UniCredit
Markets & Investment Banking

Company Flash	Telecommunications	Germany	June 16, 2008

Teles

Restructuring of group progresses

- We upgrade Teles to Buy from Hold. In our view, the share price decline of the last few weeks was overdone.

- The Q1/08 figures have shown that the reorganization of the group is making progress. A majority stake (80%) in the Sky DSL business was sold this year. Two acquisitions in the technological area were made last year (“MissisSiPpi” and “IP Gear Ltd.”). In the first quarter of the year, revenues of EUR 5.7 mn were higher than we had expected (UniCredit (E:) EUR 4.5 mn). EBITDA was lower than expected due to integration and reorganization efforts and higher expenses in the context of the VoIP patent infringement claims that Teles is pursuing in the US.

- Our target price is adjusted downward to EUR 2.30 from EUR 2.70. We continue to value Teles with an SOP model, where the freenet stake (3.7% of freenet shares) is the most valuable asset (91% of the total calculated equity value).

- In our view, the next few weeks will be interesting regarding the dividend. So far, Teles has not made any statements with respect to the dividend. If the company sticks to its policy of relatively high payments and wants to pay out a dividend in line with our expectation (EUR 0.50 per share), then we expect it to sell at least parts of its freenet stake because we see a credit financed dividend as unlikely. The net cash position at the end of Q1/08 stood at EUR 1.3 mn. If the company currently does not want to sell shares in freenet for strategic reasons, we can imagine a significantly lower dividend (even zero).

	2005	2006	2007	2008e	2009e
Sales (EUR mn)	25.4	28.2	19.2	23.4	24.9
EBITDA (EUR mn)	-11.3	-16.6	-12.0	-7.0	-1.2
EBIT (EUR mn)	-12.9	-17.5	-12.9	-8.3	-2.5
Net income (EUR mn)	110.4	-16.9	8.1	-7.5	-1.9
EPS reported (EUR)	5.27	-0.80	0.12	-0.35	-0.09
DPS (EUR)	0.87	2.00	0.50	0.50	0.50
ROCE (%)	266.2	-193.2	-199.9	-50.2	-14.9
P/E (x)	1.4	-5.3	30.6	-5.1	-20.4
P/CF (x)	1.4	-5.1	47.8	-4.3	-61.6
P/BV (x)	1.4	1.1	1.3	0.9	1.2
EV/EBITDA (x)	-3.7	1.2	-1.6	-0.7	-12.9
EV/EBIT (x)	-3.3	1.1	-1.5	-0.6	-6.5
ROCE/WACC (x)	27.0	-19.6	-20.3	-5.1	-1.5
Div. yield (%)	11.6	46.8	13.7	27.8	27.8

Source: Company data, UniCredit Global Research

Buy (prev. Hold)

Price on 06/13/08	**EUR 1.80**
Target price (prev. EUR 2.70)	**EUR 2.30**
Upside to TP	27.8%
Cost of equity	9.9%
High/Low (12M)	4.99/1.80

INVESTMENT HIGHLIGHTS
Corporate reorganization in process
Focus on IP-related technology
Losses are narrowing

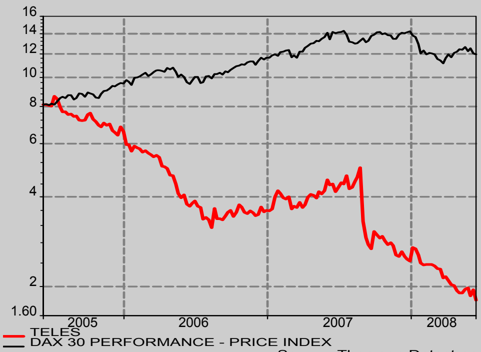
STOCK TRIGGERS
Recovery from low valuation level
Dividend news flow or figures
Figures that underpin operating recovery

STOCK DATA

Reuters/Bloomberg	TLIG.DE/TLI GR
Average daily volume (tds.)	10.7
Free float (%)	41.7
Market capitalization (EUR bn)	0.0
No. of shares issued (mn)	21.1
Shareholders	Sigram Schindler Investment Company 47.5%, Teles AG 9.3%, Sigram Schindler Foundation 1.5%

UPCOMING EVENTS

Annual general meeting	29-Aug-08
H1/Q2	31-Aug-08
9M/Q3	30-Nov-08



Source: Thomson Datastream

RELATIVE PERFORMANCE (% CHG.)

	1M	3M	6M
DAX	-3.5	-25.8	-13.6
DJES50	-1.0	-20.7	-9.8
ES Tech.	-3.6	-17.2	-3.3

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Q1/08 VS. ESTIMATES (EUR MN)

Q1/08	Reported	UniCredit (E)	Deviation %
Group			
Revenues	5.71	4.50	27
EBITDA	-2.81	-1.80	n/a
Net revenues and EBITDA of the segments			
TCS			
Revenues	5.71	4.50	27
EBITDA	-1.30	-0.60	n/a
Others			
Revenues	0	0	n/a
EBITDA	-1.51	-1.20	26

Source: Teles, UniCredit Global Research

Adjustments to model in line with Q1/08 trends

We adjust our 2008 and 2009 group revenue expectations slightly upward due to a stronger than so far expected performance at the TCS segment. We have not explicitly modeled in the newly planned segment for Customer Premise Equipment (CPE), which is not yet operational. We have reduced our EBITDA expectations for both years, as the cost base in Q1/08 was worse than expected. We anticipate that it will take some time to significantly lower costs.

ADJUSTMENT OF ESTIMATES

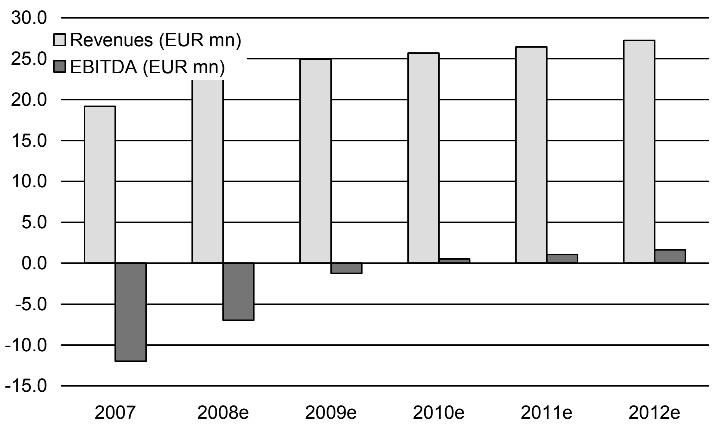
	2008e prev.	2008e new	2009e prev.	2009e new
Revenues (EUR mn)	**20.3**	**23.4**	**21.2**	**24.9**
y-o-y %	5.7	21.9	4.5	6.5
EBITDA (EUR mn)	**-4.9**	**-7.0**	**1.1**	**-1.2**
EBITDA margin %	-24.1	-29.8	5.0	-5.0
EPS (EUR)	-0.23	-0.35	0.02	-0.09

Source: UniCredit Global Research

Positive mid-term trends expected

In the coming years, we expect Teles's revenues to continue to grow (6.5% y-o-y in 2009). In our scenario, the negative EBITDA of the years 2007 to 2009 should switch to a positive figure in 2010. We are currently cautious with respect to our expectations for the earnings dynamic, as the business model of Teles is currently being overhauled and the visibility of the mid-term performance is currently low. We see upside to our estimates.

WE EXPECT CONTINUOUS IMPROVEMENTS IN REVENUES AND EBITDA

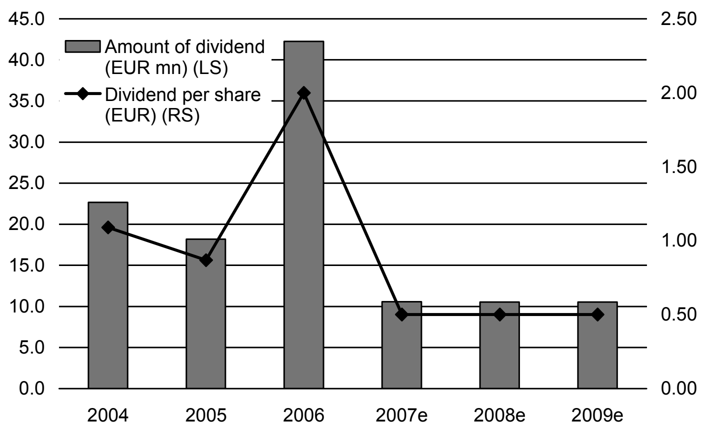


Source: Teles, UniCredit Global Research

Sale of freenet shares?

Teles still has a stake of 3.6 mn freenet shares (3.7%). We view this stake as the most important asset of the company. Usually Teles pays high dividends (e.g. 2006: EUR 2 per share, absolute amount of EUR 42 mn). We have lowered our dividend expectation for 2007 to EUR 0.50 (from EUR 1.00) per share. So far, Teles has not made any statements with respect to the 2007 dividend. As the net cash position at the end of Q1/08 stood at EUR 1.3 mn, the company would, in our view, have to sell at least a part of its freenet stake (value ca. EUR 43 mn) to be able to pay our expected dividend of EUR 0.50 per share (EUR 10 mn). In the past, some of the payments we described as dividends have technically been distributions of equity to shareholders.

WE EXPECT TELES TO STICK TO ITS HIGH DIVIDEND PAYMENT POLICY



Source: Teles, UniCredit Global Research

Target price EUR 2.30 per share

We reduce our target price to EUR 2.30 from EUR 2.70. We continue to value Teles with a sum-of-the-parts model. In our model, we derive a total equity value of EUR 47 mn, which translates into a value of EUR 2.25 per share and supports our target price of EUR 2.30. We adjust the Q1/08 cash position of EUR 2.4 mn by EUR 1.1 mn to take into account the convertible debt.

SOP VALUATION

	No. of shares (mn)	Price (EUR)	Value
Net cash as of Q1/08 (EUR mn)			1.3
Value of freenet shares (EUR mn)	**3.6**	**12**	**43.2**
NPV future cash flows (EUR mn)			3.0
Sum (EUR mn)			**47.4**
Equity value (EUR mn)			**47.4**
No. of shares (mn)			21.1
Price (EUR)			2.25

Source: Teles, UniCredit Global Research

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Company	Key
Teles	3

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Company	Date	Rating	Currency	Target price
Teles	01/09/2008	Hold	EUR	2.70
Teles	10/08/2007	Hold	EUR	3.10
Teles	09/05/2007	Hold	EUR	3.00
Teles	07/06/2007	Buy	EUR	5.20
Teles	05/21/2007	Buy	EUR	4.40

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