TELES AG Informationstechnologien

Q3 Quarterly Financial Statements of TELES Group to 30/09/2014

(IFRS, unaudited)

Key Figures from 1 January 2014 to 30 September 2014

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

TELES Group (in k€)	1/1/2013 – 30/9/2013	1/1/2014 – 30/9/2014	Change
Revenue	7,900	8,634	9 %
Gross Profit	4,553	4,738	4 %
EBIT	-1,185	-1,405	-19 %

- Jump in third quarter sales lifts figures for first nine months
- Currency impacts and non-recurring special effects weigh down result
- Enterprise and Carrier Solutions business segments well on track
- Business sluggish with Access Solutions

Overall Economic Situation in the Relevant TELES Markets in the DACH Region, the Rest of Europe and the USA

While the recovery in the global economy will continue, it remains prone to setbacks in the opinion of the European Central Bank. According to its October 2014 monthly report, the global economy is maintaining a sustainable recovery course overall despite a weak first half of the year – although the differences in the growth dynamics are widening in individual regions and countries. The global economy will rise over the coming quarters. The reasons for this are the expansive monetary policies in the industrialized countries, favorable conditions on the financial markets, loose budgetary policies and a global improvement in market sentiment. Over the medium term however, the prospects for global growth remain uncertain because of increased geopolitical risks, such as the crisis in Ukraine, as well as due to worries about financial stability and structural barriers. By contrast, the German economy – which has been the motor for European economic growth – has started to flounder: The leading research institutes have made clear downward adjustments to their growth forecasts for both the current and the next year, pointing to the dwindling demand in the euro zone, and especially in Italy and France.

The improvement in the US economy is set to continue, according to the US Federal Reserve Board. As per the economic report published in September in the *Beige Book,* the automotive industry is recording strong growth. Likewise, the business environment is improving for the banking sector. Furthermore, the labor market is developing well, with several industries and regions already noting a lack of manpower in certain areas, such as with IT specialists for instance. In the opinion of several central bankers, the US economy is in such good condition that a step-by-step increase in the interest rates will soon be on the cards. Since December 2008, the key interest rate in the USA has remained at an historically low level of 0.25 percent. In May 2013, the head of the Fed at that time, Ben Bernanke, announced the curbing of the stimulation to the economy by the Federal Reserve – which was understood to indicate a tightening of the interest policy. However little has happened since then. The markets do not expect an increase in the interest rates before the middle of next year.

Interim Management Report

In the third quarter, the sales clearly grew in comparison to the previous year and amounted to € 2.7 million. This represents a plus of 25 percent. And the sales also increased below the line: In comparison to the same period in the previous year, the revenues grew in the first three quarters by nine percent to approx. € 8.6 million. Moreover, the earnings position clearly improved: In the third quarter, the gross profit amounted to € 1.6 million, with the gross profit margin at 59 percent. This represents a plus of five percentage points compared to the same period in the previous year. When viewed over the whole year, the gross profit margin was at 55 percent after 58 percent in the same period in the previous year. However the operating loss (EBIT) widened by 19 percent to minus € 1.4 million. In the comparable period in the previous year, the loss still amounted to approx. €1.2 million. Non-recurring special effects and currency fluctuations impacted negatively on the result.

Furthermore, differing paces of development in the three business segments have continued: The Carrier Solutions business segment has demonstrated positive development with a sales plus of 37 percent in the first three quarters. While a reduction in sales of 25 percent was reported in this business segment at the end of last year, TELES has succeeded in reversing this trend in the first three quarters of 2014. Targeted market development in the core markets has contributed to a strengthening of the business segment and the offsetting of the weaknesses from the previous year.

The Enterprise Solutions business segment has reported excellent development: At the end of September, the revenues amounted to a good € 2.7 million and thus were 18 percent above the previous year. Hence, the growth already noted in the previous year further accelerated – with the sales in this segment increasing by 14 percent in the 2014 financial year. The sales of Enterprise Solutions have now grown continuously over a longer period. The growth drivers here are products and Solutions for unified and modern communications independent from end devices and networks (unified communications). The interest in the products and Solutions is growing in the DACH core markets, as well as in the rest of Europe, with both network operators and business customers which are streamlining their processes and intend to enhance the potential for productivity with modern information and communications technology.

By contrast, weak development was noted in the third business segment, Access Solutions: The Access Solutions business shrunk by 15 percent to 2.8 million. The market potential especially with the upcoming replacement of conventional circuit switched networks (TDM) and services such as ISDN in favor of more high performance IP networks is undisputed here – but with delays in the deactivation of TDM and sales weaknesses with Mobile Gateways impacting negatively on the development. The market for voice Access via Mobile Gateways has come to an almost complete standstill. That is also the reason for the disappointing development in the US business, which will be advanced in the future with a different portfolio.

TELES Group (in k€)	1/1/2013 – 30/9/2013	1/1/2014 – 30/9/2014	Change
Revenue	7,900	8,634	9 %
Access Solutions	3,367	2,850	-15 %
Carrier Solutions	2,265	3,106	37 %
Enterprise Solutions	2,268	2,678	18 %

Summary Statement of the Business Situation

TELES AG's focus on profitable and future-oriented product lines and markets is progressing at full pace. The differing developments in the business segments – also in a comparison extending over several years – indicate very clearly that Enterprise Solutions are of unique importance for the future of the group – with the business segment growing constantly at double-digit percentage rates and thus gaining increasing significance for the company. By contrast, the older Access Solutions business segment remains a challenge. At the same time however, we are convinced that Access

Solutions with VoIP Gateways especially have a good future with the forthcoming ISDN deactivation process – as is demonstrated in our meetings with leading Carriers and potential users.

Opportunities and Risk Report

Control and risk management systems are an important component of all the business processes and decisions by the management. In the annual financial statements for the 2013 financial year which were released in May, we reported in detail on all of the opportunities and risks known to the company which could affect the stability and liquidity of the company. We are not aware of any further opportunities or risks at present over and above those.

Outlook

TELES expects a plus in sales in 2014 compared to the previous year and a further improvement in the earnings position. The extent to which TELES succeeds in further developing the Access Solutions business segment will play an absolutely fundamental role in fulfilling the planning goals at TELES and the extent to which they can be reached.

TELES AG Informationstechnologien
The Management Board
October 2014

Interim Financial Statements

Consolidated Balance Sheet (IFRS, unaudited)

in k€, except number of shares	31/12/2013	30/09/2014
ASSETS		
Non-current assets		
Tangible Assets	145	130
Intangible Assets	8	12
	153	**142**
Current Assets		
Inventories	1,863	1,072
Trade accounts receivables	1,581	1,491
Receivables from income tax	130	128
Other current assets	260	216
Cash and cash equivalents	480	319
	4,314	**3,226**
Total Assets	**4,467**	**3,368**
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	-46,415
Reserve for pension funds	-119	-119
Reserve for currency differences	-66	163
Equity attributable to shareholders of the parent company	**-10,328**	**-11,497**
Non-controlling interest	**0**	**0**
Total equity	**-10,328**	**-11,497**
Non-current liabilities		
Non-current accruals	451	485
Other financial liabilities	10,688	10,688
	11,139	**11,173**
Current liabilities		
Trade accounts payables	1.373	1,188
Other accruals	448	355
Accrued income	670	408
Other financial liabilities	4	2
Other current liablities	1.161	1,739
	3.656	**3,692**
Total current and non-current liabilities	**14.795**	**14,865**
Total liabilities	**4.467**	**3.368**

Consolidated Statement of income (IFRS, unaudited)

in k€, except for share related information	3rd quarter		January 1 – 30 September	
	2013	**2014**	**2013**	**2014**
CONTINUED OPERATIONS				
Revenue	**2,199**	**2,740**	**7,900**	**8,634**
Cost of Sales	**1,017**	**1,122**	**3,347**	**3,896**
Gross Profit	**1,182**	**1,618**	**4,553**	**4,738**
Sales and marketing expenditures	766	771	2,576	2,422
Research and development expenditures	731	764	2,175	2,222
General and administrative expenditures	545	493	1,617	1,446
Other income	268	0	686	230
Other expenditures	44	258	56	283
Operating results/EBIT	**-636**	**-668**	**-1,185**	**-1,405**
Financial earnings	5	0	1,325	15
Financial expenditures	1	0	0	1
Earnings before income tax	**-632**	**-668**	**140**	**-1,391**
Income tax expenditures and income tax refund	2	2	16	7
Earnings from continued operations	**-634**	**-670**	**124**	**-1,398**
DISCONTINUED OPERATIONS				
Earnings from discontinued operations, net of tax	519	0	519	0
Net earnings/net loss	**-115**	**-670**	**643**	**-1,398**
This can be divided into:				
Shareholders of the parent company	-115	-670	643	-1,398
Minority interests	0	0	0	0
Earnings per share from continued operations				
Undiluted	-0.03	-0.03	0.01	-0.06
Diluted	-0.03	-0.03	0.01	-0.06
Earnings per share, total				
Undiluted	0.00	-0.03	0.03	-0.06
Diluted	0.00	-0.03	0.03	-0.06
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]	-609	-642	-1,088	-1,327

[1] Corresponds to Earnings (2013: -k€ 636/ -k€ 1,185; 2014: -k€ 668/ -k€ 1,405) before depreciation (2013: k€ 27/ k€ 97; 2014: k€ 26/ k€ 78).

Statement of comprehensive income (IFRS, unaudited)

in k€	3rd quarter		1 January - 30 September	
	2013	**2014**	**2013**	**2014**
Net loss/net earnings	**-115**	**-670**	**643**	**-1,398**
Other comprehensive income:				
Other comprehensive income reclassified affecting net income in the actual period:				
Financial assets available for sales (valuation)	0	0	281	0
Profit from *Financial assets available for sales*	0	0	-1,081	0
income tax effects	0	0	12	0
	0	0	-788	0
Other comprehensive income to be reclassified affecting net income in the actual period, net of tax	**0**	**0**	**-788**	**0**
Other comprehensive income to be reclassified affecting net income in subsequent periods:				
Currency translation differences of foreign subsidiaries	-87	270	-228	229
Financial assets available for sales	0	0	0	0
income tax effects associated	0	0	0	0
	-87	270	-228	229
Other comprehensive income to be reclassified affecting net income in subsequent periods, net of tax	**-87**	**270**	**-228**	**229**
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	**-87**	**270**	**-1,016**	**229**
Total income, net of tax	**-202**	**-400**	**-373**	**-1,169**
This can be divided into:				
Shareholder of parent company	-202	-400	-373	-1,169
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 obligations	Reserve for currency differences	Total equity
31 December 2012	**11,569**	**-46,470**	**788**	**-74**	**231**	**-10,651**
Net loss	-	643	-	-	-	643
Other comprehensive income	-	-	-788	-	-228	-1,016
30 September 2013	**11,569**	**-45,827**	**0**	**-74**	**3**	**-11,024**
31 December 2013	**11,569**	**-45,017**	**0**	**-119**	**-66**	**-10,328**
Net loss	-	-1,398	-	-	-	-1,398
Other comprehensive income	-	-	-	-	229	229
30 September 2014	**11,569**	**-46,415**	**0**	**-119**	**163**	**-11,497**

Consolidated Cash flow statement (IFRS, unaudited)

in k€	1 January – 30 September	
	2013	**2014**
Cash flow from operating activities:		
Net loss/net earnings	**643**	**-1,398**
Adjustment of the net loss for:		
Financial results		
Dividend GRAVIS	-250	-15
Disposal of GRAVIS shares	-1,069	0
Value adjustments on receivables	63	14
Impairment on inventories	-53	71
Depreciation on fixed assets	94	71
Amortization on intangible assets	3	5
Changes to other balance sheet items:		
Inventories	-126	720
Trade accounts receivables	497	45
Other current assets and accruals	35	43
Non-current liabilities	-309	-33
Provisions and other liabilities	-1,156	-59
Effects from changes in exchange rates	-228	229
Cash outflow from operating activities	**-1,855**	**-307**
Cash flow from investing activities:		
Purchase of fixed assets	-46	-56
Purchase of intangible assets	0	-9
Recovery right	568	0
Dividend GRAVIS	250	11
Disposal of GRAVIS shares	1,081	0
Cash inflow (outflow) from investing activities	**1,853**	**-54**
Cash flow from financing activities:		
Loans from related parties	0	200
Cash flow from financing activities	**0**	**200**
Net change in cash and cash equivalents	-2	-161
Cash and cash equivalents, beginning of the period	321	480
Cash and cash equivalents, end of the period	**319**	**319**
Cash and cash equivalents include: Money market funds	70	70

Summary of Significant Financial Reporting Policies and Standards

Presentation Basis

The consolidated financial statements of TELES 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 September 2014 were prepared on the basis of IAS 34 "Interim Financial Reporting". The accounting policies and measurement methods used in the preparation of the interim financial statements are fundamentally 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 September 2014, as well as the interpretations from the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC), were applied accordingly.