% (22.9%) totalling EUR 12.8 (9.1) million.

New Orders from France and Australia to Video Networks

Video Networks, the other of Teleste's business areas, supplies high-quality integrated video surveillance solutions mainly to clients representing the public sector and, selectively, to industrial enterprises. This is a growth sector with a significant potential. We are about to see tangible synergic advantages once Teleste's business areas are able to draw on their shared basis of expertise and technology.

In 2007, global need for security and the general acceptance for video surveillance continued to grow. More and more, Teleste's clients are looking for comprehensive, integrated video surveillance solutions to avoid problems related to interfaces between different systems. Equally, the management systems and recording solutions of the surveillance networks require an increasing degree of automation and intelligence. Furthermore, IP applications and digitalisation gain ground.

In the period under review Video Networks completed the sizeable project involving the management system of one of the world's largest integrated video surveillance networks delivered to the French National Railroad Authority. The assignment also produced additional orders and extensions can be expected in 2008. Another significant point is the frame agreement made with France Telecom concerning city monitoring. A noteworthy opening gambit was also made in Australia as Teleste won competitive bidding for the digital video surveillance solutions delivered to the Queensland Government Police Service. New customerships were made in several Eastern European countries, too.

Net sales of Video Networks grew by 4.3% (5.3%) standing at EUR 16.9 (16.2) million. Operating profit amounted to EUR 0.3 (0.7) million. At the year-end, order backlog increased to EUR 1.8 (1.5) million.

Actively Improved Processes and Competence Development

Teleste's production capacity was developed determinedly the entire year. In the beginning of the year, a new SMT line turning out advanced amplifier solutions was completed in Nousiainen. Our operations in Suzhou were strengthened, and consequently, manufacturing of the so-called volume products has now been shifted to China. All-time records were broken in terms of sheer production volumes for amplifiers and co-operation with contract manufacturers was tightened. Additional improvements were made in procurements, where the search for cost-effective and economical solutions and their implementation succeeded as planned.

As to Teleste's internal development projects, strategically the most important was the one involving product creation process. For a company like Teleste, operating in fluctuating markets, the ability to commercialise technological innovations at top speed is of primary importance. Another priority involved is the improvement of production quality. One of the core development areas involved enhancements made to our customer-oriented approach as Teleste put its CRM system into active use.

For a technology-driven company like Teleste, R&D is of obvious importance. Competitive edge in our business areas requires wide-ranging expertise in data transmission technology, electronics and not least in software programming, an area continuously gaining in significance. Competence of our in-house product development personnel covers the core areas of our operation. With an increase in the degree of complexity related to the used technologies and systems Teleste has teamed up with some professional technology partners. Part of our way of operation starting from customer requirements involves direct R&D projects implemented jointly with our key customers.

Our extensive service network close to the customer is of our vital assets. Teleste runs a network of almost 40 sales offices around the world. To complement our own network in selected market areas we have established ties with partners who are experts in the field. In 2007, this network was complemented by an office set up in Brisbane, Australia, and a network planning company started in the United Kingdom employing personnel of approximately 40 professionals in the field.

Our strategy is based on organic growth in the promising business areas. Since 2003 this organic growth has been supported by annual acquisitions in line with our corporate strategy. In the period under review, Belgian DINH Telecom was acquired to complement Teleste's local provision of services and to expand our proficiency in products and technologies. DINH Telecom specialises in in-house networks, an area for which significant increase in demand is expected in the next few years in Europe.

One thing goes without saying – there would be no chance for growth or profitable business without committed personnel. For a technology-driven company like Teleste, with respect to maintaining competitive edge, there is no substitute for competent personnel. This is why we want to make sure that top professionals of all the various fields recognise our inspiring work climate. With us, motivation is ensured by challenging tasks, giving credit to where it's due and through incentive schemes. Therefore, I wish to thank our personnel for their great contribution in 2007. What has been required in almost every segment of our operation is considerable effort, stretching and pushing through a number of reforms. I also wish to express my heartfelt thanks to our customers, partners and our owners for the successful co-operation.

Market Outlook and Priorities 2008

Regardless of instability in the general economic situation and the high exchange rate of euro against the dollar, we believe the market and our position to develop favourably for both of our business units in 2008. From the operators' standpoint, the rapid growth of digital video transferred across networks and competition for customers necessitate new services and investments to develop their available network capacity. What we will see in the broadband markets is cross-branch competition over and above traditional division between operators from the cable, telecommunication and energy businesses. All this provides new opportunities for high-speed data transfer solutions such as those based on the EttH 100 Mb/s and FttH technologies developed by Teleste. For reasons related to the universal increase in the need for surveillance and the ever increasing traffic, demand for the high-quality expertise of our Video Networks business will continue to grow. Moreover, there are certain lines of industry that provide promising opportunities for Video Networks.

In 2008 Teleste will have to increase its product and cost leadership in the traditional European HFC market. Our offering of services will be expanded by making available new solutions for system integration, network planning services and solutions for in-house networks. Launching of the new digital Luminato headend and starting the volume deliveries are equally important. The new IP-based headend video centre will be the key product among Teleste's IPTV system deliveries. Furthermore, strategic priorities for the current year include active marketing of our EttH system to selected target groups and expansion of our FttH business starting from the Nordic countries.

We will press on determinedly with our R&D efforts, cut down on cycletimes, boost the marketing, delivery logistics and the service business. In view of these priorities and market outlook I firmly believe that Teleste will continue in its path of profitable growth also in 2008.

Jukka Rinnevaara

Year 2007 in Brief	2007	2006	Change, %
Orders received, Meur	118.5	107.4	10.3
Net sales, Meur	125.1	101.8	22.9
Operating profit, Meur	13.2	9.8	34,7
Profit for the financial period, Meur	9.4	6.9	36.2
Earnings per share, eur	0.55	0.41	34.4
Shareholder's equity per share, eur	2.69	2.22	21.2
Return on capital employed, %	27.1	24.3	11.5
Turnover of capital stock, %	40.5	81.4	–50.2

Shares and Shareholders

Annual General Meeting

Teleste Corporation's Annual General Meeting will be held on 1 April 2008, commencing at 3 p.m., at Finlandia Hall in Helsinki, Mannerheimintie 13 e. 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 Thursday, 20 March 2008.

Shareholders wishing to attend the Annual General Meeting must inform the company by 4 p.m. on 26 March 2008 at the latest.

Registration

Post: Tiina Vuorinen, Teleste Corporation, P.O. Box 323, FI-20101 Turku, Finland.
E-mail: investor.relations@teleste.com
Telephone: +358 (02) 2605 611

Proxies

Attendance information must be delivered before the deadline specified above. Please indicate any use of proxy upon the registration procedure. In such event, the relevant document should be delivered to the company before expiry of the registration period.

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.

Dividend Distribution Proposal 2007

The Board of Directors proposes that a dividend of EUR 0.24 per share for the financial year 2007 will be paid to free-floating shares. The dividend will be paid to shareholders who are registered on the record date of 20 March 2008 on the company's Shareholder List, which is kept by the Finnish Central Securities Depository Ltd.

Annual General Meeting 1.4.2008
Dividend ex date 2.4.2008
Dividend record date... 4.4.2008
Dividend payment date 15.4.2008

Divident history, eur

1999	2000	2001	2002	2003	2004	2005	2006	2007*
0,10	0,12	0,16	0,08	0,08	0,12	0,16	0,20	0,24

* Board proposal

For more information on Annual General Meeting see page 28.

Publication of Financial Information in 2008

Annually, Teleste releases the Financial Statement bulletin, Annual Report and three Interim Reports. These publications including the stock exchange releases are available in Finnish and English on the corporate Website under Investors. You can also subscribe to the Interim Reports and the stock exchange releases on the Teleste Website under Investors by accessing News Service under Stock Exchange Releases.

Interim Report January–March 22.4.2008
Interim Report January–June........................... 15.7.2008
Interim Report January–September 21.10.2008
Financial Statements 2008................................ 3.2.2009

Printed Annual Report will be delivered to all the shareholders registered with their relevant contact information included in the Finnish Central Securities Depository.

Teleste exercises a Silent Period of two weeks preceding publication of the Financial Statements and Interim Reports. During these periods Teleste will not participate in any meetings with investors or analysts and Group representatives are not allowed to comment upon company results.

Share Register

Shareholder postings are conducted based on the information in the shareholder's register kept by the Finnish Central Securities Depository Ltd.

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

In the event the account operator is the Finnish Central Securities Depository, any changes should be addressed to: Finnish Central Securities Depository, P.O. BOX 1110, FI-00101 Helsinki, Finland.

Investor Relations

CEO, Mr. Jukka Rinnevaara is in charge of dissemination of corporate information. In addition to the CEO, the top management of the company is committed to serving various parties of the capital market.

In its corporate communication Teleste aspires openness while wishing to be approachable to its investor community. Our key guidelines involve truthfulness, simultaneity, consistency, timeliness and balanced approach.

For all events any referred information involving corporate strategy and development is based on previously published data.

Contact Information

Jukka Rinnevaara, CEO
Telephone: +358 (0)2 2605 611, fax: +358 (0)2 2605 812

Tiina Vuorinen, Investors Relations and Press Office
Telephone: +358 (0)2 2605 609, fax: +358 (0)2 2605 812

E-mail: investor.relations@teleste.com

Share Basics

Teleste Corporation is listed on the OMX Nordic Exchange Helsinki in the Information Technology sector. In 2007, the company was included in the Mid Cap segment. For the first half of 2008, the company is included in the Small Cap segment.

Teleste has one series of shares. In the Annual General Meeting each share has one vote with equal dividend. Regulation concerning nominal value of the share was deleted from the Articles of Association in compliance with decision taken by the Annual General Meeting on 3 April 2007.

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

Listed on 30.3.1999
ISIN code..FI0009007728
Trading code TLT1V
Reuters ticket symbol..TLT1V.HE
Bloomberg ticket symbol .... TLT1V FH
12 months high..12.34
12 months low... 6.47
All time high (7 September 2000)..................... eur 39.00
All time low (24 September 2002) .... eur 2.21

Share Price and Turnover

As to the company share price in 2007 the low was EUR 6.47 (6.46) and the high EUR 12.34 (12.75). Closing price at the end of the year stood at EUR 6.71 (11.63). In 2007, 7.2 (14.2) million shares standing for 40.5% (81.4%) of the share capital were traded on the Nordic Exchange Helsinki.

Market capitalization at the year-end stood at EUR 118,574,457 (2006: 202,237,582).

Liquidity Providing

The agreement made in August 2005 between Teleste Corporation and Kaupthing Bank on the Liquidity Providing (LP) involving Teleste Corporation's share has been extended. According to this 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. Quotes will be issued for the minimum of 500 shares. 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.

Analyst Coverage

According to our information, analysts listed below monitor Teleste's performance on their own volition (the list may be incomplete). Teleste takes no responsibility for opinions or for forecasts presented by them.

Carnegie Investment Bank Ab, Janne Rantanen
Enskilda Securities, Antti Karessuo
eQ Pankki Ltd, TBA
Evli Bank Plc, Mikko Ervasti
Glitnir, Teemu Saari
Handelsbanken Capital Markets, Karri Rinta
Kaupthing Bank, Mika Metsälä
Danske Markets Equities, Ilkka Rauvola
Nordea Markets, Martti Larjo
OKO Pankki Pic, Hannu Rauhala

Option subscriptions in 2007

Date of registration	Stock option	Number of new shares	New total number of shares
6.2.2007	2002B	5 668	17 394 970
21.3.2007	2002A	7 307	
	2002B	15 055	17 417 332
7.5.2007	2002A	1 850	17 419 182
21.6.2007	2002A	17 646	
	2002B	27 440	17 464 268
22.8.2007	2002A	15 898	
	2002B	3 100	17 483 266
18.10.2007	2002A	179 264	
	2002B	2 500	17 665 030
21.12.2007	2002B	6 275	17 671 305

Listed Options:

Subscription period of Teleste's 2002A stock option expired 1 October 2007.

Trading with Teleste's 2002B stock options started on 1 February 2006.
Shares can be subscriped with stock options 2002B until 1 October 2008.
The share subscription price for subscribing to a Teleste's share with a stock option 2002B was EUR 2.09 per share on 31 December 2007.

Trading with Teleste's 2004A stock options started on 24 August 2008.
Shares can be subscriped with stock options 2004A until 30 April 2009.
The share subscription price for subscribing to a Teleste's share with a stock option 2004A was EUR 5.50 per share on 31 December 2007.

Annually payable cash dividends will be deducted from the subscription prices on the dividend record date following the Annual General Meeting.

Authorisations to the Board of Directors

On 3 April 2007, the Annual General Meeting authorised the Board to acquire the maximum of 1,290,000 of the company's own shares and to convey the maximum of 1,730,000 company's own shares.

The Annual General Meeting also authorised the company to issue 4,500,000 new shares. The maximum number of significant shares accommodated by the special rights granted by the company equals 1,730,000. These authorisations will be valid until the Annual General Meeting due to be held in 2008.

The Board of Directors was authorized to grant special rights referred to in Chapter 10, Section 1 of the Companies Act, which carry the right to receive, against payment, new shares of the Company or the Company's own shares held by the Company. The right may also be granted to the Company's creditor in such a manner that the right is granted on a condition that the creditor's receivable is used to set off the subscription price. The maximum number of shares that may be subscribed with the special rights granted by the Company is 1,730,000 shares. No special rights were drawn upon.

Share Capital and the Number of Shares

At the balance sheet date, the company's registered share capital amounted to EUR 6,966,932.80. The number of shares was 17,671,305; out of these, the company was holding 352,482 shares. At the balance sheet date, when put against the total amount of shares and votes, the shares in company possession equalled 1.99%.

In the period, 221,965 new shares were subscribed using 2002A options and 60,038 using 2002B options.

In the financial period, authorisations granted by the Annual General Meeting were used by conveying 0.53% of the number of shares, i.e. 92,338 own shares, for acquisition of the capital stock of DINH Telecom.

10,180 shares, in other words 0.06% of the number of shares, were conveyed for payment of the share bonus of the Management Group. Other authorisations were not used.

Share-based Incentive Schemes

Teleste's system of payroll and incentives is designed to support the corporate business strategy. Incentive schemes are designed to promote performance within the company, in general, as well as individually. Incentives used by Teleste include bonus pay, payment by results and share option schemes.

The Annual General Meeting accepted a share option plan involving key personnel. According to this, 840,000 new shares may be subscribed; the option plan's possible dilution effect was 4.6%.

In 2007, part of the payment by objectives system involving the Corporate Management Group included a share bonus scheme.

In 2007, Management of Teleste received 40,000 share options. As to the involved terms, the Management share options are identical with those of other personnel options except for Teleste 2004 and 2007 options, which require subscription of company shares by 20% of their gross return. This obligation to subscribe ceases when the portfolio contains company shares worth one's gross annual income. On 31 December 2007, the Management was in possession of 149,500 shares out of which 69,500 were realisable.

On the balance sheet day, the Parent Company Management had a holding of 118,525 parent company shares (0.67%).

Option Programs

Date of Annual General Meeting	Share option program	Number of shares	Subscription period	Subscription price 31.12.2007	Period of subscription price
8.4.2002	2002B	275 000	1.2.2006–1.10.2008	2.09	1.–30.4.2003
16.3.2004	2004A	300 000	1.4.2007–30.4.2009	5.50	1.–30.4.2004
	2004B1	150 000	1.4.2008–30.4.2010	6.11	1.–30.4.2005
	2004B2	150 000	1.4.2008–30.4.2010	6.11	1.–30.4.2005
3.4.2007	2007A	280 000	1.4.2010–30.4.2012	12.69	1.–30.4.2007

* 2004B2 share subscription period started on 31 December 2007.
Terms and subscription forms for share option plans with valid subscription period are available at Teleste Website.

Insider Register

As from 1 March, 2000 the company has complied with the insider regulations approved by Nordic Exchanges' Board of Directors (revised on January 1, 2006). 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. 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 with Share Holding and Rights of Options on 31 December 2007

	Basis	Shares	Options
The Board of Directors			
Hintikka Tapio	Chairman of the Board	11 443	-
Laaksonen Tero	Member of the Board	21 333	-
Raatikainen Pertti	Member of the Board	5 724	-
Toivila Timo	Member of the Board	52 474	-
Vennamo Pekka	Member of the Board	10 555	-
Total		101 529	
Management Group			
Rinnevaara Jukka	President and CEO	16 996	149 500
Järvenreuna Juha	Other criteria for disclosure requirement	1 133	55 000
Kinnunen Esa	Other criteria for disclosure requirement	417	15 000
Myllylä Esko	Other criteria for disclosure requirement	3 653	32 000
Narjus Hanno	Other criteria for disclosure requirement	-	15 000
Saarikoski Erja	Other criteria for disclosure requirement	4 662	45 000
Slotte Johan	Other criteria for disclosure requirement	2 621	55 000
Vuorinen Tiina	Other criteria for disclosure requirement	330	500
Total		29 812	367 000
Auditors			
Nyman Sixten	Chief auditor	-	-
Kailiala Esa	Deputy auditor	-	-

For presentation of the Members of the Board of Directors see page 31. For presentation of the company Management Group see page 29.

Distribution of Ownership

At year-end 2007, the number of Teleste shareholders totalled 5,270, the comparable figure for 2006 being 5,601. At the same time, foreign and nominee-registered accounted for 20.51%, as the corresponding figure for the year 2006 was 20.53%.

Sector Dispersion on 31 December 2007

Shareholders	Number of shareholders	Percentage of shareholders	Number of shares	Percentage of shares
Corporations	326	6.19	1 818 473	10.29
Financial and insurance institutions	30	0.57	5 350 876	30.28
Public institutions	7	0.13	2 318 476	13.12
Non-profit organisations	58	1.10	1 072 319	6.07
Households	4 798	91.04	3 485 893	19.73
Foreign and nominee register accounts	51	0.97	3 625 268	20.51
Total	5 270	100.00	17 671 305	100.00

Holding Dispersion

Number of shares	Number of shareholders	Percentage of shares	Shares	Percentage of shares
1–100	1 263	24.01	90 689	0.51
101–1 000	3 146	59.81	1 280 667	7.25
1 001–10 000	757	14.39	2 212 740	12.52
10 001–100 000	69	1.31	1 864 801	10.55
100 001–	25	0.48	9 533 197	53.95
Total	5 260	100.00	14 982 094	84.78
Nominee registration			2 689 211	15.22
Total			17 671 305	100.00

Largest Shareholders

In 2007, no changes requiring flagging notifications took place in the holding of Teleste shares.

Largest Shareholders on 31 December 2007			
		Shares	Percentage of shares
1.	Sampo Life Insurance Company Ltd	1 624 200	9.19
2.	Ilmarinen Mutual Pension Insurance Company	894 776	5.06
3.	Kaleva Mutual Insurance Company	798 541	4.52
4.	FIM Fenno Mutual Fund	603 868	3.42
5.	The State Pension Fund	500 000	2.83
6.	Varma Mutual Pension Insurance Company	498 650	2.82
7.	Aktia Capital Mutual Fund	487 200	2.76
8.	Op-Suomi Pienyhtiöt	461 016	2.61
9.	Skagen Vekst Verdipapierfond	437 000	2.47
10.	Fondita Nordic Small Cap Placfond	375 000	2.12
11.	Teleste Corporation	352 482	1.99
12.	Nordea Nordic Small Cap Mutual Fund	302 156	1.71
13.	Odin Finland	284 050	1.61
14.	Mutual Insurance Company Pension-Fennia	220 000	1.24
15.	FIM Forte Mutual Fund	200 240	1.13
16.	Evli Bank Plc	190 219	1.08
17.	Mandatum Suomi Kasvuosake Mutual Fund	189 999	1.08
18.	Pension Insurance Company Veritas	175 000	0.99
19.	Sijoitusrahasto Carnegie Osake	170 136	0.96
20.	Aktia Secura Mutual Fund	146 150	0.83

The provided data is based on the company shareholders' register kept by the Finnish Central Securities Depository.

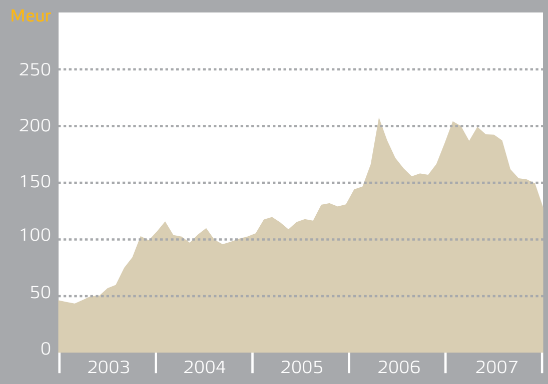
Redemption Obligation

Teleste Corporation's Articles of Association include a clause related to redemption obligation. This article stipulates that a shareholder with a share of all company stocks, either alone or together with other shareholders, as specified in more detail in the Articles of Association, that reaches or exceeds 33 1/3 per cent or 50 per cent, respectively – the shareholder obliged to redeem – is under obligation to redeem stocks in possession of the other shareholders – the ones entitled to be redeemed – at their call, including securities entitling to stocks by the Companies Act, to the degree a person entitled to be redeemed requires. This clause involving the redemption obligation has been specified in detail in the Articles of Association.

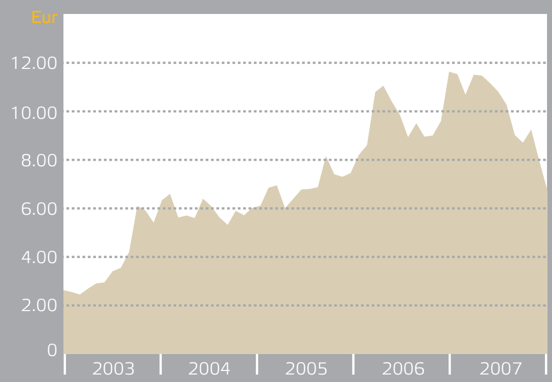
Key Figures by Share				
	2007	2006	2005	2004
Earnings per share, eur	0.55	0.41	0.35	0.23
Earnings per share fully diluted, eur	0.52	0.38	0.33	0.22
Shareholders equity per share, eur	2.69	2.22	1.92	1.65
Dividend distribution, Meur	4.2	3.4	2.7	2.0
Dividend per share, Meur	*0.24	0.20	0.16	0.12
Dividend per net result, %	43.9	49.5	45.7	52.2
Effective dividend yield, %	3.6	1.7	2.1	2.0
Closing price, eur	6.71	11.63	7.45	6.02
Hinta/voittosuhde (P/E)	12.3	28.6	21.0	25.8
Price per earnings	118.6	202.2	129.2	101.4
Turnover, Meur	72.4	138.9	75.3	74.2
Turnover, number in millions	7.2	14.16	10.8	12.3
Turnover, % of share capital	40.5	81.4	62.3	70.9
Average number of shares	17 494 435	17 363 102	17 339 752	17 334 235
Number of shares at the year-end	17 671 305	17 389 302	17 339 752	17 339 752

*The Board's proposal to the Annual General Meeting

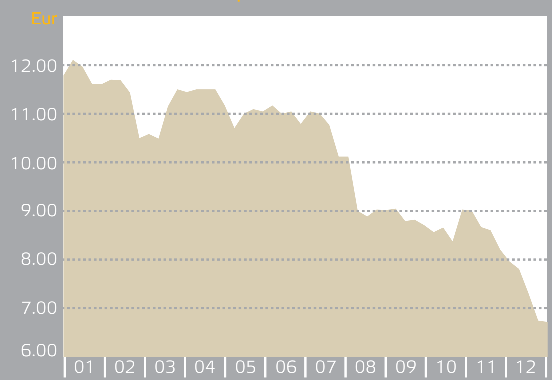
Market Value Development 2003–2007



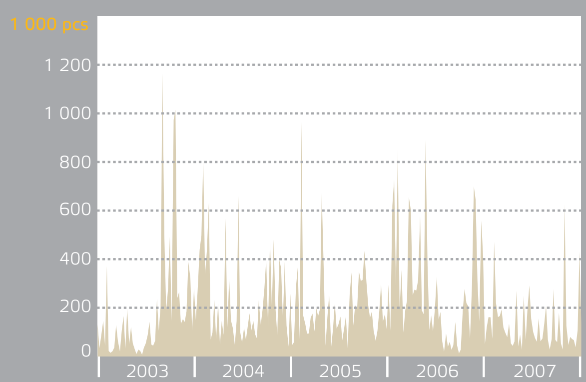
Share Price Development 2003–2007



Share Price Development 2007



Share Turnover 2003–2007



Stock Exchange Releases

Teleste published 26 stock exchange releases during year 2007.

12.1.2007 Teleste receives an order from Kabel Deutschland worth over five million euros.

30.1.2007 Teleste Corporation's Interim Report 1.1.–31.12.2006. Net sales was EUR 101.8 and operating profit EUR 9.8 million.

31.1.2007 Teleste receives an order from Cableway Communications in Korea worth EUR 1.3 million. The order concerned EttH equipment for Hanaro Telecom.

6.2.2007 Shares subscribed with Teleste 2002B stock options.

16.2.2007 Disposal of Teleste Corporation own shares to the CEO and members of the Management Team in accordance with the incentive plan determined by the Board of Directors.

5.3.2007 Teleste's annual summary of stock exchange releases in 2006.

14.3.2007 Notice of Annual General Meeting of Shareholders on 3 April 2007.

21.3.2007 Shares subscribed with Teleste 2002A and 2002B stock options´.

3.4.2007 Decision of the Annual General Meeting held on 3 April 2007.

4.4.2007 Teleste strengthens its technology and service offering by acquiring DINH Telecom.

24.4.2007 Teleste Corporation's Interim Report 1.1.–31.3.2007. Net sales was EUR 31,4 and operating profit EUR 2,8 million.

7.5.2007 Shares subscribed with Teleste 2002A stock options.

15.6.2007 Johan Slotte is appointed Deputy CEO of Teleste Corporation and Hanno Narjus Senior Vice President in charge of Video Networks business area.

21.6.2007 Shares subscribed with Teleste 2002A and 2002B stock option.

17.7.2007 Teleste Corporation's Interim Report 1.1.–30.6.2007. Net sales was EUR 61.8 and operating profit EUR 5.5 million.

17.7.2007 Teleste signs a frame contract worth over EUR two million concerning the French market.

16.8.2007 Teleste applies for listing of the 2004A stock options on the Helsinki Stock Exchange.

22.8.2007 Shares subscribed with Teleste 2002A and 2002B stock option.

7.9.2007 Teleste receives an order from Kabel Deutschland worth over EUR one million.

10.9.2007 Stock options 2007A distributed to the Group key personnel.

10.10.2007 Teleste receives on order from the French National Railways Company, SNCF worth over one million euros.

18.10.2007 Shares subscribed with Teleste 2002A and 2002B stock option.

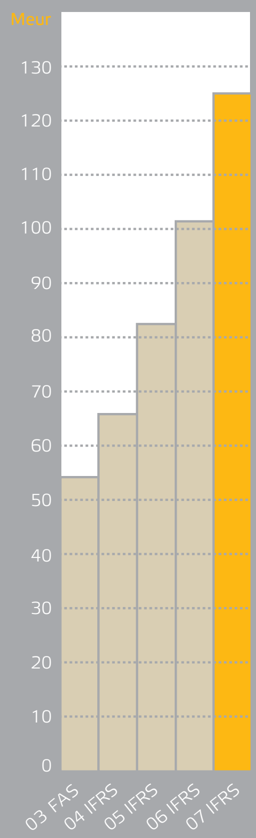
23.10.2007 Teleste Corporation's Interim Report 1.1.–30.9.2007. Net sales was EUR 94.0 and operating profit EUR 10.1 million.

23.10.2007 Teleste publishes its financial calendar for 2008.

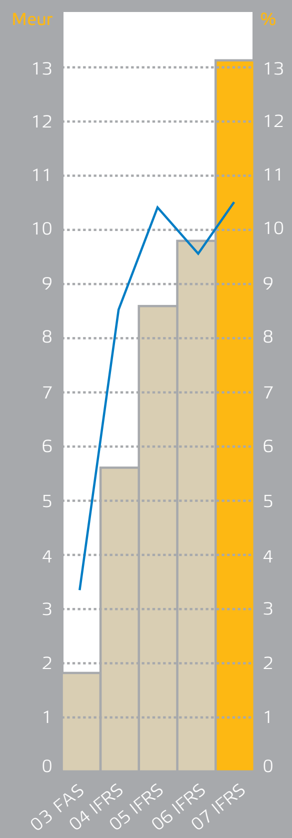
31.10.2007 Teleste receives of order from Digicable Network in India worth over EUR one million.

21.12.2007 Shares subscribed with Teleste 2002B stock option.

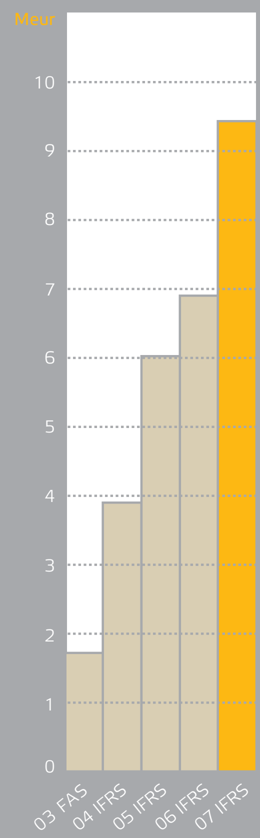
Net Sales



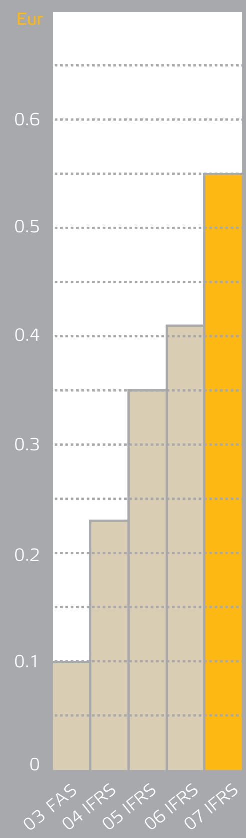
Operating Profit
% of net sales



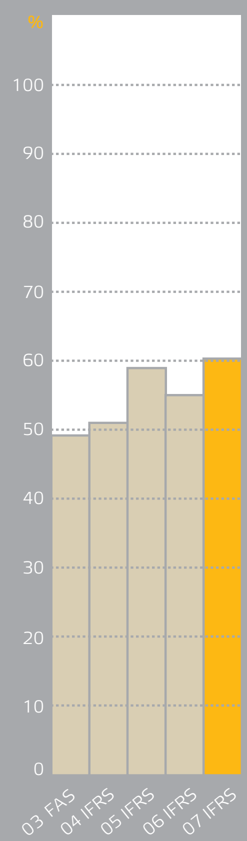
Profit for the Financial Period



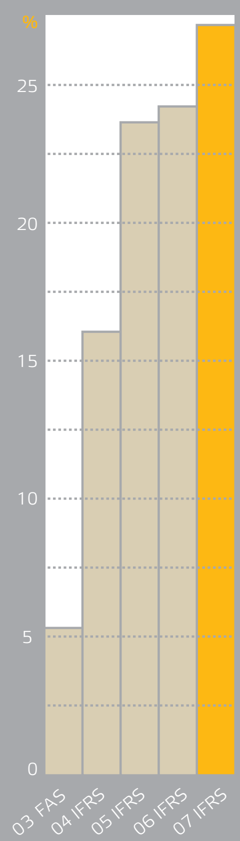
Earnings per Share



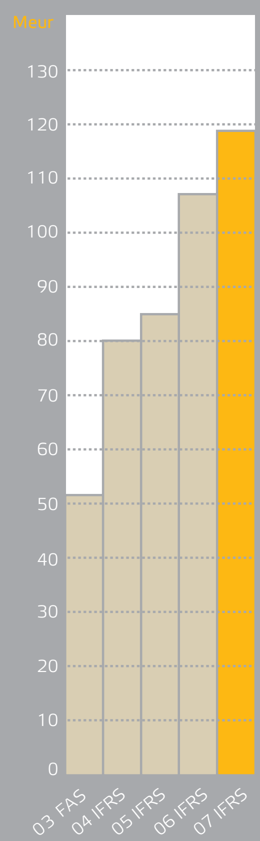
Equity Ratio



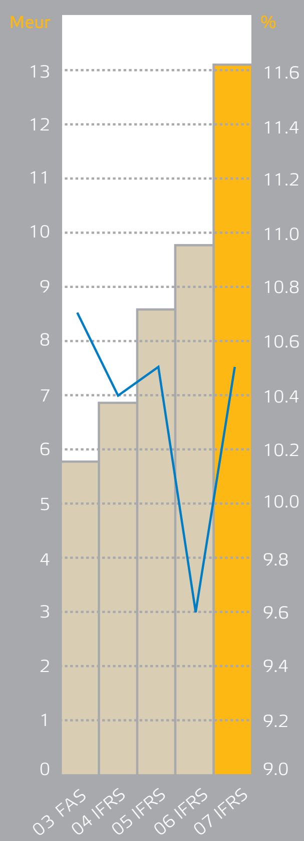
Return on Capital Employed



Orders Received



R & D Expenditure
% of net sales



Concern for the Environment

We at Teleste act responsibly in matters involving environmental issues and wish to adopt an overall approach in support of sustainable development. Based on continuous improvement and in line with our environmental policy we are committed to reduce the environmental impacts of our own operations. In its operations Teleste Corporation complies with the principles of international standard ISO 14001 developed for the management of environmental issues. Our environmental system based on ISO 14001:2004 was certified in 2006 by SGS Fimko Oy.

Teleste complies with environmental legislation and regulations in all its operations. Product-driven environmental policies of the EU have shifted the statutory focus from the conventional regulation of production to addressing the environmental impact of the product life-cycle as a whole. In the past few years the electrical and electronics industry has faced some considerable legislative changes. Such topical legislation includes, for instance, the WEEE and RoHS Directives issued by the EU. These Directives contribute to appropriate recycling of electrical and electronic equipment while pursuing to remove any hazardous substances from the relevant material.

Across the board statutory developments are becoming increasingly product-driven. We at Teleste keep a keen eye on developments in different markets and their implications to our operations. One topical body of legislation to monitor in 2007 was that of the Chinese RoHS designed, in terms of scope, to outperform its counterpart in the EU legislation.

Teleste Environmental Policy
We consider environmental protection a strategic choice, which is in line with Teleste's economic and qualitative objectives
We recognize the value of environmental responsibility while being committed to the principles of sustainable development, pollution prevention and reduction in the consumption of resources
Teleste complies with the relevant environmental legislation, regulations and other requirements to which we subscribe

Teleste is guided by its environmental policy, which has been communicated to each member of our work community and is subject to regular reviews. In spring 2007 as our environmental policy was last inspected the corporate management confirmed it still up-to-date.

Small Environmental Impact from Production and Operations

At Teleste, environmental load caused by the production process is relatively low compared to the impact of the product life-cycle as a whole. Our production is based on assembly of printed circuit boards and electronic equipment, which give no rise to significant emissions. Teleste is one of the pioneers in lead-free production: our production adopted lead-free wave soldering as early as 1999. With coming into effect of the RoHS legislation Teleste's production has entered a completely lead-free era. The primary sources of environmental load related to Teleste's operative activities include generation of waste, energy consumption and transport.

Teleste aspires to reduce generation of waste in all its operations. All waste is sorted and most of it is recycled or used for energy. Only a small fraction of it currently ends up as landfill. The amount of hazardous waste is very small and, moreover, most of it can still be recycled.

Items consuming energy include heating and power for production facilities, testing equipment and office equipment. Our policy concerning procurement of electricity is based on sustainable development and we do our bit for the prevention of climate change. In 2007 the electrical power used by Teleste Corporation in Finland was produced exclusively by means of renewable sources of energy with no carbon dioxide emissions loading the atmosphere. In comparison with power supply produced by means of general, non-renewable sources of energy, the environmental load of our company is, as far as this particular issue is concerned, considerably lower.

We endeavour to reduce the environmental load caused by duty travel by increasing access to modern IT facilities such as teleconferencing.

At Teleste environmental issues have been worked into the assessment procedures for suppliers and subsuppliers and, thus, we require commitment to continuous improvement in the field of environmental issues.

Products Cause Only Slight Environmental Load

At Teleste, management of environmental issues is focused on environmental impact control encompassing the product's life-cycle as a whole, which put a greater

Statutory requirements relevant to the electronics industry	
EU WEEE Directive	Waste from Electrical and Electronic Equipment
	Governs processing and recycling of disposed of electrical and electronic material
EU RoHS Directive	The Restriction of the Use of Hazardous Substances
	Limits the use of certain hazardous substances in electrical and electronic equipment
China RoHS Legislation	Applies to the same hazardous materials as the EU RoHS
	Additionally requirements involving markings to be made on the relevant equipment

emphasis on the significance of co-operation with our suppliers, sub-suppliers and customers. Product development provides a great tool for minimising the environmental impact of a given product.

Currently, our final products consist mainly of recyclable materials such as metals. In comparison with consumer electronics, for instance, the cable network equipment and video surveillance systems constitute relatively long-term investments. In addition, they are maintainable as well as upgradable, in other words their life-cycle can be extended even more. This is to say that the single most significant environmental aspect related to our products is the power they consume.

At Teleste we also pay particular attention to the end-product packaging and their environmental friendliness. The relevant materials are mainly fibrous and, thus, easily recyclable. In 2007 the amount of recyclable packaging materials against all packaging materials used by Teleste Corporation was 97%.

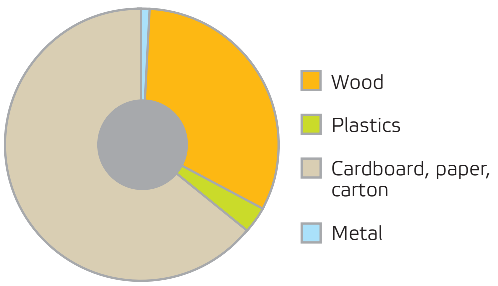
Objectives and Operations 2007

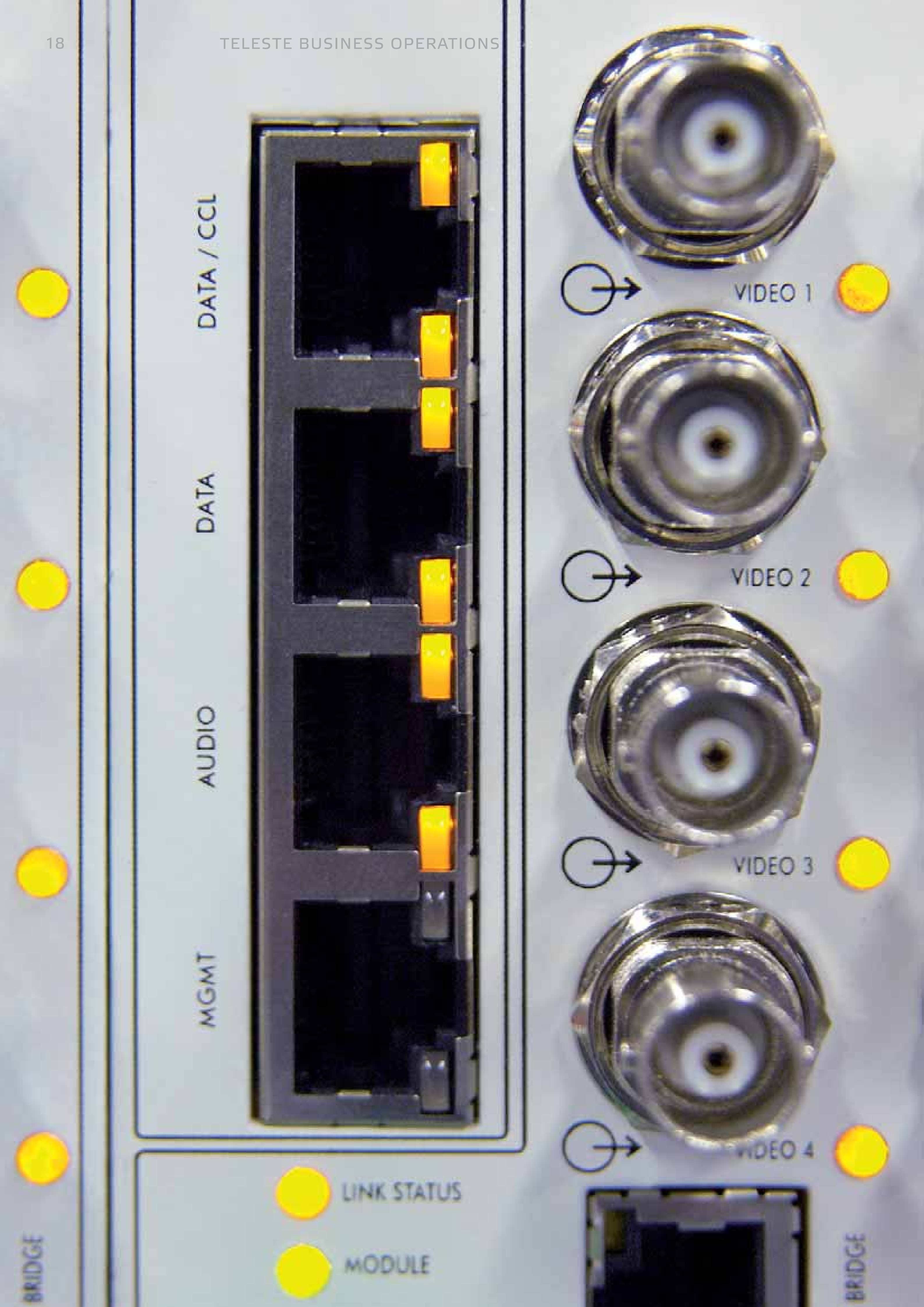
Regarding its operations Teleste has defined long-term environmental objectives, which are subject to annual specification by way of more detailed environmental goals.

The Environmental Objectives
Promotion of product-driven environmental thinking
Reducing the amount of waste
Reduction in energy consumption
Continuous environmental improvement in logistics and transport
Promotion of environmentally conscious thinking in supply chain
Increasing environmental awareness among staff

In 2007 to achieve the specified goals the following operations and objectives were implemented: A. In Finland a number of persons in managerial positions from production and other units took a course in sorting of waste and environmental legislation. The training was attended by 31 persons in total. B. Evolvement and effects of the Chinese RoHS legislation to Teleste's operations were monitored and the adequate measures were taken to meet the relevant statutory requirements. C. Monitoring and gathering of environmental indicators continued. D. A packaging project was carried out. Consequently specified plastic materials having formerly been used for packaging were replaced by fibre-based recyclable materials. E. A project designed to reduce the amount of printed matter involving product information for customers was successfully carried out for a number of specified products. As a result the total environmental load was successfully reduced.

Distribution of Teleste packaging material by type in 2007




DATA / CCL
DATA
AUDIO
MGMT
VIDEO 1
VIDEO 2
VIDEO 3
VIDEO 4
LINK STATUS
MODULE
BRIDGE
BRIDGE

Our Business Units

The Teleste way of doing business is to apply innovative technology and solid competence based on an exhaustive understanding of each customer's business and needs. As a result we deliver fully optimized end-to-end solutions. We are among the global leaders in supplying both broadband cable networks and video surveillance networks.

At the core of each of our three business units is video, and we continue to focus on processing, transmission and management of video and data for the operators that are offering video-related services to end users. We serve both network operators and service operators, with cable and CCTV operators being the major customer groups. Using our core technologies, we also provide cost efficient and reliable services that improve our customers' operational efficiency. Our services include design and planning, implementation, operation and maintenance, integration, consultancy and training.

Teleste Broadband Cable Networks business units aim at promoting the business mainly of cable operators, but also of other operators by utilizing our technology competence. We pave the way towards a new versatile media world for end users both at home and in businesses by offering, already today, the video quality and data speeds that will be needed tomorrow. By helping prepare operators to meet the growing expectations of their customers, our advanced network solutions position the operators well to face the ever more stringent market competition.

The Teleste Video Networks business unit delivers world-class network solutions globally with government and the public sector representing the primary clientele. We aim to improve the security and efficiency of society, by manufacturing and delivering high-quality video surveillance network solutions for processing, transmission and management of video, data and audio.

It is at the business unit level that Teleste leverages its genuine knowledge of customer needs and its comprehensive technological expertise. As a result, each individual business unit is recognized for its ability to produce technically cutting edge solutions optimized year after year. In providing enduring network solutions, Teleste will always go several steps further than competitors that are offering standard solutions.

Broadband Cable Networks			
	2007	2006	Growth
Net Sales	108,2 Meur	85,6 Meur	26%
Order Intake	101,4 Meur	92,8 Meur	9%

			Export sales share	
Net sales	2007	2006	2007	2006
Finland	8,0 Meur	7,0 Meur		
Export	100,2 Meur	78,6 Meur	93%	88%
Total	108,2 Meur	85,6 Meur		

Video Networks			
	2007	2006	Growth
Net Sales	16,9 Meur	16,2 Meur	4%
Order Intake	17,1 Meur	14,4 Meur	19%

			Export sales share	
Net sales	2007	2006	2007	2006
Finland	3,0 Meur	2,6 Meur		
Export	13,9 Meur	13,6 Meur	82%	84%
Total	16,9 Meur	16,2 Meur		

Business Unit HFC Networks and Services

Business Description

Clientele of Teleste's Fibre and Coaxial Networks and Services (HFCNS) Business Unit consists of cable operators and distributors providing network equipment for cable operators. The cable operators, in turn, provide their end-users with three main basic services: TV channels, telephone connections and broadband data communication services.

The HFCNS business unit offers cable operators hardware and software for building combined fibre-optic and coax cable networks, as well as services related to the construction and maintenance thereof. These solutions contain both stand-alone applications and integrated turn key network deliveries.

Cable network refers to solutions for signal transmission in both fibre-optic and copper cabling. The actual transmission technology consists of both digital and analogue technology.

Our main market area is Europe, where the business unit currently has 19 offices in addition to a number of sales partners.

Customers and Markets

European cable operators continue to expand their provision of services. Cable network customers are tempted by new, high-quality services requiring ever increasing network capacity. At the same time the cable network must be more and more reliable, which pushes up the technical requirements set to the related equipment and solutions.

Basically, there are two ways to increase the capacity of an HFC network. First, one can expand the available RF band and/or, second, segment the existing cable network structure into smaller cell areas. The first option requires technical solutions covering a wider RF bandwidth whereas the latter one necessitates cost-effective fibre-optic and amplifier solutions adapted specifically to small-scale cell areas. An exclusive fibre-optic system with no remaining coaxial sections can be considered the ultimate end-point in HFC network development.

Nevertheless, considering the current types of HFC network infrastructure, we at Teleste subscribe to the view that pure fibre-optic networks will not provide operators with a commercially viable and cost-effective access solution. This is because in such a case investments per end-user would get considerably higher compared to those using the copper-based coaxial network infrastructure. Indeed, as a rule the cable operators tend to make use of the existing coaxial infrastructure as long as technically possible. Along with the segmentation described above the cable network will gradually turn into fibre-optic network even if the timeframe for this transition is long.

Our customer market is undergoing essential change. A number of operators have successfully completed the upgrading of their coaxial networks after which their focus will shift to refurbishing the fibre-optic part of the network. The number of suppliers is axed and those remaining will be offered more comprehensive systems to provide. Quite often products and services related to the upgrade and maintenance of networks are bundled together and subjected to competitive bidding involving a number of tenderers. This particular trend will also create opportunities for the HFCNS business in terms of developing local services.

In 2007 consolidation among the operators went on. However, cable networks are also sold in areas with no estimated prospects for growth. Some large international cable operators have clearly chosen Eastern Europe for their growth area, which can be seen in terms of investments made in networks and network technology. Redistribution of cable networks is particularly clear in Germany where in 2007 the ownership structure of cable networks was streamlined vertically (from head-end to end-user).

HFCNS business considers Eastern European market as one strategic growth area. In addition to this, the developed and in terms of cable networks dense and large Western European market enables strong momentum for the business. Taken as a single market Germany is in the period of transition, which side by side with the growing demand for fibre-optical connections is characterised by the main emphasis in cable network upgrading shifting to the so-called house networks. The Nordic countries represent technically the most advanced area accommodating new innovative solutions. As to Asia, India provides

Intelligent network element of the next generation featuring user-friendliness, which is completely in a class of its own. The team behind the innovation.

the main market for business opportunities.

Operators in all of the above markets are interested in solutions allowing, in particular, the cost structure related to cable network maintenance to be lightened. What is involved here includes increasingly high-quality technical solutions for remote control and reliability enhancement of the network. To a degree the operators are prepared to outsource operations related to the upgrading and maintenance of their networks, and this, in turn provides fresh need for services in line with our business strategy.

The most notable competing network technologies include the IP-based data network solutions offered by the city carriers. Compared to the aforementioned networks the greatest benefit provided by the cable network technology is its ability to provide ample capacity for the transfer of analogue and digital video. All currently available telecommunication services can be supplied to households through this type of network.

Strategic Priorities

HFCNS business unit will proceed in accordance with its chosen strategy.

The technology strategy is based on the increased use of fibre-optical transfer in cable networks and, through this, on decreased coaxial transfers. Nodes between fibre-optical and coaxial segments require a number of technical applications while transmitter/receiver solutions will be needed for the actual fibre-optical transfer. This change in Europe is superbly supported by the business unit's current competence profile, product solutions and the company image.

In our technology strategy internal cable networks of buildings and households constitute one priority area. As to equipment, the required solutions for house networks are often somewhat simpler, but we expect them to make up a particularly significant potential for business in Europe in the coming years. Technically we are focusing our development efforts on this area, a clear indication of which is the acquisition of DINH Telecom last Spring.

In line with our strategy we will continue to strengthen our local offering of services for the European operators. We will put particular emphasis on services and their provision related to upgrading and maintenance of cable networks. The target market here includes Central Europe, Germany and UK. In the Nordic countries we will focus on network management systems and their related system integration services.

R&D

Development of equipment and solutions related to the HFC network has been our core competence since decades. We will continue to promote our expertise in the field as this particular area represents the single biggest sector in our product development. The software component in our solutions continues to gain in significance to ensure the user friendliness of the equipment and to increase degree of automation. In addition to broadband technology and electronics, know-how involving software has indeed become one of the major factors supporting our HFC product development.

The strategic objective involving house network solutions necessitates commitment into R&D expertise concerning cost-effective series of high-volume. Our goal is further to strengthen the R&D of DINH Telecom and turn it into a special expertise resource for the In-house network business. In 2007 DINH Telecom commenced design of a range of amplifiers suited for house networks in countries such as Germany.

Network management systems and their integration to other software applications used by the operators will require increased know-how in software development and architecture. With regard to the related efforts we will rely on our software partners while strengthening our own product development expertise in the selected areas.

Highlights 2007

Year 2007 continued very strong thanks to significant coaxial network refurbishment projects launched in Central and Northern Europe. In terms of bare numbers of manufactured amplifiers Teleste's previous records were again broken and the production capacity was expanded from that of the previous year. Improvement of profitability was successful owing to some targeted R&D projects and through shifts of production over to China.

Deliveries in large-scale customer projects continued strong and, for the part of amplifier deliveries, several framework agreements were extended in the beginning of the year. The framework agreement with the French Altice Group and the continued amplifier deliveries to a major Central European operator would deserve particular mentioning. Amplifiers designed in compliance with the German BK Standard brought in a new framework agreement, which in terms of volume led to an all time high in the relevant field.

New openings were made particularly in Eastern Europe where both amplifiers and the so-called cost-effective fibre-optical receivers were sold. The new AC3000 amplifier solution met with excellent reception in this market and first deliveries are due right in the beginning of 2008.

Net sales in the Nordic countries developed positively. Here, the growth in net sales was predominantly based on the sale of basic amplifiers and various cable network accessories. The sell of first ever network management integration project to a Finnish cable operator signified a breakthrough in the provision of services in line with the new strategy.

Unit volumes of the fairly new HDO fibre optical transmitter unit grew at a steady pace. Its main markets include Switzerland, UK and the Nordic countries. The sale of the transmitter unit is expected to develop favourably also in 2008.

In the United Kingdom a contract for network design services was made with the top cable operator of the country. This in turn, led to the establishment of a network design unit of approximately 40 persons in the middle of 2007.

Net sales from house network business of DINH Telecom failed to reach the forecast whereas its profitability remained very good. The reduced sales were caused by house amplifier orders delayed by a large Belgian operator. Commercial talks were initiated to offer house network solutions by DINH Telecom outside Belgium, mainly in the Nordic countries and Eastern Europe.

HFCNS Business Unit	
Vision	To be the leading supplier of HFC solutions in the world
Mission	To enable enhanced entertainment content to households via innovative and reliable network solutions and services
Solution	Wide-ranging and innovative product portfolio supported with strong local services
Key markets	Europe
Primary clientele	Cable operators and of cable network equipment distributors

Business Unit Digital Video and Broadband Solutions

Business Description

The Teleste business unit Digital Video and Broadband Solutions (DVBS) delivers turnkey solutions for both video signal processing and broadband distribution networks. The business is organised in three sections complementing one another.

Our video business focuses on delivery of central video systems combining analogue, digital and IP technology solutions tailored to customer-specific needs. Our advanced system deliveries enable introducing to the market interactive services within a short timeframe while supporting their further development tailored to the customer.

Our broadband business delivers next generation distribution networks for particularly developed markets characterised by high requirements in terms of transfer rate and quality. The relevant architectures include EttH (Ethernet to the Home) and FttH (Fiber to the Home). In coaxial networks EttH supports the data transfer rate of 100 Mb/s while solutions based on FttH in fibre-optical networks carry rates that are even higher. From the end-user's perspective, in majority of applications the most critical requirement involves real-time transfer of video signal, which is highly sensitive to interference and capacity restraints.

Our third main area includes value-added services that support speedy commissioning and reliable maintenance of the above solutions while providing our customers with vital competitive edge.

Our regular customers include cable operators, telephone companies, city carriers, power companies and hospitality system providers in Europe and, increasingly, in Asia. DVBS operates globally with the business unit HFCNS – short for Hybrid Fiber Coaxial Networks and Services – through Teleste's joint sales and distributor network.

Our comprehensive experience in the development and delivery of dependable network solutions tailored to the customer promote cost-efficiency and favourable development of our customers business.

Customers and Markets

Year 2007 was a turning point in the digitalisation of the Finnish video transfer as analogue television broadcasting in terrestrial networks came to an end. In cable networks analogue transmissions were shut down in February 2008. In Europe, too, digitalisation of television services proceeds with leaps and bounds with terrestrial analogue television broadcasting set to end by the year 2012.

Yet another significant market trend is the powerful expansion of telephone companies in the television services, an area having been dominated for decades by traditional cable operators. Even power companies are now entering the same market although often in cooperation with specialised service operators.

The technological solution preferred by the telephone and power companies for their television services is almost exclusively the IPTV with its inbuilt interactive operability. This option tends to encourage the traditional cable operators to invest increasingly in the scope and quality of their provided services, and thus, be able to meet the ever toughening competition.

Although video processing and broadband distribution can be seen as two separate markets, there are a number of needs and solutions where these worlds

DVBS Business Unit	
Vision	Being a global leader in the field of broadband and video solutions for cable networks and next generation access networks
Mission	To provide innovative solutions & services in the field of video and broadband over existing and next generation networks to enhance the competitiveness of cable and next generation network operators
Solution	Enduring next generation broadband networks & cost effective video headend solutions
Key markets	Europe and selected markets in Asia
Key clientele	Cable Operators, City Carries, Hospitality Integrators, Small Telco´s

come together and affect one another. Increased need for video processing and transfer through multimode/multiform distribution networks commands more and more guaranteed bandwidth and faster real-time data transfer rates.

To meet the needs for high-capacity video and data transfer we believe Teleste's 100 Mb/s EttH technology will be the future choice for a growing number of operators.

Introduction of these new services will be significantly speeded up by exploitation of the existing coaxial networks, which will also bring in considerable savings in terms of cost-efficiency when put against an all-out reconstruction of the distribution network.

FttH together with its spin-off technology of Fibre to the Building (FttB) are expected to reach a prominent position in new distribution networks and in enhancements to the existing networks. Solutions based on fibre-optical cabling are particularly popular with new operators creating their required cable networks from scratch.

We expect the above trends to continue in the coming years. This will improve prospects for the DVBS business in the specified technologies and the related value-added services. Geographically, Europe will remain a strong market with Eastern Europe providing an area of special growth. Similarly, major developing countries in Asia such as India and China provide excellent opportunity to strengthen our market position globally.

Strategic Priorities

Concerning our video business in the next few years the focus will be on digital video centres and extension deliveries involving analogue video centres to our current clientele. Volume deliveries of IP-based video centres will start in early 2008. The new IP headend video centre will provide another key product among Teleste's IPTV system deliveries. This will be complemented by special products tailored to client application and delivered by Teleste's extensive network of strategic partners.

In the broadband business our primary objective is to support the leading cable MSO's and other operators having access to cable infrastructure in their smooth and cost-effective migration to the next generation broadband networks. The EttH range provides customers with a cost-effective network solution for introduction to the market of high-speed data transfer solutions that will be required by applications such as transfer of HDTV video to private households. The EttH product range is accompanied by the continually expanding FttH family, based on Teleste's R&D, and complemented by special products delivered by our partners.

In our service business the focus will remain on further processing of our service products with the intention of bringing them up to meet, ever more precisely, the customers' requirements both in terms of technical advancement and cost-efficiency. A training programme covering the entire personnel provides an essential part of our comprehensive range of services. This programme is designed to put an added emphasis on special features involved in the IP technology, which makes part of the conventional cable network solutions and service packages.

As to all of the above product ranges, to ensure the favourable development of profitability for our deliveries as a whole we will keep a keen eye on cost-efficiency. Customers in Eastern Europe and in populous Asian countries such as China and India put a special emphasis on cost-efficiency. Another wide-ranging development priority is to maintain high-speed and reliable delivery logistics in all of Teleste's markets providing us with an essential competitive advantage. Thirdly, we extend our knowledge in, and the business of, our new clientele representing segments such as telephony and power generation.

R&D

On the whole, the business of DVBS is very R&D intensive. Our product ranges involve RF components and fibre optic technology complemented by software applications requiring comprehensive expertise in all of the above areas. Our international partner network provides strong support for our R&D efforts.

As for the video solutions, in 2008 our R&D focuses on the introduction, in several steps, of an IP-based video centre. At the same time we will further develop and complement the range of digital headend solutions currently in production.

In the EttH product ranges the focus is shifting towards maintenance and development of client-specific versions tailored to particular requirements within specified delivery schedule. At present, the EttH technology is applied both to standalone solutions and used as an integral component in the development of the FttB architecture.

Year 2008 will be a significant step forward in the product development of Teleste FttH operations leading to the full-fibre data transfer distribution all the way to the end-user.

Highlights 2007

At the Amsterdam IBC Fair Teleste introduced the IP-based video centre promoted under the name of Luminato.

India became one of our key markets for deliveries of digital headend solutions.

The leading South Korean cable operator Hanaro Telecom continued to implement Teleste's EttH technology as part of the 100 Mb/s distribution network architecture.

In the Netherlands favourable development continued in deliveries of high-speed EttH and FttH systems.

PromaCom AB, acquired by Teleste, continued successfully our FttH business in all customer segments in the Nordic countries.

Luminato is Teleste's next generation headend platform leading the operators to the new IP-based cable television and IPTV services. Part of the core development team.

Business Unit Video Networks

Business Description

Teleste Video networks provides total CCTV solutions for video surveillance applications, specialising in areas such as high-quality real-time video, audio and data transmission, networking and recording.

Teleste Video Networks is offering total video surveillance solutions, comprised of a combination of state of the art products and technologies, complemented with professional services ranging from system design through project deployment to system maintenance and training. There is a growing trend to integrate video surveillance system with other sub-systems, like traffic management systems, alarm & crisis management systems etc. Our System Integration skills are used to offer such integration services.

Teleste Video Networks has presence in all the major geographical markets: Europe, North-America and Southeast Asia with our own local offices. The end-users are typically reached through channel partners, the only exception being Finland where the end-users are approached directly by Teleste Video Networks, through our subsidiary Suomen Turvakamera.

Customers and Markets

Teleste Video Networks is focusing on end user segments which have needs for large systems, frequently with complex functionalities. Most significant segments have public sector background, such as local police for urban surveillance, rail operators and road administration authorities. In private sector, focus end-user segments represent process industries as well as utilities. These target market segments demand advanced video surveillance systems requiring high-quality and real-time video, audio and data transmission, networking and recording. These are highly specialised segments distinct from the mainstream video surveillance market by the level of the technology excellence required.

With adoption of digital video and IP networking, the CCTV systems are becoming increasingly complex to design, implement and maintain. Parallel to this, the end-customers are looking for comprehensive integrated solutions to an increasing degree. Major corporations and public authorities are seeking for increased efficiencies and improving their security levels through centralising and automating the work of security professionals. To reach this, individual sites will be networked together and monitoring work will migrate from small sites to centralised monitoring centers.

For these complex demands, the end-customers are seeking for partners who can deliver a customer tailored solution, including maintenance and operations of the infrastructure. For this opportunity, Teleste Video Networks has established a Services and Integration unit with highly skilled team of digital video and IP networking professionals. This team is responsible of the portfolio of professional services we deliver to our customers.

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 and some regions such as the United States and France stand out by the more promising potential they provide. Another unfolding feature is that large-scale integrated network solutions will continue to gain in importance.

Direction and the Steps to be Taken

Teleste Video Networks is focusing business development on three areas: Products & Systems offering; further expansion of our Services and Integration business and expanding our sales of IP-based solutions through go-to-market partnerships with system integrators from IT and telecoms background.

Products and Systems portfolio is comprised of a comprehensive range of products needed between the camera and the control room. In general, our extensive expertise on technology, combined with our insight in the needs of end-users, provide us with a competitive edge in the market. Particular attention is paid on adding more intelligence into our system offering, resulting in higher efficiency and cost savings in the tasks of the security professionals. Examples of such development is complementing our system offering with wireless transmission, as well as enabling automatic object detection to facilitate the work of the monitoring personnel and speed-up searches into the huge volume of stored video in modern video surveillance systems. A key success factor is building strategic partnerships on technology areas which are not core to Teleste Video Networks' competence base, and create user-friendly system offering, hiding the complexity of technology behind a simple user interface.

The demand for professional services is growing rapidly in conjunction with more and more systems built on digital video, routed over IP networks. The all-digital systems, built on IP networking infrastructure are significantly more complex to design and deploy, as well as require new expertise to maintain them, compared to the traditional analogue video systems, using baseband video transmission. At the same time, there is shortage of competences on the market, with expertise on both video surveillance end-user needs as well as on IP networking technologies. Teleste Video Networks is addressing this demand through offering high-level professional services and system integration, ranging from system design and consultancy through project deployment services

Video Networks Business Unit	
Vision	A leading provider of integrated video surveillance solutions
Mission	Enable high-quality and efficient work of security professionals through provision of video surveillance technologies
Solution	All-digital video surveillance solutions between the camera and control room
Key markets	The business focus is on high-quality video surveillance networks for road, rail and public places monitoring and corporate security systems on a global scale
Primary clientele	The systems developed by Teleste are supplied mainly to the public sector
	Teleste delivers its solutions to the end-clients mostly through system integrators

to maintenance & operating services. On top of this, learning solutions are offered ranging from comprehensive system administrator level to training the security professionals to execute their tasks efficiently, using the surveillance system as a daily tool. Teleste Video Networks is currently focusing on productizing the services portfolio and building a competence base with global coverage.

Teleste Video Networks is continuously expanding its network of channel partners in order to address new markets and maximising our reach to end-users. Our aim is to establish long-term partnerships through promotion of mutually profitable growth. Key development is to win new channel partners with IT or Telecoms system integration background, as the all-digital video surveillance systems will be demanding integration competences from the IT domain. Recently, the most notable win is France Telecom partnership, targeting the growing public places surveillance market in France.

R&D

The video surveillance market is in the phase of transitioning from analogue video to all-digital video surveillance systems, built on generic IP networking infrastructure. Teleste Video Networks has been an early adopter of digital video & IP technologies and continues to invest for future growth of the next generation video surveillance technologies. The focus in R&D has shifted towards application software development, as well as implementing new system level functionality, encompassing both video encoding, recording and client application.

When the complexity of the systems is growing, it is of paramount importance to have strategic partnerships in place to complement own resources and capabilities. The main areas of partnering for Teleste Video Networks are image analysis technologies as well as wireless transmission. These are new competence areas where Teleste is focusing on adapting the use of such technologies to high-end video surveillance applications, but not investing in the core technologies themselves.

Year 2007

In 2007 Teleste completed the deliveries to the French National Railway Company SNCF. The project involves a comprehensive IP-based management system for integrating a number of existing local video surveillance networks under a common management system. Encompassing more than 120 railway stations in the Paris metropolitan area with over 3 000 cameras, this video surveillance network is one of the largest in the world. In addition, Teleste Video Networks received an order to include Gare du Nord and StDenis stations into the network, as well as build digital recording systems to these major stations. SNCF is planning to launch another project in the early 2008 for further stations in the Paris area and other French cities.

In 2007 Teleste concluded a framework agreement with France Telecom. With this agreement, France Telecom and Teleste target to win market share particularly in the growing French market for City Monitoring. This partnership strengthens our presence in the French market, addressing both the rail segment as well as public places surveillance market.

Another significant market entry has taken place in Australia. Teleste has been awarded several projects to build state-of-the-art digital recording systems for Queensland government. To enable further business growth in Australia, Teleste has established a sales office in Brisbane.

New business opportunities have been captured also in Eastern Europe, like city monitoring projects for Bucharest (Romania), Sofia (Bulgaria), Szczecin (Poland) and Tbilisi (Georgia).

Teleste Video Network continued to further the development of our all-digital system offering, comprised of MP-X video encoding and networking products as well as MoRIS software suite for management, recording and monitoring. This intensive development will continue in 2008, focusing on introduction of new system level innovation like optimised wireless transmission for CCTV and automatic object detection functionality integrated to the encoding products, with comprehensive alarm management capabilities. The CFO fibre modem system offering is constantly updated and expanded to keep its competitive edge in the market.

Teleste Video Networks expects the market situation to develop favourably in 2008.

Teleste project manager is handing over the key to SNCF project manager in Paris Gare du Nord station. Teleste has delivered a 400 video channels recording system to that station as turn-key delivery.

Personnel

As an innovative technology group Teleste's expertise and competitive edge are based on a motivated and professional personnel. Our personnel policy is designed to meet our business units' requirements so that the number, availability, skills and motivation of our personnel are optimal for achieving the set strategic objectives. An open interaction on every level of the corporate organisation contributes to a committed personnel. An open interaction is also part of good management and supports the understanding and implementation of strategic objectives. At the end of 2007, the number of Teleste's employees was at 672. The corresponding figure for the previous year was 621. Moreover, in 2007 Teleste hired, on average, 64 temporary employees assigned mainly to production. In 2007 Teleste obtained strategic skills and personnel from Belgium (DINH Telecom S.A.), in addition to which a new company, Flomatik Network Services Ltd, was set up in UK.

Personnel Recruitment and Development

In 2007 the number of Teleste personnel grew by some 50 people. As to required skills, geographic distribution and other criteria our recruitment has been geared to meet the specified strategic objectives. Recruitment and employment relations are based on the corporate equality scheme and operation in compliance with the corporate values. One of the cornerstones of Teleste's personnel policy is to provide its personnel with a possibility of job rotation. For instance, open positions are as far as possible sought to be filled through internal transfers.

Personnel competence was developed in a number of areas. As in previous years, our personnel participated in professional development programmes set up in course of the year by taking courses in subjects such as product and technology training. Superior training programme carried out in autumn 2006 for persons in managerial positions in Finland was followed in early 2007 by a similar course involving Teleste's superiors outside Finland. The tailor-made Leading Excellence management training programme carried out jointly with some local high-tech companies continues. The group having started the one-calendar year Leading Excellence training programme in autumn 2006 completed their course in early autumn 2007 and a new group started shortly thereafter. The main objective with this training programme is to promote managerial skills and all-round business thinking. The chosen participants in the programme include makers of Teleste's future. The programme is designed to support the company's future potential of success and to secure the commitment of our key personnel segments.

Performance appraisal discussions conducted annually with each Teleste employee provide an essential tool for development of our personnel and our entire work community. The forms used for appraisal discussions are updated annually as is the theme for these discussions without, however, forgetting their ultimate purpose. The theme for 2007 included Teleste's management culture and the clarity of strategic direction of one's own unit. Our corporate management is strongly committed to the development of our human resources and take part in the shaping and implementation of personnel training both in the role of so-called sponsors as well as actually participating in the courses.

Incentives

Teleste's system of payroll and incentives is designed to support the corporate business strategy. Performance appraisal and target-setting discussions provide a base 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 on both a company and individual levels. Teleste's personnel incentive schemes consist of a number of intangible and tangible inducements. Material incentives in place include systems of bonus pay and payment by results as well as those of share bonus scheme and options. These schemes have been – and will continue to be – developed to enhance the influence of units, teams and individuals as well as to establish a closer linkage between personal goals and performance and company strategic goals.

Well-being at Work

We at Teleste believe that a good climate and work motivation strongly affect well-being at work and that, in addition to signalling 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. At us well-being at work is manifested among others in terms of long years in service.

Personnel on December 31			
	2007	2006	2005
Total	672	621	557
Research and Development	158	146	127
Operations	289	282	286
Sales and marketing	186	159	114
Admin & IT	39	34	30
Finland	443	435	408
Other Countries	229	186	149
Female	226	208	194
Male	446	413	363

In 2007 five persons celebrated their 10th anniversary in the company service while 29 of our personnel commemorated their respectable 20th year at Teleste. Teleste's commitment in the well-being at work will be on-going in the future.

Our free-time committee, Vapari, is elected annually from among Teleste personnel and it organises different events such as sports and cultural events. The company also supports personal exercise activities of different kinds for its personnel.

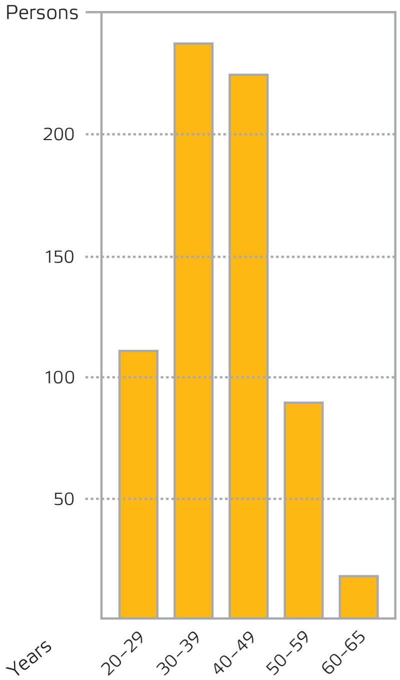
Co-operation

In 2007 market situation in the sector remained good. Continuous interaction and communication between the personnel and the company is ensured by way of monthly meetings between the representatives of the employer and the employees. Furthermore, the positive interaction between the management and the personnel is maintained by setting up joint meetings participated by the management group and the union representatives. Through this way we have succeeded in establishing a flexible mode of collaboration, which allows us quickly to adapt to both quiet spells and peaks in demand alike. Acceptable policies regarding use of temporary labour in production have been subject of mutual understanding so that we can respond to market fluctuations by adjusting the available capacity. Application and development of various arrangements designed to increase flexibility in work will be continued in co-operation with the personnel.

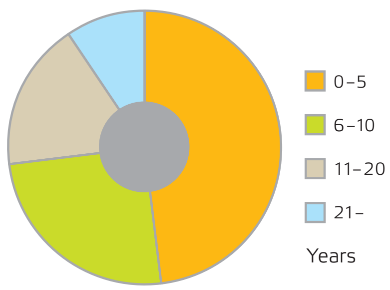
Co-operation with Universities and Third Parties

We have continued our co-operation with universities and other educational establishments to promote our image of a positive workplace for future top professionals. This co-operation has taken different 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 the utilisation of top expertise of the scientific community and the taking into account of Teleste's strategic needs in the learning programs of the respective educational establishments. The build-up of a positive employer image for future top professionals has been continued by keeping contact with, among others, student organisations in Universities of Technology and by taking part in graduate recruitment fairs.

Age Distribution 2007



Years of Service 2007




Final testing of an EttH piece of equipment at Teleste's plant in Littoinen.

Corporate Governance

Teleste Corporation aims at organising its management in a consistent and functional manner. The governance is based on the Finnish Companies Act and Teleste Articles of Association. Teleste has its shares listed on OMX Nordic Exchange Helsinki. The company complies with the rules and regulations for listed companies as set by the Nordic Exchanges. As of 1 March 2000, the company has followed the insider regulations drawn up by the Board of Directors of the Nordic Exchanges (revised on January 1, 2006). 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 the Nordic Exchanges, 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 (AGM) 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
- The allocation of profit shown in the balance sheet
- The discharge from liability to the Board of Directors and the Managing Director
- The election of the members of the Board of Directors and the auditor.

Responsibilities of the AGM also include:

- Making amendments to the Articles of Association
- Deciding on share issues, granting of option and other special rights entitling to shares, repurchase and redemption of the company's own shares as well as decreasing the 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.

Board of Directors

Rules of Procedure

The Board of Directors of Teleste is responsible for managing the company in accordance with the law, official rulings, Articles of Association and the decisions as set out by the Annual 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 according to which the essential duties of the Board include the following:

- 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

Jukka Rinnevaara

Johan Slotte

Erja Saarikoski

Juha Järvenreuna

- 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 personnel 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 3 April 2007, 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 the Member of the Board of Directors Pertti Raatikainen (expert member of the steering group in charge of the company technological development) the Members of the Board are not employed by the company and can be considered independent in line with the Finnish recommendations.

During 2007 the Board of Directors of Teleste Corporation held 10 meetings two of which were set up as a telephone conference. The attendance of the Directors at the Board meetings was 98%. In addition to the Members of the Board the meetings were attended by the CEO, the deputy CEO and concerning Interim Reports also 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 3 April 2007 the Annual General Meeting decided that the Chairman of the Board be paid annually EUR 36,000 and each Member will receive EUR 20,000 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 2007 to the Board of Directors were as follows:

- Tapio Hintikka EUR 38,000, part of which were remitted in Teleste shares EUR 14,400 (1,240 pcs),
- Tero Laaksonen EUR 21,750, part of which were remitted in Teleste shares EUR 8,000 (690 pcs),
- Pertti Raatikainen EUR 22,000, part of which were remitted in Teleste shares EUR 8,000 (690 pcs),
- Timo Toivila EUR 22,200, part of which were remitted in Teleste shares EUR 8,000 (690 pcs),

Esa Kinnunen

Hanno Narjus

Esko Myllylä

Management Group

Jukka Rinnevaara

M.Sc (Econ.), born in 1961
President and CEO
Joined Teleste in 2002

ABB Installaatiot,
President 1999–2001

ABB Building Systems, Group Senior Vice President 2001–2002

Johan Slotte

LL.M, MBA, born in 1959
Deputy CEO
Joined Teleste in 1999

Uponor Poland, Managing Director 1995–1999

Erja Saarikoski

Business school graduate, born in 1953
CFO
Joined Teleste in 1984

Juha Järvenreuna

M.Sc. (Eng.), born in 1964
Senior Vice President,
HFC Networks and Services
Joined Teleste in 2004

Teleste Corporation, Product Operations, Director 1998–2003

Nokia Group, Nokia Networks, Quality Director 2003–2004

Esa Kinnunen

M.Sc. (Econ.), B.Sc. (Eng.), born in 1967
Senior Vice President,
Digital Video and Broadband Solutions
Joined Teleste in 2006

Nokia Group, Nokia Networks, Director 1994–2005

Solectron Corporation,
Vice President 2005–2006

Hanno Narjus

M.Sc. (Econ.), born in 1962
Senior Vice President, Video Networks
Joined Teleste in 2006

Teleste Corporation, Director, Sales/ Continental Europe 1989–1996

Nokia Corporation, Various managerial positions 1996–2006

Esko Myllylä

B.Sc. (Eng.), CBA, born in 1966
CTO, Research and Development
Joined Teleste in 1994

- Pekka Vennamo EUR 22,000, part of which were remitted in Teleste shares EUR 8,000 (690 pcs).

Managing Director

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 2007 to the CEO of Teleste Corporation totalled EUR 512,043. The aggregate compensation of the CEO included share bonus for the year 2007 in the amount of EUR 68,000. The contractual age of retirement of CEO Jukka Rinnevaara is 60. The insurance premium of the voluntary retirement insurance policy of the CEO was EUR 57,236, which amount is not included in the paid salary and remuneration. As to the contract of Mr. Rinnevaara, his term of notice has been specified as six (6) months in case the 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. The Board is in charge of bonus systems applied to the Management Group. For a detailed description of the option specifics see Teleste Annual Report 2007 page 11. For holdings and stock options of the President and CEO and the Management Group see page 12.

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 3 April 2007, the Teleste Annual General Meeting selected KPMG Oy Ab as the company auditor and decided that the auditor's fee will be paid as invoiced. The company's chief auditor is Sixten Nyman.

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

In 2007, the Group's auditing expenses totalled EUR 90,000 in which the share of KPMG was EUR 49,000. Moreover, auditing units of KPMG have supplied the Group companies with other consultation worth total EUR 95,700 and other than KPMG auditors for EUR 200.

Internal Auditing

Teleste has an internal auditing unit, which is in charge of internal auditing for the parent company and its subsidiaries, reporting to the specified Member of the Board. The internal auditing evaluates business operations, the related processes, their involved risks and efficiency of the conducted supervision while making suggestions for developmental measures. These activities are performed in co-operation with controllers and any other relevant bodies. Furthermore, the internal auditing carries out any special assignments issued by the Management. The internal auditing covers all organisational levels. The internal auditing reports to the Board of Directors twice a year.

Risk Management

Risk management is used 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 meth-

Tapio Hintikka

Tero Laaksonen

Pertti Raatikainen

Timo Toivila

ods are specified and the implementation of risk prevention is carried out through the same. Further, all such risks are insured that for economic or other reasons are reasonable to insure.

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.

Risk management supports the business activity and adds value to the decision-making of the management in charge of business. 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.

Insider Register

As from 1 March 2000, the company has complied with the insider regulations approved by Nordic Exchanges' Board of Directors (revised on January 1, 2006).

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.

Pekka Vennamo

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

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 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 Board since 2005

Financial Statements

Report of the Board of Directors

Overview

As to deliveries and profitability Teleste's growth continued on a good level. Framework contractual deliveries to Europe and the reference delivery of the 100 Mb/s broadband solution (EttH) to South Korea were particularly significant. A new sales office was set up in Australia. The service business was developed in compliance with the strategy by way of acquisition in April of the Belgian DINH Telecom S.A. and establishment in June of the network engineering company in the UK. R&D efforts mainly involved the IP-headend solution drawing on the Internet Protocol technology. The new IP-headend product was well received including the developing Indian market.

Net Sales and Profitability

Teleste net sales totalled EUR 125.1 (101.8) million, an increase of 22.9% over the previous year. Net sales in Q4 amounted to EUR 31.1 (28.4) million.

Operating profit stood at EUR 13.2 (9.8) million making 10.5% (9.6%) of net sales. Operating profit for Q4 stood at EUR 3.0 (2.2) million making 9.8% (7.6%) of net sales.

Teleste's orders received improved by 10.5% standing at EUR 118.5 (107.2) million. Orders received in Q4 stood at EUR 29.7 (33.9) million. Teleste's order backlog reduced by 23.5% amounting to EUR 21.5 (28.1) million at the year-end. This decline in order backlog was caused by stabilisation in growth of orders involving Broadband Cable Networks amplifiers and the reduction in the order backlog for EttH. The order backlog was additionally affected by shortened delivery times achieved through the investments made in flexibility of the production capacity, on the one hand, and the increased service business, on the other.

Profit after financial items totalled EUR 12.7 (9.3) million while the net profit equalled EUR 9.4 (6.9) million. The Group's undiluted result per share stood at EUR 0.55 (EUR 0.41). Tax rate for the period was 26.1% (25.9%). Return on capital employed amounted to 27.1% (24.3%) while return on equity was 22.2% (19.7%).

R&D and Investments

R&D expenditure for the period under review totalled EUR 13.1 (9.8) million making 10.5% (9.7%) of net sales. The single most important R&D initiative involved the IP-headend solution based on the Internet Protocol technology. R&D efforts included development of the platforms Ethernet-to-the-Home (EttH), Fiber to the X (FttX), GigaHerz amplifier technology Access, video surveillance transfer system MP-X and video surveillance management system MoRIS. Some 40% of the R&D expenses involved maintenance of solution platforms currently in production. Activated product development expenses stood at EUR 2.7 (1.4) million. This capitalisation involved the broadband technology platforms of IP-headend, EttH, MP-X and GigaHerz. Depreciation on R&D expenses for the period under review activated earlier amounted to EUR 1.4 (0.9) million. The R&D expenditure in Q4 amounted to EUR 3.5 (3.9) million. A number of Teleste's projects involved co-operation with Finnish universities and research institutes. Almost 23% (22%/2006, 20%/2005, 20%/2004) of the Group personnel was involved in R&D.

Investments for the period under review totalled EUR 12.3 (6.2) million making 9.8% (6.1%) of net sales; acquisition of DINH Telecom S.A. involved EUR 6.1 million. Other investments included essentially a new SMT line, R&D and IT. As to investments for the period, EUR 1.8 (0.5) million was carried out by financial leasing.

Finance

Liquidity of the Group remained good. Operating cash flow improved standing at EUR 12.0 (2.7) million. Teleste is prepared for strategic investments and increased need for working capital driven by growth by means of stand-by credits. The amount of unused stand-by credits at the end of the period amounted to EUR 23.0 (23.0) million. The relevant credit limits are valid until November 2008 and negotiations over new financing arrangements are on-going. The Group's equity ratio was 60.2% (55.3%) with gearing standing at 3.8% (3.2%). Interest bearing debt on 31 December 2007 was EUR 9.5 (8.0) million.

Personnel and Organisation

In 2007 the Group employed an average of 681 people (608/2006, 546/2005). At the year-end, the figure totalled 672 (621/2006, 557/2005) of which approximately 34% (30%/2006, 27%/2005) were stationed overseas. The stated number of personnel does not include temporary labour averaging 64 (50) persons in the financial period. The number of temporary labour at the year-end was 36 (59). Employees stationed outside Europe accounted for less than 10% of the Group's personnel. Expenditure on employee benefits amounted to EUR 31.5 (27.1/2006, 24.1/2005) million.

Description of Business Areas and the Involved Key Risks

Founded in 1954, Teleste is a technology company currently running the business units of Broadband Cable Networks and Video Networks. In line with its strategy Teleste continues to focus on the chosen product and technology segments as well service business and technical integration. Integrated deliveries of solutions pave the way for brisk growth even if the involved resource allocation and technical implementation also pose a challenge involving reasonable risks. In addition, appropriately chosen technology and its correct timing are instrumental for the success of the businesses not forgetting market dynamics such as the importance of consolidation of clients and competition. Much of Teleste's competition comes from America and, therefore, strong euro up against the US dollar erodes our price competitiveness.

The company has covered risks involving any damage in operative functions of the businesses mainly through insurance policies, with no credit loss risks included. For Teleste no such risks materialised in 2007 and no such legal proceedings or juridical procedures were pending that would have had any essential significance for the Group operation.

Broadband Cable Networks

Broadband Cable Networks delivers its main clientele of cable operators with equipment and systems designed for the construction of transmission network and signal processing. Deliveries include individual pieces of equipment and turnkey networks alike. The business also makes available a number of services related to maintenance and engineering of network infrastructure. The main market area of Broadband Cable Networks is Europe, which business area involves 19 own sales offices supported by a number of retail and integration partners. Outside Europe, Broadband Cable Networks has own offices located in China and India.

As to the framework contractual deliveries to the biggest European cable operators Broadband Cable Networks succeeded as planned. Deliveries involving EttH technology for the South Korean Hanaro Telecom materialized for the main part in Q1. Concerning our European clientele and competition, mergers and changes in ownership relations continued. These developments may affect Teleste's position in view of the operators' choices of suppliers for products and services.

The unit continued to invest in R&D, shortening of turnaround times in deliveries, strengthening of its partner network and expansion of its service business. In April the unit acquired the Belgian DINH Telecom S.A. and in the following June the service business was expanded by setting up in UK a network engineering company with approximately 40 employees. Marketing efforts involving the IP-headend product solution were initiated in Q4 continuing over to Q1 of 2008. Orders received by Broadband Cable Networks increased by 9.3% (27.4%) amounting to EUR 101.4 (92.8) million. Net sales grew by 26.5% (27.3%) standing at EUR 108.2 (85.6) million. Operating profit went up by 41.7% (22.9%) standing at EUR 12.8 (9.1) million. At the year-end order backlog stood at EUR 19.7 (26.7) million. Orders received in Q4 of the period stood at EUR 25.2 (29.7) million. Reduction in the order backlog was attributed to stabilisation of growth in demand for amplifiers, reduction in the order backlog for the EttH, the short order backlog typical for service business and shortening of turnaround times in deliveries.

Net sales for Q4 amounted to EUR 25.5 (23.8) million while operating profit stood at EUR 2.3 (1.8) million. As a whole we estimate the market situation for the business unit to remain favourable also in 2008. However, the market situation varies by market area depending on the need faced by the operators to invest in their networks.

Video Networks

Clientele of Video Networks mainly includes public sector organisations and system integrators. The business area has focussed on high-quality video surveillance systems transferring real-time video, audio and data. In July Video Networks made a two-year framework agreement with a significant French telecommunications company on deliveries involving video surveillance equipment and network solutions to the French market. Additional deliveries for the French National Railway Authority (SNCF) involving video surveillance management systems played a key part. The implemented R&D efforts involved development of the IP-based video surveillance system MP-X and technical integration.

The business has seven sales offices in Europe and offices outside Europe are located in the United States, Australia, China and Thailand.

Orders received by Video Networks increased by 18.9% (15.5%) amounting to EUR 17.1 (14.4) million. Net sales grew by 4.3% (5.3%) standing at EUR 16.9 (16.2) million. Operating profit stood at EUR 0.3 (0.7) million. Reduced profitability was due to smaller net sales from mid-market systems and R&D efforts such as strengthening of the technical integration organisation. At the year-end order backlog stood at EUR 1.8 (1.5) million. In Q4 orders received amounted to EUR 4.5 (4.2) million with net sales equalling EUR 5.5 (4.6) million. Operating profit stood at EUR 0.7 (0.3) million.

In 2008 price competition will continue to intensify especially in the area of network solutions. Large companies have entered the market by force. Significance of technical integration in operations of the business area will increase. The technology involved in these applications is renewed rapidly.

Based on the developments in order backlog we estimate our business area to develop favourably in 2008.

Business Areas by Geography

In geographical terms, the Group's business areas are divided up into Scandinavia, rest of Europe and others.
Scandinavia: Net sales in the Nordic countries amounted to EUR 35.5 (32.2) million. Investments for the area totalled EUR 6.1 (5.8) million.
Rest of Europe: Net sales for the rest of Europe stood at EUR 78.3 (62.1) million while the investments made in the area amounted to EUR 6.1 (0.1) million.
Others: Net sales were up to EUR 11.3 (7.4) million. Investments totalled EUR 0.1 (0.3) million.

Group Structure

In the period under review Teleste acquired the entire share capital of the Belgian DINH Telecom S.A. and founded a network engineering company in UK to promote growth of its service business. The parent company of Teleste Group operates through branch offices in Australia, Belgium, China, Denmark, France, India, the Netherlands, Poland, Spain and Thailand while running subsidiaries in 11 countries exclusive of Finland.

General Meetings

The Annual General Meeting (AGM) held on 3 April 2007 confirmed the financial statements for 2006 and discharged the Board and the CEO from liability for the financial period. The AGM confirmed the dividend of EUR 0.20 per share as proposed by the Board of Directors. The dividend was paid out on 17 April 2007.

Composition of Teleste's Board remained unchanged: Mr. Tapio Hintikka was re-elected as Chairman whilst Mr. Tero Laaksonen, Mr. Pertti Raatikainen, Mr. Timo Toivila and Mr. Pekka Vennamo continued as members on the Board of Directors.

Authorised Public Accountants KPMG Oy Ab continue as the auditor until the next AGM.

The AGM authorised the Board to acquire the maximum of 1,290,000 of the company's own shares and to convey the maximum of 1,730,000 company's own shares. Based on authorisations of 2001 and 2002 the company is in possession of 352,482 of its own shares.

The AGM also authorised the company to issue 4,500,000 new shares. The maximum number of significant shares accommodated by the special rights granted by the company equals 1,730,000. These authorisations will be valid until the AGM due to be held in 2008. Nominal value of the company share was renounced. The AGM accepted a share option plan involving key personnel. According to this, 840,000 new shares may be subscribed; the plan's possible dilution effect might be 4.6%.

In the financial period authorisations granted by the AGM were used by conveying 0.53% of the number of shares, i.e. 92,338 own shares, on acquiring the capital stock of DINH Telecom S.A. 10,180 shares, in other words 0.06% of the number of shares, were conveyed for payment of the share bonus of the Management Group. Other authorisations were not used.

Management and the Auditors

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

Shares and Changes in Share Capital

Largest single shareholder at the end of 2007 was the Sampo Life Insurance Company Ltd with the holding of 9.19%.

As to the company share price in 2007 the low was EUR 6.47 (6.46) and the high EUR 12.34 (12.75). Closing price at the end of the year stood at EUR 6.71 (11.63). In 2007 7.2 (14.2) million shares standing for 40.5% (81.4%) of the share capital were traded on the OMX Nordic Exchange Helsinki.

The 2004A options distributed to the Teleste key personnel were listed on the main list of OMX Nordic Exchange Helsinki on 24 August 2007. In the period 221,965 own shares were subscribed using 2002A options and 60,038 using 2002B options.

At the balance sheet date the company's registered share capital amounted to EUR 6,966,932.80, divided up into 17,671,305 shares; out of these the company was holding 352,482 shares. At the balance sheet date, when put against the total amount of shares and votes the shares in company possession equalled 1.99%.

Other matters affecting the company governance will be stated in the Annual Report under section Good Governance.

Outlook for 2008

Regardless of the general uncertainty in the world market we estimate the favourable market situation to continue in our business areas. New services provided by the cable operators and the increased competition for customers call for investments in greater capacity of transfer networks. The demand for solutions involving next generation high-speed data communication solutions like EttH and FttX will increase together with those concerning smart fibre-optical and coaxial networks (HFC). Digitalisation of IPTV and TV services will lead to growth in sales of the new IP-headend solution. The market situation of Broadband Cable Networks varies by market area depending on the needs for investment related to the networks' technical status. The cost-effective range of products and services of the business area create preconditions for continued profitable growth also in 2008. Increased needs for security and more effective traffic infrastructure raise demand for the Video Networks' solutions. We estimate demand for our top-quality network management applications and tailored-to-industry solutions to pick up in 2008 as well as improvement in profitability for the business area.

In 2008 Teleste will grow profitably even if the figures of the previous year may not be reached in the first quarter.

In 2008 we continue to focus on speeding up R&D and turnaround times in deliveries, opening up new sales channels and growth in the integration and service business.

Board of Directors' Proposal for Dividends

As to the Annual General Meeting scheduled for 1 April 2008, the Board proposes that a dividend of EUR 0.24 (EUR 0.20) per share will be paid for the outstanding shares for the year 2007.

29 January 2008

TELESTE CORPORATION	Jukka Rinnevaara
Board of Directors	President and CEO

Statement of Income

1 000 euros	Note	1.1.–31.12.2007	1.1.–31.12.2006	Change, %
Net sales	1	125 100	101 773	22.9
Other operating income	2	1 772	2 158	–17.9
Changes in inventories of finished goods and work in progress		–673	6 066	n/a
Raw material and consumables used		–59 692	–54 743	9.0
Employee benefits expense	3	–31 455	–27 100	16.1
Depreciation and amortisation expense	4	–3 552	–2 393	48.4
Other operating expenses	5	–18 324	–16 006	14.5
Operating profit		**13 176**	**9 755**	**35.1**
Financial income	6	627	194	223.8
Financial expenses	7	–1 131	–661	71.1
Profit before tax		**12 672**	**9 288**	**36.4**
Income tax expense	8	–3 309	–2 408	37.4
Profit for the period		**9 363**	**6 879**	**36.1**
Attributable to:	9			
Equity holders of the parent		9 363	6 879	36.1
Earnings per share for profit of the year attributable to the equity holders of the parent (expressed in euros per share):				
Basic		0.55	0.41	34.3
Diluted		0.52	0.38	36.4

Balance Sheet

1 000 euros	Note	31.12.2007	31.12.2006	Change, %
Assets				
Non-current assets				
Property, plant and equipment	10	7 757	5 578	39.1
Goodwill	11	12 686	12 127	4.6
Other intangible assets	11	6 629	3 614	83.4
Available-for-sale investments	12	723	1 116	–35.2
		27 795	22 435	23.9
Current assets				
Inventories	14	15 936	16 604	–4.0
Trade and other receivables	15	26 455	22 409	18.1
Cash and cash equivalents	16	7 702	6 789	13.5
		50 093	45 801	9.4
Total assets		**77 888**	**68 236**	**14.1**
Equity and liabilities				
Equity attributable to equity holders of the parent				
Share capital	17	6 967	6 955	0.2
Share premium	17	1 504	1 417	6.1
Translation differences	17	–53	65	n/a
Invested nonrestricted equity	17	2 531	0	n/a
Retained earnings	17	35 720	29 224	22.2
		46 669	37 661	23.9
Non-current liabilities				
Interest-bearing liabilities	18	1 700	742	129.1
Deferred tax liabilities	13	1 197	368	225.3
Provisions	19	425	425	0.0
		3 322	1 535	116.4
Current liabilities				
Trade and other payables	20	19 016	20 045	–5.1
Current tax payable	21	580	875	–33.7
Provisions	19	518	850	–39.1
Interest-bearing liabilities	18	7 783	7 270	7.1
		27 897	29 040	–3.9
Total liabilities		**31 219**	**30 575**	**2.1**
Total equity and liabilities		**77 888**	**68 236**	**14.1**

Cash Flow Statement

1 000 euros	Note	1.1.–31.12.2007	1.1.–31.12.2006	Change, %
Cash flows from operating activities				
Profit for the period		9 363	6 879	36.1
Adjustments for:				
Non-cash transactions	23	4 202	3 407	23.3
Interest and other financial expenses		1 131	661	71.1
Interest income		–617	–188	228.2
Dividend income		–10	–6	66.7
Income tax expense		3 309	2 100	57.6
Changes in working capital and provisions:				
Increase in trade and other receivables		–1 209	–3 938	–69.3
Increase in inventories		1 216	–6 651	n/a
Increase in trade and other payables		–1 414	3 392	n/a
Decrease in provisions		–332	–742	–55.3
Paid interests and dividends		–647	–521	24.2
Received interests and dividends		208	194	7.2
Paid taxes		–3 211	–1 912	68.0
Net cash from operating activities		**11 988**	**2 675**	**348.2**
Cash flows from investing activities				
Acquisition of subsidiary, net of cash acquired		–5 301	–3 078	72.2
Purchases of property, plant and equipment (PPE)		–1 257	–699	79.8
Purchases of intangible assets		–2 724	–1 734	57.1
Proceeds from sales of PPE		814	0	n/a
Proceeds from sale of other investments		0	376	n/a
Net cash used in investing activities		**–8 468**	**–5 136**	**64.9**
Cash flows from financing activities				
Proceeds from borrowings		11 000	4 000	175.0
Repayments of borrowings		–11 113	–460	2 315.9
Payment of finance lease liabilities		–594	–273	117.6
Dividends paid		–3 413	–2 697	26.5
Proceeds from issuance of ordinary shares		1 630	161	912.4
Net cash used in financing activities		**–2 490**	**731**	**n/a**
Cash and cash equivalents				
Cash and cash equivalents 1.1.		6 789	8 524	–20.3
Effect of currency changes		–118	–5	2 260.0
Cash and cash equivalents 31.12.		7 702	6 789	13.4

Statement of Changes in Equity

	Attributable to equity holders of the parent Total equity					Total equity
1 000 euros	Share capital	Share premium	Translation differences	Retained earnings	Invested non-restricted equity	
1.1.2006	6 935	1 276	70	24 025		**32 306**
Exchange differences			–5			**–5**
Profit for the year				6 879		**6 879**
Total recognised income and expense for the year	0	0	–5	6 879		**6 874**
Dividends				–2 697		**–2 697**
Equity-settled share-based payments				1 017		**1 017**
Used share options	20	141				**161**
	20	141	0	–1 680		**–1 519**
31.12.2006	6 955	1 417	65	29 224		**37 661**
Profit for the year				9 363		**9 363**
Total recognised income and expense for the year	0	0	0	9 363		**9 363**
Dividends				–3 413		**–3 413**
Equity-settled share-based payments				546	1 000	**1 546**
Used share options	12	87			1 531	**1 630**
Exchange differences			–118			**–118**
	12	87	–118	–2 867	2 531	**–355**
31.12.2007	**6 967**	**1 504**	**–53**	**35 720**	**2 531**	**46 669**

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 ten 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 financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) in force as at 31 December 2007. 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 include additional information in accordance 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.

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 principles.

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 2006 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 2006 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 in 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 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 life, which is three years.

Other intangible assets

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

Those intangible assets which have estimated useful lives are depreciated on a straight-line basis over their known or estimated useful lives.

The estimated useful lives are as follows:

- Customer relationships 2–4 years
- Trademarks 5–10 years
- Technology 3–5 years

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 a 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 assets and liabilities

In Teleste hedge accounting as defined under IAS 39 is not applied. IAS 1 has been applied since 1 January 2007.

Since 1 January 2004 financial assets are classified into categories as follows: 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 initially 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 the current assets. A gain or loss arising from a change in the fair value, realised or unrealised, is recognised in the income statement as incurred.

Derivatives

Derivatives, including embedded derivatives, are included in the 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 2007 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 in 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 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 2006.

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 in 2006 pronounced IFRS 8 Operating Segments in 2009. Teleste is investigating the impact on the financial statements. In 2009 the revised IAS 1 Presentation of Finanacial statements standard will also be adpoted. This will affect the presentation of the financial statements and IFRS 3 Business combinations and also recognition of business combination transactions from 1 January 2009 onwards.

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 intereste bearing liabilities and tax liabilities.

Business segments

2007	1 000 euros	Broadband Cable Networks	Video Networks	Group
External sales				
Services		4 681	363	5 044
Goods		103 523	16 533	120 056
Total external sales		108 204	16 896	125 100
Total revenue		108 204	16 896	125 100
Operating profit of segments		12 837	339	13 176
Operating profit				13 176
Unallocated expenses				–3 813
Profit for the period				9 363
Segment assets		54 952	15 234	70 186
Unallocated assets				7 702
Total assets				77 888
Segment liabilities		17 165	2 794	19 959
Unallocated liabilities				11 260
Total liabilities				31 219
Capital expenditure		11 082	1 201	12 283
Depreciation and amortisation		2 800	752	3 552

2006	1 000 euros	Broadband Cable Networks	Video Networks	Group
External sales				
Services		2 813	195	3 008
Goods		82 738	16 027	98 765
Total external sales		85 551	16 222	101 773
Total revenue		85 551	16 222	101 773
Operating profit of segments		9 055	700	9 755
Operating profit				9 755
Unallocated expenses				–2 876
Profit for the period				6 879
Segment assets		46 927	14 520	61 447
Unallocated assets				6 789
Total assets				68 236
Segment liabilities		17 909	3 411	21 320
Unallocated liabilities				9 255
Total liabilities				30 575
Capital expenditure		2 032	4 143	6 175
Depreciation and amortisation		1 863	530	2 393

Geographical segments

2007	1 000 euros	Nordic Countries	Other Europe	Others	Group
Sales by origin		35 535	78 260	11 305	125 100
Assets		57 483	18 837	1 568	77 888
Capital expenditure		6 113	6 120	50	12 283

2006	1 000 euros	Nordic Countries	Other Europe	Others	Group
Sales by origin		32 200	62 100	7 473	101 773
Assets		51 381	15 115	1 740	68 236
Capital expenditure		5 838	87	250	6 175

Business Combinations acquired during 2007 and 2006

The range of products and services of Broadband Cable Networks was strengthened by acquisition of 100% of shares of Belgian DINH Telecom S.A. at 4 April 2007. The purchase price was EUR 6.1 million. Treasury shares was conveyed as a part of the payment for the consideration of EUR 1 million i.e. 92,338 numbers. The conveyance was based on authorisation granted by the annual meeting of Teleste Corporation at 3 April 2007. The shares conveyed were measured at the average trading share price quoted in OMX Helsinki Stock Exchange between 5 March and 30 March 2007, which was EUR 10.83 per share. The number of shares then conveyed accounted for 0.53 per cent of the shares of the Teleste Corporation.

The acquisition resulted in 1,785 thousand of intangible assets, which was allocated to trade marks, customer relationships and technology. The goodwill, amounted EUR 460 thousand, is mainly due to synergy effects in the future. During the first quarter of 2007 the final conditional supplementary contract price of EUR 99 thousand related to the acquisition of Teleste Video Networks AB (former S-Link AB) in November 2003 were recognised in the books. The conditional supplementary contract price in its entirety was booked in the goodwill.

The net profit of DINH Telecom S.A. for the period 4 April–31 December 2007 is included in the consolidated income statement for the year 2007. If the companies had been consolidated since 1 January 2007, the Group revenue would have been EUR 1.1 million higher and the Group profit would have increased EUR 0.1 million.

The fair values determined in the business combination are based on the following estimates:

- The fair value of acquired trade marks is determined to equate with the discounted royalties, which have been managed to be avoidable by owing the trademarks in question. A reasonable royalty per cent, that an external party would pay for a licensing agreement, has been estimated when determining the fair values.
- The fair value of acquired technology is determined to equate with the discounted product development costs, which have been managed to be avoidable by owing the technology in question.
- Determination of fair value of the customer relationships is based on the estimated life time of the customer relationships and the discounted cash flows to be derived from the existing customerships.

The range of products and services of Video Networks for certain midmarket segments was strenghtened by the acquisition of the Suomen Turvakamera Oy on May 2006. The purchase price of the share capital was EUR 3,067 thousand. The goodwill, amounted EUR 2,607 thousand, is mainly due to expected increase in demand of existing products of Video Networks business area. Treasury shares were conveyed as a part of the payment for the consideration EUR 311 thousand i.e. 30,000 numbers. The conveyance was based on the authorisation granted by the Annual General Meeting of Teleste Corporation at 4 April 2006. The shares conveyed were measured at the average trading share price quoted in the OMX Helsinki Stock Exchange at 31 May 2006 being EUR 10.37 per share. The number of the shares then conveyed accounted for 0.17 per cent of the total number of the shares of Teleste Corporation.

The FttH knowledge of Broadband Cable Networks was strenghtened by the acquisition of the share capital of Swedish PromaCom AB on June 2006. The purchase price of the share capital was EUR 322 thousand. The goodwill, amounted EUR 305 thousand, is mainly due to expected increase in demand of existing products of Broadband Cable Networks business area.

The net profit of PromaCom AB for the period 16 June–31 December 2006 and Suomen Turvakamera Oy for the period 1 June–31 December are included in the consolidated income statement for the year 2006. If the companies had been consolidated since 1 January 2006, the Group revenue would have been EUR 1.6 million higher and the Group profit would have decreased EUR 0.6 million.

During the third quarter of 2006 EUR 191 thousand were recognised as a probable additional consideration. A conditional supplementary contract price EUR 191 thousand related to the acquisition of Teleste Video Networks AB (former S-Link AB) in November 2003 was entered in the books in the third quarter of 2006. The conditional supplementary contract price in its entirety was booked in the goodwill.

The following assets are liabilities were recognised in the acquisition DINH Telecom S.A:

1 000 euros	Recognised fair values on acquisition
Fair values used in consolidation	
Trade marks (inc. in intangible assets)	400
Customer relationship (inc. in intangible assets)	893
Technology (inc. in intangible assets)	492
Book values used in consolidation	
Tangible assets	481
Shares and other rights	307
Inventories	548
Trade receivables	1 064
Other receivables	2 850
Cash and cash equivalents	377
Total assets	7 412
Book values used in consolidation	
Interest-bearing liabilities	253
Deferred tax liabilities	464
Other liabilities	1 065
Total liabilities	1 782
Net identifiable assets and liabilities	5 630
Total consideration	6 000
Other acquisition costs	90
Goodwill on acquisition	460
Consideration paid in cash	–5 000
Cash and cash equivalents in acquired subsidiary	377
Total net cash outflow on the acquisition	–4 623

Notes

1 Construction contracts

Group revenue includes EUR 159 thousand (EUR 4,030 thousand) of income from construction contracts.

Revenue recognised in the consolidated income statement from construction contracts in progress amounted to EUR 159 thousand on 31 December 2007 (31 Dec. 2006: EUR 4,030 thousand). No advance payments included to balance sheet at the closing time.

1 000 euros	2007	2006
2 Other operating income		
Government grants related to development costs	1 530	1 854
Rental income	120	106
Government grants	122	198
Total	**1 772**	**2 158**
3 Employee benefits		
Wages and salaries	–24 684	–21 068
Pension expenses		
Defined contribution plans	–4 962	–4 274
Other post employment benefits	–2 415	–2 055
Activated R&D salaries and social costs	1 030	1 003
Equity-settled share-based transactions	–424	–706
Total	**–31 455**	**–27 100**

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

	2007	2006
Research and Development	158	131
Production and Material Management	305	297
Sales and Marketing, Log. Services	179	148
Finance and IT	39	32
Total	**681**	**608**

4 Depreciation, amortisation and impairment

Depreciation and amortisation by asset type:	2007	2006
Tangible assets		
Buildings	–298	–297
Machinery and equipment	–938	–761
Other tangible assets	–434	–316
Total	**–1 670**	**–1 374**
Intangible assets		
Capitalised development expenses	–1 429	–939
Other intangible assets	–452	–80
Total	**–1 881**	**–1 019**

No impairment test losses are booked to Profit and Loss Account during 2007 or 2006.

5 Other operating expenses

	2007	2006
Rental expenses	–2 014	–1 575
External services	–1 335	–1 198
Impairment loss on trade receivables	0	–20
Other cariable costs	–2 566	–1 551
Travel and IT costs	–4 726	–4 440
R&D costs	–3 174	–2 564
Other expenses	–4 509	–4 658
Total	**–18 324**	**–16 006**

Notes

1 000 euros	2007	2006

6 Financial income

Interest income	210	108
Dividend income	10	6
Other financial income	407	80
Total	**627**	**194**

Other financial income includes EUR 353 thousand gain from sales of other financial assets during the period (EUR 0 thousand in 2006)

7 Financial expenses

Interest expenses	–701	–381
Exchange losses	–289	–206
Other financial expenses	–141	–74
Total	**–1 131**	**–661**

Other financial expenses includes interests from financial leasing expensed during the period EUR 141 thousand (EUR 74 thousand in 2006). Losses from forward exchange contratcs are included in operating profit.

8 Income taxes

Recognised in the income statement		
Current tax expense		
Current year	–3 221	–2 085
Adjustments for prior years	21	–15
Deferred tax expense	–109	–308
Total	**–3 309**	**–2 408**

Reconciliation of the income tax expense in the income statement, EUR 3,309 thousand, and the income tax expense calculated using the Teleste Group's domestic corporation 26% tax rate.

Profit before tax	12 672	9 288
Income tax using the domestic corporation tax rate 26%	–3 295	–2 415
Effect of tax rates in foreign jurisdictions	–147	161
Tax exempt revenues	55	12
Tax debt increase related to balance sheet items	–109	–308
Non-deductible expenses	–133	–5
Taxes from prevoius year	21	–15
Effect of tax losses utilised	299	161
Income tax expense reported in the consolidated income statement	**–3 309**	**–2 408**

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 Capital and reserves.

	2007	2006
Profit for the year attributable to equity holders of the parent (1 000 euros)	9 363	6 879
Weighted average number of ordinary shares outstanding during the financial year (1 000 shares)	17 117	16 896
Basic earnings per share (euros/share)	0.55	0.41
Weighted average number of ordinary shares outstanding during the financial year (1 000 shares)	17 117	16 896
Effect of share options on issue (1 000 shares)	854	1 127
Weighted average number of ordinary shares outstanding during the financial year (diluted) (1 000 shares)	17 971	18 023
Diluted earnings per share (euros)	0.52	0.38

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.

Notes

1 000 euros	Land areas	Buildings	Machinery and equipment	Other tangible assets	Advance payments	**Total**
10 Property, plant and equipment						
Balance at 1.1.2007	108	5 384	14 419	2 939	37	**22 887**
Additions	0	233	2 385	754	0	**3 372**
Acquisitions through business combinations	54	200	227	0	0	**481**
Transfers between classes	0	26	9	0	-37	**–2**
Balance at 31.12.2007	162	5 843	17 040	3 693	0	**26 738**
Depreciation and impairment losses balance 1.1.2007	0	–2 589	–12 326	–2 395	0	**–17 310**
Depreciation charge for the year	0	–298	–938	–434	0	**–1 670**
Depreciation and impairment losses, balance 31.12.2007	0	–2 887	–13 264	–2 829	0	**–18 980**
Carrying amounts 1.1.2007	108	2 795	2 093	544	37	**5 578**
Carrying amounts 31.12.2007	162	2 956	3 776	864	0	**7 757**

1 000 euros	Land areas	Buildings	Machinery and equipment	Other tangible assets	Advance payments	**Total**
Balance 1.1.2006	108	5 523	13 421	2 684	59	**21 795**
Additions	0	59	917	196	37	**1 209**
Acquisitions through business combinations	0	0	118	0	0	**118**
Transfers between classes	0	0	0	59	–59	**0**
Disposals	0	–198	–37	0	0	**–235**
Balance 31.12.2006	108	5 384	14 419	2 939	37	**22 887**
Depreciation and impairment losses, balance 1.1.2006	0	–2 292	–11 564	–2 079	0	**–15 935**
Depreciation charge for the year	0	–297	–762	–316	0	**–1 375**
Depreciation and impairment losses, balance 31.12.2006	0	–2 589	–12 326	–2 395	0	**–17 310**
Carrying amounts 1.1.2006	108	3 231	1 857	605	59	**5 860**
Carrying amounts 31.12.2006	108	2 795	2 093	544	37	**5 578**
Carrying amount of production machinery and equipment 31.12.2007			2 906			
Carrying amount of production machinery and equipment 31.12.2006			1 784			

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

1 000 euros	Machinery and equipment
31.12.2007	
Historical cost	3 205
Cumulative depreciation	–917
Carrying amount 31.12.2007	2 288
31.12.2006	
Historical cost	1 383
Cumulative depreciation	–407
Carrying amount 31.12.2006	976

Notes

1 000 euros	Goodwill	Development	Other intangible assets	**Total**
11 Intangible assets				
Balance 1.1.2007	12 127	5 107	775	**18 009**
Additions	99	2 736	0	**2 835**
Acquisitions through business combinations	460	0	2 160	**2 620**
Balance 31.12.2007	12 686	7 843	2 935	**23 464**
Amortisation and impairment losses, balance 1.1.2007	0	–2 188	–80	**–2 268**
Amortisation for the year	0	–1 428	–452	**–1 880**
Amortisation and impairment losses, balance 31.12.2007	0	–3 616	–532	**–4 148**
Carrying amounts 1.1.2007	12 127	2 919	695	**15 741**
Carrying amounts 31.12.2007	12 686	4 226	2 403	**19 315**

1 000 euros	Goodwill	Development	Other intangible assets	**Total**
Balance 1.1.2006	9 205	3 763	75	**13 043**
Additions	194	1 344	72	**1 610**
Acquisitions through business combinations	2 728	0	628	**3 356**
Balance 31.12.2006	12 127	5 107	775	**18 009**
Amortisation and impairment losses, balance 1.1.2006	0	–1 249	0	**–1 249**
Amortisation for the year	0	–939	–80	**–1 019**
Amortisation and impairment losses, balance 31.12.2006	0	–2 188	–80	**–2 268**
Carrying amounts 1.1.2006	9 205	2 514	75	**11 794**
Carrying amounts 31.12.2006	12 127	2 919	695	**15 741**

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 12,7 million at 31 December 2007. Goodwill has been allocated to the following cash-generating units: Teleste Broadband Cable Networks EUR 6,3 million (including Flomatik AS, PromaCom AB, Teleste Electronics (SIP) Co. Ltd. and DINH Telecom S.A.), Teleste Video Networks EUR 6,4 million (including Teleste Video Networks AB and Suomen Turvakamera Oy).

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 the management. Calculations prepared cover 10 years' period, the cash flow for the first year is based on budgets and during the next 4 years the expected growth rate is 20 per cent. The expected future cash flows for a further 5 year period are extrapolated using a 5 per cent growth rate. Management's view on the cash flows after the first five years' period is cautious as the changes of the industry are difficult to foresee. 5 per cent growth rate has been used for all segments. A discount rate of 12,6 per cent (12,1 per cent) has been used in discounting the projected cash flows. The terminal value of the segments is calculated by discounting the future cash flows after the 10 year period, assumption is that cash flows are the same as at last year of the period.

Management is of the opinion that potential changes of any key parameters used in the calculations moderately assessed would not result the carrying amount of the segment to exceed the recoverable amount. Impairment losses would occur partly on Video Networks segment, if growth rate decreased by half and the discount rate would increase by 3 per cent units.

The Group received a grant amounting to EUR 2,1 million from Tekes (National Technology Agency of Finland) towards development costs in 2007 (2006: EUR 2,5 million). From the grant received EUR 0,66 thousand (2005: EUR 0,67 million) 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.

1 000 euros	2007	2006
12 Available-for-sale investments		
Unlisted shares	723	1 116
Total	723	1 116

The Group has sold unlisted shares during 2007 and recognised a sales gain of EUR 353 thousand for the biggest transaction. The rest of the unlisted shares have been valued to the historical purchase value. This is the prudent estimation by the management.

Notes

1 000 euros	1.1.2007	Recognised in the income statement	31.12.2007
13 Deferred tax assets and liabilities			
Movements in temporary differences during 2007.			
Deferred tax assets:			
Effects of consolidation and eliminations	392	271	663
Provisions	306	–75	231
Cumulative depreciation difference	349	–64	285
Total	**1 047**	**132**	**1 179**
Deferred tax liabilities:			
Capitalisation of intangible assets	–758	–341	–1 099
Fair value adjustments to intangible and tangible assets on acquisition	–143	80	–527
Cumulative depreciation difference	–516	49	–467
Other taxable temporary differences	3	–286	–283
Total	**–1 414**	**–498**	**–2 376**

In the consolidated financial statements deferred tax receivables and liabilities have been offset.
The change in liabilities doesn't match the deferred tax recognised in the income statement due recognition of deferred tax liabilities for other intangible assets and group internal eliminations.

1 000 euros	1.1.2006	Recognised in the income statement	31.12.2006
Movements in temporary differences during 2006.			
Deferred tax assets:			
Effects of consolidation and eliminations	200	192	392
Provisions	432	–126	306
Tax losses carried forward	25	–25	0
Cumulative depreciation difference	450	–101	349
Total	**1 107**	**–60**	**1 047**
Deferred tax liabilities:			
Capitalisation of intangible assets	–653	–105	–758
Fair value adjustments to intangible and tangible assets on acquisition	0	–143	–143
Cumulative depreciation difference	–514	–2	–516
Other taxable temporary differences	0	3	3
Total	**–1 167**	**–247**	**–1 414**

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

At 31 December 2007 the Group had unused tax losses in foreign subsidiaries amounting to EUR 411 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 5,724 thousand at 31 Dec. 2007 (31 Dec. 2006: EUR 4,994 thousand). This is because the group has the power to decide the time when the tax obligation would realize. The realization of this tax is unlikely in the near future.

1 000 euros	2007	2006
14 Inventories		
Raw materials and consumables	3 851	3 846
Work in progress	4 980	5 839
Finished goods	7 104	6 919
Total	**15 936**	**16 604**

The amount of the impairment losses of inventories to the net realisable value recognised as an expense during the financial period is EUR 1,187 thousand. At the end of the financial year EUR 4,539 thousand was deducted from the inventory value to the net realisable value
(31 Dec. 2006: EUR 3,352 thousand).

Notes

1 000 euros	2007	2006
15 Trade and other current receivables		
Trade receivables	23 498	17 873
Accrued income and prepayments	2 061	4 082
Other receivables	896	454
Total	**26 455**	**22 409**
16 Cash and cash equivalents		
Cash at bank and in hand and call deposits	7 702	6 789
Total	**7 702**	**6 789**
Cash and cash equivalents in the statement of cash flows	7 702	6 789

1 000 euros	Number of shares, 1 000 pcs	Number of own shares, 1 000 pcs	Number of shares, total, 1 000 pcs	Share capital, 1 000 euros	Reserve fund, 1 000 euros
17 Capital and reserves					
1.1.2006	16 855	485	17 340	6 935	1 277
Share options exercised by employees	50	0	50	20	141
Own shares sold	30	–30	0	0	0
31.12.2006	16 934	455	17 389	6 955	1 418
Share options exercised by employees	282	0	282	12	87
Own shares sold	103	–103	0	0	0
31.12.2007	17 319	352	17 671	6 967	1 504

The number of Teleste Oyj shares was 17,671,305 at 31 December 2007 (31 Dec. 2006: 17,389,302 shares).
All shares issued have been fully paid.

The Annual General Meeting of Teleste Oyj held on 3 April 2007 authorised the Board to acquire the maximum of 1,290,000 Teleste's own shares, convey at most 1,730,000 own 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 2007. The number of treasury shares conveyed for the purchase price of DINH Telecom was 92,388 shares and 10,180 shares for share payments in 2007.

The Annual General Meeting of Teleste Oyj held on 4 April 2006 authorised the Board to acquire the maximum of 1,215,000 Teleste's own shares, convey at most 1,700,000 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 2006. The number of treasury shares conveyed for the purchase price of Suomen Turvakamera Oy was 30,000 in 2005.

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 difference
The translation difference 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 0.24 per share (2006: EUR 0.20 per share) was proposed by the Board of Directors.

Notes

17 Share-based payments

Teleste had three option schemes in operation during the period. The schemes were approved by Teleste Annual General Shareholders' Meetings in 2002, 2004 and 2007. The Annual General Meeting of shareholders has authorized Teleste management board grant options to the Group key employees. The stock options have a term up to 6 years from the grant date. After expiration of a 3 to 4 year waiting period, the options may be exercised as shares. The options are forfeited if the employee leaves the Group before the options vest. The options are also subject to certain performance criteria. Key characteristics and terms of Teleste option schemes are listed in the table below. CEO and management team are involved in a share-based remuneration arrangement. Additional information about this arrangement is presented in the Note Related Party Transactions.

Teleste has applied IFRS 2 to all grants after 7 November 2002 and that were unvested as of January 2005. The fair value of the options is determined at the grant date and expensed over the vesting period.

Basic information	Options 2002		Options 2004		Options 2007			Total
2007	2002A	2002B	2004A	2004B	2007A	2007B	2007C	
31.12.2007								
Annual General Shareholders' Meeting date	8.4.2002	8.4.2002	16.3.2004	16.3.2004	3.4.2007	3.4.2007	3.4.2007	
Grant date	15.4.2003 15.10.2004 4.4.2006	15.4.2003 15.10.2004 4.4.2006	15.6.2004 4.4.2006 15.11.2006	15.6.2004 4.4.2006 15.11.2004	24.8.2007			
Maximum number of stock options	275 000	275 000	300 000	300 000	280 000	280 000	280 000	1 990 000
The number of shares subscribed by one option	1	1	1	1	1	1	1	
Initial exercise price, euro	7.55	2.73	5.98	6.59	12.69	–	–	
Dividend adjustment	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
Exercise price 31.12.2005, euro	7.11	2.45	5.86	6.47	–	–	–	
Exercise price 31.12.2006, euro	6.95	2.29	5.70	6.31	–	–	–	
Exercise price 31.12.2007, euro	6.75	2.09	5.50	6.11	12.69	*	**	
Beginning of exercise period, date (vesting)	1.2.2005	1.2.2006	1.4.2007	1.4.2008	1.4.2010	1.4.2011	1.4.2012	
End of excercise period, date (expiration)	1.10.2007	1.10.2008	30.4.2009	30.4.2010	30.4.2012	30.4.2013	30.4.2014	
Maximum contractual life	5.5	6.5	5.1	6.1	5.1	6.1	7.1	
Remaining contractual life 31.12.2007, years	0	0.8	1.3	2.3	4.3	5.3	6.3	
Number of persons 31.12.2007	0	45	39	47	39	–	–	

* will be determined in April 2008
** will be determined in April 2009

Vesting conditions	Options 2002		Options 2004		Options 2007		
	2002A	2002B	2004A	2004B	2007A	2007B	2007C
	Employment until beginning of exercise period. For options granted in 2006: 9 months' service required		Employment until beginning of exercise period		Employment until beginning of exercise period		
	For options granted in 2006 performance criteria include: 2006 orders: 100 Meur 2006 earnings: 10 Meur		For options granted in 2006 performance criteria include: 2006 orders: 100 Meur 2006 earnings: 10 Meur				
			EPS				
			0.30	0.35			
			ROCE				
			20%	25%			
			Members of the top management are obliged to use 20% of the income earned by the stock options to acquire Teleste shares worth annual salary		Members of the top management are obliged to use 20% of the income earned by the stock options to acquire Teleste shares worth annual salary		

Notes

Changes during the period 2007	Options 2002		Options 2004		Options 2007			Total	Weighted average exercise, euro
	2002A	2002B	2004A	2004B	2007A	2007B	2007C		
Number of options 1.1.2007									
Granted	265 100	263 100	291 700	294 300	0	0	0	1 114 200	5.35
Returned	11 550	11 550	43 600	28 400	0	0	0	95 100	5.62
Invalidated	0	0	0	0	0	0	0	0	--
Exercised	10 000	39 550	0	0	0	0	0	49 550	3.23
Outstanding	243 550	212 000	248 100	265 900	0	0	0	969 550	5.44
Non-distributed	21 450	23 450	51 900	34 100	0	0	0	130 900	5.45
Exercisable	265 000	235 450	300 000	300 000	0	0	0	1 100 450	5.44
Changes during the period 2007									
Granted	0	0	0	0	260 000	0	0	260 000	12.69
Returned	0	0	0	12 000	0	0	0	12 000	6.11
Invalidated	0	0	0	0	0	0	0	0	--
Exercised	221 965	60 038	0	0	0	0	0	282 003	5.76
Weighted average price of share during the exercise period, euro	10.87*	10.10**	9.54***	--	--	--	--	0	--
Expired	43 035	0	0	0	0	0	0	43 035	--
Number of options 31.12.2007									--
Granted	265 100	263 100	291 700	294 300	260 000	0	0	1 374 200	6.58
Returned	11 550	11 550	43 600	40 400	0	0	0	107 100	5.50
Invalidated	0	0	0	0	0	0	0	0	--
Expired	43 035	0	0	0	0	0	0	43 035	6.75
Exercised	231 965	99 588	0	0	0	0	0	331 553	5.35
Outstanding	0	151 962	248 100	253 900	260 000	0	0	913 962	7.15
Non-distributed	0	23 450	51 900	46 100	20 000	0	0	141 450	6.15
Exercisable	0	175 412	300 000	300 000	280 000	0	0	1 055 412	7.01

* For 2002A options weighted average price of Teleste share during 1.1.–1.10.2007
** For 2002B options weighted average price of Teleste share during 1.1.–31.12.2007
*** For 2004A options weighted average price of Teleste share during 1.4.–31.12.2007

Notes

Changes during the period 2006	Options 2002		Options 2004		Options 2007			Total	Weighted average exercise, euro
	2002A	2002B	2004A	2004B	2007A	2007B	2007C		
Number of options 1.1.2006									
Granted	242 000	240 000	264 000	275 000				1 021 000	5.52
Returned									
Invalidated									
Exercised									
Outstanding	242 000	240 000	264 000	275 000				1 021 000	5.52
Non-distributed	33 000	35 000	36 000	25 000				129 000	5.37
Exercisable	275 000	275 000	300 000	300 000				1 150 000	5.50
Changes during the period 2006									
Granted	23 100	23 100	27 700	19 300				93 200	5.29
Returned	11 550	11 550	43 600	28 400				95 100	5.62
Invalidated									
Exercised	10 000	39 550	0	0				49 550	3.23
Weighted average price of share during the exercise period, euro	9.81*	10.21**	--	--					
Expired									
Number of options 31.12.2006									
Granted	265 100	263 100	291 700	294 300				1 114 200	5.35
Returned	11 550	11 550	43 600	28 400				95 100	5.62
Invalidated									
Exercised	10 000	39 550	0	0				49 550	3.23
Outstanding	243 550	212 000	248 100	265 900				969 550	5.44
Non-distributed	21 450	23 450	51 900	34 100				130 900	5.45
Exercisable	265 000	235 450	300 000	300 000				1 100 450	5.44

* For 2002A options weighted average price of Teleste share during 1.1.–31.12.2006
** For 2002B options weighted average price of Teleste share during 1.2.–31.12.2006

The fair value of options have been determined at grant date and the fair value is recognised to personnel expenses during the vesting period. The fair value of stock options have been determined by using Black-Scholes valuation model. Total fair value of the options granted during the period was EUR 322,400 and the effect of all options on the Group's earnings during the period was: EUR 424,408. The inputs into Black-Scholes model were as follows:

Options	2002A	2002B	2004A	2004B	2007A
Number of options granted	**265 100**	**263 100**	**291 700**	**294 300**	**260 000**
Share price, euro					9.03
Exercise price, euro	6.75	2.09	5.50	6.11	12.69
Expected volatility *	40%/20%	40%/20%	35%/20%	30%/20%	33.7%*
Maturity in years	4.5	5.5	4.8	4.9	4.7
Risk-free rate	4%/2.5%	4%/2.5%	4%/2.5%	4%/2.5%	4.2%
Expected dividends	0	0	0	0	0
Valuation model	BS	BS	BS	BS	BS
Expected forfeitures					0%
Fair value, euro					322 400
Earnings effect, euro			115 906	240 729	67 773

* Expected volatility was determined by calculating the historical volatility of the Group's share using monthly observations over corresponding maturity

Notes

1 000 euros	2007	2006
18 Interest-bearing liabilities		
Non-current		
Finance lease liabilities	1 700	742
Total	**1 700**	**742**
Current		
Loans from financial institutions	7 140	7 000
Finance lease liabilities, current portion	643	270
Total	**7 783**	**7 270**

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

The currency mix of the Group long-term interest-bearing liabilities was as follows:

1 000 euros	31.12.2007	31.12.2006
EUR	1 700	742
	1 700	742
Group long-term interest-bearing liabilities – interest rates:		
Finance lease liabilities	4,6%	3,9%–4,2%

The currency mix of the Group short-term interest-bearing liabilities:

EUR	100%	100%
	100%	100%
Group short-term interest-bearing liabilities – interest rates are as follows:		
Bank loans	4,8%	3,7%
Finance lease liabilities	4,6%	3,9%–4,2%

Finance lease liabilities of the Group are payable as follows:

Minimum lease payments		
Less than one year	723	270
Between one and five years	1 806	813
Total	2 529	1 083
Present value of minimum lease payments		
Less than one year	644	274
Between one and five years	1 700	735
Total	2 344	1 009
Future finance charges	185	74
Total finance lease liabilities	2 529	1 083

Notes

1 000 euros	Warranties	Restruc-turing	**Total**
19 Provisions			
1.1.2007	1 168	107	**1 275**
Provisions made during the year	–225	–107	**–332**
Provisions used during the year	0	0	**0**
31.12.2007	943	0	**943**

	2007
Non-current	425
Current	518
Total	**943**

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.

1 000 euros	2007	2006
20 Trade and other current liabilities		
Current		
Trade payables	7 724	9 462
Personnel, social security and pensions	4 159	3 879
Accrued interest expenses and other financial items	190	140
Other accrued expenses and deferred income	3 865	3 608
Other liabilities	3 658	3 831
Total	**19 596**	**20 920**

Includes the income tax payable for the period.

21 Income tax payable for the period

The item other accrued expenses includes the income tax payable, EUR 580 thousand, on the profit for the period (31 Dec. 2006: EUR 857 thousand).

Financial Risk Management

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 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 in 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 an effect on the consolidated earnings, balance sheet and cash flows.

Currency risk
Transaction 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 3 per cent of the net sales), Swedish and Norwegian crowns (15 per cent) and UK pound sterling (7 per cent). Significant part of expenses, 68 per cent, arise in euro and in US dollar almost 25 per cent. The hedging decisions are based on the expected net cash flow for the following six months.

Assets and liabilities in foreign currency translated at closing rate

	2007				2006			
	USD	SEK	NOK	GBP	USD	SEK	NOK	GBP
Current assets	313	2 937	1 341	2 724	738	2 156	641	1 474
Current liabilities	1 287	739	366	34	1 482	988	808	60

Cash flow hedges at 31.12.2007

Currency position					
Currency	Exposure	Hedge	Net	Hedge instrument	Hedge
USD	3 077	2717	360	Forward exchange contract	88%
SEK	1 643	1 165	478	Forward exchange contract	71%
NOK	889	753	136	Forward exchange contract	85%
GBP	3 317	3 052	265	Forward exchange contract	92%

Cash flow hedges at 31.12.2006

Currency position

Currency	Exposure	Hedge	Net	Hedge instrument	Hedge
USD	3 829	3 796	33	Forward exchange contract	99%
SEK	2 290	1 991	299	Forward exchange contract	87%
NOK	1 635	1 213	422	Forward exchange contract	74%
GBP	3 793	2 978	815	Forward exchange contract	79%

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 2007 the fair value of currency derivatives amounted to EUR 7.4 million (31. Dec 2006: EUR 10.1 million).

Translation risk
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 2007 the total non-euro-denominated equity of the Group's foreign subsidiaries amounted to EUR 5.2 million (31 Dec. 2006: EUR 5.6 million).

Sensitivity to market risk

Sensitivity to market risks arising from financial instruments as required by IFRS 7 Profit or Loss	2007 Profit or Loss	2006 Profit or Loss
+-10% change in EUR/USD exchange rate	+-36	+-3
+-10% change in EUR/SEK exchange rate	+-48	+-30
+-10% change in EUR/NOK exchange rate	+-14	+-42
+-10 % change in EUR/GBP exchange rate	+-27	+-81

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 the Group's interest-bearing liabilities at the year-end 2007. All Group loans are denominated in euro. In 2007, the average interest rate of the loan portfolio was 4.3%. All finance lease agreements are fixed-rate.

The Group does not hedge the risk position resulting from the fair value interest rate risk as the position is small.

Period in which repricing occurs	Within 1 year	Within 1 year–5 years	over 5 years	**Total**
Financial instruments with floating interest rate				
Financial liabilities				
Loan from financial institutions	7 140			**7 140**

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.

All receivables are without collateral. There are no significant concentrations of credit risk with respect to the receivables of the Group. Impairment losses on trade receivables are shown in note 5 Other operating expenses.

	2007			2006		
Analysis of trade receivables by age	Gross	Impairment loss	**Total**	Gross	Impairment loss	**Total**
Overdue trade receivables	17 353		17 353	13 329		13 329
1–30 days	4 122		4 122	3 190		3 190
31–60 days	937		937	406		406
Over 60 days	1 086		1 086	982	20	962
Total	**23 498**		**23 498**	**17 907**	**20**	**17 887**

The maximum exposure to credit risk at the reporting date was:	2007	2006
Loans and receivables	26 455	22 409
Available for sale financial assets	732	1 116

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 2007 the Group's cash reserves totaled EUR 7.7 million and its interest-bearing net debt EUR 9.5 million. The Group administration raises the Group's interest-bearing debt centrally. At 31 December 2007 Teleste had committed and available credit facilities as well as other agreed and undrawn loans amounting to EUR 23 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 nominal and fair values of derivatives at the balance sheet date are presented in the note Commitments and contingencies to the consolidated financial statements.

As of 31 December 2007, the contractual maturity of interest-bearing liabilities was as follows:

	2008	2009	2010	2011	2012
Loans from financial institutions	7 287				
Trade payables	7 724				
Finance lease liabilities	720	653	653	393	110
Forward exchange contracts					
Outflow	–8 181				
Inflow	8 029				
Other liabilities	190				

As of 31 December 2006, the contractual maturity of interest-bearing liabilities was as follows:

	2007	2008	2009	2010	2011
Loans from financial institutions	7 112				
Trade payables	9 462				
Finance lease liabilities	307	306	276	165	29
Forward exchange contracts					
Outflow	–9 979				
Inflow	10 124				
Other liabilities	140				

Capital risk management
The group's objective when managing capital is to secure the continuity of the business and to make investments possible with optimal capital structure. The capital structure of the Group is reviewed by the Board of Directors on a regular basis.

The Group monitors its capital on the basis of leverage ratio, the ratio of interest-bearing net debt to interest-bearing net debt, plus total equity. Interest-bearing net debt is calculated as borrowings less cash and cash equivalents. The Group's objective to maintain the leverage less than 50%.

The leverage ratio as of 31 December 2007 and 2006 was as follows:

	2007	2006
Total borrowings	9 483	8 012
Cash and cash equivalents	7 702	6 789
Interest-bearing net debt	1 781	1 223
Total equity	46 669	37 661
Interest-bearing net debt and total equity	48 450	38 884
Leverage ratio	3.7%	3.1%

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 exchage 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 144 thousand in 2006 (2005: EUR 94 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 these investments 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.

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:

	2007	2006
Finance lease liabilities	4.6%	4.1%

Notes

Carrying amounts of financial assets and liabilities by measurment categories

	Note	Financial assets and liabilities at fair values through income statement	Loans and receivables	Available for sale assets	Financial liabilities measured at amortized cost	Carrying amount by balance sheet item	Fair value
2007 Balance item							
Non current financial assets							
Other financial assets	12			732		732	732
Current financial assets							
Trade and other receivables	15		26 455			26 455	26 455
Carrying amount by category		0	26 455	732	0	27 187	27 187
Non current financial liabilities							
Interest-bearing liabilities	18	1 700				1 700	1 700
Current financial liabilities							
Interest-bearing liabilities	18	644			7 140	7 784	7 784
Forward exchange contracts	25	152				152	152
Trade and other payables	20				7 724	7 724	7 724
Other current liabilities	20				190	190	190
Carrying amount by category		2 496	0	0	15 054	17 550	17 550
2006 Balance item							
Non current financial assets							
Other financial assets	12			1 116		1 116	1 116
Current financial assets							
Trade and other receivables	15		22 265			22 265	22 265
Forward exchange contracts	25	144				144	144
Carrying amount by category		144	22 265	1 116	0	23 525	23 525
Non current financial liabilities							
Interest-bearing liabilities	18	742				742	742
Current financial liabilities							
Interest-bearing liabilities	18	270			7 000	7 270	7 270
Trade and other payables	20				9 462	9 462	9 462
Other current liabilities	20				140	140	140
Carrying amount by category		1 012	0	0	16 602	17 614	17 614

Notes

1 000 euros	2007	2006

23 Adjustments to cash flows from operating activities

Non-cash transactions:

	2007	2006
Depreciation and amortisation	3 552	2 393
Employee benefits	541	706
Deferred taxes	109	308
Total	**4 202**	**3 407**

24 Operating leases

Group as lessee

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

	2007	2006
Less than one year	1 097	955
Between one and five years	1 539	1 910
Total	**2 636**	**2 865**

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 agreeement is valid until further notice. In 2007 the lease payments in respect of this part of property amounted to EUR 120 thousand (2006: EUR 106 thousand).

1 000 euros	2007	2006

25 Commitments and contingencies

	2007	2006
Collateral for own commitments		
Guarantees	184	819
Other commitments	365	731
Rental and leasing liabilities		
Rental liabilities	1 112	928
Lease liabilities	1 523	1 937
Currency derivatives		
Value of the underlying forward contracts	7 746	9 980
Market value of the forward contracts	–152	144

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 Oyj, Turku, Finland		
DINH Technicom, Herstal, Belgium	100	100
DINH Telecom S.A, Herstal, Belgium	100	100
DINH Vlaanderen, Herstal, Belgium	100	100
Flomatik A/S, Porsgrun, Norway	100	100
Flomatik Network Services Ltd. Fareham, UK	100	100
Kaavisio Oy, Turku, Finland	100	100
PromaCom AB, Stockholm, Sweden	100	100
PromaCom Intressenten AB, Stockholm, Sweden	100	100
Suomen Turvakamera Oy, Vantaa, Finland	100	100
Suomen Yhteisantennit Oy, Turku, Finland	100	100
Teleste Belgium SPRL, Bryssel, Belgium	100	100
Teleste d.o.o., Ljutomer, Slovenia	100	100
Teleste Electronics (SIP), Shuzhou, China	100	100
Teleste France SAS, Paris, France	100	100
Teleste Försäljning AB, Malmö, Sweden	100	100
Teleste GmbH, Hannover, Germany	100	100
Teleste Kaurakatu Oy, Turku, Finland	100	100
Teleste LLC, Georgetown Texas, USA	100	100
Teleste s.r.o., Bratislava, Slovakia	100	100
Teleste Sweden AB (former Flomatik AB), Stockholm, Sweden	100	100
Teleste UK Ltd, Cambridge, UK	100	100
Teleste Video Networks AB (former S-Link AB), Täby, Sweden	100	100
Teleste Video Networks Sp zoo (former S-Link ssp), Krakow, Poland	100	100

The key management personnel compensations

1 000 euros	2007	2006
CEO		
Salaries and other short-term benefits	379	417
Performance share arrangement	68	283
Share-based payments	47	62
Total	**494**	**762**

During 2007 40,000 options were granted to the management of Teleste (2006: 0 options). The terms of the management share option plans are similar to those of other employees' share option plans, except for the terms of 2004 and 2007 options. According to the 2004 and 2007 option terms the recipient has to subscribe Teleste shares to the amount that equals his net annual salary. At 31 December 2007 management had 149,500 (2006: 135,000) options, of which 69,500 were exercisable (2006: 55,000). Management of the parent company has 0,67% or 118,525 of the parent company's shares (2006: 0,63% or 109,329 shares).

A voluntary pension fee for CEO amounted EUR 51 thousand (EUR 47 thousand in 2006).

Notes

1 000 euros	2007	2006
Remuneration to Board members and Managing Director		
Chairman of the Board Tapio Hintikka	**38**	**38**
Members of the Board	**88**	**88**
Tero Laaksonen	22	22
Pertti Raatikainen	22	22
Timo Toivila	22	22
Pekka Vennamo	22	22
CEO Jukka Rinnevaara	**494**	**762**
Total	**620**	**888**

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. A fixed remuneration for the Board is paid as shares of the company in accordance with the decision of the General Meeting. Remuneration of Board Meetings are paid in cash.

No cash loans were granted to nor commitments assumed or collaterals given regarding CEO or the members of the Board of Directors in 2007 and 2006.

27 Subsequent events

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

Statement of Income

1 000 euros	Note	2007	2006
Net sales	1	**99 879**	**87 217**
Change in inventories of finished goods		–1 149	5 065
Other operating income	2	2 339	2 703
Materials, supplies and services	3	–47 499	–49 509
Wages, salaries and social expenses	4	–22 479	–20 106
Depreciation and amortisation	5	–1 783	–1 735
Other operating expenses		–21 265	–17 953
Operating profit		**8 043**	**5 683**
Financial income and expenses	6	1 272	4 481
Profit before taxes		**9 315**	**10 165**
Appropriations	7	75	162
Paid group contribution	7	–350	0
Direct taxes	8	–1 910	–1 475
Profit for the financial period		**7 130**	**8 852**

Assets

1 000 euros	Note	2007	2006
Non-current assets			
Intangible assets	9	807	1 558
Property, plant and equipment	9	4 320	4 166
Investments	10	20 767	14 977
		25 894	**20 701**
Current assets			
Inventories	11	10 644	12 501
Trade and other receivables	12	19 358	19 009
Cash and cash equivalents	13	2 492	4 080
		32 494	**35 590**
Total assets		**58 388**	**56 291**
Shareholders' equity			
Share capital	14	6 967	6 955
Share premium	14	1 504	1 417
Invested non-restricted equity	14	2 531	0
Retained earnings	14	16 141	10 583
Profit for the financial period	14	7 130	8 852
		34 273	**27 807**
Appropriations	7	**1 047**	**1 122**
Provisions	15	**889**	**1 176**
Liabilities			
Short-term liabilities	17	**22 179**	**26 186**
Total equity and liabilities		**58 388**	**56 291**

Cash Flow Statement

1 000 euros	2007	2006
Cash flow from operations		
Operating profit	8 043	5 683
Adjustments to operating profit	1 614	1 250
Change in net working capital	–1 768	–8 715
Interest income	223	134
Interest expenses	–727	–303
Dividend income	1 602	4 806
Paid group contribution	–350	0
Other financial items	–142	–156
Taxes paid	–2 090	–1 085
Cash flow from operations	**6 405**	**1 614**
Investments		
Other tangible assets	–1 080	–723
Sale of shares	705	0
Investments in subsidiary shares	–5 835	–3 677
Cash flow from investments	**–6 210**	**–4 400**
Cash flow before financing	**195**	**–2 786**
Financing		
Short-term liabilities	0	4 000
Paid dividends	–3 413	–2 697
Share issue	1 630	161
Financing total	**–1 783**	**1 464**
Change in liquid funds	**–1 588**	**–1 322**
Liquid funds 1.1.	4 080	5 402
Liquid funds 31.12.	2 492	4 080

Accounting Principles

Accounting Principles of 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 revenue 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. Use of own shares are recognised in invested non-restricted equity since 3 May 2007.

Notes

1 000 euros	2007	2006
1 Net sales		
Net sales by segments		
Broadband Cable Networks	88 067	73 934
Video Networks	11 812	13 283
Total	**99 879**	**87 217**
Net sales by market area		
Finland	8 704	7 848
Scandinavia	14 210	14 136
Other Europe	71 830	58 733
Others	5 135	6 500
Total	**99 879**	**87 217**
2 Other operating income		
R&D subvention and others	2 339	2 703
Total	**2 339**	**2 703**
3 Materials and services		
Purchases	44 049	47 837
Change in inventories	708	−291
	44 757	**47 546**
Purchased services	2 742	1 963
Total	**47 499**	**49 509**
4 Personnel expenses		
Wages and salaries	18 542	16 578
Pension costs	2 678	2 401
Other personnel costs	1 261	1 127
Total	**22 479**	**20 106**
Remuneration to Board members and Managing Directors	572	847

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

	2007	2006
Year-end personnel	443	435
Average personnel	467	436
Personnel by function at the year-end		
Research and Development	143	119
Production and Material Management	237	252
Sales and marketing	33	39
Finance and IT	30	25
Total	**443**	**435**

Notes

1 000 euros	2007	2006
5 Depreciation according to plan		
Other capitalized expenditure	392	305
Buildings	297	297
Machinery and equipment	342	381
Goodwill on consolidation	752	752
Total	**1 783**	**1 735**
Change in accumulated depreciation difference		
Buildings	187	170
Other capitalized expenditure	–112	–8
Total	**75**	**162**
6 Financial income and expenses		
Interest income	108	92
Interest income from Group companies	115	42
Interest expenses	–671	–303
Interest expenses to Group companies	–56	0
Currency differences	–142	–171
Other financial income and expenses	316	15
Dividend income from Group companies	1 592	4 800
Dividend income	10	6
Total	**1 272**	**4 481**
7 Appropriations and deferred tax assets and liabilities in the parent company		
Accumulated depreciation in excess of plan	1 047	1 122
8 Income taxes		
Direct taxes	1 966	1 490
Taxes from previous years	–56	–15
Total	**1 910**	**1 475**

9 Tangible and intangible assets

	Intangible assets	Tangible assets				
	Intangible rights	Land	Buildings	Machinery	Other capitalized expenditure	**Total**
Acquisition cost 1.1.	**7 579**	108	5 041	8 180	2 833	**16 162**
Increases	0	16	233	296	664	**1 209**
Decreases	0	0	0	0	–24	**–24**
Acquisition cost 31.12.	**7 579**	124	5 274	8 476	3 473	**17 347**
Accumulated depreciation 1.1.	**6 020**	0	2 246	7 522	2 228	**11 996**
Depreciation	752	0	298	339	394	**1 031**
Accumulated depreciation 31.12.	**6 772**	0	2 544	7 861	2 622	**13 027**
Book value 31.12.2007	**807**	124	2 730	615	851	**4 320**

Book value of machinery and equipment 31.12.2007	412
Book value of machinery and equipment 31.12.2006	492

Notes

Parent company	Shares in group companies	Shares others	**Total**
10 Investments			
Acquisition cost 1.1.	14 546	1 116	15 662
Increase	6 181	–391	5 790
Acquisition cost 31.12.	**20 727**	**725**	**21 452**
Accumulated depreciation 1.1.	–685	0	–685
Accumulated depreciation 31.12.	**–685**	**0**	**–685**
Book value 31.12.2007	**20 042**	**725**	**20 767**

11 Inventories	2007	2006
Raw materials and consumables	2 382	3 090
Work in progress	3 844	5 363
Finished goods	4 418	4 048
Total	**10 644**	**12 501**
12 Current assets		
Accounts receivables	12 311	14 540
Accounts receivables from Group companies	4 642	1 173
Other receivables from Group companies	797	685
Accrued income	1 608	2 611
Total	**19 358**	**19 009**
13 Liquid funds		
Cash and cash equivalents	2 492	4 080

14 Changes in shareholders' equity	2007	2006
Share capital 1.1.	6 955	6 955
Share issue	12	0
Share capital 31.12.	6 967	6 955
Share premium fund 1.1.	1 416	1 276
Share issues	87	141
Use of own shares	0	–1
Share premium fund 31.12.	1 503	1 416
Invested non-restricted equity 1.1.	0	0
Share issues	1 531	0
Own share	1 000	0
Invested non-restricted equity 31.12.	2 531	0
Retained earnings 1.1.	19 435	12 968
Dividends	–3 413	–2 697
Transfer from treasury shares	118	311
Retained earnings 31.12.	16 141	10 583
Profit for the financial period	7 130	8 852
Accumulated profit 31.12.	23 271	19 435
Total	**34 273**	**27 807**
Companys distributable equity 31.12.	25 802	19 434

Company's registered share capital consists of one serie and is divided into 17,671,305 shares at 1 vote each.

Notes

1 000 euros	2007	2006
15 Obligatory provisions		
Provision for guarantees	889	1 069
Provision for restructuring	0	107
Total	**889**	**1 176**
16 Long-term liabilities		
Other interestbearing liabilities	0	0
Total	**0**	**0**
17 Short term liabilities		
Bank loans	7 000	7 000
Advance payments received	95	95
Accounts payables	4 757	6 914
Accounts payables from Group companies	1 911	2 418
Other current liabilities	443	2 779
Other current liabilities from Group companies	1 691	1 691
Accrued liabilities	6 282	5 289
Total	**22 179**	**26 186**
18 Contingent liabilities and pledged assets		
Leasing liabilities:		
For next year	526	476
For later years	458	921
Total	**984**	**1 397**
Rental liabilities	268	257
Liabilities on own behalf		
Bank guarantees	184	819
Guarantees given on behalf of subsidiaries	700	0
19 Currency derivates		
Value of underlying forward contracts	7 746	9 980
Market value of forward contracts	–112	144

Forward contracts are used only for hedging currency exchange risks.

Notes

20 Companies owned by the Group and parent company

	Group's share, %	Parent company's share, %
DINH Technicom, Herstal, Belgium	100	100
DINH Telecom S.A, Herstal, Belgium	100	0
DINH Vlaanderen, Herstal, Belgium	100	0
Flomatik A/S, Porsgrun, Norway	100	100
Flomatik Network Services Ltd. Fareham, UK	100	100
Kaavisio Oy, Turku, Finland	100	100
PromaCom AB, Stockholm, Sweden	100	100
PromaCom Intressenten AB, Stockholm, Sweden	100	0
Suomen Turvakamera Oy, Vantaa, Finland	100	100
Suomen Yhteisantennit Oy, Turku, Finland	100	100
Teleste Belgium SPRL, Bryssel, Belgium	100	100
Teleste d.o.o., Ljutomer, Slovenia	100	0
Teleste Electronics (SIP), Shuzhou, China	100	100
Teleste France SAS, Paris, France	100	100
Teleste Försäljning AB, Malmö, Sweden	100	100
Teleste GmbH, Hannover, Germany	100	100
Teleste Kaurakatu Oy, Turku, Finland	100	100
Teleste LLC, Georgetown Texas, USA	100	100
Teleste s.r.o., Bratislava, Slovakia	100	100
Teleste Sweden AB (former Flomatik AB), Stockholm, Sweden	100	0
Teleste UK Ltd, Cambridge, UK	100	100
Teleste Video Networks AB (former S-Link AB), Täby, Sweden	100	100
Teleste Video Networks Sp zoo (former S-Link ssp), Krakow, Poland	100	100

21 Own shares

	Number of shares	Percentage of share capital and votes
Teleste Oyj owns own shares 31.12.2007	352 482	1.99

22 Major Shareholders 31.12.2007

	Number of shares	Percentage of share capital and votes
Sampo Life Insurance Company Ltd.	1 624 200	9.19
Ilmarinen Mutual Pension Insurance Company	894 776	5.06
Kaleva Mutual Insurance Company	798 541	4.52
FIM Fenno Mutual Fund	603 868	3.42
State Pension Fund	500 000	2.83
Varma Mutual Insurance Company	498 650	2.82
Aktia Capital Mutual Fund	487 200	2.76
Op-Suomi Small Cap	461 016	2.61
Skagen Vekst Verdipapierfond	437 000	2.47
Fondita Nordic Small Cap Placfond	375 000	2.12
Teleste Corporation	352 482	1.99
Nordea Nordic Small Cap Mutual Fund	302 156	1.71
Odin Finland	284 050	1.61
Mutual Insurance Company Pension-Fennia	220 000	1.24
FIM Forte Mutual Fund	200 240	1.13
Evli Bank Plc.	190 219	1.08
Mandatum Suomi Kasvuosake Mutual Fund	189 999	1.08
Veritas Pension insurance company	175 000	0.99
Carnegie Osake Mutual Fund	170 136	0.96
Aktia Secura Mutual fund	146 150	0.83
Nordea Fennia Plus Mutual fund	143 017	0.81
Sumato Oy	142 610	0.81
Svenska litteratursällskapet i Finland r.f.	121 000	0.68
Fondita Nordic Micro Cap Mutual Fund	110 000	0.62
Evli Nordic Tmt	105 887	0.60
Foreign and nominee register accounts	3 625 268	20.51
Others	4 512 840	25.54
Total	**17 671 305**	**100.00**

Notes

Shareholder's by numbers of shares 31.12.2007

Shareholder's by segments	Number of shares	Percentage of share
Corporations	1 818 473	10.29
Financial and insurance institutions	5 350 876	30.28
Public organizations	2 318 476	13.12
Non-profit organizations	1 072 319	6.07
Households	3 485 893	19.73
Foreign and nominee register accounts	3 625 268	20.51
Total	**17 671 305**	**100.00**

Shares	Number of shareholders	Percentage of shares	Number of shares	Percentage of shares
1–100	1 263	24.01	90 689	0.51
101–1 000	3 146	59.81	1 280 667	7.25
1 001–10 000	757	14.39	2 212 740	12.52
10 001–100 000	69	1.31	1 864 801	10.55
100 001–	25	0.48	9 533 197	53.95
Total	5 260	100.00	14 982 094	84.78
Nominee register accounts			2 689 211	15.22
Total			**17 671 305**	**100.00**

Management interest

	Number of shares	Percentage of shares	Percentage of votes
CEO and Board Members	118 525	0.67	0.67

Option programs

Number of shares entitled to subscribe with options

	Number of shares	Percentage of shares and votes
CEO	149 500	0.8
Other option holders	764 462	4.1
2002 program warrants hold by the group	23 450	0.1
2004 program warrants hold by the group	98 000	0.5
2007 program warrants hold by the group	20 000	0.1
Total	**1 055 412**	**5.64**

Proposal for the Distribution of Earnings

As to the Annual General meeting scheduled for 1 April 2008, the Board proposes that a dividend of EUR 0,24 (EUR 0,20) per share be paid for the outstanding shares for the year 2007.

Signatories to the Annual Report and Financial Statements

Helsinki 29 January 2008

TELESTE CORPORATION
Board of Directors

Tapio Hintikka
Chairman

Tero Laaksonen
Member

Pertti Raatikainen
Member

Timo Toivila
Member

Pekka Vennamo
Member

Jukka Rinnevaara
President and CEO

The Auditors note

The above financial statements and the report of Board of Directors have been prepared in accordance with generally accepted accounting principles in Finalnd. Our auditors report have been issued today.

Helsinki 29 January 2008

KPMG OY AB

Sixten Nyman
Authorised Public Accountant

Auditors' Report

To the shareholders of Teleste Oyj

We have audited the accounting records, the report of the Board of Directors, the financial statements and the administration of Teleste Oyj for the period 1.1.–31.12.2007. The Board of Directors and the Managing Director have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, containing the consolidated balance sheet, income statement, cash flow statement, statement on the changes in equity and notes to the financial statements, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors, the parent company's financial statements and the administration.

We conducted our audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the report of the Board of Directors and the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the report and in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration is to examine whether 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 defined in those standards and in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position.

Parent company's financial statements, report of the Board of Directors and administration

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The parent company's financial statements give a true and fair view of the parent company's result of operations and of the financial position.

In our opinion the report of the Board of Directors has been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The report of the Board of Directors is consistent with the consolidated financial statements and the parent company's financial statements and gives a true and fair view, as defined in the Finnish Accounting Act, of the result of operations and of the financial position.

The consolidated financial statements and the parent company's 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 disposal of distributable funds is in compliance with the Companies Act.

Helsinki January 29, 2008

KPMG OY AB

Sixten Nyman
Authorised Public Accountant

Financial Indicators 2003–2007	FAS 2003	IFRS 2004	IFRS 2005	IFRS 2006	IFRS 2007
Profit and loss account, balance sheet					
Net sales, Meur	54.2	66.0	82.6	101.8	125.1
Change, %	–18.8	21.8	25.1	23.2	22.9
Sales outside Finland, %	81.9	85.1	89.3	90.6	91.2
Operating profit, Meur	1.8	5.6	8.6	9.8	13.2
% of net sales	3.3	8.5	10.4	9.6	10.5
Profit after financial items, Meur	1.5	5.4	8.3	9.3	12.7
% of net sales	2.8	8.2	10.1	9.1	10.1
Profit before taxes, Meur	1.5	5.4	8.3	9.3	12.7
% of net sales	2.8	8.2	10.1	9.1	10.1
Profit for the financial period, Meur	1.7	3.9	6.0	6.9	9.4
% of net sales	3.1	5.9	7.2	6.8	7.5
R&D expenditure, Meur	5.8	6.9	8.6	9.8	13.1
% of net sales	10.7	10.4	10.5	9.7	10.5
Gross investments, Meur	3.4	5.4	4.1	6.2	12.3
% of net sales	6.3	8.2	4.9	6.1	9.8
Interest bearing liabilities, Meur	10.0	10.8	3.9	8.0	9.5
Shareholder's equity, Meur	27.0	27.7	32.4	37.7	46.7
Total assets, Meur	48.1	54.4	54.8	68.2	77.9
Personnel and orders					
Average personnel	452	492	546	608	681
Order backlog at year end, Meur	6.6	20.7	22.7	28.1	21.5
Orders received, Meur	52.2	80.5	85.4	107.2	118.5
Key metrics					
Return on equity, %	7.1	15.1	19.8	19.7	22.2
Return on capital employed, %	5.3	16.1	23.7	24.3	27.1
Equity ratio, %	49.3	51.1	59.1	55.3	60.2
Gearing, %	–17.7	–22.9	–14.3	3.2	3.8
Earnings per share, euro	0.10	0.23	0.35	0.41	0.55
Earnings per share fully diluted, euro	n/a	0.22	0.33	0.38	0.52
Shareholders equity per share, euro	1.41	1.65	1.92	2.22	2.69
Teleste share					
Highest price, euro	6.49	7.06	8.35	12.75	12.34
Lowest price, euro	2.40	5.14	5.85	6.46	6.47
Closing price, euro	5.41	6.02	7.45	11.63	6.71
Average price, euro	4.41	6.03	6.97	9.83	10.10
Price per earnings	53.7	25.8	21.0	28.6	12.3
Market capitalization, Meur	90.3	101.4	129.2	202.2	118.6
Stock turnover, Meur	43.7	74.2	75.3	138.9	72.4
Turnover, number in millions	9.9	12.3	10.8	14.2	7.2
Turnover, % of capital stock	57.2	70.9	62.3	81.4	40.5
Average number of shares	17 094 910	17 334 235	17 339 752	17 363 102	17 494 435
Number of shares at the year-end	17 304 248	17 339 752	17 339 752	17 389 302	17 671 305
Number of shares subscribed, not registered 31.12.	23 304	0	0	0	0
Average number of shares, diluted w/o own shares	18 715 000	17 918 580	18 001 437	18 022 505	17 971 752
Number of shares at the year-end, diluted w/o own shares	18 715 000	17 999 752	18 004 752	18 034 752	17 972 785
Paid dividend, Meur	1.3	2.0	2.7	3.4	*4.2
Dividend per share, euro	0.08	0.12	0.16	0.20	*0.24
Dividend per net result, %	79.4	52.2	45.7	49.1	43.9
Effective dividend yield, %	1.5	2.0	2.1	1.7	3.6

* The Board's proposal to the AGM

Calculation of Key Figures

Return on equity:

$$\frac{\text{Profit/loss for the financial period}}{\text{Shareholders' equity (average)}} \times 100$$

Return on capital employed:

$$\frac{\text{Profit/loss for the period after financial items + financing charges}}{\text{Total assets – non-interest-bearing liabilities (average)}} \times 100$$

Equity ratio:

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

Gearing:

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

Earnings per share:

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

Earnings per share, diluted:

$$\frac{\text{Profit for the period attributable to equity holder of the parent (diluted)}}{\text{Average number of shares – own shares + number of options at the period-end}}$$

Equity per share:

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

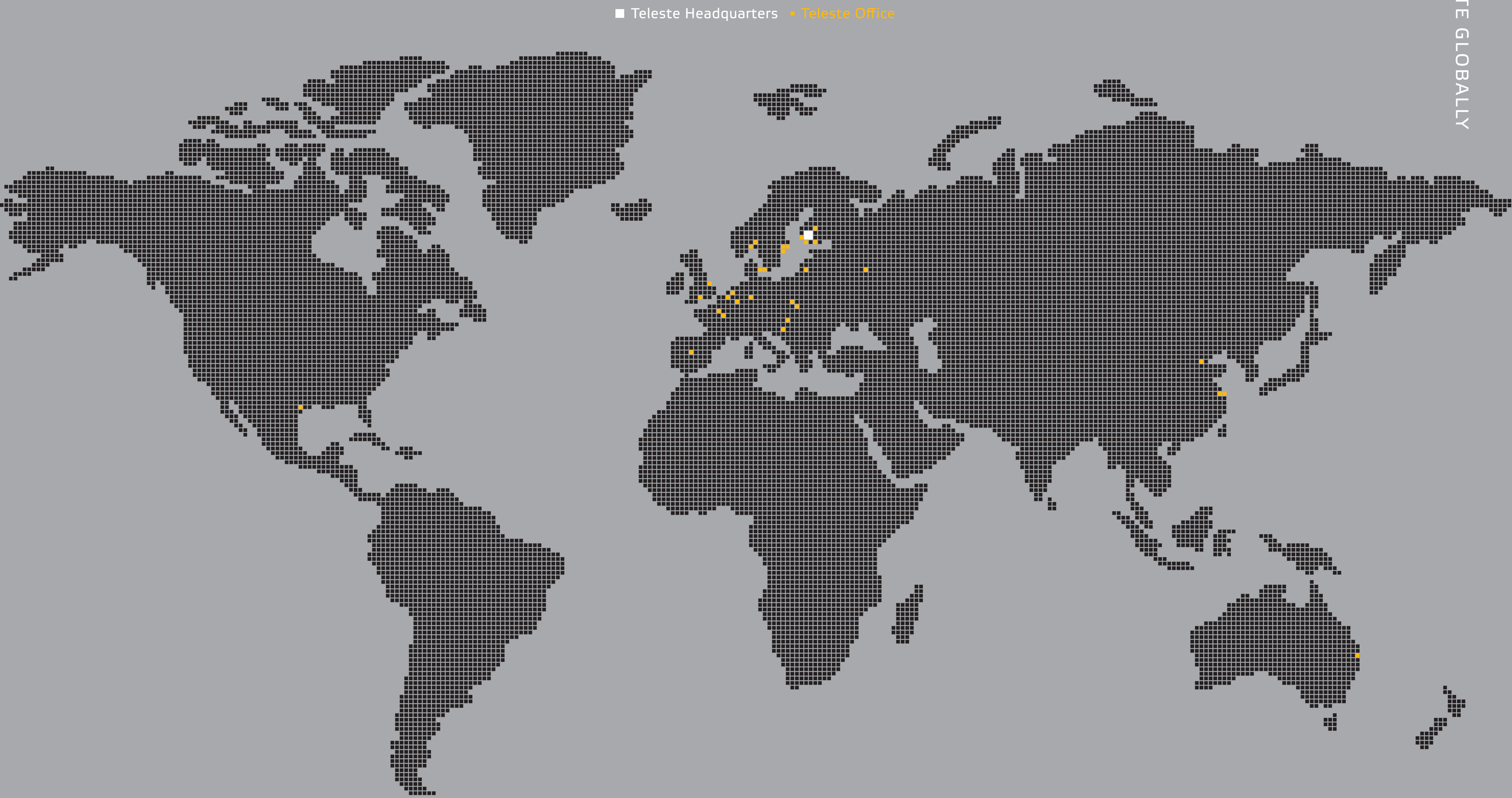
Price per earnings (P/E):

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

Effective dividend yield:

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

Teleste Globally



Headquarters
Teleste Corporation
Seponkatu 1
FI-20660 Littoinen
P.O. Box 323, FI-20101 Turku
Finland
Switchboard:
Telephone +358 2 2605 611
Telefax +358 2 2446 928
www.teleste.com

Teleste Corporation
R&D
Kaurakatu 44
FI-20740 Turku
P.O. Box 323, FI-20101 Turku
Finland
Telephone +358 2 2605 611
Telefax +358 2 2605 797

Teleste Corporation
R&D
Kaskimäenkatu 1
FI-33900 Tampere
Finland
Telephone +358 2 2605 611
Telefax +358 2 2662 829

Teleste Corporation
R&D
Ul. Jana Paradowskiego 1
PL-54-622 Wroclaw
POLAND
Telephone +48 71 3736 029
Telefax +48 71 3574 763

Teleste Corporation
Manufacturing
Seponkatu 1
FI-20660 Littoinen
P.O. Box 323, FI-20101 Turku
Finland
Switchboard:
Telephone +358 2 2605 611
Telefax +358 2 2446 928

Teleste Corporation
Manufacturing
Mietoistentie 124
FI-21270 Nousiainen
Finland
Telephone +358 2 2605 611
Telefax +358 2 2605 925

Teleste Electronics (SIP) Co., Ltd.
Manufacturing
Building #52
DongJing Industrial Square
#2 Dongfu Road Suzhou
Jiangsu 215123
P.R. China
Telephone +86 512 6288 3652
Telefax +86 512 6288 3653

Broadband Cable Networks - Sales

FINLAND
Teleste Corporation
Seponkatu 1
FI-20660 Littoinen
P.O. Box 323, FI-20101 Turku
Finland
Switchboard:
Telephone +358 2 2605 611
Telefax +358 2 2446 928

BELGIUM
Teleste Belgium
Paepsem Business Park
Paepsemlaan 18 a
BE-1070 Brussels
Belgium
Telephone +32 2 7110 090
Telefax +32 2 7110 099

Dinh-Telecom
Rue d'Abhooz 22
BE-4040 Herstal
Belgium
Telephone +32 4 2403 535
Telefax +32 4 2403 536
E-mail: info@dinh.be

CHINA
Teleste Corporation Beijing
Rep. Office
Rm 504. A Building
Fuhua Mansion No 8
Chaoyangmen North Avenue
Beijing 100027
China
Telephone +86 10 6554 3132
Telefax +86 10 6554 3134

DENMARK
Teleste Denmark
Naverland 2, 3rd Floor
DK-2600 Glostrup
Denmark
Telephone +45 4346 7612
Telefax +45 4346 7613

FRANCE
Teleste France
3 Rue Courtalin
FR-77700 Magny le Hongre
France
Telephone +33 1 6463 3223
Telefax +33 1 6043 6710

GERMANY
Teleste GmbH
Daimlerring 13
DE-31135 Hildesheim
Germany
Telephone +49 5121 7509 80
Telefax +49 5121 7509 831

INDIA
Teleste India
E-mail: salesindia@teleste.com
Telephone +91 98118 31959

LITHUANIA
Teleste Lithuania
Statybininku pr. 7A-58
Klaipeda 94237
Lithuania
Telephone +370 6 8746 048
Telefax +370 46 360 014

THE NETHERLANDS
Teleste Netherlands
Speelkamp 34
NL-3831PE Leusden
Postbus 451
NL-3831AM Leusden
Netherlands
Telephone +31 33 4321 220
Telefax +31 33 4321 222

NORWAY
Flomatik AS
Tormod Gjestelandsvei 21
NO-3936 Porsgrunn
Norway
Telephone +47 3556 0500
Telefax +47 3556 0501

Flomatik AS Oslo
Fornebuveien 33
NO-1366 Lysaker, Oslo
Norway
Telephone +47 6711 1660
Telefax +47 6711 1661

RUSSIA
Teleste Russia
Telephone +7 499 747 41 85
Mobile +7 915 205 48 65

SLOVAKIA
Teleste s.r.o.
Sabinovská 12
SK-82102 Bratislava
Slovakia
Telephone +421 2 4820 8525
Telefax +421 2 4820 8510

SLOVENIA
Teleste Slovenia d.o.o.
Cezanjevci 50
SI-9240 Ljutomer
Slovenia
Telephone +386 2 5809 100
Telefax +386 2 5809 110

SPAIN
Teleste Spain Rep. Office
Calle Cavanilles 5, 1-B
ES-28007 Madrid
Spain
Telephone +34 91 4341 840
Telefax +34 91 5018 090

SWEDEN
Teleste Försäljning AB
Trehögsgatan 11
SE-21376 Malmö
Sweden
Telephone +46 40 552 170
Telefax +46 40 552 175

Teleste Sweden AB
Ellipsvägen 5
SE-14175 Kungens Kurva
Sweden
Telephone +46 87 102 190
Telefax +46 87 102 191

PromaCom AB
Pyramidvägen 2D
SE-16903 Solna
Sweden
Telephone +46 8 5149 4800
Telefax +46 8 5149 4801

UNITED KINGDOM
Teleste UK Ltd
1 Gloster Court
Whittle Avenue
Segensworth West
Fareham PO15 5SH
United Kingdom
Telephone +44 1489 604 060
Telefax +44 1489 604 065

Video Networks - Sales

FINLAND
Teleste Corporation
(Nordic, Baltic & Russia)
Seponkatu 1
FI-20660 Littoinen
P.O. Box 323
FI-20101 Turku
Finland
Telephone +358 2 2605 611
Telefax +358 2 2605 880
E-mail: info.vn@teleste.com

Suomen Turvakamera Oy
Services & Integration
Martinkyläntie 67
FI-01720 Vantaa
Finland
Telephone +358 9 4778 140
Telefax +358 9 4778 1410
E-mail: info@turvakamera.fi

GERMANY
Teleste GmbH
(Germany, Austria, Switzerland & Italy)
Bundeskanzlerplatz 2-10
DE-53113 Bonn
Germany
Telephone +49 7000 2288 366
Telefax +49 7000 2288 529

FRANCE
Teleste France SAS
(France, Spain & Portugal)
124, Avenue du Président Wilson
FR-93210 Saint-Denis la Plaine
France
Telephone +33 1 5593 4414
Telefax +33 1 5593 1416

POLAND
Teleste Video Networks Sp zoo
Ul. Krowoderskich Zuchow 14 (level II)
PL-31-272 Krakow
Poland
Telephone +48 12 6230 936
Telefax +48 12 6267 441

SWEDEN
Teleste Video Networks AB
Services & Integration
Catalinavägen 2
SE-18362 Täby
Sweden
Telephone +46 8 6226 890
Telefax +46 8 6226 891

UNITED KINGDOM
Teleste UK
(UK, Greece, Turkey, Middle East & Africa)
Suite 17, 8 Kings Court
Willie Snaith Road, Newmarket
Suffolk CB8 7SG
United Kingdom
Telephone +44 1638 604 200
Telefax +44 1638 604 201

USA
Teleste LLC
1911 North Austin Avenue, Suite 404
Georgetown TX 78626
USA
Telephone +1 512 8682 009
Telefax +1 512 8688 112

AUSTRALIA
Teleste Australia
Unit 1, 45 Alexandra Place
Murarrie
Queensland 4172
Australia
Telephone +61 7 3890 0499
Telefax +61 7 3890 5988

CHINA
Teleste Sanghai
Representative Office
Apt 2701
Summit Service Apart
Shanghai 200052
China
Telephone +86 21 6212 3078
Telefax +86 21 6212 5541

INDIA
Teleste India
(India & Sri Lanka)
P.O. Box 323 (Seponkatu 1),
FI-20101 Turku
Finland
Telephone +358 40 839 7716
Telefax +358 9 4778 1410

Notes

Teleste Corporation
Investor Relations
Seponkatu 1, FI-20660 Littoinen, Finland
P.O. Box 323, FI-20101 Turku, Finland
Telephone (switchboard) +358 (0)2 2605 611
E-mail: investor.relations@teleste.com

The Annual Report can be downloaded as PDF-file from the corporate website: www.teleste.com
The publication is available in Finnish and English.

www.teleste.com

Teleste Corporation
Seponkatu 1, FI-20660 Littoinen
P.O. Box 323, FI-20101 Turku, Finland
Telephone +358 2 2605 611
Telefax +358 2 2446 928

Business ID 1102267-8