TELES Aktiengesellschaft Informationstechnologien Berlin

Consolidated Financial Statements as of December 31, 2009 and Management Report for TELES Group 2009

Auditor's Report

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

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Consolidated Management Report of TELES AG Informationstechnologien
for the 2009 Business Year

Consolidated Management Report of TELES AG Informationstechnologien for the 2009 Business Year

A. Macroeconomic development / Development of the industry

As a consequence of the financial crisis at the end of 2008, the activity of the world economy (GDP) has declined by 1% in 2009, while the development in the "industrial countries" turned out significantly worse with -3.5% and in Germany even much worse with -5%. However, it should be noted that the economic situation has stabilized and improved again already in the course of 2009. For 2010, a macroeconomic recovery (GDP) of altogether 3.6% is expected, with a clearly lower rate of 1.4% for the "industrial countries" and 1.2% in Germany (source for all these figures: IfW, University Kiel, December 15, 2009).

In contrast, both Bitkom and EITO have confirmed a drop by only 2.2% and 2.6%, respectively, for the telecommunications industries (ITK) and IT market in 2009 – at least within the EU. For 2010, both associations forecast another drop of 0.5% and a slight increase of 0.6%, respectively, for the EU.

TELES nevertheless could not and cannot completely rule out the possibility of being affected 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

Current Structure of TELES

As already envisaged in the previous year's report, in 2009, TELES has focused exclusively on its traditional core business. As, effective January 1, 2009, all costs and expenses for the division "TIPR" (TELES Intellectual Property Rights) are being assumed by a third party and, due to the sale of all other operative segments, only the previous "TCS Segment" (TELES Communication Systems, i.e., infrastructure systems) has remained, from January 1, 2009, TELES reports on the below "product" segments – in addition to the consolidated report:

- NGN-Segment (Next Generation Networks)
- AGW-Segment (Access Gateways)
- Service-Segment

All the costs entered and reported in the MSD (Management Service Division) in the previous years have been distributed pro rata among the “product” segments named above.

Balances have been reported in the category “Other Business Operations” which result from an agency agreement entered into with the majority shareholder of TELES as well as a patent transfer agreement with the same majority shareholder of TELES.

TELES AG renders the following services: product development, purchasing/logistics/ assembly, customer and distribution services, general administration services as well as consolidated accounting (IFRS) and accounting for all the TELES companies (local GAAP; excluded hereof are the subsidiaries in India, Israel and Bolivia).

TELES Computer Systems India Pvt. provides – beside the administration and accounting services for the local company – product development und customer services.

TELES Latin America S.R.L. (Bolivia) provides – beside the administration and accounting services for the local company – exclusively customer and distribution services.

TELES Communication Systems GmbH (Vienna) focuses in principle on product development only (here only for the “C5 softswitch” solutions) and related services.

TELES N.G.N. Solutions Ltd. (Israel) has provided – beside the administration and accounting services for the local company – product development, purchasing/logistics/ assembly as well as customer and distribution services by the end of 2009.

Financing / Going Concern

In spite of the dividends of around 21.1 Mio€ that were paid out in 2008, the equity capitalization at around 22% is still 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. Although the company's objectives could not be met in 2009, on the one hand, the operative business and the reputation of TELES and the product/solution portfolio of TELES on the market has clearly improved, and on the other hand, the cost clearly remained below plan.

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 the potential for sustainable business growth possible. However, it will be sustainably implementable only from 2011, subsequent to internal adjustment measures. 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 cannot 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 our customers could be affected by the consequences of the financial crisis in 2010 in particular.

To strengthen the liquidity position and in order to be able to eliminate any gaps in financing, a loan contract has been agreed with the majority shareholder. The funds should be sufficient to cover all possible additional liabilities which would prospectively result in the event sales would be more than 20% below previous year's level. Thus the Management considers for the time being the financing of the operating activity to be assured. Furthermore, reference is made to section F

However, the existence of the Company could be threatened amongst others if the sales goals are continuously missed in the following months, too, and if in such a case no additional funds can be raised from the shareholders.

The following tables and their explanations refer to the development of the TELES continued operations during the 2009 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 2009 (in accordance with IFRS)

The following tables present an overall overview of the operative segments and other business operations for 2008 and 2009, as well as a transition to the EBT of the TELES Group.

Revenues and Earnings of Operating Segments and Other Business Operations in Mio€, January 1 – December 31, 2008	Total	Products		Services	Other Business Operations
		Access Gateways	TELES NGN		
Revenues	**23.8**	**10.7**	**10.9**	**2.2**	**0.0**
Cost of sales	12.9	5.7	5.1	2.0	0.0
included therein: depreciations	*0.4*	*0.1*	*0.2*	*0.1*	*0.0*
Gross profit	**10.9**	**5.0**	**5.8**	**0.2**	**0.0**
Gross profit margin	46%	47%	53%	9%	-
Sales and marketing expenditures	7.3	3.3	3.6	0.3	0.0
Research and development expenditures	6.0	2.1	3.9	0.0	0.0
General and administrative expenditures	7.9	1.2	3.4	0.2	3.2
Other income	0.5	0.2	0.2	0.1	0.0
Other expenditures	1.1	0.4	0.7	0.0	0.0
EBITDA before ESOP	**-10.6**	**-1.7**	**-5.4**	**-0.3**	**-3.2**
Impairment of Goodwill	2.4	2.4	0.0	0.0	0.0
Operational depreciation and amortization	1.0	0.2	0.7	0.0	0.0
EBIT before ESOP	**-14.4**	**-4.5**	**-6.3**	**-0.4**	**-3.2**

Revenues and Earnings of Operating Segments and Other Business Operations in Mio€, January 1 – December 31, 2009	Total	Products		Services	Other Business Operations
		Access Gateways	TELES NGN		
Revenues	**20.2**	**10.6**	**6.8**	**2.8**	**0.0**
Cost of sales	11.7	5.6	3.6	2.5	0.0
included therein: depreciations	*0.6*	*0.0*	*0.6*	*0.0*	*0.0*
Gross profit	**8.5**	**5.0**	**3.2**	**0.3**	**0.0**
Gross profit margin	42%	47%	47%	10%	0%
Sales and marketing expenditures	8.1	3.4	3.9	0.8	0.0
Research and development expenditures	3.9	2.0	1.9	0.0	0.0
General and administrative expenditures	3.1	1.2	1.7	0.2	0.0
Other income	1.3	1.0	0.1	0.1	0.1
Other expenditures	0.7	0.5	0.2	0.1	0.0
EBITDA before ESOP	**-5.5**	**-1.1**	**-3.8**	**-0.7**	**0.1**
Operational depreciation and amortization	0.8	0.2	0.5	0.0	0.0
EBIT before ESOP	**-6.9**	**-1.3**	**-4.9**	**-0.8**	**0.1**

The above operating results can be transferred to the EBT of the TELES Group as shown below:

(in Mio€)	January 1 – December 31	
	2008	**2009**
EBIT of the Operating Segments and Other Business Operations	**-14.4**	**-6.9**
Expenditures for employee stock option plans	0.1	0.2
EBIT TELES Group	**-14.5**	**-7.1**
Financial earnings Financial expenditures Result from investments	0.7 0.6 -22.4	0.3 0.2 0.0
EBT TELES Group	**-36.8**	**-7.0**

<u>Explanations relating to the above corporate group overview:</u>

- The 2009 **corporate revenues** in the amount of 20 Mio€ decreased in comparison with 2008 by 15%. In this context, however, the fact must be considered that a major revenue portion with our customer freenet was included in the previous year's period, which resulted from the agreement related to the sale of the previous web hosting business executed end 2004/beginning 2005. If that revenue portion was neglected the revenues would have slightly increased compared to the previous year. For the forecast hereto reference is made to the details in section G.

- As a result, the 2009 **corporate gross profit** dropped by 2.5 Mio€ to 8.5 Mio€ (-22 %), while the **corporate gross profit margin** fell disproportionally to 42%. This is – besides the generally low margins in the VoIP Gateway business – mainly a result of disproportional corrections of warehouse values in this sub-segment; further, it is a result of the NGN business being still below plan, which in turn led to a disproportional utilization of production capacities.

- The **corporate EBITDA** improved in 2009 in comparison with the previous year from -10.6 Mio€ to -5.5 Mio€. This is attributable, about fifty-fifty, to savings of operative costs and the takeover of costs of the previous division "TIPR" by third parties.

- The **corporate EBIT** also significantly improved in 2009 in comparison with the previous year by 7.4 Mio€ to -7.1 Mio€. In the second half of the year, it was already possible to entirely cover the overall costs (break even) in some months.

- The 2009 **corporate EBT** is -7.0 Mio€. The previous year's figures were influenced extraordinarily – beside the higher operative result – by the sales loss (of about 22 Mio€) in 2008.

The results in earnings per share (EPS) for the continuing operations were -0.31 € (diluted as well as undiluted); if the earnings of discontinued operations are included an EPS of -0.35 € (diluted as well as undiluted) was achieved.

Revenue and earnings development in the segments in 2009 (in accordance with IFRS)

Explanations for the NGN segment:

Revenues and Earnings by Segment in Mio€	2008	2009	Variation[1] 2009 vs. 2008
NGN Segment			
Revenues	**10.9**	**6.8**	**-37%**
Cost of sales	5.1	3.6	-28%
included therein: depreciations	*0.2*	*0.6*	181%
Gross profit	**5.8**	**3.2**	**-44%**
Gross profit margin	53%	47%	-6%
Sales and marketing expenditures	3.6	3.9	7%
Research and development expenditures	3.9	1.9	-52%
General and administrative expenditures	3.4	1.7	-49%
Other income	0.2	0.1	-66%
Other expenditures	0.7	0.2	-78%
EBITDA	**-5.4**	**-3.8**	**30%**
Operational depreciation and amortization	0.7	0.5	-25%
EBIT	**-6.3**	**-4.9**	**23%**

- **NGN revenues:** Compared to the previous year the sales revenues dropped by 37% to 6.8 Mio€. In this context, it needs to be considered that previous year's figures included major revenue from our customer freenet, as discussed already above. Adjusted by this revenue portion the sales revenue has dropped by 9% compared to the previous year.

- **NGN gross profit margin:** The absolute gross profit declined disproportionally by 44% from 5.8 Mio€ to 3.2 Mio€, as the cost of production capacity could not be amortized. This, correspondingly, resulted in a gross profit margin of 47%. Before production cost, however, the margin has improved by 1% compared to the previous year.

- The 2009 **NGN operating expenditures** as expected decreased disproportionally by 32% compared to 2008. This is, in particular, due to restructuring and cost cutting measures. Moreover, as a consequence of the cost distribution being adjusted to the plan forecast, the expenditures decreased in the S&M (Sales & Marketing) area as well as in G&A (General Administration) on the one hand, and on the other hand, the development expenditures of the newly acquired product segment for "Class 5 softswitch" solutions were capitalized in accordance with the accounting standards to be applied under IFRS. These expenditures are to be amortized proportionately over the expected useful life.

[1] Percentage variations are based on EURO amounts not subject to rounding.

- Thus, the **NGN EBITDA** improved by 1.6 Mio€ to -3.8 Mio€ in comparison with 2008. The **NGN EBIT 2009** is -4.9 Mio€. The NGN EBITDA has improved by approximately 30% and the NGN EBIT by 23% compared to the previous year.

Explanations for the AGW segment:

Revenues and Earnings by Segment in Mio€	**2008**	**2009**	**Variation[2]/ 2009 vs. 2008**
AGW Segment			
Revenues	**10.7**	**10.6**	**-2%**
Cost of sales	5.7	5.6	-3%
included therein: depreciations	*0.1*	*0.0*	n.a.
Gross profit	**5.0**	**5.0**	**0%**
Gross profit margin	47%	47%	1%
Sales and marketing expenditures	3.3	3.4	3%
Research and development expenditures	2.1	2.0	-2%
General and administrative expenditures	1.2	1.2	-1%
Other income	0.2	1.0	348%
Other expenditures	0.4	0.5	10%
EBITDA	**-1.7**	**-1.1**	**36%**
Impairment of Goodwill	2.4	0.0	n.a.
Operational depreciation and amortization	0.2	0.2	n.a.
EBIT	**-4.5**	**-1.3**	**70%**

- **AGW revenues:** The 2009 sales revenues in this product segment were with 10.6 Mio€ marginally below the level of the previous year. Thereof, 83% attributed to the sub-segment Mobile Gateways (Mobile-GW) with marginally increased sales, and 17% to the sub-segment VoIP Gateways (VoIP-GW) with decreased sales.

- **AGW gross profit margin:** Therefore, the margin as well as the absolute gross profit remained almost unchanged with 47% and 5.0 Mio€. In detail, the margin in the sub-segment Mobile-GW increased by 2%, whereas in the sub-segment VoIP-GW the margin was significantly affected by extraordinary corrections of warehouse values.

[2] Percentage variations are based on EURO amounts not subject to rounding.

- The 2009 **AGW operating expenditures** marginally increased compared to 2008, due to the increased allocation of distribution cost.

- The **AGW EBITDA** improved by 0.6 Mio€, i.e. about 36%, to -1.1 Mio€ in comparison with 2008. The **AGW EBIT 2009** has significantly improved (70%) compared to the previous year, taking into consideration that previous year's EBIT was extraordinarily affected by depreciation on intangible assets.

Explanations for the Service segment:

Revenues and Earnings by Segment in Mio€	**2008**	**2009**	**Variation[3]/ 2009 vs. 2008**
Service Segment			
Revenues	**2.2**	**2.8**	**26%**
Cost of sales	2.0	2.5	26%
included therein: depreciations	*0.1*	*0.0*	n.a.
Gross profit	**0.2**	**0.3**	**20%**
Gross profit margin	9%	10%	1%
Sales and marketing expenditures	0.3	0.8	147%
Research and development expenditures	0.0	0.0	n.a.
General and administrative expenditures	0.2	0.2	-36%
Other income	0.1	0.1	19%
Other expenditures	0.0	0.1	n.a.
EBITDA	**-0.3**	**-0.7**	**-167%**
Operational depreciation and amortization	0.0	0.0	n.a.
EBIT	**-0.4**	**-0.8**	**-111%**

- **Service revenues:** The 2009 sales revenues increased by 26% compared to the previous year. This is among others attributable to the increasing business with Service Level Agreements (SLA).

- **Service gross profit margin:** Due to continuously increasing SLA business with disproportionally slowly increasing service expenditures, the gross sales margin could be slightly raised to 10% in 2009.

- The 2009 **Service operating expenditures** have about doubled compared to 2008, due to the increased allocation of distribution cost.

- The **Service EBITDA** as well as the **Service EBIT** decreased to -0.7 Mio€ and to -0.8 Mio€, respectively, due to the increased allocation of distribution cost.

[3] Percentage variations are based on EURO amounts not subject to rounding.

B.1 Cash flow

The 2008/2009 cash flow comparison is shown in the following table.

Cash flow in Mio€	2008	2009
Operating Activities	-11.2	-5.7
Investing Activities	28.2	-2.4
Financing Activities	-22.0	5.9
Net increase/decrease of cash and cash equivalents	-5.0	-2.2
Balance at the end of the business year	2.6	0.5

The 2009 **outflow from operations** in the amount of approximately -5.7 Mio€ corresponds essentially with the negative EBITDA and to the change in working capital.

The 2009 **inflow from investing activity** of -2.4 Mio€ is the result of the increase of the capitalization of development expenditures of the product segment "Class 5 softswitch" solutions which was newly acquired in 2008.

The 2009 **outflow from financing activity** in the amount of 5.9 Mio€ is essentially the result of loan agreements agreed with the majority shareholder of TELES and the cash inflow from the sale of the company's own shares.

Cash on hand at the end of 2009 declined in accordance with the above inflows and outflows to 0.5 Mio€. In the event planning goals as already discussed are missed or to the extent as a result of the financial crisis interim financing requirements even evolve, the majority shareholder was committed at the beginning of August 2010 to ensure – in addition to the financial means already provided – that TELES will be managed in such a way and equipped with such financial means as necessary to always meet its liabilities which would arise in the event that sales should be even 20% or more below the level of the previous year throughout the next 12 months. As for the rest, reference is made 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€	12/31/2008	12/31/2009
Cash and cash equivalents	2.6	0.5
Trade accounts receivable	6.4	7.5
Inventories	6.6	4.9
Fixed assets and intangible assets	5.6	6.2
Other assets	3.2	2.5
Liabilities	12.4	16.8
Equity	12.0	4.8
In % of total assets	49%	22%
Total assets	24.4	21.6
Additions to fixed assets and intangible assets	2.7	2.2

The balance **of trade accounts receivable** increased at the 2009 year end by a total of 1.1 Mio€. This is mainly due to a single business transaction in South America.

The **inventory** level that had significantly increased at the 2008 year end was again significantly reduced by 1.7 Mio€ in 2009. The optimization of the warehouse volumes and, with that, of the capital lockup in the warehouse is being continued under application of all available means.

The **fixed assets** and the balance on intangible assets increased in 2009 compared with the previous year by 0.6 Mio€ mainly as a result of the capitalization of development expenditures of the product segment “Class 5 softswitch” solutions according to the balancing standard applicable after IFRS (IAS 38). Altogether, intangible assets (Goodwill, activated technologies and customer relationships) in the amount of 3.0 Mio€ are included in the “Class 5 softswitch” technology. In addition to that, the TELES business continues to feature very little capital lock-up.

The 2009 **Other assets** declined mainly as a result of the payment of a liability resulting from a settlement agreement.

The **liabilities** at the end of 2009 consist of about 20% of operative liabilities, about 26% of reserves and, according to our opinion, not cash-effective liabilities; the remaining liabilities are distributed among various positions, among others a liability resulting from a correction agreement in connection with the loan waiver set forth by the majority shareholder of TELES, Earn Out, and other liabilities in connection with the acquisition of businesses.

The **corporate equity** at the end of 2009 is 4.8 Mio€. This is equivalent to an **equity rate** of **22%**.

B.3 Employees of the TELES Group

TELES employed 196 employees on December 31, 2009. The number of employees thus fell in comparison with the 2008 year end by 66. The decrease in number of employees is mainly attributable to the restructuring measures performed at the beginning of 2009.

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 for an infringement of the German and European skyDSL patent and a related German utility patent. The verdict was in favor of TELES and is legally valid and therefore enforceable towards SES. DTAG appealed against the decision, and the proceedings are currently pending. In 2003, the above mentioned proprietary rights were questioned at the German and the European patent office in connection with the patent infringement proceedings. The German skyDSL core patent was confirmed by the Federal Patent Court end of 2004. In the proceedings regarding the cancelation of the utility patent against DTAG/SES before the patent office, TELES won out to an analogous extent in the first instance. However, the utility patent was canceled on March 20, 2007 in second instance by the federal patent court for judicial reasons. TELES filed an explicitly authorized appeal at the BGH [Bundesgerichtshof = Federal Court of Justice] in which consequence, on July 29, 2009 the BGH reversed the decision of the Federal Patent Court and remitted the case to that court. The European skyDSL patent was confirmed by the European patent office with marginal restrictions on January 26, 2006, but it was cancelled to its full extent by the board of appeal of the European Patent Office on November 3, 2009.
TELES and its legal advisors still do not see any risk in these procedures exceeding the payment of the counterparty's cost in case of losing the proceedings.

TELES acquired a 33.3% investment in a newly founded communication service company in June 2003; at present TELES is its only shareholder. 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 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 English subsidiary was sued by a cellular phone network operator for omission and payment of damages. In return, the English subsidiary then claimed damages for the losses caused by the disconnection of the cellular phone cards. The appeal instance in the Federal Court of Justice (BGH) issued a verdict to the disfavor of the English subsidiary of TELES on June 29, 2010. The therefrom resulting payment obligations have no significant impact on TELES.

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 Higher Regional Court (OLG) Düsseldorf in the second instance rejected both the complaint and the counter complaint, as had the Regional Court (LG) Düsseldorf already. Both parties have filed the expressly permitted appeal on points of law with the BGH. With sentence of June 29, 2010, the BGH repealed the sentence of the OLG Düsseldorf to the extent as it was issued to the disfavor of the cellular network operator. The revision of TELES related to the counterclaim was rejected. To the extent of the repeal, the matter was returned for further proceedings to the OLG Düsseldorf. It is also not clear what the impact of a negative decision for TELES would be on international sales. 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 relatively small.

skyDSL Global GmbH, a previous subsidiary of TELES, filed a suit against TELES AG end of September 2009 for the refund of allegedly unsubstantiated payouts to TELES AG as shareholder. Due to an expert opinion of the auditing company PwC which supports the legal position of TELES AG, TELES and its legal advisors see only a minor risk in these proceedings.

Comments on the state of patent infringement lawsuits mentioned in previous years are waived from 2009 on, since – as already mentioned in last year's financial statement – the majority shareholder (SSBG = Sigram Schindler Beteiligungsgesellschaft) has assumed full costs connected with the patent lawsuits with effect from January 1, 2009; SSBG and TELES will participate in the outcomes of the patent infringement lawsuits of IntraStar.

D. Research and development activities

In addition to its high-performance marketing and sales teams, the TELES Group 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 Group during the reporting year. These are in detail:

- The further development of a high-performance soft switch solution (TELES-MGC = TELES Media Gateway Controller) based on a “cluster technology”, which provides the customer with a high-performance, redundant solution 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 softswitch” solution for the connection of residential and corporate customers via VoIP and the associated development team were taken over at the beginning of 2009 to expand the NGN portfolio. The take-over permits TELES to achieve sales in this segment already in 2009. 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. Emphasis is placed, in particular, on more complex solutions as well as the extension of the product portfolio in the corporate area.

- The region- and market-specific functions were extended to meet the requirements of the individual regions, markets as well as customer requirements. 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 cooperation with leading institutes in the research segment.

E. Special events after the closing of the business year

The majority shareholder grants loans to the corporation to close any funding gaps; the corporation has utilized 3.6 Mio€ thereof in the first eight months of the year 2010. For further information, reference is made to Section B. As for the current development of operative business, reference is made to the quarterly and semi-annual report for the business year 2010.

F. Risks report

General information

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 other things, on unexpected uncollectible receivables and also instances of falling short of planning goals.

As already mentioned in the previous year’s financial report, all costs connected with patent infringement lawsuits (TIPR) as well as all costs in connection with the evolution of the market environment for an additional business division with “Customer Premises Equipment” were assumed by the majority shareholder with effect from January 1, 2009.

To strengthen the liquidity position and in order to be able to eliminate any gaps in financing, in August, a loan contract has been agreed with the majority shareholder. The funds should be sufficient to cover all possible additional liabilities which would prospectively result from the sales revenue being 20% or more below the previous year’s level over the next twelve months.

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 also those sales revenues continue to be missed for the coming months and if in such a case no additional funds can be raised from the shareholders.

Risk management system

The corporate strategy forms the basis for the risk policy of TELES. The risk policy is geared to secure the continuing existence of the business and to systematically and continuously increase the value of the business.

The risk strategy considers risks and the opportunities connected with them. Wherever the Group possesses core competences we consciously take reasonable and controllable risks if, at the same time, an appropriate revenue can be expected. The development and utilization of economic opportunities and potentials arising on the market is inevitably connected with risks. For any entrepreneurial success, it is of significant importance to realize risks early and to counteract them actively.

On the other hand, in case of need, we transfer risks in other areas to other risk takers. Moreover, risks are avoided as much as possible. In summary, it has been ensured that the Group can fully cover any risks it takes.

The state of risks is communicated to the board of directors and the supervisory board quarterly. In the event that risks arise unexpectedly, or if risks change significantly, an ad-hoc reporting duty applies. The risk is then immediately brought to the attention of the board of directors and, if necessary, also reported by the board of directors to the supervisory board.

Significant characteristics of the accounting-related internal control and risk management system

Pursuant to § 289 Para.5 and § 315 Para.2 No.5 HGB [German Commercial Code], TELES AG is obliged to describe in its Consolidated Management Report the most significant characteristics of its accounting-related internal control and risk management systems for the business year ending on December 31, 2009. The extent and the layout of the specific requirements of the TELES AG are in the sole discretion and responsibility of the directors. The TELES Group has therefore established a “risk management” integrated into the operational procedures. With that, the subsidiaries are in charge of the extent, form and contents of their respective risk management systems. The monitoring and coordination of the Group-wide risk management is the responsibility of the Group leadership. Part of the risk reporting of the subsidiaries to the Group leadership is the regular and systematic identification, quantification and assessment of the currently relevant risks and security systems. The assessment of the risks is orientated on the possible amount and the probability of the occurrence of losses.

Description of the internal control system

The accounting-related internal control system of the TELES AG covers all principles, procedures and measures to secure the effectiveness, economic reasonability and orderly manner of the accounting as well as to secure the compliance with the relevant legal regulations.

Embedded in the accounting process are internal controls which are defined according to risk aspects. The accounting-related internal control system contains preventative as well as investigative controls, including IT-supported and manual coordination, plausibility tests, the division of functions, the four-eyes-principle, and general IT-controls such as access authorizations in IT systems.

The internal control system supports, within the frame of the organizational, control and monitoring structures established within the TELES AG, the recording, processing and handling of business-related facts as well as their appropriate presentation in the Group’s accounting.

The control of the accounting processes is the responsibility of the Division Group Accounting. Acts, accounting standards and other announcements are continuously analyzed for their relevance and effects to the annual financial report. The Group’s companies are responsible to meet the requirements regarding the orderly and timely course of their accounting-related processes and systems, and are thereby supported by the Division Group Accounting. The described accounting-related internal control system is supplemented by controls on the level of business management, performed by the highest decision committees.

However, certain events such as, in particular, personal decisions made at one's own discretion, faulty inspections, criminal actions and similar, cannot be excluded due to their specific nature and can limit the efficacy and reliability of the applied internal control system and risk management system. Hence, also the Group-wide application of the selected systems cannot ensure absolute security with regard to the correct, complete and timely recording of facts in the Group's accounting.

The statements made only refer to the subsidiaries that are included in the consolidated annual accounts of the TELES AG and in relation to which the TELES AG has an immediate or mediate option to determine their financial and monetary policy, in order to take advantage of the activities of these businesses.

Central risk areas

The following describes the risks that can have negative impacts on the asset, finance and earnings situation of the TELES Group. 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 about 12% during 2009. The next 10 largest customers contributed approx. 33% of the sales. The sales share of 12% for a single customer in 2009 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 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, at the end of the year, there was a "cluster risk" in the receivables in relation to a Brazilian company group the requirements of which are based on a redemption agreement over several months, which on the one hand are, by principle, continuously served on a regular basis, and on the other hand, supported by additional "promissory notes" of the wealthy majority shareholder. The creditworthiness of new customers will always be reviewed, and that of existing customers is also reviewed on a regular basis, using information sources as customary on the market. In addition, the corporation works - as much as possible and reasonable - with down payments. For foreign businesses, commercially available letters of credit or payment guarantees are used - especially for businesses outside Europe. As of the end of 2009, around 3% of receivables are supported with payment guarantees, documentary credits and 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. 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

TELES holds about 20% of the not publicly traded GRAVIS Beteiligungs AG as well as – after dilution – still just at 6% in the HETAN Technology GmbH (previously skyDSL Technology GmbH which has emerged from the sale of the previous TWBI GmbH that owned 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 of course we cannot 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 cannot be ruled out 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</u>

The phone networks are currently subject to rapid 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 and the experience derived therefrom, TELES offers competitive and recognized softswitch solutions (NGN; C4). This should make it 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. The large and constantly increasing number of negotiated MGC projects should be seen in the sales figures soon.

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

- The year 2008/2009 was characterized by the global economic crisis and as expected the total revenue in the carrier equipment market dropped by 28%. Most affected by this drop in sales was mere TDM equipment. This is due to the fact that the carriers have pushed the migration to IP in the last 12 months, due to the economic crisis, and, at the same time, the TDM line access has strongly declined.

- The cause for the migration to modern IP equipment is, among others, the lower operating cost (space requirement, electricity, etc.), the better offer of additional services and the migration of two network structures (TDM and IP) to a consistent infrastructure (IP) which results in significantly better total cost of ownership for the carrier.

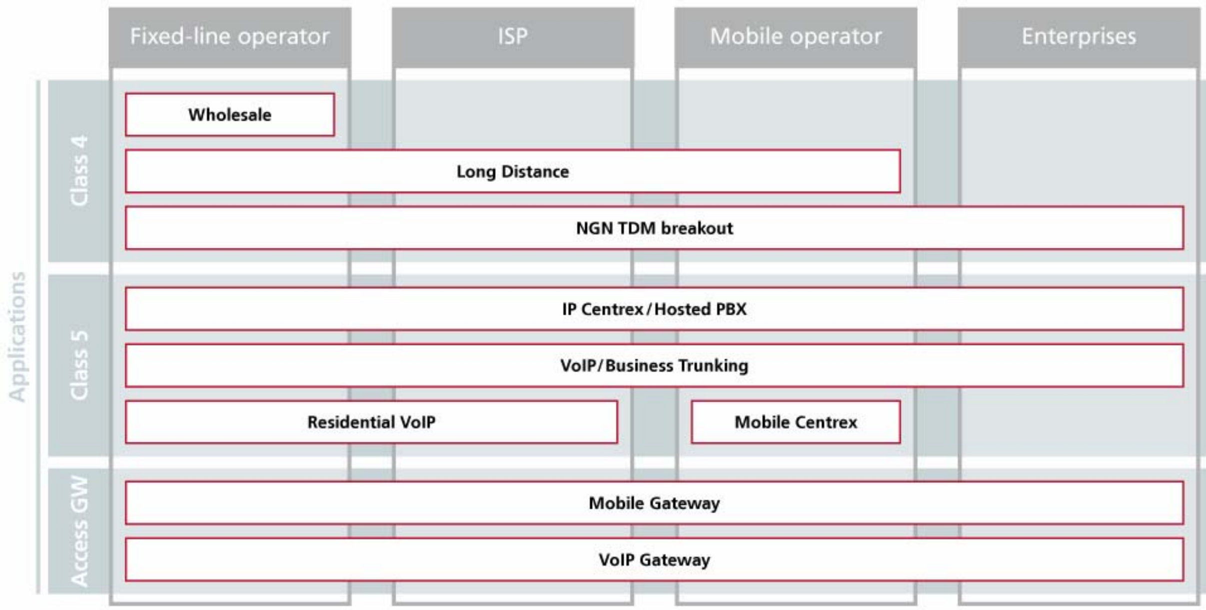
- With regard to sales, the market has stabilized in Q3/Q4 2009. Compared to the quarters of the previous year there is already again a slight growth (about 3%). It is expected that the sales revenue will remain stable in the next years and that it will increase due to the trend towards IP.

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 softswitch” 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 2009 increasingly with Class 5 applications. TELES is now well prepared to address these new growth markets. Also in the business with the so-called “Class 5 softswitch” solutions, TELES handles a large and continuously increasing number of currently negotiated projects; this should show up in sales figures soon. 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 CAPEX to OPEX driven business models. Particularly in times of the financial and economic crisis, this is a very important decision driver. Generally it should be noted that the business forecasts in connection with the “Class 5 softswitch” solutions are mainly based on assumptions regarding the behavior of market participants, their affinity to technology and, derived thereof and among others, the expected speed of migration from classic to IP-based telephone technology.

In order to better utilize the entire market potential, TELES increasingly works (a) with partners who can complement the in-house portfolio of TELES well, and (b) with system integrators as their technology partners. TELES is positive to be able to grow accordingly on this basis in various regions.

In principle, 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. On the Asian market, business has increased by well over 15%.

Furthermore, TELES was successful in becoming certified by AVAYA with one of the core products from the Access-GW area. Currently, the first test installations at end customers in the US who are using PBX systems (telephone branch exchange systems) by AVAYA are on the way. With more than 50% market share, AVAYA is the market leader in the PBX business in the US (together with the PBX business taken over by Nortel).



In view of the expected dynamic growth of the market in the technologies and markets on which TELES focuses on 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, small 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 aims to achieve sales, in comparison with the prior year, at about the same level this year and a sales growth of up to 25% for 2011. Subsequently, TELES expects at least break even in 2011. 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 neither TELES nor its management board can assume any 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.

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 51.15% 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, 2009 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 T€ as of December 31, 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 2000/I. It only becomes effective if stock options from the employee stock option program are exercised. As of December 31, 2009, the conditional capital 2000/I was 384 T€ 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 of 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, September 6, 2010

The Management Board of TELES AG Informationstechnologien

Consolidated Financial Statement of TELES AG Informationstechnologien for the 2009 Business Year

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		December 31	
(in T€, except number of shares)	**Note**	**2008**	**2009**
ASSETS			
Non-current assets			
Tangible assets	5	1,729	985
Intangible assets	6	3,830	5,186
Deferred tax assets	21	26	36
Other financial assets	7, 20	705	861
		6,290	**7,068**
Current assets			
Inventories	8	6,626	4,907
Trade accounts receivable	9, 20	6,396	7,519
Other financial assets	20	1,355	355
Receivable from income taxes	21	125	181
Other current assets	10	1,043	1,093
Cash and cash equivalents	27	2,589	460
		18,134	**14,515**
Total assets		**24,424**	**21,583**
LIABILITIES			
Equity			
Common shares:		23,305	23,305
Issued: 23,304,676 and 23,304,676 at 12/31/08 & 09, resp.			
Outstanding: 21,130,183 and 23,304,676 at 12/31/08 & 09, resp.			
Additional paid-in capital		6,732	5,518
Other comprehensive income		0	591
Unappropriated retained earnings		3,408	-4,419
Revenue Reserves/ Treasury stock			-20,549
Treasury stock (2,174,493 and 0 at 12/31/08 & 09, resp.)		-21,702	0
Other equity changes		280	324
Equity attributable to shareholders of the parent company		**12,023**	**4,770**
Minority interests		**0**	**15**
Total equity	11	**12,023**	**4,785**
Non-current liabilities			
Non-current accrued liabilities	19	1,804	926
Deferred tax liabilities	21	18	4
Other financial liabilities	12, 20, 29	0	6,132
Other non-current liabilities	13	1,166	114
		2,988	**7,176**
Current liabilities			
Convertible debt	14, 20, 25	216	0
Trade accounts payable	15, 20	3,047	2,973
Accruals for income taxes	19, 21	135	143
Other accruals	19	876	1,361
Deferred revenues	16	310	465
Other financial liabilities	17, 20, 29	0	326
Other current liabilities	18, 29	4,829	4,354
		9,413	**9,622**
Total liabilities		**12,401**	**16,798**
		24,424	**21,583**

Consolidated financial statement of TELES AG Informationstechnologien for the 2009 Business Year

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CONSOLIDATED INCOME STATEMENT

(in T€, except share-related information)	Note	2008	2009
		January 1 – December 31	
Revenues	30, 31	**23,781**	**20,151**
Cost of sales	30, 31	**12,851**	**11,680**
Gross profit		**10,930**	**8,471**
Sales and marketing expenditures	31	7,546	8,236
Research and development expenditures	6, 31	6,589	4,282
General administrative expenditures	31	8,489	3,435
Impairment of goodwill	6, 31	2,430	0
Expenditures from employee stock option plans	25, 31	107	183
Other income	22, 31	549	1,287
Other expenditures	22, 31	739	739
Operating loss	31	**-14,421**	**-7,117**
Financial earnings	20, 23, 31	703	340
Financial expenditures	20, 23, 31	600	193
Other results from investments	20, 23, 31	-22,436	-5
Earnings before income taxes	21, 31	**-36,754**	**-6,975**
Income tax refund	21	-968	-90
Earnings from continued operations		**-35,786**	**-6,885**
Earnings from discontinued operations, net of tax	24	1,251	-927
Annual net loss		**-34,535**	**-7,812**
Thereof attributable to:			
Shareholders of the parent company	26	-34,534	-7,827
Minority shareholders		-1	15
Earnings per share from continued operations			
Undiluted		-1.69	-0.31
Diluted		-1.69	-0.31
Earnings per share, total	26		
Undiluted		-1.63	-0.35
Diluted		-1.63	-0.35
Number of underlying shares			
Undiluted		21,130,183	22,530,597
Diluted		21,130,183	22,530,597
Additional information for the consolidated financial statement (unaudited):			
EBIT[1]		-14,421	-7,117
EBITDA[2]		-10,623	-5,689

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

Consolidated financial statement of TELES AG Informationstechnologien for the 2009 Business Year

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in T€)	Note	January 01 - December 31 2008	 2009
Annual loss		**-34,535**	**-7,812**
Other total result:			
Currency exchange differences of foreign subsidiaries		163	44
Financial assets available for sale	20	-2,901	600
Losses/profits achieved during the report period	20	-25,337	600
Adjustment due to reclassification for profits/losses included in the profit and loss	20, 23	22,436	0
Taxes on Other results from investments, allocated in full to financial assets available for sale	20	30	-9
Other results from investments, net taxes		**-2,708**	**635**
Overall result		**-37,243**	**-7,177**
Thereof attributable to:			
Shareholders of the parent company		-37,242	-7,192
Minority shareholders		-1	15

Consolidated financial statement of TELES AG Informationstechnologien for the 2009 Business Year

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STATEMENT OF CHANGES IN EQUITY

(in T€, except number of nominal shares)	Number of nominal shares	Nominal share value	Additional paid-in capital	Other compre-hensive income	Unappropriated retained earnings	Balance profit/ balance loss	Treasury Stock	Other equity changes	Equity of share-holders of the parent company	Minority interests	Total equity
December, 31 2007	**23,304,676**	**23,305**	**6,625**	**2,871**	**0**	**59,072**	**-21,702**	**117**	**70,288**	**1**	**70,289**
Net income for the year, attributable to parent company shareholders or minority interests				-2,871		-34,534		163	-37,242	-1	-37,243
Employee stock option plans			107						107		107
Dividend payment						-21,130			-21,130		
December 31, 2008	**23,304,676**	**23,305**	**6,732**	**0**	**0**	**3,408**	**-21,702**	**280**	**12,023**	**0**	**12,023**
Net loss for the year, attributable to parent company shareholders or minority interests				591		-7,827		44	-7,192	15	-7,177
Employee stock option plans			183						183		183
Sale of treasury stock					-20,549		21,702		1,153		1,153
Waiver of claims			4,735						4,735		4,735
Financial liability from Recovery agreement			-6,132						-6,132		-6,132
December, 31 2009	23,304,676	23,305	5,518	591	-20,549	-4,419	0	324	4,770	15	4,785

Consolidated financial statement of TELES AG Informationstechnologien for the 2009 Business Year

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CONSOLIDATED CASH FLOW STATEMENT

(in T€)	January 01 – December 31 **2008**	 **2009**
Cash flow from operating activities:		
Net income/ loss	-34,535	-7,812
Adjustment of the net income/ loss to the operating cash flow:		
Income taxes	-968	-90
Financial result:		
Loss on financial instruments	22,954	0
Interest result	-621	86
Recovery rights	0	-277
Employee stock option plans	107	183
Allowance for doubtful accounts	978	3,281
Income from government grants	-40	0
Depreciations for tangible fixed assets	999	864
Amortization on intangible assets	2,902	663
Losses from divestiture of assets	6	0
Effects from exchange rate changes with no impact on payment	17	44
Changes of other balance sheet items (without changes due to company acquisitions and divestitures):		
Inventories	-1,797	1,690
Trade accounts receivable	-2,486	-3,638
Other current assets, accruals and deferrals	-1,544	864
Current liabilities	813	-92
Accruals and other liabilities	-391	-1,436
Received income taxes	2,245	22
Paid income taxes	-168	-14
Received interest	529	18
Paid interest	-247	-2
Cash outflow from operating activities	**-11,247**	**-5,646**
Cash flow from investing activities:		
Repayment of loans from employee stock option plans	152	0
Third and related party loan	-473	-276
Proceeds from sale of financial instruments	32,657	0
Proceeds from sale of fixed assets	3	10
Acquisition of financial instruments	-5	0
Acquisition of fixed assets	-535	-102
Acquisition of intangible assets	-72	-27
Payout for capitalized development cost	-1,590	-1,994
Recovery rights	268	20
Acquisition of subsidiaries or other business units	-2,200	0
Cash inflow from investing activities	**28,205**	**-2,369**
Cash flow from financing activities:		
Paid dividend	-21,130	0
Cash outflow from the return of convertible employee bonds	-857	0
Loans from related companies and individuals	0	4,735
Sale of treasury stock	0	1,153
Other financial activities	-7	-2
Cash outflow from financing activities	**-21,994**	**5,886**
Net change of cash and cash equivalents	-5,036	-2,129
Cash and cash equivalents, at the beginning of the year	7,625	2,589
Cash and cash equivalents, at the end of the year	**2,589**	**460**
Cash and cash equivalents include money market funds	137	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 206 employees during the business year (previous year: 265). The employees worked in the sales and marketing (36, previous year: 51), research and development (89, previous year: 122), procurement and logistics (44, previous year: 43) and administration (38, previous year: 49) 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, 2009 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, 2009 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 shareholders.

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

- *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 31 for further information.

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

- *IFRIC 13 Customer Loyalty Programs*

In the framework of customer loyalty programs, the customer acquires points (bonuses) which allow him 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 must 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 must be applied to business years that begin on or after January 1, 2009.

The regulations of IFRIC 13 did not significantly affect the assets, finance and income of the Company in the past business year.

- *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 must be applied to business years that begin on or after January 1, 2009.

The regulations of IFRIC 14 did not significantly affect the assets, finance and income of the Company in the past business year.

- *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 must be applied to business years that begin on or after January 1, 2009.

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

- *Amendment to IFRS 2 Share-based Payment*

The amendment 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 amendment to IFRS 2 did not significantly affect the assets, finance and income of the Company in the past business year.

- *Amendments to IFRS 4 Insurance Contracts and IFRS 7 Financial Instruments: Disclosures*

The amendments to IFRS 4 and IFRS 7 require more detailed information in respect of valuations at fair value and liquidity risks of financial instruments.

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

The IASB makes clear that the qualitative information on risks in connection with financial instruments shall support and explain the respective qualitative information. As for the qualitative information on the risk, the reference to significance is omitted, as the disclosure requirement relates to significant items only.

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

The amendment to IFRS 4 and IFRS 7 did not affect the assets, finance and income of the Company in the past business year.

- *Amendment to IAS 1 Presentation of Financial Statements*

The amendment 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.

With regard to the consolidated statement of income TELES has chosen the “two statement approach”.

This does not affect the assets, finance and income of the Company because the amendment of IAS 1 related exclusively to disclosure obligations.

- *Amendment to IAS 23 Borrowing Costs*

Based on the amendment 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 amendment to IAS 23 did not affect the assets, finance and income of the Company.

- *Amendments 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 did not affect the assets, finance and income of the Company.

- *Amendment to IAS 39 Financial Instruments: Recognition and Valuation and IFRS 7 Financial instruments: Information*

According to this amendment it is now permitted for companies to reclassify certain financial instruments from the category of financial instrument to be recognized at fair value through profit and loss, to other categories which are valued at continued acquisition cost with impaired value test.

Further, an update of the amendment named above has been published which clarifies the point in time when the amended regulations come in force.

The regulations of IAS 39 and IFRS 7 must be applied after July 1, 2008.

The amendment to IAS 39 and IFRS 7 did not affect the assets, finance and income of the Company in the past business year.

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

With the amendments to IFRIC 9 and IAS 39 it has been clarified how embedded derivatives must be handled, if a hybrid agreement is reclassified out of the “fair value through profit and loss” category.

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

The amendment to IAS 39 did not affect the assets, finance and income of the Company in the past business year.

- *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 – must be applied to business years that begin on or after January 1, 2009.

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

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

- *IFRS 9 Financial Instruments*

On November 12, 2009, IASB has issued a new IFRS for the classification and valuation of financial instruments. The publication constitutes the completion of a three-phase project to replace *IAS 39 Financial Instruments: Recognition and Measurement* by a new standard. IFRS 9 introduces new regulations on the classification and valuation of financial assets.

The regulations must be bindingly applied from January 1, 2013; an earlier application is permitted.

At present, no binding statement can be made in respect of possible effects of the new standard to the assets, finance and income of the Company.

- *IFRIC 12 Service Concession Arrangements*

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

The regulations must be applied to business years that begin on or after March 29, 2009; an earlier application is permitted.

At present, the regulations of IFRIC 12 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 must be either in accordance with IAS 11 *Construction Contracts* or under IAS 18 *Revenue Recognition*.

The regulations must be applied to business years that begin on or after January 1, 2010; an earlier application is permitted.

The regulations of IFRIC 15 are not expected to be relevant for the Company.

- *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 must be applied to the underlying transaction and to the hedging transaction, respectively, at the time of the sale of the hedged property?

The regulations must be applied to business years that begin on or after June 30, 2009; an earlier application is permitted.

At present, the regulations of IFRIC 16 are not expected to be relevant for the Company.

- *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 must be applied to business years that begin on or after November 1, 2009.

The regulations of IFRIC 17 are not expected to be relevant for the Company.

- *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 regulations must be applied on a prospective basis for business years that begin on or after November 1, 2009.

The regulations of IFRIC 18 are not expected to be relevant for the Company.

- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*

IFRIC 19 explains the IFRS requirements in the event that a company issues shares or other equity instruments for partial or complete extinguishing of liabilities.

The regulations must be applied to business years that begin on or after July 1, 2010.

The regulations of IFRIC 19 are not expected to be relevant for the Company.

- *Amendment to IFRS 1 Initial application of the IFRS (Additional Exemptions for First Time Adopters)*

The amendment to IFRS 1 Amendments (2009) "Additional Exemptions for First-time Adopters" introduces further facilities for first-time adopters of IFRS for their changeover to IFRS.

The amended standard is applicable to business years that begin on or after January 1, 2010.

The amendment to IFRIC 1 is not relevant for the Company.

- *Amendment to IFRS 2 Share-based Payment*

The amendment to IFRS 2 Amendments (2009) "Group Cash-settled Share-based Payment Transactions" specifies, in particular, how a single subsidiary within a Group shall balance certain share-based compensation agreements in its own financial statements. Further, the amended standard includes regulations that were previously included in IFRIC 8 "Scope of IFRS 2" and IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions". IFRIC 8 and IFRIC 11 were therefore withdrawn from IASB.

The amended standard is to be applied to business years that begin on or after January 1, 2010.

At the present time, the amendment to IFRS 2 is not relevant for the Company.

- *Amendment to IAS 24 Related Party Disclosures*

By now, entities controlled or substantially influenced by the state were obliged to disclose information about all business transactions with other entities controlled or substantially influenced by the same state. The amendment to IAS 24 relates, on the one hand, to a simplification of the information duties of entities close to governments. Although details significant for the addressees are still required, the entities close to the governments are granted a partial exemption from the duty to disclose business transactions. As far as such information can be provided at high cost only, or if it is of little information value for the addressees, such details are exempt from the information duty pursuant to the amended IAS 24.

Further, the amendment of IAS 24 clarifies the definition of a closely related entity.

The amended standard is applicable to report periods that start on or after January 1, 2011.

The regulations of IAS 24 are not expected to be relevant for the Company.

- *Amendment to IAS 27 Consolidated and Separate Financial Statements after IFRS*

The amendment to 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 business years that begin 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.

- *Amendment to IAS 32 Financial Instruments: Presentation: Classification of Rights Issues*

The amendments concern the balancing at the issuer of preemptive rights, options and warrants for the acquisition of a fixed number of equity instruments denominated in another currency than the functional currency of the issuer. By now, such cases were entered as derivative liabilities. Such preemptive rights which are issued at a fixed currency amount pro rata to existing shareholders of an entity are, according to the revised regulation, to be classified as equity. The currency of the strike price is thereby irrelevant.

The regulations must be applied to business years that begin on or after February 1, 2010.

At this time, the amendment to IAS 32 is not relevant for the Company.

- *Amendment 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.

At this time, the amendment to IAS 39 is not relevant for the Company.

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

On November 26, 2009 the IASB has published a small change to its regulations on the balancing of pension plans. The amendment applies to the limited circumstances under which an entity is subject to minimum requirements for financing and provides prepayment of the amounts in order to meet those requirements. After the amendment, it is now permitted to an entity to record the benefit from such prepayment as an asset.

The application of this amendment becomes compulsory on January 1, 2011.

The amendment to IFRIC 14 is not relevant for the Company.

- *Revision to 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 to business years that begin on or after July 1, 2009.

- *Revision to 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 this time, the revision to IFRS 3 is not relevant to the Company.

- *Improvements to IFRSs*

On April 16, 2009, the IASB published the second annually issued collection of standards for the purpose of making minor changes in the IFRS, the so-called “Improvements to the IFRSs”. The annual improvements project was initiated by 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. The existing changes on ten IFRS and two interpretations as well as the appertaining foundations for conclusions were continuously discussed by IASB within the frame of the annual improvement process.

The majority of the changes by means of improvements to the IFRSs is to be applied for the first time in retrospective for the business years that begin on or after January 1, 2010. Earlier voluntary application is possible.

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, on the one hand, to the intangible assets that the corporation has created itself, and the goodwill in connection with the Class 5 softswitch solution, and, on the other hand, the income taxes. In connection with the C 5 technology, significant assumptions must be made with regard to the behavior of the participants in the market, their affinity to new technologies and, derived therefrom, e.g., the expected speed of migration from classic to IP-base telephone systems. Such assumptions influence the valuation of the intangible assets that the corporation has created itself.

In the area of income taxes, significant assumptions are required 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 21 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 2009 business year include TELES AG as the parent company plus four domestic and ten foreign subsidiaries. The number of consolidated companies increased as a result of the foundation of one company; please refer to note 4 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 33.

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 must 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; and
- financial instruments available-for-sale.

The shares of freenet.de AG that were sold in the business year 2008 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 20.

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; value changes between initial and subsequent valuation were reflected in equity capital, Reserve for Valuation. The input factors which the valuation was based on were the input factors level 2 according to IFRS 7.27. Further information is provided in note 20.

In connection with the minority interest in GRAVIS AG, furthermore, TELES has agreed on a recovery right (**“**Besserungsrecht**”**) from the remission of debt, based on which the Company participates in any increase in the fair value of GRAVIS AG in terms of profit sharing and in the event of resale of GRAVIS AG shares. Receivables resulting from the recovery right are initially stated at fair value and afterwards measured at amortized costs using the effective interest method. The receivables are included in the balance sheet item "Other financial assets" (non-current); further information is provided in note 20.

At the end of the business year, the Company holds a 6.55% interest in the capital of skyDSL Technologies GmbH. In the past business year the nominal capital of skyDSL Technologies GmbH was increased in which TELES did not participate; the TELES share therefore decreased to 5.70%. It is reflected on the balance sheet under “Other financial assets” (non-current). Due to the operative losses in the past business year the minority interest was completely adjusted in value.

In December 2009 skyDSL Technologies GmbH changed its business name to “HETAN Technologies GmbH”.

In addition, the Company holds on the balance sheet date an option for the divestiture of business shares in a subsidiary. The right is 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. In the past business year, the Company met all external minimum capital requirements.

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. In the 2009 business year all treasury stock held by the Company was completely sold; further information is provided in note 11.

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; and
- financial liabilities measured at amortized cost.

In the past business year, the company Sigram Schindler Beteiligungsgesellschaft mbH has waived of loans that were granted to the Company. On December 21, 2009, the Company has a financial liability on its balance sheet which results from a recovery agreement entered into in connection with the waiver of the loan. The liability was valued at fair value. The fair value was determined – due to lack of market-related data – by means of a discounted-cash-flow procedure.

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 has entered into a factoring agreement with the Sigram Schindler Beteiligungsgesellschaft mbH (factor) according to which TELES can offer to the factor contractually specified trade accounts receivable for purchase. The purchase price to be paid by the factor to TELES is calculated from the nominal value of the purchased TELES account representing its claim towards the customer, minus the factoring fee in the amount of 1% of that nominal value.

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 two years. 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, must 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.

Principles of 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.

Production made to order

Income or revenues from service transactions in which a certain achievement / output is owed are recorded according to the degree of completion of the transaction on the balance sheet date. The contents of respective regulations correspond to IAS 11 regulations on production orders (percentage of completion method, cost-to-cost method).

As a rule, revenues should not be recognized if it is probable that the economic benefits associated with the transaction will flow to the Company. In particular service agreements with a service provision over several periods are in this regard subject to continuous re-evaluations; revenues are not recognized if substantial uncertainty exists with respect to the receipt of payments.

Reimbursement for transportation and shipping costs
The Company records the reimbursement of shipping costs as revenue and the related costs as cost of sales.

Cost of sales
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 24.

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€)	**2008**	**2009**
Depreciation (included in cost of sales and operative expenditures)	1,368	1,427
thereof: planned depreciation on fixed assets	866	767
thereof: planned amortization on intangible assets	345	660
thereof: unplanned amortization on intangible assets	157	0
Depreciation (included in development expenditures, capitalized according to IAS 38)	142	102
thereof: planned depreciation on fixed assets	135	98
thereof: planned amortization on intangible assets	7	4
Impairment of goodwill	2,430	0
Inventories		
Acquisition and production costs of inventories which are reflected as expense	9,274	7,661
included therein: write-downs on inventories (included in cost of sales)	1,049	1,062
Allowance for doubtful accounts (included in operative expenditures, sales and marketing)	895	3,288
thereof: increase in allowances	994	3,417
thereof: reversal of allowances	-99	-129
Personnel expenditures (without expenditures for employee stock option plans)		
(included in cost of sales and operative expenditures)	13,251	9,249
included therein: employer share to statutory pension scheme	882	713
included therein: employer share to defined contribution plans	41	32
included therein: expenditures for settlements	288	75
Government grants (investment subsidy)		
Relating to previous years (included in Other income)	65	0

[3] Continued operations

NOTE 4: CHANGES WITHIN THE CONSOLIDATION CIRCLE

In December 2009 TELES founded the company T.T.C.S Technologies Ltd with place of business in Tel Aviv; TELES AG is the sole shareholder; the paid in nominal capital is NIS 10. The company will commence its operative activity in the business year 2010.

NOTE 5: TANGIBLE ASSETS

The tangible assets developed as follows during the 2008 and 2009 business years:

	Acquisition costs					
(in T€)	December 31, 2007	Additions	Disposals	Currency differences	Company addition	December 31, 2008
Computer hardware	**5,562**	**746**	**22**	**-3**	**171**	**6,454**
Capital leases	**1,417**	**0**	**1,417**	**0**	**0**	**0**
Office and operating equipment	**684**	**27**	**22**	**1**	**0**	**690**
Leasehold improvement	**635**	**42**	**0**	**0**	**0**	**677**
Other	**176**	**225**	**88**	**-4**	**0**	**309**
Total	**8,474**	**1,040**	**1,549**	**-6**	**171**	**8,130**

	Accumulated depreciation			
(in T€)	December 31, 2007	Additions	Disposals	December 31, 2008
Computer hardware	**4,574**	**784**	**20**	**5,338**
Capital leases	**1,417**	**0**	**1,417**	**0**
Office and operating equipment	**603**	**35**	**22**	**616**
Leasehold improvement	**323**	**80**	**0**	**403**
Other	**24**	**100**	**80**	**44**
Total	**6,941**	**999**	**1,539**	**6,401**

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

(in T€)	December 31, 2008	Additions	Acquisition costs Disposals	Currency differences	December 31, 2009
Computer hardware	**6,454**	**116**	**5**	**0**	**6,565**
Capital leases	**0**	**0**	**0**	**0**	**0**
Office and operating equipment	**690**	**0**	**20**	**0**	**670**
Leasehold improvement	**677**	**4**	**0**	**0**	**681**
Other	**309**	**10**	**16**	**0**	**303**
Total	**8,130**	**130**	**41**	**0**	**8,219**

(in T€)	December 31, 2008	Additions	Accumulated depreciation Disposals	December 31, 2009
Computer hardware	**5.338**	**659**	**2**	**5,995**
Capital leases	**0**	**0**	**0**	**0**
Office and operating equipment	**616**	**33**	**18**	**631**
Leasehold improvement	**403**	**80**	**0**	**483**
Other	**44**	**91**	**10**	**125**
Total	**6.401**	**863**	**30**	**7,234**

(in T€)	Remaining book values December 31, 2008	December 31, 2009
Computer hardware	**1,116**	**570**
Capital leases	**0**	**0**
Office and operating equipment	**74**	**39**
Leasehold improvement	**274**	**198**
Other	**265**	**178**
Total	**1,729**	**985**

NOTE 6: INTANGIBLE ASSETS

The intangible assets developed as follows during the 2008 and 2009 business years:

(in T€)	Acquisition costs					
	December 31, 2007	**Additions**	**Disposals**	**Currency differences**	**Company addition**	**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 cost	0	1,590	0	0	0	1,590
Miscellaneous	**118**	**0**	**0**	**0**	**0**	**0**
Total	**13,458**	**1,662**	**2**	**152**	**2,319**	**17,589**

(in T€)	Accumulated depreciation				
	December 31, 2007	**Additions**	**Impairments**	**Disposals**	**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 cost	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 cost	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 (product segment Access Gateways).

(in T€)	Acquisition cost December 31, 2008	Additions	Divestures	Currency differences	Business combination	December 31, 2009
Software licenses	**4,411**	**27**	**0**	**0**		**4,438**
Customer relationships	**6,869**	**0**	**0**	**0**		**6,869**
Goodwill	**4,218**	**0**	**0**	**0**		**4,218**
Technologies	**1,973**	**1,994**	**0**	**0**		**3,967**
thereof: Capitalized development costs	1,590	1,994	0	0		3,584
Miscellaneous	**118**	**0**	**0**	**0**		**118**
Total	**17,589**	**2,021**	**0**	**0**		**19,610**

(in T€)	Accumulated depreciation December 31, 2008	Additions	Impairments	Divestures	December 31, 2009
Software licenses	**4,285**	**69**		**0**	**4,354**
Customer relationships	**6,688**	**26**		**0**	**6,714**
Goodwill	**2,397**	**0**		**0**	**2,397**
Technologies	**274**	**567**		**0**	**841**
thereof: Capitalized development costs	124	509		0	633
Miscellaneous	**115**	**3**		**0**	**118**
Total	**13,759**	**665**		**0**	**14,424**

(in T€)	Remaining book values December 31, 2008	December 31, 2009
Software licenses	**126**	**84**
Customer relationships	**181**	**155**
Goodwill	**1,821**	**1,821**
Technologies	**1,699**	**3,126**
thereof: Capitalized development costs	1,466	2,951
Miscellaneous	**3**	**0**
Total	**3,830**	**5,186**

In business years 2008 and 2009, TELES capitalized development costs in the amount of net T€ 1,466 and T€ 1,485 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. 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 (7.35%) 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 adjusted in value 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 included in the balance sheets.

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 adjusted in value.

NOTE 7: OTHER FINANCIAL ASSETS

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

(in T€)	December 31 2008	2009
Unlisted securities: GRAVIS AG	0	600
Unlisted securities: skyDSL Technologies GmbH	5	0
Recovery rights for waived liabilities	0	261
Loans made in connection with employee stock option plans	228	0
Loan made to a strategic marketing partner	429	0
Loan made to member of the management board	43	0
	705	**861**

Please refer to note 20 for further information.

NOTE 8: INVENTORIES

The inventory assets consist of the following:

(in T€)	December 31, 2008	2009
Finished goods	975	1,280
Trading goods	1,239	422
Raw materials and supplies	4,412	3,205
	6,626	**4,907**
included inventories:		
accounted for at net realizable values	1,740	439
Range > one year	326	203

NOTE 9: TRADE ACCOUNTS RECEIVABLE

The trade accounts receivable consist of the following:

(in T€)	December 31, 2008	2009
Trade accounts receivable	8,753	12,391
Minus allowance for doubtful accounts	2,357	4,872
	6,396	**7,519**

“Trade accounts receivable” include a non-current portion in the amount of T€ 1,054 (as of December 31, 2008: T€ 0). Please refer to note 20 for further information.

NOTE 10: OTHER FINANCIAL ASSETS

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

(in T€)	December 31, 2008	2009
Advance payments made	301	204
Sales tax receivables	389	263
Receivables from related parties	0	283
Receivables from government grants	40	40
Miscellaneous	313	303
	1,043	**1,093**

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.

Authorized capital

As of December 31, 2009, 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, 2012, once or several times by up to T€ 11,652 against transfers in-kind and/or by cash.

Conditional capital

As of December 31, 2009, 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 2000/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, 2008. 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 and upon the resolution of the shareholder's meeting of August 28, 2009 corrected to 2000/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 as well as 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 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. In the business year 2009 the stock was completely sold; no treasury shares were acquired in 2009 based on the authorization of the shareholders' meeting.

Treasury stock developed as follows:

(in T€)	**Units**	**Acquisition cost**
Treasury stock on December 31, 2008	2,174,493	21,702
Disposition	-2,174,493	-21,702
Treasury stock on December 31, 2009	0	0

The disposition of treasury stock resulted in a cash inflow in the amount of T€ 1,153; please refer to the presentation of Equity development and/or to the item “Retained income” in the balance sheet for further information.

1,352,222 units of the previously held treasury stock, i.e. 5.81% of the issued nominal capital, were sold at a price of € 0.50 per share to the majority shareholder Sigram Schindler Beteiligungsgesellschaft mbH.

The income from the sale of this treasure stock is composed as follows:

	Units	**Income** (in T€)
Sigram Schindler Beteiligungsgesellschaft mbH	1,352,222	677
Other	822,271	476
	2,174,493	**1,153**

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, 2009, the additional paid-in capital still includes T€ 4,735 resulting from the repayment of a loan liability based on a waiver declared by the shareholder Sigram Schindler Beteiligungsgesellschaft mbH (as of December 31, 2008: T€ 0), minus T€ 6,132 resulting from a recovery agreement entered into with the shareholder in connection with the loan waiver (as of December 31, 2008: T€ 0). Please refer to note 20 for further information.

In addition to that the additional paid-in capital includes T€ 1,895 based on the accounting for the employee stock option plans in accordance with IFRS 2.

Reserve for valuation

Reflected in the valuation reserve (T€ 591 as of December 31, 2009) 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 (non-current) consists of the following:

(in T€)	December 31, 2008	2009
Recovery rights agreement Sigram Schindler Beteiligungsgesellschaft mbH	0	6,132
	0	**6,132**

Please refer to note 20 (Financial instruments) and note 29 (Relations with related parties) for further information.

NOTE 13: OTHER NON-CURRENT LIABILITIES

The item Other non-current liabilities consist of the following:

(in T€)	December 31, 2008	2009
Earn out in connection with the acquisition of TELES N.G.N. SOLUTIONS Ltd.	750	0
Miscellaneous	416	114
	1,166	**114**

Please refer to note 16 (Other non-current liabilities) and note 27 (Restricted cash, other financial commitments and contingent liabilities) for further information about the sales dependent payment (earn out).

As of December 31, 2009, the item "Miscellaneous" includes a current share in the amount of T€ 0 (as of December 31, 2008: T€ 28).

NOTE 14: CONVERTIBLE DEBT

Convertible debts are composed as follows:

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

Please refer to note 20 (Financial instruments) and note 25 (Employee stock option plans; convertible bond conditions) for further information.

NOTE 15: TRADE ACCOUNTS PAYABLE

Please refer to note 20 (Financial instruments) and note 28 (Legal disputes) regarding the abatement claims against a technical service provider as reported during the previous years.

NOTE 16: DEFERRED REVENUES

Deferred revenues as of December 31, 2008 and 2009 relate to prepayments for accrued revenues for the rendering of services.

NOTE 17: OTHER FINANCIAL LIABILITIES

The other (current) financial liabilities include:

(in T€)	December 31, 2008	2009
Factoring	0	326
	0	**326**

Please refer to note 20 (financial instruments) and note 29 (Related party transactions) for further information).

NOTE 18: OTHER CURRENT LIABILITIES

Other current liabilities include:

(in T€)	December 31 2008	2009
Earn out in connection With acquisition of TELES N.G.N. SOLUTIONS Ltd.	335	157
Payables to related parties	125	99
Turnover tax liabilities	2,247	2,303
Other	2,122	1,795
	4,829	**4,354**

Please refer to note 13 (Other non-current liabilities) and note 27 (Restricted cash, other financial commitments and contingent liabilities) for further information with regard to the sales-dependent payment (earn out).

Regarding related party transactions reference is made to note 29.

Regarding turnover tax liabilities for the business years 2008 and 2009 reference is made to note 24.

The item “Other” includes, among others, liabilities balance date-related from the personnel area.

NOTE 19: ACCRUALS

The Company carries the following accruals on the balance sheet:

(in T€)	December 31, 2008	2009
Long-term accruals		
Litigation risks	1,199	395
Payments to employees in accordance with IAS 19	333	382
Onerous contracts	272	149
	1,804	**926**
Short-term accruals		
Accruals for income taxes	135	143
Other accruals	876	1,361
	1,011	**1,504**

The accruals consist of the following:

(in T€)	2008	Company addition	Utilization	Release	Additions	2009
	December 31,					
Non-current accruals						
Risks of litigation	1,199	754	0	0	-50	395
Payments to employees	333	4	0	53	0	382
Onerous contracts	272	0	0	9	-132	149
	1,804	**758**	**0**	**62**	**-182**	**926**
Current accruals						
Accruals for income taxes	**135**	**8**	**0**	**16**	**0**	**143**
Other accruals						
Risks of litigation	580	52	258	65	50	385
Onerous contracts	132	132	0	0	132	132
Miscellaneous	164	132	29	841	0	844
	876	**316**	**287**	**906**	**182**	**1,361**

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

<u>Litigation risks</u>

The assessment of the litigation risks is based on the judgment of the attorneys who represent the Company concerning this matter. Further explanations cannot be given here to protect the firms legal and negotiation position. Please refer to note 28 for the main litigation.

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:	5.40%
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€)	**2009**
Defined benefit obligation at the beginning of the year	**259**
Service cost	13
Add-on for interest of the anticipated pension obligations	15
Actuarial gains	15
Statutory settlement payments	0
Defined benefit obligation, year end	**302**

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

(in T€)	**2009**
Service cost	13
Add-on for interest of the anticipated pension obligations	15
Actuarial gains	15
	43

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:	5.40%
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€)	**2009**
Defined benefit obligation at the beginning of the year	**74**
Service cost	5
Add–on for interest of the anticipated pension obligations	4
Actuarial losses	2
Statutory settlement payments	-5
Defined benefit obligation, year end	**80**

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

(in T€)	**2009**
Service cost	5
Add-on for interest of the anticipated pension obligations	4
Actuarial losses	2
	11

NOTE 20: FINANCIAL INSTRUMENTS

1. Importance of financial instruments

The company has the following categories of financial instruments:

(in T€)	December 31, 2008	2009
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	8,451	8,134
Financial assets available-for-sale	5	600
	8,456	8,734
Financial liabilities		
Financial liabilities, which were valued at amortized costs	3,263	9,431
	3,263	9,431

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

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	0		6,396
Other financial assets	1,355	0		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
Other financial liabilities			0	0
Total liabilities			*3,263*	*3,263*

December 31, 2009 (in T€)	Loans and receivables	Financial assets available-for-sale	Financial liabilities, valuated at amortized costs	**Total**
ASSETS				
Non-current assets				
Other financial assets	261	600		861
Current assets				
Trade accounts receivable	7,519	0		7,519
Other financial assets	355	0		355
Total assets	*8,134*	*600*		*8,734*
LIABILITIES				
Non-current liabilities				
Other financial liabilities			6,132	6,132
Current liabilities				
Other current liabilities			0	0
Trade accounts payable			2,973	2,973
Other financial liabilities			326	326
Total liabilities			*9,431*	*9,431*

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

TELES has one put option for all its shares in the 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.

The options referred to in the previous year in connection with the call media services Ltd have lapsed because of the takeover of all shares by the TELES AG.

- ***Loans and receivables***

	December 31,	
(in T€)	**2008**	**2009**
Recovery rights for waived liabilities	0	261
Trade accounts receivable	6,396	7,519
Loans, issued in connection with the employee stock option plans	228	0
Loan, issued to a strategic sales partner	429	0
Loan, issued to a member of the Management Board	43	0
Settlement agreement	1,355	355
	8,451	8,134

(in T€)	January 1 – December 31, 2008	2009
Recovery right for waived liabilities		
Financial earnings		
Settlement clause for waived liabilities	0	277
	0	277
Financial earnings; interest		
Recovery rights for waived liabilities	29	17
	29	17
Financial expenses; valuation adjustment		
Recovery rights for waived liabilities	518	0
	518	0
Trade accounts receivable		
Operating expenditures; sales and marketing		
Increase in allowances	994	3,417
Reversal of allowances	-99	-129
Trade accounts receivable; operating expenditures	895	3,288
Loans		
Financial earnings; interest		
Loans, issued in connection with the employee stock option plans	12	6
Loan, issued to a member of the Management Board	1	0
Loan, issued to a strategic marketing partner	0	14
	13	20
Other expenditures; value adjustments		
Loan, issued in connection with the employee stock option plans	58	12
	58	12
Settlement agreement		
Earnings from discontinued operations, net of tax		
Settlement agreement	1,355	0
	1,355	0

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

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; the right expired on the balance date.

Trade accounts receivable

The trade accounts receivable reported as of December 31, 2009 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,						
(in T€)	**2008**	**Utilization**	**Release**	**Additions**	**Currency differences**	**Reclassification**	**2009**
Allowance for doubtful accounts	2,357	54	129	3,403	-2	-700	4,872

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, 2008	1,435	177	57	149	1,818
December 31, 2009	1,304	1,013	181	139	2,637

The Company has trade accounts receivable in the amount of T€ 355 whose terms have been renegotiated; these trade accounts receivable would be otherwise past due.

As of December 31, 2009, the Company had items of security in the amount of T€ 99, thereof T€ 71 in the form of bank guarantees or letters of credit and T€ 28 in the form of commercial credit insurance. No collaterals were used during the preceding business year. Further, the Company has, at the balance sheet date, promissory notes for the securing of trade accounts receivables in the amount of about Mio€ 1.4.

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 previous 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 28 for further information with respect to the settlement agreement.

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

	December 31,	
(in T€)	**2008**	**2009**
Listed securities: freenet AG	0	0
Unlisted securities: GRAVIS AG	0	600
Unlisted securities: skyDSL Technologies GmbH	5	0
	5	600

(in T€)	**2008**	**2009**
Listed securities: freenet AG		
January 1	57,004	0
Fair value valuation, reported in equity	-1,979	0
Loss on sale; reflected in the income statement	-21,870	0
Sale proceeds	33,155	0
December 31,	**0**	**0**
Unlisted securities: GRAVIS AG		
January 1	990	0
Fair value valuation; reported in equity	-921	600
Fair value valuation; reflected in the income statement	-69	0
December 31,	**0**	**600**
Unlisted securities: skyDSL Technologies GmbH		
January 1	0	5
Acquisition	5	0
		-5
December 31,	**5**	**0**
Fair value valuation; reported in equity		
Listed securities: freenet AG	-1,979	0
Unlisted securities: GRAVIS AG	-921	600
Unlisted securities: skyDSL Technologies GmbH	0	0
	-2,900	**600**
Less: taxes	-29	-9
Valuation at fair value, net, after taxes	-2,871	591

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 non-publicly traded shares in GRAVIS AG, this represents a fair value determined by a valuation process (please refer to note 2). If the applied risk-free interest rate should increase (decrease) by 10%, it would reduce (increase) the share reflection by T€ 239 (T€ 249) (if all other parameters such as performance planning, risk deduction and discount rate remain unchanged). The input factors the valuation was based on were level 2 input factors according to IFRS 7.27.

The share value of skyDSL Technologies GmbH was completely value adjusted because of the operative losses in the last business year.

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€)	**2008**	**2009**
Recovery agreement Sigram Schindler Beteiligungsgesellschaft mbH; non-current	0	6,132
Factoring	0	326
Convertible debt	216	0
Trade accounts payable	3,047	2,973
	3,263	9,431

	January 1 – December 31,	
(in T€)	**2008**	**2009**
Financial expenditures; interest		
Loan Sigram Schindler Beteiligungsgesellschaft mbH	0	129
Factoring	0	8
Convertible debt	28	3
	28	140
Financial expenditures; other		
Factoring	0	3
	0	3

In the last business year, the company Sigram Schindler Beteiligungsgesellschaft mbH waived of the loans granted to the Company. On December 2009, the Company balances a financial liability resulting from a recovery agreement entered into in connection with the loan waiver. The valuation of the liability was at fair value. Due to the lack of market values, the fair value was determined by means of a *discounted cash flow* method.

In the consolidated cash flow statement, the cash inflow is included in the item “Loans from related parties”; the loan waiver was a transaction without effect to liquidity.

Factoring

The Company has entered into a factoring agreement with the Sigram Schindler Beteiligungsgesellschaft mbH (factor) according to which TELES can offer to the factor contractually specified trade accounts receivable for purchase. The purchase price to be paid by the factor to TELES is calculated from the nominal value of the purchased TELES account representing its claim towards the customer, minus the factoring fee in the amount of 1% of that nominal value.

Convertible debt

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

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 of the bonds ended on June 24, 2008.

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 of the bonds ended on August 16, 2009.

The convertible bonds are subject to an annual interest rate of 6%; the last interest payments are due on June 24, 2008 and on August 16, 2009, respectively. As they were paid back on maturity, the convertible bonds have been retired. Claims against employees connected with the convertible debts were – as far as possible – settled therewith.

Please refer to note 25 (Employee stock option plans; convertible bond conditions) and note 29 (Related party transactions) for further information.

Trade accounts payable

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

Please refer to note 15 for further information.

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

	January 1 - December 31,	
(in T€)	**2008**	**2009**
Interest income		
Cash and cash equivalents	425	47
Issued loans in connection with the employee stock option plans	12	6
Loans to a member of the Management Board	1	0
Recovery right for waived liabilities; interest	29	17
	467	**70**
Interest expenditures		
Convertible debt	28	2
Cash credit line drawn upon for less than one year	44	3
Loan Sigram Schindler Beteiligungsgesellschaft mbH	0	129
	72	**134**

Expenditures from fees are generated in connection with the processing of bank transactions (T€ 50; in the previous year T€ 575, thereof T€ 497 in connection with the sale of the shares of freenet AG).

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 12% during the 2009 business year. The next ten largest customers contributed approx. 33% of the sales. The sales share of around 12% for an individual customer in the business year 2009 represents the business of TELES with the marketing partner working in North America. 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 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 another "cluster risk" towards a Brazilian company group in the receivables as of the end of business year 2009. These claims are based on repayment agreements stretching over several months, which are on the one hand in principle regularly serviced and on the other hand secured by a promissory note of the wealthy majority shareholder.

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

The liquid funds are mainly invested with two renowned 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 442 and payables in the amount of TUSD 511. TELES continues to have balances in bank accounts with the amount of TUSD 115.

2. Interest change risk

The interest changes risk of TELES results exclusively from interest bearing investments. The aspects of liquidity, i.e., the capability of these investments to re-pay, essentially stand 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. The almost 20% share in the unlisted company GRAVIS AG held by the TELES as well as – after dilution – still almost 5% share in the company skyDSL Technology GmbH are not admitted for public trading anywhere; therefore no particular security strategy can be applied.

NOTE 21: INCOME TAXES

The earnings before income taxes are broken down as follows:

	January 1 – December 31,	
(in T€)	**2008**	**2009**
Germany	**-30,024**	**-5,473**
thereof: continued operations	-31,275	-4,546
thereof: discontinued operations	1,251	-927
Abroad	**-5,479**	**-2,429**
thereof: continued operations	-5,479	-2,429
thereof: discontinued operations	0	0
Earnings before income taxes	**-35,503**	**-7,902**
thereof: continued operations	-36,754	-6,975
thereof: discontinued operations	1,251	-927

The expenditures and earnings from income taxes include:

(in T€)	January 1 - December 31, 2008	2009
Current taxes		
Germany	**-1,041**	**-80**
thereof: continued operations	-1,041	-80
thereof: discontinued operations	0	0
Abroad	**-75**	**23**
thereof: continued operations	-75	23
thereof: discontinued operations	0	0
Total:	**-1,116**	**-57**
thereof: continued operations	-1,116	-57
thereof: discontinued operations	0	0
Deferred taxes		
Germany	**141**	**-19**
thereof: continued operations	141	-19
thereof: discontinued operations	0	0
Abroad	**7**	**-14**
thereof: continued operations	7	-14
thereof: discontinued operations	0	0
Total:	**148**	**-33**
thereof: continued operations	148	-33
thereof: discontinued operations	0	0
Income tax expenditures / refund:	***-968***	***-90***
thereof: continued operations	-968	-90
thereof: discontinued operations	0	0

Since the 2008 corporate income tax reform came into effect, the total tax charge of TELES is approximately 30.2% (corporate income tax including solidarity surcharge 15.8%; trade tax 14.4%).

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, 2008**	**2009**
Earnings before income taxes	-35,503	-7,902
Income tax expenditures / income at legal tax rate	-10,713	-2,384
Tax rate differences	17	109
Differences based on items not to be taxed	-20	-50
Differences based on items that are not deductible	7,049	16
Non-recognition of deferred tax assets	3,242	861
Write-down of goodwill	733	0
Employee stock option plans	32	55
Other items, net	-1,308	1,303
Effective income tax expenditures / refund	**-968**	**-90**

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

(in T€)	**December 31, 2008**	**2009**
Deferred tax assets:		
Intercompany transactions	26	36
Technologies	15	0
Payments to employees per IAS 19	9	17
Assets available for sale	0	14
Losses carried forward	2,030	1,795
Devaluations	-603	-603
Deferred tax assets, total	1,477	1,259
Settlement with deferred tax liabilities	-1,451	-1,223
Balance sheet amount	26	36
Deferred tax liabilities:		
Intercompany transactions	1,402	688
Technologies	0	473
Customer relationships	45	39
Depreciations on assets	18	4
Assets available for sale	0	9
Miscellaneous	4	14
Deferred tax liabilities, total	1,469	1,227
Settlement with deferred tax assets	-1,451	-1,223
Balance sheet amount	18	4
Deferred tax liabilities (previous year: assets), net	**8**	**32**

Losses carried forward of active companies, for which an accounting for the deferred tax claim was not being made, are T€ 41,798 for corporate income taxes and T€ 50,570 for trade taxes in Germany as well as T€ 4,959 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€ 39 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:

(in T€)	**December 31, 2008** Due date		**December 31, 2009** Due date	
	< 12 months	> 12 months	< 12 months	> 12 months
Deferred tax assets	0	26	0	36
Deferred tax liabilities	0	18	0	4
Deferred taxes, net	**0**	**8**	**0**	**32**

NOTE 22: OTHER INCOME AND EXPENDITURES

The other income for the 2009 business year includes mainly an amount of T€ 792 (previous year: T€ 0) resulting from adjustments of the earn out liability in connection with the acquisition of TELES N.G.N. Solutions Ltd. carried out in the business year 2008 (please refer to note 27 for further information) as well as T€ 322 for currency exchange gains (previous year: T€ 160).

The other expenditures for the 2009 business year include mainly an amount of T€ 61 for value adjustments on issued loans (previous year: T€ 58), T€ 66 in connection with the possible disputes within the frame of the settlement of delivery and service contracts (previous year: T€ 0), as well as T€ 594 for currency exchange losses (previous year: T€ 508).

NOTE 23: FINANCIAL RESULT AND OTHER INCOME FROM INVESTMENTS

The following table shows the composition of the financial earnings and financial expenditures as well as of Other investment income or loss:

(in T€)	January 1 - December 31, 2008	2009
Financial earnings		
Interest	697	62
Recovery rights for waived liabilities	0	277
Shares in investment funds	6	1
Total	703	340
Financial expenditures		
Convertible debt	28	3
Interest on loan Sigram Schindler Beteiligungsgesellschaft mbH	0	129
Recovery right for waived liabilities; adjustment	518	0
Miscellaneous	54	61
Total	600	193
Other investment income or loss		
Sale of the shares in freenet AG (including transaction costs)	-22,367	0
Unlisted securities: GRAVIS AG; valuation at fair value	-69	0
Unlisted securities: skyDSL Technologies GmbH; valuation at fair value	-69	-5
	-22,436	-5

NOTE 24: DISCONTINUED OPERATIONS

Non-current assets 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 2007 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 the 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, 2008**	**2009**
Operating result from discontinued operations		
Revenues	553	0
Cost of sales	467	0
Operational expenditures	-62	0
Other income	0	0
Other expenditures	3	0
Financial earnings	0	0
Earnings before income taxes	145	0
Income tax expenditures	0	0
Operating result from discontinued operations, after deduction of taxes	**145**	**0**
Results from the discontinuation of operations		
Results from the discontinuation of operations, before taxes	1,106	-927
thereof: TWBI segment	-142	0
thereof: more! AG (formerly SPSS segment)	-7	-2
thereof: Webhosting	1,255	-925
Income tax expenditures	0	0
Results from the discontinuation of operations, after deduction of taxes	1,106	-927
Total result of discontinued operations, after deduction of taxes	**1,251**	**-927**
Weighted average number of shares for the calculation of the earnings (losses) per share		
Undiluted	21,130,183	22,530,597
Diluted	21,130,183	22,530,597
Earnings per share from discontinued operations:		
Undiluted	0.06	-0.04
Diluted	0.06	-0.04

The result from discontinued operations includes the result in connection with the non-current assets that are to be abandoned.

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

	January 1 - December 31,	
(in T€)	**2008**	**2009**
Cash flow from operating activities	-243	1,000
Cash flow from investing activities	-18	0
Cash flow from financing activities	0	0
Net change of the cash balance	**-261**	**1,000**

The cash flow in connection with the non-current assets are to be abandoned results from the partial payment of the claim included in the balance sheet of the 2008 financial report in connection with the lawsuit carried on by the company STRATO Medien AG on the account of TELES.

NOTE 25: 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, 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**
Issued	0	0	0	0	0	0
Exercised	0	0	0	0	0	0
Forfeited	0	0	-4.336	-14,304	-11,225	-29,865
End of the term of the program*	-62,034	-170,067	0	0	0	-232,101
Outstanding on December 31, 2009	**0**	**25,483**	**221,371**	**441,161**	**139,761**	**827,776**
Vested rights as of December 31, 2009	**0**	**25,483**	**221,371**	**440,249**	**107,371**	**794,474**

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

The employee stock option program (convertible bonds) set up in 1999 expired on August 15, 2009.

The employee stock option program set up in 2001 consists of two partial programs; part 1 expired on October 9, 2009.

The outstanding stock options on December 31, 2009 have a weighted average remaining contract duration of 4.0 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 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 2008 and 2009 business years:

	Employee Stock Option Plan			
(in T€)	**2002**	**2004**	**2005**	**Total**
January 1 - December 31,				
2008	68	6	33	107
2009	0	149	34	183

For the employee stock option plan 2002 expenditure was recorded for the last time in the business year 2008, because the vesting period for this employee stock option plan ended in 2008.

NOTE 26: 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)	**2008**	**2009**
Net income for the year attributable to the shareholders of the parent company	-34,534	-7,827
Weighted average number of shares for the calculation of the earnings per share		
Undiluted	21,130,183	22,530,597
Diluted	21,130,183	22,530,597
Earnings per share		
Undiluted	-1.63	-0.35
Diluted	-1.63	-0.35

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

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€ 205 (previous year: T€ 216).

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€ 1,023 (thereof discontinued operation: T€ --) and T€ 2,068 (thereof discontinued operation TWBI: T€ 353) for the business years ending December 31, 2009 and 2008.

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, 2009**
Up to one year	857
Between one and five years	768
Longer than five years	0
Total	**1,625**

Financial commitments based on other contracts

Future minimum payments based on legally effective agreements are:

	December 31,	
(in T€)	**2008**	**2009**
Finished goods	125	0
Software bundles and software licenses	0	0
Other services	264	354
Maintenance	117	107
Total	**506**	**461**

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 updated planning, the liability reflected on the balance sheet in the previous year was reduced to the contractual minimum amount; therefrom results an income of T€ 792 (please see note 22 for further information). At the balance sheet date an amount of T€ 157 (previous year: T€ 1,085) was recognized as liability (see notes 13 and 18). Beyond this, there is a contingent liability in accordance with IAS 37.28.

Loans with the majority shareholder, which have been already granted or contractually agreed on, are secured with a blanket assignment of trade accounts receivable as well as the interest in GRAVIS (including all ancillary rights).

NOTE 28: 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 the German and European skyDSL patent as well as a related German utility patent. The decision was in favor of TELES and is legally valid and executable against SES. DTAG appealed the decision, the proceedings are currently pending. In 2003, the above mentioned proprietary rights were questioned at the German and the European patent office in connection with the patent infringement proceedings. The German skyDSL core patent was confirmed by the federal patent court at the end of 2004. In the proceedings regarding the cancellation of the utility patent against DTAG/SES, TELES prevailed in the first instance to an analogous extent. However, the utility patent was canceled on March 20, 2007 in second instance by the federal patent court for judicial reasons. TELES 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. The European skyDSL patent was confirmed by the European patent office with marginal restrictions on January 26, 2006, but then cancelled to its full extent by the appeal chamber of the European Patent Office on November 3, 2009. Despite of having to pay the costs of the counterparty in the event of defeat, 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; currently TELES is the sole shareholder of this company. 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 English subsidiary was not able to prevail against the affected cellular phone network operators in its interim injunction and payment of damages proceedings with its counterclaim for payment of damages because of the loss of the disconnection of the cellular phone cards. In the revision instance before the BGH a decision was made in disfavor of the English TELES subsidiary on June 29, 2010. The payment liabilities resulting therefrom do not have any significant consequences for TELES.

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 Higher Regional Court (OLG) Düsseldorf in the second instance rejected both the complaint and the counter complaint, as had the Regional Court (LG) Düsseldorf already. Both parties have filed the expressly permitted appeal on points of law with the BGH. With its decision of June 29, 2010 the BGH invalidated the judgment of the OLG Düsseldorf to the extent that it was in disfavor of the cellular phone operator. The appeal related to a counterclaim of TELES was rejected. To the extent of the invalidation, the matter was returned to the OLG Düsseldorf for renewed proceedings and another decision. It is also not clear what the impact of a negative decision for TELES would be on international sales. 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 relatively small.

End of September 2009, the previous TELES subsidiary skyDSL Global GmbH filed a suit against TELES AG for the refund of allegedly unjustified payments to TELES AG as shareholder. TELES and its legal advisers consider the risk in these proceedings as small; this view is supported by an expert opinion prepared by the auditing firm PwC.

Commenting on the state of litigations reported in the previous years will be waived from 2009 on, because – as already discussed in last year's financial report – the majority shareholder (SSBG = Sigram Schindler Beteiligungsgesellschaft mbH) has assumed all costs in connection with patent infringement disputes with effect from January 1, 2009. SSBG and TELES will participate in the results of the IntraStar patent infringement litigations.

NOTE 29: RELATED PARTY TRANSACTIONS

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

- ***Controlling company, company under joint control***

Loan Sigram Schindler Beteiligungsgesellschaft mbH
In the last business year, the company Sigram Schindler Beteiligungsgesellschaft mbH waived of loans that had been granted to the Company. On December 31, 2009 the Company reflects in its balance sheet a financial obligation which results from a recovery agreement entered into in connection with the loan waiver. The valuation of the liability is at fair value. Due to the lack of market values, the fair value was determined by means of a *discounted cash flow* method. Please see note 20 for further information.

Factoring

The Company has entered into a factoring agreement with the Sigram Schindler Beteiligungsgesellschaft mbH (factor) according to which TELES can offer to the factor contractually specified trade accounts receivable for purchase. The purchase price to be paid by the factor to TELES is calculated from the nominal value of the purchased TELES account representing its claim towards the customer, minus the factoring fee in the amount of 1% of that nominal value. At the balance sheet date, the Company reflects a liability in the amount of T€ 326 (previous year: T€ 0); in the business year, the Company incurred financial expenditures in the amount of T€ 11 (previous year: T€ 0).

For further information, reference is made to note 17 (Other financial liabilities) and note 20 (Financial instruments).

Patent takeover agreement, agency agreement

Contractually specified patents were sold to Sigram Schindler Beteiligungsgesellschaft mbH and, at the same time, this company assumed all costs in connection with patent infringement litigations with effect from January 1, 2009; SSBG and TELES will participate in the results of the respective patent infringement litigations.

Within the frame of an agency agreement entered into with Sigram Schindler Beteiligungsgesellschaft mbH, TELES AG shall render various services for Sigram Schindler Beteiligungsgesellschaft mbH, its related companies as well as the Sigram Schindler foundation.

The income and expenditures resulting from the above agreements are reflected in the segment reporting (note 31) in the category “Other business activities”; at the balance sheet date, the Company balances claims in the amount of T€ 283 (previous year: T€ 0) against Sigram Schindler Beteiligungsgesellschaft mbH and its related companies; please see note 10 for further information.

- ***Management Board, Supervisory Board***

Expenditures for services:

(in T€)	January 1 - December 31, 2008	2009
Mock attorneys	45	37
Rechtsanwälte Feser & Spliedt	5	0
Total	**50**	**37**

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

Payables of the Company to related parties:

(in T€)	January 1 - December 31, 2008	2009
Representatives of the Supervisory Board from services rendered	125	99
Total	**125**	**99**

Management Board earnings:

(in T€)	January 1 - December 31, 2008		2009	
	Fixed	**Variable**	**Fixed**	**Variable**
Richard Fahringer	266	0	263	0
Andreas Krüger	116	0	0	0
Karsten Lüdtke	78	0	0	0
Frank Paetsch	132	0	148	0
Olaf Schulz	178	0	181	0
Eyal Ullert	103	0	23	0
	873	**0**	**615**	**0**

Prof. Dr.-Ing. Schindler received payments in the amount of T€ 40 (previous year: T€ 40), 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 in the 2008 business year.

Share portfolio and subscription rights of the board members as of December 31, 2009:

	Subscription rights	**Shares**
Herr Prof. Dr. - Ing. Sigram Schindler (directly and indirectly)	39,600	12,259,620
Herr Richard Fahringer	0	430,000
Herr Frank Paetsch	59,210	2,015
Herr Olaf Schulz	66,648	310,000
	165,458	**13,021,635**

As of December 31, 2009 Prof. Dr.-Ing. Sigram Schindler holds directly and indirectly 52.61% of the TELES AG shares: 51.09% of the shares are held by Sigram Schindler Beteiligungs-gesellschaft 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 2009 business year, Mr. Richard Fahringer purchased 410,000 TELES AG shares, Mr. Frank Paetsch purchased 22,000 shares and Mr. Olaf Schulz purchased 310,000 shares.

Supervisory Board compensation:

The remuneration of the members of the Supervisory Board were T€ 67.5 (previous year: T€ 75) during the completed business year.

(in T€)	January 1 - December 31, 2008	2009
Prof. Dr. Walter Rust	37.5	33.7
Dr. Jürgen D. Spliedt	15	0
Prof. Dr. h.c. Radu Popescu-Zeletin	17.5	20.3
Prof. Dr. Ralph Schindler	5	13.5
	75	**67.5**

NOTE 28: COMPOSITION OF REVENUES AND COST OF SALES

(in T€)	January 1 – December 31, 2008	2009
Revenues	**23,781**	**20,151**
Products	21,599	17,392
Services	2,182	2,759
Cost of sales	**12,851**	**11,680**
Products	10,962	9,165
Services	1,889	2,515

NOTE 31: 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 to 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. TELES' internal organization and management structure as well as then internal financial reporting, which is adjusted thereto, pursue a product-orientated perspective.

As already envisaged in previous year's report, TELES has focused exclusively on its traditional core business from 2009 on. As all costs and expenditures for the division "TIPR" (TELES Intellectual Property Rights) will be borne by a third party and as, following the sale of all other operative segments, only the previous TCS segment has remained, TELES will report on the below product segments from January 1, 2009:

- **NGN segment** (Next Generation Networks):

Class 4 and Class 5 softswitch solutions for NGN network operators and service providers

- **AGW segment** (Access Gateways):

VoIP and mobile gateway solutions for the convergence between fixed networks, cellular phone networks as well as VoIP networks

- **Service segment**

The presentation of the comparison figures for the business year 2008 has been adjusted accordingly.

TELES develops, manufactures and distributes in the field of innovative telecommunication techniques 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.

The category "Other business fields" reflects balances which result from an agency agreement entered into with the majority shareholder of TELES as well as from a patent transfer agreement also entered into with the majority shareholder of TELES.

The balancing principles of the segments are essentially the same as those described in the "Summary of important balancing principles".

The performance of the operative segments is assessed by means of the EBIT corrected by the expenditures for the employee stock option plans. Expenditures for employee stock option plans as well as Financial income and Other income from investments (EBT) are not included in the assessment of the operative segments, as these values are controlled centrally by the Group.

Business transactions between the segments were performed to an insignificant extent only.

The following segment information is reported to the highest control committee for the business year 2008:

Revenue and earnings of operating segments as well as other business activities in T€; January 1 – December 31, 2008	**Total**	**Products**		**Services**	**Other business activities**
		Access Gateways	**TELES NGN**		
Revenues	**23,781**	**10,744**	**10,855**	**2,182**	
Cost of sales	12,851	5,806	5,156	1,889	
Included therein: depreciations	*376*	*100*	*205*	*71*	
Gross profit	**10,930**	**4,938**	**5,699**	**293**	
Gross profit margin	46%	46%	52%	13%	
Sales and marketing expenditures	7,283	3,333	3,621	329	
Research and development expenditures	6,175	2,099	4,076	0	
Administrative expenditures	8,173	1,249	3,497	250	3,177
Other income	549	225	240	84	
Other expenditures	739	325	374	40	
EBITDA before ESOP	**-10,515**	**-1,743**	**-5,424**	**-171**	**-3,177**
Impairment of goodwill	2,430	2,430	0	0	0
Operational depreciation	993	230	720	28	15
Operating result before ESOP	**-14,314**	**-4,503**	**-6,349**	**-270**	**-3,192**

The following segment information is reported to the highest control committee for the business year 2009:

Revenue and earnings of operating segments as well as other business activities in T€; January 1 – December 31, 2009	**Total**	**Products**		**Services**	**Other business activities**
		Access Gateways	**TELES NGN**		
Revenues	**20,151**	**10,562**	**6,830**	**2,759**	
Cost of sales	11,680	5,554	3,611	2,515	
Included therein: depreciations	*636*	*22*	*576*	*38*	
Gross profit	**8,471**	**5,008**	**3,219**	**244**	
Gross profit margin	42%	47%	47%	9%	
Sales and marketing expenditures	8,134	3,432	3,882	813	7
Research and development expenditures	3,900	2,033	1,867	0	0
Administrative expenditures	3,127	1,194	1,730	154	49
Other income	1,287	1,010	80	99	98
Other expenditures	739	475	152	112	0
EBITDA before ESOP	**-5,506**	**-1,094**	**-3,756**	**-698**	**42**
Operational depreciation	792	214	538	25	15
Operating result before ESOP	**-6,934**	**-1,330**	**-4,870**	**-761**	**27**

The above operating results can be transferred to the EBT of the TELES Group this way:

	January 1 – December 31	
(in T€)	**2008**	**2009**
Operating result before ESOP **of operating segments as well as other business activities**	-14,314	-6,934
Expenditures from employee stock option plans	**107**	**183**
Operating result **TELES Group**	-14,421	-7,117
Financial earnings	**703**	**340**
Financial expenditures	**600**	**193**
Earnings from other investments	**-22,436**	**-5**
EBIT **TELES Group**	-36,754	-6,975

Sales according to the sale markets of the Company are composed as follows:

	January 1 – December 31	
(in T€)	**2008**	**2009**
Germany	4,703	2,397
EMEA	10,691	10,847
NORAM & LATAM	7,213	5,536
APAC	1,174	1,371
Total	**23,781**	**20,151**

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

In the business year 2009, the Company made sales to one particular customer which equal about 13% of total sales.

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

	December 31	
(in T€)	**2008**	**2009**
Germany	1,479	1,298
EMEA	3,983	4,829
NORAM & LATAM	5	3
APAC	92	41
Total	**5,559**	**6,171**

Assignment of the non-current assets is made in accordance with the place of business of the respective company of the Group.

NOTE 32: EVENTS AFTER THE BALANCE SHEET DATE

To close any funding gaps, the majority shareholder grants loans to the Company; in the first eight months of the year 2010, the Company has utilized Mio€ 3.6 thereof. For further information, reference is made to the Consolidated Management Report, Section B. For the current development of the operating business, reference is made to the quarterly and semi-annual reports for the business year 2010.

NOTE 33: OTHER INFORMATION

Services of the auditing company

In addition to the year-end audit (T€ 144), the PricewaterhouseCoopers AG auditing firm worked during the 2009 business year as part of tax consultations (T€ 83) and other consulting services (T€ 10) 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
T.T.C.S. Technologies Ltd.	Tel Aviv, 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.	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

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 2009[1] business year in T€
GRAVIS Beteiligungs AG	Berlin, Germany	19.99	EUR	3,100	33
GRAVIS Computervertriebs-gesellschaft mbH	Berlin, Germany	indirect: 19.99	EUR	3,800	-52
HSD Consult EDV-Beratungsgesellschaft mbH	Berlin, Germany	indirect: 19.99	EUR	650	15

[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 (www.teles.de).

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.-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 and/or comparable control committees 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); DirectSat AG (since July 31, 2009)
Dipl.-Betriebswirt Olaf Schulz:	TELES Computer Systems India Private Ltd.; more! Computer AG;
Eyal Ullert, MBA:	TELES Computer Systems India Private Ltd.; (until March 29, 2009);
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);
Prof. Dr. h.c. Radu Popescu-Zeletin, Berlin, University professor;
Prof. Dr. Ralph N. Schindler, Kiel, University professor emeritus.

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

Berlin, September 6, 2010

The Management Board

List of Abbreviations

AG	Aktiengesellschaft (Corporation)
AktG	Aktiengesetz (German Stock Companies Act)
APAC	Asia-Pacific
DRS	Deutscher Rechnungslegungsstandard (German accounting standard)
DRSC	Deutsches Rechnungslegungsstandardskomitee (German Accounting Standard Committee)
EITF	Emerging Issues Task Force
EMEA	Europe, Middle East, Africa
ESOP	Employee stock option plan
EStG	Einkommensteuergesetz (German Income Tax Act)
FIFO	First-in, First-out
GDP	Gross Domestic Product
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)
LATAM	Latin America
Ltd	Limited
Mio€	Million Euros
NORAM	North America
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, September 6, 2010

Management Board of TELES AG Informationstechnologien

* Translation - the German version is authoritative

Auditor´s Report*

We have audited the consolidated financial statements prepared by the TELES Aktiengesellschaft Informationstechnologien, Berlin, comprising the statement of financial position, income statement and statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements together with the group management report for the business year from January 1 to December 31, 2009. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

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

* Translation - the German version is authoritative

In accordance with our duty, we herewith refer to the comments in sections B and F of the management report concerning risks threatening the Company's ability to continue as a going concern. Section B and F of the management report include a statement that in order to maintain liquidity the majority shareholder has taken out another loan in addition to existing loan agreements. There is a danger to the Company's ability to continue as a going concern due to, in case of a material failure to reach earnings targets, insufficient funds are made available by shareholders.

Berlin, September 7, 2010

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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

* Translation - the German version is authoritative