TELES AG Aktiengesellschaft Informationstechnologien Berlin

Consolidated Financial Statements as of December 31, 2008 and Management Report for TELES Group 2008

Auditor's Report

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

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A. Macroeconomic development / Development of the industry

In the course of the year 2008, the vitality of the world economy declined in many regions of the world. Overall, the global economy increased by only around 2.2% (prior year around 5%). This development accelerated even more in the course of the financial crisis at the end of the year 2008 and has all appearances of continuing at least in the year 2009. Thus a drop in economic output of between 1% (DIW) and just at 3% (Kieler IfW), at last on various occasions even up to 6%, was forecasted for Germany at the beginning of 2009.

In contrast, both Bitkom and EITO are expecting growth rates for the telecommunications industries (ITK) and IT market in 2009, albeit reduced (+1.5% and around 2%, respectively). One of the reasons is that the utilization of modern IT and communications systems saves operating costs and thus counters the world economic trend.

As a result of the general world economic financial crisis, TELES nevertheless cannot completely rule out the possibility of being effected by it directly and indirectly. There can be ramifications, among other things, due to the fact that especially relatively large capital investment projects are deferred until further notice. In view of the core customer structure of TELES up to the present of predominantly tier 3 and tier 4 carriers, this risk is limited. On the contrary: many of the TELES solutions make it possible for users to reduce their operating costs which in the course of the financial crisis may become increasingly important. Independent of this, the sales of TELES represents only a marginal market share within the market segment in which TELES products and solutions are utilized. To this extent, TELES sees, on the basis of its knowledge and capabilities with regard to products and solutions, sufficient room for development with a promising future despite the financial crisis.

B. Situation of the Corporate Group

Special events in 2008

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

- 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 at a purchase price in the low single digit millions.

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

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

On January 11, 2008, all assets connected with the “MissisSIPpi” subsegment were handed over by Kapsch Carrier concurrently with payment of the purchase price.

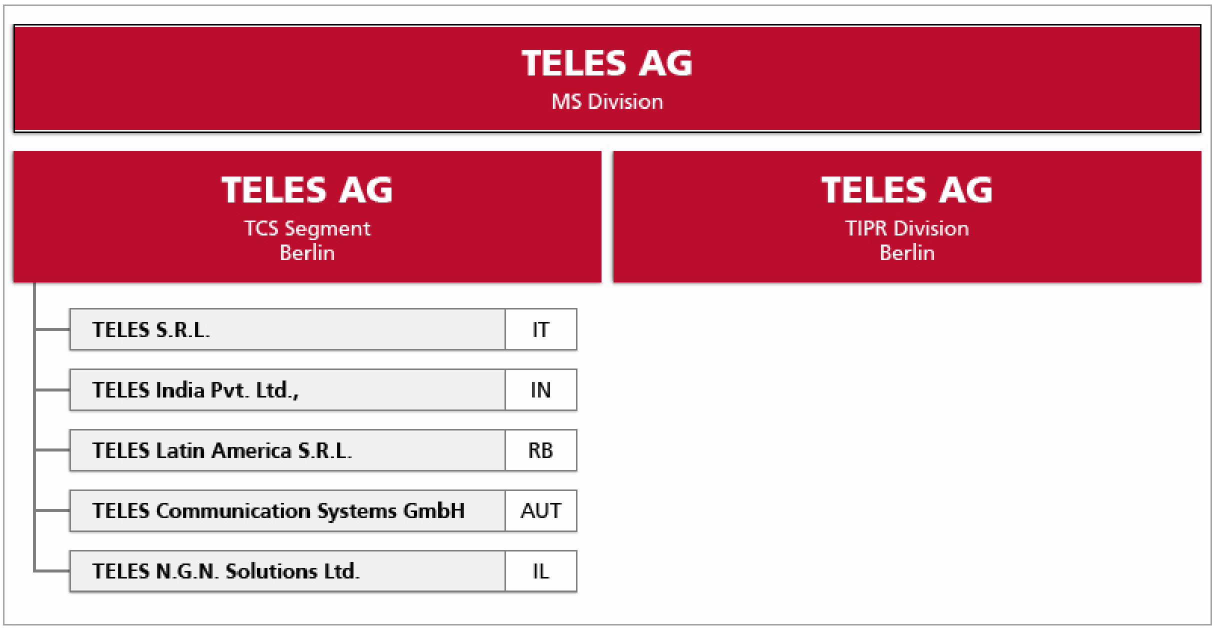
- On December 31, 2007, TELES signed an acquisition option contract with the publicly traded Swiss investment company Mountain Super Angel AG (Open Market Frankfurt, ISIN: CH0033050961, www.super-angel.ch). This contract gives Mountain Super Angel AG the right to acquire before January 28, 2008 the majority 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**.

- In addition, TELES distributed a **dividend** in the amount of 1.00 € per share in 2008, which amounted to a total of 21.1 Mio€.

Current Structure of TELES

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**

It is basically agreed with the majority shareholder that all costs in connection with the patent disputes (TIPR) are being assumed by the majority shareholder or one of his investment companies with effect from January 2009.

Moreover, effective January 1, 2009, all costs associated with the evaluation of the market environment for an additional business area, "Customer Premises Equipment," are being assumed by the majority shareholder and one of his investment companies.

In spite of the dividends of around 21.1 Mio€ that were paid out in 2008, the equity capitalization at around 49% is sound in relation to the scope of business. Due to the aforementioned dividend payment and the negative economy – which while improved, is still present – as well as the capital tied up in working capital, the cash position has significantly diminished.

Management, however, considers the financing of the operating activity to be assured on the basis of current knowledge and of business planning. In view of the previously discussed assessment of the development of markets and industries combined with the possibilities for utilization and success factors of the TELES product portfolio, TELES considers based on the approved master plan the potential for sales increase compared with the prior year of a good 35% to be possible, with, as a result, an improved – though still negative – earnings figure, and for 2010 a break-even operating result at the least. The business planning naturally contains risks and uncertainties. It is based on assumptions, expectations, estimates and projections of TELES which were taken into consideration to the best of its ability and taking into consideration business principles. To this extent, planning can not be proven, and TELES and its Management Board do not assume liability of any kind. Moreover, there remain forecast uncertainties, since the possibility cannot be excluded that TELES nevertheless could be affected by the financial crisis.

To strengthen the liquidity position and in order to be able to eliminate any gaps in financing, various limited contracts have been entered into with the majority shareholder which in part already led to an increase in liquidity. The funds should be sufficient to cover a possible additional need for capital which prospectively would result in the event the sales goal (according to the master plan) is missed by up to around 25% (this corresponds approx. to the revenues of 2008). Furthermore, reference is made to section F.

However, the existence of the Company could be threatened amongst others if the expected revenues for the coming months according to the master plan are missed by more than 20% in the future and if in such a case no additional funds can be raised from the circle of shareholders.

The following tables and their explanations refer to the development of the TELES continued operations during the 2008 reporting year. The growth expectations for these areas for the following years will be discussed in section G.

Revenue and earnings development of the corporate group in 2008 (in accordance with IFRS)

The following table shows the comparative figures. The presentation is also in accordance with the IFRS conforming segment statement for the TCS segment, which now is the only operative TELES segment.

Revenues and Earnings for the Group in Mio€	2007	2008	Variation[1] 2008 vs. 2007
Revenues	**19.2**	**23.8**	**24%**
Cost of sales	9.6	12.9	34%
included therein: depreciations	*0.2*	*0.4*	*147%*
Gross profit	**9.6**	**10.9**	**14%**
Gross profit margin	50%	46%	-4%
Sales and marketing expenditures	6.0	7.3	21%
Research and development expenditures	5.6	6.0	8%
General and administrative expenditures	9.7	7.9	-19%
Expenditures for employee stock options plans	0.2	0.1	-41%
Other income	0.3	0.5	124%
Other expenditures	0.6	1.1	104%
EBITDA (Earnings before interest, taxes, depreciation and amortization)	**-12.0**	**-10.6**	**12%**
Impairment of goodwill	0.0	2.4	n.a.
Operational depreciation and amortization	0.7	1.0	46%
EBIT (Earnings before interest and taxes)	**-12.9**	**-14.4**	**-12%**
Financial result	22.5	-22.4	n.a.
EBT (Earnings before tax)	**9.6**	**-36.8**	**n.a.**

Explanations relating to the above corporate group overview:

- The 2008 **corporate revenues** in the amount of 23.8 Mio€ increased in comparison with 2007 by 24%. This was the highest level of sales revenue for the continued operation since the year 2003. Additional details can be found in the comments under the TCS segment.

- As a result, the 2008 **corporate gross profit** rose by 1.3 Mio€ to 10.9 Mio€ (+14%), although – essentially through shifts among the product segments – less than proportionately (see also notes on the TCS segment).

- The **corporate gross profit margin**, however, fell to 46% as a result of shifts among the product segments.

- The **corporate EBITDA** improved in 2008 in comparison with the previous year from -12.0 Mio€ to -10.6 Mio€. This is attributable among other things to the improved corporate gross profit. Please see also the comments on the TCS segment.

[1] The percentage change is calculated on the basis on unrounded euro amounts.

- The **corporate EBIT** deteriorated in 2008 in comparison with the prior year by 1.5 Mio€ to -14.4 Mio€; the cause for this is essentially the write down of goodwill which was necessary.

- The 2008 **corporate EBT** is -36.8 Mio€, which results from the operating result (EBIT) and essentially from the divesture loss (around 22 Mio€) on the freenet shares previously held by TELES, all of which were sold at the end of August 2008.

In deviation from the consolidated income statement in accordance with IFRS, expenses connected with the organizational adaptations caused by the market are presented in the above development of revenues and earnings of the corporation. Please refer to the comments on the MS division for details.

This results in earnings per share (EPS) for the continued operations of -1.69 € (diluted as well as undiluted). An EPS of -1.63 € (diluted as well as undiluted) was achieved if the earnings of discontinued operations are included.

Revenue and earnings development in the segments in 2008 (in accordance with IFRS)

Since as a result of sales of all other operating segments, only the TCS segment remains and, secondly, beginning January 1, 2009 all costs and expenses for the division "TIPR" (TELES Intellectual Property Rights) are borne by a third party, TELES decided to report for the last time using the structure that has been utilized for years, i.e., with an explicit reporting of a separate unit by the name of "Management Service Division" (MSD) as well as of the division TIPR. An allocation of the revenues and expenditures to the TCS segment (TELES Communication Systems) under consideration of the separate reporting of the MSD and the TIPR divisions can be found in the following table.

Explanations for the MS division:

Revenues and Earnings by division in Mio€	2007[2]	2008	Variation[3] 2008 vs. 2007
MS division			
Revenues	**0.6**	**0.9**	**47%**
Gross profit	**0.6**	**0.9**	**47%**
Gross profit margin	100%	100%	0%
General and administrative expenditures	4.0	4.3	6%
Expenditures for employee stock option plans	0.2	0.1	-41%
Other income	0.1	0.2	87%
Other expenditures	0.5	1.0	136%
EBITDA (Earnings before interest, taxes, depreciation and amortization)	**-4.0**	**-4.3**	**-10%**
Impairment of goodwill	0.0	2.4	n.a.
Operational depreciation and amortization	0.0	0.2	n.a.
EBIT (Earnings before interest and taxes)	**-4.0**	**-6.9**	**-74%**
Financial result	22.3	-22.4	n.a.
EBT (Earnings before tax)	**18.3**	**-29.3**	**n.a.**

- The **MSD revenues** are not "external revenues", but are equivalent to the cost allocations charged to the TCS segment.

[2] The currency translation gains and losses of the TCS division were reclassified in business year 2008 to the MS division. The comparison figures were adjusted accordingly. This results in an increase in other income for business year 2007 in the amount of 0.1 Mio€ and of other expenditures in the amount of 0.3 Mio€ for the MS division and a corresponding reduction of other income and other expenditures in the TCS division

[3] The percentage change is calculated on the basis of unrounded euro amounts.

- As in the previous year, the **MSD administrative expenses**, which rose slightly, include startup costs in connection with the evaluations with respect to possible additional business segment activities (CPE), the costs of which beginning January 2009 will be assumed by the majority shareholder or one of his investment companies. In addition, they continue to represent – to the extent they cannot be passed through to the operating segments – especially our capital market costs (among other things year-end closing audits, investor relations and shareholders' meeting costs); in addition, the expenditure for employee investment programs (in accordance with IFRS 2) burden the MSD operating expenditures since 2005. This burden is 0.1 Mio€ and has no effect on liquidity.

- **MSD – Other expenditures** contains expenses in the amount of just at 0.5 Mio€ in connection with organizational adaptations caused by the market. In deviation from the consolidated income statement in accordance with IFRS, the following expenses are summarized in this item for greater transparency of operating capacity. In the consolidated income statement they are reported under cost of sales at 0.1 Mio€ and research and development expenses and administrative expenses at 0.2 Mio€ each.

- **MSD expenses** are further impacted as a result of the write-down of goodwill.

- **MSD financial expenses** in the amount of around 22.4 Mio€ are primarily the result of the divestiture loss in connection with the freenet shares previously held by TELES, all of which were sold in August 2008. The previous year earnings correspond in particular to the dividend payment in the amount of 21.4 Mio€ which was received in 2007 as well as interest income on cash funds.

- The **MSD EBT** is negative at -29.3 Mio€, in particular as a result of the aforementioned reduction in value of goodwill as well as the financial expenses.

Explanations for the TIPR division:

Revenues and Earnings by division in Mio€	2007	2008	Variation[4] 2008 vs. 2007
TIPR division			
Revenues	**0.0**	**0.0**	**n.a.**
Gross profit	**0.0**	**0.0**	**n.a.**
General and administrative expenditures	4.2	2.6	-40%
EBITDA (Earnings before interest, taxes, depreciation and amortization)	**-4.2**	**-2.6**	**40%**
Operational depreciation and amortization	0.0	0.0	n.a.
EBIT (Earnings before interest and tax)	**-4.2**	**-2.6**	**40%**
Financial result	0.0	0.0	n.a.
EBT (Earnings before tax)	**-4.2**	**-2.6**	**40%**

- **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 introduced in early 2006. As expected, the TIPR expenditures (2.6 Mio€) have decreased compared to the previous year. They are especially connected to the legal enforcement of our VoIP patents and new filings of additional patents in the US (2.4 Mio€).

- **2009 outlook:** To improve the cost structure, it is basically agreed with the majority shareholder that all costs in connection with the patent disputes (TIPR) are being assumed by the majority shareholder or one of his investment companies with effect from January 2009. The corresponding contract is currently agreed upon.

[4] The percentage change is calculated on the basis of unrounded euro amounts.

Explanation for the TCS segment:

Revenues and Earnings by segment in Mio€	2007	2008	Variance[5] 2008 vs. 2007
TCS segment			
Revenues	**19.2**	**23.8**	**24%**
Cost of sales	9.6	12.9	34%
included therein: depreciations	*0.2*	*0.4*	*147%*
Gross profit	**9.6**	**10.9**	**14%**
Gross profit margin	50%	46%	-4%
Sales and marketing expenditures	6.0	7.3	21%
Research and development expenditures	5.6	6.0	8%
General and administrative expenditures	2.1	1.9	-4%
Other income	0.2	0.3	167%
Other expenditures	0.1	0.1	-44%
EBITDA (Earnings before interest, taxes, depreciation and amortization)	**-3.8**	**-3.7**	**3%**
Operational depreciation and amortization	0.7	0.8	29%
EBIT (Earnings before interest and taxes)	**-4.7**	**-4.9**	**-6%**
Financial result	0.2	0.0	n.a.
EBT (Earnings before taxes)	**-4.5**	**-4.9**	**-11%**

- **Strategic overview:** As explained above, acquisitions were made in July 2007 and the beginning of 2008 to support especially the objective of developing the TCS segment (TELES Communication Systems) into an international global NGN-player. The acquisitions strengthen the research and development activities (R&D) and also round out the business portfolio more quickly 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:** In comparison with the previous year, sales were increased by 24% to 23.8 Mio€. This represents the highest sales since the year 2003. With respect to the product lines, however, sales developed variously. Thus sales of NGN products initially lagged behind expectations; in contrast, sales of access gateways (mobile gateways and VoIP gateways) were significantly above the previous year value. This is the result, among other things, 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.

- **TCS gross profit margin:** As a result of the changed product mix, the gross profit margin declined to 46% in 2008. The absolute gross profit, however, increased by 14% from 9.6 Mio€ to 10.9 Mio€.

- The 2008 **TCS operating expenditures** as expected increased on an absolute basis by 13% – but less than proportionately to sales – due to the aforementioned

[5] The percentage change is calculated on the basis of unrounded euro amounts.

acquisitions. Moreover, in accordance with the accounting standards to be applied under IFRS, the development expenditures of the newly acquired product segment for “Class 5 Softswitch” solutions were capitalized. These expenditures are to be amortized proportionately over the expected useful life.

- Thus, the **TCS EBITDA** improved only marginally by 0.1 Mio€ to -3.7 Mio€ in comparison with 2007. The **TCS EBIT 2008** decreased marginally compared to the prior year due to the acquisitions in Israel (2007) and Austria (2008) and the depreciations on intangible assets associated therewith.

B.1 Cash flow

The 2007/2008 cash flow comparison is shown in the following table.

Cash flow in Mio€	**2007**	**2008**
Operating Activities	-11.0	-11.2
Investing Activities	19.7	28.2
Financing Activities	-42.2	-22.0
Net increase/decrease of cash and cash equivalents	-33.5	-5.0
Balance at the end of the business year	7.6	2.6

The 2008 **outflow from operations** in the amount of approximately -11.2 Mio€ corresponds essentially with the negative EBITDA (-10.6 Mio€) and to the change in working capital.

The 2008 **inflow from investing activity** of 28.2 Mio€ is the result of the balance from the sale of the freenet shares and funds outflows in the framework of the acquisition of a division in Austria as well as investment activities customary for the operation.

The 2008 **outflow from financing activity** in the amount of -22.0 Mio€ corresponds essentially to the dividend payment of 21.1 Mio€ made by TELES to the shareholders in October 2008.

Cash on hand at the end of 2008 declined in accordance with the above inflows and outflows to 2.6 Mio€. Taking into consideration the working capital, management assumes that liquidity is adequate for meeting the sales planning. In the event planning goals as already discussed are missed or to the extent as a result of the financial crises interim financing requirements nevertheless evolve, various conditional contracts have already been entered into with the majority shareholder and additional ones have been prepared which should eliminate financing gaps. Please refer also to the above statements.

B.2 Asset and capital structures

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

Asset and capital structures in Mio€	12/31/2007	12/31/2008
Cash and cash equivalents	7.6	2.6
Trade accounts receivable	4.9	6.4
Inventories	5.2	6.6
Fixed assets and intangible assets	4.1	5.6
Other assets	62.5	3.2
Liabilities	14.0	12.4
Equity	70.3	12.0
In % of total assets	83%	49%
Total assets	84.3	24.4
Additions to fixed assets and intangible assets	1.5	2.7

As a result of strong sales in December, the balance **of trade accounts receivable** increased as of the 2008 year end by a total of 1.5 Mio€.

The 2008 **inventory** level increased in comparison with the previous year by 1.4 Mio€. This is mainly a result of disproportionately increased sales in the product area of access gateways which requires quicker and thus higher product availability.

The 2008 **fixed assets** increased compared with the previous year mainly as a result of the acquisition of the division in Austria through intangible assets (goodwill, 1.8 Mio€; acquired technology and customer relationships, total of 0.5 Mio€). In addition, the TELES business continues to be characterized by extremely small tied-up capital requirements.

The 2008 **Other assets** declined mainly as a result of write-downs on the value of the previously held freenet shares as well as its sale in August 2008.

The primary circumstances resulting in the reduction of **liabilities** as of the end of 2008 in comparison with the end of 2007 are the expiration of the employee ownership program (convertible bonds) which was set up in the year 1998 and the pro-rata payment in business year 2008 of the earn-out liabilities.

The **corporate equity** at the end of 2008 is 12.0 Mio€ despite the dividend payment made in the reporting year in the amount of a total of a good 21 Mio€ and the 2008 operating losses. This is equivalent to an **equity rate** of **49%**.

B.3 Employees of the TELES Group

TELES employed 262 employees on December 31, 2008. The number of employees thus fell in comparison with the 2007 year end by 31. The decrease in number of employees in comparison with the previous year is mainly attributable to the majority sale of the Broadband Internet Access Services division (TWBI segment).

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 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 proceedings 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 proceedings 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 proprietary rights were questioned at the German and the European patent office in connection with the patent infringement proceedings. TELES also won its case against DTAG/SES in first instance during 2005 with a comparable result in the utility patent proceedings 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. TELES has in the meantime filed an explicitly authorized appeal at the BGH [Bundesgerichtshof = Federal Court of Justice]. On July 29, 2008 the BGH reversed the decision of the federal patent court and remitted the case to that court. In the end, the result of this lawsuit will not 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 confident of winning the lawsuit that have not yet been legally decided. TELES and its legal advisers continue to see no risks in these proceedings.

TELES acquired a 33.3% investment in a newly founded communication service company in June 2003. This company, headquartered in England, no longer generates any business activity. It originally rendered telecommunication services for phone connection network operators in Germany by connecting phone calls from the wired networks cost effectively to mobile networks of the German cellular phone network operators until the cellular phone cards used were disconnected by the cellular phone network operators. The company was not able to prevail against the affected cellular phone network operators in its interim injunction proceedings for the purpose of 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, the GSM gateway operator in which TELES holds an interest claimed the damages caused by the disconnection of the cellular phone cards as part of the principle proceeding by filing a counter claim. In its decision of March 13, 2008, the Oberlandesgericht (OLG=Higher Regional Court) Düsseldorf, in contrast to the judgment of the Landesgericht Düsseldorf in the first instance which affirmed the complaint, in the second instance only partly affirmed the complaint of the mobile telephone operator and enjoined the use of the SIM cards of the mobile telephone operator in the framework of end customer contracts in GSM gateways used by carriers. The complaint extending beyond this was rejected. Upon the counter claim, the OLG, however, found that the Company is entitled with respect to the mobile telephone operator to a right to supply of SIM cards at appropriate compensation and terms of use. Moreover, a claim against the mobile telephone network operator for damages, which resulted from the switching off of the SIM cards, was admitted on its merits in favor of the Company. The decision is not legally effective yet and both parties have filed with the Bundesgerichthof for the expressly permitted appeal against the decision on points of law. Although case law in the issue concerning the legality of the switching off by the mobile network operator of SIM cards utilized in GSM gateways has made an about-face in favor of TELES, the prospects of success for suit at the appeal level before the Bundesgerichthof are uncertain. However, this situation does not establish a high financial risk.

In addition, the same cellular phone operator filed a suit against TELES AG and TELES NetSales GmbH in 2005 to desist from offering and distributing GSM gateways for carrier networks, whereupon TELES AG filed a countersuit against relevant general terms and conditions clauses of the mobile telephone operator with respect to a prohibition of the use of its SIM cards in GSM gateways. In its judgment of March 13, 2008, the OLG Düsseldorf in the second instance rejected both the complaint and the counter complaint, as had the LG Düsseldorf already. Both parties have filed the expressly permitted appeal on points of law with the BGH. 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. Based on the decision in favor of TELES in the second instance, TELES and its legal advisers consider 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.

In the course of the sale 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 bankruptcy administrator of KPNQwest Germany GmbH i.In. against STRATO Medien AG. As presented in the management report of the previous year, STRATO reported an amount of € 5.4 million under payables as of December 31, 2004, which was already reduced by an amount of € 3.2 million by a reduction that TELES considers as justified under any circumstances. All pending proceedings were terminated by mutual agreement with the out-of-court settlement agreement of December 15 and 16, 2008. The settlement amount was paid by STRATO to the bankruptcy administrator of KPNQuest Germany i.In. (in bankruptcy) on December 29, 2008. Taking into consideration the aforementioned accruals, after the billing of all court and attorney costs, there remains more than Mio€ 1 which is to be paid out by freenet AG (as the case may be, through STRATO) to TELES and has already been reflected through profit and loss on the financial statements for 2008.

The appeal proceedings in the IntraStar patent infringement proceedings against Quintum Inc. and its domestic marketing partners initiated by the losing complainants against the first instance judgment pronounced on November 11, 2005 in favor of TELES were suspended until the legally binding conclusion of the current nullity proceedings against the IntraStar patents.

In the meantime, the appeal by TELES in the framework of the first lawsuit against AVM GmbH and its marketing partners was dismissed by the OLG Karlsruhe with a decision on June 28, 2006. TELES had filed a complaint against the denial of leave to appeal in the above proceedings. The complaint of TELES was dismissed in both proceedings by the BGH on February 3, 2009. The proceedings thus are terminated. The cost risks resulting from them are already adequately covered in the financial statements.

Another lawsuit filed 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 patents of the lawsuit. This is the same for the appeal proceedings against the first instance decision by the district court Mannheim on June 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 the German and the German part of the European IntraStar patent of TELES on April 5, 2006 in the patent nullity proceedings of Cisco and Quintum against this patent or this part of the patent of 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. In the meantime, an expert was appointed in the appeal proceedings before the BGH. TELES is confident that the patents will in the end be upheld. TELES and the legal consultants see no risks in these proceedings.

In the patent dispute in the United States between TELES and Cisco regarding the IntraStar patents, the United States District Court in Washington D.C. liftet the stay of the proceedings on March 4, 2009. On March 23, 2009, the court pursuant to a petition by TELES handed over the proceedings to the United States District Court in Delaware. Now all current patent infringement proceedings in the United States are pending in Delaware. All proceedings are right now in the stage of pretrial discovery.

In October 2008, the USPTO (United States Patent and Trademark Office) declared two claims of a patent in reexamination to be effective. With respect to other patent claims, which are still in reexamination, TELES along with the U.S. attorneys are appealing these decisions.

Based on the first US IntraStar patent, TELES also filed a patent infringement suit in the United States 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. Court settlement proceedings (“ADR conference”) before a magistrate judge, which is mandatory in Delaware, took place on November 7, 2008, with a second session on January 13, 2009. A settlement has not been achieved.

On January 27, 2009, the USPTO granted a third IntraStar patent (patent number US 7.483.431) in favor of TELES. On January 29, 2009, TELES filed a patent infringement complaint with the United States District Court in Delaware against Cisco Systems on the basis of this patent.

On February 4, 2009, Cisco Systems for its part filed a nullity suit and an action for a declaration of non-infringement before the United States District Court in Washington D.C. against TELES with respect to these new IntraStar patents. On March 23, 2009, the court rejected this complaint for formal reasons, referring to the complaint first filed by TELES in Delaware.

On May 13, 2009, the Court in Delaware coordinated the three pending patent cases with a scheduling order, and set all three cases on the same schedule with a trial date for August 2010.

Since under US law, as a rule there are no claims of the opponent for reimbursement of attorney costs even in the case of defeat, TELES and its legal advisors currently do not see any relatively high risks in these proceedings other than the defense costs which TELES will incur.

In July 2007, the British media corporation British Sky Broadcasting Group plc (BskyB) 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 (among others "SKY") through the advertisement of the skyDSL services in the UK. TELES initially defended itself against the lawsuit. In January 2008, TELES spun off the skyDSL service with a majority divestment of TELES Wireless Broadband Internet GmbH, and sales in the UK in the meantime were suspended. At the beginning of November, a settlement was reached with BskyB for termination of the proceedings. In the past year, adequate accruals were formed for the resulting settlement payment. With the pay-out of the settlement amount to BskyB, the proceedings have now been ended.

D. Research and development activities

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

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

- The further development of a high-performance soft switch solutions (TELES-MGC = TELES Media Gateway Controller) based on a cluster technology, which provides the customer with a high-performance, redundant solutions scalable at any time to adjust to investment decisions. The solution has been successfully utilized worldwide 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 beginning of 2008 to expand the NGN portfolio. The take-over permits TELES to achieve sales in this segment already 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.

- In the access gateways segment the product portfolio and the R&D resources were expanded with respect to quantity and quality. In this way new markets were and are being developed.

- The domestic protocols and the region-specific functions are currently under development 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. This will be continued accordingly in order to react flexibly and quickly to market demands.

- Perspectives, strategies and developments for future products will be accelerated by cooperations 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, which are the result of completed research in the CPE segment.

E. Special events after the closing of the business year

To close any funding gaps, various conditional contracts were already concluded with the majority shareholder after the balance sheet date; further contracts are additionally prepared.

Furthermore, TELES sold all of the own shares held after the balance sheet date. Thereof – as published – an amount of 1,353,222 shares, i.e. 5.81% of the issued stock, were sold at a price of € 0.50 per share to the majority shareholder Sigram Schindler Beteiligungsgesellschaft mbH outside of the stock exchange.

F. Risks for future business developments

As discussed in Section A, due to the world economic financial crisis TELES cannot completely exclude the possibility of being directly or indirectly affected by it. Thus we cannot exclude the possibility of effects, among others things, on unexpected uncollectible receivables and also instances of falling short of planning goals.

To improve the cost structure, it is basically agreed with the majority shareholder that all costs in connection with the patent disputes (TIPR) are being assumed by the majority shareholder or one of his investment companies with effect from January 2009. The corresponding contract is currently agreed upon.

Furthermore, all costs in connection with the evaluation of the market environment for an additional business division with “Customer Premises Equipment” are assumed by the majority shareholder or one of his investment companies with effect from January 2009.

To improve the liquidity position and in order to be able to eliminate any gaps in financing, various limited contracts have been entered into with the majority shareholder which in part already led to an increase in liquidity. The funds should be sufficient to cover any possible additional capital needs which prospectively would result from the missing of the sales goal (according to the master plan) by up to around 25% (this corresponds approx. to the revenues of 2008).

Thus the Management considers for the time being the financing of the operating activity to be assured for the next 12 months.

However, the existence of the Company could be threatened amongst others if the expected revenues for the coming months according to the master plan are missed by more than 20% in the future and if in such a case no additional funds can be raised from the circle of shareholders.

Regarding operating risks, reference is fundamentally made to the generally applied risk management as described below.

The development and utilization of economic opportunities and potentials comes with risks that cannot be avoided. It is of great importance for success of the enterprise to identify risks early and to actively work to minimize them.

In view of this, § 91 para. 2 Aktiengesetz (AktG) [German Stock Companies Act] obligates the management board "to execute appropriate measures and especially to establish an early monitoring system to identify developments that can endanger the continued existence of the corporation". For this purpose, the TELES corporation uses a number of coordinated risk management and control systems.

This is why the TELES corporation has established a risk management system integrated into operating processes. The subsidiaries are responsible for scope, format and content of their respective risk management systems. Corporate management is responsible for the monitoring and the coordination of the cross company risk management. The risk reporting of the subsidiaries to corporate management includes the regular and systematic identification, quantification and evaluation of the relevant risks and security systems. The evaluation of the risks is geared to the size and the probability of occurrence for potential damages.

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

Business risks

The business environment is always impacted by regional and economic conditions. In addition, the effects of the “financial crisis” cannot be ruled out. Uncertainties regarding the economic - and sometimes political - conditions can impact the demand for products and services of TELES negatively and can make planning and forecasting difficult.

The financial position of customers can also have a negative impact on sales and earnings for the business segments. The sales share of the largest individual customer of TELES was almost 20% during 2008. The next 10 largest customers contributed approx. 37% of the sales. The sales share of 20% for a single customer in 2008 represents the business of TELES with the surprisingly successful marketing partner in North America. On the other hand, however, there are also increased trade accounts receivable with this marketing partner. Some of these elevated receivables are the result of individually agreed installment sales targets in accordance with its end-customer sales which primarily are being serviced as agreed. Furthermore, they are attributable among other things to higher sales in December. In view of this extensive business relationship, its published economic circumstances in combination with supplementary information are reviewed and evaluated on a regular basis. Beyond this, there was no "cluster risk" in the receivables. The creditworthiness of new customers will always be reviewed and frequently that of existing customers is also reviewed. In addition, the corporation works - as much as possible - with down payments. For the foreign businesses, commercially available letters of credit or payment guarantees are used - especially for businesses outside Europe. As of the end of 2008, around 7% of receivables are supported with federal guarantees. In individual cases we – to the extent needed for entering into such risk exposures/obligations on the basis of the amount as well as the payment targets and their continual evaluation – perform detailed evaluations of the economic relationships, as has already been done in the case of our North American marketing partner, on the basis of current actual figures as well as also more in-depth information of the customer.

The worldwide markets for the TELES products represent 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 necessary to develop and implement products fast to be in a position to take advantage of the opportunities that present themselves. The markets serviced by TELES are especially 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 develop. The earnings situation depends to a large extend 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 may not be functional or may not be accepted in the market place or may not be introduced in time.

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

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

Regulatory risks

Official regulations or changes of regulations can in individual cases impact operating costs significantly. In addition, changes of tax laws or regulations can result in higher tax expenses and/or can impact the deferred tax assets and liabilities.

TELES is exposed to a number of risks in connection with lawsuits, which TELES is currently involved in or could be involved in the future. In addition to the descriptions in section C about the current litigation, the involvement in lawsuits as part of the normal business activities can result in product liabilities, quality problems and intellectual property rights infringements. It cannot be guaranteed that the events of these and other litigations will not significantly damage the business activities, the image or the brand name. Liability insurance protection has been established for certain legal risks with coverage amounts that are viewed by management as adequate and that are customary in the industry. Accruals are established for litigations if it is probable that an obligation will develop and an adequate estimate of the amount is possible.

Other operative risks

A risk of hostile interferences with its TK networks/servers exists for all TELES products/services, which cannot be prevented completely. We are protecting ourselves by the continuous improvement of the security of our systems.

Foreign currency risks
Currency fluctuations can result in undesired and unforeseeable operating profit and cash flow volatilities. The risk will be reduced by settling business transactions as far as possible in the functional currency. For those cases where settlements in the functional currencies are not possible, TELES reserves the right to utilize – to the extent so doing makes sense – hedging instruments such as forward contracts, currency options as well as stop-loss orders. Future currency exchange rate changes can have an impact on prices for products and services and on the profit margin.

Interest risks
The interest risk of TELES is only the result of interest bearing investments. The TELES investment strategy is focused primarily on the liquidity aspects, which means the capability to pay these investments back.

Share price risks
As a result of the sale of the previously held freenet shares in August 2008, TELES now holds only just at 20% of the not publicly traded GRAVIS Beteiligungs AG as well as – after dilution – just at 8% in skyDSL Technology GmbH (emerged in the course of the sale of the former TWBI GmbH, i.e. the skyDSL business). Since none of the shares are admitted for public trading, no special hedging strategy can be utilized.

G. TELES growth expectations

We would like to take the opportunity here to point out that we do not provide any guarantee for the growth expectations that are described in the following. We refer to sections C and F for the risks of the current and future developments. Impacts on the share price of TELES AG are possible if risks 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>

The 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 also demands an advanced development for the networks of the future - NGN (Next Generation Networks).

As part of the divestiture of our WebHosting business at the end of 2004, the purchase of TELES's 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 demonstration case, it should be possible to acquire additional so-called Tier 2 carriers as 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 at so-called

Tier 3 and Tier 4 carriers. First sales successes for MGCs can be seen or they are already realized.

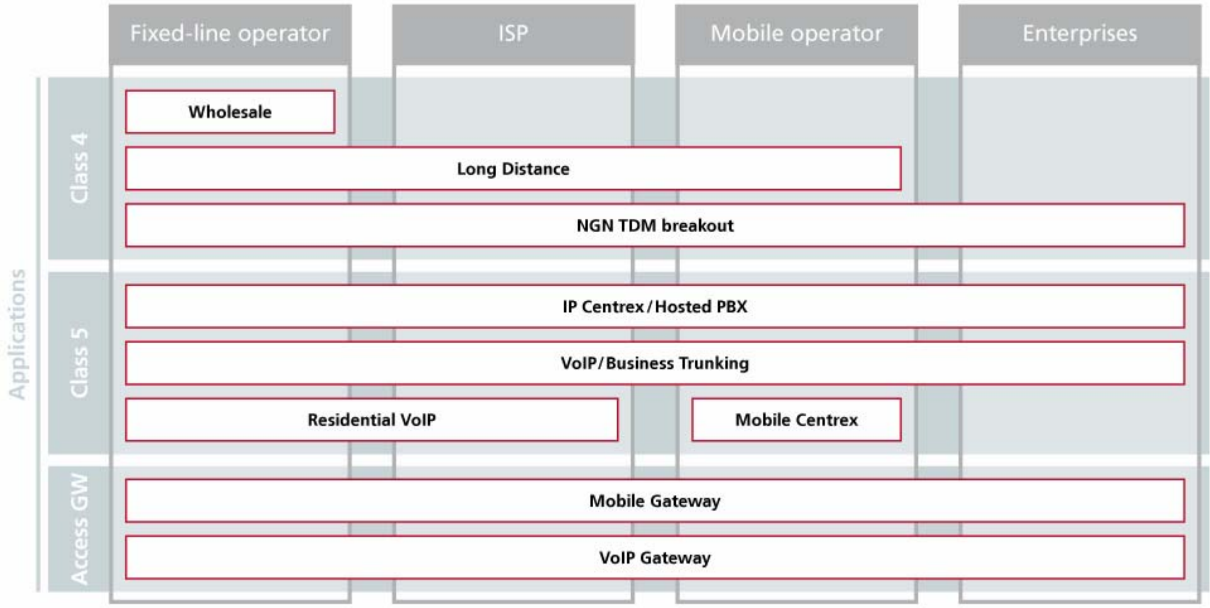
Based on a variety of market studies (e.g. Infonetics), the following developments are expected with respect to the NGN business:

- Positive growth in the NGN environment was experienced in the year 2007/08. "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 to €4.5 billion in 2009.
- Class 4 applications are disproportionately included in current VoIP investments by service providers, but a shift to Class 5 applications is assumed. Thus, it is expected that in the next few years the investments in Class 4 applications will increase by around 20% and in Class 5 applications by around 24% annually.

As of January 11, 2008, TELES has acquired the sub-segment "MissisSIPpi" from Kapsch AG in the framework of an asset deal to be in a position to participate in the high growth business with so-called Class 5 soft switch solutions. Based on this rounding out of its portfolio 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. Several customer contracts have proven that with the product portfolio consisting of AGW, C4 and C5 solutions, TELES is well equipped for the future. Particularly with solutions combining IP Centrex (C5 solutions) with the access gateways, TELES is able to implement inexpensive net migrations that take into consideration existing infrastructure. With these solutions, TELES makes it possible for its customers to reduce costs quickly and simply and at the same time to support them in the switch from CAPESX to OPEX driven business models. Particularly in times of the financial and economic crisis, this is a very important decision driver.

TELES has started in 2007 to work increasingly with partners who can complement the in-house portfolio of TELES well in order to better utilize the entire market potential. As an example, we refer to the company Audiocodes Ltd. and Fraunhofer Institut (Fokus). This supports our expectation that we will successfully participate in this strongly growing market. In 2008, TELES very successfully further expanded its international business, as documented by a sales increase of 24%. For the years 2009 and 2010, TELES sees the possibility for disproportionate growth, in particular in the markets of North and South America. The reason for this is the very advanced market development for IP Centrex and Hosted PBX solutions in North America and the market opening for VoIP solutions in Latin America. In addition, the North American market is already being very successfully addressed by the marketing partner of TELES.

In addition, the acquisition of the renamed TELES Israel in 2007 put TELES in a position to complete its product portfolio in the access gateways product segment. In addition, a strategic distribution partnership for the North American market was established with the American sales partner, which developed positively beyond expectations. TELES is confident that this development will continue in 2009.



In view of the expected dynamic growth of the market in the technologies and markets on which TELES focuses as well as the competitive situation that has been fragmented up to the present, TELES -- with its many years of experience and expertise in the area of telecommunications, with its know-how and its patents in the VoIP field, with its high degree of flexibility and innovativeness which among other things has led to around 40 patent families, and with its base of several hundred customers in 25 countries -- should be able to acquit itself well against the competition – which is regionally quite diverse -- of new, mall and/or established, large competitors.

In view of the estimation of marketing and industry development discussed above and the possibilities for application and the success factors of the TELES product portfolio, TELES believes based on the approved master plan a sales growth potential in comparison with the prior year of about 35% is possible with improved - even if still negative - earnings for 2009 and for 2010 at least break-even with at the same time further growth in sales. There are of course risks and uncertainties in business planning. It is based on the current assumptions, expectations, estimations and projections of TELES, which were taken into consideration conscientiously and on the basis of prudent business principles. To this extent the plans cannot be proven and TELES and the Management Board do not assume liability for them. Moreover, there remain forecast uncertainties since the possibility cannot be ruled out that TELES could nevertheless be affected by the financial crisis.

<u>TELES Intellectual Property Rights (TIPR Division)</u>

As it is basically agreed with the majority shareholder that all TIPR expenses are being assumed by the majority shareholder or one of his investment companies with effect from January 2009, more detailed information will be omitted in the future. Please also refer in regard to this to the discussion under Section B (Special events of 2008).

TELES Customer Premises Equipment (TCPE Division)

In view of the fact that beginning January 1, 2009 the costs are being assumed by a third party, more detailed information will be omitted in the future. Please also refer in regard to this to the discussion under Section B (Current structure of TELES).

The following provides a summary of section G of the 2008 Management Report of TELES AG. The TELES Management Board assumes that the technical/economic/personnel alignment of the TELES group will be sufficient to turn the opportunities described above into entrepreneurial success during the future years.

H. Main features of the compensation system for the management board and the supervisory board

The entire compensation for the members of the TELES AG management board - with the exception of the compensation of the chairman of the management board - consists of a fixed and a variable component and a compensation component designed on a long-term basis (stock option program). The annual variable compensation is determined by the degree of achievement for the targets established with the approval of the supervisory board at the start of the year. During the last few years, the variable compensation was on average equivalent to approx. one third of the entire annual compensation. The stock options listed in detail in the appendix are vested on a pro-rata basis in accordance with the qualifying period served. Exercise is only possible after the TELES share price increase exceeds at least 10% per year based on the higher reference index (DAX and TecDAX). The compensation for the chairman of the management board is restricted at present 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 in case positive result contributions are achieved and it is limited to the amount of the basic compensation.

Details can be found in the appendix.

I. Information in accordance with § 315 para. 4 of the Handelsgesetzbuch [German Commercial Code]

Composition of subscribed capital

The fully paid-in equity capital consists of 23,304,676 no-par 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 does not have knowledge of any restrictions with respect to voting rights or transfer of shares.

Direct or indirect interests 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 does not know of any other direct or indirect investments, which exceed 10% of the voting rights.

Shares with special rights; control authorizations

There are no shares with special rights that provide control authority.

Voting rights control

No voting rights control in accordance with § 315 para. 4 No. 5 HGB takes place.

Regulations for the appointment and dismissal of the members of the management board and for the change of by-laws

In accordance with § 6 of the by-laws, the management board must consist of at least two members. The supervisory board determines the number of management board members in the framework of the above regulation as well as appointment and dismissal. It is also responsible for the assignment of one management board member as the chairperson. For other subjects, the assignment and dismissal of management board members is regulated in §§ 84, 85 AktG.

Changes of the by-laws must be made in accordance with §§ 179, 133 AktG. In accordance with § 14 of the by-laws, the supervisory board is authorized to approve changes to the by-laws that are limited to the version thereof.

Management board authority regarding the opportunity for the issue or the buy-back of shares

The management board was authorized by the decision of the shareholders' meeting of August 29, 2008 to increase the equity before August 28, 2013 once or several times by up to 11,652 T€ against cash and in-kind transfers (approved capital 2008/1) with approval by the supervisory board.

The conditional capital 1997/I was created by the decision of the shareholders' meeting. It was 1.947 Mio€ as of December 2008 and was used to fulfill the options for a total of 1,946,591 individual shares. The conditional capital 1997/I will only be effective if the rights of issued convertible bonds are exercised or if issued stock options for the employee stock option program are exercised.

In addition, the decision of the shareholders' meeting created the conditional capital 2001/I. It only becomes effective if stock options from the employee stock option program are exercised. As of December 31, 2008, the conditional capital 1997/I was 384,000 € and it was divided into 383,876 individual shares.

The management board was authorized by a decision of the shareholders' meeting to acquire own shares of the corporation of up to ten percent of the TELES AG equity for other purposes than security trading. In addition, the management board was authorized to resell the acquired own shares 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 mergers or during 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 linked to the respective market price. In addition, the corporation has the right to support convertible bond 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 retire own shares of TELES AG, which were acquired based on this authorization, and this retirement or its implementation does not require another decision by the shareholders' meeting. The retirement authorization can be exercised in total or in parts.

Important agreements by the corporation, which are subject to the conditions of a change of control based on a takeover bid

There are no such agreements.

Compensation agreements of the company, which were made with management board members or employees in case of a takeover bid

There are no such agreements.

Berlin, June 15, 2009

The management board of TELES AG Informationstechnologien

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CONSOLIDATED BALANCE SHEET

(in T€, except number of shares)	Note	December 31 2007	December 31 2008
ASSETS			
Non-current assets			
Tangible assets	5	1,533	1,729
Intangible assets	6	2,599	3,830
Deferred tax assets	19	9	26
Other financial assets	7, 18	59,160	705
		63,301	**6,290**
Current assets			
Inventories	8	5,214	6,626
Trade accounts receivable	9, 18	4,888	6,396
Other financial assets	18	0	1,355
Receivable from income taxes	19	1,241	125
Other current assets	10	803	1,043
Cash and cash equivalents	25	7,625	2,589
Assets of the disposal group classified as held for sale	22	1,239	0
		21,010	**18,134**
Total assets		**84,311**	**24,424**
LIABILITIES			
Equity			
Common shares:		23,305	23,305
Issued: 23,304,676 and 23,304,676 at 12/31/07 & 08, resp.			
Outstanding: 21,130,183 und 21,130,183 at 12/31/07 & 08, resp.			
Additional paid-in capital		6,625	6,732
Other comprehensive income		2,871	0
Unappropriated retained earnings		59,072	3,408
Treasury stock (2,174,493 and 2,174,493 at 12/31/07 & 08, resp.)		-21,702	-21,702
Other equity changes		117	280
Equity attributable to shareholders of the parent company		**70,288**	**12,023**
Minority interests		**1**	**0**
Total equity	11	**70,289**	**12,023**
Non-current liabilities			
Convertible debt	12, 18, 23, 27	216	0
Non-current accrued liabilities	17	1,615	1,804
Deferred tax liabilities	19	21	18
Other non-current liabilities	13	1,679	1,166
		3,531	**2,988**
Current liabilities			
Convertible debt	12, 18, 23, 27	857	216
Trade accounts payable	14, 18	1,750	3,047
Accruals for income taxes	17, 19	480	135
Other accruals	17	1,258	876
Deferred revenues	15	548	310
Other current liabilities	16, 27	4,848	4,829
Liabilities of the disposal group classified as held for sale	22	750	0
		10,491	**9,413**
Total liabilities		**14,022**	**12,401**
		84,311	**24,424**

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CONSOLIDATED STATEMENT OF INCOME

(in T€, except for share related information)	Note	January 01 - December 31 2007	 2008
Revenues	28, 29	**19,244**	**23,781**
Cost of sales	8, 28	**9,556**	**12,851**
Gross profit		**9,688**	**10,930**
Sales and marketing expenditures		6,153	7,546
Research and development expenditures	6, 31	5,944	6,589
General and administrative expenditures	31	9,951	8,489
Impairment of goodwill	6	0	2,430
Expenditures for employee stock option plans	23	181	107
Other income	20	245	549
Other expenditures	20	580	739
Operating loss		**-12,876**	**-14,421**
Financial earnings	18, 21	22,791	703
Financial expenditures	18, 21	281	600
Other result from investments	18, 21	0	-22,436
Earnings before income taxes	19	**9,634**	**-36,754**
Income tax expenditures	19	1,561	-968
Earnings from continued operations		**8,073**	**-35,786**
Earnings from discontinued operations, net of tax	22	-5,563	1,251
Net income/ loss		**2,510**	**-34,535**
This can be divided into:			
Shareholders of the parent company		2,525	-34,534
Minority interests		-15	-1
Earnings per share from continued operations			
Undiluted		0.38	-1.69
Diluted		0.38	-1.69
Earnings per share, total	24		
Undiluted		0.12	-1.63
Diluted		0.12	-1.63
Number of underlying shares			
Undiluted		21,130,183	21,130,183
Diluted		21,194,513	21,130,183
Additional information for the consolidated financial statement (unaudited):			
EBIT[1]		-12,876	-14,421
EBITDA[2]		-12,043	-10,623

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

Consolidated financial statement of TELES AG Informationstechnologien for the 2008 Business Year

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STATEMENT OF CHANGES IN 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 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 value of assets available-for-sales, 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**
Net loss for the year, attributable to parent company shareholders or minority interests					-34,534			-1	-34,535
Currency translation							163		163
Employee stock option plans			107						107
Market value of assets available-for-sales, net of tax				-2,871					-2,871
Dividend payment					-21,130				-21,130
December, 31 2008	**23,304,676**	**23,305**	**6,732**	**0**	**3,408**	**-21,702**	**280**	**0**	**12,023**

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CONSOLIDATED CASH FLOW STATEMENT

	January 01 – December 31	
(in T€)	**2007**	**2008**
Cash flow from operating activities:		
Net income/ loss	2,510	-34,535
Adjustment of the net income/ loss to the operating cash flow:		
Earnings from final consolidations	-95	0
Earnings from business divisions held for sale	50	0
Income taxes	1,569	-968
Financial result:		
Received dividend	-21,390	0
Loss on financial instruments	0	22,954
Interest result	-1,276	-621
Miscellaneous	150	0
Employee stock option plans	181	107
Allowance for doubtful accounts	-354	978
Income from government grants	0	-40
Depreciations for tangible fixed assets	1,009	999
Amortization on intangible assets	141	2,902
Losses from divestiture of assets	-41	6
Effects from exchange rate changes with no impact on payment	24	17
Changes of other balance sheet items (without changes due to company acquisitions and divestitures):		
Inventories	1,028	-1,797
Trade accounts receivable	-1,499	-2,486
Other current assets, accruals and deferrals	1,762	-1,544
Current liabilities	-5	813
Accruals and other liabilities	2,366	-391
Received income taxes	3,435	2,245
Paid income taxes	-1,637	-168
Received interest	1,238	529
Paid interest	-114	-247
Cash outflow from operating activities	**-10,948**	**-11,247**
Cash flow from investing activities:		
Repayment of loans from employee stock option plans	197	152
Third and related party loan	0	-473
Proceeds from sale of financial instruments	0	32,657
Proceeds from sale of fixed assets	187	3
Acquisition of financial instruments	0	-5
Acquisition of fixed assets	-892	-535
Acquisition of intangible assets	-117	-1,662
Received dividend	21,390	0
Recovery rights	319	268
Cash balance of the disposal group classified as held for sale	-331	0
Acquisition of subsidiaries or other business units	-1,052	-2,200
Cash inflow from investing activities	**19,701**	**28,205**
Cash flow from financing activities:		
Paid dividend	-42,260	-21,130
Cash outflow from the return of convertible employee bonds	-4	-857
Other financial activities	17	-7
Cash outflow from financing activities	**-42,247**	**-21,994**
Net change of cash and cash equivalents	-33,494	-5,036
Cash and cash equivalents, at the beginning of the year	41,119	7,625
Cash and cash equivalents, at the end of the year	**7,625**	**2,589**
Cash and cash equivalents include money market funds	131	137

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") are active in the area of innovative telecommunications technology and services: TELES is a high performance supplier of equipment, solutions and services for fixed network and fixed-mobile convergence and is a next generation network (NGN) service provider.

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

The Company employed on average 265 employees during the business year (previous year: 277). The employees worked in the sales and marketing (51, previous year: 64), research and development (122, previous year: 113), procurement and logistics (43, previous year: 52) and administration (49, previous year: 48) departments.

NOTE 2: SUMMARY OF IMPORTANT ACCOUNTING PRINCIPLES

Basis for the presentation

Pursuant to § 315a HGB, the consolidated financial statements of TELES dated December 31, 2008 were prepared in accordance with the effective guidelines of the International Accounting Standards Board (IASB), London. All binding IASs or IFRSs as well as interpretations of the International Financial Reporting Interpretations Committee (IFRIC), effective in the EU as of December 31, 2008 were used.

On the basis of the assessment of Management, the continued existence of the enterprise is viewed as assured and the consolidated financial statements were prepared on the basis of the "going-concern" assumption. However, it is possible that the existence of the Company can be jeopardized, among other things, if the expected sales for the coming months according to the master plan are missed by more than 20% in the future and in such case no additional funds can be obtained from the circle of shareholders.

Listed below are standards, interpretations and changes, the application of which was mandatory for the first time for the completed business year:

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

IFRIC 11 deals 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, for which the company issues treasury stock or for which it must acquire shares from third parties, must be treated. IFRIC 11 requires that share-based payments, for which the parent company grants its own equity instruments to the employees of a subsidiary, must be accounted for as equity-settled payment transactions in accordance with IFRS 2.10 ff. 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 2.30 ff. 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 of IFRIC 11 have not influenced the net assets, financial position and results of operations of the Company in the past business year.

Moreover, the following standards, interpretations and changes must be applied in future reporting periods:

- *IFRS 8 Operating Segments*

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

The application of the regulations is mandatory beginning January 1, 2009. The Management of TELES decided to apply IFRS 8 early beginning with the 2008 business year; please see note 29 for further information.

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

- *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 are to be applied for business years that begin on or after January 1, 2010.

At present, the regulations of IFRIC 12 are not relevant for the Company.

- *IFRIC 13 Customer Loyalty Programs*

In the framework of customer loyalty programs, the customer acquires points (bonuses) which allow it to purchase goods or services from the seller or third parties at no cost or at reduced prices. IFRIC 13 regulates the issue of whether the bonuses represent a liability in connection with a completed sales transaction or compensation in the sense of a prepayment for a future sales transaction. The revenues from the sale are to be split into two components. One portion represents the current transaction through which the bonus arose. The other portion represents the future transaction that results from the bonus which is to be redeemed. The portion of the revenues that is to be allocated to the goods or service that has already been rendered is to be recorded through profit and loss. The part of the revenues that is to be allocated to the bonus must be accounted for as a liability in the sense of a prepayment until the bonus is redeemed and the obligation resulting from the bonus is fulfilled.

The regulations are to be applied for business years that begin on or after July 1, 2008.

IFRIC 13 is not expected to be relevant for the Company.

- *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 accruals 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 ensures 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 are to be applied for business years that begin on or after January 1, 2009.

The regulations of IFRIC 14 for the present are not relevant for the Company.

- *IFRIC 15 Agreements for the Construction of Real Estate*

The goal of this interpretation is a uniform realization of sales by companies that develop land and that in this function sell units - such as apartments or houses - "off plan," i.e., before they are completed. The interpretation defines criteria under which the recording of earnings are to be either in accordance with IAS 11 *Construction Contracts* or under IAS 18 *Revenue Recognition*.

The regulations are to be applied for the first time for business years that begin on or after January 1, 2009.

IFRIC 15 is not expected to be relevant for the Company.

At the time of preparation of the financial statements, IFRIC 15 has not been bindingly adopted by the EU.

- *IFRIC 16 Hedges of a Net Investment in a Foreign Operation*

The goal of this interpretation is clarification of three issues that arise in connection with accounting for hedges of foreign currency risks within a company and its foreign operations under the regulations of IAS 21 *The Effects of Changes in Foreign Exchange Rates* and IAS 39 *Financial Instruments: Recognition and Measurement*, namely: What kind of risk is being hedged? What group company may hold the hedging instrument? What rules are to be applied to the underlying transaction and to the hedging transaction, respectively, at the time of the sale of the hedged property?

The regulations are to be applied on a prospective basis for the first time for business years that begin on or after October 8, 2008.

IFRIC 16 is not expected to be relevant for the Company.

At the time of preparation of the financial statements, IFRIC 16 was not yet bindingly adopted by the EU.

- *IFRIC 17 Distributions of Non-cash Assets to Owners*

This interpretation regulates the issue of how a company must value assets other than cash that it transfers to owners as a distribution of profits. A dividend obligation is to be reported when the dividends have been approved by the competent bodies and no longer are at the discretion of the company. This dividend obligation is to be recorded at the current fair value of the net assets to be transferred. The difference between the dividend obligation and the book value of the assets to be transferred is to be recorded through profit and loss.

The regulations are to be applied for the first time for business years that begin on or after July 1, 2009.

IFRIC 17 at the present time is not relevant for the Company.

At the time of preparation of the financial statements, IFRIC 17 has not been bindingly adopted by the EU.

- *IFRIC 18 Transfers of Assets from Customers*

IFRIC 18 provides additional guidance on the financial statement treatment of the transfer of an asset by a customer. IFRIC 18 is relevant in particular for the energy sector. This interpretation clarifies the requirements of the IFRS for agreements under which a company receives property, plant or equipment from a customer which the company then must use to connect the customer to a distribution network or to provide the customer a permanent access for supply with goods or services.

The interpretation is to be applied on a prospective basis for business years that begin on or after July 1, 2009.

IFRIC 18 is not relevant for the Company.

At the time of preparation of the financial statements, IFRIC 18 has not been bindingly adopted the EU.

- *Amendment to IFRS 1 Initial application of the IFRS and IAS 27 Consolidated and separate individual financial statements under IFRS*

The amendment to IFRS 1 and IAS 27 relates to the valuation of interests in IFRS individual financial statements and to the determination of acquisition costs taking into consideration distributions.

The regulations are to be applied for business years that begin on or after January 1, 2009.

The amendment to IFRS 1 and IAS 27 is not relevant for the Company.

- *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.

- *Change to IFRS 7 Financial Instruments: Disclosures*

The change to IFRS 7 comprises extended disclosure obligations in respect of valuations at fair value and liquidity risks.

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

The change of the standard does not affect the assets, finance and income of the Company because IFRS 7 affects exclusively disclosure obligations.

At the time of preparation of the financial statements, the change to IFRS 7 has not been bindingly adopted 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 disclosure obligations.

- *Changes to IAS 23 Borrowing Costs*

Based on the change to IAS 23, borrowing costs, which can be allocated directly to the acquisition, construction or manufacture of a qualified asset, must be capitalized. The previously effective election regarding the capitalization of borrowing costs was eliminated to reduce or eliminate difference between IFRS and US-GAAP as part of the *Short-term*

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.

- *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 is not expected to 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 adopted 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 by the issuer as equity or as a liability. The revision of IAS 32 under certain conditions permits the inclusion of callable financial instruments in equity.

The regulations must be applied to the business year that starts 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.

- *Change to IAS 39 Financial Instruments: Recognition and Valuation*

Under the existing regulations, a company can include the entire risk or only certain risks of an underlying transaction in a hedge. In order to simplify the unchanged basic principles, the principles for this were expanded with respect to the determination of inflation risks as the underlying transaction as well as of a one-sided risk in an underlying transaction (e.g., with an option as a hedge transaction).

The regulations must be applied to business years that begin 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 39 has not yet been bindingly adopted by the EU.

- *Changes to IAS 39 Financial Instruments: Recognition and Valuation and IFRS 7 Financial Instruments: Disclosures*

According to this change, companies are now permitted to reclassify certain financial instruments from the category of fair-value-through-profit-or-loss financial instruments into other categories with valuation at adjusted acquisition costs along with the impairment test.

In addition, an update of the above change was published, the purpose of which is to clarify the point in time at which the amended regulations will come into effect.

The regulations for IAS 39 and IFRS 7 must be applied to business years that begin on or after July 1, 2008.

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

At the time of the report, the change of IAS 39 has not yet been bindingly adopted by the EU.

- *Change to IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Valuation*

A company must examine whether a derivative embedded in a host contract must be separated from it if the entire hybrid financial instrument in application of the changes to IAS 39 of October 2008 is reclassified out of the “fair value through profit and loss” category. In this examination, the conditions and circumstances at the point in time at which the company first became a party to the financial instrument or at which a change in the contractual conditions with material effects on cash flow took place are controlling. If a separate accounting of the derivative is necessary on the basis of this examination but its fair value cannot be reliably determined, the entire hybrid instrument must remain in the category at the fair value through profit and loss. This also applies to cases in which the company cannot make the examination.

The regulations are to be applied retroactively for business years that end on or after June 30, 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 IFRIC 9 has not yet been bindingly adopted by the EU.

- *Revision of IFRS 1 Initial application of the IFRS*

The object of the revision of IFRS 1 is exclusively an improved structure of the standard; no changed accounting or disclosure regulations result from this revision.

The revised standard is to be applied for business years that begin on or after January 1, 2009.

The revision of IFRS 1 is not relevant for the Company.

At the time of the preparation of the financial statements, the revision of IFRS 1 had not been bindingly adopted by the EU.

- *Revision of IFRS 3 Business combinations*

The revised IFRS 3 comprises regulations concerning the area of applicability, purchase-price components, treatment of minority shares and goodwill as well as scope of the assets, liabilities and contingent liabilities to be reflected. In addition, the revised standard contains rules for accounting for loss carry forwards and for the classification of contracts of the acquired company.

The regulations are to be applied on a prospective basis for business combinations, the time of acquisition of which lies in a business year that begins on or after July 1, 2009.

At the time of preparation of the financial statements, the revision of IFRS 3 had not been bindingly adopted by the EU.

- *Improvements to IFRSs*

In the framework of the first annual improvements project, the IASB published *Improvements to the IFRSs* for the purpose of changing a series of IFRSs. The annual improvements project was initiated by the IASB in July 2006; its goal is to carry out relatively small changes in the existing standards which, while not being urgent, are necessary and which are not undertaken in the framework of another large project.

Two different types of changes are involved:

- Changes that effect the presentation, recognition or valuation and
- Changes of terminology or editorial changes that have no or only minimal effects on accounting.

The changes – to the extent not otherwise provided in the respective standard – are to be applied for business years that begin on or after January 1, 2009.

No material effects on the assets, finance and income of the company are expected from the application of the changes.

With the exception of IFRS 8, there was no early application of IFRS standards and interpretations, application of which are not bindingly required until 2009.

Estimates

In accordance with the generally accepted accounting rules, the Management Board must establish estimates and assumptions for the preparation of financial statements, 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 other things, estimates are made for the following items: value adjustments for inventories, receivables, planned and extraordinary depreciation 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 valuation of shares in companies that are not publicly traded, accruals, warranties, return of products sold, value adjustments for assets, taxes and contingent liabilities. The amounts actually achieved can deviate from these estimates. Uncertainties in estimates that carry a significant risk in form of a significant adjustment of the book values of the assets and liabilities for the next business year relate to the income taxes. Significant assumptions are required for this area to determine domestic and international tax accruals. There are business transactions 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 of whether and in what 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 19 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 (discounted cash flow) procedure. The main assumptions, which are used to determine the recoverable amount, 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 2008 business year include TELES AG as the parent company plus four domestic and nine foreign subsidiaries. The number of consolidated companies fell compared to the previous year as a result of the majority sale of the skyDSL business; please refer to notes 4 and 22 for further information in this regard.

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

There are no investments in associated companies.

A list of the subsidiaries included in the consolidated financial statements can be found in note 31.

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 statements were prepared in accordance with uniform accounting and valuation principles. 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 to the extent the simplification rules listed in IFRS 1 permissible for the transition of IFRS as of January 1, 2002, were not used. 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 recognized at the fair value at the date of the acquisition. Minority interests will be accounted for using the percentage attributable to the minority shareholders in the fair values. 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 recoverability.

Intercompany transactions will be eliminated. Receivables and payables between consolidated companies will be offset against each other. Intercompany profits will be eliminated and intercompany revenues will be offset against the corresponding expenditures.

To the extent current operating results of a corporate company must be allocated to minority shareholders, the corresponding amount will be reported separately in the income statement; to the extent there are losses, they 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 offset against the divestiture proceeds.

Tangible assets

Tangible assets are accounted for at their acquisition cost minus the planned and possible extraordinary depreciation. Revaluations will not be made. Depreciation is computed using the straight-line method over the following periods:

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

Computer hardware to be allocated in accordance with the German Income Tax Act (EStG) to "group items" forms an exception to this. In this case, the depreciation under tax law over a five-year period is retained both for the financial statements under the Commercial Code as well as the IFRS financial statements; in the absence of materiality, no adjustment of the depreciation to the period of three years is made.

Maintenance and repair costs will be recorded through profit and loss at the time of occurrence.

Intangible assets

Acquired intangible assets are capitalized 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 amortization and write-downs. Planned amortization is taken linearly using the following periods:

Software:	3-5 years
Acquired customer relationships:	4-8 years
Technologies:	5 years
Miscellaneous:	3-5 years

Goodwill, as an intangible value with an indefinite utilization period, is not subject to planned amortization. The recoverability of the capitalized 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 classification of financial instruments is made according to IAS 39. Potential categories of financial instruments (assets) are:

- financial assets measured at fair value through profit or loss, which can be differentiated between (i) those classified as such upon initial recognition and (ii) those classified as held for trading according to IAS 39;
- held-to-maturity investments;
- loans and receivables;
- financial instruments available-for-sale.

The shares of freenet.de AG, which were owned by the Company as of the end of the preceding business year, were classified as assets available-for-sale. They were reported on the balance sheet under "Other financial assets" (non-current). Valuation was at fair value. Fair value was based on the stock exchange price determined at the end of the reporting period. Value changes between initial and subsequent valuation were reported in equity, Reserve for Valuation. Information regarding the sale of the shares that took place in the past business year is provided in note 18.

The minority interest in GRAVIS AG held by the Company at the end of the preceding business year was also classified as an asset available for sale. It is reported on the balance sheet under "Other financial assets" (non-current). Changes in value between the initial and subsequent valuation were reflected in equity capital, Reserve for Valuation. The minority interest was valued at fair value. The fair value is determined with the help of a discounted cash flow process because these are securities which are not publicly traded. Information with respect to the complete valuation adjustment made in the past business year is provided in note 18.

At the end of the preceding business year, TELES continued to carry on the balance sheet a receivable from GRAVIS AG that results from an agreed right of recovery for waived payables. In connection with the above described devaluation of the minority interest in GRAVIS AG, the receivable resulting from the recovery right was also fully written off. Please see note 18 for further information.

At the end of the business year, the Company holds a 6.55% interest in the capital of skyDSL Technologies GmbH. It is reflected on the balance sheet under “Other financial assets” (non-current). The skyDSL Technologies GmbH was founded in the middle of the preceding business year; the Company assumes that that the fair value of the interest on the balance sheet date corresponds to the net book value.

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 an 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.

Trade accounts receivable as well as other receivables are originally entered at the fair value to be attributed and afterwards at adjusted costs by using the effective interest method. 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 are accounted for at the settlement date.

Inventories

Inventories are reported at average cost or net realizable value, whichever is lower. Value adjustments are made to the extent there are inventory items 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.

The equity of the consolidated financial statements corresponds to the equity controlled by the management.

Treasury stock

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

Financial instruments, liabilities

The classification of financial instruments is made according to IAS 39. Potential categories of financial instruments (liabilities) are:

- financial liabilities measured at fair value through profit or loss, which can be differentiated between (i) those classified as such upon initial recognition and (ii) those classified as held for trading according to IAS 39;
- financial liabilities measured at amortized cost.

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 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. A potential equity share would be negligible anyway.

The Company records trade accounts payable at amortized cost.

Accruals

Accruals are formed 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 as a rule 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 accruals are based on historic experiences and on an estimate of future claims.

Payments to employees

The Company accounts for payments after the termination of employment that are classified as defined benefit plans in accordance with IAS 19. All actuarial profits and losses of the periods are recorded through profit and loss.

Payments for defined contribution plans are reflected as expense in the income statement when they are due for payment.

Deferred income taxes

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

Impairment

Assets are examined at each balance sheet date to determine whether events or changed circumstances suggest that the book value cannot be realized and thus there is an impairment.

Research and development costs

Research costs are reported as expense at the time they are generated. Costs which are generated in connection with the in-house development of software for the sale of certain telecommunication equipment are investigated to determine if they are eligible for capitalization as self-created intangible assets. In addition to the general prerequisites for capitalization and initial valuation, the technological and commercial realizability must be documented in order for them to be recognized and the allocable expenditures must be reliably quantifiable. Furthermore, it must be probable that the intangible asset will result in future economic benefit, which must be unambiguously identifiable and must be allocable to a specific product. If the research phase cannot be clearly distinguished from the development phase, all of the costs are treated as research costs.

Capitalized development costs are amortized over the prospective useful life of the self-created intangible asset. The amortization charges are recorded in cost of goods sold.

Leasing relationships

Leasing relationships negotiated by the Company are classified as operating leases assuming 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 items, which are attributable to the Company as economic owner, are to be capitalized and will be amortized over their normal useful life or over the duration of the leasing contract if shorter. Accordingly, the payable will be treated as a liability and will be reduced by the principle portion of the leasing installments paid.

Foreign currency translation

The currency of the primary economic environment in which an individual Group company is active is viewed as "functional" currency. This is the local currency for the subsidiaries of TELES AG. Accordingly all assets and debts were valued using the current exchange rate at the balance sheet date. Revenues 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 Group companies were treated neutrally 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

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 operating results and the assets and financial position of the company. This includes the expenditures for granting stock options to employees. Consequently, the fair value to be attributed for the performance rendered by the employees in exchange for the granted stock options must be reported as expense through profit and loss 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 no 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 to the customer exist and the receipt of the receivable is deemed to be probable. The Company establishes accruals for all potential costs due to product returns, warranty services and other costs based on historical experience.

Services

Revenues from the rendering of services will be realized after the services have essentially been completely rendered and are invoicable. The Company renders services that are completed within one period as well as services whose delivery extends over several periods. If the contractually agreed services extend beyond the balance sheet date, deferred or accrued items will be formed for services already billed but not yet rendered and services already rendered but not yet billed, respectively.

As a rule, revenues are not to be recorded until, among other things, if it is probable the economic benefits from the business will flow to the Company. 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.

Transport and shipment costs passed through to others
The Company reports shipment costs passed through to others in its sales 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 internal control of the company represents the basis for segment reporting (management approach). External segment reporting is on the basis of the internal organizational and management structure as well as the internal financial reporting to the chief operating decision maker geared thereto.

Government grants
Grants by public authorities provided for the acquisition of plant equipment are principally reported within non-current liabilities under "Other non-current liabilities" and will be recognized as income in profit and loss linearly over the depreciation period for the subsidized capital assets. If the affected fixed assets are already partly or completely depreciated at the time the subsidy claim arises, they are recognized as income immediately.

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 principally reports continuing operations and discontinued operations separately in the income statement, with the income amount from discontinued operations being reported in summary. The composition of the amount and the cash-flow amounts attributable to discontinued operations are described in note 22.

Minor contributions to profit or loss which flow in from operations that were discontinued in previous years are not separately reported during the current business year but are part of Other income and expenditures or Financial income.

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

	January 01 - December 31	
(in T€)	**2007**	**2008**
Depreciations (included in cost of sales and operative expenditures)	832	1,368
thereof: planned depreciation on fixed assets	697	866
thereof: planned amortization on intangible assets	109	345
thereof: unplanned depreciation on fixed assets	26	0
thereof: unplanned amortization on intangible assets	0	157
Depreciations (included in development expenditures, capitalized according to IAS 38)	0	142
thereof: planned depreciation on fixed assets	0	135
thereof: planned amortization on intangible assets	0	7
Impairment of goodwill	0	2,430
Inventories		
Acquisition and production costs of inventories which are reflected as expense	7,409	9,274
included therein: write-downs on inventories (included in cost of sales)	904	1,049
Allowance for doubtful accounts (included in operative expenditures, sales and marketing)	246	895
thereof: increase in allowances	265	994
thereof: reversal of allowances	-19	-99
Personnel expenditures (without expenditures for employee stock option plans)		
(included in cost of sales and operative expenditures)	11,569	13,251
included therein: employer share to statutory pension scheme	706	882
included therein: employer share to defined contribution plans	82	41
included therein: expenditures for settlements	40	288
Government grants (investment subsidy)		
Relating to previous years (included in Other income)	17	65

[3] Continued operations

NOTE 4: CHANGES WITHIN THE CONSOLIDATION CIRCLE

In January 2008, TELES sold a majority interest in the Broadband Internet Access Services division (TWBI segment). With the exercise of the purchase option on January 28, 2008, the publicly traded Swiss investment company Mountain Super Angel AG acquired a majority interest in TELES Wireless Broadband Internet GmbH. The remaining 19.7% minority interest was subsequently transferred to a third party. The fixed purchase price amounts to € 1.00; in addition a variable purchase price was agreed upon with the acquirer wherein in the case of distributions of profits or exit proceeds TELES will participate even in the future on a pro-rata basis – in accordance with the percentage share in the business in the past of 19.7%. The amount of the profit distributions or exit proceeds, will be limited for this purpose to a total of T€ 1,500 in the first twelve months and thereafter to a total of T€ 750.

The following assets and liabilities were sold:

(in T€)

Inventories	82
Trade accounts receivable	684
Other current assets	387
Cash and cash equivalents	70
Current liabilities	646

The sale did not have any effects on the cash flow statement for the business year.

In December 2007, TELES Communication Systems GmbH was organized in which TELES holds a 100% interest. The registered office of the company is Vienna. The business purpose is research and development as well as marketing in the area of communication and information technology. This pertains to the "MissisSIPpi" division acquired from Kapsch AG as of January 11, 2008, (asset deal) which is involved with the development and sale of “class 5 softswitch” solutions. The capital stock of the company is T€ 35. The fixed purchase price component for the division acquired is T€ 2,200 and was paid in cash when it became due. In addition, a type of “earn out” (“variable purchase price component”) was agreed upon as follows: the seller will receive MissisSIPpi solutions at no charge up to the amount of T€ 1,200 (calculated on the basis of the price list), to the degree the seller sells MissisSIPpi solutions to third-party customers. The agreement is effective at most up to the expiration of three years after conclusion of the purchase contract. As the payment of the variable purchase price was unlikely at the acquisition date according to the assessment of the TELES’ management from a present-day perspective, the variable purchase price share was not considered in the determination of the purchase price.

The total purchase price accordingly is composed as follows:

(in T€)

Purchase price	
Cash payment	2,200
Earn-Out	0
Total purchase price	**2,200**
Less fair value of the identified net assets acquired (see below)	-379
Goodwill	1,821

The fair values of the assets, liabilities and contingent liabilities as of the time of acquisition are presented in the following table:

(in T€)	**Fair value at the time of acquisition**	**Book value directly before business combination**
ASSETS		
Non-current assets		
Fixed assets	171	257
Intangible assets	498	0
	669	257
Current assets		
Inventories	119	152
	119	152
	788	**409**
LIABILITIES AND OWNERS' EQUITY		
Non-current liabilities		
Long-term accruals	322	322
	322	322
Current liabilities		
Other short-term liabilities	87	87
	87	87
	409	**409**
Net assets acquired	**379**	**0**

The goodwill recorded in the amount of T€ 1,821 is attributable to expected synergies and other effects resulting from the combining of the assets and activities of TELES Communication Systems GmbH with those of the Group.

At the time of publication of the consolidated financial statements for the business year 2007, the purchase price allocation had not been definitively finalized. The initial accounting of the combination of businesses therefore in accordance with IFRS 3.62 could only take place on a provisional basis; the above fair values represent the final values.

In comparison with the provisional initial accounting, there was a change in the fair value of the assets at the time of acquisition resulting from a) the changed accounting of the "earn out" (T€ 930) and b) the changed allocation of acquisition costs of the business combination to the assets acquired in the amount of T€ 1,821, i.e. in total T€ 2,751.

The results for the period of TELES is attributable in the amount of negative T€ 593 to TELES Communication Systems GmbH.

NOTE 5: TANGIBLE ASSETS

The tangible assets developed as follows during the 2007 and 2008 business years:

(in T€)	Acquisition costs December 31, 2006	Additions	Divestures	Currency differences	Company addition	Company divesture	Reclassifi-cations	December 31, 2007
Computer hardware	**5,976**	**986**	**404**	**3**	**64**	**222**	**-841**	**5,562**
thereof:								
Assets of sales group classified as held for sale	817	24	0	0	0	0	-841	0
Financial 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 sales 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 sales 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 sales 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 depreciation December 31, 2006	Additions	Writedowns	Divestures	Company divesture	Reclassifi-cations	December 31, 2007
Computer hardware	**5,236**	**611**	**64**	**274**	**222**	**-841**	**4,574**
thereof:							
Assets of sales group classified as held for sale	704	80	57	0	0	-841	0
Financial leasing	**1,417**	**0**	**0**	**0**	**0**	**0**	**1,417**
Office and operating equipment	**679**	**28**	**15**	**14**	**85**	**-20**	**603**
thereof:							
Assets of sales 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 sales group classified as held for sale	3	0	0	0	0	-3	0
Miscellaneous	**279**	**147**	**157**	**10**	**148**	**-401**	**24**
thereof:							
Assets of sales 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 sales group classified as held for sale	113	0
Financial leasing	**0**	**0**
Office and operating equipment	**82**	**81**
thereof:		
Assets of sales group classified as held for sale	8	0
Leasehold improvements	**50**	**312**
thereof:		
Assets of sales group classified as held for sale	0	0
Miscellaneous	**363**	**152**
thereof:		
Assets of sales group classified as held for sale	188	0
Total	**1,235**	**1,533**

The impairment expense incurred in business year 2007 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 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.

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The German version is authoritative

(in T€)	December 31, 2007	Additions	Divestures	Currency differences	Business combination	December 31, 2008
	Acquisition costs					
Computer hardware	**5,562**	**746**	**22**	**-3**	**171**	**6,454**
Financial leasing	**1,417**	**0**	**1,417**	**0**	**0**	**0**
Office and operating equipment	**684**	**27**	**22**	**1**	**0**	**690**
Leasehold improvements	**635**	**42**	**0**	**0**	**0**	**677**
Miscellaneous	**176**	**225**	**88**	**-4**	**0**	**309**
Total	**8,474**	**1,040**	**132**	**-6**	**171**	**9,547**

(in T€)	December 31, 2007	Additions	Divestures	December 31, 2008
	Accumulated depreciations			
Computer hardware	**4,574**	**784**	**20**	**5,338**
Financial leasing	**1,417**	**0**	**1,417**	**0**
Office and operating equipment	**603**	**35**	**22**	**616**
Leasehold improvements	**323**	**80**	**0**	**403**
Miscellaneous	**24**	**100**	**80**	**44**
Total	**6,941**	**999**	**122**	**7,818**

(in T€)	December 31, 2007	December 31, 2008
	Remaining book values	
Computer hardware	**988**	**1,116**
Financial leasing	**0**	**0**
Office and operating equipment	**81**	**74**
Leasehold improvements	**312**	**274**
Miscellaneous	**152**	**265**
Total	**1,533**	**1,729**

NOTE 6: INTANGIBLE ASSETS

The intangible assets developed as follows during the 2007 and 2008 business years:

	Acquisition cost						
(in T€)	December 31, 2006	Additions	Divestures	Currency differences	Company addition	Reclassifi-cations	December 31, 2007
Software licenses	**4,370**	**117**	**15**	**0**	**8**	**-139**	**4,341**
thereof: Assets of sales 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**

	Accumulated depreciation					
(in T€)	December 31, 2006	Additions	Impairments	Divestures	Reclassifi-cations	December 31, 2007
Software licenses	**4,252**	**87**	**14**	**15**	**-139**	**4,199**
thereof: Assets of sales 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**

	Remaining book values	
(in T€)	December 31, 2006	December 31, 2007
Software licenses	**118**	**142**
thereof: Assets of sales 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**

The impairment expense incurred in business year 2007 in the amount of T€ 14 relates 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.

(in T€)	Acquisition cost December 31, 2007	Additions	Divestures	Currency differences	Business combination	December 31, 2008
Software licenses	**4,341**	**72**	**2**	**0**	**0**	**4,411**
Customer relationships	**6,654**	**0**	**0**	**8**	**207**	**6,869**
Goodwill	**2,257**	**0**	**0**	**140**	**1,821**	**4,218**
Technologies	**88**	**1,590**	**0**	**4**	**291**	**1,973**
thereof: Capitalized development costs	0	1,590	0	0	0	1,590
Miscellaneous	**118**	**0**	**0**	**0**	**0**	**118**
Total	**13,458**	**1,662**	**2**	**152**	**2,319**	**17,589**

(in T€)	Accumulated depreciation December 31, 2007	Additions	Impairments	Divestures	December 31, 2008
Software licenses	**4,199**	**88**	**0**	**2**	**4,285**
Customer relationships	**6,522**	**65**	**101**	**0**	**6,688**
Goodwill	**0**	**0**	**2,397**	**0**	**2,397**
Technologies	**25**	**196**	**53**	**0**	**274**
thereof: Capitalized development costs	0	124	0	0	124
Miscellaneous	**113**	**2**	**0**	**0**	**115**
Total	**10,859**	**351**	**2,551**	**2**	**13,759**

(in T€)	Remaining book values December 31, 2007	December 31, 2008
Software licenses	**142**	**126**
Customer relationships	**132**	**181**
Goodwill	**2,257**	**1,821**
Technologies	**63**	**1,699**
thereof: Capitalized development costs	0	1,466
Miscellaneous	**5**	**3**
Total	**2,599**	**3,830**

The impairment expense incurred in business year 2008 in the amount of T€ 2,551 including effects resulting from the currency translation were reported in operational expenses. The impairments relate to goodwill as well as customer relationships and technologies in connection with the activities acquired in business year 2007 in Israel; for additional explanations, see below.

In business year 2008, TELES capitalized development costs in the amount of net T€ 1,466 as self-created intangible assets which relate exclusively to Class 5 softswitch solutions. Amortization will be taken over the expected useful life of the self-created intangible asset; the amortization expense is reported in cost of sales.

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

The remaining amortization period for the major portion of the software licenses is approximately one to three years, for purchased customer relationships it is approximately two and a half and seven years and for technologies four years.

Goodwill

According to IAS 36, a company must review purchased goodwill annually for impairment. The basis for valuation of goodwill is the cash-generating unit or its recoverable amount, i.e., the expected stream of cash and cash equivalents.

The goodwill reflected on the TELES consolidated balance sheet in the amount of T€ 1,821 stems from the “MissisSIPpi” segment acquired from Kapsch AG in business year 2008 (see Note 4). The goodwill was allocated to Class 5 softswitch solutions, i.e., the cash-generating unit that in the future will realize an economic benefit from the synergies resulting from the acquisition. The recoverable amount in the form of the fair value was determined using a DCF procedure. The basis for determining the recoverable amount is revenue planning for the Class 5 softswitch solutions. The discount factor of the WACC continued to be taken into consideration (7.70%) which reflects the weighted average capital costs of an appropriate peer group; the inflows of funds 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.

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

The goodwill associated with the activities acquired in business year 2007 in Israel (T€ 2,257 as of December 31, 2007) as well as the customer relationships and technologies pertaining thereto were completely written off as of December 31, 2008, since the inflows of funds expected in the future from these activities would not adequately cover the assets that have already been capitalized.

The above valuation is based on the cash-generating unit and its recoverable amount respectively in the form of the value in use. The recoverable amount in the form of the fair value was determined using a DCF procedure. The basis for determining the recoverable amount is the revenue planning of the cash-generating unit. Furthermore, the discount factor WACC was considered (17.34% as in the previous year) which reflects the weighted average capital costs of an appropriate peer group; the inflows of funds were estimated for a period of five years. The initially expected business development in the business year 2007 based on the acquisition of TELES N.G.N. Solutions Ltd. was not confirmed. Hence, the planning assumptions for future periods had to be clearly reduced. The company as the smallest cash-generating unit still generates considerable losses which for the time being also cannot be avoided in the foreseeable future. The revenue planning is based mainly on past experiences in connection with the management expectations of the development in a relevant market.

As a result of the valuation – as mentioned above – the formerly accounted assets were completely written off.

NOTE 7: OTHER FINANCIAL ASSETS

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

(in T€)	December 31 2007	2008
Listed securities: freenet AG	57,004	-
Unlisted securities: GRAVIS AG	990	0
Unlisted securities: skyDSL Technologies GmbH	0	5
Recovery rights for waived liabilities	787	0
Loans made in connection with employee stock option plans	379	228
Loan made to a strategic marketing partner	0	429
Loan made to member of the management board	0	43
	59,160	**705**

Please refer to note 18 for further information.

NOTE 8: INVENTORIES

The inventory assets consist of the following:

(in T€)	December 31, 2007	2008
Finished goods	649	975
Trading goods	558	1,239
Raw materials and supplies	4,007	4,412
	5,214	**6,626**
included inventories:		
accounted for at net realizable values	672	1,740
Range > one year	314	326

An additional salability discount in the amount of T€ 449 was implemented during the 2007 business year based on an expanded range analysis. This accounts for the future technology development risks in the segment. 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.

The aforementioned procedure was applied consistently in 2008.

NOTE 9: TRADE ACCOUNTS RECEIVABLE

The trade accounts receivable consist of the following:

(in T€)	December 31, 2007	2008
Trade accounts receivable	6,267	8,753
Minus allowance for doubtful accounts	1,379	2,357
	4,888	**6,396**

Please refer to note 18 for further information.

NOTE 10: OTHER FINANCIAL ASSETS

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

(in T€)	December 31, 2007	2008
Advance payments made	247	301
Sales tax receivables	85	389
Receivables from government grants	0	40
Miscellaneous	471	313
	803	**1,043**

NOTE 11: 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 29, 2008 decided to use the net retained profits of the company for the 2007 business year for the payment of a dividend in the amount of € 1.00 per non-par value share and to carry the remaining amount forward. The payment for a total amount of T€ 21,130,183 was made on October 31, 2008.

Authorized capital

As of December 31, 2008, the usable authorized capital (authorized capital 2008/I) is a total amount of T€ 11,652.

The authorized capital 2008/I is based on the decision of the shareholders' meeting dated August 29, 2008. The authorized capital 2008/I authorizes the Management Board with approval by the Supervisory Board to increase the share capital before August 28, 2013, once or several times by up to T€ 11,652 against transfers in-kind and/or by cash.

Conditional capital

As of December 31, 2008, the conditional capital is a total of T€ 2,330, divided into 2,330,467 individual shares, thereof:

Conditional capital 1997/I: T€ 1,946 divided into 1,946,591 individual shares
Conditional capital 2001/I: T€ 384 divided into 383,876 individual shares

The conditional capital I, which was created by the 1997 shareholders' meeting for the first time, was T€ 1,946 on December 31, 2007 and was used to fulfill the options for a total of 1,946.591 individual shares. On August 29, 2008, the designation of conditional capital I was conformed to the designation in the commercial register (conditional capital 1997/1). 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 29, 2008. The conditional capital 1997/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 1997/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, 2007, the conditional capital III was T€ 384 and 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 as well as the decision of the shareholders’ meeting of August 28, 2007 was cancelled on August 29, 2008 with respect to the part not yet exercised in the amount of T€ 67 divided into 66,896 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 as will be issued to the employees based on the corresponding decision under agenda item 7 of the shareholders' meeting on August 29, 2008. In addition the designation was changed into conditional capital 2001/I.

Treasury stock

On May 25, 1999, the shareholders' meeting authorized the Management Board for a period of 18 months to acquire treasury 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 2006 and most recently on August 29, 2008 have 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 linked to the respective market price at that time. In addition, the Company has the right to service convertible bond rights for beneficiaries of the employee stock option plan of TELES AG. This authorization was most recently expanded, by a decision of the shareholder meeting on August 29, 2008, to employee stock option plans, which are issued, based on the agenda item 7 of the shareholder meeting on August 29, 2008. In addition, with the approval of the Supervisory Board, the Management Board was authorized to retire shares of treasury stock of TELES AG, which were acquired based on this authorization, and this retirement or its implementation does not require another decision by the shareholders' meeting. The authorization for retirement can be exercised in total or in parts. No treasury shares were acquired in 2008 based on the authorization of the shareholders' meeting.

Treasury stock developed as follows:

(in T€)	Units	Acquisition cost
Treasury stock on December 31, 2007	2,174,493	21,702
Addition	0	0
Treasury stock on December 31, 2008	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, 2008, the additional paid-in capital includes T€ 1,712 based on the accounting for the employee stock option plans in accordance with IFRS 2.

Reserve for valuation

Reflected in the valuation reserve as of December 31, 2007 is the value change between addition and subsequent valuation of available-for-sale assets less the appropriate deferred taxes.

NOTE 12: CONVERTIBLE DEBT

The convertible debt consists of the following:

(in T€)	December 31, 2007	2008
6% convertible debt, maturity until June 2008	857	0
6% convertible debt, maturity until August 2009	216	216
	1,073	**216**

Please refer to note 18 (financial instruments), note 23 (employee stock option program; conversion conditions) and note 27 (relations with related persons) for further information.

NOTE 13: OTHER NON-CURRENT LIABILITIES

The other non-current liabilities consist of the following:

(in T€)	December 31, 2007	2008
Sales-dependent payment (earn out) in connection with the acquisition of TELES N.G.N. SOLUTIONS Ltd.	1,203	750
Miscellaneous	476	416
	1,679	**1,166**

Please refer to note 16 for further information about the sales dependent payment (earn out).

As of December 31, 2008, the item "Miscellaneous" includes a current share in the amount of T€ 28 (as of December 31, 2007: T€ 57).

NOTE 14: TRADE ACCOUNTS PAYABLE

Please refer to note 26 regarding the abatement claims against a technical service provider as reported during the previous years.

Please refer to note 18 for further information.

NOTE 15: DEFERRED REVENUES

Deferred revenues as of December 31, 2007 and 2008 relate to prepayments for accrued service revenues.

NOTE 16: OTHER CURRENT LIABILITIES

The other current liabilities consist of the following:

(in T€)	December 31, 2007	2008
Sales-dependent payment (earn out) in connection with the acquisition of TELES N.G.N. SOLUTIONS Ltd.	137	335
Payables to related parties	578	125
Sales tax payables	2,580	2,247
Miscellaneous	1,553	2,122
	4,848	**4,829**

Please refer to note 13 for further information about the sales dependent payment (earn out).

Please refer to note 27 regarding the related party transactions.

Please refer to note 22 regarding sales tax payable for the 2007 and 2008 business years.

NOTE 17: ACCRUALS

The Company carries the following accruals on the balance sheet:

(in T€)	December 31, 2007	2008
Long-term accruals		
Litigation risks	1,615	1,199
Payments to employees in accordance with IAS 19	0	333
Onerous contracts	0	272
	1,615	**1,804**
Short-term accruals		
Accruals for income taxes	480	135
Other accruals	1,258	876
	1,738	**1,011**

The accruals consist of the following:

(in T€)	2007	Company addition	December 31, Utilization	Release	Additions	2008
Non-current accruals						
Risks of litigation	1,615	0	416	0	0	1,199
Payments to employees	0	322	0	34	45	333
Onerous contracts	0	0	0	0	272	272
	1,615	**322**	**416**	**34**	**317**	**1,804**
Current accruals						
Accruals for income taxes	**480**	**0**	**243**	**237**	**135**	**135**
Other accruals						
Risks of litigation	621	0	70	0	29	580
Onerous contracts	0	0	0	0	132	132
Miscellaneous	637	0	584	49	160	164
	1,258	**0**	**654**	**49**	**321**	**876**

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

Litigation risks

The assessment of the litigation risks is based on the judgment 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 26 for the main legal disputes.

Payments to employees

The accruals for “Payments to employees” reflected on the balance sheet pertain to performance-based obligations in accordance with IAS 19.

i. Settlement claims

On the basis of the statutory accruals, employees of one of the TELES subsidiaries have a claim on so-called settlement payments. Settlement payments become due when an employee separates for certain defined reasons from the enterprise. The amount of the statutory settlement claims depends on the service time accumulated up to the time of the separation; for employees whose starting date was January 1, 2003 or later, there is no settlement obligation.

The projected unit credit procedure was used for determining the amount of the obligation. Wage increases expected in the future, which influence the amount of the settlement claim were taken into consideration. The following assumptions were used in determining the defined benefit obligation:

Computational interest rate:	5.80%
Wage trend:	2.00%
Commencement of financing:	Date of employment
End of financing:	Per planning formula (maximum 25 years of service)
Basis of calculations:	AVÖ 2008, Actuarial basis for pension insurance, Pagler/Pagler, Generation Table for Employees
End age for calculation purposes:	Normal retirement age (65 years for men and 60 – 65 years for women; in special cases, early retirement age
Fluctuation:	None

The defined benefit obligation developed as follows:

(in T€)	**2008**
Defined benefit obligation at the beginning of the year	**293**
Service cost	16
Add-on for interest of the anticipated pension obligations	17
Actuarial gains	-67
Statutory settlement payments	0
Defined benefit obligation, year end	**259**

The expenses are contained in the operating result and are composed as follows:

(in T€)	**2008**
Service cost	16
Add-on for interest of the anticipated pension obligations	17
Actuarial gains	-67
	-34

ii. Anniversary payment

In addition, TELES is obligated on the basis of a plant agreement to make certain payments for employees of one of its subsidiaries upon their service anniversaries.

The projected unit credit procedure was used for determining the amount of the obligation. Wage increases expected in the future, which influence the amount of the settlement claim were taken into consideration. The following assumptions were used in determining the defined benefit obligation:

Computational interest rate:	5.80%
Wage trend:	2.00%
Commencement of financing:	Date of employment
End of financing:	Respective time of payment
Basis of calculations:	AVÖ 2008, Actuarial basis for pension insurance, Pagler/Pagler, Generation Table for Employees
End age for calculation purposes:	Normal retirement age (65 years for men and 60 – 65 years for women; in special cases, early retirement age
Fluctuation:	None

The defined benefit obligation developed as follows:

(in T€)	**2008**
Defined benefit obligation at the beginning of the year	**29**
Service cost	1
Add–on for interest of the anticipated pension obligations	2
Actuarial losses	42
Statutory settlement payments	0
Defined benefit obligation, year end	**74**

The expenses are contained in operating result and are composed as follows:

(in T€)	**2008**
Service cost	1
Add-on for interest of the anticipated pension obligations	2
Actuarial losses	42
	45

NOTE 18: FINANCIAL INSTRUMENTS

1. Importance of financial instruments

The company has the following categories of financial instruments:

	December 31,	
(in T€)	**2007**	**2008**
Financial assets		
Financial assets valuated at fair value through profit or loss	0	0
thereof: held for trading purposes	*0*	*0*
thereof: designated for a valuation at fair value through profit or loss upon initial recognition	*0*	*0*
Financial investments held-to-maturity	0	0
Loans and receivables	6,054	8,451
Financial assets available-for-sale	57,994	5
	64,048	8,456
Financial liabilities		
Financial liabilities, which were valuated at amortized costs	2,823	3,263
	2,823	3,263

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

December 31, 2007 (in T€)	Loans and receivables	Financial assets available-for-sale	Financial liabilities, valuated at amortized costs	**Total**
ASSETS				
Non-current assets				
Other financial assets	1,166	57,994		59,160
Current assets				
Trade accounts receivable	4,888			4,888
Other financial assets				0
Total assets	*6,054*	*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*

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December 31, 2008 (in T€)	Loans and receivables	Financial assets available-for-sale	Financial liabilities, valuated at amortized costs	**Total**
ASSETS				
Non-current assets				
Other financial assets	700	5		705
Current assets				
Trade accounts receivable	6,396			6,396
Other financial assets	1,355			1,355
Total assets	*8,451*	*5*		*8,456*
LIABILITIES				
Non-current liabilities				
Convertible debt			0	0
Current liabilities				
Convertible debt			216	216
Trade accounts payable			3,047	3,047
Total liabilities			*3,263*	*3,263*

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

TELES has two 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.

- ***Loans and receivables***

(in T€)	December 31, 2007	2008
Recovery right for waived liabilities	787	0
Trade accounts receivable	4,888	6,396
Loans, issued in connection with the employee stock option plans	379	228
Loan, issued to a strategic sales partner	0	429
Loan, issued to a member of the Management Board	0	43
Settlement agreement	0	1,355
	6,054	8,451

(in T€)	January 1 – December 31, 2007	2008
Recovery right for waived liabilities		
Financial earnings; interest		
Recovery right for waived liabilities	38	29
	38	29
Financial expenses; valuation adjustment		
Recovery right for waived liabilities	0	518
	0	518
Trade accounts receivable		
Operating expenditures; sales and marketing		
Increase in allowances	265	994
Reversal of allowances	-19	-99
Trade accounts receivable; operating expenditures	246	895
Loans		
Financial earnings; interest		
Loans, issued in connection with the employee stock option plans	19	12
Loan, issued to a member of the Management Board	0	1
	19	13
Settlement agreement		
Earnings from discontinued operations, net of tax		
Settlement agreement	0	1,355
	0	1,355

Recovery right for waived liabilities

TELES established a recovery right for waived liabilities in connection with the minority investment in GRAVIS AG (please see also note 2). The claim resulting from the revival of the recovery right as well as the minority interest were fully written off in the past business year. The cash inflows to be expected, determined taking into consideration above all the general risks in the framework of the worldwide economic and financial crisis, would not adequately cover the assets previously recognized on the balance sheet.

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 of December 31, 2008 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. If payment is in default, the reasons are evaluated in another step and a judgment 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 valuation account for trade accounts receivable developed as follows:

	December 31,					December 31,
(in T€)	**2007**	**Utilization**	**Release**	**Additions**	**Currency differences**	**2008**
Allowance for doubtful accounts	1.379	139	98	1,207	8	2,357

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:

(in T€)	**<= 3 Months**	**> 3 und <= 6 Months**	**> 6 Months and <= 1 Year**	**> 1 Year**	**Total**
December 31, 2007	1,543	15	3	24	1,585
December 31, 2008	1,435	177	57	149	1,818

The Company has trade accounts receivable in the amount of T€ 84 whose terms have been renegotiated; these trade accounts receivable would be otherwise past due.

As of December 31, 2008, the Company had items of security in the amount of T€ 465, thereof T€ 279 in the form of bank guarantees or letters of credit and T€ 186 in the form of commercial credit insurance. No collaterals were used during the preceding 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.

Loans

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.

The loan to the strategic marketing partner bears interest of 5% per annum; the fair value of the loan corresponds to its book value. The aforementioned loan was made as of December 31, 2008; therefore no interest income has yet been accrued in business year 2008. In addition to this loan already paid out the Company is obligated to grant a further TUSD 400; the payment was made in January 2009.

The loan to a member of the Management Board was provided at an interest rate customary for the market over a term of 36 months; the fair value of the loan corresponds to its book value.

Settlement Agreement

Please refer to note 26 for further information with respect to the settlement agreement.

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

(in T€)	December 31, 2007	2008
Listed securities: freenet AG	57,004	0
Unlisted securities: GRAVIS AG	990	0
Unlisted securities: skyDSL Technologies GmbH	0	5
	57,994	5

(in T€)	2007	2008
Listed securities: freenet AG		
January 1	75,764	57,004
Fair value valuation, reported in equity	-18,760	-1,979
Loss on sale; reflected in the income statement	0	-21,870
Sale proceeds	0	33,155
December 31,	**57,004**	**0**
Unlisted securities: GRAVIS AG		
January 1	990	990
Fair value valuation; reported in equity	0	-921
Fair value valuation; reflected in the income statement	0	-69
December 31,	**990**	**0**
Unlisted securities: skyDSL Technologies GmbH		
January 1	0	0
Acquisition	0	5
December 31,	**0**	**5**
Fair value valuation; reported in equity		
Listed securities: freenet AG	-18,760	-1,979
Unlisted securities: GRAVIS AG	0	-921
Unlisted securities: skyDSL Technologies GmbH	0	0
	-18,760	**-2,900**
Less: taxes	-373	-29
Valuation at fair value, net, after taxes	-18,387	-2,871

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 (as of December 31, 2007), 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 application of the valuation procedure taking into consideration above all the general risks in the framework of the worldwide economic and financial crisis resulted in a complete write-off of the GRAVIS AG shares, since the expected cash inflows would not adequately cover the assets values previously reflected on the balance sheet. Even if a risk-free interest rate is assumed which is decreased by 10%, the expected cash inflows for the future would not adequately cover the assets values previously reflected on the balance sheet.

The skyDSL Technologies GmbH was founded in the middle of the preceding business year; the Company assumes that that the fair value of the interest on the balance sheet date corresponds to its net book value.

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***

	December 31,	
(in T€)	**2007**	**2008**
Convertible debt	1,073	216
Trade accounts payable	1,750	3,047
	2,823	3,263

	January 1 – December 31,	
(in T€)	**2007**	**2008**
Financial expenditures		
Convertible debt	55	28
	55	28

Convertible debt

	December 31,	
(in T€)	**2007**	**2008**
6% convertible debt, maturity until June 2008	857	0
6% convertible debt, maturity until August 2009	216	216
	1,073	216

On June 24, 1998, the Supervisory Board approved the issue of convertible bonds as part of the employee stock option plans. The Company realized revenues 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 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, respectively. 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 23 (Employee stock option plans; convertible bond conditions) and note 27 (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 14 for further information.

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

	January 1 - December 31,	
(in T€)	**2007**	**2008**
Interest income		
Cash and cash equivalents	833	425
Issued loans in connection with the employee stock option plans	19	12
Loans to a member of the Management Board	0	1
Recovery right for waived liabilities; interest	38	29
	890	**467**
Interest expenditures		
Convertible debt	55	28
Cash credit line drawn upon for less than one year	0	44
	55	**72**

Expenditures from fees are generated in connection with the processing of bank transactions (T€ 575, thereof T€ 497 in connection with the sale of the shares of freenet AG; in the previous year T€ 52).

2. Risks from financial instruments

TELES uses a series of coordinated risk management and control systems. They are used among other things for the identification, measurement and control of risks from financial instruments. Risk positions can mainly develop in the 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 on the basis of information customary for the market. In addition, the Company works - as much as possible - with down payments. For the foreign businesses, the customary letters of credits or payment guarantees are used - particularly for businesses outside Europe. In individual cases – such, for example, as described below in connection with the marketing partner – detailed evaluations of the economic facts and circumstances are made.

The share of sales for the largest individual customer of TELES was around 20% during the 2008 business year. The next ten largest customers contributed approx. 37% of the sales. The sales share of around 20% for an individual customer in the business year 2008 represents the business of TELES with the marketing partner working in North America who was more successful than expected. On the other hand, however, there are also high trade accounts receivable with this marketing partner. These elevated receivables stem from individually agreed installment payment targets corresponding to the end-customer business of the marketing partner; the installment payment targets are for the most part being serviced as agreed. In addition, they are attributable among other things to higher sales in December. In view of this extensive business relationship, the published economic data of the marketing partner is evaluated regularly in combination with supplemental information. Beyond this, there was no "cluster risk" in the receivables as of the end of business year 2008.

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***

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 unforeseeable volatilities in operating profit and cash flow. The risk is 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 where 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 lead to changes in the profit margin. TELES currently reports foreign currency receivables in the amount of TUSD 1,567 and payables in the amount of TUSD 670. TELES continues to have balances in bank accounts with the amount of TUSD 518.

2. Interest change risk

The interest changes risk of TELES results exclusively from interest bearing investments. Liquidity, i.e., the capability of these investments to re-pay, essentially stands in the foreground in the TELES investment strategy.

3. Price risk

TELES currently does not carry any investments in listed shares; to this extent the Company is not exposed to stock market price risk. There is also no risk in connection with the unlisted securities of GRAVIS AG held by the Company, as the shares were devaluated to zero.

NOTE 19: INCOME TAXES

The earnings before income taxes are broken down as follows:

	January 1 – December 31,	
(in T€)	**2007**	**2008**
Germany	**5,937**	**-30,024**
thereof: continued operations	11,030	-31,275
thereof: discontinued operations	-5,093	1,251
Abroad	**-1,858**	**-5,479**
thereof: continued operations	-1,396	-5,479
thereof: discontinued operations	-462	0
Earnings before income taxes	**4,079**	**-35,503**
thereof: continued operations	9,634	-36,754
thereof: discontinued operations	-5,555	1,251

The expenditures and earnings from income taxes include:

(in T€)	January 1 - December 31, 2007	2008
Current taxes		
Germany	**985**	**-1,041**
thereof: continued operations	985	-1,041
thereof: discontinued operations	0	0
Abroad	**191**	**-75**
thereof: continued operations	191	-75
thereof: discontinued operations	0	0
Total:	**1,176**	**-1,116**
thereof: continued operations	1,176	-1,116
thereof: discontinued operations	0	0
Deferred taxes		
Germany	**405**	**141**
thereof: continued operations	397	141
thereof: discontinued operations	8	0
Abroad	**-12**	**7**
thereof: continued operations	-12	7
thereof: discontinued operations	0	0
Total:	**393**	**148**
thereof: continued operations	385	148
thereof: discontinued operations	8	0
Income tax expenditures / refund:	***1,569***	***-968***
thereof: continued operations	1,561	-968
thereof: discontinued operations	8	0

The German corporation tax law provided 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 was approximately 26.4%. The total tax charge is approximately 38.9% of the taxable income if the effective trade tax charge is included. In the third quarter 2007, the 2008 corporate income tax reform was passed and published in the Federal Legal Gazette. The total tax charges of TELES therefore dropped 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 as of December 31, 2007 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 30.2%.

(in T€)	**January 1 – December 31, 2007**	**2008**
Earnings before income taxes	4,079	-35,503
Income tax expenditures / income at legal tax rate	1,587	-10,713
Tax rate differences	101	17
Tax rate changes	-117	0
Differences based on items not to be taxed	-8,200	-20
Differences based on items that are not deductible	228	7,049
Non-recognition of deferred tax assets	6,769	3,242
Write-down of goodwill	0	733
Employee stock option plans	70	32
Other items, net	1,131	-1,308
Effective income tax expenditures / refund	**1,569**	**-968**

The approximate tax effects of the temporary differences that give rise to deferred taxes are as follows:

(in T€)	**December 31, 2007**	**2008**
Deferred tax assets:		
Intercompany transactions	9	26
Technologies	0	15
Payments to employees per IAS 19	0	9
Losses carried forward	10,574	2,030
Devaluations	-603	-603
Deferred tax assets, total	9,980	1,477
Settlement with deferred tax liabilities	-9,971	-1,451
Balance sheet amount	9	26
Deferred tax liabilities:		
Acquisition costs for assets available-for-sale	629	0
Assets available-for-sale	30	0
Customer relationships	0	45
Intercompany transactions	9,182	1,402
Depreciations on assets	21	18
Miscellaneous	130	4
Deferred tax liabilities, total	9,992	1,469
Settlement with deferred tax assets	-9,971	-1,451
Balance sheet amount	21	18
Deferred tax liabilities (previous year: assets), net	**-12**	**8**

Losses carried forward of active companies, for which an accounting for the deferred tax claims was not being made, are T€ 45,411 for corporate income taxes and T€ 52,505 for trade taxes in Germany as well as T€ 5,872 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€ 21 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 proceedings 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 are netted. The deferred tax assets and liabilities can be described as follows:

	December 31, 2007		**December 31, 2008**	
(in T€)	Due date		Due date	
	< 12 months	> 12 months	< 12 months	> 12 months
Deferred tax assets	0	9	0	26
Deferred tax liabilities	0	21	0	18
Deferred taxes, net	**0**	**-12**	**0**	**8**

NOTE 20: OTHER INCOME AND EXPENDITURES

The other income for the 2008 business year includes mainly an amount of T€ 265 resulting from sales tax adjustments in connection with the acquisition of TELES N.G.N. Solutions Ltd. carried out in the business year 2007 (previous year: T€ 0), T€ 65 from government grants (previous year: T€ 17), as well as T€ 160 for currency exchange gains (previous year: T€ 117).

The other expenditures for the 2008 business year include mainly an amount of T€ 58 for value adjustments on issued loans (previous year: T€ 150), T€ 112 in connection with the possible uncollectibility of cost bearing which in the view of the Company was contractually agreed upon (previous year: T€ 0), as well as T€ 508 for currency exchange losses (previous year: T€ 320).

NOTE 21: FINANCIAL RESULT AND OTHER INCOME FROM INVESTMENTS

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

	January 1 - December 31,	
(in T€)	**2007**	**2008**
Financial earnings		
Interest	1,399	697
Dividends	21,390	0
Shares in investment funds	2	6
Total	22,791	703
Financial expenditures		
Convertible debt	55	28
Option right	150	0
Recovery right for waived liabilities; adjustment	0	518
Miscellaneous	76	54
Total	281	600
Other investment income or loss		
Sale of the shares in freenet AG (including transaction costs)	0	-22,367
Unlisted securities: GRAVIS AG; valuation at fair value	0	-69
	0	-22,436

NOTE 22: DISCONTINUED OPERATIONS

Disposal group classified as held for sale

The disposal group classified at the end of business year 2007 as held for sale was for the most part sold in January 2008 to the publicly traded Swiss investment firm Mountain Super Angel AG; see note 4 for further information.

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 on which the sales tax assessments are based 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 Amtsgericht Charlottenburg (Local Court of 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; the liquidation process in the meantime has been begun. After the processing is completed, the sales tax liability will be booked out with an impact on earnings as part of the final deconsolidation.

The results from discontinued operations can be described as follows:

(in T€, with the exception of information per share information)	**January 1 – December 31, 2007**	**2008**
Operating result from discontinued operations		
Revenues	7,864	553
Cost of sales	8,013	467
Operational expenditures	2,810	-62
Other income	93	0
Other expenditures	2	3
Financial earnings	5	0
Earnings before income taxes	-2,863	145
Income tax expenditures	8	0
Operating result from discontinued operations, after deduction of taxes	**-2,871**	**145**
Results from the discontinuation of operations		
Results from the discontinuation of operations, before taxes	-2,692	1,106
thereof: TWBI segment	-539	-142
thereof: more! AG (formerly SPSS segment)	-2,153	-7
thereof: WebHosting	0	1,255
Income tax expenditures	0	0
Results from the discontinuation of operations, after deduction of taxes	-2,692	1,106
Total result of discontinued operations, after deduction of taxes	**-5,563**	**1,251**
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	-0.26	0.06
Diluted	-0.26	0.06

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 for the business year 2007 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 at fair value less costs to sell.

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

	January 1 - December 31,	
(in T€)	**2007**	**2008**
Cash flow from operating activities	-2,515	-243
Cash flow from investing activities	-17	-18
Cash flow from financing activities	2,225	0
Net change of the cash balance	**-307**	**-261**

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

NOTE 23: 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 consideration when exercised will also be equity instruments. In all programs it is provided 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 hurdle).

The option programs for 1998, 1999, 2001 and 2002 provide that 70% of the promised options are exercisable in any case. The remaining 30% are only exercisable if the employees do not sell received shares until the last year of the term ("bonus component"). The programs for 2004 and 2005 do not include a bonus arrangement.

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 at the earliest two years after the issue and be completed after six years.

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

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 maturity or the retirement of an employee.

b) Employee stock option plan 2002

On December 17, 2002, the Company issued an additional 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 at the earliest two years 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 must exceed the average development of a reference index during the same period by at least ten percentage points (success hurdle). 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 in the framework of the authorization 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 portion 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 at the earliest two years start after the issue and 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 occurrence of exceptional, unforeseeable developments.

Employee stock option plan 2005

On November 22, 2005, the Company issued an additional 295,290 stock options to employees in the framework of the authorization provided by the shareholders' meeting on April 2, 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 computational 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 be completed after six years.

The latest exercise date is November 21, 2015.

The success goals and the respective conditions correspond to those of the 2001 and 2002 plans.

The option conditions include exercise restrictions in connection with the occurrence 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 taking into consideration 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, 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**
Issued	0	0	0	0	0	0
Exercised	0	0	0	0	0	0
Forfeited	0	-855	-4,799	-58,503	-18,900	-83,057
End of the term of the program*	-332,100	0	0	0	0	-332,100
Outstanding on December 31, 2008	**62,034**	**195,550**	**225,707**	**455,465**	**150,986**	**1,089,742**
Vested rights as of December 31, 2008	**62,034**	**195,118**	**225,707**	**398,045**	**103,458**	**984,362**

* The employee stock option program (convertible bonds) set up in 1998 expired on June 24, 2008.

The outstanding stock options on December 31, 2008 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 consideration for the granting of equity instruments cannot be reliably determined.

The value of the subscription rights was determined by considering the success hurdles based on a Monte Carlo simulation and it was reported as an expenditure proportionately through the vesting period. Non-market exercise conditions are included in the assumptions regarding the number of options that are expected to become vested. 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 corrélation	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 2007 and 2008 business years:

	Employee Stock Option Plan			
(in T€)	**2002**	**2004**	**2005**	**Total**
January 1 - December 31,				
2007	46	145	-10	181
2008	68	6	33	107

NOTE 24: 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 1 - December 31,	
(In T€, except for share related information)	**2007**	**2008**
Net income for the year attributable to the shareholders of the parent company	2,525	-34,534
Weighted average number of shares for the calculation of the earnings per share		
Undiluted	21,130,183	21,130,183
Diluted	21,194,513	21,130,183
Earnings per share		
Undiluted	0.12	-1.63
Diluted	0.12	-1.63

The dilution was exclusively based on potential shares from the employee stock option plans.

The convertible bonds in circulation (see note 23) can potentially have a diluting effect 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 25: 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€ 216 (previous year: T€ 135).

Rent and leasing obligations

The Company leases buildings, vehicles, warehouses and certain office equipment as part of non-cancelable 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€ 2,068 (thereof discontinued operation TWBI: T€ 353) and T€ 5,647 (thereof discontinued operation TWBI: T€ 4,383) for the business years ending December 31, 2008 and 2007.

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

(in T€)	**December 31, 2008**
Up to one year	1.161
Between one and five years	1.914
Longer than five years	0
Total	**3.075**

Financial commitments based on other contracts

Future minimum payments based on legally effective agreements are:

	December 31,	
(in T€)	**2007**	**2008**
Finished goods	119	125
Software bundles and software licenses	1	0
Other services	60	264
Maintenance	0	117
Total	**180**	**506**

Contingent liabilities

In the framework of the acquisition that took place in the business year 2007 of IP Gear Ltd., which in the meantime has been renamed TELES N.G.N. Solutions Ltd., in addition to a fixed purchase price, it was agreed that there would be a sales-dependent payment (“earn out”) – but at a minimum TUSD 750 – for a period of four years following the purchase. On the basis of the Company's planning, a total additional payment in the amount of T€ 1,340 is considered to be probable and accordingly is reflected on the balance sheet as a liability; at the balance sheet date an amount of T€ 1,085 was recognized as liability (see note 13 and 16). Beyond this, there is a contingent liability in accordance with IAS 37.28.

NOTE 26: LITIGATION

The Company is involved in legal proceedings and litigations arising in the ordinary course of business. The Company always establishes accruals 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 in 2002 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 proceedings 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 proceedings 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 proprietary rights were questioned at the German and the European patent office in connection with the patent infringement proceedings. TELES also won its case against DTAG/SES in first instance during 2005 with a comparable result in the utility patent proceedings 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. TELES has in the meantime filed an explicitly authorized appeal at the BGH [Bundesgerichtshof = Federal Court of Justice]. On July 29, 2008 the BGH reversed the decision of the federal patent court and remitted the case to that court. In the end, the result of this lawsuit will not 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 confident of winning the lawsuit that have not yet been legally decided. TELES and its legal advisers continue to see no risks in these proceedings.

TELES acquired a 33.3% investment in a newly founded communication service company in June 2003. This company, headquartered in England, no longer generates any business activity. It originally rendered telecommunication services for phone connection network operators in Germany by connecting phone calls from the wired networks cost effectively to mobile networks of the German cellular phone network operators until the cellular phone cards used were disconnected by the cellular phone network operators. The company was not able to prevail against the affected cellular phone network operators in its interim injunction proceedings for the purpose of 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, the GSM gateway operator in which TELES holds an interest claimed the damages caused by the disconnection of the cellular phone cards as part of the principle proceeding by filing a counter claim. In its decision of March 13, 2008, the Oberlandesgericht (OLG=Higher Regional Court) Düsseldorf, in contrast to the judgment of the Landesgericht Düsseldorf in the first instance which affirmed the complaint, in the second instance only partly affirmed the complaint of the mobile telephone operator and enjoined the use of the SIM cards of the mobile telephone operator in the framework of end customer contracts in GSM gateways used by carriers. The complaint extending beyond this was rejected. Upon the counter claim, the OLG, however, found that the Company is entitled with respect to the mobile telephone operator to a right to supply of SIM cards at appropriate compensation and terms of use. Moreover, a claim against the mobile telephone network operator for damages, which resulted from the switching off of the SIM cards, was admitted on its merits in favor of the Company. The decision is not legally effective yet and both parties have filed with the Bundesgerichthof for the expressly permitted appeal against the decision on points of law. Although case law in the issue concerning the legality of the switching off by the mobile network operator of SIM cards utilized in GSM gateways has made an about-face in favor of TELES, the prospects of success for suit at the appeal level before the Bundesgerichthof are uncertain. However, this situation does not establish a high financial risk.

In addition, the same cellular phone operator filed a suit against TELES AG and TELES NetSales GmbH in 2005 to desist from offering and distributing GSM gateways for carrier networks, whereupon TELES AG filed a countersuit against relevant general terms and conditions clauses of the mobile telephone operator with respect to a prohibition of the use of its SIM cards in GSM gateways. In its judgment of March 13, 2008, the OLG Düsseldorf in the second instance rejected both the complaint and the counter complaint, as had the LG Düsseldorf already. Both parties have filed the expressly permitted appeal on points of law with the BGH. 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. Based on the decision in favor of TELES in the second instance, TELES and its legal advisers consider 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.

In the course of the sale 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 bankruptcy administrator of KPNQwest Germany GmbH i.In. against STRATO Medien AG. As presented in the management report of the previous year, STRATO reported an amount of Mio€ 5.4 under payables as of December 31, 2004, which was already reduced by an amount of Mio€ 3.2 by a reduction that TELES considers as justified under any circumstances. All pending proceedings were terminated by mutual agreement with the out-of-court settlement agreement of December 15 and 16, 2008. The settlement amount was paid by STRATO to the bankruptcy administrator of KPNQuest Germany i.In. (in bankruptcy) on December 29, 2008. Taking into consideration the aforementioned accruals, after the billing of all court and attorney costs, there remains approximately Mio€ 1 which is to be paid out by freenet AG (as the case may be, through STRATO) to TELES and has already been reflected through profit and loss on the financial statements for 2008.

The appeal proceedings in the IntraStar patent infringement proceedings against Quintum Inc. and its domestic marketing partners initiated by the losing complainants against the first instance judgment pronounced on November 11, 2005 in favor of TELES were suspended until the legally binding conclusion of the current nullity proceedings against the IntraStar patents.

In the meantime, the appeal by TELES in the framework of the first lawsuit against AVM GmbH and its marketing partners was dismissed by the OLG Karlsruhe with a decision on June 28, 2006. TELES had filed a complaint against the denial of leave to appeal in the above proceedings. The complaint of TELES was dismissed in both proceedings by the BGH on February 3, 2009. The proceedings thus are terminated. The cost risks resulting from them are already adequately covered in the financial statements.

Another lawsuit filed 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 patents of the lawsuit. This is the same for the appeal proceedings against the first instance decision by the district court Mannheim on June 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 the German and the German part of the European IntraStar patent of TELES on April 5, 2006 in the patent nullity proceedings of Cisco and Quintum against this patent or this part of the patent of 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. In the meantime, an expert was appointed in the appeal proceedings before the BGH. TELES is confident that the patents will in the end be upheld. TELES and the legal consultants see no risks in these proceedings.

In the patent dispute in the United States between TELES and Cisco regarding the IntraStar patents, the United States District Court in Washington D.C. liftet the stay of the proceedings on March 4, 2009. On March 23, 2009, the court pursuant to a petition by TELES handed over the proceedings to the United States District Court in Delaware. Now all current patent infringement proceedings in the United States are pending in Delaware. All proceedings are right now in the stage of pretrial discovery.

In October 2008, the USPTO (United States Patent and Trademark Office) declared two claims of a patent in reexamination to be effective. With respect to other patent claims, which are still in reexamination, TELES along with the U.S. attorneys are appealing these decisions.

Based on the first US IntraStar patent, TELES also filed a patent infringement suit in the United States 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. Court settlement proceedings (“ADR conference”) before a magistrate judge, which is mandatory in Delaware, took place on November 7, 2008, with a second session on January 13, 2009. A settlement has not been achieved.

On January 27, 2009, the USPTO granted a third IntraStar patent (patent number US 7.483.431) in favor of TELES. On January 29, 2009, TELES filed a patent infringement complaint with the United States District Court in Delaware against Cisco Systems on the basis of this patent.

On February 4, 2009, Cisco Systems for its part filed a nullity suit and an action for a declaration of non-infringement before the United States District Court in Washington D.C. against TELES with respect to these new IntraStar patents. On March 23, 2009, the court rejected this complaint for formal reasons, referring to the complaint first filed by TELES in Delaware.

On May 13, 2009, the Court in Delaware coordinated the three pending patent cases with a scheduling order, and set all three cases on the same schedule with a trial date for August 2010.

Since under US law, as a rule there are no claims of the opponent for reimbursement of attorney costs even in the case of defeat, TELES and its legal advisors currently do not see any relatively high risks in these proceedings other than the defense costs which TELES will incur.

In July 2007, the British media corporation British Sky Broadcasting Group plc (BskyB) 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 (among others "SKY") through the advertisement of the skyDSL services in the UK. TELES initially defended itself against the lawsuit. In January 2008, TELES spun off the skyDSL service with a majority divestment of TELES Wireless Broadband Internet GmbH, and sales in the UK in the meantime were suspended. At the beginning of November, a settlement was reached with BskyB for termination of the proceedings. In the past year, adequate accruals were formed for the resulting settlement payment. With the pay-out of the settlement amount to BskyB, the proceedings have now been ended.

NOTE 27: RELATED PARTY TRANSACTIONS

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

Expenditures for services:

(in T€)	**January 1 - December 31, 2007**	**2008**
Mock attorneys	27	45
Rechtsanwälte Feser & Spliedt	168	5
Total	**195**	**50**

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€ 43 (previous year: T€ 85) against related parties on the balance sheet date. The receivables on the balance sheet date in the amount of T€ 43 represent a loan receivable. The original loan amount in July 2008 was T€ 50. The loan was granted at an arm's length interest rate for a term of 36 months. The loan receivable carried on the balance sheet as of December 31, 2007 in the amount of T€ 85 was paid in full in business year 2008.

Payables of the Company to related parties:

(in T€)	**January 1 - December 31, 2007**	**2008**
Member of the Management Board resulting from debt	190	0
Member of the Management Board resulting from variable compensation	255	0
Representatives of the Supervisory Board from services rendered	353	125
Total	**798**	**125**

Management Board earnings:

(in T€)	January 1 - December 31, 2007		2008	
	Fixed	**Variable**	**Fixed**	**Variable**
Jan Bastian	89	29	0	0
Richard Fahringer	22	0	266	0
Andreas Krüger	154	0	116	0
Karsten Lüdtke	88	20	78	0
Frank Paetsch	88	20	132	0
Olaf Schulz	177	50	178	0
Eyal Ullert	103	40	103	0
	721	**159**	**873**	**0**

Prof. Dr.-Ing. Schindler received payments in the amount of T€ 40 (previous year: T€ 24), which represent a non-cash benefit from granting a vehicle.

In the framework of the divesture of the Broadband Internet Access Services division, the employment of Mr. Andreas Krüger was terminated. In fulfillment of the employment contract which was valid through June 30, 2008, the amount of T€ 103 was paid at the time of the departure of Mr. Krüger.

	Subscription rights	**shares**
Herr Prof. Dr. - Ing. Sigram Schindler	39,600	11,416,255
Herr Richard Fahringer	0	20,000
Herr Andreas Krüger	60,000	63,164
Herr Karsten Lüdtke	25,000	62,475
Herr Frank Paetsch	59,210	15
Herr Olaf Schulz	66,648	0
Herr Eyal Ullert	0	0
	250,458	**11,561,909**

As of December 31, 2008, Prof. Dr.-Ing. Sigram Schindler holds directly and indirectly 48.99% of the TELES AG shares: 47.47% of the TELES AG shares are held by Sigram Schindler Beteiligungsgesellschaft mbH; 1.46% of the shares are held by the Sigram Schindler Stiftung (foundation) and another 0.06% are directly held by Prof. Dr.-Ing. Sigram Schindler.

During the 2008 business year, Mr. Richard Fahringer purchased 14,000 TELES AG shares and Prof. Dr. h.c. Radu Popescu-Zeletin purchased 5,000 shares. While he was a member of the Management Board, Mr. Karsten Lüdtke purchased 6,000 shares of TELES AG.

Supervisory Board compensation:

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

	January 1 - December 31,	
(in T€)	**2007**	**2008**
Prof. Dr. Walter Rust	37.5	37.5
Dr. Jürgen D. Spliedt	22.5	15
Prof. Dr. h.c. Radu Popescu-Zeletin	15	17.5
Prof. Dr. Ralph Schindler	0	5
	75	**75**

NOTE 28: COMPOSITION OF REVENUES AND COST OF SALES

	January 1 – December 31,	
(in T€)	**2007**	**2008**
Revenues	**19,244**	**23,781**
Products	17,950	21,599
Services	1,294	2,182
Cost of sales	**9,556**	**12,851**
Products	8,589	10,962
Services	967	1,889

NOTE 29: SEGMENT REPORTING

In November 2006, the IASB issued IFRS 8 *Operating Segments*; in November 2007, the standards were adopted into European law. IFRS 8 replaces IAS 14 and must be applied for reporting periods that begin on or after January 1, 2009. Early application is permitted.

The management of TELES decided to apply IFRS 8 early, beginning with the 2008 business year.

In accordance with IFRS 8, the internal control of the enterprise represents the basis for segment reporting (management approach). External segment reporting takes place on the basis of internal organizational and management structure as well as the internal financial reporting for this purpose to the chief operating decision maker.

Following the majority sale of the sky-DSL business, TELES, with the TCS segment currently has one operating segment in accordance with the requirements of IFRS 8.

TELES and the TCS respectively develops, manufactures and distributes in the field of innovative telecommunication techniques and services: TELES and the TCS respectively is a high performance supplier of equipment, solutions and services for fixed network and fixed-mobile convergence and is a next generation network (NGN) service provider.

Sales of the TCS segment are composed as follows:

(in T€)	January 1 – December 31, 2007	2008
Sales revenues	**19,244**	**23,781**
Products	**17,950**	**21,599**
Access Gateways	7,050	10,746
TELES NGN	10,900	10,853
Services	**1,294**	**2,182**

Sales by sales markets of the company are as follows:

(in T€)	January 1 – December 31, 2007	2008
Germany	5,439	4,703
Europe, without Germany	8,337	7,974
Miscellaneous	5,468	11,104
Total	**19,244**	**23,781**

Assignment of the sales is made in accordance with the country of origin of the customer.

In the 2008 business year, the Company had sales to two customers in the amount of approximately 19% and 17% of total sales, respectively.

Non-current assets are associated with the regions as follows:

(in T€)	December 31, 2007	2008
Germany	1,486	1,479
Europe, without Germany	25	3,935
Miscellaneous	2,620	145
Total	**4,131**	**5,559**

The following impairments according to IAS 36 were recognized in the business year and previous year: fixed assets T€ 0 (previous year: T€ 26), intangible assets T€ 157 (previous year: T€ 0) and goodwill T€ 2,430 (previous year: T€ 0).

NOTE 30: EVENTS AFTER THE BALANCE SHEET DATE

To close any funding gaps, various conditional contracts were already concluded with the majority shareholder after the balance sheet date; further contracts are additionally prepared. The financial effects of these conditional contracts amount to more than Mio€ 2.

Furthermore, TELES sold all of the own shares held after the balance sheet date, Thereof – as published – an amount of 1,353,222 shares, i.e. 5.81% of the issued stock, were sold at a price of € 0.50 per share to the majority shareholder Sigram Schindler Beteiligungsgesellschaft mbH outside of the stock exchange.

NOTE 31: OTHER INFORMATION

Changes compared to interim reporting

In comparison with the values reported most recently as of September 30, 2008 in connection with the preliminary accounting for the “MissisSIPpi” segment acquired from Kapsch AG (asset deal), there was a reduction in goodwill by T€ 95 as a result of the changed recognition of deferred taxes. Moreover, the assumption with respect to useful life of the acquired technology was changed from three to five years. This results in lower amortization on an annual basis by T€ 39.

Services of the auditing company

In addition to the year-end audit (T€ 128), the PricewaterhouseCoopers AG auditing firm worked during the 2008 business year as part of tax consultations (T€ 50) and other consulting services (T€ 37) for the Company.

Consolidated companies

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

Subsidiary	Location
TELES Communications Corp.	Hillsborough, USA
TELES Computer Systems India Private Ltd. [1]	Bangalore, India
TELES France S.A.R.L.	Paris, France
TELES S.R.L.	Milan, Italy
TELES N.G.N. Solutions Ltd.	Yokneam, Israel
TELES Communication Systems GmbH	Vienna, Austria
RVS Datentechnik GmbH	Munich, Germany
TELES Latin America S.R.L. [2]	Santa Cruz, Bolivia
TELES NetSales Spain S.A.	Madrid, Spain
TELES NetService GmbH	Berlin, Germany
DirectSat AG	Berlin, Germany
call media services Ltd. [3]	Cheshunt, 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] --- 33.33% held by TELES AG

Information about non-consolidated companies

(see also note 2)

Name of the company	Headquarters	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	3,068	74
GRAVIS Computervertriebs-gesellschaft mbH	Berlin, Germany	indirect: 19.99	EUR	3,853	-378
HSD Consult EDV-Beratungsgesellschaft mbH	Berlin, Germany	indirect: 19.99	EUR	635	89

[1] ---These are figures 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;
Ing. Richard Fahringer, Board member operational business;
Dipl.-Ing. Andreas Krüger, Broadband Internet segment (until January 31, 2008);
Karsten Lüdtke, Board member internal processes (until July 31, 2008);
Dipl.-Inf. Frank Paetsch, Board member technology;
Dipl.-Betriebswirt Olaf Schulz, Chief financial officer;
Eyal Ullert, MBA, Board member sales (until March 29, 2009).

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

Prof. Dr.-Ing. Sigram Schindler:	DirectSat AG; more! Computer AG;
Ing. Richard Fahringer:	TELES Computer Systems India Private Ltd. (since March 10, 2008);
Dipl.-Betriebswirt Olaf Schulz:	TELES Computer Systems India Private Ltd.; 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:

Prof. 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), until August 29, 2008;
Prof. Dr. h.c. Radu Popescu-Zeletin, Berlin, University professor;
Prof. Dr. Ralph N. Schindler, Kiel, University professor emeritus, beginning August 30, 2008.

The following Supervisory Board members hold additional supervisory board seats or seats on comparable control committees.

Prof. Dr. Walter Rust,
Chairman of the Supervisory Board of SHF Communication Technologies AG, Berlin
Chairman of the Supervisory Board of MagForce Nanotechnologies AG, Berlin

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

Berlin, June 15, 2009

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 Euros
SIC	Standing Interpretations Committee
SPSS	Sales & Post Sales Services
T€	Thousand Euros
TUSD	Thousand US dollars
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, June 15, 2009

TELES AG Informationstechnologien
Der Vorstand

Prof. Dr.-Ing. Sigram Schindler

Richard Fahringer

Frank Paetsch

Olaf Schulz

Auditor´s Report*

We have audited the consolidated financial statements of TELES Aktiengesellschaft Informationstechnologien, Berlin, comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and notes to the consolidated financial statements together with the group management report for the business year from January 1 through December 31, 2008. The preparation of the consolidated financial statements and the group management report in accordance with IFRS as applicable within the European Union and the supplementary provisions of Section 315a (1) German Commercial Code is the responsibility of the Company's Management Board. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB [Handelsgesetzbuch - German Commercial Code] 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 (German) principles of proper accounting 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 the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Management Board, 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.

* Translation - the German version is authoritative

In our opinion, based on the findings of our audit, the consolidated financial statements comply with the legal requirements of IFRS as applicable within the European Union and the supplementary provisions of Section 315a (1) German Commercial Code, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with (German) principles of proper accounting. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

According to our duties, we refer to the description of the risks threatening the ability to continue as a going concern in sections B and F of the group management report. In these sections it is stated that the ability of TELES Aktiengesellschaft Informationstechnologien to continue as a going concern will be at risk, if in case of material breaches of the sales forecast shareholders do not provide sufficient funds.

Berlin, June 16, 2009

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

sgd. Angelika Kraus	sgd. ppa. Markus Salzer
Wirtschaftsprüferin	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

* Translation - the German version is authoritative