TELES Aktiengesellschaft Informationstechnologien
Berlin

Management Report for TELES Group 2012 and
Consolidated Financial Statements as of December 31, 2012

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

Management Report for
TELES Group for
the 2012 Business Year

TELES Aktiengesellschaft Informationstechnologien, Berlin
Report on the Situation of the Company and the Group in 2012

Important Key Figures TELES Group Pursuant to IFRS

	2011 T€	2012 T€
Turnover	12,037	12,366
Gross profit	5,680	6,375
EBIT; operative	-4,986	-2,659

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Financial Report and Group Financial Report

TELES and the Market

The telecommunications industry is anticipating a continued positive market development. This is the result of the cross-industry *Global CEO Survey* presented by the consulting firm PwC in 2012. Within the industry, however, the estimates differ widely: While half of the respondents are very certain that sales will rise, at least 14 percent still look at the black side and one in four is rather pessimistic. For PwC, the message is clear: The telecommunications industry experiences change like no other industry. Why is that?

TELES has indeed noted increasing cost pressures on the market and in the circle of competitors. However, buyers and corporate leadership not only see potential for greater efficiency in telecommunications (TC), but also discover a huge competitive advantage in modern telecommunications services such as internet telephony (VoIP), Internet-based TC systems or in the integration of text, audio, video of mobile and stationary end devices and networks, as well as presence information (Unified Communications). The reliable, uninterrupted availability of telecommunications services has therefore been recognized as a strategic tool – and the loss of telecommunications as a potential risk which cannot be ignored. This mix of new trends, integrated media and services leads to high expectations on the part of the customer, to changes in the industry and a massive consolidation pressure.

TELES can provide customers with its portfolio of outstanding solutions and products. We deliver the answers to the customers' need for investment protection for end devices and networks acquired elsewhere. We provide flexible, extensible infrastructure and low-cost telecommunications. For network operators who have not yet mastered the transition to modern internet-based networks (IP) and who dread the expenses, we offer a sensible migration strategy – and, thus, ultimately ensure their survival in a highly competitive market.

To optimally address and manage existing and new customers, TELES collaborates both nationally and internationally with selected and well-trained sales and distribution partners, in addition to its direct sales. In the financial year 2013, we will revise our affiliate program and provide additional incentives to gain market shares with an excellent portfolio and convincing added value. With selected partners, we can continuously ensure our customers the usual quality and gain greater impact in the target markets via this sales leverage. Target markets are still mainly German-speaking countries and the rest of Europe, the US and the Middle East.

Business Access Solutions

The transition to a new hardware architecture of TELES gateways, which was already initiated in 2011, has now been successfully completed. The new architecture supports high-speed wired data transfer (GB-Ethernet) and is based on the operating system Linux. In the course of 2013 all gateways will be converted to the new architecture.

For users, the use of the open operating system Linux has tangible benefits. This allows that many applications can be operated on the gateways without complicated programming or additional hardware – a software-based phone system, for example, or applications that manage the seamless integration of mobile and fixed networks (Fixed Mobile Convergence, FMC). For customers this is a clear purchase argument.

With this new architecture, TELES also lays the foundation for future business: Via gateways of the new generation, additional features and services can be provided which help opening up new market segments.

The server applications from Access Solutions have been converted to the latest Microsoft operating system Server 2012, again to take advantage of new technologies.

Renzenberger, Inc., USA

Our customer Renzenberger offers an illustrative scenario for both the use and the impressive benefits of TELES gateways. The U.S. logistician Renzenberger transports employees of rail operators in long-distance traffic to and from assigned stations and their accommodation while on duty. The company operates in 20 states. Reliable and well functioning telecommunications are vital for Renzenberger. Without a permanently available telecommunications infrastructure, business cannot be operated smoothly and successfully.

Expenses for telecommunications nevertheless make up a significant portion of operating costs: Due to the special tariff plans of U.S. mobile providers, the mostly short calls between the operations center and the teams on site cause ongoing high costs.

The reliability and flexibility of the TELES solution have quickly convinced Renzenberger: With TELES mobile gateways, we managed to build a new telecommunications infrastructure that seamlessly integrates existing Avaya end devices, protecting existing investments in equipment and containing business risks resulting from the failure of the infrastructure.

Thanks to lower call costs, the investment has also paid off quickly: With a ROI of less than four months and very low support requirements, Renzenberger is an excellent reference for the high customer use of our gateways in the U.S. market.

"What the flour is to the baker, the phone is to Renzenberger. As we have to rely on being able to reach our staff at all times, no matter where they are, we work with TELES."

Steve Heinking, Chief Information Officer, Renzenberger

Business Field Carrier Solutions

The migration from traditional circuit switched networks (CSN) to modern and efficient IP networks (voice-over IP, VoIP) was also in the past year one of the most important issues in the telecommunications industry – including TELES. The networks of many existing customers were migrated to soft-switch-based product lines. This is a clear signal of our customers for their trust in TELES as a supplier of network infrastructure also for VoIP-based networks. Of special significance are two customers in Spain and Lebanon, with each of whom we have achieved orders of more than 600 thousand euros.

In order to serve the growing demand on the part of customers and the market a brilliant solution, development activities in the past year were focused on the creation of additional functions, for example, the administration and management of VoIP connections as well as an improved integration of circuit-switched components. Additional focus lay on user-friendly systems to reduce the complexity of the networks. Again for 2013 we set out to further develop our systems in such a way that our customers have even higher benefits and an increased user-friendliness in VoIP operation. In addition, we will develop solutions for the connection of VoIP with mobile networks.

Worldwide, Carrier Solutions from TELES are used by more than 300 carrier network operators, virtual network operators and wholesalers of telecommunications services.

Phoenix Communications

Pte Ltd, Singapur

The Asian telecommunications service provider Phoenix Communications is a classic example of the successful use of the TELES trading platform for voice minutes (Wholesale Trading Platform): For years, Phoenix has been employing the platform in a profitable manner by using it to connect to modern VoIP and traditional circuit-switched networks worldwide. In doing so, the transfer of voice traffic of both customers and minute dealers is automated. In 2012, the trading system was expanded in order to be prepared for future growth in the minute trade.

"We still have a lot planned for the minute trade. Therefore, I need a functioning trading platform that processes prices completely automated, takes over routing, runs maintenance-free and secures our profitability. TELES can do this."

Chiang Chee Cheong, Managing Director Phoenix Communications

Business Field Enterprise Solutions

With the communications solutions of the business field Enterprise Solutions, network operators and telecommunications service providers can offer internet-based telephony services to business- and end customers, while integrating video and fax applications, mobile telephony and existing telephone systems. In doing so, users such as employees of decentralized companies can enjoy a high level of convenience in their daily work: Mobile working, the reliable access to corporate data while on the road or the convenient connection of modern home office workstations provide a vital added efficiency in communication – and not least a non-negligible competitive advantage.

We used the past financial year to expand our solutions for business customers. We develop traditional telephony to a company-wide and web-based communications solution that combines different media, channels and data to so-called Unified Communications. This allows business customers to keep pace with the growing demands of the world of work.

Unified Communications (UC) combine the functionality of a traditional telephone systems with Unified Messaging and audio conferencing services to a fully integrated communications service with a standardized use. The Mobility Suite, further developed in 2012, pushes the boundaries of classical company telephony and provides comprehensive communications services at any place, at any time and to any employee. The previously localized extension becomes a full-fledged mobile extension with a computer or smartphone application and is available anywhere, anytime and in the usual manner for the employee.

In 2012, we focused our development on trying to optimize business processes in companies via Unified Communications offerings and to increase the mobility and productivity of users. This strategy will also be pursued in 2013, and we will be working on new solutions for the integration into mobile networks and the automated configuration of end devices.

The development of solutions and direct sales are currently focused on the German-speaking market. All projects outside the region are processed through system integrators and partners wherever possible.

VTX Telecom SA, Lausanne

VTX Telecom is a leading Swiss telecommunications provider with the business fields Internet, Fixed and Mobile Networks. This customer is a perfect example of how Enterprise Solutions from TELES relieve a company and create a variety of ways to do business more productively and more comfortably.

After the company quickly developed new business fields, the network architecture is based on a heterogeneous and historically evolved landscape of different platforms.

As part of a consolidation project, the entire voice network was replaced by a solution of TELES. Traditional infrastructures and modern internet voice services (voice-over IP, VoIP) were merged into a single central platform where all voice services are handled. TELES was responsible for the smooth migration of end devices and the planning. In the subsequent control operation, TELES provides support for the realization of customer- and market-specific requirements. "With a professional communications solution, TELES ensures that we can focus on the core business, risks are minimized and we will not have to write off our investment portfolio," says Emmanuel Dardaine.

"I don't need to know in detail how our technology works – my job is to look for professionals who understand it. This is why we work with TELES."

Emmanuel Dardaine, Chief Technology Officer, VTX Services

Business Situation

TELES Group [1]

	2011 T€	2012 T€
Turnover	12,037	12,366
Gross earnings; operative *	5,680	6,375
EBIT; operative	-4,986	-2,659
Personnel	108	88

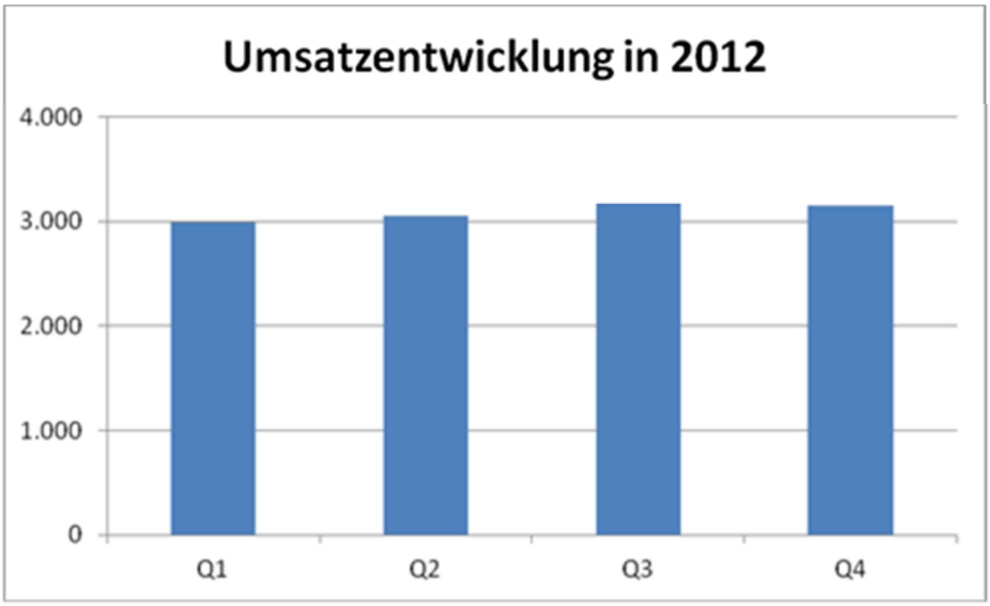
* These are operative key figures of the TELES Group. Transfer of the operative EBIT to the consolidated result pursuant to IFRS and presentation of key figures of TELES AG are included in the section "Key Figures TELES Group".

2012 was the first full year following the significant changes. We managed to be successful and get along without any further funds. Although in 2012 we achieved a negative result - as expected - we still funded ourselves by means of our own cash flow. Major investments in product realignment (e.g. new architecture for products of the business field Access Solutions), in the outer appearance (website, brochures, presentations) and also in the system landscape of TELES AG (financial system (ERP), customer systems (CRM)) were made. This was achieved through an improved claims management and other productivity increases. The number of employees has decreased compared to the previous year. The decrease is mainly due to the deconsolidation of TELES India.

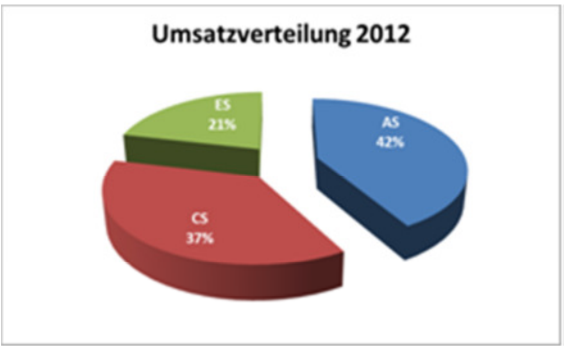
Turnover

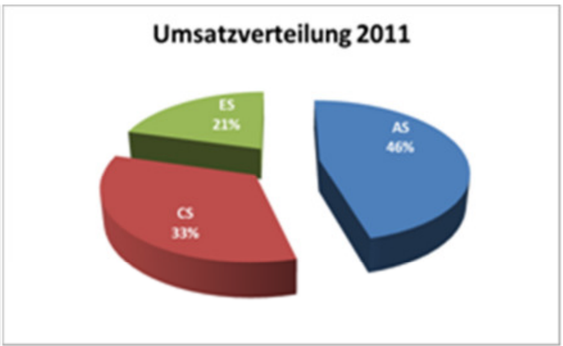
It was possible to maintain turnover at a level of Mio€ 3 per quarter. Overall, there was a slight increase to 2011. In 2012, new orders totaled pleasing Mio€ 13.9. Important for the earnings position was the increase in gross profit by 12% to approximately Mio€ 6.4

[1] For computational reasons, rounding differences to the mathematically exact values (monetary units, percentages, etc.) may occur in tables and references.



The business field Access Solutions contributed the bulk of turnover at 42% – in 2011 this figure was 46%, primarily achieved with our partners and direct sales to network operators. The business field Carrier Solutions generated 37% of turnover, 2011 this figure was 33%. In addition to extension of existing systems and new business, the service turnover made up the main source of income. In the business field Enterprise Solutions, as in the previous year, 21% of turnover was mainly generated through license extensions, new business and service turnover.





Costs

In 2012, expenses of Mio€ 10.9 were incurred. Compared to 2011, they were reduced by 20%, personnel expenses by 4% and other expenses by 36%. Depreciation requirements decreased by 37% compared to 2011.

Earnings

The operating[2] EBIT was negative for 2012: T€ -2,659.

[2] Operating EBIT: excluding other income and expenditures

Equity
In the context of drawing up the annual accounts for 2010, a range of value adjustments were made. In October 2011 these adjustments led to a loss of more than half of the capital stock of TELES AG. The General Meeting of December 5, 2011 agreed on a simplified capital reduction. This decided capital reduction has not become effective by registration in the commercial register. One shareholder filed action for avoidance before the Berlin Regional Court against the relevant resolution. Due to the comparison of August 10, 2012, the parties have unanimously requested the suspension of the proceedings. The applicant has committed to immediately withdraw the action upon a decision by the General Meeting on the abolition of the capital reduction resolution.

The total assets of the TELES Group decreased in 2012 by T€ 2,150.

On the assets side, current assets decreased from T€ 8,540 to T€ 6,365, while non-current assets remained approximately constant. In particular, inventories and trade accounts receivable could be reduced by improved cash and working capital management.

On the liabilities side, current and non-current liabilities increased only slightly from T€ 17,258 to T€18,032. Equity decreased primarily due to the net loss from T€ -7,727 to T€ -10,651.

Liquidity, assets and liabilities

Encouragingly, the liquidity situation could also be stabilized in 2012, so that payments from the loan of the majority shareholder were not required for financing the operation of the business. In addition to savings measures receivables management also contributed to the improved liquidity as well as the improved payment behavior on the part of our customers and the reduction of stocks. Apart from trade accounts receivable and inventories, the shares held in GRAVIS AG and the recovery claims connected therewith are other significant assets.

Investments were made in the Company's usual scope.

For further detailed explanations, please refer to the chapter "Financing / Going concern".

Personnel

Personnel development

Employees of TELES AG passed the test of endurance through restructuring which was initiated in 2010 and continued in 2011. The number of employees nearly remained constant with 88 employees at the end of financial year 2012. In the U.S., TELES Communications Corp. has built a powerful sales team of four employees.

In 2012, the commitment to promotion of young talent of TELES AG has continued unchanged. A total of four students were in higher education to obtain a Bachelor of Science with a major in computer science. Two of the students completed their Bachelor thesis which was also supervised by TELES with very good results and qualified for a Master's degree program.

Changes within the Board

The contract of the previous Chief Technical Officer (CTO) Frank Paetsch expired on June 30, 2012 and was not renewed. Frank Paetsch has been leading the business field Carrier Solutions since. As of June 01, 2012 Thomas Roll was appointed Chief Sales Officer (CSO) of TELES AG. Prior to this, Mr Roll led sales as Senior Vice President Sales.

Risks

Central Risks

In principle the business environment is influenced by regional and economic conditions. Also, consequences from the 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 TELE 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 prior assessment of both the customer and the project, as well as by the arrangement of terms of payment, such as for example advance payment, and by employing - where possible - instruments securing payments.

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 typified by the continuous introduction of innovative technology. This demands strong commitment in the field of 'Research and Development'. However, quality problems may still occur. The earnings position 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, not to meet the expected acceptance or which is not launched at the right time.

Fulfillment of promised installation and services on time and with the expected quality is also an essential success factor for TELES. This even more so, as it is increasingly service level agreements (SLA) that are concluded with our customers, they have an increasing share of sales. 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 together 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 especially consists of 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 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. The risk is reduced by settling business transactions wherever possible in the functional currency. In those cases which are not calculated in functional currency TELES reserves the right to use security instruments, 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 losses, 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 T€ 4,735 of the loan he granted to TELES in 2009. In addition, the majority shareholder also waived T€ 6,169 and T€ 4,077 in 2010 and 2011 of the loan he granted again in 2010 and 2011. In connection with the waiving of loan obligations, respective debtor warrants were agreed. These debtor 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 agreement is to be included in the accounts assessment as an obligation in the Group accounts. Therefore the waiving of loans does not lead to a corresponding improvement of capital pursuant to IFRS, but does lead to such pursuant to Commercial Law (HGB).

Cash flow remains low due to the continuing business loss. To fill any further financing gaps, the majority shareholder in March 2013 agreed to a further loan commitment of Mio€ 1.1 apart from the already supplied funds. The Board continues to consider this loan commitment to be sufficient to cover the estimated financing needs until at least mid-2014.

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. To this extent, plan deviations cannot be excluded. In addition, there are forecast uncertainties, since it cannot be excluded that the consequences of the financial crisis may affect our customers.

The continuity of the Company depends on the projected revenues for the coming months not falling below sustainable or additional funding being obtained from the shareholders.

Forecast

The year 2013 will continue to be dominated by the consolidation process initiated. The cost reductions initiated or implemented in 2011 partially only came into full effect in 2012 and will lead to a further slight reduction in operating costs in 2013. The Board expects that sales will stabilize further and will increase in the single-digit range compared to 2012. Further growth is to be assumed in 2014. Another loan will probably not be necessary.

The Board also expects that the continuing consolidation in 2013 provides the basis for organic growth in 2014 in the European home markets.

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 in language and data communication from ISDN to IP. In the area of mobile communications gateways, we expect a rise in sales in the coming years, especially through the necessary technical and commercial measures performed in 2012 to develop the distribution channel in the U.S.. The basis for this is formed by solutions in the field of telecommunications backup, cost controllers in mobile radio access and the integration of Fixed Mobile Convergence.

Overall assessment of the future development of TELES Group

Following the positive trend during the year under review, the TELES Board believes that the Group's development should also remain positive in the financial year 2013.

In our relevant markets we expect slightly positive growth rates.

Following the positive trend during the year and based on our expectations for the next two financial years we expect a further moderate rise in sales at the level of TELES Group and in all business segments. Accordingly, we expect that the operating result will also improve. Our activities are subject to various risks which are described in the risk report. For the financial year 2013, we see particular risks from the sustainability of the economic recovery, which could materialize in a worsening of the national debt crisis. We refer again to the existing risk as to the Going Concern assumption.

According to the Board, TELES Group is well positioned to protect itself against the current risks. We wish to strengthen our market position further, implement our strategy and continue the consolidation course. Therefore, the overall expectations for TELES Group can be evaluated as positive.

Supplementary Report

TELES sold its 222,222 shares in GRAVIS Beteiligungs AG, each with a nominal value of € 1.00, to GRAVIS Beteiligungs AG for the purpose of redemption and cancellation. The purchase price of about Mio€ 1.1 will be payable upon redemption and cancellation of the shares. TELES expects the redemption and cancellation to be effective and of April 2013.

Key Figures TELES Group Pursuant to IFRS

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

	2011 T€	2012 T€
EBIT; operative	**-4,986**	**-2,659**
Market-related organizational adjustments	-1,026	0
Other expenditures and earnings	-553	-903
Other operational activities	184	259
EBT TELES Group	**-6,381**	**-3,303**
Financial earnings	626	625
Financial expenditures	136	243
EBT TELES Group	**-5,891**	**-2,921**

Key Figures TELES Group Pursuant to HGB

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

	2011 T€	2012 T€
Revenues	11,833	12,278
Gross profit	5,842	6,193
Operating loss	-3,792	-2,420
Proceeds from participations, profit transfer and loans	53	49
Interest result	-69	40
Depreciation of financial assets	2,324	50
Result from Ordinary Business Activities	-6,131	-2,381
Extraordinary Income	4,077	0
Extraordinary Expenses	215	0
Tax expenditure	101	1
Annual net loss	-2,371	-2,382

Turnover was at a level of Mio€ 3 per quarter. Overall, there was a slight increase to 2011. Important for the earnings position was the increase in gross profit to approximately Mio€ 6.2.

Operative costs of T€ 9,557 accrued in 2012. Compared to 2011 costs were reduced by a total of 16 %.

Extraordinary income in the previous year resulted from the waiving of loan obligations on the part of the majority shareholder. Extraordinary expenditure involves the TECT AG (parent company of STRATO Medien Aktiengesellschaft) sold in the year 2005.

Assets and Capital Structure

	2011 T€	2012 T€
Liquid funds	353	141
Equity	2,666	284
Balance sheet total	9,141	7,236

Equity

In the context of drawing up the annual accounts for 2010, a range of value adjustments were made. In October 2011 these adjustments led to a loss of more than half of the capital stock of TELES AG. The General Meeting of December 5, 2011 agreed on a simplified capital reduction. This decided reduction in capital has not become effective by registration in the commercial register. One shareholder filed action for avoidance before the Berlin Regional Court against the relevant resolution. Due to the comparison of August 10, 2012, the parties have unanimously requested the suspension of the proceedings. The applicant has committed to immediately withdraw the action upon a decision by the General Meeting on the abolition of the capital reduction resolution.

Liquidity, assets and liabilities

Encouragingly, the liquidity situation could also be stabilized in 2012, so that payments from the loan of the majority shareholder were not required for financing the operation of the business. In addition to savings measures receivables management also contributed to the improved liquidity as well as the improved payment behavior on the part of our customers and the reduction of stocks. Apart from trade accounts receivable and inventories, the shares held in GRAVIS AG and the recovery claims connected therewith are other significant assets.

For further detailed explanations, please refer to the chapter "Financing / Going concern".

Personnel

On December 31, 2012 TELES AG employed 68 employees (previous year: 71).

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 in 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 analyzed 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 can however cannot normally be excluded and then result in restricted effectiveness and reliability of the internal control system applied and the risk management system.

Group-wide application of the systems used can therefore not 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.

Litigations

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, it was established in November of 2011 that the petty patent did not unfold any effect from the very beginning. In December 2011, Deutsche Telekom filed an action for nullity against the German skyDSL patent. A decision by first instance is expected in the year 2013.

The legal proceedings performed in previous years with a German mobile network operator are closed. The parties have settled. The counterparty waives the assertion of any claims against TELES.

Comments on the state of patent infringement lawsuits mentioned in previous years are waived 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.

TELES AG brought action against freenet AG in late 2012 to prevent the limitation of claims. From the sale of STRATO AG to freenet AG, TELES AG still holds a claim for payment of the balance of the purchase price that should have been paid out only upon completion of certain procedures at STRATO AG. In this context, there is disagreement on the assessment of tax liabilities in the calculation of the final purchase price. Parallel to judicial proceedings, however, an extrajudicial settlement with freenet AG is still being sought.

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 legal business 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 2012 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 Board Chairman – consists of one fixed and one variable remuneration component. The annual variable remuneration is determined by the level of achievement of defined, results-based targets agreed with the Supervisory Board at the start of a business year.

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

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 annex.

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 of Board and Supervisory Board which is typified by strict personnel separation between management and monitoring organs. The third organ is the 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 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. This especially regulates all issues reserved for the overall responsibility of the Board and also includes a list of issues of fundamental importance which require approval from the Supervisory Board. The Board develops 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 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 Meeting of Shareholders. 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 are entitled to participate the Meeting of Shareholders who are registered within the specified deadline and who are entered in the Share Register of the day of the Meeting of Shareholders. Our shareholders can exercise their voting rights at the Annual General Meeting by a voting representative provided 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 Solutions", "Carrier Solutions“ and "Enterprise Solutions", 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 continue 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 March 2013 after dutiful inspection:

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

The Board of Directors and the Supervisory Board of TELES AG declare that the recommendations of the "Government Commission of the German Corporate Governance Code" published by the Federal Ministry of Justice in the official section of the Federal Journal have been and are being complied with since the last Compliance Statement of June 2012 with the following exceptions.

1. **Rule 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 existing D&O Insurance does not have an excess for Supervisory Board members. In consideration of the nature of the Supervisory Board mandate, a distinction between the Board of Directors and Supervisory Board with respect to the D&O Insurance is deemed adequate. This is also conveyed by the different structure of the remuneration. Furthermore, 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.

2. **Rule 4.2.1 (Board of Directors – Allocation of Duties in By-Laws)**

In addition to § 77 AktG the German Corporate Governance Code stipulates that the By-Laws governing the work of the Board of Directors shall, in particular, allocate the responsibilities among individual Board Members.

An allocation of responsibilities in the by-laws of the company was not necessary as the responsibilities are specified in the Management Board contracts of the individual Directors.

3. Rule 4.2.3 (Board of Directors - Compensation)

In addition to § 87 para. 1 AktG the German Corporate Governance Code stipulates that the variable compensation elements must generally be based on a multi-year assessment.

Although the management contracts provide for a variable compensation, such variable compensation is currently only based on an annual assessment. At the time the management contracts were signed, the stabilization of the economic situation of the Company within a short term was in focus. Thus, for the moment no long-term variable compensation elements have been agreed. In due consideration of the Company's development it is intended to agree on variable compensation elements with multi-year assessment within future management contracts or contract prolongations.

4. Rule 5.1.2 (Age Limit for Directors, 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.

The determination of specific objectives for promotion of the participation of women is currently not intended.

5. Rule 5.3 (Supervisory Board, Formation of Committees)

The Code recommends that the Supervisory Board 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. Rule 5.4.1 (Constitution of the Supervisory Board, Age Limit, Diversity)

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 number of independent Supervisory Board Members according to Rule 5.4.2., 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.

7. Rule 5.4.5 (Further Training and Professional Development Measures)

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.

8. Rule 7.1.2 (Publication of Financial Statements)

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.

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

Composition of subscribed capital
The fully paid-in share capital consists of 23,304,676 non-par value shares with a mathematical 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, Berlin, Germany, owns 57.09 % 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 and on amendments to the articles of association
Pursuant to § 6 of the articles of association the Board 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 Board Chairman. 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 with regard to the possibility of issuing or redemption of shares

By means of a decision of the Meeting of Shareholders on Aug. 29, 2008 the Board was authorized, with approval of the Supervisory Board, to increase capital stock by Aug. 28, 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 Meeting of Shareholders, conditional capital 1997/I was created; on December 31, 2010 it amounted to T€ 1,947 and served to fulfill 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 the employee participation program.

In addition, the conditional capital 2000/I was created by decision of the Meeting of Shareholders. It only becomes effective if stock options from the employee stock option plans are exercised. As of December 31, 2012, 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 Meeting of Shareholders 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 was also authorized to re-sell 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 the nominal capital
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 Meeting of Shareholders a decision was made to reduce the capital stock. The capital reduction has not become effective by registration in the commercial register. One shareholder filed action for avoidance before the Berlin Regional Court against the resolution passed with regard to agenda item 4. Due to the comparison of August

10, 2012, the parties have unanimously requested the suspension of the proceedings. The applicant has committed to immediately withdraw the action upon a decision by the General Meeting on the abolition of the capital reduction resolution.

Berlin, this Thursday, March 28, 2013

TELES Aktiengesellschaft Informationstechnologien

The Management Board

Prof. Dr.-Ing. Sigram Schindler

Oliver Olbrich

Thomas Roll

Translation – the German version is authoritative

Consolidated Financial Statements for
TELES Group for
the 2012 Business Year

Consolidated Financial Statement of TELES Aktiengesellschaft Informationstechnologien for Business Year 2012

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GROUP BALANCE SHEET

(in T€, except number of common shares)	Note	December 31 2011	December 31 2012
ASSETS			
Non-current assets			
Tangible assets	5	377	205
Intangible assets	6	14	11
Other financial assets	7, 17	600	800
		991	**1,016**
Current assets			
Inventories	8	2,782	1,691
Trade accounts receivable	9, 17	4,058	3,098
Other financial assets	17	149	568
Receivable from income taxes	22	133	43
Other current assets	10	755	644
Cash and cash equivalents	17, 25	663	321
		8,540	**6,365**
Total assets		**9,531**	**7,381**
LIABILITIES			
Equity			
Common shares:		23,305	23,305
Issued: 23.304.676 and 23.304.676, resp.			
Outstanding: 23.304.676 and 23.304.676, resp.			
Additional paid-in capital		11,569	11,569
Retained Earnings[1]		-43,538	-46,470
Reserve for valuation		591	788
Reserve for pension liabilities		0	-74
Reserve for currency differences		341	231
Equity attributable to shareholders of the parent company		**-7,732**	**-10,651**
Non-controlling interest		**5**	**0**
Total equity	11	**-7,727**	**-10,651**
Non-current liabilities			
Non-current accruals	16	246	361
Other financial liabilities	12, 17, 27	10,021	10,457
		10,267	**10,818**
Current liabilities			
Trade accounts payable	17	1,868	1,773
Accruals for income taxes	16	129	133
Other accruals	16	2,094	2,513
Accrued income	13	996	1,308
Other financial liabilities	15, 17, 27	96	73
Other current liabilities	15, 27	1,808	1,414
		6,991	**7,214**
Total liabilities		**17.258**	**18,032**
		9.531	**7,381**

[1] Change in the presentation pursuant to IAS 1 (§ 41 - § 44), see Note 11.

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CONSOLIDATED PROFIT AND LOSS STATEMENT

		January 1– December 31	
(in T€, except share-related information)	**Note**	**2011**	**2012**
CONTINUED OPERATIONS			
Revenues	18, 28	**12,037**	**12,366**
Cost of sales	18, 28	**6,418**	**5,991**
Gross profit		**5,619**	**6,375**
Sales and marketing expenditures	28	4,881	3,697
Research and development expenditures	6, 28	3,751	2,756
General administrative expenditures	28	3,001	2,581
Other income	19, 28	359	374
Other expenditures	19, 28	726	1,018
Operating loss	28	**-6,381**	**-3,303**
Financial earnings	17, 20, 28	626	625
Financial expenditures	17, 20, 28	136	243
Earnings before income tax from continued operations	22, 28	**-5,891**	**-2,921**
Income tax expenditures	22	13	11
Earnings from continued operations		**-5,904**	**-2,932**
DISCONTINUED OPERATIONS			
Earnings from discontinued operations, net of tax	21	2,083	0
Annual net loss		**-3,821**	**-2,932**
Thereof attributable to:			
Shareholders of the parent company	24	-3,821	-2,932
Minority interests		0	0
Earnings per share from continued operations			
Undiluted		-0.25	-0.13
Diluted		-0.25	-0.13
Earnings per share, total	24		
Undiluted		-0.16	-0.13
Diluted		-0.16	-0.13
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[2]		-6.381	-3,303
EBITDA[3]		-6.019	-3,075

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

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CONSOLIDATED STATEMENT OF INCOME

(in T€)	Note	January 1– December 31 2011	 2012
Annual net loss		**-3,821**	**-2,932**
Other total result:			
Currency exchange differences of foreign subsidiaries		331	-110
Financial assets available-for-sale	17	0	200
Actuarial losses on defined benefit obligations pursuant to IAS 19	16	0	-74
Tax on Other total result, attributable entirely on financial assets available for sale	17, 22	0	-3
Other results from investments, net taxes		**331**	**13**
Overall result		**-3,490**	**-2,919**
Thereof attributable to:			
Shareholders of the parent company		-3,490	-2,919
Minority interests		0	0

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STATEMENT OF CHANGES IN EQUITY

					cumulative other Group Earnings					
(in T€, except number of nominal shares)	**Number of nominal shares**	**Nominal share value**	Additional paid-in capital	Retained earnings	Reserve for valuation	Valuation of pension liabilities	Reserve for currency differences	Equity of share-holders of the parent company	Non-controlling interest	**Total equity**
Dec. 31, 2010	23,304,676	23,305	8,595	-39,717	591	-	10	-7,216	6	-7,210
Net loss for the year, attributable to parent company shareholders or non-controlling interest	-	-	-	-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	-43,538	-22.989	-	341	-7,732	5	-7,727

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					cumulative other Group Earnings					
(in T€, except number of nominal shares)	**Number of nominal shares**	**Nominal share value**	Additional paid-in capital	Retained earnings	Reserve for valuation	Valuation of pension liabilities	Reserve for currency differences	Equity of share-holders of the parent company	Non-controlling interest	**Total equity**
Dec. 31, 2011	23,304,676	23,305	11,569	-43,538	591	-	341	-7,732	5	-7,727
Net loss for the year, attributable to parent company shareholders or non-controlling interest	-	-	-	-2,932	197	-	-110	-2,845	-5	-2,850
Actuarial losses on defined benefit obligations pursuant to IAS 19	-	-	-	-	-	-74	-	-74	-	-74
Dec. 31, 2012	23,304,676	23,305	11,569	-46,470	788	-74	231	-10,651	0	-10,651

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CONSOLIDATED CASH FLOW STATEMENT

	January 1 – December 31	
(in T€)	**2011**	**2012**
Cash flow from operating activities:		
Annual net loss	**-3,821**	**-2,932**
Adjustment of the net loss to the operating cash flow:		
Result from deconsolidation	-2,298	98
Income taxes	13	11
Financial result:		
Subsequent Evaluation Recovery Agreement Sigram Schindler Beteiligungsgesellschaft mbH	-439	198
Interest result	99	-13
Recovery rights	-149	-568
Government grants	-17	-10
Allowance for doubtful accounts	723	-150
Impairment of inventories	421	131
Depreciations for tangible fixed assets	331	222
Amortization of intangible assets	29	6
Profit from divestiture of assets	1	2
Changes of other balance sheet items:		
Inventories	-282	960
Trade accounts receivable	1,835	1,062
Other current assets, accruals and deferrals	224	18
Current liabilities	-209	-53
Accruals and other liabilities	-939	433
Effects from exchange rate changes with no impact on payment	336	-110
Received income taxes	9	93
Paid income taxes	-5	-13
Received interest	17	15
Paid interest	-33	-2
Cash outflow from operating activities	**-4,154**	**-602**
Cash flow from investing activities:		
Proceeds from sale of fixed assets	2	0
Acquisition of fixed assets	-103	-85
Acquisition of intangible assets	-5	-4
Recovery rights	466	149
Business disposals	0	-7
Cash outflow from investing activities	**360**	**53**
Cash flow from financing activities:		
Loans from related companies and individuals	4,000	207
Cash inflow from financing activities	**4,000**	**207**
Net change of cash and cash equivalents	206	-342
Cash and cash equivalents, at the beginning of the year	457	663
Cash and cash equivalents, at the end of the year	**663**	**321**
Cash and cash equivalents include: Money market funds	140	70

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.

Majority shareholder of TELES AG is Sigram Schindler Beteiligungsgesellschaft mbH based in Berlin.

The Company employed on average 96 employees during the business year (previous year: 131). The employees worked in the sales and marketing (20, previous year: 21), research and development (37, previous year: 61), procurement and logistics (25, previous year: 29) and administration (14, previous year: 20) departments.

NOTE 2: SUMMARY OF IMPORTANT ACCOUNTING PRINCIPLES

2.1 Basis for the presentation

Pursuant to Sec. 315a of the German Commercial Code (HGB), the consolidated financial statements of TELES dated December 31, 2012 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, 2012, are complied with.

2.2 Going concern, financing and major uncertainties

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. To fill any financing gaps, the majority shareholder committed himself in March 2013 by a further loan commitment in the amount of T€ 1,100 - in addition to the already supplied funds - to grant additional financial resources for the existing demand for the given amount. The Board continues to consider this loan commitment to be sufficient to cover the estimated financing needs until at least mid-2014. For further information on the jeopardy of the Company's continued existence please refer to the Group's management report.

2.3 Standards, interpretations and amendments, the application of which was mandatory for the first time for the completed business year

- *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.

The amendment to IFRS 7 has had no impact on the presentation of 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.

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

2.4 Standards, interpretations and amendments, the application of which will be mandatory for the first time for future periods under review

- *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 Vehicles" 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, 2014. An earlier application is admissible under certain conditions.

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, 2014. An earlier application is admissible under certain conditions.

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 Vehicles).

The new standard is gaining effect for accounting periods commencing on or after January 1, 2014. An earlier application is admissible without causing a mandatory application of IFRS 10, IFRS 11 or the amended IAS 27 and IAS 28.

As IFRS 12 only concerns the disclosure obligations, the assets, finance and income of the Company are not affected.

- *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 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 must be applied to business years that begin on or after January 1, 2013.

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

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

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 is not expected to be relevant for the Company.

- *Amendment to IAS 1 Presentation of components of Other comprehensive income*

The amendment to IAS 1 results in a different grouping of items that are presented in Other comprehensive income. Items that will be reclassified at a later time in period earnings (including gain on hedge of a net investment, exchange differences arising from the translation of foreign operations, gains and losses from cash flow hedges and from the financial assets available for sale), shall be presented separately from the positions disclosed thereto which will not be reclassified (including actuarial gains and losses from defined benefit pension plans and impacts arising from the revaluation of land and buildings).

IAS 1 in its amended version shall be applied to business years commencing on or after July 1, 2012.

The amendment only concerns the presentation and has no effect on the assets, finance and income of 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 amended standard is applicable to business years that begin on or after July 1, 2012.

The amendment to IAS 12 is not expected to be relevant for the Company.

- *Amendment to IAS 19 Employee Benefits*

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; an earlier application is permissible.

In the business year of 2012, TELES applies the amendments to IAS 19 on a voluntary basis. Regarding the effects of these changes on the assets, finance and income of the Company, please refer to Note 16. Since the effects are negligible in the previous year, a separate balance sheet was not prepared.

- *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 Vehicles. 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, 2014. 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 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, 2014. 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 amendment to IAS 28 (revised 2011) 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 was 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.

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

- *Amendment to IFRS 10, IFRS 11 and IFRS 12: Transitional provisions*

The aim of the amendment is a clarification of the transitional provisions in IFRS 10. The amendments include additional facilities for the transition to IFRS 10, IFRS 11 and IFRS 12. Hence, adapted comparative information is only required for the previous comparable period. In addition, in connection with disclosures about unconsolidated structured entities the obligation to indicate comparative information for periods that precede the application of IFRS 12 does not apply.

The amendments are gaining effect for accounting periods commencing on or after January 1, 2014.

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

- *Amendment to IFRS 10, IFRS 11 and IFRS 12: Investment companies*

On 31 October 2012, the IASB published the announcement Investment Companies (Amendments to IFRS 10, IFRS 12 and IAS 27).

With the announcement, IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Companies and IAS 27 Separate Financial Statements are amended to grant newly defined investment companies an exception to the consolidation rules with respect to certain subsidiaries. Instead, these concerned subsidiaries are to be accounted at fair value in accordance with IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement.

The amendments are gaining effect for accounting periods commencing on or after January 1, 2014.

At the time this financial report was prepared, these amendments 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.

- *Improvements of IFRSs*

In May 2012, The International Accounting Standards Board (IASB) issued the "Improvements to IFRSs 2009-2011" (Annual Improvements), whereby five International Financial Reporting Standards (IFRSs) are changed. The amendments are based on the draft ED/2011/2 published in June 2011.

The amendments are gaining effect for accounting periods commencing on or after January 1, 2013. An earlier application is admissible.

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

2.5 Summary of significant accounting policies

Estimates

In accordance with the generally accepted accounting rules, the Management Board 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 and other assets, planned and extraordinary depreciation for fixed assets and for intangible assets (especially for those 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, taxes and contingent liabilities. The amounts actually achieved can deviate from these estimates.

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.

Consolidation circle

The consolidated financial statements for the business year 2012 include TELES AG as the parent company plus three domestic and seven foreign subsidiaries. The number of consolidated companies has decreased by three compared to the previous year, whereby two companies already disused in previous years were removed in business year 2012 due to the deletion from the consolidation circle and one company was sold. 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 29.

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.

As far as current profits of a Group company are attributable to minority shareholders, the relevant amount in the profit and loss account is shown separately. As far as losses are generated, they reduce the balance sheet item "Minority interests" in the balance sheet until the item is used up.

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. Planned amortization is taken linearly using 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. Here the tax depreciation over five years for both the commercial as well as the financial IFRS statements is maintained. Due to immateriality, there is no adjustment of the depreciation in the period of three years.

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 holds a minority interest in GRAVIS AG. This minority interest was classified as available-for-sale asset. It is included in the balance sheet under item "Other financial assets" (non-current). Changes in value between initial and subsequent evaluation are categorized in equity, reserves for valuation. The minority interest is valued at fair value. As this is non-listed securities, the valuation of fair value is based on the *discounted cash flow* method. Changes in value between initial and subsequent evaluation are categorized in equity, reserves for valuation. The input factors the valuation was based on were level 3 input factors according to IFRS 7.27. For further information, please refer to Note 17.

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 17.

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.

Financial instruments, liabilities

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

- financial liabilities measured at fair value through profit or loss, 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, 2011 and December 31, 2012 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 first valuation of the liability was 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 update is carried out at amortized cost.

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.

Employee Benefits

The Company accounts for payment of benefits after the termination of employment, classified as "Defined Benefit Plan" in accordance with IAS 19. The total actuarial gains and losses for the period are recognized in accordance with IAS 19 under item "Other Comprehensive Income".

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 requires taking into account the effect of share-based payment in the earnings as well as the assets and finance of the Company. This includes the expenditures from the warranty of share 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
<u>Products</u>
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.

<u>Services</u>
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.

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 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.

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 21.

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 [4]

	January 01 – December 31	
(in T€)	**2011**	**2012**
Depreciation	360	228
(included in cost of sales and operative expenditures)		
thereof: planned depreciation of fixed assets	331	222
thereof: planned amortization of intangible assets	29	6
Inventories		
Acquisition and production costs of inventories which are reflected as expense	4,070	3,824
included therein: write-downs on inventories	421	131
(included in cost of sales)		
Allowances for doubtful accounts	880	85
(included in operative expenditures, sales and marketing)		
thereof: increase in allowances	1,661	1,188
thereof: reversal of allowances	-781	-1,103
Personnel expenditures		
(included in cost of sales and operative expenditures)	7,723	6,449
included therein: employer share to statutory pension scheme	521	445
included therein: employer share to defined contribution plans	16	11
included therein: expenditures for settlements	277	0
Government grants (investment subsidy)		
(included in other income and R&D expenditures)	155	120

[4] Continued operations

NOTE 4: CHANGES WITHIN THE CONSOLIDATION CIRCLE

In June 2012, T.T.C.S. Technologies Ltd., based in Tel Aviv, Israel was deleted, where TELES AG held 100 % of the shares. As this is a deletion of a company which had been disused in previous years, the impact on the assets, finance and income of TELES is immaterial.

In December 2012, TELES Latin America S.R.L., based Santa Cruz de Sierra, Bolivia, was deleted, where TELES held 99% of the shares. As this is a deletion of a company which had been disused in previous years, the impact on the assets, finance and income of TELES is immaterial.

Retroactively as from January 1, 2012, the shares of TELES Computer Systems India Private Ltd., headquartered in Bangalore, India, were transferred to TELES PRI GmbH and TELES FMC+C Innovations GmbH. The shares were previously held by TELES NetService GmbH and DirectSat AG, both 100% owned subsidiaries of TELES AG. The purchase price was € 595. As part of the deconsolidation of the Company, this resulted in a loss of T€ 109. In addition, it resulted in a disposal of cash in the amount of T€ 7.

NOTE 5: TANGIBLE ASSETS

The tangible assets developed as follows during the 2011 and 2012 business years:

			Acquisition Costs		
(in T€)	**Dec. 31, 2010**	**Additions**	**Disposals**	**Currency differences**	**Dec. 31, 2011**
Computer hardware	**6,724**	**98**	**406**	**0**	**6,416**
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**
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**

(in T€)	Remaining Book Values December 31 2010	December 31 2011
Computer hardware	**315**	**217**
Office and operating equipment	**28**	**15**
Leasehold improvement	**123**	**53**
Other	**147**	**92**
Total	**613**	**377**

(in T€)	Dec. 31, 2011	Additions	Acquisition Costs Disposals	Currency differences	Dec. 31, 2012
Computer hardware	**6,416**	**40**	**1**	**-1**	**6,454**
Office and operating equipment	**15**	**0**	**0**	**-1**	**14**
Leasehold improvement	**681**	**0**	**0**	**0**	**681**
Other	**135**	**35**	**0**	**-22**	**148**
Total	**7,247**	**75**	**1**	**-24**	**7,297**

(in T€)	Dec. 31, 2011	Accumulated Depreciation Additions	Disposals	Dec. 31, 2012
Computer hardware	**6,199**	**118**	**0**	**6,317**
Office and operating equipment	**0**	**5**	**0**	**5**
Leasehold improvement	**628**	**52**	**0**	**680**
Other	**43**	**47**	**0**	**90**
Total	**6,870**	**222**	**0**	**7,092**

(in T€)	Remaining Book Values December 31 2011	December 31 2012
Computer hardware	**217**	**137**
Office and operating equipment	**15**	**9**
Leasehold improvement	**53**	**1**
Other	**92**	**58**
Total	**377**	**205**

NOTE 6: INTANGIBLE ASSETS

The intangible assets developed as follows during the 2011 and 2012 business years:

			Acquisition Costs		
(in T€)	Dec. 31, 2010	Additions	Disposals	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 cost	5,416	0	0	0	5,416
Others	**118**	**0**	**0**	**0**	**118**
Total	**21,458**	**5**	**7,243**	**0**	**14,220**

(in T€)	Dec. 31, 2010	Additions	Depreciation Impairment	Disposals	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 cost	5,416	0	0	0	5,416
Others	**118**	**0**	**0**	**0**	**118**
Total	**21,420**	**29**	**0**	**7,243**	**14,206**

	Remaining Book Values	
(in T€)	December 31 2010	December 31 2011
Software licenses	**38**	**14**
Customer relationships	**0**	**0**
Goodwill	**0**	**0**
Technologies	**0**	**0**
thereof: Capitalized development cost	0	0
Others	**0**	**0**
Total	**38**	**14**

(in T€)	Dec. 31, 2011	Additions	Acquisition Costs Disposals	Currency differences	Dec. 31, 2012
Software licenses	**4,266**	**3**	**0**	**0**	**4,269**
Customer relationships	**259**	**0**	**0**	**0**	**259**
Goodwill	**3,778**	**0**	**0**	**0**	**3,778**
Technologies	**5,799**	**0**	**0**	**0**	**5,799**
thereof: Capitalized development cost	5.416	0	0	0	5,416
Others	**118**	**0**	**0**	**0**	**118**
Total	**14,220**	**3**	**0**	**0**	**14,223**

(in T€)	Dec. 31, 2011	Additions	Depreciation Impairment	Disposals	Dec. 31, 2012
Software licenses	**4,252**	**6**	**0**	**0**	**4,258**
Customer relationships	**259**	**0**	**0**	**0**	**259**
Goodwill	**3,778**	**0**	**0**	**0**	**3,778**
Technologies	**5,799**	**0**	**0**	**0**	**5,799**
thereof: Capitalized development cost	5,416	0	0	0	5,416
Others	**118**	**0**	**0**	**0**	**118**
Total	**14,206**	**6**	**0**	**0**	**14,212**

(in T€)	Remaining Book Values December 31 2011	December 31 2012
Software licenses	**14**	**11**
Customer relationships	**0**	**0**
Goodwill	**0**	**0**
Technologies	**0**	**0**
thereof: Capitalized development cost	0	0
Others	**0**	**0**
Total	**14**	**11**

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.

NOTE 7: OTHER FINANCIAL ASSETS

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

(in T€)	December 31 2011	2012
Unlisted securities: GRAVIS AG	600	800
	600	**800**

For further information, please refer to Note 17.

NOTE 8: INVENTORIES

The inventory assets consist of the following:

(in T€)	December 31 2011	2012
Finished goods	405	469
Trading goods	554	410
Manufacturing Supplies	1,823	812
	2,782	**1,691**
included inventories:		
accounted for at net realizable values	266	89
Range > one year	436	111

In the year 2012, on the basis of an extended range analysis, depreciations amounting to a total of T€ 131 were inter alia performed. Thus, the risk of future technological developments in the sector was taken into account. For the year 2011, the marketability deduction amounted to T€ 421.

NOTE 9: TRADE ACCOUNTS RECEIVABLE

The trade accounts receivable consist of the following:

(in T€)	December 31 2011	2012
Trade accounts receivable	10,556	9,446
Minus allowance for doubtful accounts	6,498	6,348
	4,058	**3,098**

As of December 31, 2012, the “Trade accounts receivable” include a non-current portion in the amount of T€ 179 (as of December 31, 2011: T€ 323). For further information, please refer to Note 17.

NOTE 10: OTHER CURRENT FINANCIAL ASSETS

The Other current financial assets consist of the following:

(in T€)	December 31 2011	2012
Advance payments made	72	66
Sales tax receivables	150	94
Receivables from related parties	55	306
Receivables from investment grants	53	50
Others	425	128
	755	**644**

NOTE 11: SHAREHOLDERS' Equity

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

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.

Due to the comparison of August 10, 2012, the parties have unanimously requested the suspension of the proceedings. The applicant has committed to immediately withdraw the action upon a decision by the General Meeting on the abolition of the capital reduction resolution.

Authorized capital

As of December 31, 2012, 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 Management Board, 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, 2012, 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 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 not gained effect. The respective adjustment of the contingent capital 2000/I has therefore not taken effect either.

Treasury Stock
The Company holds no treasury shares.

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.

Respectively as of December 31, 2012 and 2011 the capital reserve further includes T€ 14,981, resulting from the repayment of a loan payable due to a pronounced waiver by the shareholder Sigram Schindler mbH, minus T€ 10,371, resulting from a Recovery Agreement with the shareholder in connection with the loan waiver. For further information, please refer to Note 17.

The additional paid-in capital also includes T€ 1,939 (as of December 31, 2012 and 2011 respectively) due to the accounting of the employee stock option plans in accordance with IFRS 2.

Reserve for valuation
The reserve for valuation includes T€ 788 (as of December 31, 2011: T€ 591). For the change in value between the initial and subsequent valuation of available-for-sale assets, reduced by the related deferred tax.

Valuation of pension liabilities
In addition, the reserve for valuation will be reduced by T€ 74 (by December 31, 2011: T€ 0) for actuarial losses on defined benefit obligations pursuant to IAS 19.

Change in the presentation
The company voluntarily changed the presentation of Retained earnings pursuant to IAS 1 (§ 41 - § 44). This is because of the improvement of the presentation as well as the comparability of information, in order to support the addressees to make their economic decisions.

The former separate presented losses from Treasury Stocks (T€ -20,549) have been reclassified to Retained earnings, because they are related to periods prior the reporting period.

Presentation without voluntary changes:

(in T€)	December 31 2011	2012
Total Liabilities		
Equity		
Retained earnings	-22,989	-25,921
Losses from Treasury Stocks	-20,549	-20,549
	-43,538	**-46,470**

Presentation including voluntary changes:

(in T€)	December 31 2011	2012
Total Liabilities		
Equity		
Retained earnings	-43,538	-46,470
	-43,538	**-46,470**

NOTE 12: OTHER NON-CURRENT FINANCIAL LIABILITIES

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

(in T€)	December 31 2011	2012
Recovery Agreement Sigram Schindler Beteiligungsgesellschaft mbH	9,932	10,130
Others	89	327
	10,021	**10,457**

For further information, reference is made to Note 17 (Financial instruments) and Note 27 (Relations with closely related entities and individuals).

NOTE 13: ACCRUED INCOME

The amounts recorded under this item relate to accrued revenue from the provision of services.

(in T€)	**2011**	**2012**
As of January 1	**834**	**996**
Accrued in the reporting period	1,824	2,542
Recognized in income in the reporting period	1,662	2,230
As of December 31	**996**	**1,308**

NOTE 14: OTHER FINANCIAL LIABILITIES

Other (current) financial liabilities included:

	December 31	
(in T€)	**2011**	**2012**
Factoring	96	73
	96	**73**

Reference is made to Note 17 (Financial Instruments) and Note 27 (Related Party Transactions) for further information.

NOTE 15: OTHER CURRENT LIABILITIES

Other current liabilities include:

	December 31	
(in T€)	**2011**	**2012**
Payables to related parties	220	94
Turnover tax liabilities	76	106
Others	1,512	1,214
	1,808	**1,414**

Regarding related parties transactions, reference is made to Note 27.

The item "Others" includes various date-related liabilities, including inter alia from the areas of personnel and rent, as well as annual financial statements and audit.

NOTE 16: ACCRUALS

The Company carries the following accruals on the balance sheet:

(in T€)	December 31 2011	2012
Non-current accruals		
Employee benefits pursuant to IAS 19	246	361
	246	**361**
Short-term accruals		
Accruals for income taxes	129	133
Other accruals	2,094	2,513
	2,223	**2,646**

The accruals consist of the following:

(in T€)	2011	Utilization	Release	Addition	Business disposals	2012
Non-current accruals						
Employee Benefits	246	0	0	115	0	361
	246	**0**	**0**	**115**	**0**	**361**
Short-term accruals						
Accruals for income taxes	129	0	0	4	0	133
Other accruals *	2.094	403	40	868	6	2,513
	2.223	**403**	**40**	**872**	**6**	**2,646**
** thereof:*						
Accrual company sale	725	0	0	0	0	725
Accrual audit	250	0	0	750	0	1,000
Litigation risks	692	5	21	0	0	666
Warranty	11	11	0	25	0	25
Onerous contracts	7	7	0	0	0	0
Other	409	380	19	93	6	97
	2.094	403	40	868	6	2,513

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.

Warranty

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.

Others

Other Accruals also include any accruals in connection with TECT AG sold in the business year of 2005 (parent company of STRATO Medien AG) as well as accruals for additional taxes due to tax assessments by the tax office from uncompleted external audits.

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:	3,50% (previous year: 5,25%)
Wage trend:	2,50% (previous year: 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€)	**2012**
Defined benefit obligation at the beginning of the year	**188**
Service cost	14
Compounding interest of the anticipated pension obligations	10
Actuarial losses	74
Statutory settlement payments	0
Defined benefit obligation, year end	**286**

The expenditures contained in the operating result are composed as follows:

(in T€)	**2012**
Service cost	14
Compounding interest of the anticipated pension obligations	10
	24

The actuarial losses are recognized directly in equity, in the reserve for valuation (see Note 11). As from January 1, 2013, TELES prematurely begins with the voluntary application of the mandatory amendment to IAS 19. With a similar procedure, in business year 2011, expenses of T€ 13 would have had to be recognized directly in equity and not in the operating expenditures.

The defined benefit obligation as of December 31, 2012 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:	3,50% (previous year: 5,25%)
Wage trend:	2,50% (previous year: 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 anniversary benefit obligation developed as follows:

(in T€)	**2012**
Defined benefit obligation at the beginning of the year	**58**
Service cost	4
Compounding interest of the anticipated pension obligations	3
Actuarial losses	14
Benefits	-4
Defined anniversary benefit obligation, year end	**75**

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

(in T€)	**2012**
Service cost	4
Compounding interest of the anticipated pension obligations	3
Actuarial gains	14
	21

NOTE 17: FINANCIAL INSTRUMENTS

1. Importance of financial instruments

The company has the following categories of financial instruments:

	December 31	
(in T€)	**2011**	**2012**
Financial assets		
Loans and receivables	4,207	3,666
Financial assets available-for-sale	600	800
	4,807	4,466
Financial liabilities		
Financial liabilities, which were valued at amortized costs	11,985	12,303
	11,985	12,303

The company does not have any other categories of financial instruments.

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

Dec. 31, 2011 **(in T€)**	Loans and receivables	Financial assets available-for-sale	Financial liabilities, valuated at amortized costs	**Total**
ASSETS				
Non-current assets				
Other financial assets	149	600	0	749
Current assets				
Trade accounts receivable	4,058	0	0	4,058
Total assets	*4,207*	*600*	*0*	*4,807*
LIABILITIES				
Non-current liabilities				
Other financial liabilities	0	0	10,021	10,021
Current liabilities				
Trade accounts payable	0	0	1,868	1,868
Other financial liabilities			96	96
Total liabilities	*0*	*0*	*11.985*	*11,985*

Dec. 31, 2012 (in T€)	Loans and receivables	Financial assets available-for-sale	Financial liabilities, valuated at amortized costs	**Total**
ASSETS				
Non-current assets				
Other financial assets	568	800	0	1,368
Current assets				
Trade accounts receivable	3,098	0	0	3,098
Total assets	*3,666*	*800*	*0*	*4,466*
LIABILITIES				
Non-current liabilities				
Other financial liabilities	0	0	10,457	10,457
Current liabilities				
Trade accounts payable	0	0	1,773	1,773
Other financial liabilities	0	0	73	73
Total liabilities	*0*	*0*	*12,303*	*12,303*

- ***Loans and receivables***

(in T€)	December 31 2011	 2012
Recovery right for waived liabilities	149	568
Trade accounts receivable	4,058	3,098
	4,207	3,666

(in T€)	January 1 – December 31 2011	 2012
Recovery right for waived liabilities		
Financial earnings		
Recovery right for waived liabilities	149	568
	149	568
Financial earnings; interest		
Recovery right for waived liabilities	7	8
	7	8
Trade accounts receivable		
Operating expenditures; sales and marketing		
increase in allowances	1,661	1,188
reversal of allowances	-781	-1,103
Trade accounts receivable; operating expenditures	880	85

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. With the value accounted for as of balance sheet date, the recovery right is recognized in full.

Trade accounts receivable

The trade accounts receivable reported as of December 31, 2012 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:

			December 31			
(in T€)	**2011**	Utilization	Release	Addition	Currency differences	**2012**
Allowances for doubtful accounts	6,498	235	1,103	1,188	0	6,348

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:

			Payment delay		
(in T€)	**<= 3 months**	**> 3 and <= 6 months**	**> 6 months and <= 1 Year**	**> 1 Year**	**Total**
Dec. 31, 2011	799	264	409	268	1,740
Dec. 31, 2012	835	66	-3	143	1,041

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

For further information, please refer to Note 9.

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

	December 31	
(in T€)	**2011**	**2012**
Unlisted securities: GRAVIS AG	600	800
	600	800

(in T€)	**2011**	**2012**
Unlisted securities: GRAVIS AG		
January 1	600	600
Fair value valuation; reported in equity	0	200
December 31	**600**	**800**
Fair value valuation; reported in equity		
Unlisted securities: GRAVIS AG	600	800
	600	**800**
Less: taxes	-9	-12
Valuation at fair value, net, after taxes	591	788

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). The sale of the GRAVIS GmbH by GRAVIS AG, dated December 18, 2012, resulted in an increase in the fair value of GRAVIS AG shares held by TELES amounting to T€ 200.

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

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

	December 31	
(in T€)	**2011**	**2012**
Recovery Agreement Sigram Schindler Beteiligungsgesellschaft mbH; long-term	9,932	10,130
Trade accounts payable	1,868	1,773
Factoring	96	73
Others	89	327
	11,985	12,303

	January 1 – December 31	
(in T€)	**2011**	**2012**
Financial expenditures; interest		
Loan Sigram Schindler Beteiligungsgesellschaft mbH	77	0
Factoring	11	6
Others	0	31
	88	37

During the last business years, Sigram Schindler Beteiligungsgesellschaft mbH waived the loans granted to the Company. As of December 31, 2012, the Company reports a financial liability resulting from the recovery agreements entered into in connection with the loan waivers affected during the business years 2009, 2010 and, at last, 2011. The resurgence of the financial liability is linked mainly to a positive result (EBITDA) and the availability of a defined "free cash flow". The first 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. The update is carried out at amortized cost.

The inflow of funds in the consolidated cash flow statement is apparent under the item "Loans from related parties". The loan waiver is a transaction without impact on 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€)	**2011**	**2012**
Interest Earnings		
Cash and cash equivalents	28	45
Recovery right for waived liabilities; interest	7	8
	35	**53**
Interest Expenditure		
Revolving credit facility drawn upon during the year	3	1
Loan Sigram Schindler Beteiligungsgesellschaft mbH	77	31
Factoring Sigram Schindler Beteiligungsgesellschaft mbH	11	6
	91	**38**

Expenditures from fees are generated in connection with the handling of bank transactions (T€ 31; 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 2012, TELES realized 15 % of its entire sales with its largest individual customer; the two next largest customers generated a total of 12 % of the turnover. The other sales or the trade accounts receivable resulting from such sales are widely spread. 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. 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 908 and accounts payable in the amount of TUSD 58. If the exchange rate applied as of balance sheet date increases or decreases by 10 %, this has a decreasing (or increasing, respectively) effect on the carrying value of the receivables at T€ 63 (T€ 76).

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 18: COMPOSITION OF REVENUES AND COST OF SALES

	January 1 – December 31	
(in T€)	**2011**	**2012**
Revenues	**12,037**	**12,366**
Products	8,717	8,927
Services	3,320	3,439
Cost of sales	**6,418**	**5,991**
Products	4,973	4,395
Services	1,445	1,596

NOTE 19: OTHER INCOME AND EXPENDITURES

Other Income mainly includes profits from currency translation for business year 2012 amounting to T€ 80 (previous year: T € 104), and income related to the agency agreement with SSBG (for further information refer to Note 27) T€ 259 (previous year: T€ 209).

Other Expenditures mainly includes losses from currency translation for business year 2012 amounting to T€ 29 (previous year: T€ 371), continuing to be T€ 750 (previous year: T€ 250) due to accruals for additional taxes because of tax assessments by the tax office resulting from uncompleted external audits.

NOTE 20: FINANCIAL RESULT AND OTHER INCOME FROM INVESTMENTS

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

	January 1– December 31	
(in T€)	**2011**	**2012**
Financial earnings		
Subsequent evaluation Recovery Agreement Sigram Schindler Beteiligungsgesellschaft mbH	439	0
Interest	36	57
Recovery right for waived liabilities	149	568
Shares in investment funds	2	0
Total	**626**	**625**
Financial expenditures		
Interest on loan by Sigram Schindler Beteiligungsgesellschaft mbH	77	31
Interest factoring Sigram Schindler Beteiligungsgesellschaft mbH	11	6
Interest subsequent evaluation Recovery Agreement Sigram Schindler Beteiligungsgesellschaft mbH	0	198
Shares in investment funds	0	6
Other	48	2
Total	**136**	**243**

NOTE 21: 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€, except share-related information)	January 01 – December 31 2011	2012
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	2,083	0
thereof: more! AG (formerly SPSS segment)	2,298	0
thereof: Webhosting	-215	0
Income tax expenditures	0	0
Results from the discontinuation of operations, after deduction of taxes	2,083	0
Total result of discontinued operations, after deduction of taxes	**2,083**	**0**
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	0,09	0,00
Diluted	0,09	0,00

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

No cash flow was generated by the disposal group classified as held for sale.

NOTE 22: INCOME TAXES

The earnings before income taxes are broken down as follows:

(in T€)	January 1 – December 31 2011	2012
Germany	-1,941	-2,860
Abroad	-1,867	-61
Earnings before income taxes	**-3,808**	**-2,921**

The expenditures and earnings from income taxes include:

(in T€)	January 1– December 31 2011	2012
Current taxes		
Germany	14	14
Abroad	0	0
Total:	**14**	**14**
Deferred income taxes		
Germany	0	-3
Abroad	-1	0
Total:	**-1**	**-3**
Income tax expenditures:	***13***	***11***

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 %.

(in T€)	January 1 – December 31 2011	2012
Earnings before income taxes (Continued and discontinued operations)	-3,808	-2,921
Income tax income at legal tax rate	-1,149	-882
Tax rate differences	89	-12
Differences based on items not to be taxed	-72	-36
Differences based on non-deductible items	14	11
Non-recognition of deferred tax assets	694	861
Change in the impairment of deferred tax assets	-693	0
Waiver of claim	1,098	60
Other items, net	32	9
Effective income tax expenditure	**13**	**11**

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

	December 31	
(in T€)	**2011**	**2012**
Deferred tax assets:		
Assets available for sale	14	14
Losses carried forward	3,604	3,604
Devaluations	-603	-603
Deferred tax assets, total	3,015	-3,015
Offsetting with deferred tax liabilities	-3,015	-3,015
Balance sheet amount	0	0
Deferred tax liabilities:		
Intercompany transactions	3,003	3,001
Assets available for sale	9	12
Others	3	2
Deferred tax liabilities, total	3,015	3,015
Offsetting with deferred tax assets	-3,015	-3,015
Balance sheet amount	0	0
Deferred tax liabilities, net	**0**	**0**

Losses carried forward by active entities, for which an accounting for the deferred tax claim was not made, amount to T€ 47,790 for corporate income taxes and T€ 56,562 for trade taxes in Germany, as well as T€ 8,107 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.

NOTE 23: EMPLOYEE STOCK OPTION PLANS

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

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

The subscription rights can be exercised for the last time eight to ten years after their issue. The option programs for 2001 and 2002 have expired.

Due to the capital reduction agreed at the Extraordinary General Meeting in 2004, the calculated nominal value of the share options granted in the context of employee stock option plans, including 2004, was reduced from € 2.00 to € 1.00.

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

Employee stock option plans 1998 and 1999

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

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

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

Employee stock option plans 2001 and 2002

a) Employee stock option plan 2001

TELES AG's Management Board and the Supervisory Board were authorized on August 31, 2001 to issue before August 30, 2006 up to 650,000 additional stock options with a total value of € 1.300.000 for Management Board members' and employees' investments in the company.

This stock option plan had to be designed by the Management Board and approved by the Supervisory Board.

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

Each option grants the right to purchase an individual share with a nominal value of € 1.00 per share at an exercise price of € 2.00 per share. The option rights can be exercised in steps.

The exercise can start at the earliest two years after the issue and be completed after six years.

The latest exercise 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 was 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 program 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 start at the earliest two years after the issue and be completed after six years.

The latest possible exercise date was August 16, 2010 for the exchange program or will be 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 program 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 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 are equivalent to 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 inventory of stock options or conversion rights granted in the context of employee stock option plans has developed as follows, in consideration of the exchange of stock options from previous programs:

	Employee Stock Option Plan				
	2001 Stock options	**2002** Stock options	**2004** Stock options	**2005** Stock options	**Total**
Outstanding on December 31, 2010	**25,483**	**221,371**	**371,969**	**137,361**	**756,184**
Issued	0	0	0	0	0
Exercised	0	0	0	0	0
Forfeited	0	0	0	0	0
End of the term of the program	-25,483	0	0	0	-25,483
Outstanding on December 31, 2011	**0**	**221,371**	**371,969**	**137,361**	**730,701**
Issued	0	0	0	0	0
Exercised	0	0	0	0	0
Forfeited	0	0	0	0	0
End of the term of the program	0	-221,371	0	0	-221,371
Outstanding on December 31, 2012	**0**	**0**	**371,969**	**137,361**	**509,330**
Vested rights as of December 31, 2011	**0**	**0**	**371,969**	**137,361**	**509,330**

Employee stock option programs 2001

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

Employee stock option program 2002

The employee stock option program set up in 2002 expired on December 16, 2012.

Employee stock option program 2004

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

The stock options outstanding as of December 31, 2012 have a weighted average remaining contract duration of two years.

NOTE 24: EARNINGS PER SHARE

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

	January 1– December 31	
(in T€, except share-related information)	**2011**	**2012**
Annual result, attributable to Shareholders of the parent company	-3,821	-2,932
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	-0.16	-0.13
Diluted	-0.16	-0.13

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€ 145 (previous year: T€ 207).

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 lease agreements for office premises are temporarily restricted to no later than January 31, 2015 and partly contain extension options. The costs for the operating leases were T€ 492 and T€ 676 for the business years ending December 31, 2012 and 2011, respectively.

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

	December 31	
(in T€)	**2011**	**2012**
Up to one year	886	583
Between one and five years	1,206	472
Total	**2,092**	**1,055**

Financial commitments based on other contracts

Future minimum payments based on legally effective agreements are:

	December 31	
(in T€)	**2011**	**2012**
Other services	359	362
Maintenance	68	20
Total	**427**	**382**

Contingent liabilities

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, it was established in November of 2011 that the petty patent did not unfold any effect from the very beginning. In December 2011, Deutsche Telekom filed an action for nullity against the German skyDSL patent. A decision by first instance is expected in 2013.

The legal proceedings performed in previous years with a German mobile network operator are closed. The parties have settled. The counterparty waives the assertion of any claims against TELES.

Comments on the state of patent infringement lawsuits mentioned in previous years are waived 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.

TELES AG brought action against freenet AG in late 2012 to prevent the limitation of claims. From the sale of STRATO AG to freenet AG, TELES AG still holds a claim for payment of the balance of the purchase price that should have been paid out only upon completion of certain procedures at STRATO AG. In this context, there is disagreement on the assessment of tax liabilities in the calculation of the final purchase price. Parallel to judicial proceedings, however, an extrajudicial settlement with freenet AG is still being sought.

NOTE 27: RELATED PARTY TRANSACTIONS

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

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

Loan Sigram Schindler Beteiligungsgesellschaft mbH
In the last business years, the company Sigram Schindler Beteiligungsgesellschaft mbH waived the loans granted to the Company. On December 31, 2012 the Company reflects in its balance sheet a financial obligation which results from recovery agreements entered into in connection with the loan waivers of the business years 2009, 2010 and 2011. The first 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. The update is carried out at amortized cost. For further information, please refer to Note 17.

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. As at the balance sheet date, the Company reflects a liability in the amount of T€ 73 (previous year: T€ 96); during the business year, the Company incurred financial expenditures in the amount of T€ 6 (previous year: T€ 11).

For further information, reference is made to Note 14 (Other Financial Liabilities) and Note 17 (Financial Instruments).

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

Agency Agreement
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 28) in category “Other business activities”; as at the balance sheet date, the Company reports accounts receivable in the amount of T€ 306 (previous year:

T€ 52) against Sigram Schindler Beteiligungsgesellschaft mbH and its associated companies; these accounts were balanced during business year 2013. For further information, please refer to Note 10.

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

Expenditures for services:

(in T€)	January 1– December 31 2011	 2012
Mock attorneys	36	27
Prof. Denert	19	0
Total	**55**	**27**

Mock attorneys
The services were provided by the law firm which the TELES supervisory board representative is holding shares in respectively is a partner of. The services provided were settled as between unrelated third parties.

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

Company accounts payable to related parties:

(in T€)	January 1– December 31 2011	 2012
Supervisory board representatives for services rendered	218	87
Factoring	96	73
Loans	0	228
Cession Claim for repayment of loan	89	98
Total	**403**	**486**

Management Board earnings:

(in T€)	January 1– December 31 2011 Fixed	Variable	2012 Fixed	Variable
Oliver Olbrich	202	0	205	0
Thomas Roll *	0	0	87	30
Frank Paetsch *	163	0	81	0
Olaf Schulz	94	0	0	0
Richard Fahringer	129	0	0	0
	588	**0**	**373**	**30**

Mr. Prof. Dr.-Ing. Schindler received compensation in the amount of T€ 44 (previous year: T€ 42), which represents a non-cash benefit relating to the provision of a vehicle.

Mr. Roll: Total earnings for the period July 1 to December 31, 2012.

Mr. Paetsch: Total earnings for the period January 1 to June 30, 2012.

The contract of Mr. Olaf Schulz expired on July 31, 2011 and was not renewed; according to the contract, payments to Mr. Schulz were still made in 2011.

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

Share portfolio and subscription rights of the Board members as of December 31, 2012:

	Subscription rights	Shares
Prof. Dr. - Ing. Sigram Schindler (directly and indirectly)	0	13,658,442
	0	**13,658,442**

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**

As of December 31, 2012, Prof. Dr.-Ing. Sigram Schindler is holding directly and indirectly 58.61 % (previous year: 56.68 %) of the TELES AG shares; 57.09 % (previous year: 55.17 %) of shares were 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€ 75.0).

	January 1– December 31	
(in T€)	**2011**	**2012**
Prof. Dr. Walter Rust	37.5	37.5
Prof. Dr. h.c. Radu Popescu-Zeletin	22.5	22.5
Prof. Dr. Ernst Denert	15.0	15.0
	75.0	**75.0**

NOTE 28: 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 segments: resulting in three operative business segments:

- **Access Solutions** *(previous year: Access Gateways *)*
- **Carrier Solutions**
- **Enterprise Solutions** *(previous year: Next Generation Networks *)*

** To represent the performance of TELES in a better manner and to simplify the acquisition of new customers, for the third quarter of 2012, two divisions were renamed.*

The Access Solution 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. 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. This is done primarily in EMEA (Europe, Near East and Africa) and the Americas through indirect distribution channels.

The chief markets of the business segment 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' Enterprise 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 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. 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:

	January 1 – December 31	
Revenue and earnings of operating segments as well as other business activities in T€;	**2011**	**2012**
Revenues	**12,037**	**12,366**
Access Gateways	5,520	5,160
Carrier Solutions	4,036	4,565
Next Generation Networks	2,481	2,641
EBITDA; operative	**-4,636**	**-2,431**
EBIT; operative	**-4,986**	**-2,659**

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

	January 01 – December 31	
Revenue and earnings of operating segments as well as other business activities in T€;	**2011**	**2012**
EBIT; operative	**-4,986**	**-2,659**
Market-induced organizational adjustments	-1,026	0
Other expenditures and earnings	-553	-903
Other operational activities	184	259
EBT TELES Group	**-6,381**	**-3,303**
Financial earnings	626	625
Financial expenditures	136	243
EBT TELES Group	**-5,891**	**-2,921**

Access Solutions:

	January 1 – December 31	
Revenues and earnings by segment (in T€)	**2011**	**2012**
Revenues	**5,520**	**5,160**
Cost of sales	2,896	2,730
included therein: Depreciation	*7*	*15*
Gross profit	**2,625**	**2,430**
Gross profit margin	*48 %*	*47 %*
Sales and marketing expenditures	1,951	1,351
Research and development expenditures	757	867
General administrative expenditures	977	994
EBITDA; operative	**-1,054**	**-767**
Operational depreciation	80	56
EBIT; operative	**-1,141**	**-838**

Carrier Solutions:

Revenues and earnings by segment (in T€)	January 1 – December 31 2011	2012
Revenues	**4,036**	**4,565**
Cost of sales	1,879	2,040
included therein: Depreciation	*4*	*7*
Gross profit	**2,157**	**2,525**
Gross profit margin	*53 %*	*55 %*
Sales and marketing expenditures	1,279	1,294
Research and development expenditures	974	814
General administrative expenditures	854	871
EBITDA; operative	**-947**	**-447**
Operational depreciation	146	82
EBIT; operative	**-1,096**	**-536**

Enterprise Solutions:

Revenues and earnings by segment (in T€)	January 1 – December 31 2011	2012
Revenues	**2,481**	**2,641**
Cost of sales	1,582	1,221
included therein: Depreciation	*1*	*3*
Gross profit	**899**	**1,420**
Gross profit margin	*36 %*	*54 %*
Sales and marketing expenditures	1,367	1,062
Research and development expenditures	1,558	956
General administrative expenditures	610	622
EBITDA; operative	**-2,635**	**-1,217**
Operational depreciation	112	65
EBIT; operative	**-2,749**	**-1,285**

Information on geographical regions

Sales by markets of the Company are as follows:

(in T€)	January 1 – December 31 2011	2012	Change 2012 vs. 2011
Germany	2,359	1,987	-16 %
EMEA	8,305	9,203	11 %
NORAM & LATAM	861	680	-21 %
APAC	512	496	-3 %
Total	**12,037**	**12,366**	**3 %**

The allocation of sales is according to the country of origin of the customer.

In the segment Access Solutions sales income of 36 % of the segment sales were made with one customer (previous year: 33 %).

Non-current assets

Non-current assets relate to the following regions:

(in T€)	December 31 2011	2012
Germany	347	202
EMEA	18	14
APAC	27	0
Total	**392**	**216**

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

NOTE 29: SUBSEQUENT EVENTS

TELES sold its 222,222 shares in GRAVIS Beteiligungs AG, each with a nominal value of € 1.00, to GRAVIS Beteiligungs AG for the purpose of redemption and cancellation. The purchase price of about Mio€ 1.1 will be payable upon redemption and cancellation of the shares. TELES expects the redemption and cancellation to be effective and of April 2013.

NOTE 30: MISCELLANEOUS

Services of the auditing company

The accounting firm Ernst & Young provided in the past business year no further services for TELES AG beyond the audit activities (T€ 87). In the previous year, Ernst & Young accounting firm did not work for TELES AG.

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 France S.A.R.L.	Paris, France
TELES S.R.L.	Milan, Italy
TELES N.G.N. Solutions Ltd.	Yokneam, Israel
TELES Communication Systems GmbH	Vienna, Austria
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 2012[1] business year in T€
GRAVIS Beteiligungs AG	Berlin, Germany	19.99	EUR	5,617	-137
GRAVIS Computerhandelsgesellschaft mbH	Berlin, Germany	19.99	EUR	6,792	355

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

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

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

Prof. Dr.-Ing. Sigram Schindler, Chairman of the Management Board;
Oliver Olbrich, Director, Operational Business;
Dipl.-Ing. Frank Paetsch, Director Technology, until July 3, 2012;
Thomas Roll, Director of Sales, from July 1, 2012.

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

Prof. Dr.-Ing. Sigram Schindler:	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. h.c. Radu Popescu-Zeletin, university professor, Berlin (Deputy Chairman of the Supervisory Board);
Prof. Dr.-Ing. Ernst Denert, retired software engineer, Grünwald.

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
Member of the Supervisory Board of artnet AG, Berlin

Prof. Dr. h.c. Radu Popescu-Zeletin,
Member of the Administrative Board of OpenLimit Holding AG

Berlin, March 28, 2013

The Management Board

Prof. Dr.-Ing. Sigram Schindler

Oliver Olbrich | Thomas Roll

List of Abbreviations

AG	Aktiengesellschaft (company limited by shares)
AktG	Aktiengesetz (German Stock Companies Act)
APAC	Asia-Pacific
DRS	Deutscher Rechnungslegungsstandard (German accounting standard)
DRSC	Deutsches Rechnungslegungsstandardskomitee (German Accounting Standard Committee)
EITF	Emerging Issues Task Force
EMEA	Europe, Middle East, Africa
ESOP	Employee stock option plan
EStG	Einkommensteuergesetz (German Income Tax Act)
FIFO	First-in, First-out
GmbH	Gesellschaft mit beschränkter Haftung (limited liability company)
HGB	Handelsgesetzbuch (German Commercial Code)
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standard
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 28, 2013

Management Board of TELES Aktiengesellschaft Informationstechnologien

* Translation - the German version is authoritative

Audit opinion* of the auditors Ernst & Young

We have audited the consolidated financial statements prepared by TELES Aktiengesellschaft Informationstechnologien, Berlin – comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements – together with the combined management report for the fiscal year from 1 January to 31 December 2012. 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 Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 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 entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated

* Translation – German version is authoritative

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 IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315a (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 of the Company and the Group 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.

Without qualifying this opinion, we draw attention to the management board's comments in the section entitled "Financing/going concern" in the combined management report. This section states that the majority shareholder made a further loan commitment of EUR 1.1m, in addition to the loans already granted, to maintain the Company's solvency. The Company's ability to continue as a going concern depends on it achieving its planned revenue targets and on the outstanding funds from the loan commitment by the majority shareholder being sufficient.

Berlin, 28 March 2013

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Schepers	Mattner
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

* Translation – German version is authoritative