TELES Aktiengesellschaft Informationstechnologien Berlin

Consolidated Financial Statements as of December 31, 2010 and Management Report for TELES Group 2010

Auditor's Report

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

Table of Contents

Translation – the German version is authoritative

Consolidated Management Report of TELES AG Informationstechnologien for the 2010 Business Year

Consolidated Management Report of TELES AG Informationstechnologien for the 2010 Business Year

A. Macroeconomic development / Development of the industry

After the “Bounce Back” phase with the Great Recession, global economy has entered a phase of moderate expansion which is most likely to last well into the coming year. More and more inhibiting obstacles are being noticed which are slowing down the continuation of the global economic expansion. It is expected that global production will increase by only 3.6 percent in the coming year, after it has strongly increased by 4.8 percent in 2010. For Germany, an increase of the economic output of 3.7 percent is expected in 2010. Although the development is likely to remain orientated upwards in the next two years (2.3 percent and 1.3 percent, respectively) it will significantly run out of steam. The reason for that is the slowdown of the global economy. A risk for the prognosis is the fact that the by now very favorable monetary environment is slowing down abruptly due to the extension of the debt crisis in some European countries. For Germany, his economic risk has a higher weight than the risk of a higher shortfall in demand which would have to be expected in the concerned countries in the case of a strict consolidation course (Source: IfW, University Kiel, December 16, 2010).

The telecommunication market, however, has increased only by some estimated 0.8 percent in 2010, and the “ICT market” by about 1.5 percent. For 2011, a similar economic development is expected in the European telecommunication market. Outside of Europe, growth rates of more than 7% are expected in the “ITC market”, in particular in the BRIC countries (Brazil, Russia, India and China). (Source: EITO, December 22, 2010).

Within the telecommunication market these major trends are becoming obvious:

- As clear growth rates towards Internet telephoning (VoIP = Voice over IP) have been observed in the private banking market for quite a while, thanks to good band-with supply (for example, in Germany, it is estimated that meanwhile about one in five households makes telephone calls via the Internet),
- a clear demand for VoIP is also becoming obvious in the corporate area.
- The reason for that is, in particular, the “all IP trend” which stands for handling any sort of communication (including data transfer and telephone calls) via the Internet.
- A significant factor for providers to succeed in this market is that the solutions allow for the accustomed procedures to remain the same.
- So, it is relevant in all the countries in which ISDN connections have been established and/or are widely spread that the accustomed features remain the same. The same applies to the question of “investment protection” for existing private telephone branch exchanges.
- Further, the additional inclusion of the respective in-company mobile telephone systems is very interesting for corporate customers.

Particularly with regard to these trends, TELES is well equipped for future challenges and opportunities on the market with its portfolio of solutions and their competency for further development. Nevertheless, TELES could not and cannot completely rule out the possibility of being affected by the aftermath of the general macroeconomic financial crisis directly and indirectly. There can be ramifications, among other things, due to especially relatively large capital investment projects being 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

By now, TELES has reported grouped after the following segments:

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

TELES NGN solutions fulfill the following criteria:

- TELES NGN solutions meet the requirements of telephone network operators who establish NGN networks, renew traditional telephone networks, or want to offer innovative telephoning services. All TELES products are based on NGN and IMS standards in order to ensure maximum integration and migration ability in connection with existing networks and products of third-party manufacturers.
- Availability and scalability - TELES NGN solutions combine the company's many years of experience with the development and utilization of highly available and scalable software, redundant hardware as well as modular and distributed architecture. This combination ensures a maximum of failure safety and sturdiness, as well as the suitability for any size of networks.
- Trunking and Access – the flexible portfolio includes solutions covering all needs of network providers, from classic network connection services (Trunking) and participation services (Access) to IP Centrex, Unified Communications and FMC services.

TELES AGW solutions fulfill the following criteria:

- Gateways for network operators and corporate customers – TELES access gateways allow for comfortable transitions between fixed-line networks, mobile networks and VoIP. TELES' many years of experience and knowhow related to ISDN, VoIP and mobile telephony ensures an easy integration into different networks while encompassing all the features and functions.
- Migration without loss of quality – with TELES VoIP gateways, existing investments remain intact without any limitation of their functions when VoIP is integrated; this includes telecommunication equipment, ISDN devices and fax servers.
- VoIP in classic networks – TELES gateways support a multitude of interfaces and protocols. This allows an easy integration of IP telecommunication systems and IP-based equipment into classic telecommunication networks.
- Connecting fixed-line and mobile networks - TELES access gateways reduce the costs of connections between fixed-line and mobile networks. Further, they support fixed mobile convergence.
- Failure-proof and available – With TELES gateways, the communication of companies and organizations can be secured by connections to various telecommunication networks. Breakdowns of individual networks can so be automatically compensated.

The Service Segment includes any type of services connected with the other two segments described above.

TELES companies exist at the following locations:

- 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.

The category “Other Business Activities” shows balances resulting from an agency agreement entered into with the TELES majority shareholder as well as from a patent assignment agreement which was also entered into with the TELES majority shareholder.

Financing / Going Concern

Equity has further melted away in the aftermath of the still continuing loss economy. However, there are significant differences between the presentation after HGB and after IFRS. As already reported at last year's General Assembly, already in 2009 the majority shareholder has waived more than 4.7 million € from the loans he had granted to TELES. Further, also in 2010, the majority shareholder has waived another amount of 6.2 million € from the new loans which he had granted in 2010. In connection with the loan waiver(s) debt warrants have been agreed on. The debt warrant agreements provide for the waived loans to come back into effect in whole or in part as soon as the consolidated annual financial report of the TELES Group (i.e. TELES including all its dependant companies within the meaning of Art. 17 AktG – German Public Companies Act) feature a positive annual result (EBT without activation of development services). When calculating the respective amount of the then reinstalled loan or part of the loan, it will be necessary to mathematically deduct a lump sum in the amount of the then current corporate tax and trade tax rates from the positive annual result mentioned above, unless the positive annual result can be set off against losses carried forward (=minimum taxation). Also all payment obligations to third parties that have become due by the effective date must be deducted. The respective reinstalled loans shall be subject to retrospective interest payments in accordance to the agreement. After IFRS, the respective debt warrant shall be assessed and reported as a liability in the annual financial report. Insofar, after IFRS, the loan waiver does not result in any improvement of equity, but it does after the German Commercial Code (HGB).

Due to the continuing losses mentioned above, the equipment with cash has remained unchanged, i.e. low, and it is being topped up as needed and as agreed with further funds from the loan agreement entered into with the majority shareholder.

For the current business year and on the basis of today's knowledge and the underlying business plans, the management board considers the financing of the operative business to be secured. Although the company has failed another time to achieve its goals in 2010, it still must be acknowledged that, on the one hand, the operative business and the reputation of TELES and the TELES product/solution portfolio on the market have significantly improved and, on the other hand, the costs were again undercut in comparison to the budget 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 still in 2011, too.

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 circle of shareholders.

The following tables and their explanations refer to the development of the TELES continued operations during the 2010 reporting year. The growth expectations for these areas for the following years will be discussed in section G.

Revenue and earnings development of the Group in 2010 (after IFRS)

The following tables present an overall overview of the operative segments and other business operations for 2009 and 2010, as well as a transition to the EBT of the TELES Group.

Revenues and Earnings of Operating Segments and Other Business Operations in million €	January 1 – December 31 2009	2010
Revenues	**20.15**	**16.02**
TELES NGN	6.83	6.22
Access Gateways	10.56	6.53
Services	2.76	3.26
EBITDA; operational *	**-6.00**	**-6.58**
EBIT; operational *	**-7.41**	**-14.03**

* EBITDA and EBIT before expenses for employee stock option plans and for organizational adjustment due to changes on the market (see further details below)

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

Revenues and Earnings of Operating Segments and Other Business Operations in million €	January 1 – December 31 2009	2010
EBIT; operational *	**-7.41**	**-14.03**
Expenditures for:		
Employee stock option plans	-0.18	-0.04
Organisational adjustments due to market changes	0.00	-0.53
Other income and other expenditures	0.42	-0.20
Other business operations	0.05	0.07
EBIT TELES Group	**-7.12**	**-14.73**
Financial earnings	0.34	0.27
Financial expenditures	0.19	0.25
Result from investments	0.00	0.05
EBT TELES Group	**-6.97**	**-14.66**

Expenditures in the amount of 0.53 million € in connection with market-related organizational adjustments are not reported within the result of the operative segments, in order to allow for a better transparency of the operative performance. In the Group's consolidated profit and loss statement these costs are accounted for as cost of sales with 0.16 million €, the sales and marketing expenditures with 0.08 million €, the R&D expenditures with 0.21 million €, and the administration costs with 0.08 million €.

The category "Other Business Operations" includes the amounts resulting from an agency agreement concluded with the majority shareholder of TELES.

Explanations relating to the above corporate group overview:

- The 2010 **Group revenues** in the amount of 16.02 million € decreased in comparison with 2009 by 20%.
- The **Group EBITDA; operational** declined in 2010 in comparison with the previous year from -6.00 million € to -6.58 million €.
- The **Group EBIT; operational** also significantly declined in 2010 in comparison with the previous year by -6.62 million € to -14.03 million €.
- The 2010 **Group EBT** declined in 2010 in comparison with the previous year by -7.69 million € to -14.66 million €.

- The results in earnings per share (EPS) for the continuing operations were -0.63 € (diluted as well as undiluted); if the earnings of discontinued operations are included an EPS of -0.63 million € (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 million €)	**January 1 to December 31** **2009**	**2010**	**Variation[1]** **2010 vs. 2009**
Revenues	**6.83**	**6.22**	**-9%**
Cost of sales	3.61	7.98	121%
included amortization	*0.58*	*4.97*	*763%*
Profit contribution	**3.22**	**-1.76**	**n.a.**
Gross profit margin	*47%*	*-28%*	
Operating expenses:			
Sales and marketing expenditures	3.88	3.51	-10%
Research and development expenditures	1.87	1.51	-19%
Administrative expenditures	1.73	1.38	-20%
EBITDA; operational *	**-3.69**	**-3.19**	**-14%**
Depreciation	0.54	0.39	-26%
Amortization of Goodwill	0.00	1.82	100%
EBIT; operational *	**-4.80**	**-10.37**	**-116%**

- **NGN revenues:** Compared to the previous year the sales revenues dropped by 9% to 6.22 million €. However, a different evolution applies within the different products. The sales revenues of “Class 5 Softswitch-Solutions” increased by 25% and the sales revenues of “MGC Softswitch-Solutions” increased by 3%. However, the sales revenues of the “IP TDM-Solutions” dropped by 42%. During the period sales revenues show a different picture: Sales revenues dropped by 15% in the first half of the year compared to the same half of the previous year 2009, sales decreased only marginally in the second half of the year 2010 as compared to the previous year (-5%); compared to the first half of the year 2010 they even increased by almost 50%.

- **NGN gross profit margin:** During the financial years 2009 and 2010 TELES activated development costs in the amount of 1.5 million € and 0.9 million € respectively, which apply directly to the “Class 5 Softswitch-Solutions”. The revision of the mentioned assets (Technologies), the goodwill and the customer base resulted in an impairment need in the amount of 6.0 million € at December 31, 2010. In the costs of sales are allocated 4.0 million €.

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

- The 2010 **NGN operating expenditures** as expected decreased disproportionally by about 14% compared to 2009. 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.

- The 2010 **NGN-EBITDA; operational** amounts -3.2 million € (2009: -3.7 million €)

- Thus, the 2010 **NGN EBIT; operational** is considerably determined by the impairments related to the "Class 5-Assets" (Cost of sales: 4.0 million €, operational depreciation: 0.2 million €; impairment of goodwill: 1.8 million€).

Explanations to the AGW segment:

Revenues and Earnings by Segment (in million €)	**January 1 to December 31**		**Variation[2]**
	2009	**2010**	**2010 vs. 2009**
Revenues	**10.56**	**6.53**	**-38%**
Cost of sales	5.55	4.56	-18%
included amortization	*0.02*	*0.01*	*-59%*
Profit contribution	**5.01**	**1.98**	**-61%**
Gross profit margin	*47%*	*30%*	
Operating expenses:			
Sales and marketing expenditures	3.43	2.63	-23%
Research and development expenditures	2.03	1.97	-3%
Administrative expenditures	1.19	1.16	-3%
EBITDA; operational *	**-1.63**	**-3.78**	**-132%**
Depreciation	0.21	0.22	1%
EBIT ; operational *	**-1.86**	**-4.00**	**-115%**

- **AGW revenues:** The 2010 sales revenues in this product segment were with 6.5 million € by 38% clearly below the level of the previous year. After the sub-segments, the picture is significantly different: The revenue from the (smaller) VoIP Gateways (VoIP = Voice over IP) could be marginally increased compared to the

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

previous year, while the revenue from Mobile Gateways significantly dropped. This is due to temporarily weaker business with AGW solutions for network operators in the American market, which is meanwhile fairly saturated. The business with business solutions could not match this decrease yet. Considering the meanwhile obtained certification of our solutions for business applications in connection with the AVAYA telephone exchange systems (market leader in the USA) as well as the general agreement entered into with one of the three AVAYA distributors in the USA towards the end of the third quarter, TELES expects to compensate this very well within a short time.

- **AGW gross profit margin:** Unfortunately, the margins of the previous year could not be maintained in both sub-segments. The reason of this is mainly due to the depreciation in value of the inventories.

- The 2010 **AGW operating expenditures** decreased as expected by 14% compared to 2009, due to the increased allocation of distribution cost.

- In consequence of the clearly decreased sales the **2010 AGW EBITDA; operational** as well as the **2010 AGW EBIT; operational** have decreased – despite lower operating expenses – by 2.1 million € each to -3.8 million and -4.0 million €, respectively, compared to 2009.

Explanations to the Service segment:

Revenues and Earnings by Segment (in million €)	**January 1 to December 31** **2009**	 **2010**	**Variation[3]** **2010 vs. 2009**
Revenues	**2.76**	**3.26**	**18%**
Cost of sales	2.52	2.20	-13%
included amortization	*0.04*	*0.02*	*-36%*
Profit contribution	**0.24**	**1.06**	**336%**
Gross profit margin	*9%*	*33%*	
Operating expenses:			
Sales and marketing expenditures	0.81	0.47	-42%
Administrative expenditures	0.15	0.23	49%
EBITDA; operational *	**-0.68**	**0.39**	**n.a.**
Depreciation	0.02	0.02	-8%
EBIT; operational *	**-0.75**	**0.34**	**n.a.**

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

- **Service revenues:** The 2010 sales revenues increased by 18% compared to the previous year. This is among others attributable to the increasing business with Service Level Agreements (SLA) which contributes about 55% to the entire service sales.

- **Service gross profit margin:** Due to continuously increasing SLA business with disproportionally slowly increasing service expenditures, the gross sales margin could be raised by 24% and absolute gross profit by 0.9 million € to 1.1 million € (+336%).

- The 2010 **Service operating expenditures** have decreased by about 27% compared to 2009.

- The **Service EBITDA; operational** as well as the **Service EBIT; operational** improved significantly to 0.4 million € and 0.3 million € respectively due to the improved gross sales.

B.1 Asset and capital structures

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

	December 31	
(in million €, except number of common shares)	**2009**	**2010**
ASSETS		
Langfristige Vermögenswerte		
Tangible assets	0.98	0.61
Intangible assets	5.19	0.04
Deferred tax assets	0.04	0.00
Other financial assets	0.86	1.07
	7.07	**1.72**
Current assets		
Inventories	4.91	2.92
Trade accounts receivable	7.52	6.60
Other financial assets	0.36	0.00
Receivable from income taxes	0.18	0.17
Other current assets	1.09	0.90
Cash and cash equivalents	0.46	0.46
	14.51	**11.05**
Total assets	**21.58**	**12.77**
LIABILITIES		
Equity		
Common shares: Issued: 23,304,676 and 23,304,676, respectively Outstanding: 23.304.676 and 23.304.676, resp.	23.30	23.30
Additional paid-in capital	5.52	8.59
Other comprehensive income	0.59	0.59
Unappropriated retained earnings	-4.42	-19.17
Treasury stock (2,174,493 and 2,174,493 at 12/31/07 & 08, resp.)	-20.55	-20.55
Other equity changes	0.32	0.01
Equity attributable to shareholders of the parent company	**4.77**	**-7.22**
Minority interests	**0.02**	**0.01**
Total equity	**4.79**	**-7.21**
Non-current liabilities		
Non-current accrued liabilities	0.93	0.23
Deferred tax liabilities	0.00	0.00
Other non-current financial liabilities	6.13	9.27
Other non-current liabilities	0.11	0.11
	7.18	**9.62**
Current liabilites		
Trade accounts payable	2.97	2.02
Accruals for income taxes	0.14	0.13
Other accruals	1.36	2.05
Deferred revenues	0.47	0.83
Other current liabilities	0.33	0.12
Liabilities of the disposal group classified as held for sale	4.35	5.21
	9.62	**10.36**
Total liabilities	**16.80**	**19.98**
	21.58	**12.77**

The **Fixed assets** and the balance on Intangible assets decreased in 2010 compared with the previous year by 5.52 million € mainly as a result of the impairment in value of the capitalized development costs of the product segment “Class 5 softswitch” solutions (4.0 million €) as well as the related goodwill (1.8 million €); for details relate to section “B”; explanations for the NGN-Segment. In addition to that, the TELES business continues to feature very little capital lock-up.

The **Inventory** level was again significantly reduced by 1.99 million € in 2010. 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 balance of **Trade accounts receivable** decreased at the 2010 year end by a total of 0.92 million €. This change results as a consequence of the depreciation of trade accounts receivable. More details can be found at Risks Report (chapter F), at the sub item Business Risks.

The 2010 **Other assets** contain mainly the shares held in GRAVIS (2010 and 2009: 0.6 million € each) as well as the claims from the correction agreement connected therewith (2010: 0.5 million €; 2009: 0.3 million €).

The **Liabilities** increase results mainly due to the increase in the financial liability from the recovery agreement in connection to the waiver of loan of the majority shareholder. This liability is measured to its fair value. The fair value – due to the absence of market value - is determined by the discounted cash flow method.

The **Group’s corporate equity** at the end of the reporting period is -7.2 million €. This value is mainly due to the fact that correction agreements connected with the loan waivers of the majority shareholder have to be assessed and reported after IFRS and hence, reduce the equity after IFRS by 9.3 million €.

B.2 Cash Flow

The shortened cash flow calculation for the business years 2009 and 2010 is shown in the following table.

	January 1 – December 31	
Cash flow in million €	**2009**	**2010**
Cash outflow from operations	-5.65	-3.95
Cash outflow from investing activity	-2.37	-2.01
Cash inflow from financing activity	5.89	5.96
Net increase/decrease of cash and cash equivalents	-2.13	0.00
Balance of cash and cash equivalents at the end of the business year	0.46	0.46

The 2010 **Cash outflow from operations** in the amount of approximately -3.95 million € corresponds essentially with the negative EBITDA on the one hand and to the loan waiver of the majority shareholder as well as the change in working capital on the other hand.

The 2010 **Cash outflow from investing activity** of -2.01 million € is essentially 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 as well as the other minor investments in assets.

The 2010 **Cash inflow from financing activity** in the amount of 5.96 million € is essentially the result of loan agreements entered into with the majority shareholder of TELES.

Cash and cash equivalents on hand at the end of 2010 remained about the same compared to the end of the previous year, as a consequence of the inflows and outflows indicated above. As for the rest, reference is made to the above statements.

B.3 Employees of the TELES Group

TELES employed 168 employees on December 31, 2010 – not counting in trainees, student employees and casual workers. Thereof 103 employees were employed in Germany, while 65 performed their activity abroad. The number of employees thus fell in comparison with the 2009 year end by 28 (14%). The decrease in number of employees is mainly attributable to the restructuring measures performed in the second half of 2010. With that, staff expenditures – on an annual basis - could be reduced by about 15%, i.e. by about 1.60 million €.

During the restructuring measures major effort was made to inform, communicate with, and involve the employees. Individually adjusted further education and training measures were performed, among others in the area of distribution and project management, and the portion of the variable compensation for employees was enhanced.

TELES continued its usual engagement for the promotion of young staff in 2010. 7 students were trained in computer science to support their degree of Bachelor of Science. With that, the portion of academics arrived at 91%.

The diversity of TELES employees is being acknowledged, utilized and promoted. 15 different nationalities are represented in our team. The portion of foreign executives was 31% in 2010, while the portion of female executives has increased to 19%, with the general portion of female employees in the total number of employees being 16%.

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

The situation in the “skyDSL patent proceedings” (against Deutsche Telekom AG and SES ASTRAnet S.A.) has remained unchanged. Insofar reference is made to the Consolidated Management Report of 2009.

The lawsuit initiated by a cellular phone network operator against CMS Ltd, a company co-founded by TELES in 2003, was decided by court in favor of the cellular phone network operator in the last instance. As CMS in consequence thereof declared bankruptcy, 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, 2009, the OLG Düsseldorf in the second instance rejected both the complaint and the counter complaint, as had the LG Düsseldorf already. Both parties have filed the expressly permitted appeal on points of law with the BGH. 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. To the extent of the repeal, the matter was returned for further proceedings to the OLG Düsseldorf. TELES expect that the original decisions to reject the claim will be confirmed. However, an expert opinion is being obtained and, therefore, a condemnatory sentence cannot be entirely ruled out. Most likely, such sentence would concern only the offer and distribution of GSM gateways for carrier networks in Germany, as the applicant claims the inadmissibility after the German fair trade law (UWG). Based on the low importance of Germany as a distribution country for GMS gateways the economic risks for TELES are considered relatively small. The extent of possible damage claims in the case of a negative outcome of the proceedings cannot be estimated yet.

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. The Regional Court Berlin has rejected the claim to its full extent in October 2010. The decision is legally effective.

Comments on the state of patent infringement lawsuits mentioned in previous years are waived from 2009 on, because – as already mentioned in last year’s financial statement – the majority shareholder (SSBG = Sigram Schindler Beteiligungsgesellschaft) has assumed all cost 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

The TELES Group continues to view its qualified, success-oriented development teams with long term experience 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 solutions (TELES-MGC = TELES Media Gateway Controller) based on a “cluster technology”, which provides the customer with a high-performance, redundant solutions scalable at any time to adjust to investment decisions. The solution has been successfully utilized worldwide in many networks.

- In the Class 5 soft switch area TELES advanced the development to an even higher performance and stronger scalable system and pushed the integration of the other TELES product lines to arrive at an end-to-end solution. The first comprehensive solutions were successfully implemented in networks. Another focus was the support of fixed mobile convergence and unified communication.

- In the access gateways segment the product portfolio was expanded with respect to quantity and quality. In particular the takeover of the ECOTEL product line has helped to develop further markets. 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 a loan to the company in order to solve some possible financing breach; the company made use of 4.00 million € in the first nine months of 2011. Moreover, the majority shareholder waved of loans in the granted amount. The company balances a financial liability resulting from a recovery agreement entered into in connection with the loan waiver. Due to the lack of market values, the fair value was determined by means of a discounted cash flow method.

In October 2011 the majority shareholder committed himself to provide further loans - in addition to the applied funds - to cover potential cash flow gaps. He covenant to ensure that, in continuation of the current development, TELES will be managed in a manner and will be in funds to always be able to fulfill its financial obligations within the next twelve months.

Mr. Oliver Olbrich assumed the position as Board member of the operational business at January 1, 2011.

Mr. Olaf Schulz, Board member of finance, is separated from his position at August 1, 2011.

The company more! computer AG was deleted from the company register at March 29, 2011. Following the deconsolidation of the company, it resulted in an income of 2.3 million € as a consequence of the cancellation of a sales tax liability.

F. Risks report

General information

As already discussed in Section A, due to the global economic and financial crisis of the year 2008/2009 TELES cannot completely exclude the possibility of being directly or indirectly affected by the aftermaths. Thus we cannot exclude the possibility of effects, among other things, on unexpected uncollectible receivables and also instances of falling short of planning goals.

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 circle of shareholders.

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. For achieving business success it is essential to recognize risks early and to counteract them actively.

The risk strategy considers risks on the one hand, and the opportunities connected with them on the other hand. 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. On the other hand, in case of need, we transfer risks in other areas to other risk takers. In summary, it is ensured that the Group can fully cover any risks it takes.

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], the TELES AG is obliged to describe in its (Group) situation report the most significant characteristics of its accounting-related control and risk management systems (of the Group). 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 “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 more than 6% during 2010. The next 10 largest customers contributed approximately 35% of the sales. With the exception of one trade account receivable, these are also widely distributed. The moving average of the value adjustment ratio is less than 1.5% in relation to the annual turnover. With this value, the value adjustment rate is less than the statistical default rate of businesses in Europe (European Payment Index EPI 2010: the current figure for 2010 is 2.6%). 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 o 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 the foreign businesses, commercially available letters of credit or payment guarantees are used - especially for businesses outside Europe. However, with view to our position on the market, this is possible only in singular cases. As of the end of 2010, about 3.6% 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.

Other significant factors for TELES success is the timely and quality fulfillment of promised installation works and services. This applies even more as customers are increasingly offered, and are entering into, general service agreements (SLA) which constitute an increasing portion in the total sales of TELES. Insofar, service quality is being evaluated permanently and in good time. Further, faulty services can result in additional repair demand, connected with default of payment.

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.

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 company may get involved in lawsuits as part of the normal business activities, for example for 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 telecommunication 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 a little bit less than 20% of the not publicly traded GRAVIS Beteiligungs AG. 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.

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. Essentially, the following trends are taking on shape:

- As clear growth rates towards Internet telephoning (VoIP = Voice over IP) have been observed in the private banking market for quite a while, thanks to good band-with supply (for example, in Germany, it is estimated that meanwhile about one in five households makes telephone calls via the Internet),
- a clear demand for VoIP is also becoming obvious in the corporate area.
- The reason for that is, in particular, the “all IP trend” which stands for handling any sort of communication (including data transfer and telephone calls) via the Internet.
- A significant factor for providers to succeed in this market is that the solutions allow for the accustomed procedures to remain the same.
- So, it is relevant in all the countries in which ISDN connections have been established and/or are widely spread that the accustomed features remain the same. The same applies to the question of “investment protection” for existing private telephone branch exchanges.
- Further, the additional inclusion of the respective in-company mobile telephone systems is very interesting for corporate customers.

This simultaneously announces the further development towards the networks of the future / NGN (Next Generation Networks).

Already today TELES supplies companies of all industries with VoIP and mobile phone gateways in order to decrease communication costs, connect locations, connect remote facilities to telecommunication networks via mobile phone networks, or to offer fallback solutions for network breakdowns.

Globally, TELES has already equipped more than 300 telecommunication and data networks with several millions of language and data ports.

TELES operates branch offices for development, distribution and technical support in Austria, India and Bolivia, as well as global partner network encompassing more than 50 countries.

Based on the by now number of about 300 installed carrier networks, TELES is well positioned with the so-called “Tier 3” and “Tier 4” carriers. Based on these references and the experience derived therefrom TELES provides competitive and recognized NGN solutions. This should help to acquire so-called “Tier 2” carriers as customers, too. The large and constantly increasing number of negotiated NGN 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 2009/2010 was still impacted by the global economic crisis and as expected the total revenue in the carrier equipment market dropped by 15%. 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, electric power etc.), the better offer of additional services and the migration of two network structures (TDM and IP) to a uniform infrastructure (IP) which results in significantly better total cost of ownership for the carrier.

- With regard to sales, the market has stabilized at the turn of the year 2009/2010. 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.

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 America. The reason for this is the very advanced market development for IP Centrex and Hosted PBX solutions in North America.

Further, 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 USA 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, mall and/or established, large competitors.

Based on the estimation of marketing and industry development discussed above – in particular with regard to the American market – in connection with the possibilities for application and the success factors of the TELES product portfolio, TELES aims to achieve a sales level of about 12.00 million €. In the financial year 2012, it is planned to have a moderated percentage increase in the sales level. Business planning of course is connected with risks and uncertainties. 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, 2010 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 2009/1) 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, 2009, 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, 2010, 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, October 19, 2011

The Management Board of TELES AG Informationstechnologien

Consolidated Financial Statement of TELES AG Informationstechnologien for the Business Year 2010

Consolidated Financial Statement of TELES AG Informationstechnologien
For the Business Year 2010

The German version is authoritative

TABLE OF CONTENTS

PAGE

Consolidated Financial Statement of TELES AG Informationstechnologien
For the Business Year 2010

The German version is authoritative

CONSOLIDATED FINANCIAL STATEMENT

(in T€, except number of common shares)	Note	December 31 2009	December 31 2010
ASSETS			
Non-current assets			
Tangible assets	5	985	613
Intangible assets	6	5,186	38
Deferred tax assets	19	36	0
Other financial assets	7, 18	861	1,066
		7,068	**1,717**
Current assets			
Inventories	8	4,907	2,921
Trade accounts receivable	9, 18	7,519	6,599
Other financial assets	18	355	0
Receivable from income taxes		181	172
Other current assets	10	1,093	900
Cash and cash equivalents	25	460	457
		14,515	**11,049**
Total assets		**21,583**	**12,766**
LIABILITIES			
Equity			
Common shares:		23,305	23,305
Issued: 23,304,676 and 23,304,676, resp.			
Outstanding: 23,304,676 and 23,304,676, resp.			
Additional paid-in capital		5,518	8,595
Other comprehensive income		591	591
Unappropriated retained earnings		-4,419	-19,168
Treasury stock		-20,549	-20,549
Other equity changes		324	10
Equity attributable to shareholders of the parent company		**4,770**	**-7,216**
Minority interests		**15**	**6**
Total equity	11	**4,785**	**-7,210**
Non-current liabilities			
Non-current accrued liabilities	17	926	233
Deferred tax liabilities	19	4	1
Other non-current liabilities	12, 18, 27	6,132	9,268
Other non-current liabilities	13	114	114
		7,176	**9,616**
Current liabilities			
Trade accounts payable	18	2,973	2,022
Accruals for income taxes	17	143	129
Other accruals	17	1,361	2,046
Deferred revenues	14	465	834
Other current liabilities	15, 18, 27	326	121
Liabilities of the disposal group classified as held for sale	16, 27	4,354	5,208
		9,622	**10,360**
Total liabilities		**16,798**	**19,976**
		21,583	**12,766**

CONSOLIDATED PROFIT AND LOSS STATEMENT

(in T€, except share-related information)	Note	January 1 – December 31 2009	 2010
Revenues	28, 29	**20,151**	**16,021**
Cost of sales	28, 29	**11,680**	**14,894**
Gross profit		**8,471**	**1,127**
Sales and marketing expenditures	29	8,236	6,921
Research and development expenditures	6, 29	4,282	3,910
General administrative expenditures	29	3,435	3,219
Impairment of goodwill	6, 29	0	1,821
Expenditures from employee stock option plans	23, 29	183	44
Other income	20, 29	1,287	590
Other expenditures	20, 29	739	534
Operating loss	29	**-7,117**	**-14,732**
Financial earnings	18, 21, 29	340	273
Financial expenditures	18, 21, 29	193	247
Other results from investments	18, 21, 29	-5	50
Earnings before income taxes	19, 29	**-6,975**	**-14,656**
Income tax refund	19	-90	43
Earnings from continued operations		**-6,885**	**-14,699**
Earnings from discontinued operations, net of tax	22	-927	-61
Annual net loss		**-7,812**	**-14,760**
Thereof attributable to:			
Shareholders of the parent company	24	-7,827	-14,749
Minority shareholders		15	-11
Earnings per share from continued operations			
Undiluted		-0.31	-0.63
Diluted		-0.31	-0.63
Earnings per share, total	24		
Undiluted		-0.35	-0.63
Diluted		-0.35	-0.63
Number of underlying shares			
Undiluted		22,530,597	23,304,676
Diluted		22,530,597	23,304,676
Additional information for the consolidated financial statement (unaudited):			
EBIT[1]		-7,117	-14,731
EBITDA[2]		-5,689	-7,255

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

The German version is authoritative

CONSOLIDATED STATEMENT OF INCOME

(in T€)	Note	January 01 - December 31 2009	 2010
Annual loss		**-7,812**	-14,760
Other total result:			
Currency exchange differences of foreign subsidiaries		44	-314
Financial assets available for sale	18	600	0
Losses/profits achieved during the report period	18	600	0
Adjustment due to reclassification for profits/losses included in the profit and loss		0	0
Taxes on Other results from investments, allocated in full to financial assets available for sale	18, 19	-9	0
Other results from investments, net taxes		**635**	**-314**
Overall result		**-7,177**	**-15,074**
Thereof attributable to:			
Shareholders of the parent company		-7,192	-15,063
Minority shareholders		15	-11

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**	**Unappro priated 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 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 Business Year 2010

The German version is authoritative

(in T€, except number of nominal shares)	Number of nominal shares	Nominal share value	Additional paid-in capital	Other compre-hensive income	Unappro priated 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 2009	23,304,676	23,305	5,518	591	-20,549	-4,419	0	324	4,770	15	4,785
Net loss for the year, attributable to parent company shareholders or minority interests						-14,749		-314	-15,063	-9	-15,072
Employee stock option plans			44						44		44
Waiver of claims			6,169						6,169		6,169
Financial liability from recovery agreement			-3,136						-3,136		-3,136
December, 31 2010	23,304,676	23,305	8,595	591	-20,549	-19,168	0	10	-7,216	6	-7,210

CONSOLIDATED CASH FLOW STATEMENT

(in T€)	January 01 – December 31 2009	 2010
Cash flow from operating activities:		
Net income/ loss	-7,812	-14,760
Adjustment of the net income/ loss to the operating cash flow:		
Income taxes	-90	43
Financial result:		
Loss on financial instruments	0	-50
Interest result	86	211
Recovery rights	-277	-237
Employee stock option plans	183	44
Allowance for doubtful accounts	3,281	964
Depreciations of inventories	1,062	1,809
Depreciations for tangible fixed assets	864	582
Amortization on intangible assets	663	6,996
Losses from divestiture of assets	0	-11
Changes of other balance sheet items (without changes due to company acquisitions and divestitures):		
Inventories	628	177
Trade accounts receivable	-3,638	142
Other current assets, accruals and deferrals	864	345
Current liabilities	-92	-736
Accruals and other liabilities	-1,436	850
Effects from exchange rate changes with no impact on payment	44	-319
Received income taxes	22	0
Paid income taxes	-14	-16
Received interest	18	14
Paid interest	-2	-1
Cash outflow from operating activities	**-5,646**	**-3,953**
Cash flow from investing activities:		
Third and related party loan	-276	0
Proceeds from sale of fixed assets	10	12
Acquisition of fixed assets	-102	-205
Acquisition of intangible assets	-27	-16
Payout for capitalized development cost	-1,994	-1,832
Recovery rights	20	32
Cash inflow from investing activities	**-2,369**	**-2,009**
Cash flow from financing activities:		
Loans from related companies and individuals	4,735	5,960
Sale of treasury stock	1,153	0
Other financial activities	-2	-1
Cash outflow from financing activities	**5,886**	**5,959**
Net change of cash and cash equivalents	-2,129	-3
Cash and cash equivalents, at the beginning of the year	2,589	460
Cash and cash equivalents, at the end of the year	**460**	**457**
Cash and cash equivalents include money market funds	137	138

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 185 employees during the business year (previous year: 206). The employees worked in the sales and marketing (30, previous year: 36), research and development (87, previous year: 89), procurement and logistics (40, previous year: 44) and administration (28, previous year: 38) 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, 2010 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, 2010 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. In October 2011 the majority shareholder committed himself to provide further loans - in addition to the applied funds - to cover potential cash flow gaps. He covenant to ensure that, in continuation of the current development, TELES will be managed in a manner and will be in funds to always be able to fulfill its financial obligations within the next twelve months. More information regarding the threatening of the existence of the company will be pointed in the group management report.

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

- *IFRIC 12 Service Concession Arrangements*

A service concession arrangement is an arrangement whereby a government or other public sector body contracts with a private operator to develop (or upgrade), operate and maintain the grantor's infrastructure assets. The objective of IFRIS 12 is to clarify how existing IFRS are to be applied by the contractor to service concession arrangements in order to cover the rights and obligations assumed within the frame of service concession arrangements.

The application of the regulations is mandatory for business years starting on or after March 29, 2009; earlier application is permitted.

The regulations of IFRIC 12 are not relevant for the Company.

- *IFRIC 15 Arrangements for the construction of real estate*

The objective of the interpretation is the uniform realization of sales by enterprises that develop land and in this function sell units – such as residential units or houses – “off plan”, i.e. before their construction is accomplished. The interpretation defines criteria which require that the recognition of revenue has to comply with IAS 11, “Construction contracts”, or IAS 18, “Revenue”.

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

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

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

The objective of the interpretation is to clarify three questions which arise in connection with the balancing of the securing of foreign currency risks within an enterprise and its foreign business operations after the regulations of IAS 21, “Effect of Changes in Exchange Rates of Foreign Currencies” and IAS 39, ”Financial Instruments: Recognition and Measurement”: What type of risk is hedged? Which Group enterprise may hold the hedging instrument? Which rules must be applied to the basic transaction and/or the hedging transaction when the secured asset is sold?

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

The regulations of IFRIC 16 did not significantly affect the assets, finance and income of the Company in the past business year.

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

The interpretation answers the question how an entity shall recognize other assets as means of payment which it pays out as dividend to its shareholders. A dividend payable should be recognized when the dividend is appropriately authorized by the competent authorities and is no longer at the discretion of the entity. This dividend obligation should be measured at the fair value of the net assets to be distributed. The difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss.

The regulations must be applied to business years that begin on or after November 1, 2009; earlier application is permitted.

The regulations of IFRIC 17 are by now not relevant for the Company.

- *IFRIC 18 Transfers of Assets from Customers*

IFRIC 18 provides additional guidance on how to account for transfers of an asset by a customer. The interpretation clarifies the IFRS requirements for agreements in which an entity receives from a customer an item of property, plant or equipment that the entity then must use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services.

This interpretation must be applied prospectively to transfers of assets that an entity receives from a customer on or after November 1, 2009.

The regulations of IFRIC 18 are not 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 easements for first time adopters when switching to IFRS.

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

The amendment to IFRS 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“ includes a more precise definition of how any single subsidiary within a Group shall account for certain share-based payment agreements in its own financial statement. Further, the amended standard adopts regulations which were previously included in IFRIC 8, “Scope of IFRS” and IFRIC 11, “IFRS 2 – Group and Treasury Share Transactions”. IFRIC 8 and IFRIC 11 have therefore been withdrawn by the IASB.

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

The amendment to IFRS 2 is by now not relevant for the Company.

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

The amendment to IAS 27 regulates the dealing with share acquisitions and/or sale after obtaining control and while maintaining control. In future, losses attributed to minorities which exceed their balance value shall be presented as negative book values in the consolidated equity.

The regulations must be applied for business years beginning on or after July 1, 2009.

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

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

According to the existing regulations it is permitted for companies to include the entire risk or only certain risks of a basic transaction in a *hedge*. In order to facilitate the application of the unchanged basic principles, the principles have been completed with regard to the determination of inflation risks in the basic transaction as well as the risk on one side in a basic transaction (for example with an option as hedging transaction).

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

The amendment to IAS 39 is by now not relevant for the Company.

- *Revision to IFRS 1 First Time Adoption of IFRS*

The subject of the revision of IFRS 1 is exclusively an improved structure of the standard; this revision did not result in any amendments of balancing or reporting regulations.

The revised standard must be applied to business years that start on or after July 1, 2009.

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

- *Revision to IFRS 3 Business Combinations*

The revised IFRS 3 includes regulations on the scope, the components of the acquisition cost, the treating of minority shares and of the goodwill, as well as on the extent of the reportable assets, liabilities and contingent liabilities. Further, the revised standard includes regulations on the balancing of losses carried forward and on the classification of agreements of the acquired business.

The regulations must be applied prospectively to business combinations with an acquisition date in a business year that starts on or after July 1, 2009.

The revision of IFRS 3 is by now not relevant for the Company.

- *Improvements to IFRSs*

On April 16, 2009, the IASB published the second semi-annual summary standard on small changes made to the IFRSs, the so-called "Improvements to the 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. The present changes to ten IFRSs and two interpretations as well as the related bases for conclusions were continuously discusses by the IASB within the frame of the annual improvement process.

A large portion of the changes made by the Improvements to IFRSs must be, for the first time, applied retrospectively for the business years that begin on or after January 1, 2010. An earlier voluntary application is permitted.

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

- *IFRS 9 Financial Instruments*

On November 12, 2010, 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 the time of the preparation of this financial report, IFRS 9 has not yet been bindingly adopted by the EU.

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.

- *IFRS 10 Consolidated Financial Statements*

IFRS 10 replaces all of the guidance on control and consolidation in IAS 27, 'Consolidated and separate financial statements', and SIC 12, 'Consolidation − special purpose entities'.

IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. The new definition is supported by extensive application guidance that addresses the different ways in which a reporting entity (investor) might control another entity (investee).

The new standard is applicable for annual accounting periods beginning on or after 1 January 2013. Earlier application is permitted if the entire package of standards is adopted at the same time. IFRS 10 has not yet been bindingly adopted by the EU.

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.

- *IFRS 11 Joint Arrangements*

IFRS 11 regulates the accounting for arrangements in which there is joint control; proportionate consolidation is not permitted for joint ventures (as newly defined). IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities — Non-Monetary Contributions by Venturers.

The new standard is applicable for annual accounting periods beginning on or after 1 January 2013. Earlier application is permitted if the entire package of standards is adopted at the same time. IFRS 11 has not yet been bindingly adopted by the EU.

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.

- *IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 sets out the disclosure requirements for subsidiaries, joint ventures, associates and “structured entities.” IFRS 12 replaces the requirements previously included in IAS 27, IAS 31, and IAS 28 Investments in Associates.

The new standard is applicable for annual accounting periods beginning on or after 1 January 2013. Earlier application is permitted. IFRS 11 has not yet been bindingly adopted by the EU.

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.

- *IFRS 13 Fair Value Measurement*

The new Standard replaces the guidance on fair value measurement in existing IFRS accounting literature with a single Standard. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosure at fair value.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013 with early application permitted. IFRS 11 has not yet been bindingly adopted by the EU.

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 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.

- *IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine*

IFRIC 20 deals with waste removal costs that are incurred in surface mining activity during the production phase of the mine (production stripping costs). IFRIC 20 considers when and how to account separately for the two benefits arising from the stripping activity, as well as how to measure these benefits both initially and subsequently.

IFRIC 20 applies to annual periods beginning on or after 1 January 2013. Earlier application is permitted. IFRIC 20 has not yet been bindingly adopted by the EU.

The regulations of IFRIC 20 are not expected to be relevant for the Company.

- *Amendment to IFRS 7 Financial Instruments: Information*

On October 7, 2010, the IASB has published changes to IFRS 7, "Financial Instruments: Information". Subject of the changes are the reporting obligations in connection with the transfer of financial assets. A transfer of financial assets exists, for example, when trade accounts receivable are sold (Factoring) or in the case of so-called Asset Backed Securities (ABS) transactions.

Entities must apply the changes to business years that begin on or after July 1, 2011. An earlier application is permitted. The adoption by the European Commission is expected to take place in the second quarter 2010.

The amendment to IFRS 7 is not expected to be relevant for the Company.

- *Amendment to IFRS 1 Limited Exemption for First Time Adopters of Comparative Disclosures after IFRS 7 (Jan 2010)*

The amendment to IFRS 1 now allows also entities who are first-time adopters of IFRS to be exempted from the comparative disclosures for valuations at fair value and for the liquidity risk. These exemptions are envisaged by IFRS 7 for cases with comparative periods ending before December 31, 2009.

The amendments to IFRS 1 and IFRS 7 must be applied, at the latest, at the beginning of the business year that begins on or after June 30, 2010.

The regulations of IFRIC 1 will not be relevant for the Company.

- *Amendment to IFRS 1 Initial application of the IFRS*

The International Accounting Standards Board (IASB) has published amendments to IFRS 1 "First Time Adoption of the International Financial Reporting Standards".

With this amendment the prior references to January 1, 2004, are replaced by references to the date of the transition to IFRS. In addition to that, regulations for cases have been implemented in which an entity is not capable due to hyperinflation to meet all the requirements of the IFRS.

The amended standard is applicable to business years that begin on or after July 1, 2011.

At the time when this financial report was prepared, the amendment to IFRIC 1 has not yet been bindingly adopted by the EU.

The regulations of IAS 19 and IAS 1 will not be relevant for the Company.

- *Amendment to IAS 19 and IAS 1 Accounting for employee benefits and Presentation of Financial Statements*

The IASB issued its revised version of IAS 19 Employee Benefits on 16 June 2011. The amended IAS 19 eliminates the use of the corridor approach when accounting for pensions and other postretirement benefits and instead mandates all remeasurement impacts be recognised in other comprehensive income (with the remainder in profit or loss).

Also changed in IAS 19 is the treatment for termination benefits, specifically the point in time when an entity would recognise a liability for termination benefits. The new requirements are effective for annual periods beginning on or after 1 January 2013.

The Amendment to IAS 1 introduces changes to the presentation of items of other comprehensive income. It requires that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. It changes the title of the statement of comprehensive income to the statement of profit or loss and other comprehensive income. The new requirements are effective for annual periods beginning on or after 1 January 2012.

At the time when this financial report was prepared, the amendments to IAS 19 and IAS 1 have not yet been bindingly adopted by the EU.

- *IAS 27 Separate financial statements (as amended in 2011)*

This standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. IAS 27 has the objective of setting standards to be applied in accounting for investments in subsidiaries, jointly ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements.

IAS 27 (as amended in 2011) is applicable to annual reporting periods beginning on or after 1 January 2013. An entity may apply IAS 27 (as amended in 2011) to an earlier accounting period, but if doing so it must disclose the fact that is has early adopted the standard and also apply IFRS 10, 11, 12 und IAS 28 (revised 2011)..

The adoption by the European Commission is expected to take place in the third quarter 2010.

- *IAS 28 Investments in associates and joint ventures (as amended in 2011)*

This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The objective of IAS 28 (as amended in 2011) is to prescribe the accounting for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

IAS 28 (2011) is applicable to annual reporting periods beginning on or after 1 January 2013.

An entity may apply IAS 28 (2011) to an earlier accounting period, but if doing so it must disclose the fact that is has early adopted the standard and also apply IFRS 10, 11, 12 und IAS 27 (revised 2011).

The adoption by the European Commission is expected to take place in the third quarter 2010.

- *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.

The application of this amendment is not expected to have any significant impact on the Group’s consolidated financial statement.

- *Amendment to IAS 12 Income Taxes*

The International Accounting Standards Board (IASB) has published amendments to IAS 12, Income Taxes. This result also in changes in the scope of SIC-21, “Income taxes: realization of revalued assets not subject to planned amortization”.

The amendment includes a partial clarification on the treatment of temporary tax differences in connection with the application of the fair value model of IAS 40. In case of real estate held as a financial investment it is often difficult to assess whether existing differences will turn around within the frame of continued use or in case of sale. The amendment published today therefore provides for the general assumption that there is a turnaround in case of sale.

The amendment is to be applied retrospectively to business years that begin on or after January 1, 2012. At the time when this financial report was prepared, the amendment to IAS 32 has not yet been bindingly adopted by the EU.

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

On November 26, 2010 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 will not be relevant for the Company.

- *Amendment to IAS 24 Related Party Disclosures*

By now, entities controlled or substantially influenced by the government 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.

- *Improvements to IFRSs*

On May 6, 2010, the IASB published the "Annual Improvements 2010". The European Union has adopted these improvements as EU law in the Official Gazette of February 19, 2011.

The application of the amendments to the following standards is mandatory for all business years beginning after June 30, 2010: IFRS 3, "Business Combinations", IFRS 7, IAS 32 and IAS 39 according to the changes in IFRS 3, IAS 21, IAS 38 and IAS 31 according to IAS 27.

The amendment to IFRS 7, "Financial Instruments: Disclosures" must be applied for the first time to the business years that begin after January 1, 2011.

All other changes must be applied for the first time to the business years that begin after December 31, 2010: IFRS 1, "First Time Adoption of the International Financial Reporting Standards",IAS 1, "Presentation of the Financial Report", IAS 34, "Interim Reporting", IFRIC 13, "Customer Retention Programs"

Estimates

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

Among other things, estimates are made for the following items: value adjustments for inventories, receivables, planned and extraordinary depreciation for fixed assets and for intangible assets (especially for those intangible assets that have been acquired as part of a company merger), the fair value valuation of shares in companies that are not publicly traded, accruals, warranties, return of products sold, value adjustments for assets, taxes and contingent liabilities. The amounts actually achieved can deviate from these estimates. Uncertainties in estimates that carry a significant risk in form of a significant adjustment of the book values of the assets and liabilities for the next business year relate to the income taxes. 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 20 for detailed information about income taxes in the corporate year-end closing.

The determination of the recoverable amount of a cash generating unit is made on the basis of a *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 2010 business year include TELES AG as the parent company plus three domestic and ten foreign subsidiaries. The number of consolidated companies decreased as a result of the cessation of one company; this company had ceased operation already in the years before and has finally left the consolidation circle by deletion in the company register in the business year 2010; 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 31.

Consolidation methods

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

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

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

To the extent current operating results of a corporate company must be allocated to minority shareholders, the corresponding amount will be reported separately in the income statement; to the extent there are losses, they reduce the balance sheet item "Minority interests" in the balance sheet until this item has been exhausted.

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

Tangible assets

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

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

Computer hardware 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 19.

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 19.

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 19.

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 et seq., §§ 192 et seq.) 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 31, 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 acquisition 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 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 conversion

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.

Products 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 23.

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 1 - December 31	
(in T€)	**2009**	**2010**
Depreciation (included in cost of sales and operative expenditures)	1,427	5,655
thereof: planned depreciation on fixed assets	767	502
thereof: planned amortization on intangible assets	660	1,016
thereof: unplanned amortization on intangible assets	0	4,137
Depreciation (included in development expenditures, capitalized according to IAS 38)	102	82
thereof: planned depreciation on fixed assets	98	80
thereof: planned amortization on intangible assets	4	2
Impairment of goodwill	0	1,821
Inventories		
Acquisition and production costs of inventories which are reflected as expense	7,661	6,725
included therein: write-downs on inventories (included in cost of sales)	1,062	1,809
Allowance for doubtful accounts (included in operative expenditures, sales and marketing)	3,288	1,908
thereof: increase in allowances	3,417	3,079
thereof: reversal of allowances	-129	-1,171
Personnel expenditures (without expenditures for employee stock option plans)		
(included in cost of sales and operative expenditures)	9,249	8,808
included therein: employer share to statutory pension scheme	713	641
included therein: employer share to defined contribution plans	32	25
included therein: expenditures for settlements	75	527
Government grants (investment subsidy)		
Relating to previous years (included in Other income)	0	72

[3] Continued operations

NOTE 4: CHANGES WITHIN THE CONSOLIDATION CIRCLE

RVS Datentechnik GmbH, a company in which TELES held 100% of the shares, was deleted from the company register. The company was no longer active in business. The result within the frame of deconsolidation of the Company was T€ 2.

NOTE 5: TANGIBLE ASSETS

The tangible assets developed as follows during the 2009 and 2010 business years:

(in T€)	Acquisition costs December 31, 2008	Additions	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€)	Accumulated depreciation December 31, 2008	Additions	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**

(in T€)	Acquisition costs December 31, 2009	Additions	Disposals	Currency differences	December 31, 2010
Computer hardware	**6,565**	**161**	**2**	**1**	**6,724**
Capital leases	**0**	**0**	**0**	**0**	**0**
Office and operating equipment	**670**	**0**	**0**	**1**	**671**
Leasehold improvement	**681**	**0**	**0**	**0**	**681**
Other	**303**	**44**	**0**	**3**	**350**
Total	**8,219**	**205**	**2**	**5**	**8,426**

(in T€)	Accumulated depreciation December 31, 2009	Additions	Disposals	December 31, 2010
Computer hardware	**5,995**	**417**	**2**	**6,409**
Capital leases	**0**	**0**	**0**	**0**
Office and operating equipment	**631**	**13**	**0**	**643**
Leasehold improvement	**483**	**74**	**0**	**558**
Other	**125**	**78**	**0**	**203**
Total	**7,234**	**582**	**2**	**7,813**

(in T€)	Remaining book values December 31, 2009	December 31, 2010
Computer hardware	**570**	**315**
Capital leases	**0**	**0**
Office and operating equipment	**39**	**28**
Leasehold improvement	**198**	**123**
Other	**178**	**147**
Total	**985**	**613**

NOTE 6: INTANGIBLE ASSETS

The intangible assets developed as follows during the 2009 and 2010 business years:

(in T€)	Acquisition costs				
	December 31, 2008	**Additions**	**Disposals**	**Currency differences**	**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 cost	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**	**Disposals**	**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 cost	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 cost	1,466	2,951
Miscellaneous	**3**	**0**
Total	**3,830**	**5,186**

(in T€)	December 31, 2009	Additions	Acquisition cost Disposals	Currency differences	December 31, 2010
Software licenses	**4,438**	**16**	**0**	**0**	**4,454**
Customer relationships	**6,869**	**0**	**0**	**0**	**6,869**
Goodwill	**4,218**	**0**	**0**	**0**	**4,218**
Technologies	**3,967**	**1,832**	**0**	**0**	**5,799**
thereof: Capitalized development costs	3,584	1,832	0	0	5,416
Miscellaneous	**118**	**0**	**0**	**0**	**118**
Total	**19,610**	**1,848**	**0**	**0**	**21,458**

(in T€)	December 31, 2009	Additions	Accumulated depreciation Impairments	Disposals	December 31, 2010
Software licenses	**4,354**	**62**	**0**	**0**	**4,416**
Customer relationships	**6,714**	**26**	**129**	**0**	**6,869**
Goodwill	**2,397**	**0**	**1,821**	**0**	**4,218**
Technologies	**841**	**950**	**4,008**	**0**	**5,799**
thereof: Capitalized development costs	633	891	3,891	0	5,415
Miscellaneous	**118**	**0**	**0**	**0**	**118**
Total	**14,424**	**1,038**	**5,958**	**0**	**21,420**

(in T€)	Remaining book values December 31, 2009	December 31, 2010
Software licenses	**84**	**38**
Customer relationships	**155**	**0**
Goodwill	**1,821**	**0**
Technologies	**3,126**	**0**
thereof: Capitalized development costs	2,951	0
Miscellaneous	**0**	**0**
Total	**5,186**	**38**

In business years 2009 and 2010, TELES capitalized development costs in the amount of net T€ 1,485 and T€ 941 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.

The revision of the mentioned assets (Technologies), the goodwill and the customer base resulted in an impairment need in the amount of T€ 5,958 at December 31, 2010. The impairments concern the NGN product segment.

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 five years, for purchased customer relationships it is approximately five years and for technologies two (acquired) or two to five years (in-company created assets).

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.

There is a goodwill reflected on the TELES consolidated balance sheet, resulting 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 review of the above mentioned goodwill on the basis of the recoverable amount results in an impairment of T€ 1,821. 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 (11.33%) 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 initially expected business development was not fully confirmed. Hence, the planning assumptions for future periods had to be adjusted. This leads to the result of a reduced expected recoverable amount of expected stream of cash and cash equivalents and consequently a value adjustment with respect to the goodwill.

NOTE 7: OTHER FINANCIAL ASSETS

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

	December 31	
(in T€)	**2009**	**2010**
Unlisted securities: GRAVIS AG	600	600
Recovery rights for waived liabilities	261	466
	861	**1,066**

Please refer to Note 18 for further information.

NOTE 8: INVENTORIES

The inventory assets consist of the following:

(in T€)	December 31, 2009	December 31, 2010
Finished goods	1,280	582
Trading goods	422	363
Raw materials and supplies	3,205	1,976
	4,907	**2,921**
included inventories:		
accounted for at net realizable values	439	559
Range > one year	203	199

NOTE 9: TRADE ACCOUNTS RECEIVABLE

The trade accounts receivable consist of the following:

(in T€)	December 31, 2009	December 31, 2010
Trade accounts receivable	12,391	12,439
Minus allowance for doubtful accounts	4,872	5,775
	7,519	**6,599**

ON December 31, 2010, the “Trade accounts receivable” include a non-current portion in the amount of T€ 689 (on December 31, 2009: T€ 1,054). Reference is made to Note 18 for further information.

NOTE 10: OTHER CURRENT ASSETS

The Other current financial assets consist of the following:

(in T€)	December 31, 2009	December 31, 2010
Advance payments made	204	193
Sales tax receivables	263	176
Receivables from related parties	283	53
Receivables from investment grants	40	40
Miscellaneous	303	435
	1,093	**899**

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, 2010, 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 of August 29, 2008. The authorized capital 2009/I authorizes the Management Board, with approval by the Supervisory Board, to increase the share capital before August 28, 2013, once or several times by up to T€ 11,652 against transfers in-kind and/or by cash.

Conditional capital

As of December 31, 2010, 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, 2009. 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 of 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 of 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 of August 29, 2008 to employee stock option plans, which are issued, based on the agenda item 7 of the shareholder meeting of 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; after that, no treasury shares were acquired based on the authorization of the shareholders' meeting.

The disposition of treasury stock (2,174,493 shares) in the business year 2009 resulted in a cash inflow in the amount of T€ 1,153; reference is made 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 in the business year 2009 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, 2010, the additional paid-in capital still includes T€ 10,904 resulting from the repayment of a loan liability based on a waiver declared by the shareholder Sigram Schindler Beteiligungsgesellschaft mbH (on December 31, 2009: T€ 4,735), minus T€ 9,268 resulting from a recovery agreement entered into with the shareholder in connection with the loan waiver (on December 31, 2009: T€ 6,132). Reference is made to Note 18 for further information.

In addition to that the additional paid-in capital includes T€ 1,939 (previous year: 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 and T€ 591 on December 31, 2010 and 2009) is the value change between addition and subsequent valuation of available-for-sale assets less the appropriate deferred taxes.

NOTE 12: OTHER FINANCIAL LIABILITIES

The Other (non-current) financial liabilities consisted of the following:

	December 31,	
(in T€)	**2009**	**2010**
Recovery rights agreement Sigram Schindler Beteiligungsgesellschaft mbH	6,132	9,268
	6,132	**9,268**

Reference is made to Note 18 (Financial instruments) and Note 27 (Relations with related parties) for further information.

NOTE 13: OTHER NON-CURRENT LIABILITIES

The Other non-current liabilities (T€ 114; previous year: T€ 114) are connected with Discontinued operations (Note 22).

NOTE 14: DEFERRED REVENUES

Deferred revenues as of December 31, 2009 and 2010 relate to prepayments for accrued revenues for the rendering of services.

NOTE 15: OTHER FINANCIAL LIABILITIES

The other (current) financial liabilities include:

(in T€)	December 31, 2009	2010
Factoring	326	121
	326	**121**

Reference is made to Note 18 (Financial instruments) and Note 27 (Related party transactions) for further information.

NOTE 16: OTHER CURRENT LIABILITIES

Other current liabilities include:

(in T€)	December 31 2009	2010
Sales-dependent payment (earn out) in connection With acquisition of TELES N.G.N. SOLUTIONS Ltd.	157	71
Payables to related parties	99	149
Turnover tax liabilities	2.303	2,314
Other	1.795	2,674
	4.354	**5,208**

For further information with regard to the sales-dependent payment (earn out) reference is made to Note 25 (Restricted cash, other financial commitments and contingent liabilities)

Regarding related party transactions reference is made to Note 27.

Regarding turnover tax liabilities for the business years 2009 and 2010 reference is made to Note 22.

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

NOTE 17: ACCRUALS

The Company carries the following accruals on the balance sheet:

(in T€)	December 31, 2009	2010
Long-term accruals		
Litigation risks	395	0
Payments to employees in accordance with IAS 19	382	198
Onerous contracts	149	35
	926	**233**
Short-term accruals		
Accruals for income taxes	143	129
Risks of litigation	385	843
Other accruals	976	1,203
	1,504	**2,175**

The accruals consist of the following:

(in T€)	2009	Utilization	Release	Additions	Reclass	2010
			December 31,			
Non-current accruals						
Risks of litigation	395	0	0	0	-395	0
Payments to employees	382	178	57	51	0	198
Onerous contracts	149	0	50	18	-82	35
	926	**178**	**107**	**69**	**-477**	**233**
Current accruals						
Accruals for income taxes	143	14	0	0	0	129
Risks of litigation	385	15	10	88	395	843
Other accruals	976	329	16	490	82	1,203
Onerous contracts	132	132	0	0	82	82
Miscellaneous	844	197	16	490	0	1,121
	1,504	**358**	**26**	**578**	**477**	**2,175**

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

Litigation risks

The assessment of the litigation risks is based on the judgment of the attorneys who represent the Company concerning this matter. Further explanations cannot be given here to protect the firms legal and negotiation position. For the main cases of litigation reference is made to Note 26.

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 2009, 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€)	**2010**
Defined benefit obligation at the beginning of the year	**302**
Service cost	14
Add-on for interest of the anticipated pension obligations	16
Actuarial losses due to the retirement of employees from the Company	115
Other actuarial losses	2
Statutory settlement payments	0
Defined benefit obligation, year end	**449**

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

(in T€)	**2010**
Service cost	14
Add-on for interest of the anticipated pension obligations	16
Actuarial losses	117
	147

The defined benefit obligation on December 31, 2010, in the amount of T€ 151 is part of the Non-current reserves and in the amount of T€ 298 part of the Other current liabilities.

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 (based on the time of employment).

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 2009, 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€)	**2010**
Defined benefit obligation at the beginning of the year	**80**
Service cost	5
Add–on for interest of the anticipated pension obligations	4
Actuarial gains due to the retirement of employees from the Company	-44
Other actuarial losses	7
Payments	-4
Defined anniversary benefit obligation, year end	**48**

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

(in T€)	**2010**
Service cost	5
Add-on for interest of the anticipated pension obligations	4
Actuarial gains	-37
	-28

NOTE 18: FINANCIAL INSTRUMENTS

1. Importance of financial instruments

The company has the following categories of financial instruments:

	December 31, 2009	December 31, 2010
(in T€)	**2009**	**2010**
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	8,134	7,065
Financial assets available-for-sale	600	600
	8,734	7,665
Financial liabilities		
Financial liabilities, which were valued at amortized costs	9,431	11,411
	9,431	11,411

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

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				
Trade accounts payable			2,973	2,973
Other financial liabilities			326	326
Total liabilities			*9,431*	*9,431*

December 31, 2010	Loans and receivables	Financial assets available-for-sale	Financial liabilities, valuated at amortized costs	**Total**
(in T€)				
ASSETS				
Non-current assets				
Other financial assets	466	600		1,066
Current assets				
Trade accounts receivable	6,599	0		6,599
Other financial assets	0	0		0
Total assets	*7,065*	*600*		*7,665*
LIABILITIES				
Non-current liabilities				
Other financial liabilities			9,268	9,268
Current liabilities				
Trade accounts payable			2,022	2,022
Other financial liabilities			121	121
Total liabilities			*11,411*	*11,411*

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

TELES have 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.

- ***Loans and receivables***

	December 31,	
(in T€)	**2009**	**2010**
Recovery right for waived liabilities	261	466
Trade accounts receivable	7,519	6,599
Settlement agreement	355	0
	8,134	7,065

	January 1 – December 31,	
(in T€)	**2009**	**2010**
Recovery right for waived liabilities		
Financial earnings		
Betterment clause for waived liabilities	277	237
	277	237
Financial earnings; interest		
Recovery right for waived liabilities	17	19
	17	19
Trade accounts receivable		
Operating expenditures; sales and marketing		
Increase in allowances	3,417	3,079
Reversal of allowances	-129	-1,171
Trade accounts receivable; operating expenditures	3,288	1,908

Loans

Financial earnings; interest		
Loans, issued in connection with the employee stock option plans	6	0
Loan, issued to a strategic marketing partner	14	3
	20	3
Other expenditures; value adjustments		
Loan, issued in connection with the employee stock option plans	12	0
	12	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.

Trade accounts receivable

The trade accounts receivable reported as of December 31, 2010 are almost exclusively receivables from the company customer business (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,			
	2009	**Utilization**	**Release**	**Additions**	**Currency differences**	**Deconsolidation**	**2010**
Allowance for doubtful accounts	4,872	-679	-1,171	3,078	-1	-324	5,775

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, 2009	1,304	1,013	181	139	2,637
December 31, 2010	943	567	520	131	2,161

The Company has trade accounts receivable in the amount of T€ 338 whose terms have been renegotiated; these trade accounts receivable would be otherwise past due.

As of December 31, 2010, the Company had items of security in the amount of T€ 276, in the form of bank guarantees or letters of credit. 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 2.5 million €.

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

Reference is made to Note 9 for further information.

Loans

Up to the business year, the Company has accounted for loans issued in connection with the employee stock option plans. These loans were subject to an annual interest rate of 6%, just as the corresponding convertible debts. The fair value attributed to the loans was approximately equivalent to their book value.

The loan to the strategic distribution partner bears interest of 5% per annum; the fair value of the loan corresponds to its book value. The aforementioned loan was paid out in December 2008 and January 2009.

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

(in T€)	December 31, 2009	December 31, 2010
Unlisted securities: GRAVIS AG	600	600
Unlisted securities: skyDSL Technologies GmbH	0	0
	600	600

(in T€)	2009	2010
Unlisted securities: GRAVIS AG		
January 1	0	600
Fair value valuation; reported in equity	600	0
Fair value valuation; reflected in the income statement	0	0
December 31,	**600**	**600**
Unlisted securities: skyDSL Technologies GmbH		
January 1	5	0
Fair value valuation; reflected in the income statement	-5	50
Sale	0	-50
December 31,	**0**	**0**
Fair value valuation; reported in equity		
Unlisted securities: GRAVIS AG	600	600
Unlisted securities: skyDSL Technologies GmbH	0	0
	600	**600**
Less: taxes	-9	-9
Valuation at fair value, net, after taxes	591	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€ 113 (T€ 119) (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***

(in T€)	December 31, 2009	2010
Recovery agreement Sigram Schindler Beteiligungsgesellschaft mbH; non-current	6,132	9,268
Factoring	326	121
Trade accounts payable	2,973	2,022
	9,431	11,411

(in T€)	January 1 – December 31, 2009	2010
Financial expenditures; interest		
Loan Sigram Schindler Beteiligungsgesellschaft mbH	129	209
Factoring	8	14
Convertible debt	3	0
	132	223
Financial expenditures; other		
Factoring	3	0
	3	0

In the last business year, the company Sigram Schindler Beteiligungsgesellschaft mbH waived the loans granted to the Company. On December 2010, the Company balances a financial liability resulting from a recovery agreement entered into in connection with the loan waiver in the business years 2009 and 2010. 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.

Trade accounts payable

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

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

(in T€)	January 1 - December 31, 2009	2010
Interest income		
Cash and cash equivalents	47	17
Issued loans in connection with the employee stock option plans	6	0
Recovery right for waived liabilities; interest	17	19
	70	**36**
Interest expenditures		
Convertible debt	2	0
Cash credit line drawn upon for less than one year	3	5
Loan Sigram Schindler Beteiligungsgesellschaft mbH	121	209
Factoring Sigram Schindler Beteiligungsgesellschaft mbH	8	14
	134	**228**

Expenditures from fees are generated in connection with the processing of bank transactions (T€ 26; in the previous year T€ 50).

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 sales share of the largest individual customer of TELES was more than 6% during 2010. The next 10 largest customers contributed approximately 35% of the sales. With the exception of one trade account receivable, these are also widely distributed. The moving average of the value adjustment ratio is less than 1.5% in relation to the annual turnover. With this value, the value adjustment rate is less than the statistical default rate of businesses in Europe (European Payment Index EPI 2010: the current figure for 2010 is 2.6%). 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 the foreign businesses, commercially available letters of credit or payment guarantees are used - especially for businesses outside Europe. However, with view to our position on the market, this is possible only in singular cases. As of the end of 2010, about 3.6% 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 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 1,666 and payables in the amount of TUSD 335. TELES continues to have balances in bank accounts with the amount of TUSD 48.

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 are not admitted for public trading anywhere; therefore no particular security strategy can be applied.

NOTE 19: INCOME TAXES

The earnings before income taxes are broken down as follows:

(in T€)	January 1 – December 31, 2009	2010
Germany	**-5.473**	**-7,758**
thereof: continued operations	-4.546	-7,697
thereof: discontinued operations	-927	-61
Abroad	**-2.429**	**-6,959**
thereof: continued operations	-2.429	-6,959
thereof: discontinued operations	0	0
Earnings before income taxes	**-7.902**	**-14,717**
thereof: continued operations	-6.975	-14,656
thereof: discontinued operations	-927	-61

The expenditures and earnings from income taxes include:

(in T€)	January 1 - December 31, 2009	2010
Current taxes		
Germany	**-80**	**22**
thereof: continued operations	-80	22
thereof: discontinued operations	0	0
Abroad	**23**	**-10**
thereof: continued operations	23	-10
thereof: discontinued operations	0	0
Total:	**-57**	**11**
thereof: continued operations	-57	11
thereof: discontinued operations	0	0
Deferred taxes		
Germany	**-19**	**36**
thereof: continued operations	-19	36
thereof: discontinued operations	0	0
Abroad	**-14**	**-3**
thereof: continued operations	-14	-3
thereof: discontinued operations	0	0
Total:	**-33**	**33**
thereof: continued operations	-33	33
thereof: discontinued operations	0	0
Income tax expenditures / refund:	***-90***	***43***
thereof: continued operations	-90	43
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, 2009	2010
Earnings before income taxes (Continued and discontinued operations	-7.902	-14,717
Income tax expenditures / income at legal tax rate	-2.384	-4,441
Tax rate differences	109	339
Differences based on items not to be taxed	-50	-47
Differences based on items that are not deductible	16	16
Non-recognition of deferred tax assets	861	1,689
Write-down of Goodwill	0	549
Employee stock option plans	55	13
Other items, net	1.303	1,925
Effective income tax expenditures / refund	**-90**	**43**

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

(in T€)	December 31, 2009	2010
Deferred tax assets:		
Intercompany transactions	36	0
Payments to employees per IAS 19	17	0
Assets available for sale	14	14
Losses carried forward	1.795	3,077
Devaluations	-603	-603
Deferred tax assets, total	1.259	2,488
Settlement with deferred tax liabilities	-1.223	-2,488
Balance sheet amount	36	0
Deferred tax liabilities:		
Intercompany transactions	688	2,477
Technologies	473	0
Customer relationships	39	0
Depreciations on assets	4	1
Assets available for sale	9	9
Miscellaneous	14	2
Deferred tax liabilities, total	1.227	2,489
Settlement with deferred tax assets	-1.223	-2,488
Balance sheet amount	4	1
Deferred tax liabilities, net (2009: asset; 2010: liability)	**32**	**-1**

Losses carried forward of active companies, for which an accounting for the deferred tax claim was not being made, are T€ 44,330 for corporate income taxes and T€ 53,101 for trade taxes in Germany as well as T€ 7,202 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 39 million € 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 1.3 million € exists at the balance sheet date.

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

	December 31, 2009		**December 31, 2010**	
(in T€)	Due date		Due date	
	< 12 months	> 12 months	< 12 months	> 12 months
Deferred tax assets	0	36	0	0
Deferred tax liabilities	0	4	0	1
Deferred taxes, net	**0**	**32**	**0**	**-1**

NOTE 20: OTHER INCOME AND EXPENDITURES

The Other income for the 2010 business year includes mainly an amount of T€ 409 (previous year: T€ 322) resulting from currency exchange gains (previous year: T€ 322) as well as government grants in the amount of T€ 72 (previous year: T€ 33).

The other expenditures for the 2010 business year include mainly an amount of T€ 108 for currency exchange losses (previous year: T€ 594) as well as an amount of T€ 320 (previous year: T€ 0) for the adjustment of the earn out liability in connection with the acquisition of the TELES N.G.N. Solutions Ltd completed in the business year 2007 (for further information reference is made to Note 25).

NOTE 21: 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, 2009	2010
Financial earnings		
Interest	62	35
Recovery right for waived liabilities	277	237
Shares in investment funds	1	1
Total	340	273
Financial expenditures		
Convertible debt	3	0
Interest on loan Sigram Schindler Beteiligungsgesellschaft mbH	121	209
Interest on Factoring Sigram Schindler Beteiligungsgesellschaft mbH	8	14
Miscellaneous	61	24
Total	193	247
Other investment income or loss		
Sale of the shares in Hetan Technologies GmbH	0	50
Unlisted securities: skyDSL Technologies GmbH; valuation at fair value	-5	0
	-5	50

NOTE 22: DISCONTINUED OPERATIONS

Non-current assets to be abandoned

In July 2010, the Company initiated the closing of the wholesale of computer hardware and software (more!). The company 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 2.2 million € 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 is booked out with an impact on earnings as part of the final deconsolidation.

The company more! computer AG was deleted from the company register at March 29, 2011. Following the deconsolidation of the company, it resulted in an income of T€ 2,298 as a consequence of the cancellation of a sales tax liability.

The results from discontinued operations can be described as follows:

(in T€, with the exception of information per share information)	**January 1 – December 31, 2009**	**2010**
Operating result from discontinued operations, after deduction of taxes	**0**	**0**
Results from the discontinuation of operations		
Results from the discontinuation of operations, before taxes	-927	-61
thereof: TWBI segment	0	0
thereof: more! AG (formerly SPSS segment)	-2	0
thereof: Webhosting	-925	-61
Income tax expenditures	0	0
Results from the discontinuation of operations, after deduction of taxes	-927	-61
Total result of discontinued operations, after deduction of taxes	**-927**	**-61**
Weighted average number of shares for the calculation of the earnings (losses) per share		
Undiluted	22,530,597	23,304,676
Diluted	22,530,597	23,304,676
Earnings per share from discontinued operations:		
Undiluted	-0,04	0,00
Diluted	-0,04	0,00

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:

(in T€)	**January 1 - December 31, 2009**	**2010**
Cash flow from operating activities	1.000	0
Cash flow from investing activities	0	0
Cash flow from financing activities	0	0
Net change of the cash balance	**1.000**	**0**

The cash flow in the business year 2009 in connection with the non-current assets 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 23: EMPLOYEE STOCK OPTION PLANS

TELES AG executed employee stock option plans for the years 1998 and 1999 as well as 2001, 2002, 2004 and 2005, which are used for the Company to issue equity instruments. The consideration when exercised will also be equity instruments. In all programs it is provided that the equity instruments can only be exercised when certain success goals have been reached: the average share price of the Company during the reference period must exceed the average development of the reference index for the same period by at least ten percentage points (success hurdle).

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

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

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

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

Employee stock option plans 1998 and 1999

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

Employee stock option plans 2001 and 2002

a) Employee stock option plan 2001

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

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

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

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

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

b) Employee stock option plan 2002

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

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

The latest exercise date is December 16, 2012.

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

Employee stock option plan 2004

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

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

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

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

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

Employee stock option plan 2005

On November 22, 2005, the Company issued an additional 295,290 stock options to employees in the framework of the authorization provided by the shareholders' meeting on April 2, 2004. The conditional capital I is used to fulfill the issued options in accordance with the decisions made at the above mentioned shareholders' meeting.

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

The latest exercise date is November 21, 2015.

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

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

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

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

Employee Stock Option Plan

	1998 & 1999 Convertible bonds	2001 Stock options	2002 Stock options	2004 Stock options	2005 Stock options	Total;
Outstanding on December 31, 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**
Issued	0	0	0	0	0	0
Exercised	0	0	0	0	0	0
Forfeited	0	0	0	0	-2,400	-2,400
End of the term of the program*	0	0	0	-69,192	0	-69,192
Outstanding on December 31, 2010	**0**	**25,483**	**221,371**	**371,969**	**137,361**	**756,184**
Vested rights as of December 31, 2010	**0**	**25,483**	**221,371**	**371,969**	**132,761**	**751,584**

* The employee stock option program (convertible bonds) set up in 1999 expired on June 24, 2009.

The employee stock option program set up in 2001 consists of two partial programs; part 1 expired on October 9, 2010.

* The employee stock option program set up in 2004 consists of two partial programs; part 1 expired on August 16, 2010.

The outstanding stock options on December 31, 2010 have a weighted average remaining contract duration of 3.3 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,				
2009	0	149	34	183
2010	0	0	44	44

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.

For the employee stock option plan 2004 expenditure was recorded for the last time in the business year 2009, because the vesting period for this employee stock option plan ended in 2009.

NOTE 24: EARNINGS PER SHARE

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

	January 1 - December 31,	
(In T€, except for share related information)	**2009**	**2010**
Net income for the year attributable to the shareholders of the parent company	-7,827	-14,749
Weighted average number of shares for the calculation of the earnings per share		
Undiluted	22,530,597	23,304,676
Diluted	22,530,597	23,304,676
Earnings per share		
Undiluted	-0.35	-0.63
Diluted	-0.35	-0.63

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€ 208 (previous year: T€ 205).

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€ 867 and T€ 1,023 for the business years ending December 31, 2010 and 2009.

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, 2010**	
	2009	**2010**
Up to one year	857	863
Between one and five years	768	503
Longer than five years	0	0
Total	**1,625**	**1,366**

Financial commitments based on other contracts

Future minimum payments based on legally effective agreements are:

	December 31,	
(in T€)	**2009**	**2010**
Other services	354	210
Maintenance	107	107
Total	**461**	**317**

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; considering the latest knowledge, T€ 57 are recognized as liability. At the balance sheet date an amount of T€ 71 (previous year: T€ 157) was recognized as liability (see note 16). Beyond this, there is a contingent liability in accordance with IAS 37.28.

Already paid out as well as already contractually agreed – yet still unpaid -–loans from the majority shareholder have been secured with a global concession on trade accounts receivable and with the share held in GRAVIS (with the associated rights).

NOTE 26: LITIGATION

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

The situation of the “skyDSL patent proceedings” (against Deutsche Telekom AG and SES ASTRAnet S.A.) has remained unchanged. Reference is made to the Group’s consolidated notes of 2009.

The lawsuit initiated by a German cellular phone operator against call media services Ltd, a company co-founded by TELES in 2003, was decided in favor of the cellular phone operator in the last instance. As the call media services Ltd consequently filed for bankruptcy which was rejected for lack of assets the payment liabilities resulting therefrom do not have any 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, 2009, the OLG Düsseldorf in the second instance rejected both the complaint and the counter complaint, as had the LG Düsseldorf already. Both parties have filed the expressly permitted appeal on points of law with the BGH. 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. To the extent of the invalidation, the matter was returned to the OLG Düsseldorf for renewed proceedings and another decision. TELES expects that the original decisions on a rejection of the complaint will be confirmed. However, an expert opinion is being obtained and, therefore, a condemnatory sentence cannot be entirely ruled out. Most likely, such sentence would concern only the offer and distribution of GSM gateways for carrier networks in Germany, as the applicant claims the inadmissibility after the German fair trade law (UWG). Based on the low importance of Germany as a distribution country for GMS gateways the economic risks for TELES are considered relatively small. The extent of possible damage claims in the case of a negative outcome of the proceedings cannot be estimated yet.

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. The Regional Court Berlin has rejected the claim to its full extent in October 2010. The decision is legally effective.

Comments on the state of patent infringement lawsuits mentioned in previous years are waived from 2009 on, because – as already mentioned in last year's financial statement – the majority shareholder (SSBG = Sigram Schindler Beteiligungsgesellschaft) has assumed all cost 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.

NOTE 27: 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 the loan that had been granted to the Company. On December 31, 2010 the Company reflects in its balance sheet a financial obligation which results from a recovery agreement entered into in connection with the loan waivers of the business years 2009 and 2010. 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 18 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€ 121 (previous year: T€ 326); in the business year, the Company incurred financial expenditures in the amount of T€ 15 (previous year: T€ 11).

For further information, reference is made to Note 15 (Other financial liabilities) and Note 18 (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 29) in the category "Other business activities"; at the balance sheet date, the Company balances claims in the amount of T€ 53 (previous year: T€ 283) 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, 2009**	**2010**
Mock attorneys	37	97
Prof. Denert	0	26
Total	**37**	**123**

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

Prof. Denert
The consulting services are rendered personally by Prof. Denert.

Payables of the Company to related parties:

(in T€)	January 1 - December 31, 2009	2010
Representatives of the Supervisory Board for services rendered	99	149
Total	**99**	**149**

Management Board earnings:

(in T€)	January 1 - December 31, 2009		2010	
	Fixed	**Variable**	**Fixed**	**Variable**
Richard Fahringer	263	0	223	0
Frank Paetsch	148	0	139	0
Olaf Schulz	181	0	158	0
Eyal Ullert	23	0	0	0
	615	**0**	**520**	**0**

Prof. Dr.-Ing. Schindler received compensation in the amount of T€ 42 (previous year: T€ 40), which represent a non-cash benefit from granting a vehicle.

Share portfolio and subscription rights of the board members as of December 31, 2010:

	Subscription rights	**Shares**
Herr Prof. Dr. - Ing. Sigram Schindler (directly and indirectly)	39,600	12,439,620
Herr Richard Fahringer	0	430,000
Herr Frank Paetsch	59,210	22,015
Herr Olaf Schulz	66,648	310,000
	165,458	**13,201,635**

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	22,015
Herr Olaf Schulz	66,648	310,000
	165,458	**13,021,635**

As of December 31, 2010 Prof. Dr.-Ing. Sigram Schindler holds directly and indirectly 53.38% of the TELES AG shares: 51.86% (2009: 51.09%) of the shares are held by Sigram Schindler Beteiligungsgesellschaft mbH; 1.46% (2009:1.46%) of the shares are held by the Sigram Schindler Stiftung (foundation) and another 0.06% (2009: 0.06%) are directly held by Prof. Dr.-Ing. Sigram Schindler.

Supervisory Board compensation:

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

	January 1 - December 31,	
(in T€)	**2009**	**2010**
Prof. Dr. Walter Rust	33.7	33.7
Prof. Dr. Ernst Denert	0.0	2.5
Prof. Dr. h.c. Radu Popescu-Zeletin	20.3	20.3
Prof. Dr. Ralph Schindler	13.5	11.0
	67.5	**67.5**

NOTE 28: COMPOSITION OF REVENUES AND COST OF SALES

	January 1 – December 31,	
(in T€)	**2009**	**2010**
Revenues	**20.151**	**16,021**
Products	17.392	12,759
Services	2.759	3,262
Cost of sales	**11.680**	**14,894**
Products	9.165	12,696
Services	2.515	2,198

NOTE 29: SEGMENT REPORTING

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**

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 activities" 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:

Revenues and Earnings of Operating Segments and Other Business Operations in million €	January 1 – December 31 2009	 2010
Revenues	**20,151**	**16,021**
TELES NGN	6,830	6,225
Access Gateways	10,562	6,534
Services	2,759	3,262
EBITDA; operational *	**-5.999**	**-6,576**
EBIT; operational *	**-7.412**	**-14,029**

* EBITDA and EBIT before expenses for employee stock option plans and for organizational adjustment due to changes on the market (see further details below)

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

Revenues and Earnings of Operating Segments and Other Business Operations in million €	January 1 – December 31 2009	 2010
EBIT; operational *	**-7,412**	**-14,029**
Expenditures for:		
Employee stock option plans	-183	-44
Organisational adjustments due to market changes	0.00	-527
Other income and other expenditures	424	-198
Other business operations	54	66
EBIT TELES Group	**-7,117**	**-14,732**
Financial earnings	340	273
Financial expenditures	193	247
Result from investments	-5	50
EBT TELES Group	**-6,975**	**-14,656**

NGN segment:

Revenues and Earnings by Segment (in million €)	January 1 to December 31 2009	2010	Variation[4] 2010 vs. 2009
Revenues	**6,830**	**6,225**	**-9%**
Cost of sales	3,611	7,980	121%
included amortization	*576*	*4,966*	*763%*
Profit contribution	**3,219**	**-1,755**	**n.a.**
Gross profit margin	*47%*	*-28%*	
Operating expenses:			
Sales and marketing expenditures	3,882	3,506	-10%
Research and development expenditures	1,867	1,507	-19%
Administrative expenditures	1,730	1,383	-20%
EBITDA; operational *	**-3,684**	**-3,185**	**-14%**
Depreciation	538	394	-26%
Amortization of Goodwill	0	1,821	100%
EBIT; operational *	**-4,798**	**-10,366**	**-116%**

AGW segment:

Revenues and Earnings by Segment (in million €)	January 1 to December 31 2009	2010	Variation[5] 2010 vs. 2009
Revenues	**10,562**	**6,534**	**-38%**
Cost of sales	5,554	4,558	-18%
included amortization	*22*	*9*	*-59%*
Profit contribution	**5,008**	**1,976**	**-61%**
Gross profit margin	*47%*	*30%*	
Operating expenses:			
Sales and marketing expenditures	3,432	2,630	-23%
Research and development expenditures	2,033	1,967	-3%
Administrative expenditures	1,194	1,163	-3%
EBITDA; operational *	**-1,629**	**-3,775**	**-132%**
Depreciation	213	216	1%
EBIT ; operational *	**-1,864**	**-4,000**	**-115%**

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

Service segment:

Revenues and Earnings by Segment (in million €)	January 1 to December 31 2009	2010	Variation[6] 2010 vs. 2009
Revenues	**2,759**	**3,262**	**18%**
Cost of sales	2,515	2,198	-13%
included amortization	*38*	*25*	*-36%*
Profit contribution	**244**	**1,064**	**336%**
Gross profit margin	*9%*	*33%*	
Operating expenses:			
Sales and marketing expenditures	813	474	-42%
Administrative expenditures	154	229	49%
EBITDA; operational *	**-685**	**386**	**n.a.**
Depreciation	25	23	-8%
EBIT; operational *	**-748**	**338**	**n.a.**

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

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

	January 1 – December 31		
(in T€)	**2009**	**2010**	**Variation 2010 vs. 2009**
Germany	2,397	1,852	-23%
EMEA	10,847	11,730	8%
NORAM & LATAM	5,536	1,418	-74%
APAC	1,371	1,020	-26%
Total	**20,151**	**16,020**	**-20%**

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

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

	December 31	
(in T€)	**2009**	**2010**
Germany	1.298	560
EMEA	4,829	53
NORAM & LATAM	3	3
APAC	41	36
Total	**6,171**	**651**

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

NOTE 30: EVENTS AFTER THE BALANCE SHEET DATE

The majority shareholder grants a loan to the company in order to solve some possible financing breach; the company made use of T€ 4,000 in the first nine months of 2011. Moreover, the majority shareholder waved of loans in the granted amount. The company balances a financial liability resulting from a recovery agreement entered into in connection with the loan waiver. Due to the lack of market values, the fair value was determined by means of a discounted cash flow method.

In October 2011 the majority shareholder committed himself to provide further loans - in addition to the applied funds - to cover potential cash flow gaps. He covenant to ensure that, in continuation of the current development, TELES will be managed in a manner and will be in funds to always be able to fulfill its financial obligations within the next twelve months.

Mr. Oliver Olbrich assumed the position as Board member of the operational business at January 1, 2011.

Mr. Olaf Schulz, Board member of finance, is separated from his position at August 1, 2011.

The company more! computer AG was deleted from the company register at March 29, 2011. Following the deconsolidation of the company, it resulted in an income of T€ 2,298 as a consequence of the cancellation of a sales tax liability.

NOTE 31: OTHER INFORMATION

Services of the auditing company

In addition to the year-end audit (T€ 215), the PricewaterhouseCoopers AG auditing firm worked during the 2010 business year as part of tax consultations (T€ 63) and other consulting services (T€ 15) 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
TELES Latin America S.R.L. [2]	Santa Cruz de Sierra, 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	3,126	26
GRAVIS Computervertriebs-gesellschaft mbH	Berlin, Germany	indirect: 19.99	EUR	3,649	-151
HSD Consult EDV-Beratungsgesellschaft mbH	Berlin, Germany	indirect: 19.99	EUR	861	211

[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;

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; TELES Communications Corp.
Ing. Richard Fahringer:	TELES Computer Systems India Private Ltd. DirectSat AG TELES N.G.N. Solutions Ltd.
Dipl.-Betriebswirt Olaf Schulz:	TELES Computer Systems India Private Ltd.; more! Computer AG; TELES N.G.N. Solutions Ltd.
Dipl.-Inf. Frank Paetsch:	DirectSat AG; more! Computer AG.

Supervisory Board

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

Prof. Dr. Walter Rust, attorney and notary, Berlin (Chairman of the Supervisory Board);
Prof. Dr. Dr.-Ing. E.h. Ernst Denert, Software-Ingenieur ret., Grünwald, (since October 30, 2010);
Prof. Dr. h.c. Radu Popescu-Zeletin, University professor, Berlin;
Prof. Dr. Ralph N. Schindler, University professor emeritus, Kiel (until October 29, 2010).

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, October 19, 2011

The Management Board

List of Abbreviations

AG	Aktiengesellschaft (company limited by shares)
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
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, October 19, 2011

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, 2010. 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, October 20, 2011

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

sgd. Angelika Kraus	sgd. ppa. Dr. Kay Lubitzsch
Wirtschaftsprüferin	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

* Translation - the German version is authoritative