

Quarterly Financial Statements

Q1/2014 of TELES Group

(IFRS, unaudited)

Key Figures January 1 through March 31, 2014

- Weak quarter for Access Solutions
- Sales surge in Enterprise Solutions segment
- Investments in R&D and Service

Overview of the corporate key figures of TELES for Q1 of 2014
(according to IFRS, unaudited)

TELES Group (in k €)	1/1/2013 - 31/3/2013	1/1/2014 - 31/3/2014	Change
Revenue	2,754	2,630	-5%
Gross Profit	1,659	1,492	-10%
EBIT	-311	-561	-80%

Interim Management Report

The weak development in sales already evidenced in the previous year continued into the first quarter of 2014. On an annualized basis, the revenues decreased by five percent to € 2.6 million. Gross profit decreased at constant share of material costs by ten percent to almost € 1.5 m. Operating profit fell by 80 percent to minus € 561 k. The reasons are increasing investments in research & development as well as service personnel. In addition, special effects by income from foreign exchange differences that were recorded even in the same quarter of last year, ceased to exist in the first three months of the current fiscal year.

The cause of the subdued start to the year was the clear drop in sales in the Access Solutions business segment. The revenues here decreased by 47 percent on an annualized basis. For that, the development in the Enterprise Solutions business segment has been all the more welcome: The demand for state-of-the-art solutions from TELES for the merging of fixed line and mobile networks (unified communications, UC) has clearly strengthened on the market. Likewise, it is very satisfying that there has been a discernible increase in the interest displayed by so-called Tier 1 carriers – the former national monopolies which cover the complete spectrum of products ranging from fixed line to mobile and internet services – in the UC solutions provided by TELES. This confirms our assessment that service providers and network operators are upgrading their network infrastructures in order to be able to offer the latest telecommunications services to business customers especially and differentiate themselves from the competitors on the market. This resulted in a jump in sales of 54 percent compared to the same quarter in the previous year.

The third business segment Carrier Solutions demonstrated stable development over the first quarter. A slight gain in sales were recorded, which were 5 percent above the previous year. The demand for solutions from TELES for migrating from conventional circuit switched networks to high performance IP networks is being maintained and continues to drive forward the business.

TELES Group (in k €)	1/1/2013 - 31/3/2013	1/1/2013 - 31/3/2014	Change
Revenue	2,754	2,630	-5%
Access Solutions	1,134	601	-47%
Carrier Solutions	930	967	4%
Enterprise Solutions	690	1,062	54%

Summary statement on the financial situation

Focusing on the DACH domestic market and on Europe, as well as concentrating on the growing business with UC solutions are clearly proving fruitful. The realignment of TELES AG, the identification of additional, promising market segments and the expansion of individual product families are all moving ahead at full pace. The market activities continue to focus on investments that anchor and fix TELES in the minds of the customers as one of the leading and competent providers of cutting edge telecommunications solutions. It proved possible to finance the business activities from the current cash flow despite the weakness in sales.

Risk Report

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 most recently published set of annual financial statements for the 2013 financial year. In the first three months of the 2014 financial year, we did not become aware of any further opportunities or risks over and above those described in the annual financial statements.

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

Whether the sales and result targets for the current year are achieved depends especially on how the business develops in the USA, in addition to impacts on the competition and those directly related to the industry.

Outlook

In the second quarter of the 2014 financial year, TELES expects a slight reduction in the sales on an annualized basis.

TELES AG Informationstechnologien

The Management Board

April 2014

Interim Financial Statements

Consolidated Balance Sheet (IFRS, unaudited)

in k€, except number of shares

	31/12/2013	31/03/2014
ASSETS		
Non-current assets		
Tangible assets	145	152
Intangible assets	8	13
	153	165
Current assets		
Inventories	1.863	1.655
Trade accounts receivables	1.581	1.345
Receivables from income tax	130	130
Other current assets	260	208
Cash and cash equivalents	480	286
	4,314	3,624
Total assets	4,467	3,789
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	-45,580
Reserve for pension funds	-119	-119
Reserve for currency differences	-66	-45
Equity attributable to shareholders of the parent company	-10,328	-10,870
Non-controlling interest	0	0
Total equity	-10,328	-10,870
Non-current liabilities		
Non-current accruals	451	462
Other financial liabilities	10,688	10,688
	11,139	11,150
Current liabilities		
Trade accounts payables	1,373	1,124
Other accruals	448	352
Accrued income	670	647
Other financial liabilities	4	0
Other current liabilities	1,161	1,386
	3,656	3,509
Total liabilities	14,795	14,659
	4,467	3,789

Consolidated Statement of income (IFRS, unaudited)

in k€, except for share related information	January 1 - March 31	
	2013	2014
CONTINUED OPERATIONS		
Revenues	2,754	2,630
Cost of sales	1,095	1,138
Gross Profit	1,659	1,492
Sales and marketing expenditures	868	863
Research and development expenditures	663	732
General and administrative expenditures	540	438
Other income	104	2
Other expenditures	4	22
Operating loss (EBIT)	-312	-561
Financial earnings	251	0
Financial expenditures	0	0
Earnings before income tax	-61	-561
Income tax expenditures	0	2
Earnings from continued operations	-61	-563
DISCONTINUED OPERATIONS		
Earnings from discontinued operations, net of tax	0	0
Net loss	-61	-563
This can be divided into		
Shareholders of the parent company	-61	-563
Minority interests	0	0
Earnings per share from continued operations		
Undiluted	-0.00	-0.02
Diluted	-0.00	-0.02
Earnings per share, total		
Undiluted	-0.00	-0.02
Diluted	-0.00	-0.02
Number of underlying shares		
Undiluted	23,304,676	23,304,676
Diluted	23,304,676	23,304,676
Additional information:		
EBITDA ¹	-270	-535

¹ Corresponds with EBIT (2013: -k€ 312; 2014: -k€ 561) Depreciation & Amortisation (2013: k€ 42; 2014: k€ 26).

Statement of comprehensive income (IFRS, unaudited)

(in k€)	January 1 – March 31	
	2013	2014
Net loss	-61	-563
Other comprehensive income:		
<i>Other comprehensive income reclassified affecting net income in the actual period:</i>		
Other comprehensive income to be reclassified affecting net income in the actual period, net of tax	0	0
<i>Other comprehensive income to be reclassified affecting net income in subsequent</i>		
Currency translation differences of foreign subsidiaries	-106	21
Financial assets available for sales	<u>281</u>	0
	281	0
Other comprehensive income to be reclassified affecting net income in subsequent periods, net of tax	175	21
<i>Other comprehensive income not to be reclassified affecting net income in subsequent periods:</i>		
Other comprehensive income not to be reclassified affecting net income in subsequent periods, net of tax	0	0
Other comprehensive income, net of tax	175	21
Total income, net of tax	114	-542
This can be divided into:		
Shareholder of parent company	114	-542
Minority interests	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	-	-61	-	-	-	-61
Other comprehensive income	-	-	281	-	-106	175
31 December, 2013	11,569	-46,531	1,069	-74	125	-10,537
31 December, 2013	11,569	-45,017	0	-119	-66	-10,328
Net loss	-	-563	-	-	-	-563
Other comprehensive income	-	-	-	-	21	21
31 December, 2014	11,569	-45,580	0	-119	-45	-10,870

Consolidated Cash flow statement (IFRS, unaudited)

(in k€)	January 1 - March 31	
	2013	2014
Cash flow from operating activities:		
Net loss	-61	-563
Adjustment of the net loss for:		
Financial results		
Interest results	0	0
Dividends GRAVIS	-250	0
Value adjustments on receivables	5	29
Impairment on inventories	-53	70
Depreciation on fixed assets	32	25
Amortisation on intangible assets	10	2
Profits from disposal of fixed assets	-5	0
Changes to other balance sheet items:		
Inventories	-361	139
Trade accounts receivables	315	176
Other current assets and accruals	13	52
Non current liabilities	-115	-18
Provisions and other liabilities	-15	-88
Effects from changes in exchange rates	-106	21
Cash outflow from operating activities	<u>-591</u>	<u>-155</u>
Cash flow from investing activities:		
Purchase of fixed assets	0	-38
Purchase of intangible assets	0	0
Recovery right	568	0
Dividends GRAVIS	250	0
Cash inflow (outflow) from investing activities	<u>818</u>	<u>-38</u>
Cash flow from financing activities:		
Loans from related parties	0	0
Cash flow from financing activities	<u>0</u>	<u>0</u>
Net change in cash and cash equivalents	227	-194
Cash and cash equivalents, beginning of the year	321	480
Cash and cash equivalents, end of the year	548	286
Cash and cash equivalents include: Money market funds	70	70

Summary of significant Accounting Principles

Basis of Presentation: TELES' Consolidated Financial Statements as at 31 December, 2013 were prepared in accordance with the existing principles of the International Accounting Standards Board (IASB), London. The Interim Financial Statements as at 31 March, 2014 were prepared in accordance with IAS 34 "Interim Financial Reporting". The accounting policies used in the preparation of the Interim Financial Statements are principally consistent with those used in the Consolidated Financial Statements for the year ended 31 December, 2013. Standards and interpretations binding from 1 January, 2014 had no effects on the accounting policies applied.

All IAS/IFRS and interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly Standing Interpretations Committee (SIC), binding at 31st March 2014, have been applied.