TELES AG Aktiengesellschaft Informationstechnologien
Berlin

Consolidated Financial Statements as of December 31, 2007
and Management Report for TELES Group 2007

Auditor's Report

This is a translation of the German Report.
The German version is authoritative

Translation – the German version is authoritative

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Consolidated Financial Statements TELES AG Informationstechnologien
for the Financial Year 2007

Group Management Report of TELES AG Informationstechnologien for the Business Year 2007

A. Macroeconomic development / Development of the industry

The world economy grew by 5% compared to the previous year despite increasing oil prices and the credit crisis. Europe and Germany had a similar development; however, at a lower level. The overall economies grew by 2.6% and approx. 2% respectively.

The West-European and German Information and Telecommunication industries (ITK) were able to continue their growth. According to a BITKOM study, Germany currently invests significantly more in ITK solutions than ten to twenty years ago; however, the investment rate of less than 2 percent is below the EU average. The future development of the ITK market and employment within the industry depend on factors that can only be influenced slightly or not at all, such factors are for example the world economy and political decisions. The ITK economy in Germany must achieve leading positions in growth segments with positive future potential in order for the segment to sustainably grow in future years and generate additional jobs. These segments must be seen in the context of four higher ranking mega-trends, which can significantly change markets, business models and corporations.

These mega-trends represent development trends, which are driven by ITK technologies and services and are in detail:

- Convergence: markets will converge because of ITK
- Flexibility: ITK supports the adaptability of organizations
- Ubiquity: ITK is omnipresent
- Data usability: ITK enables the effective use of information and digital contents

These mega-trends will not only be of increasing importance for the economic development of TELES, but it is TELES' objective to actively influence these trends.

According to the trends, the platforms on which the use of modern ITK technologies, are based - will converge. The Internet Protocol Standard (IP), one of these technologies, makes it possible to send any content - and this includes speech - as uniform data packages through hardwired and wireless networks. In addition, fast growing transmission bandwidths in hardwired and wireless networks permit the transport of content, which until recently was only distributed in an analog format. The allocation of content to certain transmission media and terminals has been abolished - and therefore the boundaries between previously clearly defined markets are being abolished. The hardwire network, wireless network and cable network operators speak about "convergence". Buzzwords such as "Fixed Mobile Convergence" (FMC) or "Voice over Internet Protocol" (VoIP) are everywhere. On the content side, the operators talk about "Triple Play", which includes hardwired telephony, broadband Internet, and TV or "Quadruple Play", which also includes wireless telephony.

TELES owns a multiplicity of patents, experience, technologies and products specifically directed at the fields of "FMC“ and "VoIP". VoIP capable network solutions by TELES are now used in more than 200 networks. However, this includes mainly conventional TDM switching technology, whose market is to a large extent, saturated. On the other hand, phone switching operators focus more and more on the use of VoIP technology for low cost phone services via the Internet. freenet AG, among others, has already converted, based on the TELES-C4-Softswitch solution, a MGC cluster (Media Gate Controller), and it was mostly implemented during the reporting year. In addition, the TELES business with access gateways has accelerated significantly during the second half of the year. TELES assumes that these trends will not only continue during the following years but will accelerate.

The majority of the market segment for broadband Internet access services, serviced by TELES, was divested effective January 28, 2008 due to the continued operative losses (2007 business year: -3.4 Mio€) and a lack of management capacity.

B. Corporate situation

Special events in 2007

The following special events occurred for TELES during the reporting period:

- In July 2007, TELES acquired a small company in Israel - **IP Gear Ltd.** (today: TELES N.G.N. Solutions Ltd.) - at a purchase price in the low single digit millions. The seller was the American company New World Brands Inc.

  The addition of this company ideally strengthens TELES offering of VoIP products (VoIP = Voice over Internet Protocol) for SME. In addition, a strategic distribution partnership for the North American market was established with the American seller, which positively developed beyond expectations.

- In closing a contract on December 20, 2007, TELES acquired, as part of an asset deal, a part of the operations of an Austrian company group at a purchase price in the low single digit millions.

  The acquisition includes the sub-segment "MissisSIPpi" of Kapsch AG, which focuses on the development, manufacture and sales of "**Class 5 Softswitch" solutions.**

  Using this technology, TELES can ideally complement the offering of products for Next Generation Networks (NGN). However, it also is the basis for the development of functionally comparable and high-perfomance cluster systems. These "Class 5" products are already being used successfully by several well-known customers.

  All transfer assets in connections with the acquired part of the "MissisSIPpi" segment were transferred - matching acquisition price payments with delivery - by Kapsch Carrier on January 11, 2008.

- On December 31, 2007, TELES closed a call option contract with the publicly traded Swiss investment company Mountain Super Angel AG (Open Market Frankfurt, ISIN: CH0033050961, www.super-angel.ch). This contract gives Mountain Super Angel AG the right to acquire before January 28, 2008 the majority in TELES Wireless Broadband Internet GmbH with headquarters in Berlin (TWBI). TWBI is the operator of the Europe-wide Internet service **skyDSL** (www.skyDSL.de), which works with satellite technology and can therefore cover every region in Europe independent of terrestrial DSL supply. The option right was exercised on January 28, 2008.

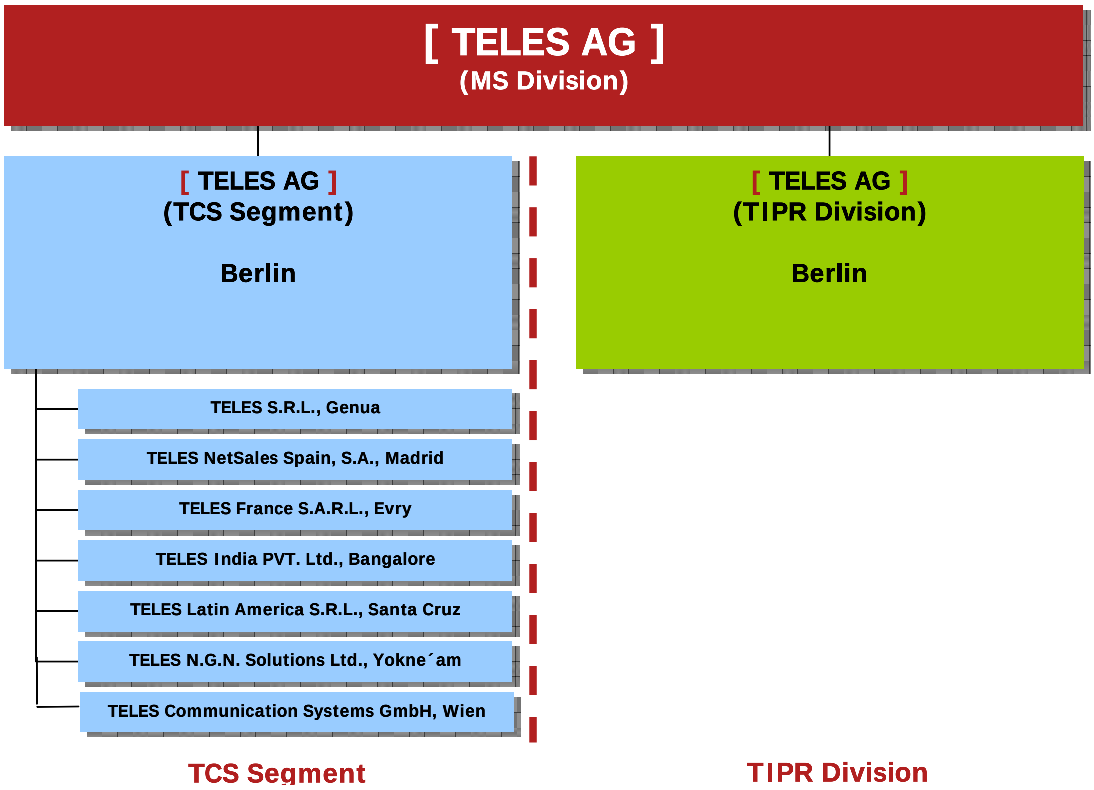
  TELES is convinced that it will maximize additional synergies with this buyer, and will develop jointly a sound business development for the skyDSL business.

- In addition, TELES distributed a **dividend** in the amount of € 2.00 per share in 2007, which amounted to a total of 42.3 Mio€.

Current TELES structure

After the majority divestiture of the skyDSL business, TELES now owns the businesses listed in the following diagram:

- the **TCS Segment** (TELES Communication Systems, i.e. infrastructure systems),
- the **TIPR Division** (TELES Intellectual Property Rights),



TELES Communication Systems (Infrastructure Systems)

TELES Intelligent Property Rights

In addition, an evaluation is currently underway to determine whether an additional business area, TELES Customer Premises Equipment (TCPE Division), should be established. The evaluation was started during the reporting year. All preproduction costs are currently allocated to the MS division until this business area is finally established. Additional explanations on this subject can be found in section G.

The safe financial foundation of TELES made it possible, among others, to distribute a total of more than 40 Mio€ as a result of capital reductions in 2005 and 2006 and to distribute in addition a dividend during the reporting period in the amount of € 2.00 per share for a total of more than 42 Mio€ to our shareholders. The remaining reserves (cash plus the stock of tradable freenet shares) permit another dividend distribution in 2008 and in the following years respectively and these reserves are high enough to finance the preproduction costs for growth in our established TCS segment, as well as in the patent area, with internal funds.

The following tables and their explanations refer to the development of the TELES continued operations during the 2007 reporting year. The growth expectations for these areas for the following years will be discussed in section G.

Group Revenues and Earnings in 2007 (in accordance with IFRS)

The following table compares the results. They exclude the previous TWBI segment (skyDSL business), which must be reported as discontinued operations in accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations. The presentation is also in accordance with the IFRS conforming segment statement for the TCS segment, which is now the only operative TELES segment.

Revenues and Earnings for the Group in Mio€	**2006**	**2007**	**Change[1] 2007 vs. 2006**
Revenues	**19.2**	**19.2**	**0%**
Cost of sales	7.7	9.6	25%
included therein: depreciations	*0.1*	*0.2*	*10%*
Gross profit	**11.5**	**9.6**	**-16%**
Gross profit margin	60%	50%	-10%
Sales and marketing expenditures	6.8	6.0	-11%
Research and development expenditures	4.9	5.6	14%
General and administrative expenditures	9.8	9.7	0%
Expenditures for employee stock option plans	0.3	0.2	-38%
Other income	0.2	0.3	77%
Other expenditures	0.4	0.6	57%
EBITDA (Earnings before interest, taxes, depreciation and amortization)	**-10.4**	**-12.0**	**-16%**
Operational depreciation and amortization	0.5	0.7	41%
EBIT	**-11.0**	**-12.9**	**-17%**
Financial result	2.9	22.5	667%
EBT	**-8.1**	**9.6**	**n.a.**

[1] The percentage change is not calculated based on rounded EURO amounts.

<u>Notes on the above Group figures:</u>

- The 2007 **group revenues** in the amount of 19.2 Mio€ were unchanged compared to 2006. It should be pointed out that the start was weak during the first half of 2007, while the second half provided significant increases in sales. The second half year sales were the highest for the last two years. The back-dated orders at year end were also significantly higher than the previous year.

- The 2007 **group gross profit** declined by 1.9 Mio€ to 9.6 Mio€ as a result of shifts between the product segments due to a changed demand and also as a result of one-time value correction of the inventory on hand (see also the explanations in the TCS segment).

- As a result, the **group gross profit** declined to 50%.

- The 2007 **group EBITDA** has declined from -10.4 Mio€ to -12.0 Mio€ as compared to the previous year. The EBITDA declined disproportionately if the above mentioned one-time effect is eliminated from the gross profit calculation. This is mainly a result of increased research and development costs, which are balanced by partly lower sales and marketing costs.

- The decline of the 2007 **group EBIT** to -12.9 Mio€ is equivalent to the EBITDA development.

- The 2007 **group EBT** is +9.6 Mio€ (previous year; -8.1 Mio€). This is mainly due to the freenet dividend in the amount of 21.4 Mio€ which was received during the business year.

This results in earnings per share (EPS) for the continued operations of € 0.38 (diluted as well as undiluted). An EPS of € 0.12 (diluted as well as undiluted) was achieved if the earnings of discontinued operations are included.

The transferred freenet shares were classified as available for sale assets, which ensures that the share price increases since the 1st quarter 2005, are not included in the profit and loss statement. They are part of the purchase price for the STRATO sales to TELES, which was completed at the end of 2004/early 2005. The share price increase since the receipt of the freenet shares, which was directly reported in equity, was approximately 2 Mio€ (net of effects from deferred taxes).

Revenues and earnings by segment in 2007 (in accordance with IFRS)

In addition to the operative segment, the corporation uses the unit "Management Service Division (MSD)" for corporate control purposes. The explicit reporting of MSD improves the transparency of the TELES cost structure, by showing that the central services generate special effects and repeated costs in the corporation and to what extent these costs are secured and allocatable. In addition, due to the strategic importance of the TELES patents and the associated activities, an additional division, "TIPR" (TELES Intellectual Property Rights), was established in 2006. An allocation of the revenues and expenditures to the TCS segment (TELES Communication Systems) with consideration of the separate reporting of the MSD and the TIPR divisions can be found in the following table.

Notes on the MS Division:

Revenues and earnings by segment in Mio€	**2006**	**2007**	**Change[2] 2007 vs. 2006**
MS Division			
Revenues	**0.6**	**0.6**	**1%**
Gross profit	**0.6**	**0.6**	**1%**
Gross profit margin	100%	100%	0%
General and administrative expenditures	3.5	4.0	16%
Expenditures for employee stock option plans	0.3	0.2	-38%
Other income	0.1	0.0	n.a.
Other expenditures	0.1	0.2	160%
EBITDA (Earnings before interest, taxes, depreciation and amortization)	**-3.2**	**-3.8**	**-19%**
Operational depreciation and amortization	0.0	0.0	n.a.
EBIT	**-3.2**	**-3.8**	**-18%**
Financial result	3.1	22.3	609%
EBT	**-0.1**	**18.5**	**n.a.**

- The **MSD revenues** are not "external revenues", but are equivalent to the cost allocations charged to the TCS segment. The cost allocations of the previous TWBI segment (skyDSL business) have already been excluded, which must now be reported as “discontinued operations" in accordance with IFRS 5.

- The **MSD general and administrative expenditures** have increased compared to last year, mainly due to preproduction costs in connection with our evaluation activities of possible additional business segments. In addition, they represent especially our capital market costs (a.o. year-end closing audits, investor relations and Annual General Meeting costs) assuming they cannot be allocated to the operative segments.

[2] The percentage change is not calculated based on rounded EURO amounts.

In addition, the expenditure for employee stock option plans (in accordance with IFRS 2) has been a burden on the MSD operating expenditures since 2005. This burden is 0.2 Mio€ and has no effect on liquidity.

- The **MSD financial result** in the amount of app. 22.3 Mio€ have increased significantly compared to the previous year (3.1 Mio€). The increase benefits significantly from a dividend payment received from freenet in the amount of 21.4 Mio€. In addition, interest income for cash funds is reported here.

- Due to the increased financial income, the **MSD EBT** is positive with 18.5 Mio€.

Notes on the TIPR Division:

Revenues and earnings by segment in Mio€	**2006**	**2007**	**Change[3] 2007 vs. 2006**
TIPR Division			
Revenues	**0.0**	**0.0**	**n.a.**
Gross profit	**0.0**	**0.0**	**n.a.**
General and administrative expenditures	5.0	4.2	-16%
EBITDA (Earnings before interest, taxes, depreciation and amortization)	**-5.0**	**-4.2**	**16%**
Operational depreciation and amortization	0.0	0.0	n.a.
EBIT	**-5.0**	**-4.2**	**16%**
Financial result	0.0	0.0	n.a.
EBT	**-5.0**	**-4.2**	**16%**

- **TIPR expenditures.** To increase the transparency and due to the strategic importance of the TELES patents and the associated activities, an additional division, "TIPR" (TELES Intellectual Property Rights), was established in early 2006. As expected, the TIPR expenditures (4.2 Mio€) have decreased slightly compared to the previous year. They are particularly connected to the legal enforcement of our VoIP patents and new filings of additional patents in the US (3.8 Mio€).

- **2008 outlook:** Similar TIPR expenditures as in 2007 are expected for 2008.

[3] The percentage change is not calculated based on rounded EURO amounts.

Notes on the TCS Segment:

Revenues and earnings by segment in Mio€	2006	2007	Change[4] 2007 vs. 2006
TCS Segment			
Revenues	**19.2**	**19.2**	**0%**
Cost of sales	7.7	9.6	25%
included therein: depreciations	*0.1*	*0.2*	*10%*
Gross profit	**11.5**	**9.6**	**-16%**
Gross profit margin	60%	50%	-10%
Sales and marketing expenditures	6.8	6.0	-11%
Research and development expenditures	4.9	5.6	14%
General and administrative expenditures	1.9	2.1	9%
Other income	0.1	0.3	203%
Other expenditures	0.3	0.4	37%
EBITDA (Earnings before interest, taxes, depreciation and amortization)	**-2.2**	**-4.0**	**-82%**
Operational depreciation and amortization	0.5	0.7	46%
EBIT	**-2.8**	**-4.9**	**-73%**
Financial result	-0.2	0.2	n.a.
EBT	**-3.0**	**-4.7**	**-54%**

- **Strategic overview:** As explained above, acquisitions were made in July and December 2007 to support especially the objective to advance the TCS segment (TELES Communication Systems) from a European NGN player to an international global NGN-player. The acquisitions strengthen the research and development activities (R&D) and also complete the business portfolio at an increased speed or make it ready for the market at an earlier stage (time to market) This enables us to strengthen our position in the established markets and to develop new markets.

- **TCS revenues:** Overall, the sales were unchanged compared to the previous year; however, it should be pointed out that the start was weak during the first half of 2007, while the second half provided significant sales increases. The second half year sales were the highest for the last two years. The order backlog at year end was also significantly higher than the previous year. However, the sales for the product lines developed differently: the sales of NGN products initially fell below the expectations, while the sales for access gateways (mobile gateways and VoIP gateways) was above plan. This is largely the result of the development of the newly established distribution partnership for the North American market, which is above expectations. Please refer to details in sections G for more information about the expectations.

[4] The percentage change is not calculated based on rounded EURO amounts.

- **TCS gross profit margin.** The gross profit margin declined to 50% in 2007 as a result of the changed product mix and one-time value corrections of the inventory at hand. This is due to a new days of inventory analysis for inventories at hand and especially to a more stringent evaluation of equipment provided to customers for test purposes and during warranty periods (a total of app. 0.8 Mio€). The absolute gross profit declined therefore from 11.5 Mio€ to 9.6 Mio€.

- The 2007 **TCS operating expenditures** have only increased marginally compared to 2006. However, significant changes occurred within the functional areas. The R&D costs increased especially due to the company acquisition in Israel. In contrast, the costs for the sales and marketing area decreased as a result of the continued optimization of the sales structure. However, the variable payments to the sales department employees also decreased due as sales targets were not met.

- The 2007 **TCS-EBITDA** or **TCS-EBIT** declined compared to 2006 mainly in line with the gross profit decline and was negative with -4.0 Mio€ and 4.9 Mio€ respectively.

B.1 Cash flow

The 2006/2007 cash flow comparison is shown in the following table.

Cash flow	**2006 Mio€**	**2007 Mio€**
Operating Activities	-14.9	-11.0
Investing Activities	0.1	19.7
Financing Activities	-18.4	-42.2
Net increase/decrease of cash and cash equivalents	-33.2	-33.5
Cash and cash equivalents at the end of the business year	41.1	7.6

The 2007 **cash outflow from operating activities** in the amount of approximately -11.0 Mio€ is to a large extent identical to the EBITDA (-12.0 Mio€).

The 2007 **cash inflow from investing activities** of 19.7 Mio€ is a result of the balance from the freenet dividend and fund outflows as part of the TELES Israel acquisition and the normal operative investment activities.

The 2007 **cash outflow from financing activities** in the amount of 42.2 Mio€ is mainly identical to the dividend payment of 42.3 Mio€ paid in August 2007 to the shareholders of TELES.

The cash portfolio at the end of 2007 declined by 33.5 Mio€ due to the above listed inflows and outflows. In addition to the portfolio, TELES owns assets in form of 3.565 million freenet shares, which represents assets that can be sold short-term. This means that TELES will continue to have a comfortable cash fund base in the future.

B.2 Asset and capital structures

The following summarizes the asset and capital structure compared to the previous year:

Asset and capital structures	**31.12.2006 Mio€**	**31.12.2007 Mio€**
Cash and cash equivalents	41.1	7.6
Trade accounts receivable	3.6	4.9
Inventories	6.1	5.2
Fixed and intangible assets	1.4	4.1
Other assets	85.2	62,5
Liabilities	9.3	14.0
Equity	128.1	70.3
In % of balance sheet total	93%	83%
Total assets	137.4	84.3
Additions to fixed and intangible assets	0.8	1.5

At the end of 2007, the assets allocated to the discontinued skyDSL operation have been re-classified in Other assets in accordance with IFRS 5, assets "held for sale". A comparison of the assets with the values of previous years is therefore only possible on a limited basis.

The portfolio of **trade accounts receivable** in the corporation has increased in 2007 by a total of 1.3 Mio€. The portfolio increased by 2.1 Mio€ after the values of the discontinued skyDSL operation were eliminated from the previous years. This corresponds to the sales increase in the TCS business segment during the 2nd half of 2007. An especially strong increase was registered in December. Based on the December sales, the average calculated payment terms are approximately 60 days.

The 2007 **inventory** level declined by 0.9 Mio€ as compared to the previous year. This is mainly a result of the re-classification of the value of the discontinued skyDSL operation (0.8 Mio€).

The 2007 **fixed assets** increased compared to the previous year mainly as a result of the TELES Israel acquisition due to intangible assets (goodwill 2.3 Mio€, acquired technologies and customer relationships 0.2 Mio€). In addition, the TELES businesses continue to be characterized by extremely small tied-up capital requirements.

The item 2007 **Other assets** includes mainly the 3.565 million freenet shares that were received as the pro-rated purchase price for part of the WebHosting business divestiture.

The **liabilities** increased mainly as a result of the TELES Israel acquisition (1.6 Mio€) completed in July 2007. In addition, they include a sales tax back payment liability from discontinued operations, which must be accounted due to consolidation regulations. However, it will eventually be cancelled from the books at the right time and therefore it will not have to be paid. Please refer to the Notes for more information (NOTES; note 23).

The **Group equity** at the end of 2007 was at the considerably high level of 70.3 Mio€, despite dividend payments in the amount of 42.3 Mio€ and the operational loss in 2007. This is equivalent to an **equity rate** of **83%**.

This means that the financial situation of TELES continues to be comfortable and is more than adequate for the further business development of TELES.

The following table shows the **geographical segments** as compared to the previous year:

	Revenues		Segment assets		Addition to the fixed assets	
	2006 Mio€	2007 Mio€	31.12.2006 €Mio	31.12.2007 €Mio	2006 Mio€	2007 Mio€
Germany	4.4	5.4	52.0	20.1	0.6	1.4
Europe, without Germany	11.8	8.3	2.7	0.5	0.0	0.0
Other	3.0	5.5	0.5	4.1	0.2	0.1
Not assigned			82.2	59.6		
Total	19.2	19.2	137.4	84.3	0.8	1.5

The "not assigned" segment assets in 2006/2007 include particularly the value of the freenet shares as per 31.12.2006 and 31.12.2007.

B.3 Employees of the TELES Group

TELES employed 293 employees as at December 31, 2007. The number of employees increased by 32 as compared to the year end 2006. The increase in the number of employees as compared to the previous year is mainly a result of the now TELES Israel acquisition

C. Risks with important influence on the asset, finance and earnings situation

TELES took Deutsche Telekom AG (DTAG) and SES ASTRAnet S.A. to court in 2002 due to a infringement of several TELES patents by their "T-DSL via Satellite" service. TELES bases its lawsuit on a German and a European Patent, which protect the skyDSL technology developed by TELES and in addition a German utility patent. Companies that were taken to court in two comparable patent infringement suits have come to an agreement with TELES and have discontinued their operations in this business segment after they lost in the first instance. A first instance decision was handed down on January 27, 2006 in the patent infringement suit against DTAG and SES, which was resumed after interim suspension of the German patent and utility patent. As expected, it was in favor of TELES. DTAG appealed the decision while the decision against SES is legally binding and therefore enforceable. In 2003, the above mentioned protective rights were questioned at the German and the European patent office in connection with the patent infringement suit. TELES also won its case against DTAG/SES in the first instance during 2005 with a comparable result in the utility patent suit at the patent office after confirmation of the German skyDSL core patent by the federal patent court at the end of 2004. However, the utility patent was canceled on March 20, 2007 in a second instance by the federal patent court for judicial reasons. The decision is not yet effective. TELES has in the meantime filed an explicitly authorized appeal at the BGH [Bundesgerichtshof = Federal Court of Justice]. In the end, the result of this suit will neither impact the operational skyDSL business of TELES nor will it have a relevant influence on the result of the skyDSL patent infringement proceedings. The European skyDSL patent was confirmed by the European patent office with marginal restrictions on January 26, 2006. DTAG/SES appealed this decision too. TELES is convinced it will win the proceedings that have not yet been legally decided. TELES and its legal advisers continue to see no risks associated with these proceedings.

Based on an advertisement by STRATO Medien AG for skyDSL during 2003, the district court Köln has made a decision on February 17, 2005 due to the application of a competitor. It requires STRATO Medien AG to cease and desist advertisements using the term "DSL" on its own or in connection as "skyDSL" for the satellite supported internet access as it was used in the disputed advertisement, which is in the opinion of the court misleading. STRATO Medien AG appealed this decision on April 06, 2005 at the appellate court Köln. The appellate court Köln declined the appeal in a decision on February 15, 2006. A further appeal was not permitted. STRATO Medien AG did not file a leave to appeal complaint against the denial. The decision is therefore effective. The risk of identical follow-on proceedings for the new distribution company TELES skyDSL, is judged as low by TELES and its legal advisers, since skyDSL was established after STRATO Medien AG exited from the TELES Group.

TELES acquired a 33.3% investment in a newly founded communication service company in June 2003. This company, headquartered in Great Britain, generates no business activity anymore. It originally delivered telecommunication services for phone connection network operators in Germany by cost effectively terminating phone calls from the wired networks to mobile networks of the German cellular phone network operators until the used cellular phone cards were disconnected by the cellular phone network operators. The company could not win against the affected cellular phone network operators in its interim injunction process targeted for the re-connection of the cellular phone cards. However, it aims at a final clarification in the principle proceedings after a cellular phone network operator filed a claim for payment and damages at the end of 2004. In the meantime, TELES claimed the damages caused by the disconnection of the cellular phone cards as part of the principle proceeding by filing a counter claim. The district court Düsseldorf has confirmed the claim in the first instance with a decision on May 31, 2006 and rejected the counter claim. The decision is not legally effective yet and was appealed. The chances of success for this suit in the second instance at the appellate court Düsseldorf are uncertain despite the fact that the legal practice reversed itself in favor of TELES with respect to the legality of the disconnection of the SIM cards used in the GSM gateways by the cellular phone network operators. A court decision is expected in March 2008. However, a high risk does not exist for this case.

In addition, the same cellular phone operator has filed a claim against TELES AG and TELES NetSales GmbH in 2005 to cease the offering and distribution of GSM gateways for carrier networks. The district court in Düsseldorf declined the claim in the first instance with a decision on June 14, 2006. However, the counter claim by TELES against corresponding general terms and conditions of the cellular phone operator with respect to the ban of use of it's SIM cards in SMS gateways was also not successful. Both parties appealed the first instance decision. The chances of success for TELES are not assessable based on the above mentioned change in the legal position for a partial question of the lawsuit (legality of the use of GSM gateways in Germany). It is also not clear what the impact of a negative decision for TELES would be on international sales. A second instance decision for this case is also expected in March 2008. Based on the decision in favor of TELES in the first instance, TELES and its legal advisers view the risk of a general export ban and - based on the low importance of Germany as a distribution country for GMS gateways - therefore the economic risks for TELES as small.

As part of the divestiture of the WebHosting business segment, it was agreed that STRATO Medien AG will continue a lawsuit on account of TELES, which will assume all responsibilities and risks from this suit. This suit was initiated by the liquidator of KPNQwest Germany GmbH i.In. against STRATO Medien AG. As described in the management reports of the previous years, during the business year 2001 and 2002 STRATO suspended payments to the technical service provider, KPNQwest, and reductions were claimed for misperformance. The liquidator, assigned in the meantime, filed a payment claim against STRATO in 2002. STRATO reported under payables in an amount of 5.4 Mio€ as at December 31, 2004, which had been already reduced by an amount of 3.2 Mio€ by a reduction that TELES views as justified under any circumstances. STRATO also claims compensation for damages in the amount of approximately 8 Mio€. The lawsuit is currently in the evidence-gathering phase. A process result is as yet not concluded. The TELES attorney and legal costs were accrued in an adequate manner. TELES and its legal advisers see no further risks for TELES.

The appeal proceedings, initiated by the losing defendant, against the first instance decision on November 11, 2005 in favor of TELES by the district court Mannheim against Quintum Inc. and its domestic distribution partners was suspended until the legally effective conclusion of the continued nullity proceedings against the IntraStar patents.

In the meantime, the appeal by TELES as part of the first lawsuit against AVM GmbH and its distributions partners was declined by the appellate court Karlsruhe with a decision on June 28, 2006. TELES filed a complaint against the denial of leave to appeal in the above proceedings. A decision as yet has still not been made.

Another lawsuit by TELES against AVM GmbH as a result of the revision of the originally questioned product was declined by the district court Mannheim on July 18, 2006 in the first instance. The appeal proceedings against the decision initiated by TELES were in the meantime suspended until the conclusion of the continued nullity proceedings against the lawsuit patents. This is the same for the appeal proceedings against the first instance decision by the district court Mannheim on July 9, 2006, which declined the lawsuit in the first instance of the patent infringement proceedings against CISCO Systems Inc.

The patent infringement proceedings of February 15, 2006 filed by TELES against Nokia were also suspended for the same reasons.

The 4th senate of the federal patent court in Munich has revoked this patent or this part of the patent on April 5, 2006 in the patent nullity proceedings of Cisco and Quintum against the German patent and the German part of the European IntraStar patent by TELES. The reason stated by the federal patent court was the lack of inventiveness of both patents. The decisions are not legally effective and were appealed by TELES on June 21, 2006 with an appeal to the BGH. Please refer to the ad-hoc announcement dated April 6, 2006 for further information. TELES is still optimistic that the patents will in the end be honored. Overall, a double digit number of patent infringement suits of TELES against primarily non-European companies whose hybrid Internet-telephony products (or VoIP products) may currently infringe the IntraStar patents can be expected in the future, (see the German-language VoIP Patent Infringement Forum at www.teles.de for more information). TELES and their legal consultants see no risks in these proceedings.

In October 2005 the IntraStar patent was granted to TELES for the United States of America. The Declaratory Judgement Action filed by Cisco for nullification of this US patent and to ensure its non-infringement by Cisco products is still in the pre-trial discovery phase. An additional VoIP patent granted to TELES in the US on December 5, 2006 with a multitude of patent claims was included by TELES in the case, which increases the chances for success.

In the meantime, Cisco filed a request for suspension of the court proceedings. The basis for this request are applications filed in parallel at the USPTO (United States Patent and Trademark Office) for a re-examination of both litigious patents. A decision about the suspension of the court proceedings is not expected before February 2008. The first results of the re-examination proceedings by the USPTO will probably be available during the next few months.

Based on the first US IntraStar patent, TELES also filed a patent infringement suit on March 24, 2006 against Quintum. The second US IntraStar patent was also included in this case. In the meantime, Quintum Technologies Inc. was sold to Network Equipment Technologies, Inc. (NET), a network supplier with headquarters in the US, which has initially no effect on the proceedings. TELES is currently reviewing further steps.

TELES and its legal advisers see no greater risks - with the exception of TELES' attorney costs - for these proceedings, (because US law normally does not provide a claim for the reimbursement of the attorney costs for the opponent even if one loses the case).

The British media corporation British Sky Broadcasting Group plc (BskyB) has filed a lawsuit before the High Court of Justice in London to cease and desist and for damages against TELES AG, TELES Wireless Broadband Internet GmbH and its British distribution subsidiary because of the infringement of trademark rights (a.o. "SKY") through the advertisement of the skyDSL services in the UK. TELES defended itself against the lawsuit. Settlement discussions are currently held. TELES and its legal advisors see currently no larger risks, except for the TELES defence costs, in this proceedings because the UK market so far only plays a minor role in the skyDSL business.

D. Research and development activities

In addition to its high-performance marketing and sales teams, the TELES Group continues to consider its exceptionally qualified, success oriented development teams with long term experience, to be one of its most important "assets". They are the basis for the growth of TELES in the future years.

Significant development work was started or continued in the TELES Group during the reporting year. These are in details:

- The development of a high-performance soft switch solution (TELES-MGC = TELES Media Gateway Controller) based on a cluster technology, which provides the customer with a powerful, redundantly configured system which can be scaled in accordance with growth at any. The solution has been successfully utilized in several networks.

- In addition to the "carrier grade" Class 4 soft switch solutions (NGN solutions for the connections between different carrier networks), a Class 5 soft switch solution for the connection of residential and corporate customers via VoIP and the associated development team were taken over at the end of 2007 to expand the NGN portfolio. The take-over enables TELES to already achieve sales in this segment in 2008. TELES is in a position to advance the development to an even higher performance and stronger scalable system due to its experience with existing Tier 1 and Tier 2 customers in this segment.

- A smaller take-over in the access gateways segment made it possible to expand the product portfolio and the R&D resources with respect to quantity and quality. This expands the knowledge especially in the lower segment and makes it possible to develop additional markets.

- The domestic protocols and the region specific functions are currently under development to enable the company to service the North American Market, which is the largest supplier market for NGN technologies, and the South and Central American market as well as the Asian market (e.g. China), which represent the markets with the largest growth potential.

- Perspectives, strategies and developments for future products are accelerated by cooperation with leading institutes in the research segment.

- The opportunities and the acceptance of the FMC strategy for Integrated Access Devices in combination with mobile terminals will be verified by implementing the first prototypes, these are the result of completed research in the CPE segment.

E. Special events after the closing of the business year

All transfer assets in connection with the acquired part of the "MissisSIPpi" segment were transferred by Kapsch Carrier on January 11, 2008- matching purchase price payment with delivery.

By issuing an exercise statement, Mountain Super Angel AG acquired more than 80% of TWBI GmbH, i.e. the skyDSL business.

F. Risks for future business developments

The development and utilization of economic opportunities and potentials comes with risks that cannot be avoided. It is of great importance for the success of a company to identify these risks at an early stage and to take active efforts to minimize them.

This is acknowledged by section 91 subsection 2 of German Stock Corporation Act (AktG), which obligates the Management Board "to execute appropriate measures and especially to establish an early monitoring system to identify developments that can endanger the continuance of the corporation". For this purpose, the TELES Group uses a number of coordinated risk management and control systems.

The TELES Group has therefore established a risk management system integrated into the operating processes, whereby the subsidiaries are responsible for scope, format and content of their respective risk management systems. Group management is responsible for the monitoring and the coordination of the cross-company risk management. The risk reporting of the subsidiaries to Group management includes the regular and systematic identification, quantification and evaluation of the relevant risks and safety systems. The evaluation of the risks is oriented to the size and the probability of occurrence for potential damages. To support the risk management activities, it is planned to implement a standardized and web-based software solution in 2008.

The risks that can have negative impacts on the asset, finance and earnings situation of the TELES Group are described below. These do not necessarily represent the only risks to which TELES is subjected. Risks that are currently not known or risks that are viewed as unimportant can also negatively impact the business activities.

Business risks

The business environment is always effected by regional and economic conditions. Uncertainties regarding the economic - and occasionally the political - environment can negatively impact the demand for products and services of TELES and can make planning and forecasting difficult.

The financial position of the customer can also have a negative impact on sales and earnings for the business segments. However, it should be pointed out that TELES has limited customer dependency. The share of sales from the largest individual customer of TELES was almost 25% during 2007. The next 10 largest customers contributed app. 30% of the sales. The sales share of 25% for a single customer in 2007 is an exception. This means that there is no "cluster risk" in the receivables. The creditworthiness of new and existing customers will always be reviewed regularly. In addition, TELES works - as much as possible - with advance payments. For the foreign businesses, commercially available letters of credit or payment guarantees are used - especially for businesses outside Europe.

The worldwide markets for the TELES products are a very competitive environment, especially with respect to product and service quality, development and introduction times as well as customer service.

In some markets it is required to develop and implement products fast to be in a position to take advantage of the opportunities. The markets serviced by TELES are particularly characterized by the continued introduction of innovative technologies (example: TCS segment). This requires a strong commitment in the area of research and development. Despite the above, quality problems can still arise. The profit situation depends to a large extent on the ability to adjust to the changing markets and to lower the costs for development and manufacture of new and existing high quality products. Sales and earnings can be negatively influenced by investments in new technologies, which initially may not be functional, may not be accepted in the market place or may not be introduced in time.

TELES depends on third-party suppliers for the procurement of components, preliminary products and services. Despite the fact that TELES works closely with the suppliers, it cannot be guaranteed that supply difficulties can be avoided in the future. Bottle -necks and delays can significantly impact the business development.

And finally, the competition for highly qualified personnel in major segments of the TELES business is high. The future success also depends on whether we are able to hire skilled and qualified personnel, to integrate the employees and retain them within the Company.

Regulatory risks

Official regulations or changes of regulations can, in individual cases, significantly impact the operative costs. In addition, changes of tax laws or regulations can result in higher tax expenses and/or impact the active and passive latent taxes.

TELES is involved in a number of risks in connection with current or future lawsuits. In addition to the descriptions in section C about the current litigations, the involvement in lawsuits as part of the normal business activities can result in product liabilities, quality problems and protection faults. It cannot be guaranteed that the occurrence of these and other litigations will not significantly damage the business activities, the reputation or the brand name. For the protection against certain legal risks, liability insurances have been established, where TELES management deems these to be adequate and customary in the industry. Reserves have been established for litigations if a probable obligation ensues and if an adequate estimate of the amount is possible.

Other operative risks

TELES products/services are also exposed to the risk of hostile attacks on its telecommunication networks and servers. Although this risk cannot be prevented completely, we are protecting ourselves by the continuous improvements in the security of our systems.

Foreign currency risks

Currency fluctuations can result in undesired and unforeseeable volatilities in operating profit and cash flow. The risk will be reduced by settling business transactions wherever possible in the functional currency. Security instruments such as forward contracts and currency options are used; as well as stop-loss orders - if desirable- for those cases were settlements in the functional currencies are not possible. Future currency exchange rate changes can have an impact on prices for products and services and can therefore have an impact of the profit margin.

Interest risks

The interest risk of TELES is only for interest bearing investments. The TELES investment strategy is, on one hand, focused on the liquidity aspects, which means the capability to re-pay these investments. On the other hand the Company tries to optimize the interest income while at the same time minimize the interest fluctuations risks.

Share price risks

The investment portfolio of TELES with respect to publicly traded stock investments includes only the shares in what is now called freenet AG (3.565 million shares) - after the merger with Mobilcom during the reporting year; this was received as part of the WebHosting divestiture in early 2005. The price risk inherent in publicly traded shares is balanced by the opportunity for share price increases. At the end of 2007, the market value of this portfolio was approximately 57 Mio€ (at the time of the closing of the divestiture WebHosting contract it was 50 Mio€). Additionally TELES received, during the reporting year, a dividend of € 6.0 per share, representing a total of 21.4 Mio€. Despite the share price decreases (market value of this share package was approximately 45 Mio€ as at January 31, 2008) after the change of the year and as part of the general decline of share prices, it is assumed that the price reductions are temporary. Further, as confirmed in reports by analysts, potential share price increases are expected. Independent of the above, TELES continuously monitors the share price development of its shares to always be in a position to react immediately.

In addition, we continue to hold approx. 20% of GRAVIS Beteiligungs AG, a company which is not publicly traded, and after the exercising of the option right we also hold approx 20% in TWBI GmbH, i.e. the skyDSL business.

G. TELES growth expectations

We would like to stress here that we do not assume any guarantee for the growth expectations described in the following. We refer to section C and F for the risks of the current and future developments. Impacts on the share price of TELES AG are possible if risk events occur or if growth expectations do not materialize.

This section refers to the corporate structure described in section B under "Current structure of TELES"

<u>Telecommunication infrastructure systems/ system components (TCS segment)</u>

Phone networks are currently subject to significant changes. Initiated by the booming internet technology, a change from the conventional wired switching technology to packet switched transfer mode systems (VoIP) is taking place. This demands an advanced development for the networks of the future - NGN and IMS (IP Multimedia Subsystem).

As part of the divestiture of our WebHosting business at the end of 2004, the purchase of TELES' telecommunication infrastructure systems was agreed with freenet.de AG. A completely VoIP-capable soft switch solution (NGN) was implemented in 2007. The core of this soft switch solution is the Media Gateway Controller (MGC) by TELES.

Based on this show case, it should be possible to acquire additional so-called Tier 2 carriers as potential customers. In addition, TELES is well positioned to sell soft switch solutions (NGN) into this sub-segment because we installed app. 200 IP/TDM networks with Tier 3 and Tier 4 carriers. Early sales successes for MGCs have been already realized.

Based on a variety of market studies (e.g. Infonetics), the following developments are expected with respect to the NGN business:

- Positive growth in the NGN environment was experienced in 2006. "Hosted VoIP" services (outsourcing of the telephony business to carriers) for business customers developed better than expected.
- Experts predict that the market for VoIP equipment for service providers will grow from €2.28 billion in 2006 to €4.5 billion in 2009.
- Class 4 applications are disproportionally included in current VoIP investments by service providers. A significant shift to Class 5 applications can be expected in the coming years. It is expected that the investments in Class 5 applications will grow on average 51% annually until 2009 compared to an average growth rate of 21% for Class 4 applications.

As at January 01. 2008, TELES has acquired the sub-segment "MissisSIPpi" from Kapsch AG as part of an asset deal to be in a position to participate in the high growth business with Class 5 soft switch solutions. Based on this portfolio completion in the NGN segment, TELES has the objective to serve the business with Class 4 applications and starting in 2008 increasingly with Class 5 applications. TELES is now well prepared to address these new growth markets.

TELES has started in 2007 to work increasingly with partners who can complement the inhouse portfolio of TELES well and better utilize the entire market potential. As an example, we refer to the company Audiocodes Ltd. and Fraunhofer Institut (Fokus). These support our expectation that we will successfully participate in this strongly growing market.

The acquisition of the renamed TELES Israel in 2007 put TELES in a position to complete the product portfolio in the access gateways product segment. In addition, a strategic distribution partnership for the North American market was established with an American seller, which developed positively beyond expectations. TELES is confident that this development will continue in 2008.

Based on the dynamic growth for the technologies and markets covered by TELES and due to the currently fragmented competitive situation, TELES should be in a good position to withstand the competitive pressures of small new competitors and/or established large competitors, which are significantly different regionally. The former is based on TELES long-term experience and expertise in the area of telecommunication, its know-how and its patents in the VoIP segments, its flexibility and innovative forces, which resulted among others in app. 40 patent families and based on several hundred customers in 25 countries. Management believes that the measures initiated in 2006/2007 will show significant sales success in 2008. However, the earnings situation will only improve next year.

TELES Intellectual Property Rights (TIPR Division)

For this very future-oriented business division for patents and patent rights – mainly in the field of VoIP/FMC (FMC = Fixed/Mobile Convergence), negative results will be unavoidable for the time being. Costs are generated in this division based on the continued development and registration of new patents; but particularly for the attorney/ litigation costs paid in advance for the enforcement of our patent and damage claims, which are particularly high in the US. However, management believes that the chances for success are good: the corresponding damage or license payments should significantly exceed these initial costs in the case of expected victory. First small successes have already been experienced or can be expected soon. However, a more detailed evaluation is not possible during this early phase for the normally drawn-out patent right litigation proceedings.

TELES Customer Premises Equipment (TCPE Division)

We continue to evaluate the opportunity to build such a business segment. This possible new business segment would present TELES with two new challenges: on one hand, the product development and the creating of prototypes would be advanced at the Berlin location, based on the above mentioned VoIP/FMC patents/patent filings, on the other hand it is intended - based on this patent right/organization - to establish a foothold for TELES in China. The intention is to establish access to manufacturers of VoIP/FMC phones and for residential IADs (Integrated Access Devices) as well as access to the Chinese markets for all of TELES' telecommunication related products. However, a detailed evaluation of these potential activities is not yet possible.

Summarizing this section G of the Management Report 2007, the following can be concluded: the TELES Management Board is convinced that the technical/economic/personnel direction and the outstanding capital resources of the TELES Group will convert the opportunities described above into entrepreneurial success during the future years.

H. Basic principles of the compensation system for the Management Board and the Supervisory Board

The entire compensation package for the members of the TELES AG Management Board -(chairman of the Management Board excepted)- consists of a fixed and a variable, long-term oriented compensation component (stock option program). The annual variable compensation depends on the degree of achievement of the targets established subject to the approval of the Supervisory Board at the beginning of each year. During the last few years, the variable compensation was on average equivalent to appox. one third of the entire annual compensation. The number of stock options, which is listed in detail in the Notes, is only vested on a pro rata basis in accordance with the established entitlement. The exercise is only possible after the TELES share price increase exceeds the reference index (DAX or TecDAX, whichever is higher) by at least 10% per annum. The compensation for the chairman of the Management Board is for the time being restricted to the non-cash benefit of a company car.

The Supervisory Board receives fixed as well as variable representation allowances. The variable allowance is success oriented and is therefore only paid if positive results are achieved and it is limited to the amount of the basic compensation.

Details can be found in the Notes.

I. Information in accordance with Section 315 subsection 4 of the German Commercial Code(HGB)

Composition of the subscribed capital
The fully paid-in equity capital consists of 23,304,676 no-par value individual shares with a mathematical value of € 1.00 each. Each share comes with one vote.

Voting right restrictions or transfer of shares
The Management Board of the Company is not aware of any restrictions with respect to voting rights or transfer of shares.

Direct or indirect accumulation of shares, which exceed 10% of the voting rights
Sigram Schindler Beteiligungsgesellschaft mbH held 47.47% of the voting rights of TELES AG on the balance sheet date. The Company is not aware of any other direct or indirect investments, which exceed 10% of the voting rights.

Shares with special rights; control authorizations
Shares with special rights that provide control authorities do not exist.

Voting right control
A voting right control in accordance with Section 315 subsection 4 no. 5 HGB does not apply.

Regulations for the appointment and dismissal of Management Board members and for the change of the Articles of Association

In accordance with Section 6 of the Articles of Association, the Management Board must consist of at least two members. The Supervisory Board determines the number of Management Board members as part of the above regulation as well as the appointment and the dismissal. It is also responsible for the appointment of one Management Board member as the chairperson. Otherwise, the appointment and dismissal of Management Board members is based on Sections 84 and 85 of German Stock Corporation Act (AktG).

Changes of the Articles of Association must be made in accordance with Sections 179 and 133 AktG. In accordance with Section 14 of the Articles of Association, the Supervisory Board is authorized to approve editorial changes which do not affect the content.

Management Board authority regarding the possibility of issuing or buying back shares

The Management Board was authorized by the resolution of the Annual General Meeting to increase the share capital before March 31, 2009 once or several times by up to 19,000 T€ (authorized capital I) against cash benefits or benefits in-kind with approval by the Supervisory Board .

The conditional capital I was created by the resolution of the Annual General Meeting. It was 1,947 T€ as at December 2007 and was used to fulfill the options on a total of 1,946,591 individual shares. The conditional capital I will only become effective when conversion rights of issued convertible bonds or when issued stock options for the employee stock option program are exercised.

The Annual General Meeting also created the conditional capital III of up to 1,300 T€. It only becomes effective if stock options from the employee stock option program are exercised. As of December 31, 2007, the conditional capital III was 384 T€, divided into 383,876 individual shares.

The Management Board was authorized by a resolution of the Annual General Meeting to buy treasury stock of up to ten percent of the share capital of TELES AG for other purposes than securities trading. In addition, the Management Board was authorized to resell the purchased treasury stock with the approval of the Supervisory Board. This authorization also extends to the offering of shares that were bought as a result of this authorization to third parties as part of company mergers or the acquisition of companies or investments in companies. The price at which the TELES AG shares are transferred to third parties in accordance with the above mentioned authorization is connected to the respective market value at that time. In addition, the corporation has the right to service conversion rights for beneficiaries of the employee stock option plan of TELES AG. In addition, with the approval of the Supervisory Board, the Management Board was authorized to cancel treasury stock in TELES AG, which was acquired based on this authorization, and this cancellation or its implementation does not require an additional resolution of the Annual General Meeting. The cancellation authorization can be exercised in whole or in part.

Important agreements by the corporation, which are subject to the conditions of a change of control based on a takeover bid
Agreements of this kind do not exist.

Compensation agreements of the company, which were made with Management Board members or employees in case of a takeover bid
Agreements of this kind do not exist.

Berlin, February 22, 2008

The Management Board of TELES AG Informationstechnologien

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CONSOLIDATED BALANCE SHEET

(in T€, except number of shares)	Note	December 31 2006	December 31 2007
ASSETS			
Non-current assets			
Tangible assets	5	1,235	1,533
Intangible assets	6	126	2,599
Deferred tax assets l	20	40	9
Other financial assets	7, 19, 32	78,386	59,160
		79,787	**63,301**
Current assets			
Inventories	8	6,079	5,214
Trade accounts receivable	9, 19, 32	3,559	4,888
Other financial assets	10, 19	654	0
Receivable from income taxes		4,176	1,241
Other current assets	11, 32	2,002	803
Cash and cash equivalents	26	41,119	7,625
Assets of the disposal group classified as held for sale	23	0	1,239
		57,589	**21,010**
Total assets		**137,376**	**84,311**
LIABILITIES			
Equity			
Common shares		23,305	23,305
Issued 23,304,676 and 23,304,676 each			
Outstanding: 21,130,183 and 21,130,183 each			
Additional paid-in capital		6,444	6,625
Other comprehensive income		21,257	2,871
Unappropriated retained earnings		98,807	59,072
Treasury stock (2,174,493 and 2,174,493 each)		-21,702	-21,702
Other equity changes		4	117
Equity attributable to shareholders of the parent company		**128,115**	**70,288**
Minority interests		**16**	**1**
Total equity	12	**128,131**	**70,289**
Non-current liabilities			
Convertible debt	13, 19, 28, 32	1,078	216
Non-current accrued liabilities		1,615	1,615
Deferred tax liabilities	20	33	21
Other non-current liabilities	14	126	1,679
		2,852	**3,531**
Current liabilities			
Convertible debt	13, 19, 28, 32	0	857
Trade accounts payable	15, 19, 32	1,663	1,750
Accruals for income taxes	16	313	480
Other accruals	16	1,308	1,258
Deferred revenues	17	410	548
Other current liabilities	18, 28, 32	2,699	4,848
Liabilities of the disposal group classified as held for sale	23	0	750
		6,393	**10,491**
Total liabilities		**9,245**	**14,022**
		137,376	**84,311**

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CONSOLIDATED STATEMENT OF INCOME

(in T€, except for share related information)	Note	January 01 - December 31 2006	 2007
Revenues	29, 30	**19,174**	**19,244**
Cost of sales	8, 29, 30	**7,663**	**9,556**
Gross profit	29, 30	**11,511**	**9,688**
Sales and marketing expenditures		6,894	6,153
Research and development expenditures		5,149	5,944
General and administrative expenditures		9,950	9,951
Expenditures for employee stock option plans	24	293	181
Other income	21	139	245
Other expenditures	21	370	580
Operating loss	30	**-11,006**	**-12,876**
Financial earnings	22	3,236	22,791
Financial expenditures	22	299	281
Earnings before income taxes	20	**-8,069**	**9,634**
Income tax expenditures	20	-384	1,561
Earnings from continued operations		**-7,685**	**8,073**
Earnings from discontinued operations, net of tax	23	-9,212	-5,563
Net loss/ net income		**-16,897**	**2,510**
This can be divided into:			
Shareholders of the parent company		-16,906	2,525
Minority interests		9	-15
Earnings per share from continued operations	25		
Undiluted		-0.36	0.38
Diluted		-0.36	0.38
Earnings per share, total	25		
Undiluted		-0.80	0.12
Diluted		-0.80	0.12
Number of underlying shares			
Undiluted		21,130,183	21,130,183
Diluted		21,130,183	21,194,513
Additional information for the consolidated financial statement (unaudited)			
EBIT[1]		-11,006	-12,876
EBITDA[2]		-10,386	-12,043

[1] Earnings before interest and taxes
[2] Earnings before interest, taxes, depreciation and amortization

Consolidated financial statement of TELES AG Informationstechnologien for the 2007 Business Year

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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in T€, except number of shares)	Number of shares	Nominal share value	Additional paid-in capital	Other compre-hensive income	Unappropriated retained earnings	Treasury stock	Other equity changes	Minority interests	Total equity
December, 31 2005	**23,304,676**	**23,305**	**6,151**	**10,487**	**115,713**	**-21,702**	**-3**	**7**	**133,958**
Net income for the year, attributable to parent company shareholders or minority interests					-16,906			9	-16,897
Currency translation							7		7
Employee stock option plans			293						293
Market valuation of assets available-for-sale, net of tax				10,770					10,770
December, 31 2006	**23,304,676**	**23,305**	**6,444**	**21,257**	**98,807**	**-21,702**	**4**	**16**	**128,131**
Net income for the year, attributable to parent company shareholders or minority interests					2,525			-15	**2,510**
Currency translation							113		**113**
Employee stock option plans			181						**181**
Market valuation of assets available-for-sale, net of tax				-18,386					**-18,386**
Dividend payment					-42,260				**-42,260**
December, 31 2007	**23,304,676**	**23,305**	**6,625**	**2,871**	**59,072**	**-21,702**	**117**	**1**	**70,289**

Consolidated financial statement of TELES AG Informationstechnologien for the 2007 Business Year

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CONSOLIDATED CASH FLOW STATEMENT

(In T€)	Note	January 01 - December 31 2006	2007
Cash flow from operating activities			
Net loss/ net income		-16,897	2,510
Adjustment of the net loss/ net income to the operating cash flow			
Earnings from final consolidations		0	-95
Earnings from business divisions held for sale		0	50
Income taxes		2,377	1,569
Financial results:			
Received dividend		0	-21,390
Interest result		-1,292	-1,276
Miscellaneous		-1,647	150
Employee stock option plans		293	181
Allowance for doubtful accounts		-110	-354
Income from government grants		-60	0
Depreciations for tangible fixed assets		790	1,009
Depreciations on intangible assets		106	141
Losses/ incomes from divestiture of assets		11	-41
Effects from exchange rate changes with no impact on payment		39	24
Changes of other balance sheet items (without changes due to company acquisitions and divestitures)			
Inventories		-1,651	1,028
Trade accounts receivable		594	-1,499
Other current assets, accruals and deferrals		355	1,762
Current liabilities		44	-5
Provisions and other liabilities		2,889	2,366
Received income taxes		1,175	3,435
Paid income taxes		-3,188	-1,637
Received interest		1,312	1,238
Paid interest		-54	-114
Cash outflow from operating activities		**-14,914**	**-10,948**
Cash flow from investing activities:			
Repayment of loans from employee stock option plans		110	197
Proceeds from the sale of assets		11	187
Acquisition of fixed assets		-590	-892
Acquisition of intangible assets		-52	-117
Received dividend payments		0	21,390
Recovery rights		389	319
Cash balance of the disposal group classified as held for sale		0	-331
Sale/ acquisition of subsidiaries minus outgoing / incoming cash		201	-1,052
Cash inflow from investing activities		**69**	**19,701**
Cash flow from financing activities			
Payback to shareholders based on capital reduction		-18,341	0
Paid dividend		0	-42,260
Cash outflow from the return of convertible employee bonds		-4	-4
Other financial activities		-2	17
Cash outflow from financing activities		**-18,347**	**-42,247**
Net change of the cash and cash equivalents		-33,192	-33,494
Cash and cash equivalents, at the beginning of the year		74,311	41,119
Cash and cash equivalents, at the end of the year		**41,119**	**7,625**
Cash and cash equivalents include money market funds		4,998	131

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: GENERAL INFORMATION

TELES Aktiengesellschaft Informationstechnologien (in the following: "TELES AG") and its subsidiaries (in the following: "TELES" or the "Company") were active in two business areas during the completed business year: TELES develops, manufactures and distributes innovative, integrated high performance network and low cost routing systems for phone and data networks. In addition, until January 2008, the Company also offered high-speed internet access through skyDSL. Please refer to note 23 for detailed information about this business area.

TELES AG has its registered headquarter in Berlin, Germany. Shares of TELES AG are publicly traded at all German stock exchanges in the Prime Standard stock exchange segment.

The Company employed on average 277 employees during the business year (previous year: 285).

NOTE 2: SUMMARY OF IMPORTANT ACCOUNTING PRINCIPLES

Basics for the presentation

According to § 315a HGB, the consolidated financial statements of TELES dated December 31, 2007 have been established in accordance with the effective guidelines of the International Accounting Standards Board (IASB), London. All binding IAS or IFRS as well as interpretations of the International Financial Reporting Interpretations Committee (IFRIC), effective in the EU as of December 31, 2007, were used.

The following lists the standards, interpretations and changes, whose application was for the first time mandatory for the completed business year:

- *IFRS 7* *Financial Instruments: Disclosures*

IFRS 7 establishes new regulations for the disclosure instructions about financial instruments. The information instructions of IAS 32 are replaced.

This does not affect the assets, finances and incomes of the Company because IFRS 7 exclusively affects the information obligations. Please refer to note 19 for the mandatory information.

- *IFRIC 7* *Applying the Restatement Approach under IAS 29*
  Financial Reporting in Hyperinflationary Economies

IFRIC 7 provides information on how a company must adjust its year-end closing for the first year for which it determines the existence of hyperinflation in the national economy of its functional currency: the respective regulations must be applied in such a way as if the country has always been a high inflation country.

The IFRIC 7 regulations have not affected the assets, finance and income situation of the Company during the completed business year.

- *IFRIC 8 Scope of IFRS 2*

IFRIC 8 clarifies that IFRS 2 Share-based Payment must be applied to agreements for which a company grants share-based compensation for no or inadequate return services. If the identifiable return service seems to be smaller than the time value to be attributed for the granted equity instrument, IFRIC 8 explains that this fact indicates that another return service was either received or provided. IFRS 2 must therefore be applied.

The IFRIC 8 regulations have not affected the assets, finance and income situation of the Company during the completed business year.

- *IFRIC 9 Reassessment of Embedded Derivatives*

IFRIC 9 applies to the special features for the accounting of embedded derivatives in accordance with IAS 39. According to the conditions listed in IAS 39.11, a judgement must be made as to whether the embedded derivative must be separated from the basic contract and whether it must be displayed in accordance with the accounting rules for derivative financial instruments. According to IFRIC 9, the appraisal must always be performed at the time of contract closing. A reassessment during the contract period is only permitted if the underlying contract conditions and the associated payment flows are changed significantly.

The IFRIC 9 regulations have not affected the assets, finance and income situation of the Company during the completed business year.

- *IFRIC 10 Interim Financial Reporting and Impairment*

IFRIC 10 covers the contradictions between the regulation of IAS 34 Interim Financial Reporting and those of other standards with respect to the recognition and reversal of impairment losses in the year-end closing on goodwill and certain financial assets. IFRIC 10 determines that a company may not reverse impairment losses recognized during an earlier interim period on goodwill, for a held equity instrument or for an asset which is held at acquisition cost. In addition, IFRIC 10 determines that this decision must not be expanded by analogical conclusion to other areas with possible contradictions between IAS 34 and other standards.

The IFRIC 10 regulations have not affected the assets, finance and income situation of the Company during the completed business year.

- *Changes to IAS 1 Presentation of Financial Statements*

The change for IAS 1 includes additional information about the equity of companies. Information about the compositions and the control of the so-called economic equity are required. This includes, for example, external capital conditions and capital restrictions.

This does not affect the assets, finance and income of the Company because the change of IAS 1 affects exclusively information obligations.

In addition, the following standards, interpretations and changes must without exception be applied for future reporting periods:

- *IFRS 8 Operating Segments*

IFRS 8 re-regulates the disclosure obligations for the operative segments. In the future, selected information about the operative segments will be disclosed based on the internal decision parameters of a company (*management approach*). The information made frequently available to the *chief operating decision maker* for the purpose of decision making is decisive for these cases. It is believed that this approach provides more relevant information than generated before in accordance with IAS 14.

The application of the regulations is mandatory starting on January 1, 2009.

This will not affect the assets, finance and income of the Company because IFRS 8 affects exclusively information obligations.

- *IFRIC 11 IFRS 2 – Group and Treasury Share Transactions*

IFRIC 11 concerns itself with the issue of how group wide, share-based payments must be accounted for, what the impact of employee relocations within a group has on the application of IFRS 2 and how share-based payments must be treated, for which the company issues treasury stock or for which it must acquire shares from third parties. IFRIC 11 demands that share-based payments, for which the parent company grants their own equity instruments to the employees of a subsidiary, must be accounted for as equity-settled payment transactions in accordance with IFRS 2.10ff. In contrast, if the subsidiary grants shares to the employees of the parent company, this must be accounted for as cash-settled payment transactions in accordance with IFRS 2.30ff. The relocation of an employee of a corporation from one subsidiary to another subsidiary has no impact on the accounting for the share-based payment. Share-based payments that require the company to purchase treasury stock or that obligated it to purchase treasury stock must always be accounted for as equity-settled payment transactions.

The regulations must be applied to business years that start on or after March 1, 2007.

The application of IFRIC 11 will probably not significantly affect the assets, finance and income of the Company.

- *IFRIC 12* *Service Concession Arrangements*

Service concession arrangements are agreements that a government or another institution subject to public law uses to award orders for the supply of public services to private companies as concession recipients. IFRIC 12 regulates how concession recipients must apply existing IFRSs as part of service concession arrangements to include the obligations accepted and rights received as part of the service concession arrangements.

The regulations must be applied to business years that start on or after January 1, 2008.

IFRIC 12 will probably not be relevant for the Company.

At the time of the report, IFRIC 12 has not yet been bindingly accepted by the EU.

- *IFRIC 13* *Customer Loyalty Programmes*

As part of customer loyalty programs, the customer acquires points (bonuses), which allow him to purchase goods or services from the seller at no costs or at reduced costs. IFRIC 13 regulates the questions whether bonuses represent a debt in connection with a completed sale business or a fee in accordance with a pre-payment for a future sale business: the income from the sale must be divided into two components. One part is allocated to the current business that generated the bonus. The other part is allocated to the future business, which is the result of the bonuses to be cashed. The part of the income that is allocated to the already completed delivery or service must be registered with an impact on results. The part of the income that is associated with the bonus must be accounted for as debt in accordance with a pre-payment until the bonus is cashed and the obligation from the bonus has been fulfilled.

The regulations must be applied to business years that start on or after July 1, 2008.

IFRIC 13 will probably not be relevant for the Company.

At the time of the report, IFRIC 13 has not yet been bindingly accepted by the EU.

- *IFRIC 14* *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

IFRIC 14 provides information on how the limit in accordance with *IAS 19 Employee Benefits* must be determined for a surplus, which can be established as an asset (*Defined Benefit Asset*). In addition it states the impacts on the valuation of assets and reserves from performance oriented plans based on a legal obligation for a minimum payment of contributions, for example by law or by the regulations of the plan. This guarantees that companies consistently account for a plan asset surplus as an asset value. Other obligations must not be used by the employer in accordance with IFRIC 14 as long as the minimum payment of contributions will be paid back to the company.

The regulations must be applied to business years that start on or after January 1, 2008.

IFRIC 14 will probably not be relevant for the Company.

At the time of the report, IFRIC 14 has not yet been bindingly accepted by the EU.

- *Change to IFRS 2 Share-based Payment*

The change to IFRS 2 includes clarifications and a more precise definition of exercise conditions as part of the share-based compensation agreements.

The regulations must be applied to business years that start on or after January 1, 2009.

The application of the changed standard will probably not significantly affect the assets, finance and income of the Company.

At the time of the report, the change of IFRS 2 has not yet been bindingly accepted by the EU.

- *Revision of IFRS 3 Business Combinations*

The revised IFRS 3 includes regulations about the application area, about purchase price components, for the treatment of minority shares and goodwill as well as for the scope of the usage of assets, liabilities and contingent liabilities. In addition, the revised standard includes rules for the accounting of losses carried forward and for the classification of contracts of the acquired company.

The regulations must be applied proactively for business combinations, whose acquisition date is in a business year that starts on or after July 1, 2009.

At the time of the report, the revision of IFRS 3 has not yet been bindingly accepted by the EU.

- *Change to IAS 1 Presentation of Financial Statements*

The change to IAS 1 regulates a variety of information in connection with the equity. In addition, the term *Balance Sheet* is replaced by the term *Statement of Financial Position.*

The regulations must be applied to the business year that starts on or after January 1, 2009.

This does not affect the assets, finance and income of the Company because the change of IAS 1 affects exclusively information obligations.

At the time of the report, the change of IAS 1 has not yet been bindingly accepted by the EU.

- *Changes to IAS 23 Borrowing Costs*

Based on the change of IAS 23, borrowing costs, which can be allocated directly to the acquisition, construction or manufacture of a qualified asset, must be activated. The previously effective selection right regarding the activation of borrowing costs was eliminated to reduce or eliminate difference between IFRS and US-GAAP as part of the *Shortterm Convergence Project* between IASB and the US Financial Accounting Standards Board (FASB).

The regulations must be applied to borrowing costs for qualified assets, whose starting point for the activation is on or after January 1, 2009.

The change to IAS 23 will probably not be relevant for the Company.

At the time of the report, the change of IAS 23 has not yet been bindingly accepted by the EU.

- *Change to IAS 27 Consolidated and Separate Financial Statements*

IAS 27 regulates the treatment of share acquisitions or divestitures after establishment and maintenance of the control opportunity. Losses allocated to minorities, which exceed their balance sheet value, must in the future be presented as negative book values in the corporate equity.

The regulations must be applied to the business year that starts on or after July 1, 2009.

The application of the changed standard will probably not significantly affect the assets, finance and income of the Company.

At the time of the report, the change of IAS 27 has not yet been bindingly accepted by the EU.

- *Changes to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements*

IAS 32 regulates whether a financial instrument must be classified at the issuer as equity or as a liability. The revision of IAS 32 permits under certain conditions the inclusion of callable financial instruments in equity.

The regulations must be applied to the business year that starts on or after July 1, 2009.

The application of the changed standard will probably not significantly affect the assets, finance and income of the Company.

At the time of the report, the change of IAS 32 has not yet been bindingly accepted by the EU.

The IFRS standards and interpretations that must only be applied starting in 2008 were not applied early.

Estimates

In accordance with the generally accepted accounting rules, the Management Board must establish estimates and assumptions for the establishment of the year-end closing, which impact the presented amounts in the consolidated financial statements and in the notes. Subject to estimates are the individual circumstances to be accounted and the determination of the recoverable amount of a cash generating unit.

Among others, estimates are made for the following items: value adjustments for inventories, receivables, planned and extraordinary depreciations for fixed assets and for intangible assets (especially for those intangible assets that have been acquired as part of a company merger), the fair value evaluation of shares in companies that are not publicly traded, reserves, warranties, return of products sold, value adjustments for assets, taxes and contingent liabilities. The amounts actually achieved can deviate from these estimates. Estimate uncertainties that carry a significant risk in form of a significant adjustment of the book values of the assets and debts for the next business year affect the income taxes. Significant assumptions are required for this area to determine domestic and international tax accruals. Business transactions exist, whose final taxation cannot be determined completely during the normal course of business. The company determines the amount of accruals for expected tax audits on the basis of estimates, whether and for which amount additional taxes may have to be paid. Impacts on the actual and deferred taxes will be experienced for the period in which the taxation will be determined conclusively, if the final taxation of certain business transactions deviates from the one that was originally assumed. In addition, the generation of deferred tax assets on losses carried forward depends on the expected future income development. Please refer to the balance sheet and to note 20 for detailed information about income taxes in the corporate year-end closing.

The determination of the recoverable amount of a cash generating unit is made on the basis of a DCF process. The main assumptions, which are used to determine the fair value less costs to sell, include assumptions regarding the sales and income development. These estimates, including the methods used, can have significant impacts on the determination of the fair value to be attributed as well as consequently on the impairment of the goodwill.

Consolidation circle

The consolidated financial statements for the 2007 business year include TELES AG as the parent company plus six domestic and eleven foreign subsidiaries. The number of consolidated companies therefore remains unchanged compared to the previous year. However, the consolidation circle changed insofar as one company was acquired or founded and two companies that were closed during the previous years were removed from the consolidation circle due to liquidation.

In addition, TELES owns a 19.9% minority investment in GRAVIS AG.

Investments in associated companies do not exist.

A list of subsidiaries included in the consolidated financial statements can be found in note 32.

Please refer to note 31 for further information about the consolidation circle.

Consolidation methods

All companies, for which TELES AG has the direct and indirect opportunity to determine the financial and the business policies in such a way that the corporate companies can benefit from the activities of these companies, are included in the consolidated financial statements. The financial reports will be established in accordance with uniform accounting and valuation principles. The companies will be included in the consolidated financial statements for the first time effective on the day on which TELES AG obtains the controlling interest over the subsidiary. Minority interests will be reported separately.

The purchase method is used for the consolidation assumed the simplification rules listed in IFRS 1 are not used permissible for the transition of IFRS as at January 1, 2002. For this purpose, the acquisition values of the investments will be balanced against the corporate share of the equity value to be attributed to the respective company. The acquired assets and debts, including those not accounted for in the acquired company, will be utilized with the fair value at the date of the acquisition. Minority interests will be accounted for using the shares allocated to the minority shareholders with the fair values to be attributed. The positive difference amount between the acquisition cost and the share of the net fair value will be reported as goodwill and will be reviewed frequently for its possible recoverey.

Intercompany transactions will be eliminated. Receivables and payables between consolidated companies will be balanced against each other. Intercompany profits will be eliminated and intercomoany incomes will be balanced against the corresponding expenditures.

The respective amount will be reported separately in the income statement if current operating profits of a corporate company must be allocated to minority shareholders. Losses reduce the balance sheet item "Minority interests" in the balance sheet until this item has been exhausted.

In case of the divestiture of a subsidiary, the assets and debts included up to this point as well as the goodwill allocated to the subsidiary will be balanced against the divestiture income.

Tangible assets

The tangible assets will be accounted for at their acquisition cost minus the planned and possible extraordinary depreciations. Revaluations will not be made. Planned depreciations are made linearly using the following periods:

Computer hardware:	3 years
Office and operating equipment:	5 years
Leasehold improvements:	10 years
Miscellaneous:	10 years

Maintenance and repair costs will be reported at the time of occurence.

Intangible assets

Acquired intangible assets are activated if it is probable that a future economic benefit is associated with the utilization. They are accounted for at purchase costs, minus planned and possible extraordinary depreciations. Planned depreciations are made linearly using the following periods:

Software:	3-5 years
Acquired customer relationships:	4 years
Technologies:	5 years
Miscellaneous:	3-5 years

The goodwill as an intangible value with an indefinite utilization period is not subject to planned depreciations. The recoverability of the activated book value will be reviewed frequently on the basis of "cash generating units" and an impairment will be implemented if the recoverable amount of the goodwill, which represents the higher amount of fair value less costs to sell and value in use, falls below the book value.

Financial instruments, assets

The shares of freenet.de AG, which are owned by the Company, are classified as assets available-for-sale. They are reported on the balance sheet under "Other financial assets" (non-current). The fair value to be attributed is used for valuation. The stock exchange price determined at the end of the reporting period is used as the fair value to be attributed. Value changes between incoming and subsequent valuation will be reported in equity under other comprehensive income.

The Company owns a minority investment in GRAVIS AG. This minority investment is classified as an asset available-for-sale. It is reported on the balance sheet under "Other financial assets" (non-current). The fair value to be attributed is used for valuation. The fair value is determined with the help of a discounted cash flow process because these are securities, which are not publicly traded. The discount rate used for this purpose is 12.75%. Value changes between incoming and subsequent valuation will be reported in equity under other comprehensive income.

TELES continues to have a recovery right in connection with waived payables for the above mentioned minority investment in GRAVIS AG, which means that TELES participates in value increases of GRAVIS AG in the form of profit participations or in the case of a divestiture in the form of shares. The recovery right claim is initially accounted for by using the fair value to be attributed and afterwards at amortized costs by using the effective interest method. It is reported in the balance sheet under "Other financial assets" (non-current).

In addition, the Company holds on the balance sheet date two recovery rights and options for the acquisition and the divestitures of business shares in a subsidiary, as well as one option for the divestiture of company shares of another subsidiary. The rights are accounted for with zero value on the balance sheet date because the Company does not currently assign a value to them .

The Company owns shares in investment funds. The shares are classified as trading assets. They are valued at the fair value to be attributed. Value changes between incoming and subsequent valuation are reported in the income statement with an impact on earnings. The return price of the funds shares determined at the end of the reporting period is used as the fair value to be attributed.

Trade accounts receivable as well as other receivables are originally entered at the fair value to be attributed and afterwards at amortized costs by using the effective interest method. The receivables are grouped depending on their due date taking the general credit risk into account and afterwards value adjustments will be made based on their age structure. However, adequate individual value adjustments will be made if the circumstances require.

The acquisition and the divestiture of financial assets will be accounted for at the settlement date.

Inventories

Inventories are reported at average cost or net realizable value, whichever is lower. Value depreciations are made if inventories exist, which are difficult to sell or are outdated.

Cash and cash equivalents

The Company views all highly liquid investments with a duration of 90 days or shorter at the time of acquisition as cash equivalents.

Equity

The regulations of the Handelsgesetzbuch [German Commercial Code] (mainly § 272) or the Aktiengesetz [German Corporation Act] (mainly §§ 71 ff., §§ 192 ff.) are used for the equity management of TELES AG, and the regulations of IFRS are used for the equity management of the TELES Group The above mentioned laws or regulations are the only external restrictions on the equity of TELES.

Treasury stock

The common shares, which were bought back by the Company, are reported in the balance sheet under the dedicated item "Treasury stock" and result in a reduction in shareholders' equity. The old stock of treasury shares will be reissued first (FIFO) and the difference between the buy-back cost and the new issue price will be treated as depreciation or appreciation of the retained earnings.

Financial instruments, liabilities

The Company has financial obligations for convertible bonds in connection with the employee stock option plans. A customary commercial interest rate of 6% annually was paid for the issued convertible bonds at the time of their issue. The convertible bonds liabilities are compensated by assets in the form of issued loans in almost the same amount, which will be held until the final due date. Both items are accounted for at acquisition costs.

The convertible bonds are reported completely as liabilities because the convertible bond right depends on uncertain circumstances that cannot be controlled by TELES and because an equity share was not attributable at the time of issue of the convertible bonds.

Provisions

Provisions will be established if the Company experiences a current legal or factual obligation from an event in the past, if an outflow of resources is probable for the fulfillment of this obligation and if the amount of the obligation can be estimated reliably.

When selling telecommunication products to its commercial customers, the Company always agrees to a warranty obligation of twelve months, and in special cases of up to 24 months. Estimated future warranty obligations for certain products are accrued at the time when the net sales are accounted. These provisions are based on historic experiences and on an estimate of future claims.

Deferred income taxes

The reporting of deferred income taxes is based on the so-called "liability method". Deferred income taxes will be generated for all significant temporary differences between the related tax and the related accounting assessment of the assets and debts as well as for tax losses carried forward on the basis of the legally valid tax rates. Deferred tax assets will be reduced by a valuation depreciation, based on the known circumstances, if it is probable that a part or the entire deferred tax assets cannot be utilized. Deferred taxes are reported as non-current assets or liabilities.

Impairment

Impairment tests are made if there is a triggering event indicating that the carried value of the asset may exceed its net realizable value.

Research and development costs

Research costs are reported at the time they are generated and only if they have an impact on expenditures. Costs, which are generated in connection with the inhouse development of software for the sale of certain telecommunication equipment and internet services, were not activated, because the conditions in accordance with IAS 38 were not met. This applies to the allocation of the expenditures during the development phase, the security of the technical realization and the adequate determination of future fund inflows. Internal costs, which are connected to the development of internally related software programs, were also not activated for the same reasons.

Leasing relationships

Leasing relationships negotiated by the Company are classified as operating leases assumming the Company is not the economic owner. The leasing rates will be reported during the period in which they were generated and only if they have an impact on earnings.

Leased equipment, which is commercially owned by the Company, will be activated and will be depreciated over their normal operating duration or depreciated with the shorter duration of the leasing contract. Accordingly, the liability will be treated as a deferred item and it will be reduced by the repayment share of the paid leasing rates.

Foreign currency translation

The currency of the primary economic environment, in which a corporation is active, is viewed as "functional" currency. This is the local currency for the subsidiaries of TELES AG. This is why all assets and debts were valuated with the current exchange rate at the balance sheet date. The incomes and expenses were converted with the average monthly exchange rate for the year. Profits and losses from the conversions of the financial statements of the corporate companies were treated neutral with respect to earnings and were reported within the "Other equity changes". Profit and losses from foreign currency transactions were included in the determination of the net income for the period.

Employee stock option plans

The employee stock option plans of the Company are accounted for in accordance with IFRS 2, Share-based Payment. IFRS 2 specifies that the impact of share-based payments must be included in the assets and financial positions of the company. This includes the expenditures for granting stock options to employees. Consequently, the fair value to be attributed for the performance delivered by the employees in exchange for the granted stock options, must be reported as expenditures with an impact on earnings as well as an increase of equity. However, the fair value to be attributed for the stock options must be used for the valuation because the fair value to be attributed for the performance delivered by the employees cannot be reliably determined..

In accordance with the transition regulations, IFRS 2 must be used for all equity instruments, which were granted after November 7, 2002 and which were unvested on January 1, 2005. The comparison information must be adjusted accordingly.

The exercise of options is reported in such a way that the cash price to be paid by the beneficiary is accounted for as an equity increase, with a neutral effect on earnings.

Revenue recognition

Products

The Company realizes revenues from the sale of a product on the basis of a corresponding contract as soon as the product is delivered, the sale price is fixed or definable, no essential obligations against the customer exist and as soon as the receipt of the receivable is probable. The Company establishes provisions for all potential costs due to product returns, warranty services and other costs based on historical experience.

Services

Revenues from providing services will be realized after the services have been provided and after invoicing. The Company provides services that are completed within one period but also services whose delivery stretches over several periods. Already settled but not yet delivered services or delivered services that have not yet been settled will be accrued if the contractually agreed services are provided beyond the balance sheet date.

The following is applicable as a principle: incomes can only be reported, among others, if it is probable that the company will receive the economic benefits from the business. Those service contracts, whose service delivery will be stretched over several periods, are in this regard, especially subject to continuous re-evaluations. The income will not be realized if the receipt of payment is sustainably in doubt.

Multiple-element sales arrangements

The IFRSs obligations at the balance sheet date, include no explicit regulations for the sales reporting of multiple-element sales arrangements. The Company therefore applies the accounting principles of EITF 00-21 (US GAAP) in accordance with IAS 8.12. EITF 00-21 regulates the treatment of goods and services that are connected to each other, which are normally called "total solution" or "package solution". The contract completion for the total solution normally takes place on a uniform date. The revenue recognition for separatable settlement units must be determined individually if the components of a goods and service agreement represent separatable settlement units. For this purpose, the price for the entire multiple-element sales arrangement will be divided into the different valuation units based on the pro-rated fair values to be attributed.

Transferred transport and shipment costs

The Company reports transferred shipment costs in their revenues and reports the associated costs under cost of sales.

Cost of sales

The cost of sales of the sold goods include, in addition to the directly attributable material and manufacturing costs, the indirect overhead costs including depreciation of the production facilities and the other intangible assets as well as the devaluations of the inventories.

Earnings per common share

The undiluted annual net income per common share is calculated on the weighted average number of common shares, which were in circulation during the reporting period. Treasury stock reduces the number of circulating shares. The diluted annual net income per common share is calculated on the weighted average number of common shares and diluted shares similar to common shares, which were in circulation during the reporting period. Dilution effects are solely based on the number of issued stock options.

Segment reporting

The segment reporting includes information regarding the incomes and risks, associated with the different types of products and services, which the Company manufactures and offers. The incomes and risks are also related to the geographical regions in which the Company is active. The Company defines business segments as primary segments and geographical segments as secondary segments depending on the main origin of the income and risks.

Government grants

Grants by public authorities provided for the acquisition of plant equipment are principly reported within the non-current liabilities under "Other non-current liabilities" and will be depreciated linearly over the depreciation period for the subsidized capital assets with an effect on earnings. They are collected immediately if the affected fixed assets are already partly or completely depreciated at the time of the realization of the subsidy claim.

Dividend income

Dividend incomes will be reported at the date on which the right for the receipt of the payment is established.

Discontinued operations

The Company principly reports continuing operations and discontinued operations separately in the income statement and the income amount of discontinued operations will be reported in summary. The composition of the amount and the cash-flow amounts attributable to discontinued operations are described in note 23.

Smaller subsequent income amounts of operations that were discontinued in previous years are not separately reported during the current business year but are part of the Other income and expenditures or the Financial incomes.

NOTE 3: MAIN COMPONENTS OF THE OPERATIVE EARNINGS [3]

	January 01 - December 31	
(In T€)	**2006**	**2007**
Total depreciations (included in cost of sales and operative expenditures)	620	832
thereof: planned depreciations on fixed assets	545	697
thereof: planned depreciations on intangible assets	75	109
thereof: unplanned depreciations on fixed assets	0	26
Inventories		
Costs of inventories charged to expenditures	5,718	7,409
included therein: depreciations of inventories (included in cost of sales)	464	904
Allowance for doubtful accounts (included in operative expenditures, sales and marketing)	277	246
thereof: increase in allowances	406	265
thereof: reversal of allowances	-129	-19
Personnel expenditures (without expenditures for employee stock option plans) (included in cost of sales and operative expenditures)	11,650	11,569
included therein: employer share to statutory pension scheme	660	706
included therein: employer share to defined contribution plans	51	82
Government grants (investment subsidy)		
Relating to previous years (included in Other income)	77	17

[3] Continued operations

NOTE 4: CHANGES WITHIN THE CONSOLIDATION CIRCLE

TELES AG acquired IP Gear Ltd with a contract closed on July 25, 2007. The company is a high tech company with headquarters in Israel. IP Gear Ltd. develops, manufactures and sells mainly VoIP products (VoIP: Voice over Internet Protocol). In the meantime, the company was renamed TELES N.G.N. SOLUTIONS Ltd.

The acquisition was completed by transferring all shares of the company from the previous owner, New World Brands, Inc., to TELES AG. The fixed purchase price share of TUSD 1,500 was paid in cash at the due date. In addition, a sales dependent payment (earn out) - at least TUSD 750 - was agreed over a period of four years after the acquisition. Based on the corporate planning, an additional payment in the amount of T€ 1,340 is expected. In addition a contingent liability in accordance with IAS 37.28 exists..

The total purchase price consists of the following:

(In T€)

Purchase price:	
Cash payment	1,101
Earn out	1,340
Directly attributable acquisition costs	13
Total purchase price	**2,454**
Minus the fair value to be attributed to the determined acquired net assets (see below)	-270
Goodwill	2,184

The following table shows the fair values to be attributed to the assets, liabilities and contingent debts at the time of acquisition and the book values immediately before the company merger:

(In T€)	Fair value to be attributed at the time of acquisition	Book value immediately before the company merger
ASSETS		
Non-current assets		
Tangible assets	85	85
Intangible assets	235	8
	320	93
Current assets		
Inventories	767	767
Trade accounts receivable	244	244
Other current assets	40	40
Cash and cash equivalents	184	184
	1,235	1,235
	1,555	**1,328**
LIABILITIES		
Non-current liabilities		
Other non-current liabilities	331	331
	331	331
Current liabilities		
Trade accounts payable	513	513
Accrued liabilities	14	14
Other current liabilities	427	427
	954	954
	1,285	**1,285**
Acquired net assets	**270**	**43**

The recognized goodwill in the amount of T€ 2,184 is based on the expected synergies and other effects from the merger of the assets and activities of TELES N.G.N. SOLUTIONS Ltd. with those of the Company.

TELES' profit and loss for the period includes T€ -709 generated by TELES N.G.N. SOLUTIONS Ltd.

Corporate revenues of T€ 20,086 would have been generated in the case of the company merger being completed on January 1, 2007.

It is basically impossible to provide the information required in accordance with IFRS 3.70 b) regarding profit or loss of the merged company for the reporting period under the assumption that the acquisition date was at the beginning of the reporting period, because TELES N.G.N. SOLUTIONS Ltd. only used IFRS for the first time as part of the opening balance sheet.

As part of the acquisition of TELES N.G.N. SOLUTIONS Ltd., TELES AG entered into a strategic distribution partnership with the seller for the North American Market.

The TELES Communication Systems GmbH was founded in December 2007 and TELES owns 100% of the shares. The company is headquartered in Wien. The business purpose is the research and development as well as the distribution in the area of communication and information technology. This includes the partial segment, "MissisSIPpi" (*asset deal*), acquired from Kapsch AG effective January 11, 2008, which focuses on the development and distribution of so-called "Class 5 Softswitch" solutions (see note 31). The capital stock of the company is T€ 35. The fixed purchase price share for the acquired sub-segment is T€ 2,200 and it was paid in cash on the due date. In addition, a type of earn out (variable purchase price share) was agreed as follows: the seller receives MissisSIPpi licences free of charge up to an amount of T€ 1,200 (calculated on the basis of a price list for value added resellers, which must still be defined) if the seller sells MissisSIPpi solutions to third party customers. The agreement is limited by time to a maximum of three years after the closing of the acquisition contract.

The following table shows the fair values to be attributed to the assets, liabilities and contingent debts at the time of acquisition:

(In T€)	**Fair value to be attributed at the time of acquisition**
ASSETS	
Non-current assets	
Tangible assets	257
Intangible assets	3,130
	3,387
Current assets	
Inventories	152
	152
	3,539
LIABILITIES	
Current liabilities	
Other current liabilities	409
	409
	409
Acquired net assets	**3,130**

With the exception of the intangible assets, the book values immediately before the company merger agree with the fair values to be attributed at the time of acquisition. The reporting of book values immediately before the company merger is not practically possible for intangible assets.

The purchase price allocation was not completed at the date of the publication of the corporate year-end closing for the 2007 business year. In accordance with IFRS 3.62, the first accounting for the company merger could therefore only be preliminarily performed.

TELES' profit and loss for the period includes T€ 18 generated by TELES Communication Systems GmbH.

The two companies, TELES Ireland Ltd. and TEUS Ltd., which were 100% owned by TELES, were deleted from the *Companies House*. Both companies were no longer operationally active. As part of the final consolidation of both companies, an operating profit of T€ 14 (TELES Ireland Ltd.) and T€ 87 (TEUS Ltd.) was registered.

Please refer to the notes 23 and 31 regarding the development of the TWBI segment.

NOTE 5: TANGIBLE ASSETS

The tangible assets developed as follows during the 2006 and 2007 business years:

(In T€)	Acquisition cost					
	December 31, 2005	**Additions**	**Divestitures**	**Currency differences**	**Company Divestiture**	**December 31, 2006**
Computer hardware	5,571	484	32	-23	24	5,976
Financing leasing	1,417	0	0	0	0	1,417
Office and operating equipment	761	20	10	-2	8	761
Leasehold improvements	524	54	0	0	0	578
Miscellaneous	484	168	0	-7	3	642
Total	**8,757**	**726**	**42**	**-32**	**35**	**9,374**

(In T€)	Accumulated depreciations				
	December 31, 2005	**Additions**	**Divestitures**	**Company Divestiture**	**December 31, 2006**
Computer hardware	4,671	580	12	3	5,236
Financing leasing	1,417	0	0	0	1,417
Office and operating equipment	657	32	9	1	679
Leasehold improvements	510	18	0	0	528
Miscellaneous	120	160	1	0	279
Total	**7,375**	**790**	**22**	**4**	**8,139**

(In T€)	Remaining book values	
	December 31, 2005	**December 31, 2006**
Computer hardware	900	740
Financing leasing	0	0
Office and operating equipment	104	82
Leasehold improvements	14	50
Miscellaneous	364	363
Total	**1,382**	**1,235**

(In T€)	Acquisition cost							
	December 31, 2006	**Additions**	**Divestitures**	**Currency differences**	**Company Addition**	**Company Divestiture**	**Reclassi-fications**	**December 31, 2007**
Computer hardware	**5,976**	**986**	**404**	**3**	**64**	**222**	**-841**	**5,562**
thereof: assets of the disposal group classified as held for sale	817	24	0	0	0	0	-841	0
Financing leasing	**1,417**	**0**	**0**	**0**	**0**	**0**	**0**	**1,417**
Office and operating equipment	**761**	**30**	**20**	**0**	**18**	**85**	**-20**	**684**
thereof: assets of the disposal group classified as held for sale	19	1	0	0	0	0	-20	0
Leasehold improvements	**578**	**294**	**21**	**0**	**3**	**216**	**-3**	**635**
thereof: assets of the disposal group classified as held for sale	3	0	0	0	0	0	-3	0
Miscellaneous	**642**	**101**	**17**	**-1**	**0**	**148**	**-401**	**176**
thereof: assets of the disposal group classified as held for sale	399	2	0	0	0	0	-401	0
Total	**9,374**	**1,411**	**462**	**2**	**85**	**671**	**-1,265**	**8,474**

(In T€)	Accumulated depreciations December 31, 2006	Additions	Impairment	Divestitures	Company Divestiture	Reclassi-fications	December 31, 2007
Computer hardware	**5,236**	**611**	**64**	**274**	**222**	**-841**	**4,574**
thereof: assets of the disposal group classified as held for sale	704	80	57	0	0	-841	0
Financing leasing	**1,417**	**0**	**0**	**0**	**0**	**0**	**1,417**
Office and operating equipment	**679**	**28**	**15**	**14**	**85**	**-20**	**603**
thereof: assets of disposal group classified as held for sale	11	2	7	0	0	-20	0
Leasehold improvements	**528**	**34**	**0**	**20**	**216**	**-3**	**323**
thereof: assets of the disposal group classified as held for sale	3	0	0	0	0	-3	0
Miscellaneous	**279**	**147**	**157**	**10**	**148**	**-401**	**24**
thereof: assets of the disposal group classified as held for sale	211	44	146	0	0	-401	0
Total	**8,139**	**820**	**236**	**318**	**671**	**-1,265**	**6,941**

(In T€)	Remaining book values December 31, 2006	December 31, 2007
Computer hardware	**740**	**988**
thereof: assets of the disposal group classified as held for sale	113	0
Financing leasing	**0**	**0**
Office and operating equipment	**82**	**81**
thereof: assets of the disposal group classified as held for sale	8	0
Leasehold improvements	**50**	**312**
thereof: assets of the disposal group classified as held for sale	0	0
Miscellaneous	**363**	**152**
thereof: assets of the disposal group classified as held for sale	188	0
Total	**1,235**	**1,533**

The impairment in the amount of T€ 236 was recognized in earnings from discontinued operations of the TWBI segment (T€ 210) and in operational expenditures of the TCS segment (T€ 26). The impairment is based on the divestiture of the business segment Broadband Internet Access Services (TWBI) as well as the planned closing of the operational business activity of a subsidiary. The recoverable amount of the fixed assets of the business segment Broadband Internet Access Services (TWBI) is equivalent to its fair value less costs to sell and it was determined on the basis of the closed acquisition option contract.

NOTE 6: INTANGIBLE ASSETS

The intangible assets developed as follows during the 2006 and 2007 business years:

(In T€)	December 31, 2005	Additions	Divestitures	Company Divestiture	December 31, 2006
	Acquisition cost				
Software licenses	4,319	52	1	0	4,370
Customer relationships	6,507	0	0	0	6,507
Miscellaneous	119	0	1	0	118
Total	**10,945**	**52**	**2**	**0**	**10,995**

(In T€)	December 31, 2005	Additions	Divestitures	Company Divestiture	December 31, 2006
	Accumulated depreciations				
Software licenses	4,148	104	0	0	4,252
Customer relationships	6,507	0	0	0	6,507
Miscellaneous	109	2	1	0	110
Total	**10,764**	**106**	**1**	**0**	**10,869**

(In T€)	December 31, 2005	December 31, 2006
	Remaining book values	
Software licenses	171	118
Customer relationships	0	0
Miscellaneous	10	8
Total	**181**	**126**

(In T€)	December 31, 2006	Additions	Divestitures	Currency differences	Company Addition	Reclassi-fications	December 31, 2007
	Acquisition cost						
Software licenses	**4,370**	**117**	**15**	**0**	**8**	**-139**	**4,341**
thereof:							
assets of the disposal group classified as held for sale	139	0	0	0	0	-139	0
Customer relationships	**6,507**	**0**	**0**	**5**	**142**	**0**	**6,654**
Goodwill	**0**	**0**	**0**	**73**	**2,184**	**0**	**2,257**
Technologies	**0**	**0**	**0**	**3**	**85**	**0**	**88**
Miscellaneous	**118**	**0**	**0**	**0**	**0**	**0**	**118**
Total	**10,995**	**117**	**15**	**81**	**2,419**	**-139**	**13,458**

(In T€)	December 31, 2006	Additions	Impairment	Divestitures	Reclassi-fications	December 31, 2007
	Accumulated depreciations					
Software licenses	**4,252**	**87**	**14**	**15**	**-139**	**4,199**
thereof:						
assets of the disposal group classified as held for sale	104	21	14	0	-139	0
Customer relationships	**6,507**	**15**	**0**	**0**	**0**	**6,522**
Goodwill	**0**	**0**	**0**	**0**	**0**	**0**
Technologies	**0**	**25**	**0**	**0**	**0**	**25**
Miscellaneous	**110**	**3**	**0**	**0**	**0**	**113**
Total	**10,869**	**130**	**14**	**15**	**-139**	**10,859**

(In T€)	Remaining book values December 31, 2006	December 31, 2007
Software licenses	**118**	**142**
thereof: assets of the disposal group classified as held for sale	35	0
Customer relationships	**0**	**132**
Goodwill	**0**	**2,257**
Technologies	**0**	**63**
Miscellaneous	**8**	**5**
Total	**126**	**2,599**

All intangible assets with the exception of the goodwill have a limited useful life.

The remaining depreciation period for the main part of the software licenses is approx. between two and five years and for the acquired customer relationships it is approx. three and a half years.

The impairment in the amount of T€ 14 refers to the TWBI segment and was reported in earnings from discontinued operations. The impairment is based on the discontinuation of the business segment Broadband Internet Access Services (TWBI). The recoverable amount of the intangible assets of the business segment Broadband Internet Access Services (TWBI) is equivalent to its fair value less costs to sell and it was determined on the basis of the closed acquisition option contract.

Goodwill

In accordance with IAS 36, a company must review annually the goodwill acquired through a company merger for indication of an impairment. The goodwill accounted for as part of the TELES corporate year-end closing in the amount of T€ 2,257 is a result of the acquisition of IP Gear Ltd. (in the meantime renamed into TELES N.G.N. SOLUTIONS Ltd.; see note 4). The basis for the valuation of the goodwill is the cash generating unit or its recoverable amount, i.e. the expected cash inflow. The goodwill was appropriated to the VoIP-Gateway product line, i.e. the cash generating unit, which economically benefits in the future from the synergies created by the acquisition and to which the products of TELES N.G.N. SOLUTIONS Ltd. are assigned. The recoverable amount in the form of the fair value to be attributed was determined with the help of a DCF process. Basis for the determination of the recoverable amount is the income planning for the VoIP-Gateway product line. In addition, the *WACC* was included as a discount factor (17.34%), which reflects the weighted average capital costs of an appropriate *peer group*. The funds inflows were estimated for a timeframe of five periods. The income planning is based mainly on the experiences in connection with the management expectations of the development in a relevant market (current market volume approx. $4 billion). A market share in the lower *one-tenth of one percent area* is targeted for the planning period.

The result is an expected discounted cash inflow, which exceeds the book value of the assets and liabilities of the cash generating unit, the VoIP-Gateway product line, and thus confirms the accounted value of the assets, especially of the goodwill.

NOTE 7: OTHER FINANCIAL ASSETS

The other financial assets (non-current) consist of the following:

	December 31	
(In T€)	**2006**	**2007**
Listed securities: freenet AG	75,764	57,004
Unlisted securities: GRAVIS AG	990	990
Issued loans in connection with the employee stock option plans	577	379
Recovery rights for waived liabilities	1,055	787
	78,386	**59,160**

Please refer to note 19 for further information.

NOTE 8: INVENTORIES

The inventory assets consist of the following:

	December 31	
(In T€)	**2006**	**2007**
Finished goods	444	649
Trading goods	571	558
Raw materials and supplies	5,064	4,007
	6,079	**5,214**
included inventories:		
accounted for at net realizable values	171	672
Range > one year	310	314

An additional saleability discount in the amount of T€ 499 was implemented during the 2007 business year based on an expanded range analysis. This accounts for the future technology development risks in the segment. An analog approach would have resulted in an additional devaluation of T€ 321 for the 2006 business year. The expanded range analysis results in a reduction of the earnings per share in the amount of € 0.02 (undiluted and diluted) for the 2007 business year. An analog approach would have resulted in a reduction of the earnings per share in the amount of € 0.02 (undiluted and diluted) for the 2006 business year.

NOTE 9: TRADE ACCOUNTS RECEIVABLE

The trade accounts receivable consist of the following:

	December 31	
(In T€)	**2006**	**2007**
Trade accounts receivable	6,036	6,267
Minus allowance for doubtful accounts	2,477	1,379
	3,559	**4,888**

Please refer to note 19 for further information.

NOTE 10: OTHER FINANCIAL ASSETS

The other financial assets (current) consist of the following:

	December 31	
(In T€)	**2006**	**2007**
Shares in investment funds	504	0
Options right GRAVIS AG	150	0
	654	**0**

Please refer to note 19 for further information.

NOTE 11: OTHER CURRENT ASSETS

The other current assets consist of the following:

	December 31	
(In T€)	**2006**	**2007**
Prepayments made	991	247
Sales tax receivables	203	85
Receivables from government grants	60	0
Miscellaneous	748	471
	2,002	**803**

NOTE 12: SHAREHOLDERS' EQUITY

The fully paid-in share capital consists of 23,304,676 non-par value shares with a mathematical value of € 1.00 each.

The shareholders' meeting on August 28, 2007 decided to use the net retained profits of the company for the 2006 business year for the payment of a dividend in the amount of € 2.00 per non-par value share and to carry the remaining amount forward. The payment for a total amount of T€ 42,260 was made on August 29, 2007.

Authorized capital

As of December 31, 2007, the usable authorized capital (authorized capital I) is a total amount of T€ 19,000.

The authorized capital I is based on the decision of the shareholders' meeting dated April 2, 2004. The authorized capital I authorizes the Management Board with approval by the Supervisory Board to increase the share capital before March 31, 2009 once or several times by up to T€ 19,000 against transfers in-kind and/or by cash .

Conditional capital

As of December 31, 2007, the conditional capital is a total of T€ 2,330, divided into 2,330,467 individual shares, thereof:

Conditional capital I:	T€ 1,946 divided into 1,946,591 individual shares
Conditional capital III:	T€ 384 divided into 383,876 individual shares

The conditional capital I, which was created by the 1998 shareholders' meeting for the first time, was T€ 1,932 on December 31, 2006 and was used to fulfill the options for a total of 1,931,964 individual shares. The purpose of the conditional capital I was expanded by a decision of the shareholders' meeting on August 28, 2007. In addition to the fulfillment of previous shareholders' meeting decisions about the issue of convertible bonds and stock options issued to employees, it now includes also the securing of such stock options, which will be issued to the employees based on the corresponding decision under agenda item 7 of the shareholders' meeting on August 28, 2007 and it will be increased by T€ 15 divided into 14,627 individual shares. The conditional capital I will only be effective if the rights of issued convertible bonds are exercised or if issued stock options for the employee stock option plans are exercised. The conditional capital I was not exercised during the previous year because the stock options were not exercised.

The shareholders' meeting on July 11, 2000 also decided to establish a conditional capital III of up to T€ 1,300. It only becomes effective if stock options from the employee stock option plans are exercised. As of December 31, 2006, the conditional capital III was T€ 384 and it was divided into 383,876 individual shares. The authorization decision by the shareholders' meeting on August 31, 2001 for the issue of stock options to members of the board and employees of the Company expired on August 30, 2006. The above mentioned decision of the shareholders' meeting was therefore cancelled on August 28, 2007 with respect to the part not yet exercised and in the amount of T€ 60 divided into 59,826 individual shares and the purpose of the conditional capital III was changed in such a way that it now includes also the securing of such stock options, which will be issued to the employees based on the corresponding decision under agenda item 7 of the shareholders' meeting on August 28, 2007.

Treasury stock

On May 25, 1999, the shareholders' meeting authorized the Management Board for a period of 18 months to acquire own shares of the Company for up to ten percent of the equity of TELES AG for purposes other than securities trading. The shareholders' meetings in 2000 to

2005 and at the last time on August 22, 2006 has always cancelled the previous authorizations and approved new authorizations for a period of up to 18 months.

In addition, the Management Board was authorized to resell the treasury stock with the approval of the Supervisory Board. This authorization will be used to offer shares that were acquired based on this authorization to third parties as part of company merger or during the acquisition of companies or investments in other companies. The price at which the TELES AG shares are transferred to third parties in accordance with the above mentioned authorization is relative to the respective market price at that time. In addition, the Company has the right to support convertible bond rights for beneficiaries of the employee stock option plan of TELES AG. This authorization was expanded, by a decision of the shareholder meeting on August 28, 2007, to employee stock option plans, which are issued, based on the agenda item 7 of the shareholder meeting on August 28, 2007. In addition, with the approval of the Supervisory Board, the Management Board was authorized to collect treasury stock of TELES AG, which were acquired based on this authorization, and this collection or its implementation does not require another decision by the shareholders' meeting. The collection authorization can be exercised in total or in parts. Based on the authorization of the shareholders' meeting, treasury shares were not acquired in 2007.

Treasury stock developed as follows:

(In T€)	**Units**	**Acquisition cost**
Treasury stock on December 31, 2006	2,174,493	21,702
Addition	0	0
Treasury stock on December 31, 2007	2,174,493	21,702

Additional paid-in capital

The additional paid-in capital includes surcharges from the issue of shares minus the effects of the pooling-of-interests accounting for business combinations earlier applied under US-GAAP.

As of December 31, 2007, the additional paid-in capital includes T€ 1,605 based on the accounting for the employee stock option plans in accordance with IFRS 2.

Other comprehensive income

The value change between incoming and subsequent valuation of assets available-for-sale minus the appropriate deferred tax is reported in other comprehensive income (T€ 2,871 as of December 31, 2007).

NOTE 13: CONVERTIBLE DEBT

The convertible debt consists of the following:

(In T€)	December 31 2006	2007
6% convertible debt, maturity until June 2008	862	857
6% convertible debt, maturity until August 2009	216	216
	1,078	**1,073**

Please refer to note 19 (Financial instruments), note 24 (Employee stock option plans; convertible bonds conditions) and note 28 (Related party transactions) for further information.

NOTE 14: OTHER NON-CURRENT LIABILITIES

The other non-current liabilities consist of the following:

(In T€)	December 31 2006	2007
Sales dependent payment (earn out) in connection with the acquisition of TELES N.G.N. SOLUTIONS Ltd.	0	1,203
Miscellaneous	126	476
	126	**1,679**

Please refer to notes 4 and 18 for further information about the sales dependent payment (earn out).

As of December 31, 2007, the item "Miscellanous" includes a current share in the amount of T€ 57.

NOTE 15: TRADE ACCOUNTS PAYABLE

Please refer to note 27 regarding the abatement claims against a technical service provider as reported during the previous years.

Please refer to note 19 for further information.

NOTE 16: PROVISIONS

The provisions consist of the following:

	December 31						
(In T€)	**2006**	**Utilization**	**Release**	**Additions**	**Company addition/ divestiture**	**Reclassi-fications**	**2007**
Risks of litigation	2,237	21	100	120	0	0	2,236
thereof: non-current	*1,615*	*0*	*0*	*0*	*0*	*0*	*1,615*
Miscellaneous	686	928	27	1,111	14	-219	637
Total	**2,923**	**949**	**127**	**1,231**	**14**	**-219**	**2,873**
Income taxes	**313**	**134**	**0**	**315**	**-14**	**0**	**480**

The reclassifications refer to the provisions of the disposal group classified as held for sale.

The assessment of the litigation risks is based on the judgement of the attorney who represents the Company concerning this matter. Further explanations cannot be given here to protect the firms legal and negotiation position. Please refer to note 27 for the main legal disputes.

The asset outflow - with the exception of the non-current amount described above - is primarily expected during the next business year.

NOTE 17: DEFERRED REVENUES

The deferred revenues as at December 31, 2006 and 2007 refer to the prepayments for accrued service revenues.

NOTE 18: OTHER CURRENT LIABILITIES

The other current liabilities consist of the following:

(In T€)	**December 31 2006**	**2007**
Sales dependent payment (earn out) in connection with the acquisition of TELES N.G.N. SOLUTIONS Ltd.	0	137
Payables to related parties	475	578
Sales tax payables	3	2,580
Miscellaneous	2,221	1,553
	2,699	**4,848**

Please refer to notes 4 and 14 for further information about the sales dependent payment (earn out).

Please refer to note 28 regarding the related party transactions.

Please refer to note 23 regarding sales tax payable for the 2007 business year.

NOTE 19: FINANCIAL INSTRUMENTS

1. Importance of financial instruments

The company has the following categories of financial instruments:

(In T€)	December 31 **2006**	 **2007**
Financial assets		
Financial assets valuated at fair value through profit or loss	654	0
thereof: held for trading purposes	*654*	*0*
thereof: designated for a valuation at fair value through profit or loss upon initial recognition	*0*	*0*
Financial investments held-to-maturity	577	379
Loans and receivables	4,614	5,675
Financial assets available-for-sale	76,754	57,994
	82,599	64,048
Financial liabilities		
Financial liabilities, which were valuated at amortized costs	2,741	2,823
	2,741	2,823

The financial instruments are assigned the balance sheet items as follows:

December 31, 2006 (In T€)	Financial assets valuated at fair value through profit or loss	Financial investments held-to-maturity	Loans and receivables	Financial assets available-for-sale	Financial liabilities, evaluated at amortized costs	**Total**
ASSETS						
Non-current assets						
Other financial assets		577	1,055	76,754		78,386
Current assets						
Trade accounts receivable			3,559			3,559
Other financial assets	654					654
Total assets	*654*	*577*	*4,614*	*76,754*		*82,599*
LIABILITIES						
Non-current liabilities						
Convertible debt					1,078	1,078
Current liabilities						
Trade accounts payable					1,663	1,663
Total liabilities					*2,741*	*2,741*

December 31, 2007 (In T€)	Financial assets valuated at fair value through profit or loss	Financial investments held-to-maturity	Loans and receivables	Financial assets available-for-sale	Financial liabilities, evaluated at amortized costs	Total
ASSETS						
Non-current assets						
Other financial assets		379	787	57,994		59,160
Current assets						
Trade accounts receivable			4,888			4,888
Other financial assets	0					0
Total assets	*0*	*379*	*5,675*	*57,994*		*64,048*
LIABILITIES						
Non-current liabilities						
Convertible debt					216	216
Current liabilities						
Convertible debt					857	857
Trade accounts payable					1,750	1,750
Total liabilities					*2,823*	*2,823*

- ***Financial assets valuated at fair value through profit or loss; held for trading purposes***

(In T€)	December 31 2006	 2007
Shares in investment funds	504	0
Option right	150	0
	654	0

(In T€)	January 01 - December 31 2006	 2007
Financial earnings		
Shares in investment funds	4	2
Option right	150	0
	154	2
Financial expenditures		
Option right	0	150
	0	150

Shares in investment funds

(In T€)	December 31 2006	 2007
Shares in investment funds		
January 1	0	504
Addition	500	0
Financial earnings	4	2
Divestiture	0	506
December 31	**504**	**0**

Shares in investment funds are evaluated with the fair value to be attributed in the form of the return price of the funds shares determined at the end of the reporting period.

Option right

(In T€)	December 31 2006	 2007
Option right		
January 1	0	150
Financial earnings	150	0
Financial expenditures	0	150
December 31	**150**	**0**

The option right accounted for with T€ 150 as at December 31, 2006 is a right to be exercised after April 1 but before June 30, 2007 for the acquisition of the majority of the shares in GRAVIS AG,. The option right was evaluated with the fair value to be attributed as at December 31, 2006, equivalent to the valuation of the securities, on which it is based.

TELES did not exercise the option right during the 2007 business year. After the exercise period for the option right expired, it was replaced by a "liquidation preference", comparable to a "broker's commission". This means that it will be accounted for after the divestiture event in accordance with IAS 18.

TELES has two other acquisition options and one divestiture option for the acquisition of all shares or for the divestitures of its shares in the call media services Ltd. The exercise price per option is £ 1 each. The options have no fixed exercise period.

In addition, TELES has a divestiture option for its shares in TELES Computer Systems India Private Limited. The option has no fixed exercise period.

As for the previous year, the rights are accounted for with zero at the balance sheet date because the Company does not currently assign a value to them.

- ***Financial investments held-to-maturity***

	December 31	
(In T€)	**2006**	**2007**
Issued loans in connection with the employee stock option plans	577	379
	577	379

	January 01 - December 31	
(In T€)	**2006**	**2007**
Financial earnings; interests		
Issued loans in connection with the employee stock option plans	23	19
	23	19

As for the corresponding convertible debt, the loans issued in connection with the employee stock option plans are subject to an annual interest rate of 6%. The fair value to be attributed for the loans is approximately equivalent to their book value.

- ***Loans and receivables***

(In T€)	December 31 2006	2007
Recovery right for waived liabilities	1,055	787
Trade accounts receivable	3,559	4,888
	4,614	5,675

(In T€)	January 01 - December 31 2006	2007
Financial earnings		
Recovery right for waived liabilities	1,497	0
	1,497	0
Financial earnings		
Recovery right for waived liabilities; interests	24	38
	24	38
Operating expenditures, sales and marketing		
Increase in allowances	406	265
Reversal of allowances	-129	-19
Trade accounts receivable; operating expenditures	277	246
Financial earnings		
Trade accounts receivable; interests	31	0
	31	0

Recovery right for waived liabilities

TELES established a recovery right for waived liabilities in connection with the minority investment in GRAVIS AG. This recovery right has been revived pro-rated during the 2006 business year (please refer to notes 2 and 22). The claim in the amount of T€ 786 (previous year: T€ 1,055) resulting from the recovery right at the balance date includes a partial amount of T€ 268 (previous year: T€ 268) with a short-term due date.

A recovery right was established in connection with the sale of TEIA AG and its subsidiary TEIA - SPC Lehrbuchverlag GmbH during the 2005 business year, which will pay TELES additional amounts based on revenue and profit plus 50% of the extra earnings - as measured by the price achieved by the seller minus already received additional amounts - in the case of a resale. The recovery right is applicable to the period July 1, 2005 to June 30, 2009. As in the previous year the right was accounted for with zero at the balance date, because the Company currently does not assign a value to it.

The fair value to be attributed to the recovery right is equivalent to its book value.

Trade accounts receivable

The trade accounts receivable reported as at December 31, 2007 are almost exclusively receivables from the company customer business (TCS segment; contracts are normally established with medium size companies). These receivables are always valued individually. The first indicator for the existence of a decline in value is the failure to comply with the contractually agreed payment terms. The reasons are evaluated in another step and a judgement regarding their resolution will be made in case a late payment is experienced. Based on the above, the trade accounts receivable will be individually value adjusted.

The credit worthiness of trade accounts receivable, which are neither delayed nor value reduced, will be described in more detail in the following credit risk explanations.

The trade accounts receivables reported at the balance sheet date include those that experience a payment delay, but which are not viewed as value reduced:

			Payment delay		
(In T€)	**<= 3 months**	**> 3 and <= 6 months**	**> 6 months and <= 1 year**	**> 1 year**	**Total**
December 31, 2006	1,083	157	70	38	1,348
December 31, 2007	1,543	15	3	24	1,585

As at December 31, 2006, the Company had securities in the amount of T€ 143, thereof T€ 23 in the form of bank guarantees or letters of credit and T€ 120 in the form of retained security services, in connection with the disposal group now classified as held for sale. These retained security services were exercised in the amount of T€ 118, (previous year T€ 58) during the completed business year.

The fair value to be attributed to the trade accounts receivable is equivalent to its book value.

Please refer to note 9 for further information.

- ***Financial assets available-for-sale***

(In T€)	December 31 2006	 2007
Listed securities: freenet AG	75,764	57,004
Unlisted securities: GRAVIS AG	990	990
	76,754	57,994

(In T€)	**2006**	**2007**
Listed securities: freenet AG		
January 1	65,720	75,764
Fair value valuation, reported in equity	10,044	-18,760
December 31	**75,764**	**57,004**
Unlisted securities: GRAVIS AG		
January 1	69	990
Fair value valuation; reported in equity	921	0
December 31	**990**	**990**
Fair value valuation; reported in equity		
Listed securities: freenet AG	10,044	-18,760
Unlisted securities: GRAVIS AG	921	0
	10,965	**-18,760**
Minus: Taxes	195	-373
Fair value valuation; net, after taxes	10,770	-18,387

The valuation of the financial assets available-for-sale was made with the fair value to be attributed at the balance sheet date. In the case of the shares in freenet AG this represents the publicly traded market price and in the case of the non-publicly traded securities it represents a fair value determined by a valuation process (please refer to note 2). The investment rate is decreased (increased) by T€ 53 (T€ 255) if the risk free interest rate, used as the basis, moves upward (downward) by 10% (assuming all other parameters such as profit planning, risk discount, discount rate are kept constant).

The above mentioned financial instruments are neither financial assets valuated at fair value through profit or loss nor financial assets or loans and receivables in accordance with IAS 39 held for trading purposes or held-to-maturity. This is why they were classified as financial assets available-for-sale.

- ***Financial liabilities, which were valued at amortized costs***

(In T€)	December 31 2006	2007
Convertible debt	1,078	1,073
Trade accounts payable	1,663	1,750
	2,741	2,823

(In T€)	January 01 - December 31 2006	2007
Financial expenditures		
Convertible debt	55	55
	55	55

Convertible debt

(In T€)	December 31 2006	2007
6% convertible debt, maturity until June 2008	862	857
6% convertible debt, maturity until August 2009	216	216
	1,078	1,073

On June 24, 1998, the Supervisory Board approved the issue of convertible bonds as part of the employee stock option plans. The Company achieved incomes of T€ 1,569. This is equivalent to 61,393 convertible bonds at a nominal value of € 25.56 each. The term will end on June 24, 2008 if it not converted beforehand.

The Supervisory Board approved additional convertible bonds on August 16, 1999. The Company has a long-term claim against the employees for the financing of the acquisition of the convertible bonds. A total of 198,210 bonds with a nominal value of € 2.00 per bond were issued. The term will end on August 16, 2009 if not converted beforehand.

The convertible bonds are subject to an annual interest rate of 6%, payable on December 31 of each year. The last interest payments are due on June 24, 2008 and on August 16, 2009. The convertible bonds with a term until August 2009 are balanced by corresponding claims against the employees with the same conditions. The fair value to be attributed to the convertible bonds is equivalent to their book value.

Please refer to note 24 (Employee stock option plans; convertible bond conditions) and note 28 (Related party transactions) for further information.

Trade accounts payable

The payables reported at the balance sheet date will mainly be due within one month.

Please refer to note 15 for further information.

- ***Interest income and expenditures for financial assets and liabilities, which are not valued at fair value through profit or loss***

	December 31	
(In T€)	**2006**	**2007**
Interest income		
Cash and cash equivalents	1,319	833
Trade accounts receivable	31	0
Issued loans in connection with the employee stock option plans	23	19
Recovery right for waived liabilities; interests	24	38
	1,397	**890**
Interest expenditures		
Convertible debt	55	55
	55	**55**

Expenditures from fees are generated in connection with the processing of bank transactions (T€ 52, previous year T€ 60).

2. Risks from financial instruments

TELES uses a series of coordinated risk management and control systems. They are used among others for the identification, measurement and control of risks from financial instruments. Risk positions can mainly develop in form of credit and liquidity risks as well as market risks.

- ***Credit risk***

The default risks of the Company are limited to the normal business risk, which is addressed by the establishment of value adjustments. The creditworthiness of new customers is always reviewed and similarly for existing customers. In addition, the Company works - as much as possible - with down payments. For the foreign businesses, commercially available letters of credits or payment guarantees are used - particularly for businesses outside Europe.

The share of sales for the largest individual customer of TELES was almost 25% during the 2007 business year. The next ten largest customers contributed approx. 30% of the sales. The sales share of 25% for an individual customer is an exception. This means that there is no "cluster risk" in the receivables.

The maximum default risk is based on the book value of the receivables.

The funds are mainly invested with two large financial institutions. A default risk does not exist in this case.

- ***Liquidity risk***

In addition to the stock of cash and cash equivalents, TELES owns assets in form of 3.565 million freenet shares, which are assets that can be sold short-term. In addition, group wide financial control instruments are used for monitoring and control, especially weekly liquidity reports.

- ***Market risks***

1. Foreign currency risks

Currency fluctuations can result in undesired and unforseeable volatilities in operating profit and cash flow. The risk will be reduced by settling business transactions wherever possible in the functional currency. Security instruments such as forward contracts, currency options as well as stop-loss orders are used - if appropriate- for those cases were settlements in the functional currencies are not possible. Future currency exchange rate changes can have an impact on prices for products and services and can have an impact on the profit margin. However, TELES currently reports foreign currency receivables (TUSD 1,639) and payables (TUSD 1,698) in comparable amounts. In addition TELES has bank accounts with the amount of TUSD 375 in deposits.

2. Interest change risk

The interest changes risk of TELES is only the results of interest bearing investments. The TELES investment strategy is on one hand focused on liquidity, which means the capability to re-pay these investments. On the other hand the Company tries to optimize the interest income while at the same time minimize the interest change risks.

3. Price risk

The investment portfolio of TELES with respect to publicly traded stock investments includes only the shares in what is now called freenet AG (3.565 million shares) - after the merger with Mobilcom during the reporting year - received as part of the WebHosting divestiture in early 2005. The price risk naturally inherent in publicly traded shares is balanced by the opportunity for share price increases. At the end of the business year 2007, the market value of this portfolio was approximately Mio€ 57 (at the time of the closing of the divestiture WebHosting contract it was Mio€ 50). TELES received in addition during the reporting year a dividend of € 6.00 per share, which means a total of Mio€ 21.4. Despite the share price decreases of the freenet shares (market value of this share package was at January 31, 2008 approximately Mio€ 45) after the change of the year and as part of the general decline in share prices, it is assumed that the price reductions are temporary. Additionally, as confirmed in reports by analysts, share price potential increases are expected. Independent of the above, TELES monitors the share price development of the freenet shares continuously so as to be in a position to react immediately.

NOTE 20: INCOME TAXES

The earnings before income taxes are divided as follows:

	January 01 - December 31	
(In T€)	**2006**	**2007**
Germany	**-12,371**	**5,937**
thereof: continued operations	-7,125	11,030
thereof: discontinued operations	-5,246	-5,093
Abroad	**-2,149**	**-1,858**
thereof: continued operations	-944	-1,396
thereof: discontinued operations	-1,205	-462
Earnings before income taxes	**-14,520**	**4,079**
thereof: continued operations	-8,069	9,634
thereof: discontinued operations	-6,451	-5,555

The expenditures for income taxes include:

(In T€)	January 01 - December 31 **2006**	**2007**
Current taxes		
Germany	**108**	**985**
thereof: continued operations	108	985
thereof: discontinued operations	0	0
Abroad	**6**	**191**
thereof: continued operations	20	191
thereof: discontinued operations	-14	0
Total:	**114**	**1,176**
thereof: continued operations	128	1,176
thereof: discontinued operations	-14	0
Deferred taxes		
Germany	**1,470**	**405**
thereof: continued operations	-1,305	397
thereof: discontinued operations	2,775	8
Abroad	**793**	**-12**
thereof: continued operations	793	-12
thereof: discontinued operations	0	0
Total:	**2,263**	**393**
thereof: continued operations	-512	385
thereof: discontinued operations	2,775	8
Income tax expenditures:	***2,377***	***1,569***
thereof: continued operations	-384	1,561
thereof: discontinued operations	2,761	8

The German corporation tax law specifies a corporate income tax of 25.0% plus a solidarity surcharge of 5.5% of the corporate income tax for the period up to the close of the 2007 business year for the taxation of the income of a limited liability corporation. This means that the effective corporate income tax charge is approximately 26.4%. The total tax charge is approximately 38.9% of the taxable income if the effective trade tax charge is included. The corporate income tax reform 2008 was passed in the third quarter 2007 and it was published in the Federal Legal Gazette. The future total tax charges of TELES will therefore be reduced from 38.9% to approximately 30.2% (corporate income tax including solidarity surcharge 15.8%; trade tax 14.4%). The deferred tax claims and liabilities were therefore revalued accordingly. This results in a net earnings impact in the amount of approximately T€ 9 for the 2007 business year.

The following table shows the main differences between the effective tax expenditures of the Company and the expenditures in accordance with German tax law for an effective tax rate of approximately 38.9% and for 30.2%.

(In T€)	January 01 - December 31 2006	2007
Earnings before income taxes	-14,520	4,079
Income tax expenditures / income at legal tax rate	-5,647	1,587
Tax rate differences	10	101
Tax rate changes	0	-117
Differences based on items not to be taxed	-165	-8,200
Differences based on items that are not deductible	179	228
Changes of the value adjustments	2,904	0
Non-recognition of deferred tax assets	5,210	6,769
Employee stock option plans	114	70
Other items, net	-228	1,131
Effective income tax expenditures	**2,377**	**1,569**

The deferred taxes regarding the *Assets available-for-sale* (T€ 30, previous year T€ 403) were reported directly in equity.

The approximate tax impacts of the temporary differences, which cause deferred taxes, are:

(In T€)	December 31 2006	2007
Deferred tax assets:		
Intercompany transactions	40	9
Losses carried forward	12,400	10,574
Devaluations	-603	-603
Deferred tax assets, total	11,837	9,980
Settlement with deferred tax liabilities	-11,797	-9,971
Balance sheet amount	40	9
Deferred tax liabilities:		
Acquisition costs for assets available-for-sale	811	629
Assets available-for-sale	403	30
Intercompany transactions	10,375	9,182
Depreciations on assets	33	21
Miscellaneous	208	130
Deferred tax liabilities, total	11,830	9,992
Settlement with deferred tax assets	-11,797	-9,971
Balance sheet amount	33	21
Deferred tax liabilities (previous year: assets), net	**7**	**-12**

Deferred tax liabilities on temporary differences of T€ 14 based on retained earnings of subsidiaries will not be generated if a distribution intention does not exist in the foreseeable future.

Losses carried forward of active companies, for which an accounting for the deferred tax claims was not being made, are T€ 26,213 for corporate income taxes and T€ 35,014 for trade taxes in Germany as well as T€ 2,229 for business taxes abroad because these cannot be realized.

In addition, the accounting for a deferred tax asset on losses carried forward in the amount of approximately Mio€19 has not been made for companies that are inactive because these are not judged to be realizable. However, these losses carried forward have been fiscally exercised through required depreciations in the individual year-end closings of the parent company.

The audit of the corporate income tax, the trade tax and the sales tax for the periods 1996 to 2000 were completed during the 2007 business year. TELES appealed against the tax assessments, which were generated as a result of the audits. TELES and its advisers assess the chances for success of the opposition proceeedings as good and therefore a contingent asset in the amount of approximately Mio€ 1.3 exists at the balance sheet date.

The deferred tax assets and liabilities of a tax debtor against the same tax office will be settled. The deferred tax assets and liabilities can be described as follows:

(In T€)	**December 31, 2006** Due date		**December 31, 2007** Due date	
	< 12 months	> 12 months	< 12 months	> 12 months
Deferred tax assets	0	40	0	9
Deferred tax liabilities	0	33	0	21
Deferred taxes, net	**0**	**7**	**0**	**-12**

NOTE 21: OTHER INCOME AND EXPENDITURES

The other income for the 2007 business year include mainly an amount of T€ 99 in connection with possible claims as part of the processing of supply and service businesses (previous year: other expenditures T€ 150), T€ 17 from government grants (previous year: T€ 77), T€ 8 from the final consolidation of a company (previous year: T€ 0) as well as T€ 117 for currency exchange gains (previous year: T€ 61).

The other expenditures for the 2007 business year include mainly an amount of T€ 150 for value adjustments on issued loans (previous year: T€ 42), T€ 91 value adjustment of a supplier credit note (previous year: T€ 0), T€ 8 for donations (previous year: T€ 19), T€ 5 from the disposal of fixed assets (previous year: T€ 7) as well as T€ 320 for currency exchange losses (previous year: T€ 130).

NOTE 22: FINANCIAL RESULT

The following table shows the composition of the financial earnings and financial expenditures:

(In T€)	January 01 - December 31 2006	 2007
Financial earnings		
Interests	1,585	1,399
Dividend	0	21,390
Recovery right for waived liabilities	1,497	0
Option right	150	0
Shares in investment funds	4	2
Total	3,236	22,791
Financial expenditures		
Convertible debt	55	55
Option right	0	150
Miscellaneous	244	76
Total	299	281

NOTE 23: DISCONTINUED OPERATIONS

Disposal group classified as held for sale

During the third quarter of the previous business year, TELES decided to withdraw from the skyDSL business. On December 31, 2007, TELES closed an acquisition option contract with the publicly traded Swiss investment company Mountain Super Angel AG. This contract gives Mountain Super Angel AG the right to acquire before January 28, 2008 the majority in TELES Wireless Broadband Internet GmbH with headquarters in Berlin (TWBI). TWBI is the operator of the Europe-wide Internet service skyDSL, which works with satellite technology and can therefore cover each region in Europe independent of terrestrial DSL supply. The TWBI segment is shown as discontinued operation because the sale was qualified as highly probable at the balance sheet date. The option right was exercised on January 28, 2008 (see note 31). This means that the TWBI segment is now completely dissolved.

Description of assets and liabilities of the disposal group classified as held for sale as of December 31, 2007:

(In T€)

ASSETS	
Current assets	
Inventories	84
Trade accounts receivable	754
Other current assets	70
Cash and cash equivalents	331
	1,239
LIABILITIES	
Current liabilities	
Trade accounts payable	174
Other accruals	219
Deferred revenues	111
Other current liabilities	246
	750

Non-current assets that are to be abandoned

The Company initiated the closing of the wholesale of computer hardware and software (more!) in July 2001. more! was part of the sales & post sales services segment, which was completely dissolved during the 2001 business year.

As part of a separate sales tax audit, the fiscal authorities issued changed sales tax assessments against more! AG in the amount of Mio€ 2.2 at the end of the third quarter 2007. The circumstances, which are the basis for the sales tax assessments, happened exclusively before the acquisition of the shares in more! AG by TELES AG. An insolvency application was filed on time at the beginning of the fourth quarter because more! AG cannot pay the above-mentioned sales tax assessments. A review by TELES came to the conclusion that a transfer of the liability to other corporate companies is not possible in such a case. With the decision on February 7, 2008, the district court Charlottenburg has declined the opening of an insolvency process for lack of funds. This leads directly to a dissolution of more! AG, which will be entered into the Trade Register. Afterwards, more! AG must be liquidated as part of the processing. After the processing is completed, the sales tax liability will be booked out with an impact on earnings as part of the final consolidation.

The results from discontinued operations can be described as follows:

(In T€, except for share related information)	**January 01 - December 31** **2006**	**2007**
Operating result from discontinued operations		
Revenues	9,056	7,864
Cost of sales	9,772	8,013
Operational expenditures	5,740	2,810
Other income	3	93
Other expenditures	0	2
Financial earnings	2	5
Earnings before income taxes	-6,451	-2,863
Income tax expenditures	2,761	8
Operating result from discontinued operations, after deduction of taxes	**-9,212**	**-2,871**
Results from the discontinuation of operations		
Results from the discontinuation of operations, before taxes	0	-2,692
thereof: TWBI segment	0	-539
thereof: more! AG (formerly SPSS segment)	0	-2,153
Income tax expenditures	0	0
Results from the discontinuation of operations, after deduction of taxes	0	-2,692
Total result of discontinued operations, after deduction of taxes	**-9,212**	**-5,563**
Weighted average number of shares for the calculation of the earnings (losses) per share		
Undiluted	21,130,183	21,130,183
Diluted	21,130,183	21,130,183
Earnings per share from discontinued operations:		
Undiluted	-0.44	-0.26
Diluted	-0.44	-0.26

The result from discontinued operations includes the result in connection with the disposal group classified as held for sale and the result in connection with the abandonment of certain non-current assets.

The result from the discontinuation of operations includes a loss in the amount of T€ 50 from the valuation of the disposal group classified as held for sale in accordance with IFRS 5.15 with the fair value less costs to sell.

The following cash flow was generated by the disposal group classified as held for sale:

(In T€)	**January 01 - December 31** **2006**	**2007**
Cash flow from operating activities	-8,501	-2,515
Cash flow from investing activities	-146	-17
Cash flow from financing activities	8,865	2,225
Net change of the cash balance	**218**	**-307**

The cash flow in connection with the non-current assets that are to be abandoned has only a small impact on the corporate cash flow.

NOTE 24: EMPLOYEE STOCK OPTION PLANS

TELES AG executed employee stock option plans for the years 1998 and 1999 as well as 2001, 2002, 2004 and 2005, which are used for the Company to issue equity instruments. The return services when exercised are also equity instruments. All programs are specified in such a way that the equity instruments can only be exercised when certain success goals have been reached: the average share price of the Company during the reference period must exceed the average development of the reference index for the same period by at least ten percentage points (success barrier).

The option programs for 1998, 1999, 2001 and 2002 specify that 70% of the promised options are exercisable in every case. The remaining 30% are only exercisable if the employees do not sell received shares until the last year of the term (incentive share). The programs for 2004 and 2005 do not include an incentive regulation.

The subscription rights can be exercised for the last time eight to ten years after their issue.

The mathematical nominal value of the stock options granted until 2004 as part of the employee stock option plans was reduced from € 2.00 to € 1.00 due to the capital reduction, as approved in 2004 at the extraordinary shareholders' meeting.

The individual components of the individual programs are described in the following:

Employee stock option plans 1998 and 1999

In 1998 and 1999, the Company started investment programs for the employees and members of the Management Board by issuing convertible bonds. They have a maturity of ten years. The programs were modified in 2001. The impacts are described in more detail in the following.

Employee stock option plans 2001 and 2002

a) Employee stock option plan 2001

TELES AG's Management Board and the Supervisory Board were authorized on August 31, 2001 to issue before August 30, 2006 up to 650,000 additional stock options with a total value of €1,300,000 for Management Board members' and employees' investments in the company. This stock option plan had to be designed by the Management Board and approved by the Supervisory Board.

Also on August 31, 2001, TELES AG's Management Board and the Supervisory Board were authorized to issue 1,593,581 stock options to the participants of the 1998 and 1999 employee stock option plans before December 31, 2001. The employees and the members of the Management Board had the opportunity to enter into waiver contracts with TELES AG by declaring a waiver of their conversion rights for shares of plans for the previous years and to receive stock options in accordance with the conditions of the new plan. The following condition applies to the waiver contracts for a period of two years after the closing: the beneficiaries can request the exchange of the convertible bonds in accordance with the conditions of the 1998 and 1999 plans within a certain period if the average price of the TELES shares in any period of 10 days is above a value of € 20.00 and if all other original convertible bond conditions are met. A total of 709,079 stock options were exchanged.

Each option grants the right to purchase an individual share with a nominal value of € 1.00 per share at an exercise price of € 2.00 per share. The option rights can be exercised in steps. The exercise can start two years at the earliest, after the issue and can be completed after six years.

The latest exercise dates are October 9, 2009 and 2011.

The nominal amounts paid for the convertible bonds were not paid out despite the exchange of the convertible bond right into stock options but were normally continued until the end of the maturity or the retirement of an employee.

b) Employee stock option plan 2002

On December 17, 2002, the Company issued additionally 417,640 stock options to employees as part of the approval provided by the shareholders' meeting on August 31, 2001.

Each option grants the right to purchase an individual share with a nominal value of € 1.00 per share at an exercise price of € 3.40 per share. The option rights can be exercised two years at the earliest, after the issue.

The latest exercise date is December 16, 2012.

A condition for the exercise of the option rights of the 2001 and 2002 plans is that the average price of a share of the Company in a reference period exceeds the average development of a reference index during the same period by at least ten percentage points (success barrier). The reference period starts on the day after the closing of the option agreement and continues until the day at which the participating beneficiary declares the exercise of the option. The average price is calculated based on the arithmetic average of the closing prices determined by Xetra trading for a share of the Company during the last ten trading days before the issue of the option rights and the last ten trading days before the day on which the participating beneficiary declares the exercise. The average development of the reference index is calculated accordingly. The reference index is either TECDAX (or NEMAX 50) or DAX depending on which index develops more positively during the reference period. A vested option right can always be exercised once its success goal is achieved even if at the time of the exercise the respective success goal can no longer be achieved.

Employee stock option plan 2004

On August 17, 2004, the Company issued 581,572 options to employees as part of the approval provided by the shareholders' meetings on August 31, 2001 and August 22, 2003. The conditional capital I and the part of the conditional capital III remaining after the previous ESOP issues are used to fulfill the issued options in accordance with the change decisions made at the 2004 shareholders' meeting. A part of the options were granted as part of an "exchange program" to so-called "returners" after these waived their older exchange rights for the convertible bonds.

Each option grants the right to purchase an individual share with a nominal value of € 1.00 per share at an exercise price of € 6.19 per share. The option rights can be exercised in steps. The exercise can start at the earliest two years after the issue and can be completed after six years.

The latest possible exercise date is August 16, 2010 for the exchange program and August 16, 2014 for all other issued options.

The success goals and the respective conditions are equivalent to the 2001 and 2002 plans.

The option conditions include exercise restrictions in connection with the occurence of exceptional, unforeseeable developments.

Employee stock option plan 2005

On November 22, 2005, the Company issued additionally 295,290 stock options to employees as part of the approval provided by the shareholders' meeting on April 02, 2004. The conditional capital I is used to fulfill the issued options in accordance with the decisions made at the above mentioned shareholders' meeting.

Each option grants the right to purchase an individual share with a nominal value of € 1.00 per share at an exercise price of € 6.98 per share. The option rights can be exercised in steps. The exercise can start at the earliest two years after the issue and can be completed after six years.

The latest exercise date is November 21, 2015.

The success goals and the respective conditions are equivalent to the 2001 and 2002 plans.

The option conditions include exercise restrictions in connection with the occurence of exceptional, unforeseeable developments.

Development of the portfolio of stock options from employee stock option plans

The portfolio of stock options and convertible bonds issued as part of the employee stock option plans has developed as follows under consideration of the exchange of stock options from plans of the previous years.

	Employee Stock Option Plan					
	1998 & 1999 Convertible bonds	**2001** Stock options	**2002** Stock options	**2004** Stock options	**2005** Stock options	**Total**
Outstanding on December 31, 2005	**399,084**	**197,149**	**233,566**	**553,122**	**295,290**	**1,678,211**
Issued	0	0	0	0	0	0
Exercised	0	0	0	0	0	0
Forfeited	0	-744	-3,060	-6,154	-69,614	-79,572
Outstanding on December 31, 2006	**399,084**	**196,405**	**230,506**	**546,968**	**225,676**	**1,598,639**
Issued	0	0	0	0	0	0
Exercised	0	0	0	0	0	0
Forfeited	-4,950	0	0	-33,000	-55,790	-93,740
Outstanding on December 31, 2007	**394,134**	**196,405**	**230,506**	**513,968**	**169,886**	**1,504,899**
Vested rights as of December 31, 2007	**394,134**	**193,973**	**176,618**	**343,493**	**86,610**	**1,194,828**

The outstanding stock options on December 31, 2007 have a weighted average remaining contract duration of 4.1 years.

Expenditures from granting equity instruments to employees

The determination of the expenditures was made for the 2002, 2004 and 2005 employee stock option plans.

The valuation is done indirectly by using the fair value to be attributed for the equity instruments at the time of granting because the fair value to be attributed for the work delivered by the employee as a return service for the granting of equity instruments cannot be reliably determined.

The value of the subscription rights was determined by considering the success barriers based on a Monte-Carlo-Simulation and it was reported as an expenditure proportionately through the vesting period. Non-market vesting conditions are included in the assumptions regarding the number of options that are expected to become exercisable. The estimates regarding non-market vesting conditions are reviewed on each balance sheet date and the resulting changes are included in the income statement with an appropriate adjustment of equity.

The following parameters are included in the calculation of the value of the subscription rights:

	Employee Stock Option Plan		
	2002	**2004**	**2005**
Valuation day	12/17/2002	08/17/2004	11/22/2005
Exercise price TELES	3.40 €	6.19 €	6.98 €
Basis DAX	3,185.74	3,735.19	5,080.48
Basis TecDAX	421.47	462.39	580.17
TELES valuation price	3.10 €	6.31 €	6.90 €
DAX valuation price	3,139.97	3,705.73	5,174.72
TecDAX valuation price	395.10	465.24	587.44
Interest rate	4.39%	4.10%	3.49%
TELES volatility	91.70%	65.60%	57.68%
DAX volatility	31.65%	33.24%	27.46%
TecDAX volatility	51.79%	37.43%	29.32%
TELES / DAX correlation	0.21	0.27	0.24
TELES / TecDAX correlation	0.27	0.29	0.27
DAX / TecDAX correlation	0.72	0.78	0.77
Fair value to be attributed for the option	**2.57 €**	**2.42 €**	**2.12 €**

Based on corresponding studies, the price threshold for early exercises is specified at 200% of the exercise price.

The historic volatilities and historic correlations will be used for an objective approach to determine volatilities and correlations. The determination is based on the daily XETRA closing prices for the TELES shares and the DAX and TecDAX (or NEMAX 50) indexes.

The price development of the TELES shares was mainly influenced by the new economy boom in the new market for the period from the first listing in 1998 to 2000. The period with the strongest price changes for the TELES shares was the period from early July 1998 to December 1999. The price of the TELES shares increased during this period from the first listing of approx. € 23.18 to more than € 90 and fell back to approx. € 27 in December 1999. Based on the unique characteristics of the above development and the related extreme daily price fluctuations, the time window for the determination of the historic volatilities and correlations was restricted to a respective period of 3 years for the 2002 and 2004 plans and to 4 years for the 2005 plan before the granting of the option rights.

The following expenditures for the granting of equity instruments to employees are included in the earnings of the 2006 and 2007 business years:

	Employee Stock Option Plan			
(InT €)	**2002**	**2004**	**2005**	**Total**
January 01 - December 31				
2006	47	145	101	293
2007	46	145	-10	181

NOTE 25: EARNINGS PER SHARE

The following table shows the calculation of the undiluted and diluted earnings per common share attributable to the shareholders of the parent company:

	January 01 - December 31	
(In T€, except for share related information)	**2006**	**2007**
Net income for the year attributable to the shareholders of the parent company	-16,906	2,525
Weighted average number of shares for the calculation of the earnings per share		
Undiluted	21,130,183	21,130,183
Diluted	21,130,183	21,194,513
Earnings per share		
Undiluted	-0.80	0.12
Diluted	-0.80	0.12

Year with year-end closing as of December 31, 2006:
Potential shares from the employee stock option plans as well as convertible bonds in circulation were not classified as diluted because an assumed exchange would have resulted in a reduction of the loss per share during that period.

Year with year-end closing as of December 31, 2007:
The dilution was exclusively based on potential shares from the employee stock option plans.

The convertible bonds in circulation (see note 24) can act potentially as diluted in the future; however, they were not included in the determination of the diluted earnings per share because they counteract the dilution for the described periods.

NOTE 26: RESTRICTED CASH, OTHER FINANCIAL COMMITMENTS AND CONTINGENT LIABILITIES

Restricted cash

The liquid funds of the Company are subject to an availability restriction at the balance sheet date for the amount of T€ 135 (previous year: T€ 102).

Rent and leasing obligations

The Company leases satellite capacities, buildings, vehicles, warehouses and certain office equipment as part of non-cancellable leasing contracts without purchase options. The leasing contracts for office space are - based on the establishment of a new leasing contract during the 2006 business year - restricted to April 30, 2012 at the latest and some of them include extension options. The costs for the operating leases were T€ 5,647 (thereof discontinued operation TWBI: T€ 4,383) and T€ 7,374 (thereof discontinued operation TWBI: T€ 5,964) for the business years ending December 31, 2007 and 2006.

The future minimum lease payments as part of non-cancellable leasing contracts with starting durations of 1 year or longer are as follows:

(In T€)	**December 31, 2007**
Up to one year	1,373
Between one and five years	2,063
Longer than five years	0
Total	**3,436**

Financial commitments based on other contracts

Future minimum payments based on legally effective agreements are:

	December 31	
(In T€)	**2006**	**2007**
Purchase commitments		
Finished goods	0	119
Software bundles and software licenses	0	1
Other services	33	60
Maintenance	31	0
Total	**64**	**180**

In addition, a contingent liability in the amount of T€ 8 exists in connection with a lease guarantee.

NOTE 27: LITIGATION

The Company is involved in legal proceedings and litigations arising in the ordinary course of business. The Company always establishes reserves for these cases assuming a liability is probable and that an amount can be reasonably estimated.

TELES took Deutsche Telekom AG (DTAG) and SES ASTRAnet S.A. to court during the 2002 business year due to an infringement of several TELES patents by their "T-DSL via Satellite" service. TELES bases its lawsuit on a German and a European Patent, which were protecting the skyDSL technology developed by TELES and in addition on a German utility patent. Companies that were taken to court in two comparable patent infringement suits have come to an agreement with TELES and have discontinued their operations in this business segment after they lost in first instance. A first instance decision was handed down on January 27, 2006 in the patent infringement suit against DTAG and SES, which was resumed after interim suspension of the German patent and utility patent. As expected, it was in favor of TELES. DTAG appealed the decision while the decision against SES is legally binding and therefore enforceable. During the 2003 business year, the above mentioned protective rights were questioned at the German and the European patent office in connection with the patent infringement suit. TELES also won its case against DTAG/SES in first instance during the 2005 business year with a comparable result in the utility patent suit at the patent office after confirmation of the German skyDSL core patent by the federal patent court at the end of 2004. However, the utility patent was canceled on March 20, 2007 in second instance by the federal patent court for judicial reasons. The decision is not yet effective. TELES has in the meantime filed an explicitly authorized appeal at the BGH [Bundesgerichtshof = Federal Court of Justice]. In the end, the result of this suit will neither impact the operational skyDSL business of TELES nor will it have a relevant influence on the result of the skyDSL patent infringement proceedings. The European skyDSL patent was confirmed by the European patent office with marginal restrictions on January 26, 2006. DTAG/SES appealed this decision too. TELES is convinced it can win the proceedings that have not yet been legally decided. TELES and its legal advisers continue to see no risks in these proceedings.

Based on an advertisement by STRATO Medien AG for skyDSL during 2003, the district court Köln has made a decision on February 17, 2005 in favour of the application by a competitor. It requires STRATO Medien AG to cease and desist advertisements using the term "DSL" on its own or in connection as "skyDSL" for the satellite supported internet access as it was used in the disputed advertisement, which is in the opinion of the court misleading. STRATO Medien AG appealed this decision on April 06, 2005 at the appellate court Köln. The appellate court Köln declined the appeal in a decision on February 15, 2006. A further appeal was not permitted. STRATO Medien AG did not file a complaint against the denial of leave to appeal. The decision is therefore effective. The risk of identical follow-on proceedings for the new distribution company TELES skyDSL, which was established after STRATO Medien AG retired from the TELES Group, is judged as low by TELES and its legal advisers.

TELES acquired a 33.3% investment in a newly founded communication service company in June 2003. This company, headquartered in Great Britain, generates no business activity anymore. It originally delivered telecommunication services for phone connection network operators in Germany by terminating phone calls from the wired networks cost effectively to mobile networks of the German cellular phone network operators until the used cellular phone cards were disconnected by the cellular phone network operators. The company could not win against the affected cellular phone network operators in its interim injunction process targeted for the re-connection of the cellular phone cards. However, it aims at a final clarification in the principle proceedings after a cellular phone network operator filed a claim for payment and damages at the end of 2004. In the meantime, TELES claimed the damages caused by the disconnection of the cellular phone cards as part of the principle proceeding by filing a counter claim. The district court Düsseldorf has confirmed the claim in the first instance with a decision on May 31, 2006 and it declined the counter claim. The decision is not legally effective yet and it was appealed. The chances of success for this suitt in the second instance at the appellate court Düsseldorf are uncertain despite the fact that the legal practice reversed itself in favor of TELES with respect to the legality of the disconnection of the SIM cards used in the GSM gateways by the cellular phone network operators. A court decision is expected in March 2008. However, a high risk does not exist for this case.

In addition, the same cellular phone operator has filed a claim against TELES AG and TELES NetSales GmbH in 2005 to cease the offering and distributions of GSM gateways for carrier networks. The district court in Düsseldorf declined the claim in the first instance with a decision on June 14, 2006. However, the counter claim by TELES against corresponding General Terms and Conditions of the cellular phone operator with respect to the ban of use of his SIM cards in SMS gateways was also not successful. Both parties appealed the first instance decision. The chances of success for TELES are not assessable based on the above mentioned change of the legal practice for a partial question of the lawsuit (legality of the use of GSM gateways in Germany). It is also not clear what the impact of a negative decision for TELES would be on international sales. A second instance decision for this case is also expected in March 2008. Based on the decision in favor of TELES in the first instance, TELES and its legal advisers view the risk of a general export ban and - based on the low importance of Germany as a distribution country for GMS gateways - therefore the economic risks for TELES as small.

As part of the divestiture of the WebHosting business segment, it was agreed that STRATO Medien AG will continue a lawsuit on account of TELES, which will assume all chances and risks from this suit. This suit was initiated by the liquidator of KPNQwest Germany GmbH i.In. against STRATO Medien AG. As described in the management reports of the previous years, during the business year 2001 and 2002 STRATO suspended payments to the technical service provider, KPNQwest, and reductions were claimed for misperformance. The liquidator assigned in the meantime filed a payment claim against STRATO during the 2002 business year. STRATO reported under payables an amount of €5.4 millions as of December 31, 2004, which was already reduced by an amount of 3.2 million by a reduction that TELES views as justified under any circumstances. STRATO also claims compensation for damages in the amount of approximately €8 million. The lawsuit is currently in the evidence gathering phase. A result is still not available. The TELES attorney and legal costs were accrued in an adequate manner. TELES and its legal advisers see no other risks for TELES.

The appeal proceedings, initiated by the losing defendant, against the first instance decision on November 11, 2005 in favor of TELES by the district court Mannheim against Quintum Inc. and its domestic distribution partners was suspended until the legally effective conclusion of the continued nullity proceedings against the IntraStar patents.

In the meantime, the appeal by TELES as part of the first lawsuit against AVM GmbH and its distributions partners was declined by the appellate court Karlsruhe with a decision on June 28, 2006. TELES filed a complaint against the denial of leave to appeal in the above proceedings. A decision has still not been made.

Another lawsuit by TELES against AVM GmbH as a result of the revision of the originally questioned product was declined by the district court Mannheim on July 18, 2006 in the first instance. The appeal proceedings against the decision initiated by TELES were in the meantime suspended until the conclusion of the continued nullity proceedings against the lawsuit patents. This is the same for the appeal proceedings against the first instance decision by the district court Mannheim on July 9, 2006, which declined the lawsuit in the first instance of the patent infringement proceedings against CISCO Systems Inc.

The patent infringement proceedings of February 15, 2006 filed by TELES against Nokia were also suspended for the same reasons.

The 4th senate of the federal patent court in Munich has revoked this patent or this part of the patent on April 5, 2006 in the patent nullity proceedings of Cisco and Quintum against the German and the German part of the European IntraStar patent by TELES. The reason stated by the federal patent court was the lack of inventiveness of both patents. The decisions are not legally effective and were appealed by TELES on June 21, 2006 with an appeal to the BGH. Please refer to the ad-hoc announcement dated April 6, 2006 for further information. TELES is still optimistic that the patents will in the end be honored. Overall, a double digit number of patent infringement suits of TELES against primarily non-European companies whose hybrid internet-telephony products (VoIP products) may currently violate the IntraStar patents can be expected in the future (see the German-language VoIP Patent Infringement Forum at www.teles.de for more information). TELES and the legal consultants see no risks in these proceedings.

In October 2005 the IntraStar patent was granted to TELES for the United States of America. The Declaratory Judgement Action filed by Cisco for nullification of this US patent and to ensure its non-infringement by Cisco products is still in the pre-trial discovery phase. An additional VoIP patent granted to TELES in the US on December 5, 2006 with a multitude of patent claims was included by TELES in the case, which increases the chances for success. In the meantime, Cisco filed a request for suspension of the court proceedings. The basis for this application are applications filed in parallel at the USPTO (United States Patent and Trademark Office) for a re-examination of both litigious patents. A decision about the suspension of the court process is not expected before February 2008. The first results of the re-examination proceedings by the USPTO will probably be available during the next few months.

Based on the first US IntraStar patent, TELES also filed a patent infringement suit on March 24, 2006 against Quintum. The second US IntraStar patent was also included in this case. In the meantime, Quintum Technologies Inc. was sold to Network Equipment Technologies, Inc. (NET), a network supplier with headquarters in the US, which has initially no effect on the proceedings. TELES currently reviews further steps.

TELES and its legal advisers see no larger risks - with the exception of TELES' attorney costs - for this process, because US law normally does not provide a claim for the reimbursement of the attorney costs for the opponent even if one loses the case.

The British media corporation British Sky Broadcasting Group plc (BskyB) has filed a lawsuit to cease and desist and for damages against TELES AG, TELES Wireless Broadband Internet GmbH and its British distribution subsidiary before the High Court of Justice in London because of the infringement of trademark rights (a.o. "SKY") through the advertisement of the skyDSL services in the UK. TELES defended itself against the lawsuit. Settlement discussions are currently held. TELES and its legal advisors see currently no larger risks, except for the TELES defence costs, in this proceedings because the UK market so far only plays a minor role for the skyDSL business.

NOTE 28: RELATED PARTY TRANSACTIONS

The following significant business transactions were executed between the Company and related parties:

Expenditures for services

(In T€)	January 01 - December 31 2006	 2007
Mock-Rechtsanwälte	40	27
Rechtsanwälte Feser & Spliedt	30	168
Total	**70**	**195**

The above services were provided by joint practices whose shareholders and partners are representatives of the TELES Supervisory Board.

Receivables of the company against related parties:

The Company has receivables in the amount of T€ 85 (previous year: T€ 3) against related parties on the balance sheet date. The receivables on the balance sheet date in the amount of T€ 85 represent a remaining loan receivable (originally granted loan amount T€ 264, interest rate 5% annually, payback in the 2007 business year T€ 130).

Payables of the company against related parties:

(In T€)	January 01 - December 31 2006	2007
Member of Management Board from convertible debt	190	190
Member of Management Board from variable income	252	255
Representatives of the Supervisory Board from delivered services	223	353
Total	**665**	**798**

Management Board earnings

(In T€)	January 01 - December 31 2006 Fix	2006 Variable	2007 Fix	2007 Variable
Jan Bastian	148	30	89	25
Richard Fahringer	0	0	22	5
Andreas Krüger	151	30	154	50
Karsten Lüdtke	0	0	88	33
Frank Paetsch	0	0	88	33
Olaf Schulz	161	30	177	50
Eyal Ullert	0	0	103	33
	460	**90**	**721**	**229**

The amounts stated for the variable payment 2007 are in accordance with the target values and will initially be accrued with an effect on expenditures. The settlement for the 2007 business year has not yet been completed.

Prof. Dr.-Ing. Schindler received payments in the amount of T€ 24 (previous year: T€ 24), which represent a non-cash benefit from granting a vehicle.

	Subscription rights	Shares
Prof. Dr. - Ing. Sigram Schindler	39,600	11,416,255
Mr. Richard Fahringer	0	6,000
Mr. Andreas Krüger	60,000	63,164
Karsten Lüdtke	25,000	56,475
Frank Paetsch	59,210	15
Mr. Olaf Schulz	66,648	0
Eyal Ullert	0	0
	250,458	**11,541,909**

As of December 31, 2007, Prof. Dr.-Ing. Sigram Schindler holds directly and indirectly 48.99% of the TELES AG shares: during the 2006 business year, 47.47% of the former directly held TELES AG shares were placed into "Sigram Schindler Beteiligungs-gesellschaft mbH" and they are still held by the company at the balance sheet date; 1.46% of the shares are held by the Sigram Schindler foundation and another 0.06% are directly held by Prof. Dr.-Ing. Sigram Schindler.

Mr. Richard Fahringer purchased 6,000 TELES AG shares during the 2007 business year, Mr. Andreas Krüger sold 10,000 TELES AG shares during the 2007 business year

Supervisory Board payments:

The remuneration of the members of the Supervisory Board were T€ 75,(previous year: T€ 45) during the completed business year.

(In T€)	January 01 - December 31 2006	2007
Dr. Walter Rust	20	37.5
Dr. Jürgen D. Spliedt	15	22.5
Prof. Dr. Dr. Thomas Schildhauer	7	0
Prof. Dr. h.c. Radu Popescu-Zeletin	3	15
	45	**75**

NOTE 29: COMPOSITION OF REVENUES AND COST OF SALES

(In T€)	January 01 - December 31 2006	2007
Revenues	**19,174**	**19,244**
Products	18,050	17,950
Services	1,124	1,294
Cost of sales	**7,663**	**9,556**
Products	6,907	8,589
Services	756	967

NOTE 30: SEGMENT REPORTING

Description of the reported segments

TELES consists of two major segments, Telecommunication Systems (TCS) and Broadband Internet Access Services (TWBI). The Telecommunication Systems Segment includes development, manufacture and sales of telecommunication equipment for telecommunication companies. Wireless Broadband Internet Services, which are available internationally, are at the center of the activities of the TWBI segment. The company evaluates the segment development especially in accordance with the operating result.

The majority of the shares for the business segment Broadband Internet Access Services (TWBI) were divested on January 28, 2008 by exercising the option. The earnings contribution of the discontinued operation is described separate from the continued operations within the income statement for the 2006 and 2007 business years. The assets and liabilities in connection with the disposal group classified as held for sale were shown separately on the balance sheet for the 2007 business year. The segment reporting was therefore adjusted accordingly. Please refer to note 23 for detailed information about the discontinued business segment TWBI.

Assessment of the profits/losses of the segments

The accounting principles for the segments are always identical to the ones described in the summary of important accounting principles.

Costs for the central corporate services as well as patent enforcement costs are included in the operating results of the operative segment TCS (T€ 3,801 / T€ 4,185, previous year T€ 3,215 / T€ 4,960). These costs are explained in the Management Report. Please refer to the explanations for the "Management Services Division" and the "TIPR-Division". The costs for the corporate services as well as the patent enforcement costs were completely allocated to the TCS segment during the 2007 business year due to the divestiture of the business segment Broadband Internet Access Services (TWBI). The comparison information for the 2006 business year was adjusted accordingly.

There were very few business activities between the segments.

(In T€)	**January 01 - December 31 2006**			
	TCS	**TWBI**	**Miscellaneous**	**TELES**
Revenues	19,174			19,174
Gross profit	11,511			11,511
Gross profit margin in %	60.0			60.0
Operating loss	**-10,999**		**-7**	**-11,006**
Financial result				2,937
Earnings before income taxes				-8,069
Income tax expenditures				-384
Earnings from continued operations				-7,685
Earnings from discontinued operations net of tax (see note 23)		-9,212		-9,212
Profit for the year				**-16,897**
Segment assets	52,152	2,792	190	55,134
Assets that cannot be assigned				82,242
Consolidated assets				137,376
Segment liabilities	4,814	1,077	315	6,206
Liabilities that cannot be assigned				3,039
Consolidated liabilities				9,245
Investments	650	128		778
Depreciations of the assets	620			620

(In T€)	January 01 - December 31 2007			
	TCS	**TWBI**	**Miscellaneous**	**TELES**
Revenues	19,244			19,244
Gross profit	9,688			9,688
Gross profit margin in %	50.3			50.3
Operating loss	**-12,876**			**-12,876**
Financial result				22,510
Earnings before income taxes				9,634
Income tax expenditures				1,561
Earnings from continued operations				8,073
Earnings from discontinued operations net of tax (see note 23)		-3,410	-2,153	-5,563
Profit for the year				**2,510**
Segment assets	23,269	1,239	179	24,687
Assets that cannot be assigned				59,624
Consolidated assets				84,311
Segment liabilities	7,612	750	2,469	10,831
Liabilities that cannot be assigned				3,191
Consolidated liabilities				14,022
Investments	4,005	27		4,032
Depreciations of the assets	832			832

Geographical information

The revenues in different markets can be described as follows:

(In T€)	January 01 - December 31 2006	2007
Revenues:		
Germany	4,422	5,439
Europe, without Germany	11,737	8,337
Miscellaneous	3,015	5,468
Total	19,174	19,244

Regional segment assets:

(In T€)	December 31 2006	2007
Segment assets:		
Germany	51,965	20,141
Europe, without Germany	2,709	450
Miscellaneous	460	4,096
Not assigned	82,242	59,624
Total	137,376	84,311

Additions to the fixed assets and the intangible assets:

(In T€)	December 31 2006	2007
Germany	572	1,448
Europe, without Germany	31	12
Miscellaneous	175	2,572
Total	778	4,032

NOTE 31: EVENTS AFTER THE BALANCE SHEET DATE

By closing a contract on December 20, 2007, TELES acquired a part of an operation of an Austrian company group as part of an asset deal (see note 4). All assets in connection with the acquired part "MissisSIPpi" were transferred - matching purchase price payments with delivery - by Kapsch Carrier on January 11, 2008.

The publicly traded Swiss investment company Mountain Super Angel AG acquired the majority of TELES Wireless Broadband Internet GmbH by exercising the acquisition option on January 28, 2008 (see note 23). TELES holds in the future a 19.7% minority investment in TWBI GmbH.

NOTE 32: OTHER INFORMATION

Changes compared to the previous year

The following information changes were made compared to the previous year:

- "Financial assets available-for-sale " and "Other financial assets" were combined to "Other financial assets";
- Convertible debt and convertible debt in connection with related parties (previous year: "Other non-current liabilities") were combined into the item "convertible debt", differentiated into current and non-current;
- Receivables and payables against the tax office from sales tax and pre-tax are listed under "Other current assets" or "Other current liabilities" (previous year: Trade accounts receivable or payables).

Services of the auditing company

In addition to the year-end audit (T€ 167), the PricewaterhouseCoopers AG auditing firm worked during the 2007 business year as part of tax consultations (T€ 70) and other consulting services (T€ 17) for the Company.

Consolidated companies

The consolidated financial statements include the accounts of TELES AG and those of the following companies, which are all 100% owned subsidiaries of TELES AG, if not indicated otherwise.

Subsidiary	**City**
TELES skyDSL Europe B.V.	Roelofarendsveen, Holland
TELES Communications Corp.	San Francisco, USA
TELES Computer Systems India Private Ltd. [1]	Bangalore, India
TELES France S.A.R.L.	Evry, France
TELES S.R.L.	Genua, Italy
TELES N.G.N. Solutions Ltd.	Yokneam, Israel
TELES Communication Systems GmbH	Wien, Austria
RVS Datentechnik GmbH	München, Germany
TELES Wireless Broadband Internet GmbH	Berlin, Germany
TELES skyDSL GmbH	Berlin, Germany
TELES Latin America S.R.L. [2]	Santa Cruz, Bolivia
TELES skyDSL UK Ltd. [3]	Birmingham, Great Britain
TELES NetSales Spain S.A.	Madrid, Spain
TELES NetService GmbH	Berlin, Germany
DirectSat AG	Berlin, Germany
call media services Ltd. [4]	London, Great Britain
more! Computer AG	Berlin, Germany

[1] --- 84.999% held by TELES NetService GmbH / 0.001% held by DirectSat AG
[2] --- 1% held by TELES NetService GmbH / 99% held by TELES AG
[3] --- 100% held by TELES Wireless Broadband Internet GmbH
[4] --- 33.33% held by TELES AG

Information about non-consolidated companies

(see also note 2)

Name of the company	Headquarter	TELES AG share (%)	Book currency	Equity[1] in T€	Annual earnings 2007[1] business year in T€
GRAVIS Beteiligungs AG	Berlin, Germany	19.99	EUR	3,000	-25
GRAVIS Computervertriebs-gesellschaft mbH	Berlin, Germany	indirect: 19.99	EUR	7,000	200
HSD Consult EDV-Beratungsgesellschaft mbH	Berlin, Germany	indirect: 19.99	EUR	550	100

[1] --- This is a preliminary projection of GRAVIS management for the 2007 business year determined in accordance with the domestic accounting regulations.

Corporate Governance Codex

Management Board and Supervisory Board of TELES AG have signed a compliance statement in accordance with the German Corporate Governance Codex (§ 161 AktG), which has been published on the homepage of TELES AG.

Management Board

The following persons were members of the Management Board of TELES AG during the previous year:

Prof. Dr.-Ing. Sigram Schindler, Chairman of the Management Board;
Dipl.-Inf. Jan Bastian, Board member telecommunication systems (until June 30, 2007);
Ing. Richard Fahringer, Board member operational business (starting on December 1, 2007);
Dipl.-Ing. Andreas Krüger, Broadband Internet segment;
Karsten Lüdtke, Board member internal processes (starting on May 1, 2007);
Dipl.-Inf. Frank Paetsch, Board member technology (starting on May 1, 2007);
Dipl.-Betriebswirt Olaf Schulz, Chief financial officer;
Eyal Ullert, MBA, Board member sales (starting on May 1, 2007).

The members of the Management Board served on the following Supervisory Boards within the Company:

Prof. Dr.-Ing. Sigram Schindler:
TELES Wireless Broadband Internet GmbH (until January 22, 2007);
TELES skyDSL GmbH (until January 22, 2007);
TELES NetService GmbH (until January 22, 2007);
DirectSat AG;
more! Computer AG

Dipl.-Inf. Jan Bastian:	TELES Wireless Broadband Internet GmbH (until January 22, 2007); TELES skyDSL GmbH (until January 22, 2007); TELES Computer Systems India Private Ltd. (until August 28, 2007); DirectSat AG (until July 26, 2007)
Dipl.-Ing. Andreas Krüger:	TELES NetService GmbH (until January 22, 2007)
Dipl.-Betriebswirt Olaf Schulz:	TELES Wireless Broadband Internet GmbH (until January 22, 2007); TELES skyDSL GmbH (until January 22, 2007); TELES Computer Systems India Private Ltd.; TELES NetService GmbH (until January 22, 2007); more! Computer AG
Eyal Ullert, MBA:	TELES Computer Systems India Private Ltd.
Dipl.-Inf. Frank Paetsch:	DirectSat AG; more! Computer AG

Supervisory Board

The following persons were members of the Supervisory Board of the Company during the previous year:

Dr. Walter Rust, Berlin, attorney and notary (Chairman of the Supervisory Board)
Dr. Jürgen D. Spliedt, Berlin, attorney and certified public accountant
(Deputy chairman of the Supervisory Board)
Prof. Dr. h.c. Radu Popescu-Zeletin, Berlin, University professor

The following Supervisory Board members accepted additional Supervisory Board seats or seats on comparable control committees.

Dr. Walter Rust,
Chairman of the Supervisory Board, SHF Communication Technologies AG, Berlin
Chairman of the Supervisory Board, MagForce Nanotechnologies AG, Berlin (since July 2007)

Prof. Dr. h.c. Radu Popescu-Zeletin
Member of the Supervisory Board of IVISTAR Kommunikationssysteme AG, Berlin
Member of the Visionary Board of Motorola Corporation, Schaumburg, USA
Member of the Interoperability Board of Microsoft Corporation, Redmond, USA

Dr. Jürgen Spliedt
Member of the Supervisory Board of ANSOMED AG, Rostock

Berlin, February 22, 2008

The Management Board

List of Abbreviations

AG	Aktiengesellschaft (Corporation)
AktG	Aktiengesetz (German Stock Companies Act)
DRS	Deutscher Rechnungslegungsstandard (German accounting standard)
DRSC	Deutsches Rechnungslegungsstandards Committee (German Accounting Standard Committee)
EITF	Emerging Issues Task Force
ESOP	Employee stock option plan
EStG	Einkommensteuergesetz (German Income Tax Act)
FIFO	First-in, First-out
GmbH	Gesellschaft mit beschränkter Haftung (Limited liability company)
HGB	Handelsgesetzbuch (German Commercial Code)
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standard
KapErh	Kapitalerhöhung (Capital increase)
Ltd	Limited
Mio€	Million Euro (€ million)
SIC	Standing Interpretations Committee
T€	Tausend Euro (€ thousands)
TUSD	Tausend US Dollar ($ thousands)
US GAAP	United States Generally Accepted Accounting Principles

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Berlin, February 22, 2008

TELES AG Informationstechnologien
The Management Board

Prof. Dr.-Ing. Sigram Schindler

Richard Fahringer

Karsten Lüdkte

Frank Paetsch

Olaf Schulz

Eyal Ullert

Auditor's Report *

We have audited the consolidated financial statements prepared by TELES Aktiengesellschaft Informationstechnologien, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1st of January to 31st of December 2007. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company´s Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Berlin, February 22nd, 2008

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Gregory Hartman) Wirtschaftsprüfer	(ppa. Sten Voß) Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

* Translation - the German version is authoritative