



Corporate Governance Statement 2016

This Corporate Governance Statement has been prepared pursuant to Chapter 7, section 7 of the Securities Markets Act and the Finnish Corporate Governance Code 2015 issued by the Securities Market Association on 1 October 2015. The Corporate Governance Code is available on the Securities Market Association's website at <http://cgfinland.fi/en/>. The Corporate Governance Statement is issued separately from the Board of Directors' Report, and the provided data are based on the situation as at 31 December 2016.

Corporate Governance

Teleste Corporation (hereafter 'Teleste') aims to organise its management in a consistent and functional manner. The company's governance is based on Finnish legislation and Teleste's Articles of Association. Teleste shares are listed on Nasdaq Helsinki Oy (hereafter 'Stock Exchange'). Teleste complies with the Securities Markets Act, the rules and regulations for listed companies issued by the Stock Exchange, including the Finnish Corporate Governance Code 2015, and the rules and regulations of the Finnish Financial Supervisory Authority. Since 1 March 2000, Teleste complies with the insider guidelines of the Stock Exchange in their valid form at any given time. These insider guidelines are complemented by Teleste's internal guidelines. The company has confirmed the values applied to its operations.

General Meeting

Teleste's General Meeting is the highest decision-making body of the company, held at least once a year. According to the Articles of Association, the Annual General Meeting (AGM) must be held by the end of June each year. The AGM is held in Helsinki according to the established custom.

The General Meeting decides on matters as required in the provisions of the Limited Liability Companies Act. The matters decided by the AGM include adoption of the financial statements, allocation of profit shown by the balance sheet, discharge of the Board of Directors and the CEO from liability, and election of the Board members and the auditor. In addition, responsibilities of the General Meeting include among others making amendments to the Articles of Association and deciding on share issues, granting of entitlements to options and other special rights, procurement and redeeming of the company's own shares, and reduction of share capital. Teleste's General Meeting shall be convened by the Board of Directors.

Board of Directors

Rules of Procedure

It is the responsibility of Teleste's Board of Directors to manage the company in accordance with the law, statutory regulations, Articles of Association and decisions taken by the General Meeting. The operating procedures and main duties of the Board of Directors are specified in the Board's Rules of Procedure. The Board shall resolve any matters that are of great importance to the Group when taking into account the scope and extent of the Group's operations. The Board oversees and assesses the work of the CEO and the Management Group. The Board decides on the criteria of the company's compensation system and makes decisions on other issues of great importance related to the personnel.

According to the view of Teleste's Board of Directors, the work of the Board is carried out in the most efficient way without formation of specific committees, by involving the entire Board in the so-called committee work instead. The Board of Directors is also responsible for carrying out the duties of the Audit Committee.

The Board shall conduct an annual evaluation of its performance and working methods. The Board has adopted the Rules of Procedure, according to which the essential duties of the Board include the following:

- confirming the company's business strategy and revising it at regular intervals to ensure that it is kept up-to-date,
- approving annual budgets and supervising their implementation,
- deciding on individual major investments and divestments,
- reviewing and approving financial statements and interim reports,
- appointing the CEO and discharging them from their duties and specifying their responsibilities and terms and conditions of employment,
- deciding on incentive and bonus schemes for the management and personnel and, as necessary, presenting related proposals to the General Meeting,
- annually assessing the essential risks related to the company's operations and the management of such risks,
- confirming the company's values and policies.

Members of the Board of Directors

According to the Articles of Association, the Annual General Meeting elects a minimum of three and maximum of eight Board members each year. Their term of office lasts until the end of the next Annual General Meeting. The Board shall elect a Chairman of the Board from among its members.

The Annual General Meeting held on 7 April 2016 elected the six persons specified below to Teleste's Board of Directors. Timo Miettinen was elected Chairman by the members of the Board.

Timo Miettinen, Chairman, b. 1955, M.Sc. (Eng.), Board professional, Board member since 2016
Pertti Ervi, member of the Board, b. 1957, B. Sc. (Eng.), independent consultant, Board member since 2009

Jannica Fagerholm, member of the Board, b. 1961, M.Sc. (Econ.), Signe and Ane Gyllenberg Foundation, Managing Director, Board member since 2013

Esa Harju, member of the Board, b. 1967, M.Sc. (Eng.), independent consultant, Board member since 2012; served as Board member until 23 November 2016 and was appointed member of Teleste's Management Group as of 1 December 2016

Timo Luukkainen, member of the Board, b. 1954, B.Sc. (Econ.), M.Sc. (Eng.), MBA, Board professional, Board member since 2016

Kai Telanne, member of the Board, b. 1964, M.Sc. (Econ.), Alma Media Corporation, CEO, Board member since 2008

The members of the Board are not employed by the company, and on the basis of assessment in accordance with the issued Finnish recommendations, they are independent of the company and its significant shareholders, with the exception of Chairman Timo Miettinen (served as Board member of EM Group Oy, a significant shareholder) and Board member Timo Luukkainen (served as the CEO of Ensto Oy until 3 April 2016). EM Group Oy, a significant shareholder of Teleste, was also a significant shareholder of Ensto Oy.

On 29 August 2016, Teleste announced in a stock exchange release that it had received a notification on the same date from Timo Miettinen, Chairman of Teleste's Board of Directors, concerning a change in the ownership of Teleste Corporation's shares: EM Group Oy's Board of Directors had signed draft terms of demerger concerning the division of EM Group Oy into three new acquiring companies. Of these companies, according to the draft terms of demerger, Tianta Oy would own EM Group Oy's current holding of approximately 23.23 per cent in Teleste Corporation, and the objective

was to register the implementation of the demerger on 1 January 2017. In connection with signing the draft terms of demerger, Timo Miettinen had agreed with other shareholders of EM Group Oy that the ownership of the acquiring companies would be rearranged after the demerger, so that Timo Miettinen would own 60 per cent of Tianta Oy ('Arrangement') and Tianta Oy would come under his control. The implementation of the Arrangement was still conditional upon settling its tax treatment, among other things. On 2 January 2017, Teleste announced in a stock exchange release that it had received a notification from Timo Miettinen, Chairman of Teleste's Board of Directors, on the same date, stating that EM Group Oy has demerged into three new companies through a full demerger, the ownership in Teleste Corporation of EM Group Oy, now ceased as a result of the demerger, has been transferred to Tianta Oy as of 1 January 2017 in connection with the demerger, and Timo Miettinen has acquired a control over Tianta Oy (60% of its shares and voting rights).

On 31 December 2016, Board members and their controlled entities held shares in Teleste Corporation and other companies included in the Teleste Group as follows:

Timo Miettinen	1,831 shares
Pertti Ervi	13,697 shares
Jannica Fagerholm	8,173 shares
Timo Luukkainen	1,282 shares
Kai Telanne	19,693 shares

On 31 December 2016, Board members or their controlled entities held no share-based entitlements in Teleste Corporation or other companies included in the Teleste Group.

In 2016, Teleste's Board of Directors held 10 meetings.

The Board members attended the meetings as follows:

Marjo Miettinen	2/2	(Board member until 7 April 2016)
Timo Miettinen	8/8	(Board member from 7 April 2016)
Pertti Ervi	10/10	
Jannica Fagerholm	10/10	
Esa Harju	8/8	(Board member until 23 November 2016)
Timo Luukkainen	8/8	(Board member from 7 April 2016)
Kai Telanne	10/10	
Petteri Walldén	2/2	(Board member until 7 April 2016)

In addition to the Board members, meetings of the Board were attended by the CEO, the Deputy CEO, the CFO, and other persons who were specifically invited as necessary.

Principles concerning diversity of the Board of Directors

Teleste has established principles concerning the diversity of the Board of Directors, taking into account the extent of the company's business and the needs related to its phase of development. Teleste's Board of Directors adopted the diversity principles concerning the Board of Directors on 10 August 2016.

It is in the interests of Teleste and its shareholders that Teleste's Board of Directors is composed of people with different educational and professional backgrounds and international experience, and that Board members have complementary expertise and knowledge in different topics, such as Teleste's field of business and the related technologies, risk management and international sales and marketing. Teleste's objective is that both genders are represented in the Board of Directors.

Teleste does not have a separate nomination committee. According to the normal procedure, the major shareholders prepare a proposal to the General Meeting on the composition of Teleste's Board of Directors, and the proposal is sent to Teleste for information.

The Annual General Meeting held on 7 April 2016 elected six members to the Board of Directors, five men and one woman. After the resignation of Esa Harju from the Board on 23 November 2016, the Board of Directors consisted of five members, four men and one woman. The Board members had a technical or business degree. Further, the other above factors and characteristics relevant to diversity were also represented in the Board of Directors in 2016.

Remuneration of Board members

The Annual General Meeting decides on the remuneration of the members of the Board of Directors. The Annual General Meeting held on 7 April 2016 decided on the following remunerations for Board service until the next AGM: the Chairman of the Board will be paid EUR 40,000 a year and each member EUR 28,000 a year. Of the specified annual amount, 40 per cent will be used to purchase Teleste's shares for Board members, or, alternatively, the shares may be conveyed by using the own shares held by the company and the rest will be paid in cash.

Salaries, remuneration and fringe benefits paid to the Board of Directors in 2016 were as follows: Marjo Miettinen, EUR 0.00, including 0 Teleste shares (*member of the Board until 7 April 2016*)
Timo Miettinen, EUR 40,000, including 1,831 Teleste shares (*member of the Board from 7 April 2016*)

Pertti Ervi, EUR 28,000, including 1,282 Teleste shares

Jannica Fagerholm, EUR 28,000, including 1,282 Teleste shares

Esa Harju, EUR 28,000, including 1,282 Teleste shares (*member of the Board until 23 November 2016*)

Timo Luukkainen, EUR 28,000, including 1,282 Teleste shares (*member of the Board from 7 April 2016*)

Kai Telanne, EUR 28,000, including 1,282 Teleste shares

Petteri Walldén, EUR 0.00, including 0 Teleste shares (*member of the Board until 7 April 2016*)

President and CEO

The company's CEO is in charge of the Group's business operations and corporate governance in accordance with the law, Teleste's Articles of Association and the instructions and regulations issued by the Board.

The detailed terms of employment of the CEO are specified in a written contract approved by the Board of Directors. The CEO is not a member of Teleste's Board of Directors. Teleste's current President and CEO, Jukka Rinnevaara, b. 1961, M.Sc. (Econ.), started as CEO on 1 November 2002. The CEO is assisted by the Management Group.

The company's Board of Directors decides on the salary, remuneration and other benefits received by the CEO. Salary, remuneration and fringe benefits paid to Teleste's CEO in 2016 totalled EUR 578,821. In addition, there was an additional pension payment of EUR 79,707 in the financial year.

The contractual retirement age of CEO Jukka Rinnevaara is 60 years. Charges resulting from the additional voluntary pension scheme are included in the post-employment benefits. Pension liability of EUR 70,000 related to the additional pension scheme is included in Teleste's balance sheet.

The contract of CEO Rinnevaara specifies that his term of notice is six (6) months in case the CEO decides to withdraw, and eighteen (18) months should the contract be terminated by the company. Upon termination of the CEO's contract by the company, the CEO will be paid a compensation corresponding to eighteen (18) months of service without benefits.

Management Group

On 31 December 2016, the Group's Management Group consisted of eight members including the CEO, to whom the members of the Management Group report. The members of the Management Group are directors representing Teleste's business areas and units and directors representing the Group management. The subsidiaries operate as part of the business areas. Teleste's Management Group is chaired by the CEO who reports to the Board of Directors. The Management Group has no authority under law or the Articles of Association.

On 31 December 2016, Teleste's Management Group consisted of the following members:
Jukka Rinnevaara, born in 1961, M.Sc. (Econ.), CEO, is in charge of the Group's business operations and corporate governance in accordance with the law, Teleste's Articles of Association and the instructions and regulations issued by the Board

Johan Slotte, born in 1959, LL.M., EMBA, Deputy CEO, is in charge of the Germany, Austria and Switzerland areas, as well as the development and legal affairs related to Teleste Group's business operations

Juha Hyytiäinen, born in 1967, M.Sc. (Econ.), CFO, is in charge of Finance, HR and ICT

Hanno Narjus, born in 1962, M.Sc. (Econ.), Senior Vice President in charge of Network Products business unit

Esa Harju, born in 1967, M.Sc. (Eng.), Senior Vice President in charge of Video Security and Information business unit

Andree Kang, born in 1964, Ph.D. (Eng.), Senior Vice President in charge of Network Services business area

Pasi Järvenpää, born in 1967, M.Sc. (Eng.), Senior Vice President in charge of Teleste's Research and Development

Markus Mattila, born in 1968, M.Sc. (Eng.), Senior Vice President in charge of Teleste's Operations

The Management Group handles the main issues related to managing the company, such as matters related to strategy, budgets, interim reports and acquisitions, and prepares investments for approval by the Board of Directors. As a rule, the Management Group meets once a month and at other times when necessary.

The Board of Directors decides on the management's incentive and remuneration systems on the basis of the CEO's proposal.

The salary of all Management Group members consists of a fixed basic salary and a performance-based bonus. The amount of performance-based bonus depends on the performance of the company and the business area in question, as well as the achievement of other key operative objectives.

The Management Group including the CEO has a group pension plan, according to which the retirement age of Management Group members is 60 years. The planned amount of pension is 60 per cent of the regular annual earnings paid in the four years preceding retirement. Pensions payable under the Employees' Pensions Act (TyEL) are taken into account in the calculation.

Incentive schemes and ownership by the management

[Management Group's shareholding and share-based entitlements](#)

On 31 December 2016, Management Group members and their controlled entities held shares in Teleste Corporation and other companies included in the Teleste Group as follows:

Jukka Rinnevaara	95,415 shares	
Johan Slotte	5,457 shares	
Juha Hyytiäinen	4,225 shares	
Hanno Narjus	4,598 shares	
Esa Harju	10,765 shares	
Andree Kang	5,450 shares,	controlled entity Infinity 2789 GmbH 7,550 shares
Pasi Järvenpää	4,226 shares	

Markus Mattila 5,747 shares

On 31 December 2016, Teleste did not have any running stock option programmes, and the CEO, the members of the Management Group or their controlled entities did not hold any Teleste options or other share-based entitlements.

For shareholdings of the CEO and Management Group members, see Notes section: the Related party transactions.

In 2016, Teleste was not involved in any related party transactions that would have been of material importance for Teleste and deviated from normal business or been carried out on other than ordinary market terms.

On 5 February 2015, Teleste's Board of Directors decided on the establishment of a new long-term share-based incentive programme to be offered to Teleste's key employees (hereafter 'LTI 2015'). The objective of LTI 2015 is to align the key employees' interests with those of Teleste's shareholders by creating a long-term equity interest for the key employees and, consequently, to increase the company's value in the long term and to drive a performance culture, retain key employees and offer the key employees a competitive compensation for excellent performance. LTI 2015 consists of three annually commencing plans with three main elements: an investment in Teleste shares that is required for a key employee to be included in the LTI 2015 programme; a matching share plan with a three-year vesting period based on the above investment; and a performance matching plan with a three-year performance period.

The commencement of each plan and the inclusion of eligible participants are subject to a specific approval by Teleste's Board of Directors.

The matching share plan includes the investment of an individual participant in Teleste's shares and the delivery of matching shares as a long-term incentive reward against the invested shares. After the three-year vesting period, the key employee receives one matching share for each invested share free of charge.

The performance matching plan includes a three-year performance period. The potential share rewards will be delivered if the performance targets set by the Board of Directors are attained.

The performance criterion applied to the first and second plan alike is the total shareholder return (TSR) of Teleste's share in the three-year performance period. A precondition for an individual key employee's participation in the plan is the above mentioned investment in Teleste shares.

If all the eligible key employees participate in the plan by meeting the investment precondition, the aggregate number of matching shares that may be delivered on the basis of their investment is in maximum approximately 65,000 shares under the plan that commenced in 2015 and 53,600 shares under the plan that commenced in 2016; and the total number of shares that may be delivered under the performance matching plan is in maximum approximately 260,000 shares for the plan that commenced in 2015 and in maximum 214,400 shares for the plan that commenced in 2016. The above figures are gross figures before the deduction of the applicable taxes. The remaining net quantity is delivered to the participants as Teleste's shares.

The Board of Directors approved 37 key employees as eligible to participate in the first three-year plan of LTI 2015 and 42 key employees as eligible to participate in the second three-year plan of LTI 2015.

Auditing, revisions and remuneration of the auditor

The term of office of Teleste's auditor expires at the closing of the first Annual General Meeting following the election.

On 7 April 2016, Teleste's AGM elected Authorised Public Accountants KPMG Oy Ab for the company's auditor. The principally responsible auditor is Petri Kettunen, APA.

In addition to their statutory duties, the auditors report their observations to Teleste Corporation's Board of Directors and attend at least one Board meeting each year.

In 2016, Teleste Group's auditing expenses totalled EUR 180,000, of which the amount of KPMG was EUR 168,000. In addition, units of KPMG have supplied Teleste Group companies with other consultation worth total EUR 70,000 and other than KPMG auditors for EUR 31,000.

Insider management

Since 1 March 2000, Teleste complies with the insider guidelines issued by the Board of Directors of Nasdaq Helsinki Oy in their valid form at any given time. These insider guidelines are complemented by the company's internal guidelines.

The Market Abuse Regulation ((EU) No. 596/2014, 'MAR') entered into force on 3 July 2016. As a result of the MAR, Teleste no longer has public insiders. The last date of updating the public insider register was 2 July 2016.

Teleste maintains a permanent insider register and project-specific insider lists prepared specifically for each project as needed. The permanent insider list includes the persons who are always up-to-date with all insider information concerning Teleste. There are no persons mentioned in the said insider list.

Project-specific insider list includes the persons who work for Teleste under an employment contract or other agreement and receive insider information concerning an individual project, as well as other persons to whom Teleste discloses insider information concerning an individual project. 'Project' refers to an identifiable arrangement or set of procedures which is being prepared at Teleste in strict confidence and which, when disclosed, could materially affect the value of Teleste's financial instrument. The CEO evaluates each case to determine whether an arrangement or a set of procedures is considered as a project.

The persons discharging managerial responsibilities at Teleste with the obligation to notify are Board members, CEO, Deputy CEO and CFO. They and persons closely associated with them have the obligation to notify Teleste and the Finnish Financial Supervisory Authority of transactions conducted with Teleste's financial instruments. Teleste announces the transactions reported to it in a specific stock exchange release.

It is recommended for persons discharging managerial responsibilities at Teleste to time their trading activities with financial instruments issued by Teleste at such times that as accurate as possible information affecting the value of the share is available in the market.

The persons discharging managerial responsibilities at Teleste and anyone participating in the preparation of interim reports and/or financial statements are forbidden on their own account or on behalf of others, directly or indirectly, to trade with financial instruments issued by Teleste during the 'closed window' period, that is, for thirty (30) days prior to the publication of an interim report and financial statements. The persons participating in the preparation of interim reports and/or financial statements include the rest of Teleste's Management Group, the person in charge of investor relations and the controllers.

Teleste's insider administration supervises compliance with the insider guidelines and maintains insider lists as well as a list of persons discharging managerial responsibilities and persons closely associated with them. Teleste's Deputy CEO is in charge of insider issues.

People employed by Teleste may report suspected violations of rules and regulations concerning the financial markets through an independent channel within the company.

Internal supervision, risk management and internal auditing

Internal supervision

Teleste's internal supervision is designed to support the implementation of the strategy and to ensure the achievement of the specified goals, compliance with the regulations as well as the reliability and and correctness of the conducted financial reporting. Internal supervision is based on Teleste's values and corporate culture, as well as on mutually supporting structures and processes within the Group and operational levels. The management of the Group and the business units monitor the internal supervision as part of their normal managerial duties, while the Board evaluates and verifies the appropriateness and efficiency of the internal supervision. In both business areas, the management of the business unit, supported by Teleste's centralised controller function, is responsible for compliance with the principles of internal supervision on all levels of the areas.

Risk management

The Group's risk policy and its principles and objectives are subject to approval by Teleste's Board of Directors. Risk management is based on the strategic and business goals of Teleste Group. Risk management aims to ensure the achievement of business goals, so that material risks affecting business operations and posing a threat to the achievement of goals are identified and continuously monitored and evaluated. The risk management methods are specified and the implementation of risk prevention is attempted through the same. In addition, any risks that for economic or other reasons are reasonable to insure, are aimed to be covered by insurance. In risk management, the regular evaluation of most significant risks and exercising control thereof in a cost-effective manner are emphasized. Risk management supports the business operations and generates added value that promotes decision-making and goal-setting by the management in charge of business operations. Monthly reporting constitutes part of the risk management system. A part of the risk management system is monthly reporting by which, in particular, the development of the orders received, turnover, order backlog, deliveries, trade receivables and cash flow is monitored and, through the same, the profit development of the entire Teleste Group. The Board of Directors annually reviews essential business risks and their management. Risk management constitutes an integral part of the strategic and operational activities of the business areas. Risks are reported to the Board on a regular basis.

Teleste's risk management system covers the following risk categories, among others:

- strategic risks
- operational risks
- financial risks
- interest group risks
- personnel risks
- property and business interruption risks

Internal auditing

The internal auditing unit is in charge of the internal auditing of Teleste and its subsidiaries. The results are reported to the designated member of the Board. In addition, the summary of the internal audit report is presented to Teleste's Board of Directors twice a year. Internal auditing evaluates the efficiency of the processes regarding risk management, supervision, management and selected functions, and makes proposals for their improvement. The expertise of bodies external to the auditing unit is used in the implementation of auditing as needed. In addition, internal auditing carries out special tasks assigned by the management. Internal auditing covers all the organisational levels. The external auditor participates in the choosing of the priorities of internal auditing and the assessment of results.

Key features of the internal supervision and risk management systems related to the financial reporting process

Internal supervision and risk management of the financial reporting process are based on the general principles of internal supervision and risk management described above. The CFO is responsible for the systems of internal supervision and risk management related to the financial reporting process. Internal supervision of the financial reporting process was created by describing the reporting process, surveying its relevant risks and specifying the control points on the basis of the conducted risk assessment. The controls cover the entire reporting process from accounting by subsidiaries to monthly, quarterly and annual reporting. Controls are built into reporting systems, or controls may involve matching, inspections carried out by the management, or specified procedures or policies. The CFO is responsible for ensuring that there is a separately designated person for each control responsible for the implementation and efficiency of the control in question. The Group Accounting Manual specifies the standards for financial reporting. Financial reports to be published are reviewed by the Management Group and the Board of Directors prior to their publication. The external auditor checks the correctness of the external annual financial reporting.