Half-yearly Financial Statements of TELES Group to 30/6/2014

(IFRS, unaudited)

Key Figures from 1 January 2014 to 30 June 2014

Overview of the corporate key figures of TELES AG for the first six months of 2014 (according to IFRS, unaudited)

TELES Group (in k€)	1/1/2013 – 30/6/2013	1/1/2014 – 30/6/2014	Change
Revenue	5,701	5,894	3 %
Gross Profit	3,371	3,119	-7 %
EBIT	-549	-737	-34 %

- Sales increase over previous year thanks to powerful Q2
- Higher material costs and non-recurring special effects weigh down result
- Business units developing at individual pace

Overall Economic Situation in the Relevant TELES Markets in the USA, German Speaking Area and Rest of Europe

In the first six months of 2014, the global economy continued to brighten, and that regardless of a slight downturn in the first quarter. The Federal Reserve (Fed) reported that in its opinion the economic situation in the USA had further improved. Economic activity expanded across the complete country, according to the Beige Book report on the economy released at the beginning of June. The consumption increased – although to a varying extent – and the banks approved more loans. The labor market also improved slightly, but still remains a major source of concern for the Fed.

The developments in the Eurozone, however, were mixed: The economic report released by the ECB in June noted a slight increase in business activity in the crisis-hit Mediterranean Member States (Portugal, Italy, Greece and Spain) after the sharp downturns over the last few years – but with the fear of deflation still dominating the political agenda. The Central and Eastern European Member States – and especially Germany – proved to be very dynamic. And thanks to a robust level of domestic demand in the United Kingdom, the economy there continued to demonstrate highly dynamic development.

Interim Management Report

In the first half of 2014, the sales at TELES AG improved slightly on an annualized basis. Thanks to a powerful second quarter with growth in sales of eleven percent compared to the same period in the previous year, the revenues increased in the first six months by three percent to approx. € 5.9 million. This improvement more than made up for the weak first quarter.

The operating result (EBIT) improved by 25 % in the second quarter compared to the previous year. However, at the end of June 2014 it stood at an amount of K€ -737, which was on balance 34 % below the level for the same period in 2013. Higher material costs and the non-recurrence of special effects in the first quarter weighed down the result. The business activities continued to be financed from the current cash flow.

Meanwhile, the three business units developed at differing pace: The results of the Access Solutions business unit remained unchanged. The revenue up to mid-2014 amounted to a good € 2.4 million, and was thus at the level achieved in the previous year. The driving force behind the stable business development was the partnership with a US carrier especially, which was announced in May. The Carrier Solutions business unit demonstrated good development in the first six months of 2014, with the sales increasing by seven percent to € 1.8 million. Solutions from TELES for migrating from conventional circuit switched networks to more high performance IP networks remain in demand and continue to drive forward the business.

Robust development was noted in the Enterprise Solutions business unit: State-of-the-art solutions for hosted telephone systems (IP Centrex and Mobile Centrex) are gaining more and more acceptance. We have observed a growing interest in all of the European telecommunications markets. It is very satisfying in this regard that also the so-called Tier 1 carriers, the former national monopolies such as Deutsche Telekom, are paying attention to the solutions we offer and actively approaching TELES. Service providers and network operators are modernizing their network infrastructures, in order to be able to offer useful and high margin telecommunications services to business customers especially. TELES is helping the carriers to outpace their competitors here with attractive services. The sales in this business unit increased by five percent to approx. € 1.7 million.

TELES Group (in k€)	1/1/2013 – 30/6/2013	1/1/2014 – 30/6/2014	Change
Revenue	5,701	5,894	3 %
Access Solutions	2,427	2,418	-
Carrier Solutions	1,698	1,818	7 %
Enterprise Solutions	1,576	1,658	5 %

Summary Statement of the Business Situation

The Group's business is characterized by the realignment of TELES AG and its business units, the focus on profitable product lines and markets, as well as the identification of promising markets and trends. The anchoring and fixing of TELES on the market as one of the leading and innovative specialists for telecommunications solutions continues to require both efforts and patience. The USA remains a special challenge in this regard: In principle, the market is ripe for intelligent access solutions – as is demonstrated by the meetings we have had with leading carriers and potential users. For that however, the tendering processes are far more protracted than usual and require a high level of consulting effort and outlays.

Risk Report

In order to have timely identification of opportunities and risks and minimize any dangers to the company, we have established control systems, which are an integral component of the business processes and of all the decisions by the management.

All the risks known to the company which could have a negative influence on the earnings and financial position of TELES were described in detail in the annual financial statements for the 2013 financial year, which were released in April. Up to the middle of the current 2014 financial year, we did not become aware of any further opportunities or risks over and above those described in said annual financial statements.

Outlook

In the second half of the 2014 financial year, TELES expects a slight increase in the sales on an annualized basis and an improvement in the earnings position. Tapping into and successfully developing the US market, together with achieving the first major contracts and tender awards, will play a fundamental role in fulfilling the planning goals at TELES and the extent to which they can be reached.

TELES AG Informationstechnologien
The Management Board
July 2014

TELES AG Informationstechnologien

Interim Financial Statements

Consolidated Balance Sheet (IFRS, unaudited)

in k€, except number of shares	31/12/2013	30/06/2014
ASSETS		
Non-current assets		
Tangible Assets	145	147
Intangible Assets	8	11
	153	**158**
Current Assets		
Inventories	1,863	1,011
Trade accounts receivables	1,581	1,346
Receivables from income tax	130	131
Other current assets	260	281
Cash and cash equivalents	480	340
	4,314	**3,109**
Total Assets	**4,467**	**3,267**
Liabilities		
Equity		
Common shares (issued resp. outstanding: 23,304,676)	23,305	23,305
Additional paid-in capital	11,569	11,569
Retained earnings	-45,017	-45,744
Reserve for pension funds	-119	-119
Reserve for currency differences	-66	-108
Equity attributable to shareholders of the parent company	**-10,328**	**-11,097**
Non-controlling interest	**0**	**0**
Total equity	**-10,328**	**-11,097**
Non-current liabilities		
Non-current accruals	451	474
Other financial liabilities	10,688	10,688
	11,139	**11,162**
Current liabilities		
Trade accounts payables	1.373	962
Other accruals	448	358
Accrued income	670	462
Other financial liabilities	4	0
Other current liablities	1.161	1.420
	3.656	**3.202**
Total current and non-current liabilities	**14.795**	**14.364**
Total liabilities	**4.467**	**3.267**

Consolidated Statement of income (IFRS, unaudited)

in k€, except for share related information	2nd quarter		January 1 – 30 June	
	2013	**2014**	**2013**	**2014**
CONTINUED OPERATIONS				
Revenue	**2,946**	**3,264**	**5,701**	**5,894**
Cost of Sales	**1,234**	**1,636**	**2,330**	**2,775**
Gross Profit	**1,712**	**1,628**	**3,371**	**3,119**
Sales and marketing expenditures	943	788	1.810	1,651
Research and development expenditures	781	726	1.443	1,458
General and administrative expenditures	532	515	1.072	953
Other income	314	234	417	236
Other expenditures	7	9	12	30
EBIT	**-237**	**-176**	**-549**	**-737**
Financial earnings	1,069	15	1,320	15
Financial expenditures	0	0	0	1
Earnings before income tax	**832**	**-161**	**771**	**-723**
Income tax expenditures and income tax refund	14	2	14	4
Earnings from continued operations	**818**	**-163**	**757**	**-727**
DISCONTINUED OPERATIONS				
Earnings from discontinued operations, net of tax	0	0	0	0
Net earnings/net loss	**818**	**-163**	**757**	**-727**
This can be divided into:				
Shareholders of the parent company	818	-163	757	-727
Minority interests	0	0	0	0
Earnings per share from continued operations				
Undiluted	0,04	-0,01	0,03	-0,03
Diluted	0,04	-0,01	0,03	-0,03
Earnings per share, total				
Undiluted	0,04	-0,01	0,03	-0,03
Diluted	0,04	-0,01	0,03	-0,03
Number of underlying shares				
Undiluted	23,304,676	23,304,676	23,304,676	23,304,676
Diluted	23,304,676	23,304,676	23,304,676	23,304,676
Additional information:				
EBITDA[1]	-208	-151	-476	-685

[1] Corresponds to Earnings (2013: -k€ 237/ -k€ 549; 2014: -k€ 176/ -k€ 737) before depreciation (2013: k€ 30/ k€ 72; 2014: k€ 25/ k€ 52).

Statement of comprehensive income (IFRS, unaudited)

in k€	2nd quarter		1 January - 30 June	
	2013	2014	2013	2014
Net loss/net earnings	**818**	**-163**	**757**	**-727**
Other comprehensive income:				
Other comprehensive income reclassified affecting net income in the				
Financial assets available for sales	0	0	281	0
Profit from *Financial assets available for sales*	-1,081	0	-1,081	0
income tax effects	12	0	12	0
	-1,069	0	-788	0
Other comprehensive income to be reclassified affecting net income in the actual period, net of tax	**-1.069**	**0**	**-788**	**0**
Other comprehensive income to be reclassified affecting net income in subsequent periods				
Currency translation differences of foreign subsidiaries	-34	-63	-140	-42
Financial assets available for sales	0	0	0	0
income tax effects	0	0	0	0
	-34	-63	-140	-42
Other comprehensive income to be reclassified affecting net income in subsequent periods, net of tax	**-34**	**-63**	**-140**	**-42**
unrecognized net actuarial losses from performance-based obligations in accordance with IAS 19	0	0	0	0
Other comprehensive income not to be reclassified affecting net income in subsequent periods, net of tax	**0**	**0**	**0**	**0**
Other comprehensive income, net of tax	**-1,103**	**-63**	**-928**	**-42**
Total income, net of tax	**-285**	**-226**	**-171**	**-769**
This can be divided into:				
Shareholder of parent company	-285	-226	-171	-769
Minority interests	0	0	0	0

Development of the consolidated equity (IFRS, unaudited)

in k€, except number of nominal shares: 23,304,676; nominal value of the shares: k€ 23,305; minority interests: 0

	Additional paid-in capital	Retained earnings	Reserve for evaluation	Valuation of pension obli-gations	Reserve for currency dif-ferences	Total equity
31 December 2012	**11,569**	**-46,470**	**788**	**-74**	**231**	**-10,651**
Net loss	-	757	-	-	-	757
Other comprehensive income	-	-	-788	-	-140	-928
30 June 2013	**11,569**	**-45,713**	**0**	**-74**	**91**	**-10,822**
31 December 2013	**11,569**	**-45,017**	**0**	**-119**	**-66**	**-10,328**
Net loss	-	-727	-	-	-	-727
Other comprehensive income	-	-	-	-	-42	-42
30 June 2014	**11,569**	**-45,744**	**0**	**-119**	**-108**	**-11,097**

Consolidated Cash flow statement (IFRS, unaudited)

in k€	1 January – 30 June	
	2013	**2014**
Cash flow from operating activities:		
Net loss/net earnings	**757**	**-727**
Adjustment of the net loss for:		
Financial results		
Dividend GRAVIS	-250	0
Disposal of GRAVIS shares	-1,069	0
Value adjustments on receivables	33	19
Impairment on inventories	-53	71
Depreciation on fixed assets	70	49
Amortisation on intangible assets	2	3
Changes to other balance sheet items:		
Inventories	-57	781
Trade accounts receivables	-59	184
Other current assets and accruals	78	-21
Non-current liabilities	-284	-333
Provisions and other liabilities	-268	-67
Effects from changes in exchange rates	-140	-42
Cash outflow from operating activities	**-1,240**	**-83**
Cash flow from investing activities:		
Purchase of fixed assets	0	-50
Purchase of intangible assets	0	-7
Recovery right	568	0
Dividend GRAVIS	250	0
Disposal of GRAVIS shares	1,081	
Cash inflow (outflow) from investing activities	**1,899**	**-57**
Cash flow from financing activities:		
Loans from related parties	0	0
Cash flow from financing activities	**0**	**0**
Net change in cash and cash equivalents	659	-140
Cash and cash equivalents, beginning of the year	321	480
Cash and cash equivalents, end of the year	**980**	**340**
Cash and cash equivalents include: Money market funds	70	70

Summary of Significant Financial Reporting Policies and Standards

Presentation Basis

TELES' consolidated financial statements as of 31 December 2013 were prepared in accordance with the regulations and rules in the financial reporting standards from the International Accounting Standards Board (IASB), London, valid and applicable on the balance sheet reporting date. The interim financial statements as of 30 June 2014 were prepared in accordance with IAS 34 "Interim Financial Reporting". The accounting policies and measurement methods used in the preparation of the interim financial statements are principally consistent with those used in the consolidated financial statements for the year ending 31 December 2013. Standards and interpretations binding and applicable from 1 January 2014 had no deviating effects on the accounting policies and measurement methods applied.

All of the IAS and IFRS reporting standards binding and applicable as of 30 June 2014, as well as the interpretations from the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC), were applied accordingly.

Audit Review

The interim financial statements and the interim management report were not subject to either an audit or an audit review by the statutory auditor.

Responsibility Statement by the Company Officers (Management)

We hereby confirm to the best of our knowledge that the consolidated interim financial statements give a true and fair view of the net assets, financial and earnings position of the Group in accordance with the applicable accounting and reporting policies and standards for interim reporting, and that the business development including the performance of the business and the position of the group in the interim consolidated management report provides a true and fair view, together with a description of the fundamental opportunities and risks associated with the expected development of the group for the rest of the financial year.