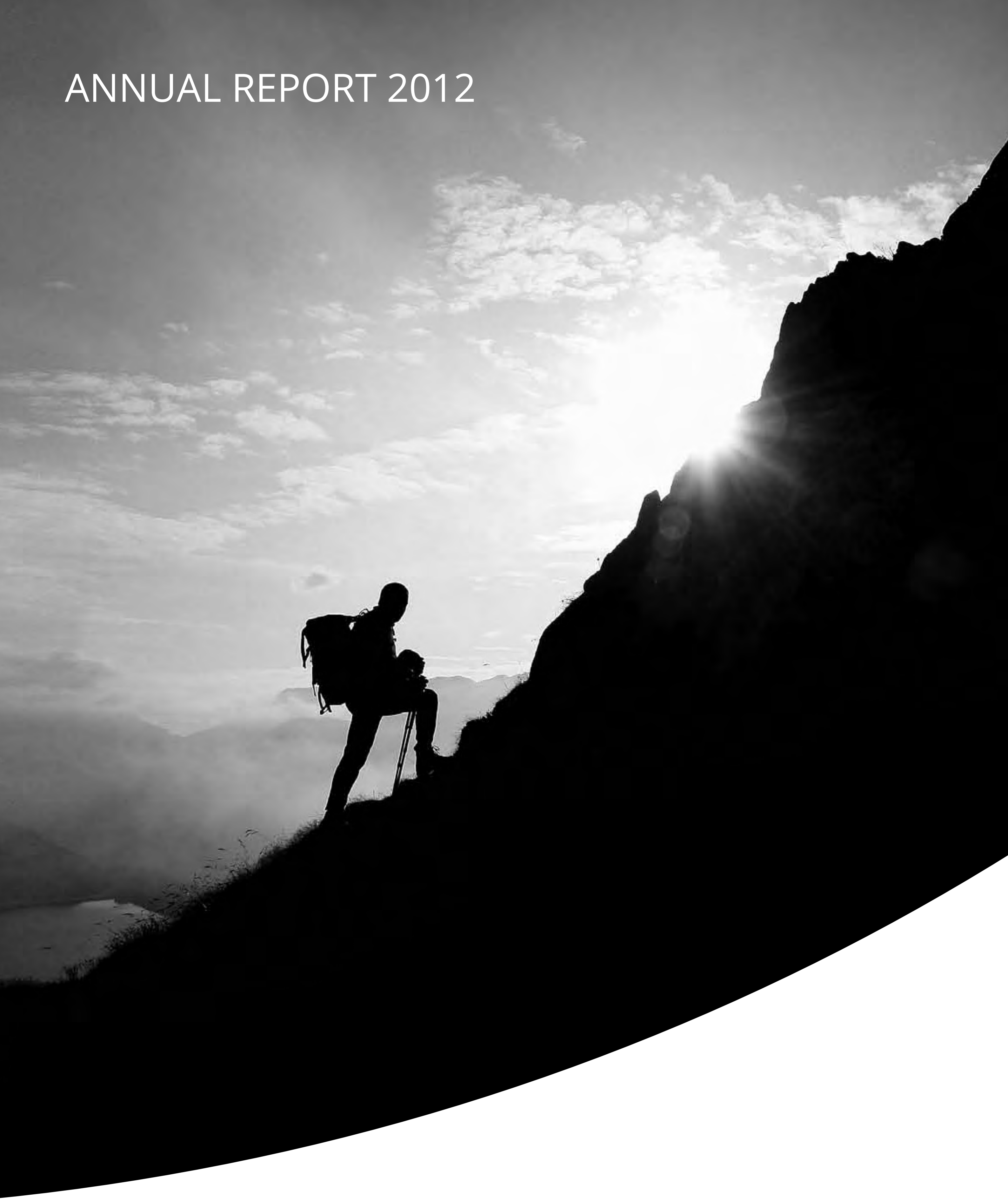
ANNUAL REPORT 2012



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Note
This document contains an abbreviated company financial report. Publication of abbreviated reports does not conform to the legally required form. The complete annual and company report, as well as status report and consolidated annual report for Teles AG Aktiengesellschaft Informationstechnologien were examined by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Berlin, and verified without reservation. The auditor's report makes the obligatory reference to the explanation of substantial risks (see the section „Going Concern").

The complete Management Report for TELES Group and the auditor's report can be found on www.teles.com.

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We would like to thank Mr. Charly Winkler for use of the photo.

Important Key Figures Persuant to IFRS

	2011 k€	2012 k€
Revenue	12,037	12,366
Gross profit (operative)	5,680	6,375
EBIT (operative)	-4,986	-2,659

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Letter to the Shareholders

Dear Shareholders,

2012 was the first full year following significant changes. Although we had to report another negative result in 2012, we succeeded insofar as we were able to further develop and stabilize the business, financing it with generated cash flow rather than borrowed capital.

We made a sizeable effort to strengthen our business units, especially in the second half of the year, and above all in the Access Solutions business unit (formerly known as Access Gateways) since this business unit generates the most sales along with the largest profit contribution. Among the business unit's products, we worked to renew the basics by introducing new operating systems and standardizing the hardware architecture. Now we must strive to communicate this functionality and performance to the market.

Compared to the other business units, Carrier Solutions has the largest existing customer base along with the most reference customers and the largest service business. We have developed software with a number of new functions which must now be marketed, using with the motto: "Would you like some more ...?" The products from this business unit are cutting-edge. However, their operation could benefit from further improvement so that customers can use them more easily.

The Enterprise Solutions business unit (formerly Next Generation Networks) has its Development Department in Vienna and is now well positioned. It has succeeded in delivering stable versions of its latest software products prior to customer deadlines. We offer fast and dependable service. In our promising business with IP Centrex, acquisition of a project can take up to 18 months (in contrast to the situation in our other business units). This requires perseverance along with steady, patient sales work.

In further news, we have worked to update our corporate presence over the past year. We have also continued to invest in the IT landscape and replace our somewhat outdated resource planning and customer management systems.

We are counting on a successful 2013 for the 30th anniversary of TELES.

The Management Board
April 2013

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 dark 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, 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, as well as the rest of Europe, the US and the Middle East.

BUSINESS UNIT
Access Solutions

The transition to a new hardware architecture for 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.

The use of the Linux open operating system has tangible benefits for users. It allows many applications to 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: With new generation Gateways additional features and services can be provided, which help opening up new market segments.

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

„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."

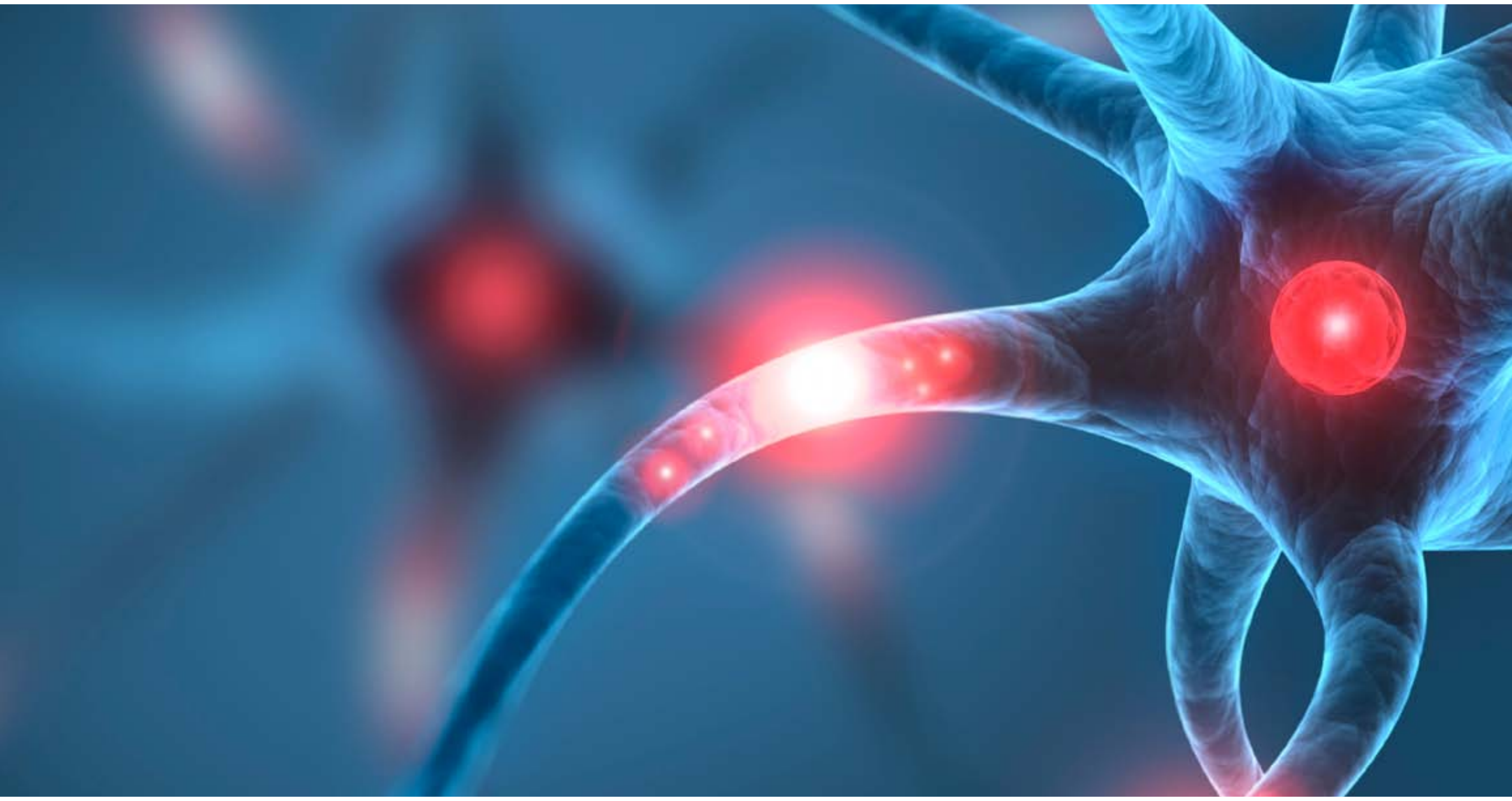
Steve Heinking,
Chief Information Officer, Renzenberger

Renzenberger, USA

Our customer Renzenberger offers an illustrative scenario for the use and impressive benefits of TELES Gateways. The US logistician Renzenberger transports the employees of rail operators in long-distance traffic to and from assigned stations and provides 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 US market.

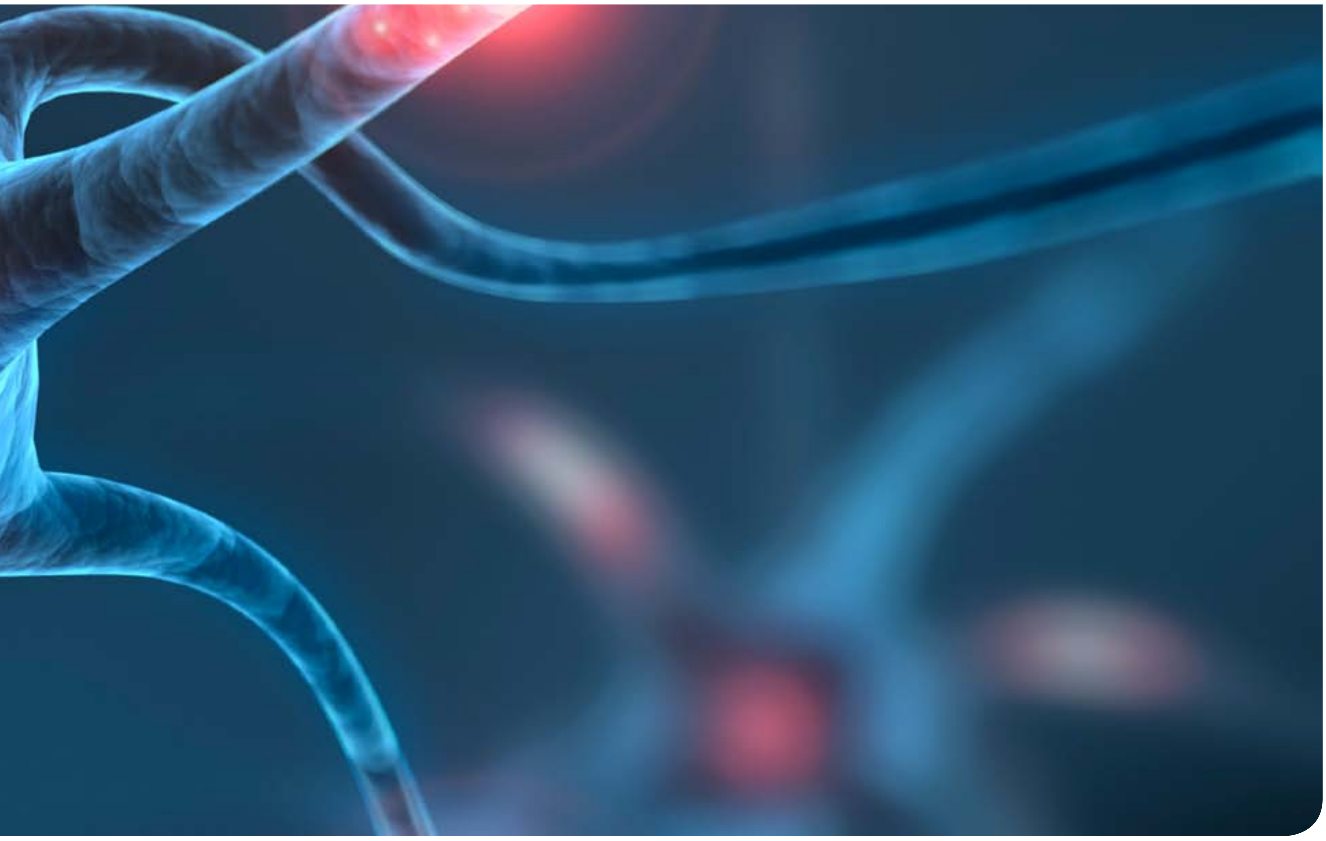


„We still have a lot planned for the minute trade. Therefore, I need a functioning trading platform that processes prices completely automated, takes over routing, runs maintenance-free and secures our profitability. TELES can do this.“

Chiang Chee Cheong,
Managing Director Phoenix Communications

Phoenix Communications, 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 from 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.



BUSINESS UNIT
Carrier Solutions

The migration from traditional circuit-switched networks (CSN) to modern and efficient IP networks (Voice over IP, VoIP) was also one of the most important issues in the telecommunications industry in the past year – including for TELES. The networks of many existing customers were migrated to soft-switch-based product lines. This is a clear signal from our customers of 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, each of whom has placed orders of more than 600 thousand euros.

To come up with a brilliant solution to satisfy growing customer and market demand, 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 was put 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.

BUSINESS UNIT
Enterprise Solutions

With the communications solutions of the business unit 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 work environment.

Unified Communications (UC) combines 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.

„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

VTX Telecom, Lausanne

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

Business Situation

TELES GROUP

	2011 k€	2012 k€
Revenue	12,037	12,366
Gross earnings (operative*)	5,680	6,375
EBIT (operative*)	-4,986	-2,659
Staff	108	88

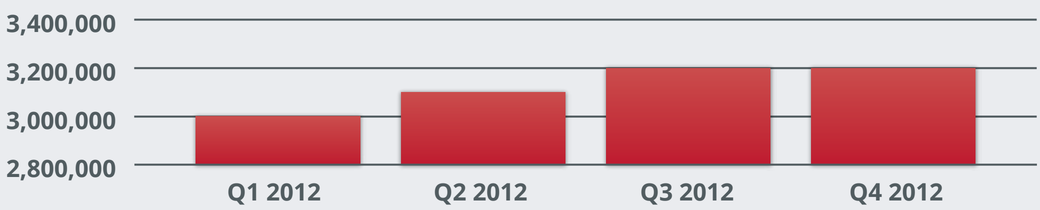
* These are operative key figures of the TELES Group. Transfer of the operative EBIT to the consolidated result pursuant to IFRS and presentation of key figures of TELES AG are included in the section "Key Figures TELES Group".

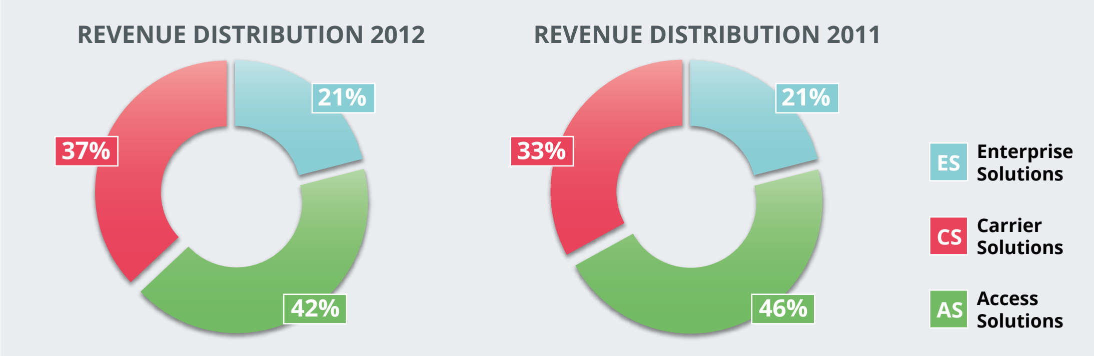
2012 was the first full year following the significant changes. We managed to be successful and get by without any further funds. Although in 2012 we achieved a negative result – as expected – we still funded ourselves by means of our own cash flow. Major investments in product realignment (e.g. new architecture for products in the business unit Access Solutions), in the image (website, brochures, presentations) and 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. We have fewer employees than in the previous year, mainly due to the deconsolidation of TELES India.

REVENUE

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

DEVELOPMENT OF REVENUE 2012





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

COSTS

In 2012, expenses of € 10.9m were incurred, a reduction of 20 % compared to 2011. Personnel expenses were reduced by 4 %, and other expenses by 36 %. Depreciation requirements decreased by 37 % compared to 2011.

EARNINGS

The operating EBIT was negative for 2012: € -2,659k.

EQUITY

A range of value adjustments were made in the process of drawing up the annual accounts for 2010. 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. The decided capital reduction is not effective as it not has been registered in the commercial register. One shareholder filed action for avoidance before the Berlin Regional Court against the relevant resolution. As a result of the settlement 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 by € 2,150k in 2012.

On the assets side, current assets decreased from € 8,540k to € 6,365k, while noncurrent 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 € 17,258k to € 18,032k. Equity decreased primarily due to the net loss from € -7,727k to € -10,651k.

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 to finance the operation of the business. In addition to the cost cutting measures undertaken, delinquincy management, customers' altered payment practices, and destocking, all contributed greatly to our 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 to the Company's usual extent.

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

Staff

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 remained almost constant at 88 at the end of financial year 2012. In the U.S., TELES Communications Corp. 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 were 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 unit Carrier Solutions since. As of June 1, 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. Consequences from the financial crisis can not be excluded either. Uncertainties with regard to economic and, occasionally, political conditions may negatively affect the demand for TELES' products and services 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 the arrangement of terms of payment, such as 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 unit of 'Research and Development'. However, quality problems may still occur. The earnings position is essentially dependent on the ability to adjust to changes in the market and reduce the costs of development and production of high quality new and existing products. Overall, the revenue and results may be negatively influenced by investment in new technology that 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 is all the more pertinent as more and more service level agreements (SLA) are concluded with our customers. SLA 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 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 consists primarily 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 revenue. 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 revenue and material procurements outside of the European Monetary 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 € 4,735k of the loan he granted to TELES in 2009. In addition, the majority shareholder also waived € 6,169k and € 4,077k in 2010 and 2011 of the loans 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, in March 2013 the majority shareholder agreed to a further loan commitment of € 1.1m apart from the funds already supplied. 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 and to the best of their knowledge and belief and 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 only came into partial 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 our customers and the market in general, as well as research carried out in this area, indicate that the TELES product portfolio is well-positioned. In the course of the transformation from telecommunications infrastructure to IP, we will see a growing demand in the coming years for cloud-based telecommunications solutions in the environment of IP Centrex and Unified Communications, and solutions for 'soft' migration in voice and data communication from ISDN to IP. In the area of Mobile Gateways, we expect a rise in sales in the coming years, especially as a result of the technical and commercial measures carried out in 2012 to develop a distribution channel in the US. 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.

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 € 1.1m will be payable upon redemption and cancellation of the shares. TELES expects the redemption and cancellation to be effective end of April 2013.

GROUP BALANCE SHEET

due date December 31; in k€; number of common shares: issued and outstanding: 23,304,676

	2011	2012
ASSETS		
Non-current assets		
Tangible assets	377	205
Intangible assets	14	11
Other financial assets	600	800
	991	**1,016**
Current assets		
Inventories	2,782	1,691
Trade accounts receivable	4,058	3,098
Other financial assets	149	568
Receivable from income taxes	133	43
Other current assets	755	644
Cash and cash equivalents	663	321
	8,540	**6,365**
Total assets	**9,531**	**7,381**
LIABILITIES		
Equity		
Common shares	23,305	23,305
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	**-7,727**	**-10,651**
Non-current liabilities		
Non-current accruals	246	361
Other financial liabilities	10,021	10,457
	10,267	**10,818**
Current liabilities		
Trade accounts payable	1,868	1,773
Accruals for income taxes	129	133
Other accruals	2,094	2,513
Accrued income	996	1,308
Other financial liabilities	96	73
Other current liabilities	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)

CONSOLIDATED PROFIT AND LOSS STATEMENT

in k€, except share-related information

	January 1 - December 31	
	2011	**2012**
Revenues	**12,037**	**12,366**
Cost of sales	**6,418**	**5,991**
Gross profit	**5,619**	**6,375**
Sales and marketing expenditures	4,881	3,697
Research and development expenditures	3,751	2,756
General administrative expenditures	3,001	2,581
Other income	359	374
Other expenditures	726	1,018
Operating loss	**-6,381**	**-3,303**
Financial earnings	626	625
Financial expenditures	136	243
Earnings before income tax from continued operations	**-5,891**	**-2,921**
Income tax expenditures	13	11
Earnings from continued operations	**-5,904**	**-2,932**
Discontinued operations		
Earnings from discontinued operations, net of tax	2,083	0
Annual net loss	**-3,821**	**-2,932**
Thereof attributable to:		
Shareholders of the parent company	-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		
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

CONSOLIDATED STATEMENT OF INCOME

in k€

	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	0	200
Actuarial losses on defined benefit obligations pursuant to IAS 19	0	-74
Tax on Other total result, attributable entirely on financial assets available for sale	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

STATEMENT OF CHANGES IN EQUITY

in k€; except number of nominal shares; 23,304,676, nominal share value € 23,305k

	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	8,595	-39,717	591	-	10	-7,216	6	-7,210
Net loss for the year, attrib-utable to parent company shareholders or non-control-ling 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	11,569	-43,538	591	-	341	-7,732	5	-7,727
Net loss for the year, attrib-utable to parent company shareholders or non-control-ling 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	11,569	-46,470	788	-74	231	-10,651	0	-10,651

CONSOLIDATED CASH FLOW STATEMENT

in k€

	January 1 - December 31	
	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

TOPICS OF DISCUSSION 2012

Once again in the past fiscal year 2012, the Supervisory Board worked pursuant to the relevant laws as well as the Company's articles of incorporation to regularly advise and monitor the Management Board of TELES Aktiengesellschaft Informationstechnologien as it worked to manage the Company. The Supervisory Board was regularly informed both verbally and in writing about the developments of the Company and the Group taking into consideration all of the key business processes. The Supervisory Board was involved in significant decisions that had a major impact on the Company.

During four meetings, the Supervisory Board was informed in detail about the strategy and the state of its implementation, the business performance, the profitability of the Company and its subsidiaries as well as key transactions based on the written and verbal reporting of the Management Board. Particular weight was given to discussion of the future orientation of the Company and its structure. During the reporting year, the Company continued to concentrate on its original core business. The restructuring measures and strategic steps taken in the previous year are beginning to show signs of success. The sales and operating results for the regular business activities were improved. The Company was stabilized overall. However, the equity capital was largely consumed by the losses incurred of € 2.4m.

Financing of the Company was discussed repeatedly.

The Company's liquidity was secured by corresponding loan agreements with the majority shareholder. Due to the Company's successful cash management, it was not necessary to use them. However, the Company still remains dependent on the loan commitment of the main shareholder. The continuing risks were also discussed. This includes, amongst others, missing revenue targets with related consequences for liquidity. Circumstances that could jeopardize the existence of the Company were reported on and evaluated by the Management Board.

The management of the Group, the Group's internal risk management and compliance issues were discussed with the Management Board.

The Supervisory Board is briefed regularly on the Group's individual segments in terms of budget deviations as well as the expected future development for each of the relevant segments. The development and business planning were each discussed on a quarterly basis by the Management Board and Supervisory Board. The Supervisory Board received regular reports on the liquidity. In addition, the Supervisory Board availed itself of its right to inspect the books and records of the Company also regardless of whether its approval was mandatory. In particular, the audit of the annual financial statement also addressed specific valuations that were discussed in detail with the Management Board and the auditor. The economic development of TELES Aktiengesellschaft Informationstechnologien and its affiliates was discussed in detail.

Transactions that require the Supervisory Board's approval due to legal provisions or requirements laid down in the Company's articles of incorporation were examined by the Supervisory Board and a decision was taken whether to approve them or not.

Furthermore, the Chairman of the Supervisory Board was in continuous contact with the members of the Management Board and issues relating to the Group's strategy, business development, sales and marketing were discussed.

Moreover, the Supervisory Board discussed important strategic projects with the Management Board. The primary topic involved the steps needed to consolidate and bolster the Company's competitiveness as well as concepts for the future growth of the Company.

At every Supervisory Board meetings, all members of the Supervisory Board were present.

The Supervisory Board did not form any committees.

ANNUAL FINANCIAL STATEMENT AND CONSOLIDATED FINANCIAL STATEMENT

The Supervisory Board duly issued its audit assignment for the annual financial statement and the annual consolidated financial statement for the 2012 fiscal year to Ernst & Young GmbH, Berlin as designated by the Annual General Meeting. The Supervisory Board has satisfied itself as to the independence of the auditors.

The audit assignment encompassed the auditing of the annual financial statement including the management report according to the standards of the German Commercial Code (HGB) and the consolidated financial statement and the consolidated management report according to the International Financial Reporting Standards (IFRS). The scope of the audit also included the Company's early risk detection system, the Group's receivables management and the evaluation of receivables as well as the system and quality of reporting to the Management Board.

The annual financial statement as of December 31, 2012 and the management report for the 2012 fiscal year as well as the consolidated financial statement as of December 31, 2012 and the associated management report as well as the accounting have been examined and each given an unqualified opinion by Ernst & Young GmbH, Berlin.

The assessment of the Group's state with regard to its continued existence, and especially with regard to the financing requirements associated with missed sales targets, has been plausibly represented by the Management Board. With regard to the remaining uncertainty, the auditors' opinion makes reference to the statements by the Management Board in the Group report (section "Financing/Going Concern") which estimate that the Company's liquidity situation is difficult and the majority shareholder has entered into a further credit agreement to maintain solvency. It is further stated that the existence of the Company could be threatened if sales targets are substantially missed and adequate funds cannot be raised from the shareholders. The Supervisory Board endorses this conclusion.

The financial statements, management reports and audit reports were submitted on schedule to all the members of the Supervisory Board.

The auditor participated in the balance sheet meeting of the Supervisory Board held on April 8, 2013 and reported on the main findings of the audit. The auditor answered the Supervisory Board's questions and gave further explanations. Following careful examination, the Supervisory Board has concluded that the annual financial statement as of December 31, 2012 and the management report for the 2012 fiscal year as well as the consolidated financial statement as of December 31, 2012 and the associated management report as well as the accounting and the dependent company report do not give rise to any objections.

The auditor confirmed that the considerations made by the Company for the legal transactions with the controlling Company, as were known on the date they were executed, were not unreasonably high. The auditor's opinion pursuant to Article 313 Section 3 Sentence 1 of the Stock Corporation Act (AktG) states the following:

"In accordance with our duly performed audit and assessment, we confirm that

1. the factual details of the report are correct,

2. the amount paid by the Company with respect to the legal transactions presented in the report was not unreasonably high."

By resolution dated April 8, 2013, the Supervisory Board approved the annual financial statement for the 2012 fiscal year that was prepared by the Company and audited by Ernst & Young GmbH. Accordingly, the annual financial statement for the 2012 fiscal year has been duly adopted. Furthermore, by resolution dated April 8, 2013, the Supervisory Board approved the consolidated financial statement for the 2012 fiscal year that was prepared by the Company and audited by Ernst & Young GmbH. The Supervisory Board would like to thank the Management Board as well as all of the employees for their enormous personal dedication and the work they performed in the fiscal year 2012.

Berlin, April 8, 2013

The Supervisory Board

Prof. Dr. Walter Rust
Chairman

REPORT ON CORPORATE GOVERNANCE

The German Corporate Governance Code represents important rules and regulations for the management and monitoring of publicly listed German companies and contains internationally and nationally recognized standards of responsible and transparent management and supervision of companies focused on long-term economic success. With its provisions that companies are required to observe under applicable law along with its recommendations and suggestions, the Code is intended to strengthen the confidence of international and national investors, customers, employees and the public in the management and supervision of publicly listed German companies.

The Management Board and Supervisory Board of TELES AG Informationstechnologien believe that the recommendations and suggestions in the German Corporate Governance Code play a substantial role in securing the appeal of Germany as a destination for financial investments. Each year the Government Commission on the German Corporate Governance Code examines the standards established by the Code in view of national and international developments and makes any necessary modifications. Under these circumstances, the Management Board and Supervisory Board meet regularly to intensively discuss the recommendations and suggestions of the German Corporate Governance Code and examine the extent to which Company-specific issues or other reasons necessitate exceptions in the implementation. Any divergences from the recommendations are disclosed in the declaration of compliance pursuant to Article 161 Section 1 Stock Corporation Act (AktG).

Corporate compliance as an instrument for ensuring compliance with the law, statutes and Company-internal policies along with observance by the Group members represents a key management and supervision task for the Management Board and Supervisory Board of TELES. The transparency of information relevant to the capital markets and the guarantee of compliance with legal provisions pertaining to the capital markets are key elements of such compliance. Mandatory examination of circumstances in view of their ad hoc relevance ensures that insider information is handled in conformity with the law. All persons who require access to insider information to perform their work at TELES are entered into an insider list. Reportable securities transactions are published in this manner throughout Europe. All relevant information in this context can be easily accessed on the TELES website (www.teles.com) in the Investor Relations section.

Exemplary corporate governance is not obtained merely by heeding certain rules, irrespective of their importance and relevance. The rules can only provide the framework within which good, responsible company management can exist. Ultimately, trustworthy conduct is required both within the Company and also vis-à-vis third parties.

Trustworthy conduct also characterizes the interaction between the Management Board and Supervisory Board. Their mutual objective is to ensure the Company’s continued existence along with sustainable value creation. In accordance with the requirements of the German Stock Corporation Act (AktG), TELES has a two-tier governance system characterized by a clear separation of management and supervisory functions. The Management Board regularly coordinates the strategic direction of the Company with the Supervisory Board, brings about its implementation and discusses the progress thereof at regular intervals with the Supervisory Board. The Management Board informs the Supervisory Board on a regular, timely and comprehensive basis about all issues that are relevant to the Company with regard to the business development, financial position and earnings, budgets and target achievement levels, risk scenarios and risk management.

Details on the remuneration of the members of the Management Board and Supervisory Board can be found in the remuneration report which is included as a part of the corporate governance report.

Another substantial factor for the success of TELES is related to the professional competence and motivation of its employees. TELES has always promoted a business culture based on respect for all, regardless of gender, nationality, ethnic origin, religion or age. Moreover, the diversity of TELES employees is recognized, utilized and promoted. Specification of mutual corporate goals and further expansion of the performance-based remuneration system have contributed to the promotion and best possible utilization of the available potential. Moreover, TELES has continued to pursue its commitment to promoting young talents in 2012 as in the past. A total of four students were in training while working on a Bachelor of Computer Science degree.

The Management Board and Supervisory Board of TELES AG Informationstechnologien again worked intensively in the reporting year to fulfill the requirements of the German Corporate Governance Code, and especially the amendments adopted on May 26, 2010 and on May 15, 2012. On this basis, the Management Board and Supervisory Board published most recently in March 2013 the following declaration of compliance pursuant to Article 161 Section 1 Stock Corporation Act (AktG).

CORPORATE GOVERNANCE

Pursuant to § 161 of the German Stock Corporation Act (Aktiengesetz = AktG), the Board of Directors and Supervisory Board of companies listed on the stock exchange in Germany are required to make an annual declaration stating that the recommendations of the Government Commission on the German Corporate Governance Code have been and are being complied with or listing the recommendations not complied with and disclosing the reasons why not. This declaration must be permanently accessible for the shareholders.

The German Corporate Governance Code (the "Code") contains rules with different binding force. In addition to current and binding stock corporation law regulations, it also contains recommendations from which companies may deviate; they are obliged however, to make full annual disclosure of these deviations. The Code further contains guidelines which may be deviated from without disclosure.

The following declaration refers to the Code in its revised version of 15.05.2012 (published 15.06.2012).

The Board of Directors and the Supervisory Board of TELES AG hereby 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 electronic 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, if 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 the motivation and sense of responsibility of the board members who in their respective functions are already acting responsibly and in the interests of the Company.

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 longterm 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 extensions.

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 experience in different cultural environments is appreciated. Therefore, in the past Directors positions have 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 are further criteria 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. It is currently unclear which requirements are to be fulfilled for the adequacy of Company's support subject to this recommendation. To avoid 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 days after the end of the reporting period. In principle, TELES AG publishes the Consolidated Financial Statementsand 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.

Berlin, March 2013

TELES AG Informationstechnologien

Prof. Dr. Sigram Schindler
CEO

Prof. Dr. Walter Rust
Supervisory Board Chairman

REMUNERATION REPORT

The remuneration report contains the principles used to determine the remuneration of the Management Board of TELES AG and sets out the level and structure of the Management Board's remuneration. It also describes the principles and amount of the remuneration of the Supervisory Board. The remuneration report follows the recommendations of the German Corporate Governance Code in the version applicable to the reporting time period.

I. Remuneration of the Management Board

The Supervisory Board is responsible for determining the remuneration of the Management Board. The full Supervisory Board consults on the structure of the remuneration system for the Management Board and reviews it regularly. The remuneration of the members of the Management Board of TELES AG is determined on the basis of the Company's size and activities, its commercial and financial situation and the level and structure of Management Board remuneration at comparable companies. Moreover, the duties and contribution of each respective member of the Management Board are considered.

The total remuneration for members of the Management Board of TELES AG – with the exception of the Chairman's remuneration – is divided into fixed and variable components. As a variable element of their remuneration with a long-term incentive effect, some board members were granted stock options in previous years under Employee Stock Option Plans (ESOP). Current board members receive additional benefits in the form of non-cash remuneration consisting of personal use of company cars.

The fixed component is paid in the form of a monthly salary. The table below shows the details of the fixed remuneration. The annual variable remuneration is determined based on the degree to which the targets specified together with the Supervisory Board at the start of a given fiscal year are met. The specified targets are oriented towards the Company's business and financial development. A retroactive change in performance targets is not provided. A minimum payment is not guaranteed for the variable remuneration component. In the 2012 fiscal year, no variable remuneration was paid despite the positive development of the business because the targets were not met.

The Company has not made any pension commitments to board members.

The number of stock options specified in the table below is vested proportionally based on the qualifying period served. The stock options may not be exercised until the TELES stock performance exceeds the performance of the respective higher reference index (DAX and TecDAX) by at least 10 % per year.

For the time being, the remuneration of the Chairman of the Board is limited to the monetary benefit associated with the company car. Prof. Dr.-Ing. Schindler (Chairman of the Management Board) received remuneration in the amount of € 44,000 (previous year: € 42,000) corresponding to the monetary benefit associated with the company car.

MANAGEMENT BOARD EARNINGS

				January 1– December 31
in k€		2011		2012
	Fixed	Variable	Fixed	Variable
Prof. Dr.-Ing. Sigram Schindler	42	0	44	0
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
Total	**630**	**0**	**417**	**30**

*) 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.

Prof. Dr.-Ing. Schindler (Chairman of the Management Board) received remuneration in the amount of € 44,000 (previous year: € 42,000) corresponding to the monetary benefit associated with the company car. The contract with Mr. Frank Paetsch expired on June 30, 2012 and was not renewed.

SHARE PORTFOLIO AND SUBSCRIPTION RIGHTS OF THE BOARD MEMBERS

till 31.12.2012

	Subscription rights	Shares
Prof. Dr.-Ing. Sigram Schindler (directly and indirectly)	0	13.658.442
Total	**0**	**13.658.442**

II. Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is determined based on a proposal submitted by the Management Board and Supervisory Board and adopted by the Annual General Meeting. The currently applicable remuneration rules for the Supervisory Board were adopted by the Annual General Meeting on August 28, 2007.

The Supervisory Board receives fixed as well as variable allowances. The fixed remuneration for an individual member is € 15,000 per year (basic remuneration), but the Chairman of the Supervisory Board receives two-and-a-half times this amount and his deputy receives one-and-a-half times this amount. The variable remuneration is performance-based and is granted in the amount of 0.15 % of the profit before income taxes of the TELES Group according to the approved consolidated financial statement. It is therefore paid only in case positive earnings contributions are achieved and is limited to the amount of the basic remuneration.

SUPERVISORY BOARD COMPENSATION

		January 1– December 31
in k€	**2011**	**2012**
Prof. Dr. Walter Rust	37,5	37,5
Prof. Dr. Ernst Denert	15,0	15,0
Prof. Dr. h.c. Radu Popescu-Zeletin	22,5	22,5
Total	**75,0**	**75,0**

The remuneration is paid on a pro rata basis in case a member leaves during the fiscal year.

In the past fiscal year, the expense allowances for the members of the Supervisory Board were equal to a total of € 75,000 (previous year: € 75,000). In the 2012 fiscal year, no variable remuneration was paid. Moreover, remuneration was paid for services rendered (consultancy) by members of the Supervisory Board of TELES AG or by offices in which members of the Supervisory Board of TELES AG are shareholders or partners.

EXPENDITURES FOR SERVICES

		January 1– December 31
	2011	**2012**
Mock attorneys	36	27
Prof. Dr. Ernst Denert	19	0
Total	**55**	**27**

III. Stock option plans

TELES AG has various Employee Stock Option Plans (ESOP) that were granted in the years 1998 and 1999 as well as 2001, 2002, 2004 and 2005. The goal of the plans is to allow the employees and managers to share in the Company’s success while retaining them in the Company on the long term. These plans are structured either as convertible bonds that can be converted into stock or as stock options which grant the right to receive Company stocks or cash payments if the stock price increases to a predetermined amount.

All of the plans provide that the equity instruments may be exercised only if certain performance targets are reached: The average price performance of the Company’s stock during the reference time period must exceed the average performance of the reference index in the same time period by at least ten percentage points per year (performance threshold).

The option plans for 1998, 1999, 2001 and 2002 provided that 70 % of the granted options are exercisable in any case following the end of the qualifying period. The remaining 30 % are exercisable only if the employees do not sell received shares until the last year of the term (“bonus component”). The plans for 2004 and 2005 do not have any bonus provisions.

Purchase rights may be exercised at the latest from eight to ten years after issuance.
The calculated nominal value of the stock options granted until 2004 as part of the Employee Stock Option Plans was reduced from € 2.00 to € 1.00 due to the capital reduction that was approved in 2004 at the Extraordinary General Meeting.

The following Employee Stock Option Plans have expired:

Convertible bonds from 1998
on June 24, 2008

Convertible bonds from 1999
on August 15, 2009

ESOP subplan 1 from 2001
on October 9, 2009

ESOP subplan 2 from 2001
on October 9, 2011

ESOP plan from 2002
on December 16, 2012

ESOP subplan 1 from 2004
on August 16, 2010

Details on the various Employee Stock Option Plans can also be found in the explanations accompanying the consolidated financial statement.

Berlin, April 2013

TELES AG Informationstechnologien
The Management Board