Q1 2015 Quarterly Financial Statements of the TELES Group

(IFRS, unaudited)

Key figures from 1 January 2015 to 31 March 2015

- Unsatisfactory figures due to project delays
- Restructuring and regulatory uncertainties weighing down business
- Cautious optimism for the remainder of the financial year

Overview of the corporate key figures of TELES AG for Q1 2015
(in accordance with IFRS, unaudited)

TELES Group (in k€)	01.01.2014 – 31.03.2014	01.01.2015 – 31.03.2015	Change
Revenue	2,630	1,778	-32%
Gross profit	1,492	901	-40%
EBIT	-561	-1,251	-123%

Interim Management Report

The start to the new 2015 financial year has proven disappointing in comparison to previous year: Despite the continuing good feedback from the market and regardless of the highly promising meetings with interested parties and regular customers, we have not managed to transform the performance and quality of our products into new orders received and sales revenues.

However the reason for the clearly visible weaknesses in the sales and revenues was not the loss or cancellation of tender invitations we participated in or the premature ending of highly promising discussions with bidders. In fact, delays in ongoing projects and test phases or slowdowns in the decision-making processes on the part of customers caused backlogs in the awarding of contracts. While this is of little comfort, it does however demonstrate that the potential is there to still make up for the weakness in sales over the remainder of the year.

In the first three months of the reporting period, the revenue dropped on an annualized basis by 32 percent to approx. € 1.8 million. The gross profit decreased to K€ 901 – representing a reduction of 40 percent compared to the same quarter in the previous year. The operating loss (EBIT) extended by a further 123 percent to approximately minus € 1.3 million.

In the Access Solutions business unit, the bottoming out is not yet completely over. However the revenue reduction of eight percent on an annualized basis is in line with our expectations: The restructuring of the business with access technologies agreed last year, the focusing on lucrative niche markets, such as shipping for instance, and the streamlining of the portfolio to products capable of providing a reasonable profit contribution all require time. Further and more intensive efforts are needed to take the business unit into the future, as well as to make the successes and upward trend visible.

The Carrier Solutions business unit has not developed as we had expected. But after the positive performance over the last few months and good preliminary discussions with customers and interested parties, we are still convinced that the business unit has reached the required support line. Network expansions or the upcoming switch-over from ISDN to IP telephony are on the agenda for a series of customers and interested parties – yet for that, powerful policy regulation and economic uncertainties are having a dampening impact on the market in relevant regions, constraining the business and the enthusiasm for taking decisions on the part of the market players – which not only are we observing in the development of our own Carrier Solutions business unit, but partners and competitors are confirming this analysis of the sentiment as well. For this reason, we are convinced that the established and negotiated projects are only experiencing temporary delays and will result in concrete contracts over the coming months

While the development in the revenues at the Enterprise Solutions business unit has been unsatisfactory, the inquiries from potential customers and the follow-up orders from existing customers demonstrate the potential our Enterprise Solutions have: Due to the growing complexity of the telecommunications infrastructure and requirements, our regular customers are targeting their investments on ways to expand the TELES solution. Furthermore, the number of inquiries – also from interested parties and new customers – about the latest market themes, such as for instance web-RTC, videoconferencing, voice over wifi and voice over LTE (VoLTE) are increasing tangibly. We are well positioned with our prototypes which we demonstrate to customers and request critical feedback on them. The fact that we are now being targeted by the market to provide our assessments of the trends in the industry and give recommendations, such as on how customers and other interested parties will be able to adapt themselves to future developments, is a reward for our efforts in the Enterprise Solutions business unit to position ourselves as a competent niche provider and thus also to compete successfully with ITC providers operating on a global scale. Beyond question, we provide suitable solutions with which network operators are able to react successfully to the growing competition from outside the industry and undertakings are able to adapt to the challenges of a changing world of work – and that regardless of the weak revenues.

TELES Group (in K€)	01.01.2014 – 31.03.2014	01.01.2015 – 31.03.2015	Change
Revenue	2,630	1,778	-32%
Access Solutions	601	554	-8%
Carrier Solutions	967	670	-31%
Enterprise Solutions	1,062	554	-48%

Summary Statement of the Business Situation

The restructuring of TELES AG is continuing and will still require several more quarters. However despite the setbacks in redeveloping the undertaking, we are placing our trust in the positive response from our customers and interested parties, as indeed from the competitors, which have confirmed our strategy in meetings and discussions. However, the new alignment of the product family, the identification of further niche markets and additional market segments, as well as the development of suitable solutions and products require time in all of the business units. Moreover, building up a powerful sales team takes time, while the necessary expansion of the marketing and communications activities in order to reposition TELES on the market and embed it with customers as a competent, high performance and viable provider continues to proceed at a slow pace due to the weak liquidity position. In this regard, attentive cash management and persistent receivables management help the company to maintain stability.

Forecast

We assume that the continuation of the meetings and discussions with customers and interested parties on concrete projects will strengthen the impetus for a more lively business development and that the sluggish development in the revenues will be progressively reversed. However we do expect that the liquidity of TELES AG will only ease on a step-by-step basis and that the breakeven point will not be reached over the short-term.

Risk Report

In the Management Report for the 2014 financial year, all of the relevant risks known to us were diligently detailed. No other ones need to be added at present. We secure the company's liquidity by means of very conscientious planning. We continue to monitor incoming payments very precisely, utilizing this to counter any payment defaults on the part of customers in a targeted manner. Irrespective of internal corporate factors, the achievement of the revenue and profit targets is decisively dependent on economic, political and industry specific developments – and that especially in our core market of Europe.

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The Management Board

April 2015

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Interim Financial Statements

Consolidated Balance Sheet (IFRS, unaudited)

in k€, except number of shares	31.12.2014	31.03.2015
Assets		
Non-current assets		
Tangible Assets	126	139
Intangible Assets	11	9
	137	**148**
Current Assets		
Inventories	879	754
Trade accounts receivables	1,244	977
Receivables from income tax	45	40
Other current assets	154	336
Cash and cash equivalents	636	206
	2,958	**2,313**
Total Assets	**3,095**	**2,461**
Liabilities		
Equity		
Common shares (issued resp. outstanding: 23,304,676)	23,305	23,305
Additional paid-in capital	11,569	11,569
Retained earnings	-46,792	-48,068
Reserve for pension funds	-224	-224
Reserve for currency differences	396	474
Equity attributable to shareholders of the parent company	**-11,746**	**-12,944**
Non-controlling interest	**0**	**0**
Total equity	**-11,746**	**-12,944**
Non-current liabilities		
Non-current accruals	622	636
Other financial liabilities	10,820	10,829
	11,442	**11,465**
Current liabilities		
Trade accounts payables	947	1,199
Other accruals	264	261
Accrued income	449	428
Other financial liabilities	1,739	2,052
	3,399	**3,940**
Total current and non-current liabilities	**14,841**	**15,405**
Total liabilities	**3,095**	**2,461**

Consolidated Statement of income (IFRS, unaudited)

in k€, except for share related information	January 01 - March 31	
	2014	**2015**
CONTINUED OPERATIONS		
Revenue	**2,630**	**1,778**
Cost of Sales	**1,138**	**877**
Gross Profit	**1,492**	**901**
Sales and marketing expenditures	863	794
Research and development expenditures	732	770
General and administrative expenditures	438	466
Other income	2	95
Other expenditures	22	217
Operating results/EBIT	**-561**	**-1,251**
Financial earnings	0	0
Financial expenditures	0	23
Earnings before income tax	**-561**	**-1,274**
Income tax expenditures and income tax refund	2	2
Earnings from continued operations	**-563**	**-1,276**
DISCONTINUED OPERATIONS		
Earnings from discontinued operations, net of tax	0	0
Net loss	**-563**	**-1,276**
This can be divided into:		
Shareholders of the parent company	-563	-1,276
Minority interests	0	0
Earnings per share from continued operations		
Undiluted	-0.02	-0.05
Diluted	-0.02	-0.05
Earnings per share, total	-0.02	-0.05
Undiluted	-0.02	-0.05
Diluted		
Number of underlying shares		
Undiluted	23,304,676	23,304,676
Diluted	23,304,676	23,304,676
Additional information:		
EBITDA[1]	-535	-1,227

[1] Corresponds to Earnings (2014: -k€ 561/ 2015: -k€ 1,251) before depreciation (2014: k€ 26/ 2015: k€ 24).

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Statement of comprehensive income (IFRS, unaudited)

in k€	January 01 - March 31	
	2014	2015
Net loss/net earnings	**-563**	**-1.276**
Other comprehensive income:		
Other comprehensive income reclassified affecting net income in the actual period:		
Other comprehensive income to be reclassified affecting net income in the actual period, net of tax	**0**	**0**
Other comprehensive income to be reclassified affecting net income in subsequent periods		
Currency translation differences of foreign subsidiaries	21	78
Other comprehensive income to be reclassified affecting net income in subsequent periods, net of tax	**21**	**78**
Other comprehensive income not to be reclassified affecting net income in subsequent periods		
Other comprehensive income not to be reclassified affecting net income in subsequent periods, net of tax	**0**	**0**
Other comprehensive income, net of tax	**21**	**78**
Total income, net of tax	**-542**	**-1,198**
This can be divided into:		
Shareholder of parent company	-542	-1,198
Minority interests	0	0

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Development of the Consolidated Equity (IFRS, unaudited)

(in K€, excluding numbers of ordinary shares)	**Number of ordinary shares**	Nominal value of the shares	Add. paid-in capital	Revenue reserves	Cumulative other consolidated income			**Total**	Attributed to non-controlling interests	**Number of ordinary shares**
					Fair value reserve	Reserve for pension funds	Reserve for currency differences			
31 December 2013	23,304,676	23,305	11,569	-45,017	0	-119	-66	-10,328	0	-10,328
Net loss for the year	-	-	-	-563	-	-	-	-563	-	-563
Other comprehensive income	-	-	-	-	-	-	21	21	-	21
Comprehensive income	-	-	-	-563	-	-	21	-542	-	-542
31 March 2014	23,304,676	23,305	11,569	-45,580	0	-119	-45	-10,870	0	-10,870

(in K€, excluding numbers of ordinary shares)	**Number of ordinary shares**	Nominal value of the shares	Add. paid-in capital	Revenue reserves	Cumulative other consolidated income			**Total**	Attributed to non-controlling interests	**Number of ordinary shares**
					Fair value reserve	Reserve for pension funds	Reserve for currency differences			
31 December 2014	23,304,676	23,305	11,569	-46,792	0	-224	396	-11,746	0	-11,746
Net loss for the year	-	-	-	-1,276	-	-	-	-1,276	-	-1,276
Other comprehensive income	-	-	**-**	-	-	-	78	78	-	78
Comprehensive income				-1,276	-	-	78	-1,198	-	-1,198
31 March 2015	23,304,676	23,305	11,569	-48,068	0	-224	474	-12,944	0	-12,944

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Consolidated Cash Flow Statement (IFRS, unaudited)

(in K€)	January 01 –March 31	
	2014	**2015**
Cash flow from operating activities		
Net loss	**-563**	**-1,276**
Adjustment of net loss to the operating cash flow:		
Income taxes	0	-2
Financial result	0	23
Allowance for doubtful accounts	29	59
Impairment of inventories	70	68
Depreciation for tangible assets	25	21
Amortization of intangible assets	2	3
Changes of other balance sheet items:		
Inventories	139	57
Trade accounts receivables	176	189
Other current assets, accruals, and deferrals	52	-174
Current liabilities	-18	348
Accruals and other liabilities	-88	11
Effects form exchange rate changes with no impact on payment	21	78
Cash outflow from operating activities	**-155**	**-596**
Cash flow from investing activities:		
Purchase of fixed assets	-38	-34
Purchase of intangible assets	0	0
Cash flow from investing activities	**-38**	**-34**
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	-194	-430
Cash and cash equivalents at beginning of period	480	635
Cash and cash equivalents at end of period	**286**	**205**
Cash and cash equivalents contain: money market	70	70

Summary of Significant Financial Reporting Policies and Standards

Presentation Basis

The consolidated financial statements of TELES as of 31 December 2014 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 31 March 2015 were prepared on the basis of the International Accounting Standard (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 applied in the consolidated financial statements for the year ending 31 December 2014. Standards and interpretations binding and applicable from 1 January 2015 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 31 March 2015, as well as the interpretations from the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC), were applied accordingly.