TELES Aktiengesellschaft Informationstechnologien
Berlin

Management Report for TELES Group 2011 and
Consolidated Financial Statements as of December 31, 2011

Auditor's Report

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

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Translation – the German version is authoritative

Consolidated Management Report of TELES AG Informationstechnologien for the 2011 Business Year

Key Figures pursuant to IFRS

	2011 T€	2010 T€
Turnover	12,037	16,021
Gross earnings; operative	5,680	1,284
EBITDA; operative	-4,636	-6,576
EBIT; operative	-4,986	-14,029

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Financial Report

TELES and the Market

The telecommunications market is mainly pressured by pricing and competition for call fees and by very similar product portfolios. Network operators face the challenge to increase the efficiency of their networks and operations to save costs. In our opinion the 'ground' has been reached in many markets to the effect that no further major price reductions in tariffs and product portfolios are likely to be observed. To distinguish themselves from competitors and thus develop other means of income, network operators will have to diversify their product portfolio and consequently their services to customers. Due to the current economic situation, commercial customers focus on possibilities of saving costs in their telecommunication spending without adversely affecting the quality of their services. Additionally, we have observed the need in day-to-day business operation to increase efficiency of processes by combining different telecommunication media and applications.

TELES provides telecommunications technology for operators of telecommunications networks, whether they be Telecom companies with public networks or other companies with their own internal networks.

TELES products can be allocated in technical terms to three fields of applications, the so-called business units:

- *Access Gateways* connect networks of different types, e.g. mobile services and ISDN.
- *Carrier Solutions:* communication systems for network operators.
- *Next Generation Networks (NGN):* networks based on the internet protocol (IP) which replace classical wired networks.

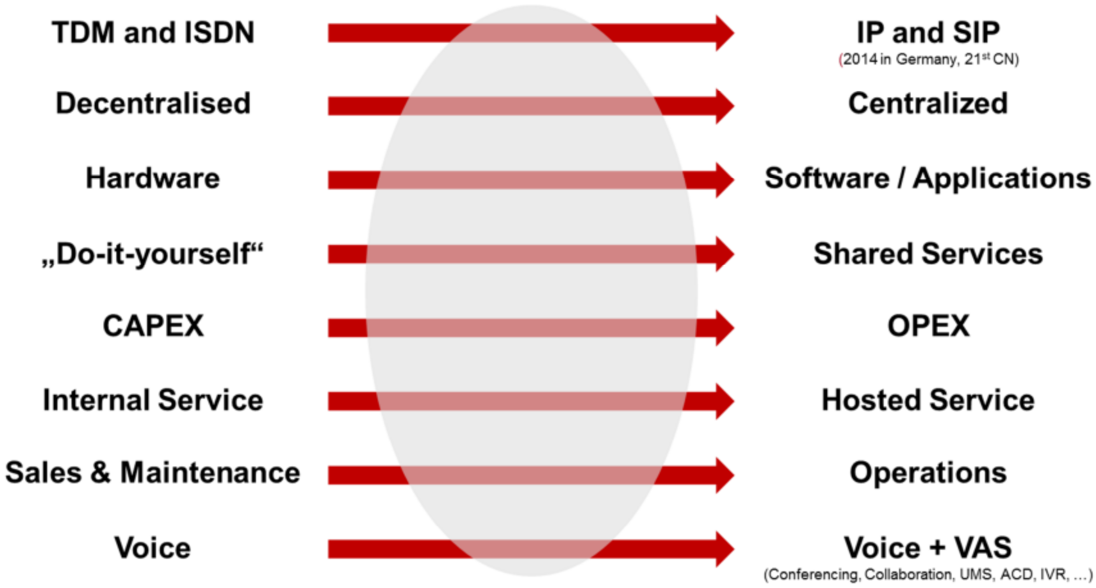
TELES operates on a national and international level, focusing on the following areas:

- Germany, Austria, Switzerland (DACH)
- Europe
- Middle East

In addition, TELES does not only sell through its own organization, but also through sales partners.

Classical telecommunication works with switched networks. The triumph of the internet with its (data) packet communication, based on the internet protocol (IP), is changing the telecommunication world: instead of operating two different networks alongside each other, the trend is to IP network technology, not least because this uses physical connections (cable, radio links) more efficiently than plain circuit switching. In 2015 Deutsche Telekom wants to deactivate its ISDN network, other network operators are already ahead: they have pure IP networks. This makes their operations more efficient and reduces costs. It also enables them to offer new services. For example, the telephone systems (PBXs) of companies can be outsourced at lower cost and with improved functionality. The companies then pay monthly and only on demand for services and terminals, while non-recurring investments do not arise.

The following chart shows the trends in market development:



Source: Infonetics Report: Fundamental Telecom/Datacom Market Drivers of November 2009

TELES provides solutions which pursue these trends and smooth the pathway of the network operator and its customers into internet technology for voice communication, as a soft process of migration.

Business Unit Access Gateways

With Access-Gateway products we offer network operators, service providers, system integrators and distributors a complete product range for the transition between different communication technologies. This ensures that the low-cost VoIP telephone systems can also be used with the ISDN system and can be linked to fixed and mobile networks.

VoIP ISDN Gateways

TELES VoIPBox Gateways conveniently combine ISDN and VoIP without any loss of quality. The VoIPBox realizes IP-based ISDN telephony for basic and primary rate interfaces. It supports all common ISDN features and secures signalling and voice data by means of encryption. In case of IP problems, the Box automatically switches from VoIP to ISDN operation. As a result of the integrated reference of the entire ISDN functionality and quality in VoIP, the TELES VoIP boxes are especially used to realize migration strategies of network operators from ISDN to VoIP.

Mobile Gateways

TELES ECOTEL and TELES iGATE Mobile Gateways connect fixed network, VoIP and mobile networks. They are scalable and can therefore be applied by companies of any size. These benefit from declining costs by means of the conversion from fixed-to-mobile-network to pure mobile network connections and are protected from loss of voice and data in case of network failure due to telecommunication infrastructure. TELES Mobile Network Gateways realize services for the merging of fixed network and mobile network telephony (Fixed Mobile Convergence).

The Access Gateway product portfolio is mainly distributed to network operators and service providers who provide their customers with complete solutions with the aid of TELE Gateways as well as to multipliers such as distributors and system integrators. The VoIP Gateways for ISDN are mainly sold in Europe while Mobile Gateways are sold worldwide via partners.

QSC

Our customer QSC AG, Cologne is a typical example for the migration from ISDN to VoIP technology. QSC has relied for many years consistently on an All-IP design when setting up NGN. By using the TELES VoIP gateway, QSC provides its customers with a complete ISDN migration solution. The solution can be integrated into the existing telecommunications infrastructure of the end consumer which protects any investment already made in telephone systems and terminals. On this basis QSC offers its end consumers an ISDN connection which meets the requirements of demanding business clients and which also enables future integration of Cloud services. In close cooperation with QSC many product improvements have been realized with regard to functionality and operation of the entire solution.

Source: TELES AG, user interface QSC Call App Product (application administration for ISDN-connection)

Business Unit Carrier Solutions

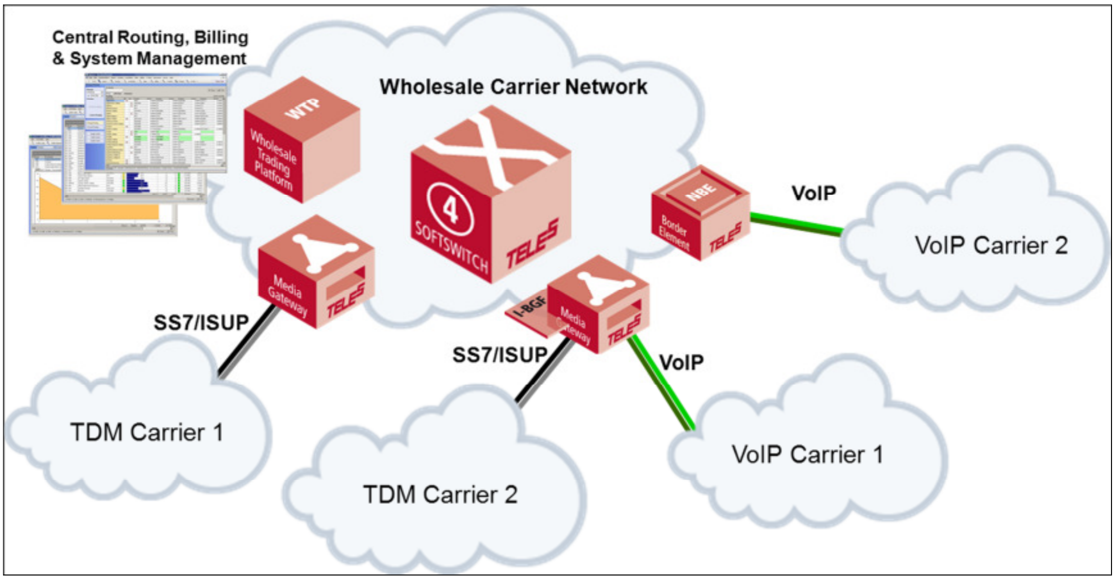
The core markets of the business unit of Carrier Solutions are Europe and the Middle East. Its products are sold to carrier-to-carrier network operators with own infrastructure, to virtual network operators as well as wholesalers of telecommunication services, and are used worldwide in more than 300 smaller and larger networks. They connect networks of all types and guarantee simple transfer between different media and signalling such as for example ISDN and VoIP.

With the product line iSWITCH, TELES offers a fully integrated communication system with all necessary interfaces and signalling protocols. The product line MGC realizes an IP-based communication solution. Both systems excel on account of their flexibility, scalability and stability.

The Wholesale-Trading-Platform extension provides network operators who buy and sell call minutes automated support of the entire business process of a ‚call minute dealer‘.

mgi networks

The Swiss company mgi networks GmbH, Zurich, is a typical example of a network operator which has grown together with the TELES solution. Meanwhile it has become one of the largest communications network operators in the call minute trade in Europe. mgi is using both TELES iSWITCH as well as TELES MGC in order to link worldwide with VoIP and circuit-switched networks of smaller and larger network operators. Call minutes are bought and sold. All business transactions starting from the purchase decision on to the routing through to accounting and profit and loss account is automatically supported by the Wholesale-Trading-Platform extension.



Source: TELES AG, Documentation of the mgi network

Business Unit Next Generation Networks

Using our NGN solutions, network operators and telecommunication service providers can offer their business and end customers IP-based telephony services and thus also video, fax and mobile telephony and can also integrate existing telephone systems. A variety of terminals of well-known manufacturers can be used with our solution. Easy administration capacity of the system can be extended due to the open interfaces – the basis for good customer service from the provider.

Provision of telecommunication system functionality and client compatibility of the solution enables service providers to replace the classical telephone system at their business clients with a centrally serviced and operated telecommunication system („IP-Centrex“).

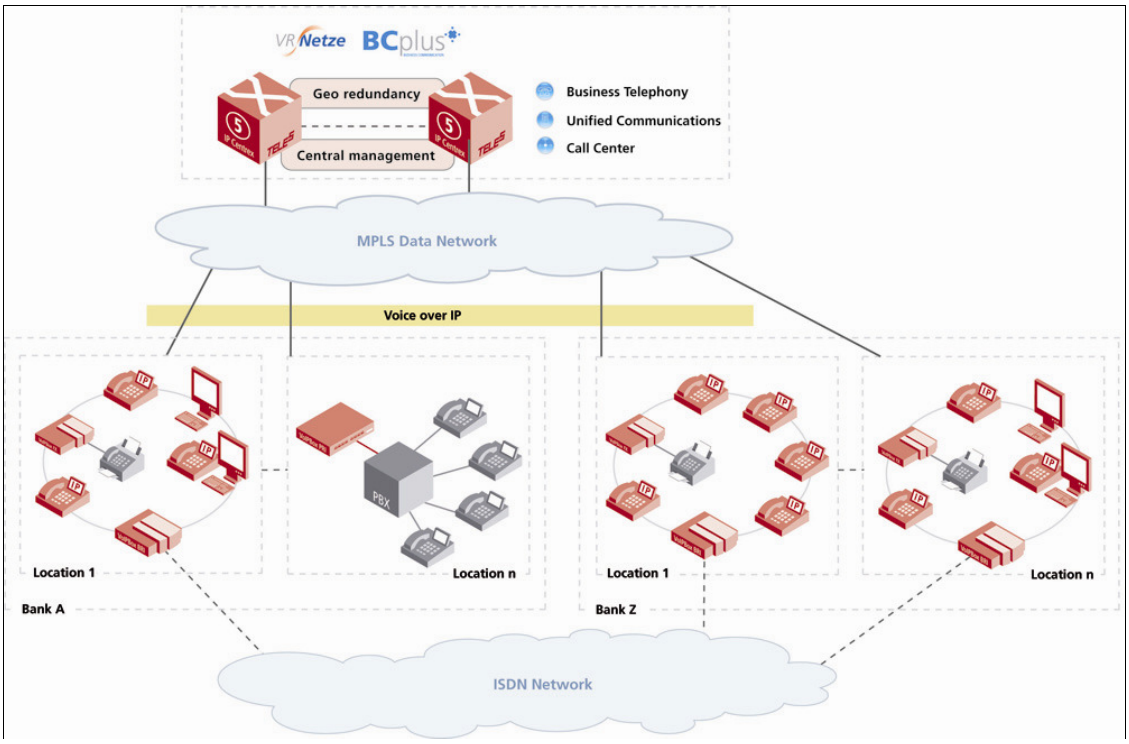
Our solution can supply several thousand business clients at the same time and is especially designed for the requirements of the German-speaking and European markets. The solution provides the performance features required in all these markets and above all the ability of replacing existing ISDN systems without any loss of function.

Volks- und Raiffeisenbanks

In cooperation with Bechtle AG, TELES set up a geo-redundantly designed IP Centrex platform based on TELES Class5 software switches for the VR Netze GmbH, Münster, the network service provider linked to the Volks- und Raiffeisenbanks. Up to now, several banks with thousands of phones have been migrated onto this IP Centrex platform. The central platform replaces the local, conventional telecommunication system used up to now and extends the functionality with Unified Communications and the wide range of options provided by IP telecommunications.

Customers of VR Netze therefore enjoy a range of benefits:

- No initial investment since a telecommunication system is not required any more on site.
- Investment protection and cost-optimized migration by means of possible integration of existing systems.
- Reduction of operating costs by means of a uniform network for data and voice transmission.
- Reduction in communication costs, i.e. no telephone fees between company locations since communication is made via the VR-internal data network instead of public telephone network.



Source: TELES AG, Documentation of the VR Netze network

Research and Development

Products in telecommunications technology are subject to continuous change in technology. To keep pace, TELES has a development team of highly-qualified experienced staff. This know-how in development forms the basis of TELES. Concentration of development departments at the two locations in Berlin and Vienna ensures swift conversion of customer adjustments, which can result in a further competitive advantage especially in the telecommunication environment.

As a result of cooperation with leading research institutes TELES ensures that future trends and strategies are already included today.

Protection of this know-how and resultant products has been and will in future be secured by way of registering respective property rights. In the reporting period, four patent families were granted – divided into 25 individual patents.

Development focus in the year 2011 was especially on continued merging of individual TELES network elements into one administration and configuration interface. Optimization with regard to mobility strategy and ISDN migration in the business unit NGN in particular enables customers to realize cost-efficient initiation and operation of the entire solution. In the business unit Carrier Solutions, focus was placed on the implementation of the migration strategy for existing customers with iSWITCH solutions. This means that the customer can migrate his existing TELES solution into a complete IP-based future-proof network infrastructure. Investment expenditure and changes in operations remain minimal since existing iSWITCH components can still be used. In addition to the integration optimization of Access Gateways in our overall concept, focus in 2011 was on extension of our product portfolio in the field of access technology. With the support of the latest mobile network access standard LTE and the current fixed network technology of VDSL in the products, further scenarios of use are realized.

Business Situation

TELES Group

	2011 T€	2010 T€
Turnover	12,037	16,021
Gross earnings; operative *	5,680	1,284
EBITDA; operative *	-4,636	-6,576
EBIT; operative *	-4,986	-14,029
Staff	108	168

* These are operative key figures of the TELES Group. Transfer to the consolidated result pursuant to IFRS and presentation of key figures of TELES AG are included in the annex to the Financial Report.

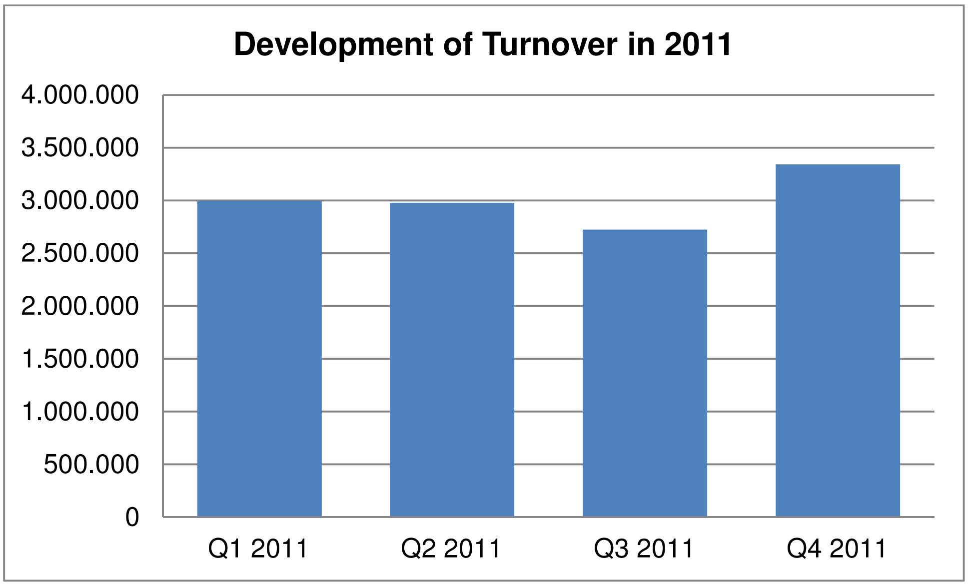
2011 was a difficult year for TELES and became a year of transformation. As a result of plan shortfall with regard to turnover in the first quarter with unchanged costs, losses increased and this led to a very unsettled liquidity situation. In April, massive cost cuts had to be made – also with regard to staff. Organization was adapted to customer and market requirements by introducing three business units with clear profit and loss responsibility. Without the loyalty of the TELES founder and main shareholder Prof. Sigram Schindler, this difficult situation could not have been survived. Continued existence of TELES in the first half year was only possible as a result of his repeated injection of money. This support was no longer required in the second half year.

The difficult situation of TELES tested confidence among some customers who feared for the security in future of their investment. By directly and transparently communicating the situation and changes introduced, we were mostly able to regain confidence in TELES as a reliable partner. However, at the same time we had to correct the pattern of behaviour of many years of some customers with regard to payment terms and discount wishes. In addition, many projects were postponed due to internal problems of customers.

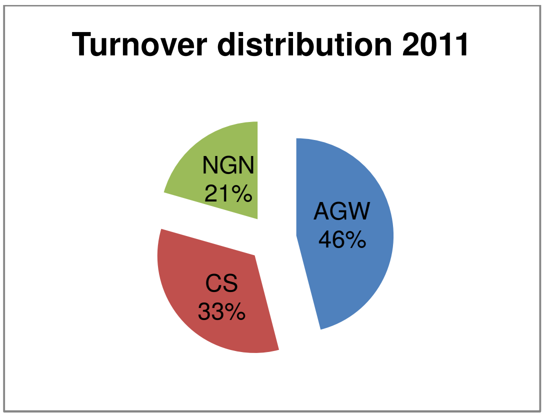
As a consequence of the plan shortfall, the reorganization made in the second quarter as well as the – partially temporary - decrease in orders of customers, which were used to other payment methods and other behaviour pattern; the turnover 2011 decreased by 25% in comparison to 2010.

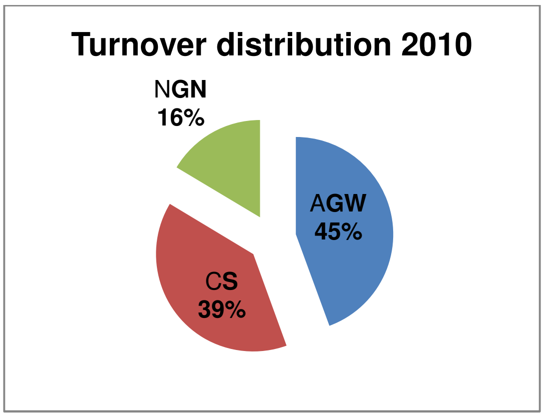
Turnover stabilized

It was possible to stabilize turnover at a level of 3 million € per quarter. Fortunately, a slight increasing tendency was observed in the final months of 2011.



In 2011 the business unit Access Gateways contributed 46% of the total turnover and thus the largest share of turnover – in 2010 the figure was 45%. We generated most of this with our partners and direct sales to network operators. The business unit Carrier Solutions contributed 33% to total turnover – in 2010 the figure was 39%. In addition to extension of existing systems and new business, the service turnover made up the main source of income. In the business unit Next Generation Networks, 21% of the turnover was mostly generated by license renewals, new business and service turnover - in 2010 the figure was 16%.





Costs

Costs of 13,639 T€ accrued in 2011. Of this figure, 1,026 T€ were for restructuring costs. Compared to 2010, costs were reduced by a total of 42%. Staff costs in monthly comparison were reduced as of January by around 29% and other costs reduced by 24%. Depreciation requirements decreased by 94% compared to 2010.

Earnings

An operative EBIT of -4,986 T€ was generated in 2011.

Equity

A range of value adjustments were made when drawing up the annual accounts for 2010. In October 2011, these adjustments led to a loss of more than half of the capital stock. At the Annual General Meeting a decision was made to reduce the capital stock. Legal action was taken against this decision and entry in the Commercial Register is pending until the case has been decided. Due to the missing registration requirement, the company's capital stock is not yet validly reduced.

Liquidity, Assets and Liabilities

In October 2011 the company received a loan commitment from the majority shareholder and part of this was already used in the first half year of 2011. Fortunately the liquidity situation stabilized in the second half year so that payments from the loan of the majority shareholder were no longer necessary. In the second half year, we were even able to reduce obligations to a main supplier of hardware by 1 million €. In addition to savings measures receivables management also contributed to the improved liquidity as well as the improved payment behaviour on the part of our customers and the reduction of stocks. Further substantial assets – apart from accounts receivables and inventory – are the shares of the company GRAVIS as well as the related receivables from the GRAVIS debtors warrant.

Please refer to chapter "Financing / Going Concern" for more details.

Personnel

Board

The following changes took place with regard to the Board: after the contract with Richard Fahringer expired on 31.12.2010 and was not renewed, Oliver Olbrich assumed operative responsibility as new Board member. The contract of the Chief Financial Officer Olaf Schulz expired on 30.06.2011 and was also not renewed. Mr Olbrich assumed responsibility for the Finance division.

Reduction of Staff

Part of the cost saving measures involved a reduction of the number of staff in our team. The number of staff was reduced from around 188 staff in mid-2010 to 108 staff. Almost half of this number was achieved by closing the TELES branches in South America (Bolivia) and India. At the TELES branch in India 17 staff of this group are employed by the SSBG and subsidiaries, and are set off accordingly.

Organization

In line with the savings measures carried out, TELES was restructured and customer focus placed at the centre of TELES business. In this context the three business unit of

- Access Gateways
- Carrier Solutions
- Next Generation Networks

were established in TELES with their own respective profit and loss responsibility.

Risks

Central Risks

In principle the business environment is influenced by regional and economic conditions. Subsequent impact from the so-called ‘financial crisis’ can also not be excluded. Uncertainties with regard to economic and – occasionally political – conditions may impair the demand for products and services of TELES and aggravate budgeting and forecast accuracy.

Payment delays and payment defaults are problematic especially for medium-sized and larger projects. The risk is reduced – as far as possible – by means of an advance evaluation of the customer and the project and the resultant payment modalities such as e.g. prepayments and possible security using payment security instruments.

In some markets it is necessary to develop and launch new products quickly in order to exploit emerging potential. The markets which TELES serves in particular are characterized by the continuous introduction of innovative technology. This demands strong commitment in the ‚Research and Development‘ division. However, quality problems may still occur. The result situation is essentially dependent on the ability of adjusting to changes in the market and reducing the costs of development and production of high quality new and existing products. Overall, the turnover and results may be negatively influenced by investment in new technology which proves not to be functional or which does not meet the expected market acceptance or is not launched on the market at the right time.

Fulfilment of promised installation and services on time and with the expected quality is also an essential success factor for TELES. This applies even more as an increasing number of Service Level Agreements (SLA) are being offered to and concluded by our customers making up an increasing share of the total turnover of TELES. Service quality is thus evaluated continuously and promptly. Inadequate service work can lead to additional reworking and non-payment.

When procuring components, preliminary products and services, TELES relies on external suppliers. Although TELES works closely with suppliers it cannot be guaranteed that there will not be any supply difficulties in future. Bottlenecks or delays could have a considerable effect on business development.

TELES core competence is especially based on the know-how of our highly qualified staff. It is essential to bind the staff long-term to the company in order to keep fluctuation levels low. This results in the risk that with the loss of staff we also lose respective know-how.

Regulatory Risks

In individual cases official regulations or amendments to such regulations may considerably increase costs and/or affect our turnover. In addition, changes to tax laws and regulations may lead to higher tax expenditure and/or have an influence on deferred latent tax or deferred tax liabilities.

Currency risks

Since TELES makes part of its turnover and material procurements outside the European currency union, the effects of currency fluctuations on our results cannot be excluded. This risk is reduced by way of calculating business transactions – as far as possible – in the functional currency. In those cases which are not calculated in functional currency, TELES reserves the right to use security instruments – in so far as such is useful and reasonable – for example, forward contracts, currency options and stop-loss orders.

Interest risks

Interest risk for TELES results exclusively from interest-bearing investment. The focus of TELES investment strategy is essentially liquidity aspects, i.e. the ability to service debts for any investment made.

Share price risks

TELES owns around 20% of GRAVIS Beteiligungs AG which is not quoted on the stock exchange. Since these shares are not allowed to be traded in public, no special safety strategy is required.

Financing/ Going concern

As a result of the continued loss situation in business, equity capital has continued to decrease. However, there are distinct differences between recording pursuant to HGB (German Commercial Code) and IFRS (International Financial Reporting Standards). As already reported on many occasions, the majority shareholder waived 4,735 T€ of the loan granted to TELES in 2009. In addition, the majority shareholder also waived 6,169 T€ and 4,077 T€ in 2010 and 2011 of the loan granted again in 2010 and 2011. In connection with the waiving of loan obligations, respective debtor warrants were agreed. These debtor warrant agreements specified that the loans waived and/or parts of such loans will be revived when a positive result (EBITDA) is recorded on drawing up the consolidated monthly accounts of the TELES Group (i.e. TELES including all dependent companies in terms of § 17 AktG). Pursuant to IFRS the respective debtor warrant agreement is to be included in the accounts assessment as an obligation in the annual accounts. Therefore the waiving of loans does not lead to any visible improvement of capital pursuant to IFRS, but does lead to such pursuant to Commercial Law (HGB).

Cash flow remains low due to the continuing aforementioned business loss situation. To be able to cover any financial gaps, in October 2011 the majority shareholder obliged to ensure by means of loan commitment – in addition to the funds already provided – that TELES could be managed and would dispose of financial means so that it would be able to meet its obligations in the case of continuation of the current development in the coming twelve months.

In view of the current business year, management considers the financing of operative business as secured – based on current knowledge and the respective business plan. With regard to existing risks, reference is made to the statements in the section Risks.

The business plan includes normal risks and uncertainties. It is based on current assumptions, expectations, estimates and projections of TELES considered to the best knowledge of TELES applying good business practice. As such, the plan cannot be proven neither does TELES or its Board assume any liability for such planning. In addition, there are forecast uncertainties, since it cannot be excluded that the consequences of the financial crisis may affect our customers.

Threat to the continued existence of the company may however arise if, for example, the planned turnover for the coming months is not achieved and, in such a case, no additional funds can be procured from shareholders.

Forecast

The year 2012 will continue to be dominated by the consolidation process initiated. Due to the cost savings executed, which will partly only fully come to bear in 2012, the Board assumes a further slight reduction in operative costs. The Board expects that turnover will continue to stabilize and will slightly increase by a one digit per cent figure compared to 2011. As a result of the operative cost structure and the turnover expectations, it is assumed there will be an independent cash flow in 2012 without the need for an additional loan.

The Board also assumes that the consolidation executed in 2012 will form the basis for further planned organic growth in 2013 in the domestic markets in Europe.

Feedback from the market and customers as well as appropriate studies of research companies show that the TELES product portfolio is well-positioned. In the course of transformation from telecommunications infrastructure to IP we see a growing demand in coming years for both Cloud-based telecommunications solutions in the environment of IP Centrex and Unified Communications as well as solutions for ‘soft’ migration from ISDN to IP in voice and data communication. In the field of Mobile Gateways we assume an increasing turnover share in coming years as a result of the necessary technical and commercial measures executed in 2011 to expand the distribution channel in the USA. The basis for this is formed by solutions in the field of telecommunications backup, cost controll in accessing mobile networks and the integration of Fixed Mobile Convergence.

Post balance sheet date events

There are no special post balance sheet date events.

Key figures of the TELES Group according to IFRS

The operating business result can be applied as follows to the EBT of the TELES Group:

	2011 T€	2010 T€
EBIT; operative	**-4,986**	**-14,029**
Employee stock option programs	0	44
Market-related organization adjustments	1,026	527
Other expenditure and earnings	-552	-197
Other business activities	184	66
EBIT TELES Group	**-6,380**	**-14,732**
Extraordinary income	1,491	273
Extraordinary expenses	136	247
Other income from participations	0	50
EBT TELES Group	**-5,026**	**-14,656**

Key figures TELES AG according to HGB

The profit and loss account of TELES AG is summarized as follows:

	2011 T€	2010 T€
Turnover	11,833	15,780
Gross earnings	5,842	6,385
Operating result	-3,792	-7,620
Proceeds from participations, profit transfer and loans	53	33
Interest and other income and expenditure	-69	179
Depreciation of financial assets	2,324	6,401
Result from normal business activity	-6,131	-14,168
Extraordinary income	4,077	6,369
Extraordinary expenses	215	261
Taxes	101	29
Annual loss	-2,371	-8,089

The first Quarter of 2011 was characterized by a severe turnover plan shortfall and unchanged cost structure. This lead to an increased deficit and to a very tense liquidity position. It was necessary to carry out big cost cuts – including in the staff sphere.

As a consequence of the plan shortfall, the reorganization made in the second quarter as well as the – partially temporary - decrease in orders of customers, which were used to other payment method and other behaviour pattern; the turnover decreased by 25% in comparison to 2010.

However, it was possible to stabilize turnover at a level of 3 million € per quarter. Fortunately, a slight increasing tendency was observed in the final months of 2011.

In 2011 the operative costs were 11,394 T€. In comparison with 2010, the operative costs decreased about 22%.

Depreciation on financial assets results from the depreciation required on loans to subsidiaries.

Extraordinary income results to an amount of 4,077 T€ from the waiving on the part of the majority shareholder of loan obligations.

Extraordinary expenditure of 215 T€ are related to the divestment of TECT AG in the year 2005 (parent company of the STRATO Medien Aktiengesellschaft).

Assets and Capital Structure

	2011 T€	2010 T€
Cash and Equivalents	353	179
Equity	2,666	5,037
Balance sheet total	9,141	11,922

Equity

A range of value adjustments were made when drawing up the annual accounts for 2010. In October 2011 these adjustments led to a loss of more than half of the capital stock. At the Annual General Meeting a decision was made to reduce the capital stock. Legal action was taken against this decision and entry in the Commercial Register is pending until the case has been decided. Due to the missing registration requirement, the company's capital stock is not yet validly reduced.

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Personnel

At the end of the year 2011 TELES AG employed 71 staff (prior year: 103).

Internal control system

Essential features of internal control and risk management system with regard to the financial accounting process

Pursuant to § 289 Sect. 5 and § 315 Sect. 2 No. 5 HGB, TELES AG is obliged to describe the essential features of internal control and risk management system with regard to the (Group) financial accounting process in the (Consolidated) Financial Report. The scope and structure of the financial accounting related internal control and risk management system as well as their adjustment to specific requirements of TELES AG are at the discretion of and are the responsibility of the Board. Therefore, the TELES Group has set up an integrated ‚risk management' in business processes. Consequently, subsidiaries are responsible for the scope, form and contents of their respective risk management system. Monitoring and coordination of the Group risk management system is the responsibility of Group management. Regular and systematic identification, quantification and assessment of the respective risks and security systems is part of risk reporting of subsidiaries to the Group management. Assessment of risks is based on the amount and probability of occurrence of potential damage.

Description of the internal control system

The financial accounting related internal control system of TELES AG comprises all principles, processes and measures to secure effectiveness, efficiency and compliance of financial accounting as well as securing observance of relevant legal regulations.

Defined internal controls are embedded in the financial accounting process based on specific risk aspects. The financial accounting related internal control system comprises both preventive and detective controls which include IT-supported and manual reconciliations, plausibility tests, separation of functions, four-eye principle, general IT checks, such as access authorization in IT systems.

Within the scope of the organization, control and monitoring structures defined in TELES AG, the internal control system supports the collection, preparation and appraisal of company-related facts and their correct reflection ion consolidated financial accounts.

Control of the processes for financial accounting is made by the Group Financial Accounting division. Laws, accounting standards and other statements are continuously analysed with regard to their relevance and impact on the annual accounts. The Group companies are responsible form observing compliant and prompt processing of their financial accounting processes and systems and are supported in this by the Group Financial Accounting division. The financial accounting related internal control system described is enhanced by controls on a company level executed by the highest decision-making bodies.

Personal discretionary decisions, incorrect controls, criminal acts or other circumstances however cannot normally be excluded and in consequence lead to a restricted effectiveness and reliability of the applied internal control system and risk management system. Thus, not even Group-wide application of the existing systems can guarantee with absolute security the correct, complete and prompt recording of facts in the consolidated financial accounts.

The statements made only apply for subsidiaries included in the consolidated accounts of TELES AG for which TELES AG has direct or indirect opportunity of defining their financial and monetary policy in order to benefit from the activities of this company.

Legal risks

The company is involved in court cases and legal disputes which arise during normal business activity. The company always forms reserves for such cases if utilization is likely and an amount can be estimated.

The status of the „skyDSL patent infringement case“ (against Deutsche Telekom AG and SES ASTRAnet S.A.) remains unchanged, and reference is made to the Group Notes 2009. With regard to the action for cancellation of entry of a utility patent, it was decided at the final instance in November 2011 that the utility patent had no effect from the start. In December 2011 Deutsche Telekom AG filed an action for nullification against the German skyDSL patent.

The action taken by a German mobile network operator against call media services Ltd, a company founded in 2003 by TELES and others, was decided in favour of the mobile network operator in the final instance. Since call media services Ltd. consequently filed insolvency which was rejected due to lack of means, resultant payment obligations have no effect for TELES.

In addition, the same mobile network operator filed a suit against TELES AG and TELES NetSales GmbH in the business year of 2005 concerning the omission of offer and sale of GMS Gateways for Carrier Networks and filed for respective damages. Düsseldorf OLG (Higher Regional Court) dismissed the suit and the countersuit in its decision of 13. March 2008 at the second instance as had the Düsseldorf LG (District Court) in the first instance. The federal Supreme Court (BGH) nullified the decision of the Düsseldorf OLG in its decision of 29. June 2010 and recognized a disadvantage for the mobile network operator, In the course of nullifying, the suit was returned to the Düsseldorf OLG for re-negotiation and decision. TELES assumes that the original decision to reject the claim will be confirmed. However, an expert opinion will be obtained so that conviction cannot be completely excluded. In all probability, a conviction would only affect the supply and sale of GSM Gateways for Carrier networks in Germany because inadmissibility will be asserted pursuant to the German Act against unfair Practices (UWG). In view of the low level of importance of Germany as a sales country for GSM Gateways, business risks for TELES can be considered as relatively small. The scope of possible claims in the case of a negative decision in the case cannot be estimated as yet.

As of 2009 no comment is made on the status of patent disputes specified in former years because – as already stated in the Consolidated Accounts 2008 – the majority shareholder (SSBG = Sigram Schindler Beteiligungsgesellschaft) assumed all costs connected with patent disputes with effect from 01. January 2009; SSBG and TELES will participate in the results of the IntraStar patent disputes.

Final Declaration on the Report of the Board concerning relations to affiliated companies

Pursuant to § 312 Sect. 3 AktG (Corporation Law) the Board declares that the company received an appropriate consideration for the business activities specified in the report on relations to affiliated companies in accordance with the circumstances known at the respective time. Other reportable action in the business year of 2011 which have led to disadvantages on the part of the company has not been taken by order of the controlling company.

Main features of the remuneration system of the Board and Supervisory Board

Total remuneration of members of the Board of TELES AG – with the exception of the remuneration of the Chairman of the Board – consists of a fixed and a variable remuneration component. The annual variable remuneration is determined by the level of achievement of defined targets agreed with the Supervisory Board at the start of a business year. In the business year 2011, and also in the business year 2010, no variable remuneration was paid.

Remuneration of the Board Chairman corresponds until further notice to the monetary value benefit of a company vehicle.

The Supervisory Board receives a fixed and a variable expense allowance. The variable expense allowance is success-oriented and therefore only arises in the case of positive contribution to operating income and is limited in terms of maximum amount by the amount of basic remuneration.

More details are available in the Notes.

Declaration on Company Management pursuant to § 289a HGB

Management and Company Structure

Company management of TELES AG, as a German corporation listed on the stock exchange, is defined by the standards of the Corporation Act and the German Corporate Governance Code in its current valid version as well as by the regulations of the articles of association. In compliance with its legal form, TELES AG has a two-tier company structure with its organs Board of Directors and Supervisory Board which is characterized by strict personnel separation between the management and monitoring organ. The third organ is the General Meeting of Shareholders at which the shareholders exercise their rights. All three organs are obliged to ensure the well-being of the company.

The Supervisory Board elected by the General Meeting of Shareholders consists of three members, in line with statutory requirements. The periods of office of the Supervisory Board is normally five years. The Supervisory Board monitors and consults the Board concerning the management of business activities. The Supervisory Board discusses business development, planning and strategy and their execution at regular intervals. It discusses together with the Board the quarterly and half-yearly reports prior to publication and approves annual planning as well as the individual and consolidated accounts. It takes into consideration the audit report of the accounts auditor. The scope of tasks of the Supervisory Board also includes the appointment of Board members as well as the definition of Board remuneration and respective regular controlling of such.

The Board is the management organ of the Group and currently consists of three persons. It manages the company in its own responsibility with the aim of sustainable creation of added value. The principle of overall responsibility applies, i.e. members of the Board bear common responsibility for the entire business management irrespective of divisional responsibility. The Board is bound by the standards of the internal rules of procedure approved by the Supervisory Board. These especially regulate all issues reserved for the overall responsibility of the Board and also include a list of issues of fundamental importance which require approval from the Supervisory Board. The Board develops the company strategy and ensures its execution, in coordination with the Supervisory Board. It is also responsible for the drawing up of quarterly and annual accounts as well as for appointing staff for key positions in the company.

The General Meeting of Shareholders is the organ for decision-making on the part of our shareholders. Our shareholders are presented with the annual accounts at the Annual General Meeting. The shareholders decide on appropriation of the balance sheet profit and also decide on other issues specified by law and our articles of association. Each share entitles to one vote. Those shareholders who are registered within the specified deadline and who are entered in the Share Register on the day of the Annual General Meeting are entitled to participate in the Annual General Meeting. Our shareholders can also exercise their voting rights at the Annual General Meeting by instructing a voting rights representative appointed by the company.

Control systems

Internal control systems support management in monitoring and controlling the Group and its segments. The systems consist of control, actual and forecast calculations and are based on the annually revised strategic planning of the Group. Special consideration is given to market developments, technological developments and trends, their influence on internal products and services as well as on the financial potential of the Group.

The Group reporting system comprises monthly result calculations as well as quarterly IFRS reports of all consolidated subsidiaries and shows the assets, financial and earnings situation of the Group and of company segments. Financial reporting is enhanced by further detailed information required for the assessment and control of operative business.

Another part of control systems is quarterly reports concerning essential risks for the company.

The reports specified are discussed at Board and Supervisory Board meetings and provide important background data for assessment and decisions.

In accordance with the positioning of the three segments "Access Gateways", „Carrier Solutions“ and "Next Generation Networks", operative business of the company is mostly controlled via the measured variables related to turnover, gross earnings EBITDA and EBIT as well as a range of other important non-financial key figures.

Corporate Governance

The term, Corporate Governance, stands for management and control of companies oriented to responsible, long-term creation of added value. Efficient cooperation between the Board and the Supervisory Board, respect for shareholder interests, openness and transparency of corporate communication are important aspects of good Corporate Governance.

The Board and Supervisory Board of TELES AG feel obliged to ensure continued existence of the company and long-term creation of sustainable added value by means of executing corporate management oriented to responsible and long-term decision-making. This concept is based on the recommendations of the German Corporate Governance Code in its respective current version. The Board and Supervisory Board submitted the following compliance statement pursuant to § 161 AktG in November 2011 after dutiful inspection:

Compliance statement pursuant to § 161 AktG concerning the German Corporate Governance Code

The Board and Supervisory Board of TELES AG declare that the recommendations of the ‚Government Commission of the German Corporate Governance Code' announced by the Federal Ministry of Justice in the official section of the Federal Gazette has been complied with, and is complied with, since submission of the compliance statement in February 2011, with the exception of specifications made below.

1. Code item 2.3.3 (General Meeting – Postal Votes)

Since the revised version of 26.05.2010 the Code recommends assisting the shareholders in the use of postal votes, wherein the Code does not give a recommendation to offer postal votes. It merely recommends that the company support shareholders in the use of postal votes in the event that the Board of Directors decides to make this option available.

With resolution of the Annual General Meeting on 29.10.2010, in accordance with the option granted by § 118 para. 2 AktG, TELES took the precaution of implementing a new clause in its Articles of Association authorizing the Board of Directors to allow postal votes. According to the point of view of the Board of Directors, the practical implementation of postal votes is still subject to too many legal uncertainties. Furthermore, postal votes do not provide any recognizable additional benefit to shareholders in the personal exercise of their rights when compared to the proxy voting service offered by TELES. In light of this and in consideration of the substantial administrative effort in connection with postal votes, for now the Board of Directors refrained from offering the option of postal votes.

2. Code item 3.8 (Board of Directors and Supervisory Board – D&O Insurance)

The Code stipulates that an excess corresponding to the legal requirements for the Board of Directors shall be determined for the Supervisory Board respectively, in case the Company procures a Directors' and Officers' Liability Insurance.

The Board of Directors' existing excess of the D&O Insurance has been amended to the required degree. With regard to the members of the Supervisory Board, the determination of an excess has not been considered as being suitable to enhance motivation and sense of responsibility of the board members who are already acting responsibly and in the interest of the Company due to their functions.

3. Code item 4.2.3 (Board - Remuneration)

In addition to § 87 Sect.1 AktG, the German Corporate Governance Code stipulates that the variable compensation elements must generally be based on a multi-year assessment and that for extraordinary developments a possibility of limitation (cap) must in general be agreed upon by the Supervisory Board.

Although the management contracts provide for a variable remuneration, due to the current economic situation of the company, no variable compensation has been granted to the Board of Directors for the years 2008 and 2009. For 2010 the Directors have waived their variable compensation in advance.

The Code further recommends that payments made to a Director on premature termination of his contract, shall be subject to a limitation to two annual compensations (severance payment cap).

Within the management contract of Mr Oliver Olbrich, Mr Frank Paetsch as well as last year of the former member of the Board of Directors Mr Richard Fahringer the Supervisory Board agreed upon a 2-year-severance-payment-cap in case of premature termination. In case of future extensions of the contracts it is intended to agree upon such a severance payment cap, as far as the term exceeds one year.

4. Code item 5.1.2 (Age limit for Board members, Diversity)

The Code recommends that the Supervisory Board specifies an age limit for members of Board of Directors; it also recommends to take diversity into account when appointing Directors, and in particular, to aim for an appropriate consideration of women.

TELES refrains from determination of an age limit for Directors, as in principal the expertise of experienced Directors shall be at the disposition of the Company. A solely age-related disqualification is not considered appropriate by the Board of Directors and Supervisory Board.

In the Company's interest, when appointing Directors, the Supervisory Board mainly pays attention to the availability of maximum professional competence, and thereafter takes further criteria into consideration. Due to the internationality of the Company the availability of key skills, language competence and experiences in different cultural environments is appreciated. Therefore, in the past Directors positions has been regularly filled with foreign managers.

5. Code item. 5.3 (Supervisory Board, formation of committees)

The Code recommends that the Supervisory Boards forms professionally qualified committees subject to the specific conditions of the company and the number of members. At present, the Supervisory Board of TELES AG consists of three members. As these members deal in their totality with the committee-related topics referred to in the Code - in addition to their other duties - the formation of committees is not considered to be appropriate to enhance the efficiency of Supervisory Board's work and is therefore not indicated.

6. Code item 5.4.1 (Composition of the Supervisory Board, Age limit, Diversity, Training and Further Training measures)

Since the revised version of 26.05.2010 the Code recommends that the Supervisory Board sets targets for the constitution of the Supervisory Board taking into consideration the specific situation of the Company, the international activities of the Company, potential conflicts of interests, the age limit to be determined and diversity. These specific targets shall provide for an appropriate participation of women.

The Supervisory Board has not yet determined concrete targets for its constitution so far, and after consideration of the specific situation of the Company does not intend to set these targets for the time being. In the Company's interest, when constituting the Supervisory Board, it is mainly appreciated that candidates have the maximum professional competence as well as international experiences. Only thereafter further criteria are taken into consideration.

Furthermore, the Company refrains from determination of an age limit for Supervisory Board members, as in principal the expertise of experienced Supervisory Board members shall be at the disposition of the Company. A solely age-related disqualification is not considered appropriate.

Additionally, the Code recommends that the Company appropriately supports the Supervisory Board members in further training and professional development measures required for the performance of their duties.

In principal the Company supports the Supervisory Board members in reasonable further training and professional development measures under the statutory reimbursement of expenses. Which requirements to be fulfilled for the adequacy of Company's support subject to this recommendation is currently unclear. For the avoidance of doubt, a deviation from the recommendation is declared herewith.

7. Code item 7.1.2 (Publication of Financial Reports)

Subject to the recommendation of the Code, the Consolidated Financial Statements shall be publicly accessible within 90 days after the end of the financial year and Interim Reports shall be publicly accessible within 45 day after the end of the reporting period. In principle, TELES AG publishes the Consolidated Financial Statements and the Interim Reports - as far as possible - within these respites. In case of need TELES reserves the right to take advantage of the legal respites.

Due to the continuing crisis during the first half of the year 2011, more intensive sensitivity and plausibility checks were conducted during the annual audit. Therefore, the Consolidated Financial Statements for the financial year 2010 and the Financial Reports during the period 2011 were published with delay.

Data pursuant to § 289 Sect. 4 and § 315 Sect. 4 of HGB

Composition of subscribed capital
The fully paid in capital stock is made up of 23,304,676 no-par shares with a calculated value of € 1.00 each. Each share entitles to one vote.

Restrictions with regard to voting rights or transfer of shares
The Board is not aware of any restrictions which affect voting rights or the transfer of shares.

Direct or indirect participation in capital, which exceeds 10% of the voting rights
Sigram Schindler Beteiligungsgesellschaft mbH owns 55.17% voting rights in TELES AG on the balance sheet date. In addition, the company is not aware of any other direct or indirect participation in capital which exceeds 10% of the voting rights.

Shares with special rights: Control authorization
Shares with special rights which provide control authorization do not exist.

Voting rights control
A control of voting rights in terms of § 315 Sect. 4 No. 5 HGB does not take place.

Regulations for the appointment and dismissal of members of the Board of Directors and on amendments to the articles of association
Pursuant to § 6 of the articles of association the Board of Directors is made up of at least two members. Definition of the number within the scope of the aforementioned regulation as well as appointment and revocation of appointment is made by the Supervisory Board as is the appointment of a member of the Board to Chairman of the Board of Directors. Otherwise, appointment and dismissal of members of the Board is executed in accordance with § §§ 84, 85 AktG.

Amendments to the articles of association are made in accordance with §§ 179, 133 AktG, whereby pursuant to § 14 of the articles of Association the Supervisory Board is entitled to decide on amendments to the articles of association which only affect their version.

Authorization of the Board of Directors with regard to the possibility of issuing or redemption of shares
By means of a decision of the Annual General Meeting on 29.08.2008 the Board was authorized, with approval of the Supervisory Board, to increase capital stock by 28.08.2013 once in cash or by contribution in kind or several times by up to T€ 11,652 (approved capital 2008/I).

By means of a decision of the Annual General Meeting, conditional capital 1997/I was created; on 31. December 2010 it amounted to T€ 1,947 and served to fulfil options on a total of 1,946,591 no-par shares. The conditional capital 1997/I only comes into force in the case of exercising of conversion privileges of convertible debentures issued or in the case of exercising share options issued from an employee share option program.

In addition, the conditional capital 2000/I was created by decision of the Annual General Meeting. This only comes into force in the case of exercising of share options from the employee participation program. On 31 December 2011 conditional capital 2000/I amounted to T€ 384, divided into 383,876 no-par shares.

The Board was authorized by way of decision of the Annual General Meeting to acquire own shares of the company up to ten per cent of the capital stock of TELES AG for other reasons than securities trading. The Board of Directors was also authorized to resell the own shares acquired with the approval of the Supervisory Board. This authorization also covers the offering of shares to third parties within the scope of company mergers or on acquiring companies or holdings in companies. The price at which the shares of TELES AG are to be passed onto third parties in accordance with the foregoing authorization is coupled to the respective current market price. The company is also entitled to serve conversion privileges of entitled persons from the employee participation program of TELES AG with the shares acquired. The Board was also authorized to redeem own shares of TELES AG with the approval of the Supervisory Board which are acquired on the basis of such authorization without the need for a further decision of the Meeting of Shareholders with regard to such redemption or its execution. Authorization for redemption can be exercised wholly or in parts.

Essential agreements of the company which exist on condition of a change in control as a result of a takeover bid
Such agreements do not exist.

Compensation agreements of the company concluded with members of the Board or employees in the case of a takeover bid
Such agreements do not exist.

Reduction of Capital Stock
A range of value adjustments were made when drawing up the annual accounts for 2010. In October 2011, these adjustments led to a loss of more than half of the capital stock. At the Annual General Meeting a decision was made to reduce the capital stock. Legal action was taken against this decision and entry in the Commercial Register is pending until the case has been decided. Due to the missing registration requirement, the company’s capital stock is not yet validly reduced.

Berlin, 30 March 2012

TELES AG Informationstechnologien
The Board of Directors

Prof. Dr.-Ing. Sigram Schindler | Oliver Olbrich

Frank Paetsch

Consolidated Financial Statement of
TELES Aktiengesellschaft Informationstechnologien
for Business Year 2011

Consolidated Financial Statement of TELES Aktiengesellschaft Informationstechnologien for Business Year 2011

The German version is authoritative

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CONSOLIDATED FINANCIAL STATEMENT

(in T€, except number of common shares)	Note	December 31 2010	 2011
ASSETS			
Non-current assets			
Tangible assets	5	613	377
Intangible assets	6	38	14
Other financial assets	7, 18	1,066	600
		1,717	**991**
Current assets			
Inventories	8	2,921	2,782
Trade accounts receivable	9, 18	6,599	4,058
Other financial assets	18	0	149
Receivable from income taxes	19	172	133
Other current assets	10	900	755
Cash and cash equivalents	18, 25	457	663
		11,049	**8,540**
Total assets		**12,766**	**9,531**
LIABILITIES			
Equity			
Common shares: Issued: 23.304.676 and 23.304.676, resp. Outstanding: 23.304.676 and 23.304.676, resp.		23,305	23,305
Additional paid-in capital		8,595	11,569
Fair valuation reserve		591	591
Balance sheet losses		- 19,168	-22,989
Unappropriated retained earnings		-20,549	-20,549
Other equity changes		10	341
Equity attributable to shareholders of the parent company		**-7,216**	**-7,732**
Minority interests		**6**	**5**
Total equity	11	**- 7,210**	**-7,727**
Non-current liabilities			
Non-current accrued liabilities	17	233	246
Deferred tax liabilities	19	1	0
Other financial liabilities	12, 18, 27	9,268	10,021
Other non-current liabilities	13	114	0
		9,616	**10,267**
Current liabilities			
Trade accounts payable	18	2,022	1,868
Accruals for income taxes	17	129	129
Other accruals	17	2,046	2,094
Deferred revenues	14	834	996
Other financial liabilities	15, 18, 27	121	96
Other current liabilities	16, 27	5,208	1,808
		10,360	**6,991**
Total liabilities		**19,976**	**17,258**
		12,766	**9,531**

CONSOLIDATED PROFIT AND LOSS STATEMENT

(in T€, except share-related information)	Note	January 1– December 31 2010	 2011
Revenues	28, 29	**16,021**	**12,037**
Cost of sales	28, 29	**14,894**	**6,418**
Gross profit		**1,127**	**5,619**
Sales and marketing expenditures	29	6,921	4,881
Research and development expenditures	6, 29	3,910	3,751
General administrative expenditures	29	3,219	3,001
Decline in value of goodwill	6, 29	1,821	0
Expenditures from employee stock option plans	23, 29	44	0
Other income	20, 29	590	359
Other expenditures	20, 29	534	726
Operating loss	29	**-14,732**	**-6,381**
Financial earnings	18, 21, 29	273	626
Financial expenditures	18, 21, 29	247	136
Other results from investments	18, 21, 29	50	0
Earnings before income taxes	19, 29	**-14,656**	**-5,891**
Income tax refund / payment	19	43	13
Earnings from continued operations		**-14,699**	**-5,904**
Earnings from discontinued operations, net of tax	22	- 61	2,083
Annual net loss		**-14,760**	**-3,821**
Thereof attributable to:			
Shareholders of the parent company	24	-14,749	-3,821
Minority shareholders		-11	0
Earnings per share from continued operations			
Undiluted		-0.63	-0,25
Diluted		-0.63	-0,25
Earnings per share, total	24		
Undiluted		-0.63	-0.16
Diluted		-0.63	-0.16
Number of underlying shares			
Undiluted		23,304,676	23,304,676
Diluted		23,304,676	23,304,676
Additional information for the consolidated financial statement (unaudited):			
EBIT[1]		-14,731	-6,381
EBITDA[2]		-7,255	-6,019

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

CONSOLIDATED STATEMENT OF INCOME

(in T€)	Note	January 01 - December 31 2010	 2011
Annual loss		**-14,760**	**-3,821**
Other total result:			
Currency exchange differences of foreign subsidiaries		-314	331
Other results from investments, net taxes		**-314**	**331**
Overall result		**-15,074**	**-3,490**
Thereof attributable to:			
Shareholders of the parent company		-15,063	-3,490
Minority shareholders		-11	0

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	Other equity changes	Equity of share-holders of the parent company	Minority interests	Total equity
Dec. 31, 2009	23,304,676	23,305	5,518	591	-20,549	-4,419	324	4,770	15	4,785
Net loss for the year, attributable to parent company shareholders or minority interests						-14,479	-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
Dec. 31, 2010	23,304,676	23,305	8,595	591	-20,549	-19,168	10	-7,216	6	-7,210

Consolidated Financial Statement of TELES Aktiengesellschaft Informationstechnologien for Business Year 2011

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(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**	**Other equity changes**	**Equity of parent company's share-holders**	**Minority interests**	**Total equity**
Dec. 31, 2010	23,304,676	23,305	8,595	591	-20,549	-19,168	10	- 7,216	6	-7,210
Net loss for the year, attributable to parent company's shareholders or minority interests						-3,821	331	-3,490	-1	-3,491
Waiver of claims			4,077					4,077		4,077
Financial liability from recovery agreement			-1,103					-1,103		-1,103
Dec. 31,2011	23,304,676	23,305	11,569	591	-20,549	-22,989	341	-7,732	5	-7,727

CONSOLIDATED CASH FLOW STATEMENT

(in T€)	January 01 – December 31 2010	 2011
Cash flow from operating activities:		
Annual net loss	-14,760	-3,821
Adjustment of the net loss to the operating cash flow:		
Result from deconsolidation	0	-2,298
Income taxes	43	13
Financial result:		
Revaluation recovery agreement Sigram Schindler Beteiligungsgesellschaft	0	-439
Profit on financial instruments	-50	0
Interest result	211	99
Recovery rights	-237	-149
Benefits from public authorities	0	-17
Employee stock option plans	44	0
Allowance for doubtful accounts	964	723
Impairment of inventories	1,809	421
Depreciations for tangible fixed assets	582	331
Amortization of intangible assets	6,996	29
Profit from divestiture of assets	-11	1
Changes of other balance sheet items		
Inventories	177	-282
Trade accounts receivable	142	1,835
Other current assets, accruals and deferrals	345	224
Current liabilities	-736	-209
Accruals and other liabilities	850	-939
Effects from exchange rate changes with no impact on payment	-319	336
Received income taxes	0	9
Paid income taxes	-16	-5
Received interest	14	17
Paid interest	-1	-33
Cash outflow from operating activities	**-3,953**	**-4,154**
Cash flow from investing activities:		
Proceeds from sale of fixed assets	12	2
Acquisition of fixed assets	-205	-103
Acquisition of intangible assets	-16	-5
Payout for capitalized development costs	-1,832	0
Recovery rights	32	466
Cash outflow from investing activities	**-2,009**	**360**
Cash flow from financing activities:		
Loans from related companies and individuals	5,960	4,000
Sale of treasury stock	0	0
Other financial activities	-1	0
Cash inflow from financing activities	**5,959**	**4,000**
Net change of cash and cash equivalents	-3	206
Cash and cash equivalents, at the beginning of the year	460	457
Cash and cash equivalents, at the end of the year	**457**	**663**
Cash and cash equivalents include money market funds	138	140

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 131 employees during the business year (previous year: 185).The employees worked in the sales and marketing (21, previous year: 30), research and development (61, previous year: 87), procurement and logistics (29, previous year: 40) and administration (20, previous year: 28) departments.

NOTE 2: SUMMARY OF IMPORTANT ACCOUNTING PRINCIPLES

Basis for the presentation

Pursuant to Sec. 315a of the German Commercial Code (*HGB*), the consolidated financial statements of TELES dated December 31, 2011 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 on December 31, 2011, are complied with.

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 order to close any gaps in finance, the majority shareholder, by means of an additional loan commitment, has undertaken in October 2011 – besides the financial means already provided - to ensure that TELES is managed in such a way and provided with such financial means as to be always able to fulfill its obligations, should the current development continue at least until April 2013. For further information on threat to of the Company's continued existence please refer to the Group's management report.

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

- *IFRIC 19 Repayment of Financial Liabilities with Equity Instruments*

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

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

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

- *Amendment to IFRS 1 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 exempt 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 commences on or after July 1, 2010.

The regulations of IFRIC 1 are not relevant for the Company.

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

The amendments concern the balancing at the issuer of subscription 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 subscription 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 these amendments does not have any significant impact on the Group's consolidated financial statement.

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

On November 26, 2009, the IASB has published a minor 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. Following the amendment, it is now permitted to an entity to record the benefit from such prepayment as an asset.

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

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

- *Amendment to IAS 24* *Related Party Disclosures*

To date, 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 government. 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 or individual.

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

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

- *Improvements of 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 dated February 19, 2011.

The application of the amendments to the following standards is mandatory for all business years commencing after June 30, 2010: IFRS 3, “Business Combinations”, IFRS 7, IAS 32 and IAS 39 in accordance with the changes in IFRS 3, IAS 21, IAS 38, and IAS 31 as per IAS 27.

The changes to IFRS 1, “First Time Adoption of the IFRS “; IFRS 7, “Financial Instruments: Disclosures”; IAS 1, “Presentation of the Financial Report”, IAS 34, “Interim Reporting”, and IFRIC 13, “Customer Retention Programs” have to be applied for the first time during the first reporting period of a business period commencing on or after January 1, 2011.

The improvements of IFRSs do not have any significant impact on the assets, finance and income of the Company for the time being.

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

- *IFRS 9* *Financial Instruments*

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

The regulations must be bindingly applied as from January 1, 2015. At the time this financial report was prepared, IFRS 9 has not bindingly been adopted by the EU yet.

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

- *IFRS 10 Consolidated Financial Statements*

IFRS 10 replaces the guidelines contained in IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation of Special Purpose Entities" on control and consolidation.

IFRS 10 changes the definition of the term control to the effect that the same criteria are applied to all entities to determine a controlling relationship. This definition is supported by comprehensive application guidelines which show how a reporting entity (the investor) can control another entity (portfolio company).

The new standard has to be applied to business years commencing on or after January 1, 2013. An earlier application is admissible under certain conditions. At the time this financial report was prepared, IFRS 10 has not bindingly been adopted by the EU yet.

The application of IFRS 10 will not be of significant relevance to the Company.

- *IFRS 11 Joint Arrangements*

IFRS 11 addresses the balancing of circumstances under which an entity is exercising joint control over a joint venture or a joint operation. The new standard replaces *IAS 31 Interests in Joint Ventures* and *SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers* which have previously served as the relevant regulations for issues concerning the balancing of joint ventures.

The new standard has to be applied to business years commencing on or after January 1, 2013. An earlier application is admissible under certain conditions. At the time this financial report was prepared, IFRS 11 has not bindingly been adopted by the EU yet.

The application of IFRS 11 will not be of significant relevance to the Company.

- *IFRS 12 Disclosure of Interests in Other Entities*

According to the new standard, IFRS 12 requires an entity to disclose information that enables the addressee of the annual financial statements to evaluate the nature of and the risks and financial impacts associated with its interests in affiliated and associated companies, joint arrangements and non-consolidated structured entities (Special Purpose Entities).

The new standard is gaining effect for accounting periods commencing on or after January 1, 2013. An earlier application is admissible without causing a mandatory application of IFRS 10, IFRS 11 or the amended IAS 27 and IAS 28. At the time this financial report was prepared, IFRS 12 has not bindingly been adopted by the EU yet.

As IFRS 12 exclusively concerns disclosure requirements, does not appear an impact on the assets, finance and income of the Company.

- *IFRS 13 Fair Value Measurement*

The new standard defines how to interpret the term fair value. Along with this definition the IASB determines that entities shall be required to disclose information on the fair values in the notes to their consolidated financial statements. Thereby, readers of the financial statements shall be enabled to more easily comprehend the data respectively assumptions on which the fair value measurement was established.

The application of IFRS 13 is mandatory for business years commencing on or after January 1, 2013. An earlier application is admissible. At the time this financial report was prepared, IFRS 13 has not bindingly been adopted by the EU yet. At present, no binding statement can be made in respect of possible effects of the new standard on the assets, finance and income of the Company.

- *IFRIC 20 Accounting of Stripping Costs in the Surface Mining Industry*

IFRIC 20 deals with the accounting of stripping costs in the production phase of a surface mine. The interpretation makes it clear under which prerequisites stripping costs are to be recognized as an asset item and how to effect the initial and subsequent evaluation of this asset item.

The regulations have to be applied to the business years commencing on or after January 1, 2013. Endorsement by the EU is pending yet.

The provisions of IFRIC 20 will not be relevant to the Company.

- *Amendment to IFRS 7 Financial Instruments: Disclosures*

On October 7, 2010, the IASB has published amendments to IFRS 7, "Financial Instruments: Disclosures". Subject of the changes are the disclosure obligations in connection with the transfer of financial assets. Such transfer is given, for example, when trade accounts receivable are sold (factoring), or in the case of so-called Asset Backed Securities (ABS) transactions.

Entities have to mandatorily apply the changes to business years commencing on or after July 1, 2011.

As IFRS 7 or the amendment to IFRS 7 exclusively concerns disclosure requirements, does not appear an impact on the assets, finance and income of the Company.

- *Amendment to IFRS 1 First-time Adoption of IFRS*

With this amendment hitherto existing references to January 1, 2004 are replaced by a reference to the transition date to IFRS. Besides, regulations are included for those entities not capable to meet all the requirements of the IFRS due to hyperinflation.

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

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

The amendment to IFRS 1 is not expected to be relevant for the Company.

- *Amendment to IFRS 1* *First-time Adoption of IFRS*

On March 13, 2012, the International Accounting Standards Board (IASB) published amendments to IFRS 1 "*First-time Adoption of International Financial Reporting Standards*".

The amendment deals with the issue of first-time IFRS adopters having to report soft government loans at the time of transition. The evaluation for government loans existing at the time of transition may be retained in accordance with prior accounting policies. The evaluation provisions pursuant to IAS 20.10A in connection with IAS 39 thus only apply to government loan commitments entered into after the date of transition.

IFRS 1 in its amended version has to be applied to business years commencing on or after January 1, 2013.

The amendment to IFRS 1 has not been bindingly adopted by the EU yet.

The amendment of IFRS 1 will not be of significant relevance to the Company.

- *Amendment to IAS 19 Employee Benefits*

On June 16, 2011, IASB published the final version of the amendments to IAS 19. The most significant amendment to IAS 19 consists in the fact that, in the future, unexpected fluctuations of pension obligations as well as potential plan asset bases, so-called actuarial profits and losses, have to be recognized directly in Other Comprehensive Income (OCI), eliminating the previous choice between immediate recognition as profit or loss, in other comprehensive income, or in the time-delayed recognition pursuant to the so-called "corridor approach". The amendments have to be applied as from January 1, 2013.

At the time this financial report was prepared, the amendment to IAS 19 has not been bindingly adopted by the EU yet.

The application of these amendments will not be of significant relevance to consolidated report.

- *Amendment to IAS 1 Presentation of Financial Statements*

The amendment of *IAS 1 Presentation of Items of Other Comprehensive Income (OCI)* shall effect that, at a future point, the IFRS income statement will consist only formally of one single statement, which is the "Statement of Profit or Loss and Other Comprehensive Income". Nevertheless, such formally summarized income statement must, in the future, bindingly be divided in two sections: one stating the profit or loss, and one stating other comprehensive income. IAS 1 in its amended version has to be applied as from July 1, 2012.

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

The application of these amendments is not expected to be relevant for the Consolidated Financial Statements.

- *IAS 27 Separate Financial Statements (revised 2011)*

The new provisions inserted in *IFRS 10 Consolidated Financial Statements* replaced the consolidation guidelines contained in the former *IAS 27 Consolidated and Separate Financial*

Statements as well as SIC-12 *Consolidation – Special Purpose Entities.* As the revised IAS 27 consequently only contains the provisions which are to be applied to separate financial statements, the standard was renamed as *IAS 27 Separate Financial Statements (revised 2011)*.

The new version of the standard has to be applied for the first time in the first period of a business year commencing on or after January 1, 2013. An earlier application is admissible to the extent so indicated in the notes, and IFRS 10, 11, 12 and IAS 28 (revised 2011) also being applied earlier.

The provisions are expected to be adopted by the EU as of the 4th quarter of 2012.

The amendment to IAS 27 (revised 2011) will not be relevant to the Company.

- *IAS 28 Investments in Associates and Joint Ventures (revised 2011)*

IFRS 11 Joint Arrangements abolished the prior option of proportionate consolidation of joint ventures. In the future, the mandatory application of the equity method to joint ventures will be effected pursuant to the provisions of the accordingly amended IAS 28, which scope of application was now extended to the accounting for joint ventures and was therefore renamed as *IAS 28 Interests in Associates and Joint Ventures (revised 2011)*. However, it needs to be considered in this context that, due to changes in connection with the classification as joint ventures, it is not mandatory for all joint ventures presently included pursuant to the proportionate consolidation will have to be accounted for in accordance with the equity method in the future.

IAS 28 (revised 2011) has to be applied for the first time in the first period of a business year commencing on or after January 1, 2013. An earlier application is admissible to the extent so indicated in the notes, and IFRS 10, 11, 12 and IAS 28 (revised 2011) also being applied earlier.

The provisions are expected to be adopted by the EU as of the 4th quarter of 2012.

The amendment to IAS 28 (revised 2011) will not be relevant to the Company.

- *Amendment to IAS 12 Income Taxes*

The International Accounting Standards Board (IASB) has published amendments to *IAS 12, Income* Taxes. These also result 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 commencing on or after January 1, 2012. At the time this financial report was prepared, the amendment to IAS 12 has not yet been bindingly adopted by the EU.

The amendment to IAS 12 will not be relevant to the Company.

- *Amendment to IAS 32 and IFRS 7 – Offsetting Financial Assets and Financial Liabilities*

On December 16, 2011, IASB published the requirements for offsetting financial assets and financial liabilities.

Only the application guidelines in *IAS 32 Financial Instruments: Presentation* were amended by clarifications. Besides, additional disclosure requirements were introduced in *IFRS 7 Financial Instruments: Disclosures for Offset Financial Instruments*.

The amendments to IAS 32 are to be applied retrospectively to business years commencing on or after January 1, 2014. The amendments to IFRS 7 are to be applied retrospectively to business years commencing on or after January 1, 2013.

At the time this financial report was prepared, the amendments to IAS 32 and IFRS 7 have not been bindingly adopted by the EU yet.

The amendments to IAS 32 and IFRS 7 are not expected to be relevant for the Company.

Estimates

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

Inter alia, estimates were 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 business combination), 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 material adjustment of the book values of the assets and liabilities for the next business year mainly relate to taxes on income. 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 19 for detailed information about income taxes in the corporate year-end closing.

The determination of the recoverable amount of a cash generating unit is made on the basis of a *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 business year 2011 include TELES AG as the parent company plus three domestic and ten foreign subsidiaries. The total number of consolidated companies did not change, whereas one company which was shut down during previous years was removed from the consolidation circle in business year 2011, and a newly established company was added. For additional information, please refer to Note 4.

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 30.

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 group entities 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 the day on which TELES AG obtains the controlling interest over the subsidiary. Amounts regarding minority shareholders will be reported separately.

The capital consolidation is based on the acquisition method 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 as of 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 be reviewed at least once a year for its recoverability.

Intercompany transactions will be eliminated. Accounts receivable and liabilities 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; should there be losses, they shall reduce the 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 or a shorter remaining term
Miscellaneous:	10 years

Computer hardware to be allocated to "group items" in accordance with the German Income Tax Act (EStG) constitutes an exception to this rule. 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 a future economic benefit associated with the utilization is probable. 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
Miscellaneous:	3-5 years

Goodwill, as 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 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 Company is holding a minority interest in GRAVIS AG which was 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 are reflected in equity capital, reserve for valuation; the minority interest is valued at fair value. As these are securities which are not publicly traded, the determination of the fair value is based on a discounted cash flow process. Changes in value between initial and subsequent valuation are reflected in equity capital, Reserve for Valuation. The valuation is based on input factors level 2 in accordance with IFRS 7.27. Further information is provided in Note 18.

In connection with the above mentioned minority interest in GRAVIS AG TELES further 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 a resale of GRAVIS AG shares. Accounts receivable resulting from the recovery right were initially reported at fair value and subsequently measured at amortized costs using the effective interest method. They are included in the balance sheet under item "Other financial assets" (non-current); further information is provided in Note 18.

As of the balance sheet date, the Company further holds an option for the divestiture of business shares in a subsidiary. The right is accounted for at zero value on the balance sheet date because the Company does currently not assign any value to it.

Trade accounts receivable as well as other accounts receivable are initially recognized at the fair value to be attributed and subsequently at adjusted costs by using the effective interest method. Depending on their due date, receivables are grouped together, taking the general credit risk into account, and afterwards value adjustments are made, based on the structure of their age. However, appropriate individual value adjustments are made if required by circumstances.

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 difficult to sell or 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 provisions of the German Commercial Code (*Handelsgesetzbuch*), in particular Sec. 272, are decisive in managing the equity of TELES AG, respectively the German Stock Corporation Act (*Aktiengesetz*), in particular Sec. 71 et seq. and Sec. 192 et seq., relative to the separate financial statement of TELES AG, as well as the provisions pursuant to IFRS as far as managing the equity of the TELES Group is concerned. The above mentioned laws or provisions are the only external restrictions on the equity of TELES. During the past business year, the Company met all external minimum capital requirements.

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

<u>Treasury stock</u>

The common shares which were redeemed by the Company are reported in the balance sheet under the item "Treasury stock" and are openly deducted from the 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.

Currently no treasury stock exists.

Financial instruments, liabilities

The classification of financial instruments is made in accordance with IAS 39. Potential categories of financial instruments (liabilities) are:

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

During previous business years as well as the past business year, Sigram Schindler Beteiligungsgesellschaft mbH has waived loans that were granted to the Company. As at December 31, 2010 and December 31, 2011 each, the Company reports a financial liability on its balance sheets which results from a recovery agreement entered into in connection with the waiver of the loan. The liability was valued at fair value. Due to lacking market-related data, the fair value of the liability is determined by means of a *Discounted Cash Flow* procedure.

The Company has entered into a factoring agreement with 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 vis-à-vis the customer minus the factoring fee in the amount of 1% of that nominal value.

The Company recognizes trade accounts payable at amortized acquisition cost.

Accruals

Accruals are set up 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 reliably be estimated.

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 the net sales are accounted for. These accruals are based on historic experiences and on an estimate of future claims.

Employee Benefits

The Company accounts for payment of benefits after the termination of employment, classified as "Defined Benefit Plan" in accordance with IAS 19. All actuarial profits and losses of the period are recorded through profit and loss.

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

Deferred income taxes

The reporting of deferred income taxes is based on the so-called "liability method". Deferred income taxes are recognized 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 are reduced by a valuation adjustment if it is probable, based on the circumstances known, that part or the entire deferred tax assets cannot be utilized. Deferred taxes are reported as non-current assets or liabilities.

Impairment of assets
Assets are reviewed at each balance sheet date to determine whether events or changed circumstances suggest that the book value cannot be realized and that hence there is need of impairment.

Research and development costs
Research costs are reported as expense at the time they are generated. Costs which are incurred 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 evidenced in order for them to be recognized, and the allocable expenditures must be quantifiable in a reliable manner. Furthermore, it must be probable that the intangible asset will result in a future economic benefit, is unambiguously identifiable and can be allocated to a specific product. If the research phase cannot be clearly distinguished from the development phase, all of the costs shall be 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 to the extent the Company is not the economic owner. The leasing rates are recognized during the period in which they are generated and if they have an impact on the earnings.

Leased items which are attributable to the Company as their 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, they will be treated as liabilities and 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 entity is active is viewed as "functional" currency. This corresponds to the local currency for the subsidiaries of TELES AG. Accordingly, all assets and debts are valued by using the current exchange rate of the balance sheet date. Revenues and expenses are converted at the average monthly exchange rate for the year. Profits and losses from conversions of the financial statements of the Group entities are treated neutrally with respect to earnings and reported within the “Other equity changes”. Profit and losses from foreign currency transactions are included in the determination of the net income for the period. *Employee*

Stock option plans
The Company's employee stock option plans 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 to the performance rendered by the employees as return service in exchange for the granted stock options must be reported as an expense in the profit and loss statement as well as

an increase of equity. However, as the fair value to be attributed to the performance delivered by the employees cannot be determined reliably, the fair value to be attributed to the stock options at the time granted must be used for the valuation.

In accordance with the transition regulations, IFRS 2 had to be applied to all equity instruments which were granted after November 7, 2002 and not yet vested as of January 1, 2005. The comparable information had to 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 equity increase with no effect on earnings.

Principles of revenue recognition

Products
The Company realizes revenues from the sale of products on the basis of corresponding contracts as soon as the products have been delivered, fixed sales prices are available or definable, if no essential obligations vis-à-vis the customers exist and the receipt of the accounts receivable is deemed probable. The Company is setting up accruals for all potential costs incurred 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 billable. 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 provisions on production orders (percentage of completion method, cost-to-cost method).

As a basic 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 subject to continuous re-evaluations in this regard; 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 22.

Contributions to profit or loss which flow in from operations that were discontinued in previous years are reported as "income from discontinued operations after taxes".

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

	January 1 - December 31	
(in T€)	**2010**	**2011**
Depreciation (included in cost of sales and operative expenditures)	5,655	361
thereof: planned depreciation of fixed assets	502	331
thereof: planned amortization of intangible assets	1,016	29
thereof: unplanned amortization of intangible assets	4,137	0
Depreciation (included in development expenditures, capitalized according to IAS 38)	82	0
thereof: planned depreciation of fixed assets	80	0
thereof: planned amortization of intangible assets	2	0
Impairment of goodwill	1,821	0
Inventories		
Acquisition and production costs of inventories which are reflected as expense	6,725	4,070
included therein: write-downs on inventories (included in cost of sales)	1,809	421
Allowances for doubtful accounts (included in operative expenditures, sales and marketing)	1,908	880
thereof: increase in allowances	3,079	1,661
thereof: reversal of allowances	-1,171	-781
Personnel expenditures (without expenditures for employee stock option plans)		
(included in cost of sales and operative expenditures)	8,808	7,723
included therein: employer share to statutory pension scheme	641	521
included therein: employer share to defined contribution plans	25	16
included therein: expenditures for settlements	527	277
Government grants (investment subsidy)		
(included in other income and R&D expenditures)	72	155

[3] Continued operations

NOTE 4: CHANGES WITHIN THE CONSOLIDATION CIRCLE

In March 2011, TCS Cloud Services GmbH, an entity TELES AG is holding 100% interest in, was established. The associates' seat is in Berlin. Subject of the business is mainly the operation and coordination of networks of all kinds for language and data as well as the marketing of telecommunication products and telecommunication services.

On March 29, 2011, the entity more! AG was deleted. During the course of the entity's deconsolidation, revenues in the amount of T€ 2,298 were realized as a result of derecognition of a sales tax liability. For further information, please refer to Note 22.

NOTE 5: TANGIBLE ASSETS

The tangible assets developed as follows during the 2010 and 2011 business years:

	Acquisition Costs				
(in T€)	Dec. 31, 2009	Additions	Disposals	Currency differences	Dec. 31, 2010
Computer hardware	6,565	161	2	0	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	4	8,426

	Accumulated Depreciation			
(in T€)	Dec. 31, 2009	Additions	Disposals	Dec. 31,2010
Computer hardware	5,995	417	3	6,409
Capital leases	0	0	0	0
Office and operating equipment	631	12	0	643
Leasehold improvement	483	75	0	558
Other	125	78	0	203
Total	7,234	582	3	7,813

	Remaining Book Values	
(in T€)	Dec. 31,2009	Dec. 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

			Acquisition Costs		
(in T€)	Dec. 31, 2010	Additions	Disposals	Currency differences	Dec. 31, 2011
Computer hardware	6,724	98	406	0	6,416
Capital leases	0	0	0	0	0
Office and operating equipment	671	0	655	-1	15
Leasehold improvement	681	0	0	0	681
Other	350	5	216	-4	135
Total	8,426	103	1,277	-5	7,247

		Accumulated Depreciation		
(in T€)	Dec. 31, 2010	Additions	Disposals	Dec. 31, 2011
Computer hardware	6,409	196	406	6,199
Capital leases	0	0	0	0
Office and operating equipment	643	10	653	0
Leasehold improvement	558	70	0	628
Other	203	55	215	43
Total	7,813	331	1,274	6,870

	Remaining Book Values	
(in T€)	Dec. 31,2010	Dec. 31,2011
Computer hardware	315	217
Capital leases	0	0
Office and operating equipment	28	15
Leasehold improvement	123	53
Other	147	92
Total	613	377

NOTE 6: INTANGIBLE ASSETS

The intangible assets developed as follows during the 2010 and 2011 business years:

Acquisition Costs

(in T€)	Dec. 31, 2009	Additions	Disposals	Currency differences	Dec. 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 cost	3,584	1,832	0	0	5,416
Miscellaneous	**118**	**0**	**0**	**0**	**118**
Total	**19,610**	**1,848**	**0**	**0**	**21,458**

Depreciations

(in T€)	Dec. 31, 2009	Additions	Impairment	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 cost	633	892	3,891	0	5,416
Miscellaneous	**118**	**0**	**0**	**0**	**118**
Total	**14,424**	**1,038**	**5,958**	**0**	**21,420**

Remaining Book Values

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

Acquisition cost

(in T€)	Dec. 31, 2010	Additions	Divestures	Currency differences	Dec. 31, 2011
Software licenses	**4,454**	**5**	**193**	**0**	**4,266**
Customer relationships	**6,869**	**0**	**6,610**	**0**	**259**
Goodwill	**4,218**	**0**	**440**	**0**	**3,778**
Technologies	**5,799**	**0**	**0**	**0**	**5,799**
thereof: Capitalized development costs	5,416	0	0	0	5,416
Miscellaneous	**118**	**0**	**0**	**0**	**118**
Total	**21,458**	**5**	**7,243**	**0**	**14,220**

Depreciation

(in T€)	Dec. 31, 2010	Additions	Impairment	Divestures	Dec. 31, 2011
Software licenses	**4,416**	**29**	**0**	**193**	**4,252**
Customer relationships	**6,869**	**0**	**0**	**6,610**	**259**
Goodwill	**4,218**	**0**	**0**	**440**	**3,778**
Technologies	**5,799**	**0**	**0**	**0**	**5,799**
thereof: Capitalized development costs	5,416	0	0	0	5,416
Miscellaneous	**118**	**0**	**0**	**0**	**118**
Total	**21,420**	**29**	**0**	**7,243**	**14,206**

Remaining Book Values

(in T€)	Dec. 31, 2010	Dec. 31,2011
Software licenses	**38**	**14**
Customer relationships	**0**	**0**
Goodwill	**0**	**0**
Technologies	**0**	**0**
thereof: Capitalized development costs	0	0
Miscellaneous	**0**	**0**
Total	**38**	**14**

During business year 2010, TELES capitalized development costs in the amount of net T€ 941 as self-created intangible assets which relate exclusively to Class 5 softswitch solutions.

The review of the aforementioned assets (technologies), the goodwill relating thereto as well as customer relations resulted in a devaluation need amounting to T€ 5,958 at December 31, 2010. The impairments relate to the product segment NGN.

All intangible assets, except for 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.

Goodwill

According to IAS 36, a company must review goodwill acquired at the occasion of a business combination for impairment on an annual basis. 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.

Within the framework of the consolidated financial statements, TELES reported a goodwill 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 aforementioned goodwill on the basis of the recoverable amount resulted in a devaluation need totaling T€ 1,821 as at December 31, 2010. 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. Further, the discount factor of the *WACC* was 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. Since the income planning of the previous years has not been confirmed, the assumptions for future periods were adjusted accordingly. Consequently, this results in a significantly lower discounted stream of cash and cash equivalents to be expected and, as a result of that, to a complete value adjustment regarding the goodwill.

NOTE 7: OTHER FINANCIAL ASSETS

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

	December 31	
(in T€)	**2010**	**2011**
Unlisted securities: GRAVIS AG	600	600
Recovery rights for waived liabilities	466	0
	1,066	**600**

Please refer to Note 18 for further information.

NOTE 8: INVENTORIES

The inventory assets consist of the following:

	December 31,	
(in T€)	**2010**	**2011**
Finished goods	582	405
Trading goods	363	554
Raw materials and supplies	1,976	1,823
	2,921	**2,782**
included inventories:		
accounted for at net realizable values	559	266
Range > one year	199	436

Inventories are reported at average cost or net realizable value, whichever is lower. Value adjustments are made to the extent there are inventory items difficult to sell or outdated. The limitations to the ability to sell them are taken into account and discounted; for this it is carried a single valuation of the items. In 2011 based on an analysis of coverage of requirements, among other things, there were T€421 impaired. With this impairment it was considered the risk of future technological developments. For 2011, the devaluation of slow-moving products amounted toT€ 1,809.

NOTE 9: TRADE ACCOUNTS RECEIVABLE

The trade accounts receivable consist of the following:

	December 31,	
(in T€)	**2010**	**2011**
Trade accounts receivable	12,374	10,556
Minus allowance for doubtful accounts	5,775	6,498
	6,599	**4,058**

As of December 31, 2011, the “Trade accounts receivable” include a non-current portion in the amount of T€ 323 (on December 31, 2010: T€ 689). Reference is made to Note 18 for further information.

NOTE 10: OTHER CURRENT FINANCIAL ASSETS

The Other current financial assets consist of the following:

	December 31,	
(in T€)	**2010**	**2011**
Advance payments made	193	72
Sales tax receivables	176	150
Receivables from related parties	53	55
Receivables from investment grants	40	53
Miscellaneous	437	425
	899	**755**

NOTE 11: SHAREHOLDERS’ EQUITY

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

On December 5, 2011, the general meeting, with reference to agenda item 4, passed the resolution to reduce the Company's nominal capital, initially decreased in accordance with agenda item 3 of the agenda by means of simplified redemption of four shares, from T€ 23.305, divided into 23,304,672 individual bearer shares with a notional interest in the nominal capital of € 1.00 per share by T€ 20,715 to T€ 2,589, divided into 2,589,408 individual bearer shares having a notional interest in the nominal capital of € 1.00 per share. The reduction is taking place in accordance with the provisions on the simplified capital reduction (Sec. 229 et. seq. German Stock Corporation Act) in a ratio of 9:1 in order to balance impairments in the total amount of T€ 20,715 and other losses.

The reduction of the nominal capital has not gained effect to date by entry into the commercial register. One shareholder filed action for avoidance before the Berlin Regional Court against the resolution passed with regard to agenda item 4.

Authorized capital

As of December 31, 2011, the usable authorized capital (authorized capital 2008/I) amounts to a total 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 2008/I authorizes the Board of Directors, given the approval by the Supervisory Board, to increase the share capital by August 28, 2013, once or several times by up to T€ 11,652 against contributions in-kind and/or by cash.

Conditional capital

As of December 31, 2011, the conditional capital amounts to 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, amounted to 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) by decision of the shareholders' meeting. Further, the purpose of the conditional capital 1997/I was expanded to the extent that, in addition to the fulfillment of previous shareholders' meeting decisions regarding the issue of convertible bonds and stock options issued to employees, it shall also secure such stock options which are 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 annual general meeting of December 5, 2011, with reference to agenda item 5 (a), passed the resolution in view of the capital reductions as resolved in accordance with agenda items 3 and 4 to restrict the Company's existing contingent capital 1997/I to any amount of up to T€ 216 by issuing up to 216,288 individual bearer shares and to cancel the contingent capital 1997/I exceeding that amount. Due to a pending action for avoidance, the reduction of the nominal capital has to date not gained effect. The respective adjustment of the contingent capital 1997/I has therefore not taken effect either.

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 also includes 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.

The annual general meeting of December 5, 2011, with reference to agenda item 5 (b), passed the resolution in view of the capital reductions as resolved in accordance with agenda items 3 and 4 to restrict the Company's existing contingent capital 2000/I to any amount of up to T€ 43 by issuing up to 42,653 individual bearer shares, and to cancel the contingent capital 2000/I exceeding that amount. Due to a pending action for avoidance, the reduction of the nominal capital has to date not gained effect. The respective adjustment of the contingent capital 2000/I has therefore not taken effect either.

Treasury stock

On May 25, 1999, the shareholders' meeting authorized the Board of Directors 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.

During business year 2009, the treasury shares in stock were entirely sold. No treasury shares were acquired thereafter based on the authorization granted by the general meeting. The authorization last drafted on August 28, 2009 expired during business year 2011 and was not renewed.

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, 2011, the additional paid-in capital still includes T€ 14,981, resulting from the settlement of a loan liability based on a waiver by shareholder Sigram Schindler Beteiligungsgesellschaft mbH (as of December 31, 2010: T€ 10,904), minus T€ 10,371, resulting from a recovery agreement entered into with the shareholder in connection with the loan waiver (as of December 31, 2010: T€ 9,268). 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€ 1,939) 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 on December 31, 2011 and 2010 respectively) is the value change between addition and subsequent valuation of available-for-sale assets, less the appropriate deferred taxes.

NOTE 12: OTHER NON-CURRENT FINANCIAL LIABILITIES

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

	December 31,	
(in T€)	**2010**	**2011**
Recovery Agreement Sigram Schindler Beteiligungsgesellschaft mbH	9,268	9,932
Miscellaneous	0	89
	9,268	**10,021**

For further information, reference is made to Note 18 (Financial instruments) and Note 27 (Relations with closely related entities and individuals).

NOTE 13: OTHER NON-CURRENT LIABILITIES

The Other non-current liabilities (T€ 0; previous year: T€ 114) were connected with Discontinued Operations (cf. Note 22).

NOTE 14: ADVANCE PAYMENTS RECEIVED

Deferred revenues as of December 31, 2010 and 2011 relate to prepayments for accrued revenues resulting from the performance of services.

NOTE 15: OTHER FINANCIAL LIABILITIES

Other (current) financial liabilities included:

	December 31,	
(in T€)	**2010**	**2011**
Factoring	121	96
	121	**96**

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 **2010**	 **2011**
Sales-dependent payment (earn out) in connection With acquisition of TELES N.G.N. SOLUTIONS Ltd.	71	0
Payables to related parties	149	220
Turnover tax liabilities	2,314	76
Miscellaneous	2,674	1,512
	5,208	**1,808**

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 parties transactions, reference is made to Note 27.

Regarding turnover tax liabilities for the business years 2010 and 2011, reference is made to Note 22.

The item “Miscellaneous” includes, *inter alia*, liabilities related to the balance date in the area of human resources.

NOTE 17: ACCRUALS

The Company carries the following accruals on the balance sheet:

(in T€)	December 31, 2010	2011
Long-term accruals		
Employee benefits pursuant to IAS 19	198	246
Onerous contracts	35	0
	233	**246**
Short-term accruals		
Accruals for income taxes	129	129
Litigation risks	843	692
Other accruals	1.203	1,402
	2.175	**2,223**

The accruals consist of the following:

(in T€)	2010	Utilization	Release	Addition	Reclassifi-cation	2011
Non-current accruals						
Employee benefits	198	0	0	48	0	246
Onerous contracts	35	0	28	0	-7	0
	233	**0**	**28**	**48**	**-7**	**246**
Current accruals						
Accruals for income taxes	129	0	0	0	0	129
Risks of litigation	843	110	118	77	0	692
Other accruals	1,203	469	8	669	7	1,402
Onerous contracts	82	82	0	0	7	7
Miscellaneous	1,121	387	8	669	0	1,395
	2,175	**579**	**126**	**746**	**7**	**2,223**

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 representing the Company. As regards the main cases of litigation, reference is made to Note 26.

Employee Benefits

The accruals for “Employee Benefits” 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:	5.25%
Wage trend:	2.50%
Commencement of financing:	Date of employment
End of financing:	Per planning formula (maximum 25 years of service)
Basis of calculations:	AVÖ 2008, Actuarial basis for pension insurance, Pagler/Pagler, Generation Table for Employees
Retirement 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€)	**2011**
Defined benefit obligation at the beginning of the year	**449**
Service cost	11
Add-on for interest of the anticipated pension obligations	16
Actuarial losses	13
Statutory settlement payments	-301
Defined benefit obligation, year end	**188**

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

(in T€)	**2011**
Service cost	11
Compounding interest of the anticipated pension obligations	16
Actuarial losses	13
	40

The defined benefit obligation on December 31, 2011 is part of the non-current reserves.

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:	5.25%
Wage trend:	2.50%
Commencement of financing:	Date of employment
End of financing:	Respective time of payment
Basis of calculations:	AVÖ 2008, Actuarial basis for pension insurance, Pagler/Pagler, Generation Table for Employees
Retirement 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€)	**2011**
Defined benefit obligation at the beginning of the year	**48**
Service cost	4
Compounding interest of the anticipated pension obligations	2
Actuarial losses	4
Payments	0
Defined anniversary benefit obligation, year end	**58**

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

(in T€)	**2011**
Service cost	4
Compounding interest of the anticipated pension obligations	2
Actuarial gains	4
	10

NOTE 18: FINANCIAL INSTRUMENTS

1. Importance of financial instruments

The company has the following categories of financial instruments:

(in T€)	December 31, 2010	2011
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	7,065	4,207
Financial assets available-for-sale	600	600
	7,665	4,807
Financial liabilities		
Financial liabilities, which were valued at amortized costs	11,411	11,985
	11,411	11,985

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

December 31, 2010 (in T€)	Loans and accounts receivable	Financial assets available for sale	Financial liabilities, valuated at amortized costs	**Total**
ASSETS				
Non-current assets				
Other financial assets	466	600		1,066
Current assets				
Trade accounts receivable	6,599	0		6,599
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*

December 31, 2011 (in T€)	Loans and accounts receivable	Financial assets available for sale	Financial liabilities, valuated at amortized costs	**Total**
ASSETS				
Non-current assets Other financial assets	149	600		749
Current assets Trade accounts receivable	4,058			4,058
Total assets	*4,207*	*600*	*0*	*4,807*
LIABILITIES				
Non-current liabilities Other financial liabilities			10,021	10,021
Current liabilities Trade accounts payable			1,868	1,868
Other financial liabilities			96	96
Total liabilities	*0*	*0*	*11,985*	*11,985*

- ***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 accounts receivable***

	December 31,	
(in T€)	**2010**	**2011**
Recovery right for waived liabilities	466	149
Trade accounts receivable	6,599	4,058
	7,065	4,207

	January 1 – December 31,	
(in T€)	**2010**	**2011**
Recovery right for waived liabilities		
Financial earnings		
Recovery right for waived liabilities	237	149
	237	149
Financial earnings; interest		
Recovery right for waived liabilities	19	7
	19	7
Trade accounts receivable		
Operating expenditures; sales and marketing		
Increase in allowances	3,079	1,661
Reversal of allowances	-1,171	-781
Trade accounts receivable; operating expenditures	1,908	880

(in T€)	January 01 – December 31, 2010	2011
Loans		
Financial earnings; interest		
Loan, issued to a strategic marketing partner	3	0
	3	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, 2011 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 adjustment account for trade accounts receivable developed as follows:

(in T€)	December 31, 2010	Utilization	Release	Additions	Currency differences	Deconso-lidation	2011
Allowance for doubtful accounts	5,775	-137	-781	-1,661	0	-20	6,498

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 such receivables which experience a payment delay but are not viewed as value reduced:

(in T€)	**<= 3 months**	**> 3 and <= 6 months**	**> 6 months and <= 1 Year**	**> 1 Year**	**Total**
December 31, 2010	943	567	520	131	2,161
December 31, 2011	799	264	409	268	1,740

The Company reports trade accounts receivable in the amount of T€ 253 whose terms have been renegotiated; these trade accounts receivable would otherwise be past due.

As of December 31, 2011, the Company has collaterals in the amount of T€ 62 in form of bank guarantees or letters of credit at its disposal. No collaterals were used during the preceding business year. Further, the Company has, at the balance sheet date, promissory notes for the securing of trade accounts receivables in the amount of about Mio€ 2.5.

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

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 afore-mentioned loan was paid out in December 2008 and January 2009.

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

(in T€)	December 31, 2010	2011
Unlisted securities: GRAVIS AG	600	600
Unlisted securities: skyDSL Technologies GmbH	0	0
	600	600

(in T€)	2010	2011
Unlisted securities: GRAVIS AG		
January 1	600	600
Fair value valuation; reported in equity	0	0
Fair value valuation; reflected in the income statement	0	0
December 31,	**600**	**600**
Unlisted securities: skyDSL Technologies GmbH		
January 1	0	0
Fair value valuation; reflected in the income statement	50	0
Sale	-50	0
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€ 112 (T€ 116) (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 interest in skyDSL Technologies GmbH was disposed of during business year 2010.

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, 2010	2011
Recovery agreement Sigram Schindler Beteiligungsgesellschaft mbH; non-current	9,268	9,932
Trade accounts payable	2,022	1,868
Factoring	121	96
Misc.	0	89
	11,411	11,985

(in T€)	January 1 – December 31, 2010	2011
Financial expenditures; interest		
Loan Sigram Schindler Beteiligungsgesellschaft mbH	209	77
Factoring	14	11
	223	88

During the last business year, Sigram Schindler Beteiligungsgesellschaft mbH waived the loans granted to the Company. As of December 31, 2011, the Company reports a financial liability resulting from the recovery agreements entered into in connection with the loan waivers effected during the business years 2009, 2010 and, at last, 2011. 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 does not constitute 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 vis-à-vis the customer, minus the factoring fee in the amount of 1% of that nominal value.

Trade accounts payable

Most of the accounts payables reported at the balance sheet date become due within one month.

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

	January 1 - December 31,	
(in T€)	**2010**	**2011**
Interest income		
Cash and cash equivalents	17	28
Recovery right for waived liabilities; interest	19	7
	36	**35**
Interest expenditures		
Revolving credit facility drawn upon during the year	5	3
Loan Sigram Schindler Beteiligungsgesellschaft mbH	209	77
Factoring Sigram Schindler Beteiligungsgesellschaft mbH	14	11
	228	**91**

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

2. Risks from financial instruments

TELES use 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.

During business year 2011, TELES realized 15% of its entire sales with its largest individual customer; the two next largest customers generated a total of 11% of the turnover. Except for one item, the trade accounts receivable are basically also broadly spread. This one item represents a so-called cluster risk in connection with a Brazilian group whose accounts receivable are based on payment arrangements installed over several months which, in addition, are collateralized by promissory notes by the wealthy majority shareholder. In view of our market position, such an arrangement is only feasible to date in isolated cases. By the end of 2011, accounts receivable in the amount of T€ 62 are secured by collaterals in form of payment guarantees, letters of credit or Federal guarantees. In certain cases and to the extent warranted for the purpose of entering such risk exposures/obligations in view of the amounts as well as payment dates involved and their ongoing assessment, TELES conducted detailed evaluations of the economic situations, based on current actual figures, as well as further information on the customers.

The maximum default risk is based on the book values of the accounts receivable.

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 815 and accounts payable in the amount of TUSD 110.

2. Interest rate exposure

The interest rate exposure of TELES results exclusively from interest-bearing investments. The major focus of TELES' investment strategy is placed on liquidity, i.e., the re-payment ability of these investments.

3. Price risk

TELES currently do not carry any investments in listed shares; to this extent, the Company is not exposed to stock market price risk. The nearly 20% interest TELES is holding in the unlisted company GRAVIS AG is not admitted for public trading; 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, 2010	2011
Germany	**-7,758**	**-1,941**
thereof: continued operations	-7,697	-4,024
thereof: discontinued operations	-61	2,083
Abroad	**-6,959**	**-3,808**
thereof: continued operations	-6,959	-5,891
thereof: discontinued operations	0	2,083
Earnings before income taxes	**-14,717**	**-3,808**
thereof: continued operations	-14,656	-5,891
thereof: discontinued operations	-61	2,083

The expenditures and earnings from income taxes include:

(in T€)	January 1 - December 31, 2010	2011
Current taxes		
Germany	**22**	**14**
thereof: continued operations	22	14
thereof: discontinued operations	0	0
Abroad	**-10**	**0**
thereof: continued operations	-10	0
thereof: discontinued operations	0	0
Total:	**11**	**14**
thereof: continued operations	11	14
thereof: discontinued operations	0	0
Deferred taxes		
Germany	**36**	**0**
thereof: continued operations	36	0
thereof: discontinued operations	0	0
Abroad	**-3**	**-1**
thereof: continued operations	-3	-1
thereof: discontinued operations	0	0
Total:	**33**	**-1**
thereof: continued operations	33	-1
thereof: discontinued operations	0	0
Income tax refund / expenditures:	***43***	***13***
thereof: continued operations	43	13
thereof: discontinued operations	0	0

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

The following table shows the main differences between the Group's effective tax expenditures and the expenditures in accordance with German tax law, given an effective tax rate of approximately 30.2%.

	January 1 – December 31,	
(in T€)	**2010**	**2011**
Earnings before income taxes (Continued and discontinued operations)	-14,717	-3.808
Income tax income at legal tax rate	-4,441	-1.149
Tax rate differences	339	89
Differences based on items not to be taxed	-47	-72
Differences based on non-deductible items	16	14
Non-recognition of deferred tax assets	1,689	694
Change in the impairment of deferred tax assets	0	-693
Change in the impairment of goodwill	549	0
Employee stock option plans	13	0
Waiver of claim	1,861	1,098
Other items, net	64	32
Effective income tax expenditures / Effective income tax refund	**43**	**13**

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

	December 31,	
(in T€)	**2010**	**2011**
Deferred tax assets:		
Intercompany transactions	0	0
Employee benefits pursuant to IAS 19	0	0
Assets available for sale	14	14
Losses carried forward	3,077	3,604
Devaluations	-603	-603
Deferred tax assets, total	2,488	3,015
Offsetting with deferred tax liabilities	-2,488	-3,015
Balance sheet amount	0	0
Deferred tax liabilities:		
Intercompany transactions	2,477	3,003
Depreciations on assets	1	0
Assets available for sale	9	9
Miscellaneous	2	3
Deferred tax liabilities, total	2,489	3,015
Offsetting with deferred tax assets	-2,488	-3,015
Balance sheet amount	1	0
Deferred tax liabilities, net (2010: liabilities)	**-1**	**0**

Losses carried forward by active entities, for which an accounting for the deferred tax claim was not made, amount to T€ 45,132 for corporate income taxes and T€ 53,904 for trade taxes in Germany, as well as T€ 8,686 for business taxes abroad because these cannot be realized.

In addition, the accounting for a deferred tax asset on losses carried forward in the amount of approximately Mio€ 21 was not done for inactive entities because these are not deemed realizable either. 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 business year 2007. TELES appealed the tax assessments which were issued in this context. As TELES and its advisers consider the chances for success of the appeal to be good, a contingent asset in the amount of approximately Mio€ 1.3 exists at the balance sheet date.

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

	December 31, 2010		**December 31, 2011**	
(in T€)	Due date		Due date	
	< 12 months	> 12 months	< 12 months	> 12 months
Deferred tax assets	0	0	0	0
Deferred tax liabilities	0	1	0	0
Deferred taxes, net	**0**	**-1**	**0**	**0**

The receivables related to income tax mainly represent refund claims of TELES AG.

NOTE 20: OTHER INCOME AND EXPENDITURES

Other income for the business year 2011 mainly includes the amount of T€ 104 (previous year: T€ 409) resulting from currency exchange gains and government grants in the amount of T€ 36 (previous year: T€ 72).

Other expenditures for the business year 2011 mainly include the amount of T€ 371 for currency exchange losses (previous year: T€ 108), T€ 13 (previous year: T€ 320) in connection with a judicial litigation, as well as T€ 0 (previous year: T€ 57) 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 OTHERINCOME 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 2010	 2011
Financial earnings		
Revaluation recovery agreement Sigram Schindler Beteiligungsgesellschaft mbH	0	439
Interest	35	36
Recovery right for waived liabilities	237	149
Shares in investment funds	1	2
Total	273	626
Financial expenditures		
Convertible bond	0	0
Interest on loan by Sigram Schindler Beteiligungsgesellschaft mbH	209	77
Interest factoring Sigram Schindler Beteiligungsgesellschaft mbH	14	11
Miscellaneous	24	48
Total	247	136
Other investment income / loss		
Sale of the shares in Hetan Technologies GmbH	50	0
	50	0

NOTE 22: DISCONTINUED OPERATIONS

Non-current assets to be abandoned

In July 2001, the Company initiated the closing of the wholesaler of computer hardware and software (more! AG). more! AG had been 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 amended sales tax assessments against more! AG in the amount of Mio€ 2.2 at the end of the third quarter 2007. The circumstances on which the sales tax assessments are based occurred exclusively prior to 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 resulted in the conclusion that a transfer of liability to other corporate entities is precluded in such a case. By decision dated February 7, 2008, the District Court Charlottenburg declined the opening of insolvency proceedings for lack of funds, directly resulting in the dissolution of more! AG, which will be entered into the Commercial Register.

On March 29, 2011, the entity more! AG was deleted. During the course of its deconsolidation, revenues in the amount of T€ 2,298 were realized as a result of a sales tax liability derecognition.

The results from discontinued operations can be described as follows:

(in T€, with the exception of information per share information)	January 1 – December 31, 2010	2011
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	-61	2,083
thereof: more! AG (formerly SPSS segment)	0	2,298
thereof: Webhosting	-61	-215
Income tax expenditures	0	0
Results from the discontinuation of operations, after deduction of taxes	-61	2,083
Total result of discontinued operations, after deduction of taxes	**-61**	**2,083**
Weighted average number of shares for the calculation of the earnings (losses) per share		
Undiluted	23,304,676	23,304,676
Diluted	23,304,676	23,304,676
Earnings per share from discontinued operations:		
Undiluted	0,00	0,09
Diluted	0,00	0,09

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, 2010	2011
Cash flow from operating activities	0	0
Cash flow from investing activities	0	0
Cash flow from financing activities	0	0
Net change of the cash balance	**0**	**0**

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 plans 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 plans 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 plans 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 calculatory 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 plans 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 Board of Directors 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 Board of Directors 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 Board of Directors members' and employees' investments in the company. This stock option plan had to be designed by the Board of Directors and approved by the Supervisory Board.

Also on August 31, 2001, TELES AG's Board of Directors 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 Board of Directors 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 date was 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 performance targets 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 performance targets 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, 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 plan	0	0	0	-69,192	0	-69,192
Outstanding on December 31, 2010	**0**	**25,483**	**221,371**	**371,969**	**137.361**	**756,184**
Issued	0	0	0	0	0	0
Exercised	0	0	0	0	0	0
Forfeited	0	0	0	0	0	0
End of the term of the plan	0	-25,483	0	0	0	-25,483
Outstanding on December 31, 2011	**0**	**0**	**221,371**	**371,969**	**137,361**	**730,701**
Vested rights as of December 31, 2011	**0**	**0**	**221,371**	**371,969**	**137,361**	**730,701**

Employee stock option plans 1998 and 1999

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

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

Employee stock option plans 2001

The employee stock option plan set up in 2001 consists of two partial plans; part 1 and part 2 expired on October 9, 2009 and 2011, respectively.

Employee stock option plans 2004

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

The stock options outstanding as of December 31, 2011 have a weighted average remaining contract duration of 3.4 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 correlation	0.27	0.29	0.27
DAX / TecDAX correlation	0.72	0.78	0.77
Fair value to be attributed for the option	**2.57 €**	**2.42 €**	**2.12 €**

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

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

The price development of the TELES shares was mainly influenced by the new economy boom in the new market for the period from the first listing in 1998 to 2000. The period with the strongest price changes for the TELES shares was the period from early July 1998 to December 1999. The price of the TELES shares increased during this period from the first listing of approx. € 23,18 to more than € 90 and fell back to approx. € 27 in December 1999. Based on the unique characteristics of the above development and the related extreme daily price fluctuations, the time window for the determination of the historic volatilities and correlations was restricted to a respective period of three years for the 2002 and 2004 plans, and to four 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 2010 and 2011 business years:

	Employee Stock Option Plan			
(in T€)	**2002**	**2004**	**2005**	**Total**
January 1 - December 31				
2010	0	0	44	44
2011	0	0	0	0

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.

For the employee stock option plan 2005 expenditure was recorded for the last time in the business year 2010, because the vesting period for this employee stock option plan ended in 2010.

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)	**2010**	**2011**
Net income for the year attributable to the shareholders of the parent company	-14,749	-3,821
Weighted average number of shares for the calculation of the earnings per share		
Undiluted	23,304,676	23,304,676
Diluted	23,304,676	23,304,676
Earnings per share		
Undiluted	-0.63	-0.16
Diluted	-0.63	-0.16

The dilution was exclusively based on potential shares pertaining to 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€ 207 (previous year: T€ 208).

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€ 676 and T€ 867 for the business years ending December 31, 2011 and 2010, respectively.

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

(in T€)	**December 31**	
	2010	**2011**
Up to one year	863	886
Between one and five years	503	1,206
Longer than five years	0	0
Total	**1,366**	**2,092**

Financial commitments based on other contracts

Future minimum payments based on legally effective agreements are:

	December 31,	
(in T€)	**2010**	**2011**
Other services	210	359
Maintenance	107	68
Total	**317**	**427**

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 date of the balance sheet, the amount of T€ 0 (previous year: T€ 71) was recognized as a liability (see Note 16).

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 infringement proceedings” (against Deutsche Telekom AG and SES ASTRA net S.A.) has remained unchanged. Reference is made to the Group’s consolidated notes of 2009 in that respect. As regards the action regarding the utility model cancellation, was established in November of 2011 that the utility model did not unfold any effect from the very beginning. In December 2011, Deutsche Telekom filed an action for nullity against the German skyDSL patent.

The lawsuit initiated by a German mobile network operator against call media services Ltd, a company founded by TELES and others in 2003, was decided in favor of the mobile networkoperator 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 mobile network operator filed a suit against TELES AG and TELES NetSales GmbH in 2005 to desist from offering and distributing GSM gateways for carrier networks, as well as for damages. In its judgment of March 13, 2008, the Superior Regional Court (*OLG*) Düsseldorf, in the second instance, rejected both the claim as well as the counter claim. In its decision of June 29, 2010, the German Federal Court of Justice (*BGH*) rescinded the judgment of the OLG Düsseldorf to the extent it had disadvantaged the mobile network operator. The matter was returned to the OLG Düsseldorf for renewed proceedings to the extent the rescission applied. Initially, TELES expects that the original decisions on a rejection of the complaint might be confirmed. However, an expert opinion is being obtained and, therefore, a condemnatory sentence cannot be entirely ruled out. Most likely, such sentence would only concern the offer and distribution of GSM gateways for carrier networks in Germany, as the applicant claims the inadmissibility pursuant to the German Unfair Competition Act (*UWG*). In view of Germany's minor importance as a distribution market 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.

We abstain from comments on the state of patent infringement lawsuits mentioned in previous years from 2009 on, because – as already mentioned in the consolidated financial statement 2008 – 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***

<u>*Loan Sigram Schindler Beteiligungsgesellschaft mbH*</u>
In the last business year, the company Sigram Schindler Beteiligungsgesellschaft mbH waived of loans that had been granted to the Company. On December 31, 2011 the Company reflects in its balance sheet a financial obligation which results from debtors warrants entered into in connection with the loan waivers of the business year 2010 and 2011. The valuation of the liability is done 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.

<u>*Factoring*</u>
The Company has entered into a factoring agreement with 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 vis-à-vis the customer, minus the factoring fee in the amount of 1% of that nominal value. As at the balance sheet date, the Company reflects a liability in the amount of T€ 96 (previous year: T€ 121); during the business year, the Company incurred financial expenditures in the amount of T€ 11 (previous year: T€ 15).

For further information, reference is made to Note 15 (Other Financial Liabilities) and Note 18 (Financial Instruments).

<u>*Patent Transfer agreement, agency agreement*</u>
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 30) in category “Other business activities”; as at the balance sheet date, the Company reports accounts receivable in the amount of T€ 52 (previous year: T€ 53) against Sigram Schindler Beteiligungsgesellschaft mbH and its associated companies; these accounts were balanced during business year 2012. For further information, please refer to Note 10.

- ***Board of Directors, Supervisory Board***

Expenditures for services:

(in T€)	January 1 - December 31 2010	2011
Mock attorneys	97	36
Prof. Denert	26	19
Total	**123**	**55**

Mock Rechtsanwälte
The services were provided by the law firm which the TELES supervisory board representative is holding shares in respectively is a partner of.

Prof. Denert
This refers to personal consulting services rendered by Prof. Denert.

Company accounts payable to related parties:

(in T€)	January 1 - December 31 2010	 2011
Supervisory board representatives for services rendered	149	218
Total	**149**	**218**

Board of Directors earnings:

(in T€)	January 1 - December 31 2010		 2011	
	Fixed	**Variable**	**Fixed**	**Variable**
Oliver Olbrich	0	0	202	0
Frank Paetsch	139	0	163	0
Olaf Schulz	158	0	94	0
Richard Fahringer	223	0	129	0
	520	**0**	**588**	**0**

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

The contract of Mr. Richard Fahringer expired on December 31, 2010 and was not renewed; according to contract payments were made to Mr. Fahringer in 2011.

Share portfolio and subscription rights of the Board members as of December 31, 2011:

	Subscription rights	**Shares**
Prof. Dr. - Ing. Sigram Schindler (directly and indirectly)	0	13,209,620
Mr Frank Paetsch	25,000	22,015
	25,000	**13,231,635**

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

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

As at December 31, 2011, Prof. Dr.-Ing. Sigram Schindler is holding directly and indirectly 56.68% (previous year: 53.38%) of the TELES AG shares; 55.17% (previous year: 51.86%) of the shares are held by Sigram Schindler Beteiligungsgesellschaft mbH; 1.46% (previous year: 1.46%) of the shares are held by the Sigram Schindler Stiftung (foundation) and another 0.06% are directly held by Prof. Dr.-Ing. Sigram Schindler.

Supervisory Board compensation:

The remuneration of the members of the Supervisory Board amounted to T€ 75.0 (previous year: T€ 67.5) during the completed business year.

	January 1 - December 31	
(in T€)	**2010**	**2011**
Prof. Dr. Walter Rust	33.7	37.5
Prof. Dr. Ernst Denert	2.5	15.0
Prof. Dr. h.c. Radu Popescu-Zeletin	20.3	22.5
Prof. Dr. Ralph Schindler	11.0	0.0
	67.5	**75.0**

NOTE 28: COMPOSITION OF REVENUES AND COST OF SALES

	January 1 – December 31	
(in T€)	**2010**	**2011**
Revenues	**16,021**	**12,037**
Products	12,759	8,717
Services	3,262	3,320
Cost of sales	**14,894**	**6,418**
Products	12,696	4,973
Services	2,198	1,445

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.

In its effort of exploiting the market better, TELES established a business unit structure ("profit center") during business year 2011, resulting in three operative business units:

- **Access Gateways**
- **Carrier Solutions**
- **Next Generation Networks**

The Access Gateway Products enable TELES to offer network providers, service providers, system integrators and distributors a complete range of products for the transition in-between different communication technologies. Thus the cost-effective VoIP telephony may also be used with ISDN systems, and conventional telephone lines can be linked to mobile phone networks and vice versa. This is done primarily in EMEA (Europe, Near East and Africa) and the Americas through indirect distribution channels.

The chief markets of the business unit Carrier Solutions are Europe and the Middle East. Its products are sold to internet providers with own infrastructure, to virtual network operators as well as wholesalers of telecommunication services. They are connecting networks of any kind and guaranty a simple transition in-between different media and signals such as ISDN and VoIP.

Given TELES' NGN solutions, network operators and telecommunication services provider can offer to their business and private customers to have IP-based telephony and thus video, fax as well as mobile telephone integrated into existing telephone systems. A variety of terminal equipment by well-known manufacturers can be put to use by means of the TELES solution. Besides that, the system's simple administration can be expanded by open interfaces – the basis of any provider's good customer service. TELES NGN Solutions are mainly offered in Germany, Austria and Switzerland and also in other European countries. The distribution is primarily done indirectly through system integrators; in isolated cases, key accounts and reference customers are directly taken care of.

The values of the previous year were adjusted in accordance with the new segment structure.

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” covered by Note 2.

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:

	January1 –December 31	
Revenue and earnings of operating segments as well as other business activities in T€;	**2010**	**2011**
Revenues	**16,021**	**12,037**
Access Gateways	7,119	5,520
Carrier Solutions	6,275	4,036
Next Generation Networks	2,626	2,481
EBITDA; operative	**-6,576**	**-4,636**
EBIT; operative	**-14,029**	**-4,986**

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

Revenue and earnings of operating segments as well as other business activities in T€;	January 1 – December 31 2010	2011
Operative EBIT	**-14,209**	**-4,986**
Employee Stock Option Plans	-44	0
Market-induced organizational adjustments	-527	-1,026
Other expenditures and earnings	-198	-553
Other operational activities	66	184
EBIT TELES Group	**-14,732**	**-6,381**
Financial result	273	626
Financial expenditures	247	136
Other income from investments	50	0
EBT TELES Group	**-14,656**	**-5,891**

Business Unit Access Gateways:

Revenues and income by segment (in T€)	January 1 – December 31 2010	2011
Revenues	**7,119**	**5,520**
Cost of Sales	4,463	2,896
including: depreciations	*18*	*7*
Gross profit	**2,656**	**2,625**
gross-profit-margin	*37%*	*48%*
Sales and marketing expenditures	3,057	1,951
Research and development expenditures	1,866	757
General administrative expenditures	1,111	977
EBITDA; operative	**-3,360**	**-1,054**
Operational depreciations	200	80
Impairment of goodwill	0	0
EBIT; operative	**-3,577**	**-1,141**

Business Unit Carrier Solutions:

Revenues and income by segment (in T€)	January 1 – December 31 2010	 2010
Revenues	**6,275**	**4,036**
Cost of Sales	3,705	1,879
including: depreciations	*18*	*4*
Gross profit	**2,570**	**2,157**
gross-profit-margin	*41%*	*53%*
Sales and marketing expenditures	1,943	1,279
Research and development expenditures	1,247	974
General administrative expenditures	971	854
EBITDA; operative	**-1,573**	**-947**
Operational depreciations	321	146
Impairment of goodwill	0	0
EBIT; operative	**-1,912**	**-1,096**

Business Unit Next Generation Networks:

Revenues and income by segment (in T€)	January 1 – December 31 2010	 2010
Revenues	**2,626**	**2,481**
Cost of Sales	6,569	1,582
including: depreciations	*4,964*	*1*
Gross profit	**-3,942**	**899**
gross-profit-margin	*-150%*	*36%*
Sales and marketing expenditures	1,611	1,367
Research and development expenditures	361	1,558
General administrative expenditures	692	610
EBITDA; operational	**-1,643**	**-2,635**
Operational depreciations	112	112
Impairment goodwill	1,821	0
EBIT; operational	**-8,540**	**-2,749**

Sales according to the sales markets of the Company are as follows:

	January 1 – December 31		Changes
(in T€)	**2010**	**2011**	**2011 vs. 2010**
Germany	1,852	2,359	27%
EMEA	11,730	8,305	-29%
NORAM & LATAM	1,418	861	-39%
APAC	1,020	512	-50%
Total	**16,020**	**12,037**	**-25%**

The allocation of the sales is done in accordance with the customer's country of origin.

Non-current assets are allotted to the regions as follows:

	December 31	
(in T€)	**2010**	**2011**
Germany	560	347
EMEA	53	18
NORAM & LATAM	3	0
APAC	36	27
Total	**651**	**392**

The allocation of the non-current assets is done in accordance with the place of business of the respective Group entity.

NOTE 30: MISCELLANEOUS

Services of the auditing company

In addition to the year-end audit (T€ 151, previous year T€ 215), the auditing firm PricewaterhouseCoopers AG worked for the Company within the framework of tax consultations (T€ 75, previous year: T€ 63) during business year 2011; other consulting services were not called upon over the expired business year (previous year: T€ 15).

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
TSC Cloud Services GmbH	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	5,754	2,628
GRAVIS Computervertriebs-gesellschaft mbH	Berlin, Germany	indirect: 19.99	EUR	6,436	-212

1 --These are figures determined in accordance with the domestic accounting regulations.

Corporate Governance Codex

Board of Directors 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).

Board of Directors

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

Prof. Dr.-Ing. Sigram Schindler, Chairman of the Board of Directors;
Oliver Olbrich, Director, Operational Business;
Dipl.-Ing. Frank Paetsch, Director, Technology;
Dipl.-Betriebswirt Olaf Schulz, Chief Financial Officer;

On January 1, 2011, Mr. Oliver Olbrich assumed the position as Director of Operational Business.

Mr. Olaf Schulz, Chief Financial Officer, retired from his position in the Board of Directors of TELES AG Informationstechnologien effective August 1, 2011.

The members of the Board of Directors served on the following Supervisory Boards and/or comparable control committees within the Company:

Prof. Dr.-Ing. Sigram Schindler:	TELES Communications Corp. DirectSat AG;
Oliver Olbrich:	TELES Computer Systems India Private Ltd.; DirectSat AG
Dipl.-Inf. Frank Paetsch:	TELES Computer Systems India Private Ltd. DirectSat AG;

Supervisory Board

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

Prof. Dr. Walter Rust, Berlin, attorney-at-law and notary (Chairman of the Supervisory Board);
Prof. Dr.-Ing. Ernst Denert, retired software engineer, Grünwald;
Prof. Dr. h.c. Radu Popescu-Zeletin, university professor, Berlin.

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

Prof. Dr. h.c. Radu Popescu-Zeletin, university professor, Berlin,
Member of the Administrative Board of OpenLimitHolding AG

Berlin, March 30, 2012

The Board of Directors

Prof. Dr.-Ing. Sigram Schindler

Oliver Olbrich

Frank Paetsch

List of Abbreviations

AG	Aktiengesellschaft (company limited by shares)
AktG	Aktiengesetz (German Stock Companies Act)
APAC	Asia-Pacific
DCF	Discounted cash flow
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
LATAM	Latin America
Ltd	Limited
NORAM	North America
SIC	Standing Interpretations Committee
SPSS	Sales & Post Sales Services
SSBG	Sigram Schindler Beteiligungsgesellschaft mbH, Berlin
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, March 30, 2012

Management Board of TELES Aktiengesellschaft 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 as well as the combined management report of the Company and the Group for the business year from January 1 to December 31, 2011. The preparation of the consolidated financial statements and the combined 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 combined 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 combined 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 combined 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 combined 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 combined 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 section "Financing/ Going Concern" of the combined report concerning risks threatening the Group's ability to continue as a going concern. This section of the combined management report includes 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 Group'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, April 18, 2012

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

sgd. Angelika Kraus	sgd. ppa. Dr. Kay Lubitzsch
Wirtschaftsprüferin	Wirtschaftsprüfer

* Translation - the German version is authoritative