

Quarterly Report Q3 2016 of TELES Group to 30.09.2016

(IFRS, unaudited)

Key figures from 1 January 2016 to 30 September 2016

- Positive sales development noted in Q3 (plus 20% compared to Q3 2015)
- Increase in sales of 14% (compared to first nine months of 2015)
- Increase in gross profit of 45% (compared to first nine months of 2015)

Overview of the corporate key figures for the continuing business operations of TELES AG for the first nine months of 2016
(in accordance with IFRS, unaudited)

TELES Group (in k€)	01.01.2015 - 30.09.2015	01.01.2016 - 30.09.2016	Change
Sales revenues	4.072	4.645	14%
Gross profit	2.135	3.104	45%
Operating result/EBIT	-2.815	-639	77%

Interim Management Report

Following mediocre second quarter and despite the summer holiday season, a 20% increase in sales development to 1.6 million EUR was noted in the third quarter of the year (compared to 1.3 million in Q3 2015). Important projects were successfully realized. For instance, in Norway, the TELES softswitch was implemented as replacement of a TDM-based legacy switch. The international gateway in Iran is in operational use since the end of August. In the third quarter, the company sold its first gateway MSC (GMSC) to a customer in Turkey. This product is another milestone in the product alignment towards unified communication & mobility, as it is the first TELES product being designed fully for the core network of a mobile network operator.

In the first nine months of the reporting period, the sales revenue grew on an annualized basis by 14 percent to approx. € 4.6 million. It proved possible to increase the gross profit to approx. € 3.1 million – representing a plus of 45 percent in the comparison period. Thanks to the clearly improved cost situation, the operating loss (EBIT) was reported at minus K€ 639.

Summary Statement of the Business Situation

In the first nine months of 2016, TELES consistently pursued the new alignment which began in 2015 by clearly focusing on its software-based portfolio of interconnection and UC solutions for telecommunications providers.

The further development of the product family, the identification of further niche markets and additional market segments, as well as the development of suitable solutions and products continue to be the focus. However, building up a powerful sales team requires time. And the necessary expansion of the marketing and communications activities in order to continue to position TELES on the market and embed it with customers as a competent, high-performance and viable provider is proceeding at a slow pace due to the weak liquidity position. In this regard, attentive cash management and persistent receivables management are helping the company to maintain stability.

Risk Report

In the Management Report for the prior 2015 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.

Forecast

The Management Board is expecting the fourth quarter to be, as in previous years, the quarter with the highest sales revenues in the current financial year. Based on this assumption and due to the growing investments in personnel and other areas, the company is expecting a two-digit growth in the 2016 sales revenue and a considerable increase of the result (EBIT) compared to the previous year.

TELES AG Informationstechnologien

The Management Board

October 2016

Interim Financial Statements

Consolidated Balance Sheet (IFRS, unaudited)

in k€, excluding numbers of ordinary shares		
	31.12.2015	30.06.2016
ASSETS		
Non-current assets		
Property, plant and equipment	91	61
Intangible assets	10	7
Total non-current assets	101	68
Current assets		
Inventories	167	37
Trade receivables	618	666
Receivables from taxes on income	32	26
Other current assets	164	152
Cash and cash equivalents	209	158
Current assets	1.190	1.039
Total assets	1.291	1.107
EQUITY AND LIABILITIES		
Equity		
Ordinary shares (issued and in circulation: 23,304,676)	23.305	23.305
Capital reserve	11.568	11.568
Revenue reserves	-48.225	-49.092
Valuation of pension obligations	-220	-220
Currency translation reserve	379	372
Total equity	-13.192	-14.067
Non-current liabilities		
Non-current provisions	682	723
Other financial liabilities	8.730	8.981
Total non-current liabilities	9.412	9.703
Current liabilities		
Trade payables	894	760
Other provisions	125	119
Accrued income	416	397
Other financial liabilities	2.387	3.130
Other current liabilities	1.250	1.064
Total current liabilities	5.071	5.471
Total liabilities	14.484	15.174
	1.291	1.107

Consolidated Statement of income (IFRS, unaudited)

in k€, excluding numbers of ordinary shares	3rd Quarter		01 January - 30 September	
	2015	2016	2015	2016
CONTINUING OPERATIONS				
Sales revenues	1.339	1.612	4.072	4.645
Production costs	695	537	1.937	1.541
Gross profit	645	1.074	2.135	3.104
Sales and marketing expenses	439	371	1.697	1.034
Research and development expenses	613	610	1.894	1.885
Administration expenses	497	353	1.423	1.071
Other income	48	-86	-173	-245
Other expenses	45	0	107	-1
Operating result/EBIT	-997	-175	-2.813	-639
Financial expenses	52	77	114	208
Result from continuing operations before taxes on income	-1.049	-251	-2.927	-848
Taxes on income	0	4	0	19
Result from continuing operations	-1.049	-255	-2.927	-867
DISCONTINUED OPERATIONS				
Result from discontinued operations after deduction of taxes	90	0	-792	0
Net loss	-960	-255	-3.719	-867
of which attributable to:				
Parent company shareholders	-960	-255	-3.719	-867
Minority interests	0	0	0	0
Result per share from continuing operations				
Undiluted	-0,05	-0,04	-0,13	-0,04
Diluted	-0,05	-0,04	-0,13	-0,04
Result per share from continuing operations				
Undiluted	-0,04	-0,04	-0,16	-0,04
Diluted	-0,04	-0,04	-0,16	-0,04
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 disclosure to the consolidated financial statements:				
EBITDA ¹	-979	-162	-2.761	-597

¹ Corresponds to Earnings (2015: -k€ 1.049/ -k€ 2.927; 2016: -k€ 175/ -k€ 639) before depreciation (2015: k€ 19/ k€ 52; 2016: k€ 13/ k€ 42)

Statement of comprehensive income (IFRS, unaudited)

(in k€)	3rd Quarter		01 January - 30 September	
	2015	2016	2015	2016
Net loss	-960	-720	-3.719	-867
Other comprehensive income:				
<i>Other income reclassified in current period affecting net income:</i>				
Financial assets available for sales; evaluation	0	0	0	0
Gain from financial assets available for sale	0	0	0	0
Income tax effects	0	0	0	0
Other income reclassified in current period affecting net income, net	0	0	0	0
<i>Other income to be reclassified in subsequent periods affecting net income:</i>				
Currency translation differences, foreign subsidiaries	206	-5	19	-8
Other income to be reclassified in subsequent periods affecting net income, net	206	-5	19	-8
Actuarial losses from defined benefit pension plan obligations as per IAS 19				
Items not to be reclassified in subsequent periods affecting net income, net				
Other comprehensive income after deduction of taxes	206	-5	19	-8
Comprehensive income after deduction of taxes	-754	-725	-3.700	-875
of which attributable to:				
Parent company shareholders	-754	-725	-3.700	-875
Minority interests	0	0	0	0

Development of the Consolidated Equity (IFRS, unaudited)

in k€, numbers of ordinary shares: 23,304,676

	Nominal value of the shares	Capital reserve	Revenue reserves	Valuation of pension obligations	Currency translation reserve	Total	Total Equity
December 31, 2014	23.305	11.568	-46.792	-224	397	-11.746	-11.746
Net loss for the financial year	0	0	-3.719	0	0	-3.719	-3.719
Other comprehensive income	0	0	0	0	19	19	19
September 30, 2015	23.305	11.568	-50.511	-224	416	-15.446	-15.446
December 31, 2015	23.305	11.568	-48.225	-220	379	-13.192	-13.192
Net loss for the financial year	0	0	-867	0	0	-867	-867
Other comprehensive income	0	0	0	0	-8	-8	-8
September 30, 2016	23.305	11.568	-49.092	-220	371	-14.067	-14.067

Consolidated Cash Flow Statement (IFRS, unaudited)

(in k€)	01 January - 30 September	
	2015	2016
Cash flow from operating activities		
Net loss for the financial year	-3.719	-867
Adjustment of the net loss for the financial year to the:		
Taxes on income	0	-19
Financial result	115	208
Value adjustment on receivables	105	27
Value impairment on inventories	143	3
Depreciation of property, plant and equipment	60	40
Depreciation of intangible assets	6	3
Gain/Loss on purchase of property, plant and equipment	-3	0
Charges to other balance sheet items:		
Inventories	575	126
Trade receivables	378	-66
Other current assets, prepayments and accrued Current liabilities	-36	12
Current liabilities	757	-431
Provisions and other liabilities	15	34
Effects from exchange rate differences	19	-8
Taxes on income received	5	0
Taxes on income paid	0	25
Interest paid	0	-5
Cash flow from operating activities	-1.580	-916
Cash flow from investing activities:		
Acquisition of property, plant and equipment	-43	-10
Acquisition of intangible assets	-6	0
Disposal of property, plant and equipment	3	1
Cash flow from investing activities	-46	-9
Cash flow from financing activities:		
Loans from related parties	1.200	650
Loan from Austrian sponsoring company for research promotion (FFG)	0	225
Cash flow from financing activities	1.200	875
Net change in cash and cash equivalents	-426	-51
Cash and cash equivalents at beginning of period	636	209
Cash and cash equivalents at end of period	210	158
Cash and cash equivalents contain: money market	70	70

Summary of Significant Financial Reporting Policies and Standards

Presentation Basis

TELES' consolidated financial statements as of 31 December 2015 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 2016 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 2015. Standards and interpretations binding and applicable from 1 January 2016 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 2016, 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.