# Annual Financial Statements 2015*

* This is a translation of the German Report.
The German version is authoritative.

TELES AG Informationstechnologien

## Key Figures in Accordance with IFRS

As of 31 December 2015

| TELES Group (in K€) | 1.1.2014 – 31.12.2014 | 1.1.2015 – 31.12.2015 | Change |
|---|---|---|---|
| Sales revenue | 8,444 | 6,399 | -24% |
| Gross profit | 5,538 | 3,754 | -32% |
| EBIT (operative) | -1,222 | -2,574 | -111% |

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# Management Report and Group Management Report of TELES AG Informationstechnologien

## TELES and the Market

The telecommunications market is being clearly dominated by three trends:

- Replacement of the ISDN-based networks
- Virtualization
- Cloud communications

There is also a clear need arising from these trends for solutions capable of connecting the "old networks" with the new networks for a transitional period, as indeed for cloud-enabled devices.

Over the last two decades, massive investments were undertaken in exactly these "old networks" within the European market and the infrastructure will continue to accompany us for at least the next 5 to 10 years. Especially systems with deeper integration into the process landscape of the network operators will not be replaced for a longer time period due to the migration costs. The retail customers will have already migrated to pure IP networks while demand still continues at the backend for solutions that integrate the existing systems into these IP networks. Examples of this in the fixed networks are for instance "intelligent network" systems or the central customer databases at the mobile network operators.

After so-called hosted communications solutions have led a shadowy existence over the last few years, these solutions will become more acceptable thanks to the general "cloud" trend. Cloud communications is regarded by all market researchers as a future growth market.

However the reason for this transformation is not just the general "cloud hype". There are of course important grounds for this:

The communication habits of society have been changed by IP-based services and over-the-top services such as Skype and WhatsApp.
Especially over the coming years, increasingly powerful changes will occur in business customer communications due to

- Productivity increases,
- Home office models, and in general through
- The mobile workforce,

with the result that expanded communications services will become obligatory in order to be successful in a global world. And in order to also be able to really meet these demands in the global world, a cloud-based solution is ideal.

One trend that has already been a standard in IT for years is now also slowly being adopted in the telecommunications networks: Hardware virtualization. For a long time it was barely possible to effect genuine virtualization in the public communications networks due to the real-time and availability challenges. However the progress achieved with the hardware technology and the high packing densities with low consumption costs now permit this virtualization to be adopted by network operators with real cost benefits.

We have effected changes to our portfolio over the last few years on the basis of these trends. We have focused our complete development on the following subjects:

- Pure software solutions for network operators, which can be virtualized
- Cloud-enabled communications services
- Solutions for the integration and/or migration of the most diverse communications networks

In addition to this technical alignment of the portfolio, we have also broadened our marketing model for the solutions. A change is currently underway in the network-operator and service-provider customer groups. And not only the generally recognized consolidations among the network operators are causing changes to the market conditions, but the new players as well. Over the last few years, we have seen two completely comprehensible changes in the business models:

- Resellers becoming network operators
- Classic system integrators becoming service providers

New market opportunities are emerging especially for local markets and in the SME segment through the consolidation of the network operators. The major network operators are focusing intensively on standardized solutions. Individual services – when they are offered at all – will now only be provided for business customers in the "large enterprise" segment, resulting in quite a lucrative gap remaining for new players on the market.

The trend in favor of the cloud and the progressive automation of solutions are taking their toll especially on the system integrators of onsite systems. The demand for these products together with the related services business is in decline. But as the system integrators mostly have the know-how at their disposal to operate such solutions, we also see a change in the business model here towards becoming a service provider.

We think that with the technical and commercial alignment of our portfolio, we are well positioned especially in the core market for our sales activities (Europe with a focus on the German-language regions and countries). And the first projects from the second half of 2015 have affirmed our strategy here. We also intend to continue pursuing this strategy with our sales and technology partners in the Middle East and Africa.

Reference Customer:

**TELMEKOM – from System Integrator to Service Provider**

TELMEKOM is a leading provider of telecommunications solutions in South Tyrol and has successfully offered the installation of telephone systems and structured networks for industry, trades & craft, services, tourism and social services for more than 20 years. The undertaking provides its customers with turnkey communications solutions: From the installation and monitoring of telephone systems with structured networks and mandatory certification, to the most modern cost-saving VoIP systems, through to wireless-LAN, server and data-transmission systems.
TELMEKOM initially operated solely as a system integrator for telephone systems. However since the commencement of operations with the TELES voice application server, the company has now become a service provider in its own right and can offer its customers Cloud UC services without having to install a telephone system locally on site.

Quote: "More and more customers are expressing an interest in cloud-based solutions – with telephone systems being no exception here for a long time now. And the TELES voice application server let us offer exactly this to our customers."

Reference Customer:

**Apelby communications – Aiming for the Future with the TELES Softswitch**

Apelby communications is an international provider of telecommunications solutions for network operators, and has been active since 2005 in several locations (Germany, Czech Republic, Vietnam and Slovenia). The company provides complex telecommunications solutions to voice-network operators, small and mid-sized undertakings, as well as to business customers.
In order to be able to continue to offer its retail and wholesale customers excellent quality and outstanding service, last year Apelby was looking for a replacement to its TDM-based legacy switch system. They opted for the TELES softswitch, which it proved possible to install and operate within a few weeks, and completely replaced the old equipment. Softswitches from TELES permit a smooth changeover of the network operations from classic circuit switching to state-of-the-art IP packet switching and thus replace cost-intensive circuit-switched networks.

Quote: "With the TELES softswitch, we have found a first-class solution that permits us to offer our customers modern and reliable solutions. The migration of the old system to the new technology occurred fast and smoothly and we're delighted to now have TELES as a partner at our side."

# Economic Position

The business development in 2015 was completely disappointing. The decrease in sales of 40% in a half-yearly comparison can be traced back especially to the massive slump in the access solutions business. For this reason, fundamental restructuring was agreed and implemented in the third quarter of 2015: The access solutions business unit was discontinued. The carrier and enterprise solutions business units to date were restructured and combined to form the core solutions business unit. TELES is focusing on the growth area of software-based solutions for network operators.

With our software-based portfolio of interconnection and UC solutions for telecommunication providers, we have been able to gain or expand business with highly important reference customers in our German-language domestic markets, e.g. Telecom Liechtenstein, T-Mobile Austria and ecotel communication. Likewise in the European markets (Apelby in the Czech Republic) or in the Middle East, we were able to gain impressive projects in 2015. The fact that we did not manage however to also transform these strengths into increased sales revenue can be traced back by us to recognizable weaknesses in the sales and marketing, which have prevented us from successfully marketing the powerful and integrated product portfolio, i.e. by utilizing already existing customer contacts and generating additional business with new product lines, or by positioning ourselves with potential customers and recognizing changes to the market in good time. For these reasons, we are continuing to focus on the elimination of the sales and marketing weaknesses.

The following notes on the net assets, financial and earnings position are related to the consolidated financial statements unless a specific reference is made to the figures in the annual financial statements. Moreover, the following notes on earnings position are related to continuing business operations as long as they are not explicitly referenced to the discontinued business operations.

**Sales Revenue**

At approx. € 6.4 million, the sales revenue in the reporting year decreased by 24 percent. However it proved possible to break the negative trend in the fourth quarter. An increase in sales of 8 percent to € 2.3 million was reported here compared to the same quarter in the previous year.

In the annual accounts of TELES AG, the sales revenue decreased by about 30 percent to € 8.0 million (previous year: € 11.3 million).

**Costs**

Due to diligent cost management, a decrease of sales and marketing expenses from € 2.4 million to € 2.1 million and a slight decrease of administrational expenses to € 1.7 million were achieved. The research and development costs increased to € 2.5 million.

**Result**

The operating result (EBIT) at the end of the year amounted to minus € 2.6 million (previous year: minus € 1.2 million). It proved possible to achieve a positive EBIT of K€ 240 in the last quarter of the year.

In the reporting period, a result before income tax from the continuing operations of minus € 0.5 million (previous year: minus € 1.3 million) occurred due to the financial income generated through the evaluation of the debtor warrant.

The result after taxes from the discontinued business operations amounted to minus € 0.8 million. Thus an annual net loss of € 1.4 million (previous year: annual net loss of € 1.8 million) was reported in the consolidated financial statements of TELES Group.

In total, the decrease in sales revenue could not be balanced completely by costs savings.  As a result, an annual net loss of € 3.4 million (previous year: annual net loss of € 1.2 million) was reported.

**Equity and Liabilities**

The balance sheet total of the TELES Group decreased by € 1.8 million compared to the previous year. In light of the company's continuing losses, the losses carried forward (revenue reserves) grew to € 48.2 million. The total liabilities decreased minimally at € 14.5 million.

Due to the net loss for the year of € 3.4 million, the deficit not covered by equity increased to € 3.8 million (previous year: - € 0.4 million) in the annual financial statements of TELES AG.

**Liquidity and Assets**

The company's liquidity continues to remain very tight: The loans granted by the majority shareholder in 2014 and 2015 to finance the operative business were completely used up in 2015.

The assets of the TELES Group at year-end primarily consisted of trade receivables at an amount of € 0.6 million and inventories at an amount of € 0.2 million, as well as cash and cash equivalents at an amount of € 0.2 million.

For further detailed information, please see the "Financing/Going Concern" section.

# Human Resources

At year-end, TELES AG accounted for 65 employees at its business locations in Berlin and Vienna (previous year: 87). Thus the number of staff employed decreased significantly over the year. The fluctuation in staff continues to remain low.

Furthermore in the financial year now ended, we invested specifically in the training of young employees: In addition to the 65 members of its workforce, TELES employs numerous staff completing their university education or professional training: In the context of a dual study program in cooperation with Berlin School of Economics and Law (HWR), three students were employed at our headquarters on the balance sheet reporting date of 31 December 2015. In addition, TELES AG provided training for two female employees in office management.

Since 1 July 2015, the two-person Management Board has consisted of Professor Dr.-Ing. Sigram Schindler (Co-Chief Executive Officer, Co-CEO) and Mr. Oliver Olbrich (Co-Chief Executive Officer, Co-CEO).

# Report on Opportunities and Risks

The telecommunications market is being subjected to massive pressure by a whole range of factors, impacts and new providers. The landscape of network operators and service providers which has developed over decades is being churned up powerfully. The growing demand for bandwidth, the increasing mobility of the working world, the emergence of so-called OTT providers, as indeed the merging of communication channels which have been separate to date will require high investments coupled with decreasing sales revenue and earnings at the same time.

For TELES, this means new opportunities for its sales and results – especially in the field of unified communications (UC), with the merging of communications media such as fixed line and mobile telephony, faxes and email into a uniform application environment. Network operators which focus their efforts on such convenience services are able to differentiate themselves from the competition and succeed on the market with for instance an improved availability of subscribers – such as of teleworkers for example.

**Risk Report**

Business activities are fundamentally exposed to risks as well. For instance, geopolitical and geostrategic conflicts can also have a sensitive dampening impact on the demand in regions that are not directly involved in them. The events on the financial markets and non-balanced state budgets especially in several European countries as well are depressing economic activity and also having a negative impact on the economic development of the company, while new suppliers and providers are capable of threatening the competitive position of TELES. When considering the risks, we differentiate between business environment, product, service and technology risks, human resources, regulatory, currency, financial, interest rate and IT risks, as well as other risks. Apart from the tight cash situation, TELES AG does not see any acute risk situation at present. However the Management Board cannot exclude deteriorations in the macroeconomic environment for instance, which would also burden the sales and earnings position of the company. They can additionally aggravate the risk situation and reduce opportunities as the case may be.

**Business Environment Risks**

For TELES AG, business environment risks result from economic conditions and fluctuations in demand, as well as from price changes and from the dependence on suppliers and contract manufacturers. The uncertainties in the EUROzone, as indeed the precarious political and economic situation in the Mediterranean regions of Europe, can significantly weaken the demand in several of TELES' domestic European markets. Activities in the other markets beyond the core DACH and European markets do limit the impacts on the result of demand shortfalls, however they are not able to completely mitigate the risks. In this way, reliable forecasts for the further development of TELES AG are severely impeded.

The competition in several markets is aggravating the ability of small and mid-sized providers in particular, such as TELES, to absorb the pressure on prices especially on the part of the network operators.

TELES mitigates this development with unique services which limit the switching to competitors. For instance, it is not always possible to pass on prices increases on upstream products to customers, which occasionally weakens the competitive position. We mitigate procurement risks by utilizing coordinated purchasing, by agreeing long-term supply contracts, by having tight cooperation with suppliers and by continuous improvements to the procurement management. Yet for that, it cannot be guaranteed that no supply difficulties will arise in the future, that the processing of projects does not get delayed and that the business development is significantly impacted by this.

Furthermore in order to safeguard its development and production, TELES avails of competing suppliers in the procurement markets. In several areas however, it is in fact barely feasible to obtain the same quality products from alternative suppliers. This entails heightened purchasing, price and marketing risks among others.

**Product, Service and Technology Risks**

Product, service and technology risks rank among the most significant risks to which TELES is exposed. Product risks are caused by the delayed development, acceptance and/or delivery of products, as well as by product faults. Regardless of the fact that the market is saturated, the telecommunications industry is characterized by short innovation cycles for services, which permit the network operators to tap into and develop new customers. This calls for a powerful commitment on the part of TELES with regard to observing and analyzing the market, as well as in its development. Our earnings position is fundamentally dependent on our ability to adjust to changing markets and their requirements, to develop and launch new marketable products at a quick pace, to consistently optimize our development processes and to decrease the costs of developing and producing new products of higher quality and reliability.

Likewise, the on-schedule completion of agreed installations and other services at the contractual quality level also represent essential success factors for TELES. This is compounded by the fact that service level agreements with our customers represent a significant share of our sales, and their non-fulfillment or inadequate servicing can result in immediate damage to the company from claims for compensation, follow-up improvements or the loss of sales. For this reason, the service quality is permanently evaluated in a timely manner and improved where necessary. We actively mitigate risks resulting from product deficiencies as well as liability risks by means of careful development and reliable quality controls.

Moreover, the sales revenues and results can be negatively impacted by investments in those technologies which do not prove to be viable and marketable, and which are not introduced in a timely manner.

**Personnel Risks**

As it the case with every other highly specialized knowledge and development intensive company, TELES is exposed to unique personnel risks resulting from the departure of employees. The employees' know-how in many functional areas represents capital for TELES. The risk consists of the fact that with the departure of employees, corresponding knowledge and experience can also be lost, and processes come to a halt as a result. For this reason, the company focuses especially on the long-term loyalty of the staff to the company, in order to keep the fluctuation low. Moreover, TELES recruits committed young staff through its cooperative activities with universities in the context of dual study courses.

**Regulatory Risks**

The telecommunications sector continues to be statutorily regulated in many countries with relevant markets. In individual cases, official regulations or amendments to such regulations can significantly increase the operative costs and/or impacts on our sales revenue. Furthermore, amendments to tax laws and regulations could lead to higher tax outlays and/or impact on the deferred tax assets and liabilities.

**Currency Risks**

Because TELES gains part of its sales revenue and procures some materials outside the European Monetary Union, the impacts of currency fluctuations on our results cannot be excluded in situations where cash flows occur in a different currency to the euro. The risk is reduced by settling business transactions in the functional currency wherever possible. In those cases which are not invoiced and settled in the functional currency, TELES reserves the right to utilize hedging instruments.

**Financial and Interest Rate Risks**

Payment delays and defaults, as the case may be, have problematic impacts on the already tight liquidity of TELES AG. Yet for that, TELES AG is not directly dependent on any individual customers. The company generated a volume amounting to 11 percent of its total sales with its largest single customer in the 2015 financial year.

Fundamentally, TELES assesses customers and projects in advance and reduces financial risks by means of regularly agreeing to advance payments and with the help of payment-securing instruments as the case may be.

The interest rate risk for the TELES undertaking results exclusively from interest-bearing investments and from increasing interest rates, which could exert significant pressure on the company's liquidity.

**IT Risks**

The development and quality assurance of products, as indeed all the other processes at TELES AG, are highly dependent on IT hardware, software and systems, including their availability and reliability. Likewise, data are exposed to external risks resulting from infiltration, malware, unauthorized access to telecommunications networks and servers, as well as pirated copies. We mitigate these risks through continuous improvements in the security of our systems, as well as through redundant hardware and restrictions on access.

# Financing/Going Concern

The liquidity of the company continues to be very tight: The loans granted by the majority shareholder in 2014 and 2015 to finance the operative business were completely used up in 2015.

The reason for the ongoing financial bottleneck is the fundamental restructuring that was implemented: The access solutions business area was discontinued and the carrier and enterprise solutions business areas to date were restructured and combined to form the core solutions business area.

TELES is concentrating on the growth area of software-based solutions for network operators. By focusing on the so-called tier 1 carriers – the former national telecommunications monopolists and their larger competitors where appropriate – as well as on niche markets for gateways and on modern UC solutions, changes have also occurred in the sales cycles: Projects which were clear and manageable in terms of their complexity and decision-making are being replaced with disproportionately larger ones, which involve longer tendering and decision-making processes, and the implementation of which requires significantly more time.

We are completely aware that projects with longer processing times can also entail financing bottlenecks, and we regard this as a challenge. However it is a necessary accompanying factor in achieving the jump to becoming a solutions provider capable of engaging successfully with internationally operating carriers. The future of TELES depends to a very fundamental extent on how quickly it succeeds in establishing business relations with these carriers in the future as well and implementing clearly more challenging and demanding projects at amounts in the mid to high single-digit millions of euros.

In March 2016, the majority shareholder gave a loan commitment of K€ 250 in order to be able to close any further gaps in the financing. Additionally, an associated person granted a loan commitment of K€ 750. The Management Board considers these loan commitments to be adequate in order to cover the anticipated financial requirements up to at least the end of 2017.

The business planning naturally includes risks and uncertainties. It is based on current assumptions, expectations, estimates and projections of TELES which were taken into account to the best of the knowledge and belief of those responsible, having regard to commercial principles. To that extent, planning deviations cannot be excluded. Moreover, uncertainties still remain in the forecasts, since it cannot be ruled out that the consequences of the financial crisis could still have effects on our customers.

The continued existence of the company is dependent on the planned sales revenues for the coming months not falling below the budgeted levels over a sustained period and on the outstanding funds from the loan commitment of 0.75 million euro, as indeed from the 0.28 million euro research funding grant, being sufficient or increased if necessary.

# Forecast

The basis for our assessments for 2016 consists of having stabile macroeconomic conditions and the expectation that the recognizable boost in the demand for modern telecommunications solutions, such as unified communications, continues. The development outlined here is subject to opportunities and risks which are presented in the Report on Opportunities and Risks.

2016 is going to be a challenging year: In order to increase the visibility of TELES and expand its presence on the market, we will boost our sales personnel, intensify our sales partnerships and consistently expand our marketing. At the same time, we are aware that the sales and marketing activities can only flourish and visibly bear fruit over the long-term – and to that extent, we will only progressively observe success in the sales and in the result.

There is a growing demand for high-performance and -capacity IP-Centrex and unified communications solutions and that in the DACH core market especially. UC solutions represent one of the most important themes for the industry in numerous studies, specialist conferences and trade shows. From today's perspective, the favorable economic prospects should provide a further increase in the demand for UC solutions in the DACH core market in 2016. And we are also expecting that in the other European markets, UC solutions will progressively become accepted by carriers in order for them to be able to defend or expand their market shares with new services. In the new financial year, we will intensify the contacts with the so-called tier 1 carriers, the former monopolists, and increase our efforts to promote successfully concluded projects, in order to arouse market interest.

In view of the growing investments in personnel and other areas, with the new structure we are expecting growth of over 30 percent in the sales revenue of the company and a positive result (EBIT) compared to the previous year.

# Supplementary Report

On 18.02.2016, a funding agreement was concluded between Österreichische Forschungsförderungsgesellschaft mbH and TELES Communication Systems GmbH to support the Integrated Cloud Communication System 2015 Project. The complete project term began on 01.11.2015 and ends on 30.11.2017. The funding sum amounts to K€ 560 in the first year, of which 50 percent is in the form of a grant and 50 percent as a loan. The first instalment of the funding amounting to K€ 280 was received in April 2016.

In March and Mai 2016 further recapitalisation measures were implemented. on one hand, the majority shareholder SSBG gave a loan commitment of K€ 250, which was drawn in full amount in May 2016. On the other hand, an associated person granted a loan commitment of K€ 750 on May 31st, 2016. This unsecured loan carries interest of 10 percent p.a. and is due for return on December 31st, 2017.

Apart from the above, there are no further reportable occurrences after the end of the reporting period.

# Key Figures of the TELES Group in Accordance with IFRS

| TELES Group (in K€) | 1.1.2014 – 31.12.2014 | 1.1.2015 – 31.12.2015 |
|---|---|---|
| Sales revenue | 8,444 | 6,399 |
| Gross profit | 5,538 | 3,754 |
| Operating result/EBIT | -1,222 | -2,574 |
| Financial result and other shareholdings result | -122 | 1,952 |
| EBT from continuing operations | -1,344 | -622 |
| Taxes on income | -5 | 22 |
| Result from continuing operations | -1,339 | -643 |
| Discontinued operations | -436 | -789 |
| Annual net loss | -1.775 | -1,433 |

# Key Figures of TELES AG in Accordance with the German Commercial Code (HGB)

| TELES AG (in K€) | 1.1.2014 – 31.12.2014 | 1.1.2015 – 31.12.2015 |
|---|---|---|
| Sales revenue | 11,343 | 7,951 |
| Operating result | -1,217 | -3,216 |
| Income from securities held as financial assets | 15 | 0 |
| Interest result | -41 | -186 |
| Result of the ordinary business activities | -1,243 | -3,402 |
| Taxes on income | -4 | 0 |
| Annual net loss | -1,202 | -3,409 |

# Internal Control System

Pursuant to Sec. 289 Para. 5 and Sec. 315 Para. 2 No. 5 German Commercial Code (HGB), TELES AG is obligated to describe in the (consolidated) management report the fundamental features of the internal control and risk management system in relation to the (Group) accounting processes. The scope and structure of the accounting-related internal control and risk management system, as well as its adjustment to specific requirements of TELES AG, are at the discretion and under the responsibility of the Management Board. Accordingly, the TELES Group has established "risk management" integrated into its business processes. Doing so, the subsidiaries are responsible for the scope, form and content of their respective risk management systems. The monitoring and coordination of the Group-wide risk management is the responsibility of Group management. The regular and systematic identification, quantification and assessment of the respective relevant risks and security systems are part of the risk reporting by the subsidiaries to the Group management. The assessment of the risks is based on the amount and the probability of the occurrence of potential damages.

**Description of the Internal Control System**

The accounting-related internal control system of TELES AG comprises all of the principles, processes and measures to secure the effectiveness, efficiency and propriety of the accounting, as well as to secure the compliance with the applicable legal regulations.

Defined internal controls are embedded in the accounting processes based on risk aspects. The accounting-related internal control system comprises both preventive and detective controls, which include IT-supported and manual reconciliations, plausibility tests, the separation of functions, the two sets of eyes principle and general IT checks, such as for instance access authorization to IT systems.

Within the scope of the organizational, controlling and monitoring structures defined in TELES AG, the internal control system supports the recording, preparation and assessment of company-related facts and circumstances, together with their proper and correct presentation in the consolidated financial accounts.

The controlling of the accounting processes is conducted by the Group accounting section. Laws, accounting standards and other announcements are continuously analyzed with regard to their relevance and impacts on the annual financial statements. The Group companies are responsible for ensuring the compliance with the proper and prompt processing of their accounting-related processes and systems and are supported in this by the Group accounting section. The accounting-related internal control system as described is enhanced by controls on corporate levels effected by the highest decision-making bodies.

However, personal discretionary decisions, incorrect controls, criminal acts or other circumstances cannot, due to the nature of the matters, be excluded and then result in restricted effectiveness and reliability of the internal control system and the risk management system as applied. Thus the Group-wide application of the systems utilized can also not guarantee with absolute certainty the correct, complete and prompt recording of facts and circumstances in the consolidated financial accounts.

The statements provided are related only to the subsidiaries included in the consolidated financial statements of TELES AG, for which TELES AG is in a position to determine either directly or indirectly their financial and monetary policy in order to benefit from the activities of these companies.

# Legal Disputes

The company is a party to court proceedings and legal disputes which occur in customary business transactions. The company fundamentally forms provisions for corresponding cases when the assertion of a claim is probable and an amount can be estimated.

Regarding the "skyDSL patent infringement proceedings" (against Deutsche Telekom AG and SES ASTRAnet S.A.), the ruling by the German Federal Court of Justice was issued at the end of 2015 in the nullity proceedings with respect to the German skyDSL patent. In December 2011, Deutsche Telekom AG filed a nullity action against the German skyDSL patent. In the first instance, the patent was declared null and invalid by the German Federal Patent Court in May 2013. TELES AG filed an appeal against the judgement in September 2013 to the German Federal Court of Justice. Following the oral hearing in October 2015, the German Federal Court of Justice revised the ruling by the German Federal Patent Court from 15 May 2013 and rejected the action. Thus the German skyDSL patent is effective and can be used as a basis for the assertion of a claim for damages in the context of patent infringement proceedings (in a narrower sense).
With regard to the utility model deletion action, it was found in the last instance in November 2011 that the utility model did not demonstrate any effect from the beginning.
Otherwise, please refer to the 2009 notes to the consolidated financial statements.

Any comment of the status of the patent lawsuits reported in earlier years has been waived since 2009, because – as already detailed in the 2008 consolidated financial statements – the majority shareholder (SSBG = Sigram Schindler Beteiligungsgesellschaft mbH) assumed all costs in connection with the patent lawsuits effective as of 1 January 2009; SSBG and TELES are to participate in the results of the IntraStar patent disputes.

# Remuneration Report

This remuneration report has been prepared in accordance with the recommendations in the German Corporate Governance Code (DCGK) and includes disclosures required as per the German Commercial Code (HGB) and the International Financial Reporting Standards (IFRS). It is a component of the summarized management report. The remuneration report contains the principles for the remuneration system for the Management Board and the Supervisory Board and provides details of the amounts and the structure of the remuneration on an individual basis.

### Remuneration of the Management Board

The total remuneration of the Management Board of TELES AG – with the exception of the remuneration for the Management Board Chairman – consists of fixed and performance-related remuneration components. The fixed basic remuneration is paid out monthly in the form of a salary. The Management Board receives a monthly contribution to their health and nursing care insurance, as well as the provision of a company car together with the benefit in kind related to this as fringe benefits. In addition, the Management Board receives annual variable remuneration determined on the basis of the extent to which the results-oriented targets specified together with the Supervisory Board at the start of a given financial year are achieved. Furthermore, the Supervisory Board can grant a discretionary bonus to the Management Board, the amount of which is oriented on the one hand to the overall success of the company and on the other hand to the members' personal success in business areas under their responsibility.

The remuneration of Professor Dr.-Ing. Sigram Schindler continues to be limited to the provision of a company car and the benefit in kind related to this. The remuneration of the Management Board in the 2014 and 2015 financial years consists of the following:

| Allowances granted (in K€) | Professor Dr.-Ing. Sigram Schindler Co-Chairman of the Management Board | | | |
|---|---|---|---|---|
| | 2014 | 2015 | 2015 (min) | 2015 (max) |
| Fixed remuneration | 0 | 0 | 0 | 0 |
| Fringe benefits | 40 | 43 | 43 | 43 |
| **Total** | **40** | **43** | **43** | **43** |
| One-year variable remuneration | 0 | 0 | 0 | 0 |
| Multi-annual variable remuneration | 0 | 0 | 0 | 0 |
| **Total** | **40** | **43** | **43** | **43** |
| Pension costs | 0 | 0 | 0 | 0 |
| **Total remuneration** | **40** | **43** | **43** | **43** |

| Allowances granted (in K€) | Oliver Olbrich Co-Chairman of the Management Board | | | |
|---|---|---|---|---|
| | 2014 | 2015 | 2015 (min) | 2015 (max) |
| Fixed remuneration | 220 | 235 | 235 | 235 |
| Fringe benefits | 5 | 8 | 8 | 8 |
| **Total** | **225** | **243** | **243** | **243** |
| One-year variable remuneration | 0 | 30 | 30 | 30 |
| Multi-annual variable remuneration | 0 | 0 | 0 | 0 |
| **Total** | **0** | **30** | **30** | **30** |
| Pension costs | 0 | 0 | 0 | 0 |
| **Total remuneration** | **225** | **273** | **273** | **273** |

## Remuneration of the Supervisory Board

Likewise, the remuneration of the Supervisory Board fundamentally consists of fixed and performance-related components. In addition to the reimbursement of their expenses, the members of the Supervisory Board receive a fixed annual representation allowance. Moreover, the members of the Supervisory Board receive performance-related variable remuneration at an amount of 0.15% of a positive consolidated result. It is subject to an upper limit at the amount of the basic remuneration.

The Chairman of the Supervisory Board receives two and a half times the basic and additional remuneration, while the Deputy Chairman receives one and a half times this amount.

The remuneration of the Supervisory Board in the 2015 financial year consists of the following:

| **(in K€)** | **2014** | **2015** |
|---|---|---|
| Prof. Dr. Walter Rust | 37.5 | 37.5 |
| Prof. Dr. h.c. Radu Popescu-Zeletin | 22.5 | 22.5 |
| Prof. Dr.-Ing. Dr.-Oec. Thomas Schildhauer | 15.0 | 15.0 |
| | **75.0** | **75.0** |

# Disclosures Pursuant to Sec. 289 Para. IV, Sec. 315 Para. IV German Commercial Code (HGB)

### Composition of the Subscribed Capital

The fully paid-in share capital consists of 23,304,676 no par value bearer shares with a computed value of € 1.00 each. Each share entitles the bearer to one vote. There are no other classes of shares.

### Restrictions with Regard to Voting Rights or the Transfer of Shares

The Management Board of the company is not aware of any restrictions which affect the voting rights or the transfer of shares.

### Direct or Indirect Shareholding in Capital Which Exceeds 10% of the Voting Rights

Sigram Schindler Beteiligungsgesellschaft mbH, Berlin, Germany, held 57.41% of the voting rights in TELES AG on the balance sheet reporting date. Sigram Schindler Beteiligungsgesellschaft mbH is held 100% by Professor Dr.-Ing. Sigram Schindler, thereby granting him its voting rights pursuant to Sec. 22 Para. 1 Sentence 1 No. 1 German Securities Trading Law (WpHG). Likewise, the voting rights of the Sigram Schindler Stiftung foundation (1.46%) are attributed to him. Together with his direct voting rights, Professor Dr.-Ing. Sigram Schindler thus held a total of 58.93% of the voting rights in TELES AG Informationstechnologien on the balance sheet reporting date.

Otherwise the company is not aware of any further direct or indirect shareholdings in the capital which exceed 10% of the voting rights.

**Shares Vested with Special Rights; Controlling Powers**

There are no shares vested with special rights which grant controlling powers.

**Voting Rights Control**

Any voting rights control in the meaning of Sec. 315 Para. 4 No. 5 German Commercial Code (HGB) does not occur.

**Regulations for the Appointment and Dismissal of Members of the Management Board and on Amendments to the Articles of Incorporation**

In accordance with Sec. 6 of the articles of incorporation, the Management Board consists of at least two members. The determination of the number in the context of the above-mentioned regulation, as well as the appointment and revocation of an appointment, are undertaken by the Supervisory Board, as is the appointment of a member of the Management Board to Chairman of the Management Board. Otherwise, the appointment and dismissal of members of the Management Board is effected in accordance with Sec. 84, Sec. 85 German Stock Corporation Law (AktG).

Any amendments to the articles of incorporation are effected in accordance with Sec. 179, Sec. 133 German Stock Corporation Law (AktG), whereby pursuant to Sec. 14 of the articles of incorporation, the Supervisory Board is entitled to decide on amendments to the articles of incorporation which only concern their wording.

## Powers of the Management Board Regarding the Option to Issue or Redeem Shares

### Authorized Capital

The useable authorized capital (authorized capital 2015/I) amounted to a total of K€ 1,295 as of 31 December 2015*.*

The authorized capital 2015/I was based on a resolution by the General Meeting of Shareholders dated 28 August 2015 and entitled the Management Board, with the approval of the Supervisory Board, to increase the share capital until 27 August 2020 once or several times by up to K€ 1,295 for cash and/or contributions in kind.

### Conditional Capital

As of 31 December 2015, the conditional capital 1997/I amounted to a total of K€ 1,946, divided into 1,946,591 no par shares.

The conditional capital I created for the first time by the 1997 ordinary General Meeting of Shareholders amounted to K€ 1,946 as of 31 December 2015 and served to fulfil options on a total of 1,946,591 no par shares. On 29 August 2008, the designation of the conditional capital I was adjusted to the designation in the Commercial Register (conditional capital 1997/I) by resolution of the General Meeting of Shareholders. Furthermore, the purpose of the conditional capital 1997/I was broadened to the extent that in addition to the fulfillment of convertible bonds and share options issued to employees on the basis of prior resolutions by the General Meetings of Shareholders, it should also serve to securitize such share options which have been issued to employees on the basis of the corresponding resolution under Agenda Item 7 of the General Meeting of Shareholders dated 29 August 2008. The conditional capital 1997/I only becomes effective on the exercising of the conversion options for issued convertible bonds or in the event of the exercising of issued share options from the employees' share option programs. In the financial year now ended, the conditional capital 1997/I was not availed of due to the non-exercising of share options. The entitlement to exercise share options from the employees' share option program ended on 21 November 2015.

The conditional capital III or 2000/I respectively created for the first time by resolution of the General Meeting of Shareholders dated 11 July 2000 amounted to K€ 384 as of 31 December of the previous year, divided into 383,876 no par shares. It served to securitize share options from an employees' share option program which ended on 16 August 2014. Thus the conditional capital 2000/I was annulled by resolution of the General Meeting of Shareholders dated 28 August 2015.

### Material Agreements of the Company Conditional on a Change in Control as a Result of a Takeover Bid

There are no such agreements.

### Company Compensation Agreements Concluded with Members of the Management Board or Employees in the Event of a Takeover Bid

There are no such agreements.

# Concluding Statement on the Dependency Report

Pursuant to Sec. 312 Para 3 German Stock Corporation Law (AktG), the Management Board hereby states that in 2015 no legal transactions or other measures requiring reporting were recorded between the company and the controlling entity or a third party which the company undertook or did not undertake at the behest of or in the interest of the controlling entity or an associate of same.

Furthermore, the Management Board hereby states that the company received appropriate consideration for the legal transactions specified in the report on relationships with associates in accordance with the circumstances known at the respective time. In the 2015 financial year, no other measures requiring reporting were undertaken in the interest of or at the behest of the controlling entity which led to disadvantages on the part of the company.

# Statement on Company Management

**Management and Corporate Structure**

The corporate management of TELES AG as a German stock corporation listed on the stock exchange is defined by the requirements of the German Stock Corporation Law (AktG) and the German Corporate Governance Code in its currently applicable version, as well as by the regulations in the articles of incorporation. Corresponding to its legal form, TELES AG has a two-tier management structure with its Management Board and Supervisory Board managerial bodies, which is characterized by strict personnel separation between said management and supervisory bodies. The third managerial body consists of the General Meeting of Shareholders, at which the shareholders exercise their rights. All three bodies are obliged to ensure the well-being of the company.

The Supervisory Board elected by the General Meeting of Shareholders consists of three members in accordance with the articles of incorporation. The period of office for the Supervisory Board is normally five years. The Supervisory Board monitors and consults with the Management Board on the management of the business activities. The Supervisory Board discusses the business development, as well as the planning and strategy and their execution at regular intervals. With the Management Board, it discusses the quarterly and half-yearly reports prior to their publication and approves the annual planning, as well as the individual and consolidated financial statements. It takes into consideration the audit reports of the statutory auditor doing so. The Supervisory Board's scope of tasks also includes the appointment of Management Board members, as well as the setting of the Management Board remuneration and the regular assessment of same.

The Management Board is the managerial body of the Group and currently consists of two persons. It manages the company under its own responsibility with the aim of creating sustainable added value. The principle of overall responsibility is applicable, i.e. the members of the Management Board bear joint responsibility for the entire business management irrespective of divisional responsibility. In this respect, the Management Board is subject to the requirements in the internal rules of procedure approved by the Supervisory Board. These regulate in particular all matters reserved for the overall responsibility of the Management Board and also include a list of matters of fundamental importance which require approval from the Supervisory Board. The Management Board develops the corporate strategy and ensures its execution in coordination with the Supervisory Board. In addition, it is responsible for preparing the quarterly and annual financial statements, as well as for appointing staff to key positions in the company.

The General Meeting of Shareholders is the decision-making body on the part of our shareholders. The annual financial statements are submitted to our shareholders at the General Meeting of Shareholders. The shareholders decide on the appropriation of the balance sheet profit and also vote on other issues specified by law and the articles of incorporation. Each share entitles the bearer to one vote. Those shareholders are entitled to participate in the General Meeting of Shareholders which are registered within the specified deadline and have been shareholders at the beginning of the 21st day prior to the General Meeting of Shareholders (record date). Our shareholders can also exercise their voting rights at the General Meeting of Shareholders by means of an authorized third party or a voting representative (proxy holder) provided by the company which is bound by their voting instructions. They can also exercise their voting rights by means of a postal vote.

## Controlling/Management Systems

The internal controlling/management systems support the management in monitoring and controlling the Group and its business areas. The systems consist of planning, actual and forecast calculations and are based on the annually revised strategic planning of the Group. Doing so, consideration is given especially to market developments, technological developments and trends, together with their impact on the company's products and services, as well as on the financial options of the Group.

The Group reporting system consists of monthly results calculations, as well as quarterly IFRS reports for all consolidated subsidiaries, and presents the net assets, financial and earnings position of the Group. The financial reporting is supplemented with further detailed information required for the assessment and the control of the operative business.

A further component of the control systems are quarterly reports containing details of the fundamental risks to the company.

The reports named above are discussed at Management Board and Supervisory Board meetings and represent a fundamental basis for assessments and decisions.
The operative business of the company is fundamentally controlled and managed via the sales revenue, gross earnings, EBITDA and EBIT parameters, as well as via a range of other important non-financial key figures.

## Women in Management Positions

The Supervisory Board has pursuant to Sec. 111 Para. 5 German Stock Corporation Law (AktG) defined a target figure of "zero" up to 30.06.2017 for the increase in the share of women on the Management Board and Supervisory Board.

Both the Supervisory Board and the Management Board of the company consist of the minimum number of members. The terms in office of all members ends after 30.06.2017. Thus a normal vacancy prior to the expiry of the permissible time limit (up to 30.06.2017) pursuant to Sec. 25 German Introductory Act of the Stock Corporation Law (EGAktG) is not a given. Hence an increase in the participation by women in the Management Board and the Supervisory Board is neither plannable nor probable.

The Supervisory Board has pursuant to Sec. 76 Para. 4 German Stock Corporation Law (AktG) laid down target figures, also with a deadline up to 30.06.2017, for the two managerial levels beneath that of the Management Board. In this respect, a target figure of "zero" was defined for the first level beneath that of the Management Board and a target figure of 1/9 and/or 11 percent respectively for the second level. These reflect the status quo.

This target figure already represents a major challenge due to the small size of the company with its decreasing employee numbers at present, which is resulting in the intensified utilization of individual members of the personnel for differing managerial functions across several levels of the hierarchy, as well as due to the current economic situation at TELES. In the present situation, an increase in the proportion of women is unlikely up to 30.06.2017. Nevertheless, whenever it is filling vacant positions, TELES makes every effort to give appropriate consideration to women when the same professional qualifications occur.

**Corporate Governance**

The term corporate governance stands for management and control of companies aligned to responsible and long-term creation of added value. Efficient cooperation between the Management Board and the Supervisory Board, respect for the shareholder interests, as well as openness and transparency in the corporate communications are essential aspects of good corporate governance.

The Management Board and Supervisory Board of TELES AG consider themselves obliged to provide for the continued existence of the company and for the sustainable creation of added value by means of responsible corporate management and with a long-term focus. This corporate vision is based on the recommendations of the German Corporate Governance Code in its respective valid version. Following an obligatory review most recently in November 2015, the Management Board and Supervisory Board issued the following compliance statement in accordance with Sec. 161 German Stock Corporation Law (AktG):

**Compliance Statement by the Management Board and the Supervisory Board of TELES AG Informationstechnologien as per Sec. 161 German Stock Corporation Law (AktG) with the German Corporate Governance Code in the Version dated 5 May 2015**

Pursuant to Sec 161 German Stock Corporation Law (AktG), the Management Board and Supervisory Board of stock corporations listed on the stock exchange in Germany are required to issue an annual statement declaring that the recommendations of the "Government Commission German Corporate Governance Code" have been and are being complied with, or list the recommendations which were not complied with and disclose the reasons why not. This statement must be permanently accessible for the shareholders.

The German Corporate Governance Code (the "code") contains regulations with differing binding force. In addition to presenting binding stock corporation law regulations, it also contains recommendations from which companies can deviate; they are then obliged however to make full annual disclosures of said deviations. Furthermore, the code contains suggestions which may be deviated from without disclosure.

The following statement refers to the code in its version dated 05.05.2015 (published on 12.06.2015).

The Management Board and the Supervisory Board of TELES AG hereby state that the recommendations of the "Government Commission German Corporate Governance Code" published by the German Federal Ministry of Justice in the official section of the electronic Federal Gazette have been complied with since the last compliance statement issued in

November 2014 and will be complied with in the future, with the following exceptions.

**1. Code Section 3.8 (Management Board and Supervisory Board – D&O Insurance)**

The code recommends that when concluding directors' and officers' liability insurance, to also agree to a deductible for the Supervisory Board of the company corresponding to that based on the statutory regulations for Management Board deductibles.

The D&O insurance concluded by TELES does not envisage a deductible for the Supervisory Board. The nature of the Supervisory Board mandate, which is also clarified in the distinct structure of its remuneration, permits a differentiation between the Management Board and Supervisory Board with respect to the D&O insurance to seem reasonable and appropriate. Furthermore, agreement to a deductible is not considered as suitable for further enhancing the motivation and sense of responsibility of the Supervisory Board members who are already acting responsibly and in the interest of the company due to their function.

**2. Code Section 4.2.1 (Management Board – Responsibility for Divisions in Internal Rules of Procedure)**

In addition to Sec. 77 German Stock Corporation Law (AktG), the German Corporate Governance Code recommends that the internal rules of procedure for the Management Board are to regulate especially the divisional responsibilities of the individual Management Board members.

The definition of the divisional responsibilities in the internal rules of procedure for the Management Board members is not required, as the various divisional responsibilities are stipulated directly in the individual service contracts of the various Management Board members.

**3. Code Section 4.2.3 (Management Board – Remuneration)**

In addition to Sec. 87 Para 1 German Stock Corporation Law (AktG), the German Corporate Governance Code recommends that in the event of the premature termination of Management Board activities, payments are to be limited in terms of the amount (severance payment cap), whereby the calculation of the severance payment cap shall be based on the complete remuneration in the financial year then ended and also on the probable complete remuneration in the current financial year as required.

While a severance payment cap has been agreed in the Management Board service contract for Mr. Olbrich, its calculation occurs solely on the basis of the fixed salary.

**4. Code Section 5.1.2 (Age Limit for Management Board Members, Diversity)**

The code recommends that the Supervisory Board shall define an age limit for members of the Management Board.

TELES has waived the defining of an age limit for the Management Board, as the expertise of experienced Management Board members shall fundamentally also be available to the company and exclusion from the Management Board and Supervisory Board solely on the basis of age does not seem to be proper and appropriate.

**5. Code Section 5.3 (Supervisory Board, Forming Committees, Chairperson)**

The code recommends that the Supervisory Board shall form professionally qualified committees subject to the specific circumstances of the company and the number of its members.

The Supervisory Board of TELES AG currently consists of three members and thus constitutes a minimum-sized body. Because the members as a whole also examine and analyze – in addition to their other duties – the individual committee topics referred to in the code, the formation of committees is not regarded as appropriate for enhancing the efficiency of the Supervisory Board's work and is therefore not envisaged. To that extent, the Chairman of the Supervisory Board is also acting in his position as chairperson when the Supervisory Board as a whole considers the monitoring of the accounting process, the effectiveness of the internal control system, the risk management system and the internal audit system, as well as the audit of the annual financial statements and in particular the independence of the statutory auditor and the services rendered additionally by same in this context.

### 6. Code Section 5.4.1 (Composition of the Supervisory Board, Age Limit, Diversity)

The code recommends that the Supervisory Board sets concrete targets for its composition, while taking into consideration the specific corporate situation of the company's international activities, potential conflicts of interests, the number of independent Supervisory Board members in the meaning of No. 5.4.2., as well as an age limit to be defined for Supervisory Board members and a specified limit to be defined for the length of membership of the Supervisory Board, in addition to diversity.

The Supervisory Board has not defined concrete targets for its composition to date and after consideration of the company's specific situation, it also does not intend to set these targets for the time being. Regarding the composition of the Supervisory Board and in the interests of the company, value is primarily placed on having the greatest possible professional competencies, together with international experience, before further criteria are then taken into consideration.

Furthermore, the company has waived the defining of an age limit as well as a specified limit for the length of membership of the Supervisory Board, as also the expertise of experienced Supervisory Board members shall fundamentally be available to the company and any exclusion solely on the basis of age does not seem to be proper and appropriate.

### 7. Code Section 5.4.5 (Supervisory Board – Training and Advanced Educational Measures)

Furthermore, the code recommends that the company shall support in an appropriate manner the Supervisory Board members with training and advanced education measures required for the fulfillment of their duties.

Fundamentally, the company supports the Supervisory Board members with appropriate training and advanced education measures in the context of the reimbursement of expenses as per the articles of incorporation. As it is unclear which requirements have to be fulfilled in order that the support provided by the company in the context of this code recommendation is regarded as appropriate, by way of precaution, a deviation from the recommendation is declared herewith.

## 8. Code Section 7.1.2 (Publication of Financial Reports)

In line with the recommendation of the code, the consolidated financial statements shall be publicly accessible within 90 days after the end of the financial year, while interim reports shall be publicly accessible within 45 days after the end of the reporting period. Fundamentally, TELES AG publishes the consolidated financial statements and the interim reports – wherever possible – within these time limits. When required however, it retains the right to avail of the statutory deadlines for the disclosures. Thus, the consolidated financial statements for the 2014 financial year were published within the statutory deadline, while the interim reports (Q1/2015, half-year/2015 as well as Q3/2015) were published within the 45-day time limit.

Berlin, 13. Juni 2016
TELES AG Informationstechnologien

Professor Dr.-Ing. Sigram Schindler
Oliver Olbrich

# Consolidated Financial Statement for the financial year ending 31.12.2015 of TELES Group

# Consolidated Balance Sheet

| in K€, excluding numbers of ordinary shares | Notes | 31.12.2014 | 31.12.2014 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 4 | 126 | 91 |
| Intangible assets | 5 | 11 | 10 |
| | | **137** | **101** |
| **Current assets** | | | |
| Inventories | 6 | 879 | 167 |
| Trade receivables | 7, 15 | 1.244 | 618 |
| Receivables from taxes on income | 20 | 45 | 32 |
| Other current assets | 8 | 155 | 164 |
| Cash and cash equivalents | | 636 | 209 |
| | | **2.958** | **1.190** |
| **Total assets** | | **3.095** | **1.291** |
| **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 | | -46.792 | -48.225 |
| Valuation of pension obligations | | -224 | -220 |
| Currency translation reserve | | 397 | 379 |
| **Attributed to parent company shareholders** | | **-11.746** | **-13.192** |
| | | 0 | **0** |
| **Total equity** | 9 | **-11.746** | **-13.192** |
| **Non-current liabilities** | | | |
| Non-current provisions | 14 | 622 | 682 |
| Other financial liabilities | 10, 15, 25 | 10.820 | 8.730 |
| | | **11.442** | **9.412** |
| **Current liabilities** | | | |
| Trade payables | 15 | 947 | 894 |
| Other provisions | 14 | 264 | 125 |
| Accrued income | 11 | 449 | 416 |
| Other financial liabilities | 13, 15, 25 | 725 | 2.387 |
| Other current liabilities | 12 | 1.014 | 1.250 |
| | | **3.399** | **5.071** |
| **Total liabilities** | | **14.841** | **14.484** |
| | | **3.095** | **1.291** |

# Consolidated Profit and Loss Account

| in K€, excluding numbers of ordinary shares | Notes | 01 January - 31 December 2014 | 2015 |
|---|---|---|---|
| CONTINUING OPERATIONS | | | |
| **Sales revenues** | **16, 19** | **8.444** | **6.399** |
| **Production costs** | **16, 19** | **2.906** | **2.645** |
| **Gross profit** | | **5.538** | **3.754** |
| Sales and marketing expenses | 19 | 2.414 | 2.163 |
| Research and develpment expenses | 19 | 2.213 | 2.461 |
| Administration expenses | 19 | 1.742 | 1.687 |
| Other income | 17 | 360 | 89 |
| Other expenses | 17 | 752 | 106 |
| **Operating result/EBIT** | **19** | **-1.222** | **-2.574** |
| Financial income | 15, 18, 19 | 5 | 2.126 |
| Financial expenses | 15, 18, 19 | 142 | 175 |
| Other shareholdings result | 15, 18, 19 | 15 | |
| **Result from continuing operations before taxes on income** | **19** | **-1.344** | **-622** |
| Taxes on income | 20 | -5 | 22 |
| **Result from continuing operations** | | **-1.339** | **-643** |
| DISCONTINUED OPERATIONS | 19 | -436 | -789 |
| Result from discontinued operations after deduction of taxes | 19 | -436 | -789 |
| **Net loss** | | **-1.775** | **-1.433** |
| of which attributable to: | | | |
| Parent company shareholders | 22 | -1.775 | -1.433 |
| Minority interests | | 0 | 0 |
| Result per share from continuing operations | | | |
| Undiluted | | | |
| Diluted | | | |
| Result per share from continuing operations | 22 | | |
| Undiluted | | -0,08 | -0,06 |
| Diluted | | -0,08 | -0,06 |
| Nmber of underlying shares | | | |
| Undiluted | | 23.304.676 | 23.304.676 |
| Diluted | | 23.304.676 | 23.304.676 |
| Additional disclosure to the consolidated financial statements: | | | |
| EBITDA[1] | | -1.153 | -2.505 |

[1] Equates to operating result (2014: -K€ 1.222; 2015: -K€ 2.574) before depreciation (2014: K€ 68; 2015: K€ 69)

# Consolidated Income Statement

| (in K€) | Notes | 01 January - 31 December 2014 | 2015 |
|---|---|---|---|
| **Net loss** | | **-1.775** | **-1.433** |
| **Other comprehensive income:** | | | |
| *Other income reclassified in current period affecting net income:* | | | |
| Financial assets available for sales; evaluation | | 0 | |
| Gain from financial assets available for sale | 16 | 0 | |
| Income tax effects | | 0 | |
| | | 0 | 0 |
| **Other income reclassied in durrent period affecting net income, net** | | **0** | **0** |
| *Other income to be reclassified in subsequent periods affecting net income:* | | | |
| Currency translation differences, foreign subsidiaries | | 462 | -17 |
| **Other income to be reclassified in subsequent periods affecting net income, net** | | **462** | **-17** |
| Actuarial losses from defined benefit persion plan obligations as per IAS 19 | 14 | -105 | 4 |
| **Items not to be reclassified in subsequent periods affecting net income, net** | | **-105** | **4** |
| **Other comprehensive income after deduction of taxes** | | **357** | **-13** |
| **Comprehensive income after deduction of taxes** | | **-1.418** | **-1.446** |
| of which attributable to: | | | |
| Parent company shareholders | | -1.418 | -1.446 |
| Minority interests | | 0 | 0 |

# Development of Group Equity

**In K€, the number of ordinary shares: 23,304,676**

| | Nominal value of the shares | Capital reserve | Revenue reserves | Fair v alue reserve | Valuation of pension obligations | Currency translation reserve | Total | Attributed to non-controlling minority interests | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| **31. Dezember 2013** | 23.305 | 11.568 | -45.017 | | -119 | -66 | -10.329 | | -10.329 |
| Jahresüberschuss | | - | -1.775 | - | | | -1.775 | | -1.775 |
| Sonstiges Ergebnis | | - | | - | -105 | 463 | 358 | | 358 |
| **31. Dezember 2014** | 23.305 | 11.568 | -46.792 | | -224 | 397 | -11.746 | | -11.746 |
| Jahresfehlbetrag | - | - | -1.433 | - | | | -1.433 | | -1.433 |
| Sonstiges Ergebnis | - | - | | - | 4 | -17 | -13 | | -13 |
| **31. Dezember 2015** | 23.305 | 11.568 | -48.225 | | -220 | 379 | -13.192 | | -13.192 |

# Consolidated Cash Flow Statement

| (in K€) | | 01 January - 31 December | |
|---|---|---|---|
| Cash flow from operating activities | **Notes** | **2014** | **2015** |
| **Net loss for the financial year** | | **-1.775** | **-1.433** |
| Adjustment of the net loss **for** the financial year to the: | | | |
| Deconsolidation result | 4 | -90 | |
| Taxes on income | 21 | -5 | 22 |
| Financial result | 16, 19 | | |
| Subsequent evaluation of debtor warrant granted by Sigram Schindler Beteiligungsgesellschaft mbG | | 97 | -2.126 |
| Interest result | | 41 | 175 |
| Dividends GRAVIS | | -15 | |
| Value adjustment on receivables | 8, 16 | -82 | 25 |
| Value impairment on inventories | 3, 7 | 166 | -831 |
| Depreciation of property, plant and equipment | 5 | 98 | 77 |
| Depreciation of intangible assets | 6 | 7 | 8 |
| Changes to the provisions, pension obligations an public sector grants | 3, 15 | 66 | 52 |
| Charges to other balance sheet items: | | | |
| Inventories | 7 | 818 | 1.542 |
| Trade receibables | 8, 16 | 406 | 615 |
| Other current assets, prepayments and accrued Current liabilities | 9 | 107 | -9 |
| Current liabilities | 14 | -460 | 258 |
| Provisions and other liabilities | 14, 15, 19 | -94 | -126 |
| Effects from exchange rate differences | | 462 | -17 |
| Taxes on income received | 21 | 94 | |
| Taxes on income paid | | 0 | -9 |
| Interest received | 16, 19 | 0 | |
| Interest paid | 16, 19 | -6 | |
| **Cash flow from operating activities** | | **-165** | **-1.778** |
| Cash flow from investing activities: | | | |
| Acquision of property, plant and equipment | 5 | -79 | -43 |
| Acquision of intangible assets | 6 | -11 | -6 |
| Debtor warranty agreement right | 16 | 0 | |
| Dividends GRAVIS | 16 | 11 | - |
| Disposal of shares GRAVIS | 16 | 0 | |
| **Cash flow from investing activities** | | **-79** | **-49** |
| Cash flow from financing activities: | | | |
| Loans from related parties | 26 | 400 | 1.400 |
| **Cash flow from financing activities** | | **400** | **1.400** |
| Net change in cash and cash equivalents | | 156 | -426 |
| Cash and cash equivalents at beginning of period | | 480 | 636 |
| **Cash and cash equivalents at end of period** | 24 | **636** | **209** |
| Cash and cash equivalents contain: money market | | 60 | 60 |

# Group Notes to the Consolidated Financial Statement for the Fiscal Year 2015

# Explanation 1: General Information

TELES Aktiengesellschaft Informationstechnologien (hereinafter referred to as "TELES AG") and its subsidiaries (hereinafter referred to as "TELES" or the "Company") are active in the field of innovative telecommunication technologies and services: TELES is a high-performing supplier of equipment, solutions and services for fixed network and fixed-mobile convergence, as well as a Next Generation Network (NGN) service provider.

TELES AG has its registered office in Berlin, Germany. The shares in TELES AG are listed in the Prime Standard stock exchange segment and are traded on all German stock exchanges.

The majority shareholder in TELES AG is Sigram Schindler Beteiligungsgesellschaft mbH with headquarters in Berlin.

During the financial year, the Company employed an annual average of 77 employees (previous year: 88). The employees work in the areas of Sales and Marketing (9, in the previous year: 19), Research and Development (37, in previous year: 37), Procurement and Logistics (13, in previous year: 21) and Administration (18, in previous year: 11).

# Explanation 2: Summary of Significant Accounting Policies

### 2.1 Basic Information to be presented

The Group Consolidated Financial Statement of TELES of 31 December 2015 complies with Sec. 315a HGB [German Commercial Code] in accordance with the provisions of the guidelines prepared by the International Accounting Standards Board (IASB), London applicable on the balance sheet date. On 31 December 2015, all of the IAS and IFRS mandatory in the EU as well as the interpretations of the International Financial Reporting Interpretations Committee (IFRS IC) were complied with.

The Board of Directors of TELES AG prepared the Consolidated Financial Statement on June 13th, 2016 and approved them for submission to the company's Supervisory Board.

### 2.2 Business Continuity, Financing and Significant Uncertainties

On the basis of the assessment of Management, the Company's continuation was seen as a given and the Group Consolidated Financial Statement was prepared on the basis of the "going concern" assumption. In order to be able to close any additional financing gaps, the majority shareholder approved a loan of K€ 250 in March 2016.  Moreover, a related person approved a loan of K€ 750 in Mai 2016. The Management considers these loans as sufficient to cover the presumed financial resources required until mid-2017.

The survival of TELES AG, and respectively the Group, depends on the company not considerably failing its revenue target in the upcoming months and the outstanding funds from the K€ 750 loan and the K€ 280 grant from the Österreichische Forschungsförderungsgesellschaft mbH (Austrian sponsoring company for research promotion) will prove sufficient or will be increased if necessary.

For more information on any jeopardy to the Company's existence, please refer to the "Financing/Going Concern" section of the Group Management Report.

### 2.3 Principles of Consolidation

#### a) Scope of Consolidation

Remaining unchanged from the previous year, in addition to TELES AG as the parent Company, one domestic and six foreign subsidiaries are also included in the Group Consolidated Financial Statement prepared for the fiscal year 2015.

There are no investments in associated companies.

A list of subsidiaries included in the Group Consolidated Financial Statement can be found in Explanation 27.

#### b) Consolidation Methods

The Group Consolidated Financial Statement includes all companies for which TELES AG is directly or indirectly able to determine financial and commercial policies in such a way that the Group companies benefit from the activities of these companies. The financial statements have been prepared in accordance with uniform accounting and valuation principles. The first time inclusion of companies in the Group Consolidated Financial Statement begins with effect from the day on which TELES AG takes control of the subsidiary. Amounts concerning minority shareholders are reported separately.

The consolidation of capital is based on the purchase method. The acquisition values of the shares are offset against the Group share of the fair value of the respective Company's equity. The acquired assets and liabilities, including those at the acquired Company not reported on the balance sheet, are hereby estimated at the fair value on the date of acquisition. Moreover, non-controlling interests are reported in the balance sheet in the minority shareholders proportion of the fair values. The positive difference between the acquisition price and the share of the net fair value is reported as goodwill and is reviewed at least once per year in regard to its impairment.

Intra-group transactions are eliminated. Receivables and liabilities between the consolidated companies are offset against each other. Interim results are eliminated and internal Group earnings are offset against the correspondent expenses.

In the case of the sale of a subsidiary, the assets and liabilities taken into account up until this point as well as goodwill attributed to a subsidiary are offset against the proceeds of the sale.

## 2.4 Summary of Significant Accounting Policies

### a) Tangible Assets

Tangible assets are recorded on the balance sheet at acquisition cost less scheduled and if necessary unscheduled depreciation. Revaluations are not carried out. Scheduled depreciation is calculated using the straight-line method over the following periods:

| | |
|---|---|
| Computer hardware: | 3 years |
| Office and business equipment: | 5 years |
| Installations at rented premises: | 10 years or shorter remaining rental period |
| Others: | 10 years |

Maintenance and repair costs are recognized in profit or loss when incurred.

### b) Intangible Assets

Acquired intangible assets are capitalized, if it is probable that a future economic benefit is connected with their use. These are recorded on the balance sheet at acquisition cost less scheduled and if necessary unscheduled depreciation. Scheduled depreciation is calculated using the straight-line method over the following periods:

| | |
|---|---|
| Software: | 3-5 years |
| Others: | 3-5 years |

### c) Financial Instruments, Assets

The financial instruments are categorized in accordance with IAS 39. Possible categories of financial instruments (assets) are:

- Financial assets that are valued at fair value through profit or loss, whereby a distinction is made between those that are (i) initially classified as such and those that are (ii) classified as held for trading in accordance with IAS 39;
- Financial investments held until maturity;
- Loans and receivables;
- Financial instruments available-for-sale.

Trade receivables and other receivables are initially recognized at fair value and subsequently assessed at amortized acquisition costs using the effective interest rate method. In order to take account of the general credit risk, the receivables are summarized in groups after their maturity date and then value adjustments are made on the basis of the age structure. However, if so required by the circumstances, appropriate individual value adjustments are made in individual cases.

The acquisition and sale of financial assets is reported in the balance sheet on the date of fulfilment.

### d) Inventories

Inventories are shown at the average acquisition or manufacturing cost or the lower net realizable value. Insofar as obsolete inventories that are difficult to sell exist, value reductions are applied.

### e) Cash and Cash Equivalents

The Company considers all highly liquid investments with a term to the acquisition date of 90 days or less as cash equivalents.

### f) Equity

Decisive for the management of equity are the provisions of the German Commercial Code (especially Sec. 272) and the German Stock Corporation Act (especially Sec. 71 et seq., Sec. 192 et seq.) for the separate financial statements of TELES AG as well as the regulations in accordance with IFRS for the equity of the TELES Group. The aforementioned laws or regulations are the only external restrictions to which the TELES equity is subject. In the past fiscal year, the Company met all external minimum capital requirements.

The equity shown in the Group Consolidated Financial Statement corresponds to the management-controlled equity.

### g) Financial Instruments, Liabilities

The financial instruments are categorized in accordance with IAS 39. Possible categories of financial instruments (liabilities) are:

- Financial liabilities that are valued at fair value through profit or loss, whereby a distinction is made between those that are (i) initially classified as such and those that are (ii) classified as held for trading in accordance with IAS 39;
- Financial liabilities that are valued at the amortized acquisition costs.

Sigram Schindler Beteiligungsgesellschaft mbH waived loans granted to the Company in previous fiscal years. On 31 December 2014 and 31 December 2015 respectively, the Company reported a financial liability in the balance sheet that resulted from a debtor warrant agreement entered into in connection with the loan waiver. The initial evaluation of the liability was recognized at fair value. The fair value was - in the absence of market-related values - determined using a *discounted cash flow* method. The update is carried out at amortized acquisition costs.

Trade liabilities are reported in the balance sheet by the Company at the amortized acquisition costs.

### h) Provisions

Provisions are recognized if a current legal or factual liability is created for the Company as a result of an event in the past, an outflow of resources to fulfil this obligation is probable and the amount of the obligation can be reliably estimated.

### i) Employee Benefits

The Company reports benefits after the end of employment that are categorized as *defined benefit plans* in accordance with IAS 19. The total actuarial profits and losses in the period are recognized in the other result in application of IAS 19.

Payments for defined contribution plans are recognized as an expense in the profit and loss account, if they are due.

### j) Deferred Tax Assets

Tax liabilities are recognized on the basis of the so-called assets and liability method: Deferred income taxes are created for all significant temporary differences between the tax and accounting-related basis of assessment of the assets and liabilities and tax loss carryforwards on the basis of the statutory tax rates. Deferred tax assets are reduced by a valuation discount, insofar as it is likely on the basis of the known circumstances that a part or all of the total deferred tax assets cannot be used. Deferred taxes are shown as long-term assets or liabilities.

### k) Impairment of Assets

Assets are checked on each balance sheet date as to whether events or changes in circumstances indicate that the book value is not to be realized and thus a value reduction is required.

### l) Research and Development Costs

Research costs are recorded as expenses at the time they are incurred. Costs incurred in connection with the Company's own development of software for the sale of certain telecommunications devices are examined in regard to their capitalization as internally generated intangible assets. In addition to the general requirements for the capitalization and initial assessment, the technical and commercial feasibility must be demonstrated for the approach and the allocated expenditure must be reliably measurable. Furthermore, it must be probable that the intangible asset value will lead to a future economic benefit, is unambiguously identifiable and can be assigned to a specific product. If the research phase is not clearly distinguished from the development phase, the total costs are treated as research costs.

Capitalized development costs are depreciated over the estimated useful life of the internally generated intangible asset. The depreciations are recorded in the production costs.

## m) Leases

Leases that the Company has entered into are classified as *operating leases*, insofar as the Company is not to be seen as a beneficial owner. The leasing rates are reported during the period in which they were generated in the income statement.

Leased items which are attributable to the Company as the beneficial owner are capitalized and depreciated over their normal useful life or the shorter duration of the leasing contract. Accordingly, the liability that arises from the lease is recognized under liabilities and reduced by the repayment portion of the paid lease rates.

## n) Translation of Foreign Currencies

The currency of the primary economic environment in which the individual Group companies are active is seen as the "functional" currency. In the case of the TELES AG subsidiaries, this corresponds to the respective local currency of the Company. Accordingly, all assets and liabilities are valued at the current exchange rate on the balance sheet date. The translation of income and expenses is carried out using the monthly average exchange rates for the year. Profits and losses from the translation of the financial statements of the Group companies are not included in the profit and loss account but in the other changes in equity. Profits and losses from foreign currency transactions are included in the determination of the annual results.

## o) Employee Participation Programmes

The Company's employee participation programmes are reported in the balance sheet in accordance with IFRS 2 "Share-based Remuneration". IFRS 2 requires that the effects of share-based remuneration are taken into account in the result and in the net assets and financial position of the Company. This includes the expenses resulting from the granting of stock options to employees. Accordingly, the fair value of the work performed by the employees as consideration for the stock options granted is to be reported as expenditure as well as an increase in the equity capital. However, as the fair value of the work performed by the employees cannot be determined reliably, the fair value of the stock options when granted is to be used to assess the fair value.

In accordance with the transitional provisions, IFRS 2 was already to be applied to all equity instruments granted after 7 November 2002 and not yet vested on 1 January 2005. The comparative information was adjusted accordingly.

The exercise of options is represented in such a way that the basic price to be paid by the beneficiary is reported in the balance sheet as an equity increase with a neutral effect on earnings.

**p) Principles of Sales Revenue Realization**

<u>Products</u>

The Company realized revenues from product sales on the basis of a corresponding contract, as soon as the product has been delivered, the sales price is fixed or determinable and no significant commitments to customers exist, and the collection of the receivables is deemed probable. The Company makes provisions for all potential costs through product withdrawals, warranty services and other costs according to experience values.

<u>Services</u>

Sales revenue from the provision of services are realized, if these have essentially been provided in full and are chargeable. The Company provides both services that are to be completed within a certain period as well as services that are provided over several periods. If the contractually agreed services extend beyond the balance sheet date and have already been invoiced but not delivered or rendered but not yet billed services are deferred.

Transport and Shipping Costs That Are Passed On

The Company shows shipping costs that are passed on in sales and the associated costs in the production costs.

### q) Production Costs

In addition to the cost of direct materials and direct manufacturing expenses, the production costs for products sold include indirect costs including depreciation of production equipment and other intangible assets as well as the impairment to inventories.

### r) Earnings per Ordinary Share

The undiluted annual net income per ordinary share is calculated on the basis of the weighted average number of ordinary shares in circulation during the reporting period. Own shares reduce the number of ordinary shares in circulation. The diluted net income per ordinary share is calculated on the basis of the weighted average number of ordinary shares and diluted common equivalent shares in circulation during the reporting period. Dilution effects are based solely on the stock options issued.

### s) Segment Reporting

Internal management of the Company forms the basis for segment reporting (*management approach*). External segment reporting is on the basis of the internal organizational and management structure and the coordinated internal financial reporting to the highest governance body (*Chief Operating Decision Maker*).

### t) Government Grants

Benefits from public authorities for the purchase of property and equipment are generally reported as long-term liabilities under other long-term liabilities and depreciated linearly over the depreciation period for the subsidized capital assets with an effect on earnings. If, at the time of establishment of the grant entitlement, the relevant tangible assets are already partially or fully depreciated, they are recognized immediately.

**u) Dividend Yield**

Dividend income is recognized at the time at which the right to receive payment is established.

**v) Discontinued Operations**

The Company presents continuing operations and discontinued operations separately in the profit and loss account, where the earnings contribution of discontinued operations is shown in summary. Shown as discontinued operations are such significant business activities of the Group, which comprise at least one reportable business unit that has been divested or closed down. The composition of the amount, as well as the identifiable amounts for discontinued operations in the cash flow statement are specified in Explanation 19.

Subsequent earnings contributions from operations discontinued in previous years are reported as "earnings from discontinued operations after the deduction of taxes".

### 2.5 Important Discretionary Decisions, Estimates and Assumptions

During preparation of the Group Consolidated Financial Statement, the Executive Board has to make estimates and assumptions in accordance with the generally accepted accounting principles that affect the reported amounts in the Group Consolidated Financial Statement and Notes.

The financial liability from the recovery right for discharged liabilities is assessed on the basis of a discounted cash flow method. The affordability of the amounts depends on certain operative conditions. The main assumptions on which the calculation of the amount to be paid is based therefore include assumptions with regard to the development of sales revenue and earnings. Please refer to Explanation 15.

With regard to Management's assessment regarding business continuity and financing, please refer to point 2.2 in this explanation.

### 2.6 Standards, Interpretations and Amendments Which Became Mandatory for the First Time in the Past Fiscal Year

TELES AG regularly takes all mandatory accounting standards from the relevant fiscal year into consideration in its Group Consolidated Financial Statement and implements them.

In the fiscal year 2015, standards to be implemented for the first time were either of no relevance to TELES AG or were not of significant relevance to the Company's asset, financial and profit situation.

### 2.7 Standards, Interpretations and Amendments That Shall Become Mandatory in Future Reporting Periods (Published but not yet Mandatory Applicable Standards)

In its Group Consolidated Financial Statement for 2015, TELES AG did not take the following accounting standards issued by the IASB, which had already been adopted but were not yet mandatory for the fiscal year, into consideration.

| Standard/Interpretation | | Application obligation[1] | Foreseeable effects |
|---|---|---|---|
| IFRS 9 | Financial instruments | 01/01/2018 | None |
| IFRS 10, IFRS 28 | Consolidated financial statements and shares in associated companies and joint ventures: Sale of an investor's assets or transfer to its associated Company or joint venture | Originally 01/01/2016<br><br>Date of entry into force postponed for an unspecified period of time | No, as all of the consolidated companies are wholly-owned subsidiaries |
| IFRS 10, IFRS 12, IAS 28 | Consolidated financial statements and shares in associated companies and joint ventures: Exception to the consolidation for investment companies | 01/01/2016 | No, as all of the consolidated companies are wholly-owned subsidiaries |
| IFRS 11 | Joint agreements: Acquisition of shares in a joint activity | 01/01/2016 | None |
| IFRS 14 | Regulatory accruals | 01/01/2016 | None |
| IFRS 15 | Sales revenue from customer contracts | 01/01/2017<br><br>Effective Date of IFRS 15: 01/01/2018 | None anticipated |
| IFRS 16 | Leases | 01/01/2016 | No significant effects |
| IAS 1 | Presentation of Financial Statements | 01/01/2016 | No significant effects |
| IAS 7 | Change in disclosure initiative | 01/01/2016 | No significant effects |
| IAS16, IAS 38 | Clarification of acceptable methods of depreciation | 01/01/2016 | No significant effects |
| IAS 16, IAS 41 | Agriculture: Produced plants | 01/01/2016 | None |
| IAS 27 | Individual accounts:<br>Equity Method | 01/01/2016 | None |
| | Improvement of the International Financial Reporting Standards in 2014[2] | 01/01/2016 | No significant effects |

[1] Mandatory first-time application from the perspective of TELES AG

# Explanation 3: Essential Components of the Operating Result

| (in K€) | 01 January – 31 December 2014 | 2015 |
|---|---|---|
| **Depreciation** | 105 | 85 |
| (included in production costs and operating expenses) | | |
| *of which: scheduled depreciation of property, plant and equipment* | 98 | 77 |
| *of which: scheduled depreciation of intangible assets* | 7 | 8 |
| **Inventories** | | |
| Inventory procurement and production costs recognized as expenses | 2.684 | 1.708 |
| including: reversal of inventory write-down (previous year: impairment) * | 166 | -831 |
| (included in production costs) | | |
| **Value adjustments on trade receivables** | 45 | 83 |
| (included in operating expenses, sales and marketing) | | |
| *of which: value adjustments* | 153 | 209 |
| *of which: reversals of value adjustments* | -108 | -126 |
| **Personnel costs** | | |
| (included in production costs and operating expenses) | 6.729 | 6.759 |
| *including: employer's contribution to the statutory pension insurance* | 455 | 444 |
| *including: employer's contribution to the defined contribution plan* | 15 | 14 |
| *including: severance payments* | 0 | 251 |
| **Public sector grants** | | |
| (included in the research and development expenses) | 43 | -6 |

* including values of the discontinued operation

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[2] Minor change to several IFRS (IFRS 5, IFRS 7, IAS 19, IAS 34)

# Explanation 4: Tangible Assets

The tangible assets developed as follows in the fiscal years 2014 and 2015:

| (in K€) | Computer hardware | Office and operating equipment | Leasehold improvements | Other assets | Total |
|---|---|---|---|---|---|
| **Acquisiton costs** | | | | | |
| As of 31 Dec. 2013 | 6.470 | 17 | 681 | 194 | 7.362 |
| Acquisitions | 67 | 5 | | 6 | 78 |
| Disposals | 5 | | | 1 | 6 |
| **31 December 2014** | **6.532** | **22** | **681** | **199** | **7.434** |
| Acquisitions | 28 | | | 14 | 43 |
| Disposals | | | | 4 | 4 |
| **31 December 2015** | **6.560** | **22** | **681** | **210** | **7.473** |
| **Depreciation** | | | | | |
| As of 31 Dec. 2013 | 6.387 | 7 | 681 | 141 | 7.216 |
| Acquisitions | 61 | 2 | | 35 | 98 |
| Disposals | 5 | | | 1 | 6 |
| **31 December 2014** | **6.443** | **9** | **681** | **175** | **7.308** |
| Acquisitions | 55 | 2 | | 20 | 77 |
| Disposals | | | | 3 | 3 |
| **31 December 2015** | **6.498** | **11** | **681** | **192** | **7.382** |
| **Residual (Net) book values as of** | | | | | |
| 31 December 2014 | 89 | 13 | | 24 | 126 |
| 31 December 2015 | 62 | 11 | | 18 | 91 |

# Explanation 5: Intangible Assets

The intangible assets developed as follows in 2014 and 2015:

| (in K€) | **Software licenses** | **Total** |
|---|---|---|
| **Acquisiton costs** | | |
| As of 31 Dec. 2013 | 4.269 | 4.269 |
| Acquisitions | 11 | 11 |
| **31 December 2014** | **4.280** | **4.280** |
| Acquisitions | 7 | 7 |
| **31 December 2015** | **4.287** | **4.287** |
| **Depreciation** | | |
| As of 31 Dec. 2013 | 4.262 | 4.262 |
| Acquisitions | 7 | 7 |
| **31 December 2014** | **4.269** | **4.269** |
| Acquisitions | 8 | 8 |
| **31 December 2015** | **4.277** | **4.277** |
| **Residual (Net) book values as of** | | |
| 31 December 2014 | 11 | 11 |
| 31 December 2015 | 10 | 10 |

All intangible assets have a limited period of use.

The remaining depreciation for the substantial part of the software licenses is four to five years.

# Explanation 6: Inventories

The inventory assets are composed as follows:

| (in K€) | 31.12.2014 | 31.12.2015 |
|---|---|---|
| Finished products | 150 | 146 |
| Raw materials and supplies | 729 | 21 |
| | **879** | **167** |
| Including inventories which are: | | |
| Reported at net realizable value | 13 | 4 |
| Range > one year | 255 | 79 |

For the year 2015, a total K€ 831 of value increase (reverse impairment) was made. This results mainly from the sale of formerly written-off or written-down inventory in connection with the discontinuation of the business unit Access Solutions. In the previous year, the marketability deduction was K€ 166. This takes the risk of future technological developments in the industry into account.

# Explanation 7: Trade Receivables

The trade receivables are as follows:

| (in K€) | 31.12.2014 | 31.12.2015 |
|---|---|---|
| Trade receivables | 3.310 | 2.709 |
| Minus value adjustments on receivables | 2.066 | 2.091 |
| | **1.244** | **618** |

As in the previous year, the trade receivables on 31 December 2015 include no long-term share.

# Explanation 8: Other Current Assets

The other current assets are comprised as follows:

| (in K€) | 31.12.2014 | 31.12.2015 |
|---|---|---|
| Prepayments | 50 | 52 |
| Sales (VAT) tax claims | 12 | 15 |
| Receivables from related parties | 57 | 26 |
| Other | 35 | 72 |
| | **154** | **164** |

# Explanation 9: Equity

The fully paid up share capital is composed of 23,304,676 no-par value shares with a calculated value of EUR 1.00 each.

## 9.1 Authorized Capital

The usable authorized capital (Authorized Capital 2015/I) on 31 December 2015 totalled K€ 1,295.

The Authorized Capital 2015/I is based on a resolution of the Annual General Meeting of 28 August 2015 and entitled the Executive Board, with the consent of the Supervisory Board, to increase the share capital against cash and/or assets in kind once or several times by up to K€ 1,295 up until 27 August 2020.

## 9.2 Conditional Capital

The Conditional Capital 1997/I on 31 December 2015 totalled K€ 1,946, divided into 1,946,591 no-par value shares.

Conditional Capital I, created for the first time by the Ordinary Annual General Meeting 1997, was K€ 1,946 on 31. December 2015 and served the fulfilment of options on a total of 1,946,591 shares. On 29 August 2008, by resolution of the Annual General Meeting, the designation of the Conditional Capital I was adjusted to the designation in the commercial register (Conditional Capital 1997/I). Furthermore, the purpose of the Conditional Capital 1997/I was expanded, so that in addition to the fulfilment of convertible bonds and share options issued to employees on the basis of past Annual General Meeting resolutions, it also serves to securitize stock options issued to employees on the basis of the corresponding decision under TOP 7 at the Annual General Meeting of Shareholders on 29 August 2008. The Conditional Capital 1997/I only becomes effective in the case of exercise of conversion rights for convertible bonds or in the case of exercise of the stock options issued under the employee participation programmes. In the past fiscal year, the Contingent Capital 1997/I was not used as stock options were not exercised. The authorization to exercise stock options from the employee participation programme ended on 21 November 2015.

Conditional Capital III or 2000/I, created for the first time by resolution of the Annual General Meeting of 11 July 2000, was K€ 384 on 31 December of the previous year divided into 383,876 shares. It served to securitize stock options from an employee participation programme that ended on 16. August 2014. By resolution of the Annual General Meeting of 28 August 2015, the Conditional Capital 2000/I was therefore repealed.

### 9.3 Own Shares

The Company does not hold any of its own shares.

### 9.4 Capital Reserves

The capital reserve includes premiums from the issue of shares less profit-neutral allocation within the context of Company acquisitions previously reported in the balance sheet under US GAAP according to the pooling of interests method.

On 31 December 2015 and 2014 respectively, the capital reserve still contained K€ 14,981, resulting from the repayment of a loan obligation due to a waiver by the shareholder Sigram Schindler Beteiligungsgesellschaft mbH, minus K€ 10,371 resulting from a debtor warrant agreement with the shareholder in relation to the loan waiver. For more information, please refer to Explanation 15.

In addition to this, the capital reserve contained K€ 1,939 (on 31. December 2015 and 2014 respectively) as a result of accounting for the employee stock option programs in accordance with IFRS 2.

### 9.5 Valuation of Pension Obligations

Furthermore, the equity capital was increased by K€ 4 (on 31 December 2014: reduction by K€ 224) for actuarial losses from defined pension benefit obligations according to IAS 19.

# Explanation 10: Other Long-term Financial Liabilities to Related Companies and Persons

The other long-term financial liabilities to related companies are as follows:

| (in K€) | 31.12.2014 | 31.12.2015 |
|---|---|---|
| Debtor warranty agreement, Sigram Schindler Beteiligungsgesellschaft mbH | 10.423 | 8.297 |
| Other | 397 | 433 |
| | **10.820** | **8.730** |

For more information, please refer to Explanation 15: Financial Instruments and

Explanation 25: Relationships to Related Companies and Persons.

# Explanation 11: Accrued Income

The amounts recorded under this item concern deferred sales revenue from the provision of services.

| (in K€) | 2014 | 2015 |
|---|---|---|
| **As of 1 January** | **670** | **449** |
| Accrued in the reporting period | 2.836 | 3.507 |
| Recognised in the reporting period affecting net income | 3.057 | 3.540 |
| **As of 31 December** | **449** | **416** |

# Explanation 12: Other Current Liabilities

The other current liabilities are comprised as follows:

| (in K€) | 31.12.2014 | 31.12.2015 |
|---|---|---|
| Personnel-related liabilities | 524 | 701 |
| | | |
| Deposits received | 183 | 215 |
| Sales (VAT) tax payables | 85 | 99 |
| Other | 223 | 235 |
| | **1.014** | **1.250** |

The position of "personnel-related liabilities" includes liabilities from the divisions accrued but not taken vacation, provisions for commission payments, provisions for variable pay and severance payments.

# Explanation 13: Other Financial Liabilities

The other financial liabilities are comprised as follows:

| (in K€) | 31.12.2014 | 31.12.2015 |
|---|---|---|
| Liabilities with related parties | 593 | 2.195 |
| Liabilities at record date | 132 | 191 |
| | **725** | **2.387** |

Regarding the relationships to related companies and persons, please refer to Explanation 25.

The "liabilities based on the reporting date" position includes, inter alia, liabilities from the areas of rent as well as preparation and audit of the annual financial statement.

As of the financial year 2015, the 'other financial liabilities' are shown separately. In the previous year, they were shown under the heading 'Other current liabilities'. The value for the previous year has been adjusted in accordance with the statement.

# Explanation 14: Provisions

The Company recognizes the following provisions:

| (in K€) | 31.12.2014 | 31.12.2015 |
|---|---|---|
| **Non-current provisions** | | |
| Employee benefits in accordance with IAS 19 | 622 | 682 |
| | **622** | **682** |
| **Current provisions** | | |
| Other provisions | 264 | 125 |
| | **264** | **125** |

The provisions are comprised as follows:

| (in K€) | 31.12.2014 | Utilized | Released | Allocated | 31.12.2015 |
|---|---|---|---|---|---|
| **Non-Current provisions** | | | | | |
| Employee benefits | 622 | | | 60 | 682 |
| **Total** | **622** | | | **60** | **682** |
| **Current provisions** | | | | | |
| Government tax audit | 10 | | | | 10 |
| Litigation risks | 194 | 9 | 131 | | 54 |
| Warranties | 15 | 15 | | 16 | 16 |
| Other | 45 | 29 | 6 | 35 | 45 |
| **Total** | **264** | **53** | **137** | **51** | **125** |

The outflow of assets is - with the exception of the above amount shown as long term - essentially expected within the next financial year.

The release of provisions for litigation risks results in particular from the transfer of patents to the majority shareholder SSBG effective 31 December 2015. For further details, please refer to Explanation 24.

### 14.1 Long-term Provisions - Employee Benefits

The recognized long-term provisions for "Employee Benefits" concern defined benefit obligations in accordance with IAS 19.

#### a) Severance Payment Claims

Based on the legal requirements in Austria, employees of one of the TELES subsidiaries are entitled to so-called severance payments. Severance payments are due when an employee leaves the Company for certain defined reasons. The amount of the statutory severance payment claims depends on the time served; for employees who joined the Company after 1 January 2003, there is no severance payment obligation.

#### b) Anniversary Payment

In addition to this, TELES is obligated on the basis of a works agreement to make certain payments for the employees of one of its subsidiaries in the case of an anniversary (duration of service).

The following tables show the components of expenditure on benefits recorded in the profit and loss account as well as the amounts recognized in the balance sheet:

| (in K€) | Net present value of | | |
|---|---|---|---|
| **2014** | **Servance claims** | **Anniversary obligation** | **Total** |
| | | | |
| **1 January** | **361** | **90** | **451** |
| **Expenses in the reporting period** | | | |
| Current service cost | 24 | 6 | 30 |
| Interest expense | 12 | 3 | 15 |
| Actuarial loss | 0 | 21 | 21 |
| Subtotal included in the costs | **36** | **30** | **66** |
| **Benefits paid** | **0** | **0** | **0** |
| **Other comprehensive income** | | | |
| Actuarial loss | 105 | 0 | 105 |
| **Total as of 31 December** | **502** | **120** | **622** |

| (in K€) | Net present value of | | |
|---|---|---|---|
| **2015** | **Servance claims** | **Anniversary obligation** | **Total** |
| | | | |
| **1 January** | **502** | **120** | **622** |
| **Expenses in the reporting period** | | | |
| Current service cost | 32 | 8 | 40 |
| Interest expense | 11 | 3 | 14 |
| Actuarial loss | 4 | 1 | 5 |
| Subtotal included in the costs | **40** | **10** | **50** |
| **Benefits paid** | | **11** | **11** |
| **Other comprehensive income** | | | |
| Actuarial loss | | | |
| **Total as of 31 December** | **542** | **141** | **683** |

The actuarial loss resulted entirely from changes to the financial assumptions.

The projected unit credit method was used to determine the obligations. Salary increases to be expected in the future that influence the amount of the severance pay entitlement have been taken into account. The following premises were taken as the basis for determining the defined benefit obligation:

| | 2014 (in %) | 2015 (in %) |
|---|---|---|
| **Discount rate (actuarial interest rate):** | | |
| Severance claims | 2,25 | 2,25 |
| Anniversary obligations | 2,25 | 2,25 |
| **Salary trend:** | | |
| Severance claims | 3 | 3 |
| Anniversary obligations | 3 | 3 |

| | 2014 (in years) | 2015 (in years) |
|---|---|---|
| **Assumed retirement age (normal pensionable age):** | | |
| **Severance claims** | | |
| Men | 65 | 65 |
| Women | 60 - 65 | 60 - 65 |
| **Anniversary obligations** | | |
| Men | 65 | 65 |
| Women | 60 - 65 | 60 - 65 |
| **Start of financing:** | | |
| Severance claims | date of joining | date of joining |
| Anniversary obligations | date of joining | date of joining |
| **End of financing:** | | |
| Severance claims | Respective performance date | Respective performance date |
| Anniversary obligations | Respective performance date | Respective performance date |
| **Fluctuation** | | |
| Severance claims | non | non |
| Anniversary obligations | non | non |

The calculation basis for determining the severance pay entitlements and the anniversary payment obligation is AVO 2008-P (Association of Actuaries in Austria), accounting principles for pension insurance, Pagler&Pagler, employee - generations table.

A quantitative sensitivity analysis for the main assumptions was carried out as follows on 31 December 2015 and 31 December 2014:

| **Interest sensitivity** | **Current assumption** | **Variation 1** | **Variation 2** |
|---|---|---|---|
| 1. Interest rate | 2,25% | 3,25% | 1,25% |
| 2. Salary trend | 3,00% | 3,00% | 3,00% |
| 3. Inflation | 2,00% | 2,00% | 2,00% |
| **Obligation as of 31.12.2015** | **682,79** | **744** | **626** |
| Severance | 542 | 452 | 653 |
| Percentage effect | | -16,48% | 20,54% |
| Anniversary | 141 | 123 | 163 |
| Percentage effect | | -12,83% | -15,61% |
| **Service costs** | **39** | **32** | **48** |
| Severance | 30 | 24 | 37 |
| Percentage effect | | -18,63% | 23,60% |
| Anniversary | 9 | 8 | 11 |
| Percentage effect | | -14,44% | 17,87% |
| **Expenses in the 2016 income statement** | **56** | **50** | **57** |
| Severance | 42 | 39 | 45 |
| Percentage effect | | -7,21% | 7,12% |
| Anniversary | 12 | 11 | 12 |
| Percentage effect | | -4,42% | 4,36% |

| **Sensitivity with regard to salary trend** | **Current assumption** | **Variation 1** | **Variation 2** |
|---|---|---|---|
| 1. Interest rate | 2,25% | 3,25% | 2,25% |
| 2. Salary trend | 3,00% | 3,00% | 2,50% |
| 3. Inflation | 2,00% | 2,00% | 2,00% |
| **Obligation as of 31.12.2015** | **683** | **744** | **626** |
| Severance | 542 | 593 | 495 |
| Percentage effect | | 9,48% | -8,58% |
| Anniversary | 141 | 151 | 131 |
| Percentage effect | | 7,32% | -6,70% |
| **Service costs** | **39** | **43** | **35** |
| Severance | 30 | 33 | 27 |
| Percentage effect | | 9,48% | -8,58% |
| Anniversary | 9 | 10 | 8 |
| Percentage effect | | 8,86% | -8,03% |
| **Expenses in the 2016 income statement** | **54** | **59** | **49** |
| Severance | 42 | 46 | 38 |
| Percentage effect | | 10,84% | -9,73% |
| Anniversary | 12 | 13 | 11 |
| Percentage effect | | 8,55% | -7,78% |

The above sensitivity analyses were based on a method which takes the extrapolated impact on defined benefit obligations into account and calculates the assumptions made at the end of the period covered by the report as a result of appropriate changes.

The following are the expected payments for defined benefit obligations in the coming years:

| (in K€) | 2015 |
|---|---|
| Within the next twelve months 12 (next reporting period) | 14 |
| Between 2 and 5 years | 21 |
| Between 5 and 10 years | 100 |
| **Total expected payments** | **135** |

### 14.2 Short-term Provisions

Litigation Risks

The evaluation of the litigation risk is based on the estimates of the lawyers representing the Company in regard to this. In regard to the significant legal disputes, please refer to Explanation 24: Legal Disputes.

Warranty

In principle, the Company agrees a warranty obligation of twelve months with its commercial customers upon sale of telecommunications products; in individual cases the statutory legal warranty period of two years applies. Estimated future warranty obligations for certain products are taken into consideration when the sales revenues are reported. These provisions are based on historical experience and the estimation of future claims.

# Explanation 15: Financial Instruments

## 15.1 The Importance of Financial Instruments

The Company has financial instruments in the following categories:

| (in K€) | 31.12.2014 | 31.12.2015 |
|---|---|---|
| | | |
| **Financial assets** | | |
| **Loans and receivables** | | |
| Trade receivables | 1.244 | 618 |
| | - | - |
| | **1.244** | **618** |
| | | |
| **Financial liabilities** | | |
| **Financial liabilities measured at amortized acquisition costs** | | |
| Other financial liabilities (non-current) | 10.820 | 8.730 |
| Trade payables | 947 | 894 |
| Other financial liabilities (current) | 0 | |
| | **11.767** | **9.624** |

The Company does not have financial instruments in other categories.

### a. Loans and Receivables

| (in K€) | 31.12.2014 | 31.12.2015 |
|---|---|---|
| Trade receivables | 1.244 | 618 |
| | **1.244** | **618** |

| | 01 January - 31 December | |
|---|---|---|
| (in K€) | **2014** | **2015** |
| **Trade receivables** | | |
| Operating expenses; sales and marketing | | |
| Value adjustments | 153 | 209 |
| Reversals of value adjustments | -108 | -126 |
| Trade receivables; operating expenses | **45** | **83** |

## b. Trade Receivables

The trade receivables reported in the balance sheet on 31 December 2015 almost exclusively concern receivables from corporate customer business (contracts are usually concluded with small and medium-sized enterprises). These receivables are generally assessed separately. The first indication of the existence of a value reduction is non-fulfilment of the contractually agreed payment terms. If there is a delay in payment, in a further step the reasons are evaluated and an assessment is made as to whether it is recoverable. Based on this, the trade receivables are individually adjusted.

The value adjustment account for trade receivables developed as follows:

| | 31 December | | | | |
|---|---|---|---|---|---|
| | **2014** | Used | Released | Allocated | **2015** |
| Value adjustments of trade receivables | 2.066 | -58 | -126 | 209 | 2.091 |

With regard to the creditworthiness of trade receivables that are neither in default nor impaired, please refer to the further explanations below regarding credit risk.

The trade receivables reported on the balance sheet date include those for which a late payment exists but is not to be viewed as impaired:

| (in K€) | | Delay of payment | | | | |
|---|---|---|---|---|---|---|
| | **No payment delay, no impairment** | **<= 3 months** | **> 3 and <= 6 months** | **> 6 months and <= 1 year** | **> 1 year** | **Total** |
| 31 December 2014 | 961 | 182 | 74 | 11 | 16 | 1.244 |
| 31 December 2015 | 516 | 126 | | -1 | -23 | 618 |

The fair value of the trade receivables corresponds to their book value. For more information, please refer to Explanation 7.

## 15.2 Financial liabilities that are measured at amortized acquisition costs

| (in K€) | **31.12.2014** | **31.12.2015** |
|---|---|---|
| Debtor warranty agreement, Sigram Schindler Beteiligungsgesellschaft mbH; non-current | 10.423 | 8.297 |
| Trade payables | 947 | 894 |
| Factoring | 0 | |
| Other | 397 | 433 |
| | **11.767** | **9.624** |

Sigram Schindler Beteiligungsgesellschaft mbH waived the loans granted to the Company in previous fiscal years. On 31 December 2015, the Company reported a financial liability that resulted in connection with the loan waivers in the fiscal years 2009, 2010 and finally in the debtor warrant agreements concluded in 2011. The reinstatement of the liability is essentially linked to a positive operative result (EBITDA) as well as the availability of a defined free cash flow. The initial evaluation of the liability was recognized at fair value. The fair value was - in the absence of market-related values - determined using a *discounted cash flow* method. The update is carried out at amortized acquisition costs until the year 2062 based on the expected cash flows (IAS 39-AG8) on the basis of current budget planning approved by the Supervisory Board. Changes in the book value will be shown affecting net income.

On the basis of the assessment with the near-market discount rate of 12 percent p.a., the book value essentially corresponds to the fair value of the liability. In order to assess the fair value, the liability from the debtor warrant agreement is to be categorized under fair value hierarchy level 3 (input parameter not observable on the market).

The inflow of funds can be seen in the consolidated cash flow statement in the "loans from related companies and persons" position.

### a) Trade Liabilities

The liabilities recorded on the balance sheet date are mainly due within one month.

Interest income and expenditure for financial assets and liabilities that are not assessed at fair value through profit or loss:

| (in K€) | 1 January - 31 December | |
|---|---|---|
| | **2014** | **2015** |
| **Interest income** | **0** | **0** |
| | | |
| **Interest expenses** | | |
| Cash credit lines drawn down during the year | 0 | |
| Loans, Sigram Schindler Beteiligungsgesellschaft mbH | 45 | 169 |
| Factoring, Sigram Schindler Beteiligungsgesellschaft mbH | 0 | 0 |
| | **45** | **169** |

Expenses from fees incurred in connection with the processing of bank transactions (K€ 12; in the previous year K€ 15).

### 15.3 Risks from Financial Instruments

TELES uses a series of coordinated risk management and control systems; among other things, these are used to identify, measure and manage risks from financial instruments. Risk positions can essentially result in the form of credit and liquidity risk as well as market risks.

#### a) Credit Risk

The Company's default risks are restricted to a normal commercial risk, which is taken into account through the formation of provisions. In principle, the creditworthiness of new customers and often of existing customers too is checked on the basis of market information. Furthermore, advance payments are used insofar as this is possible and advisable. In addition to this, market-standard letters of credit or payment guarantee are agreed for foreign business - in particular in the case of non-European business. In individual cases - for example as described below in connection with the sales partner - detailed assessments of the economic conditions are carried out.

In the fiscal year 2015, TELES achieved a share of sales of approx. 11% with the largest single customer. A total of approximately 10% of sales revenues were realized with the next two biggest customers. The additional revenue and the resulting trade receivables are broadly spread. In individual cases and to the extent this was shown for such risk exposures/obligations with a view to the amount as well as the payment targets and their permanent valuation, TELES carried out detailed assessments of the economic conditions on the basis of current actual figures as well as further information from the customers.

The maximum default risk is derived from the book values of the receivables.

The cash and cash equivalents are mainly invested with two renowned financial institutions. A risk of failure does not exist in this case.

## b) Liquidity Risk

Group-wide financial control instruments are used for the purposes of monitoring and control, especially weekly liquidity reports.

## c) Market Risks

1. Foreign currency risks

Exchange rate fluctuations can cause undesirable and unpredictable earnings and cash flow volatility. The risk is reduced by the fact that business transactions are settled in the functional currency insofar as possible. Future exchange rate changes can have an impact on prices for products and services and lead to changes in the profit margins. TELES currently reports foreign currency receivables in the amount of kUSD 123 (previous year: kUSD 78) and liabilities in the amount of kUSD 279 (previous year: kUSD 241). If the exchange rate on the reporting date changes upward (downward) by 10%, it has a reducing (increasing) effect on the balance sheet value for receivables of K€ 10 (K€ 13).

2. Interest Rate Risk

The interest rate risk for TELES results solely from interest-bearing assets. The primary focus of the TELES investment strategy is liquidity issues, i.e. the repayment capacity of these investments.

3. Price Risk

TELES does not currently report any investments in listed shares in the balance sheet; to this extent the Company is not exposed to any price risk.

# Explanation 16: Composition of the Sales Revenues and Production Costs

| (in K€) | 01 January - 31 December | |
|---|---|---|
| | **2014** | **2015** |
| **Sales revenue** | **8.444** | **6.399** |
| Products | 3.852 | 2.835 |
| Services | 4.592 | 3.564 |
| **Production costs** | **2.906** | **2.645** |
| Products | 1.694 | 1.371 |
| Services | 1.211 | 1.274 |

# Explanation 17: Other Income and Expenditure

Other income for the fiscal year 2015 essentially consists of currency translation gains in the amount of K€ 96. In the previous year, the main earnings resulted from depreciated receivables (K€ 150) as well as from deconsolidation (K€ 90).

Other expenses for the fiscal year 2015 included significant currency translation losses in the amount of K€ 98 (previous year: K€ 486).

# Explanation 18: Financial Result and Other Income from Participations

The following table shows the composition of financial income and expenditure as well as other income from participations:

| (in K€) | 01 January - 31 December | |
|---|---|---|
| | **2014** | **2015** |
| **Financial income** | | |
| Dividends, GRAVIS AG | 15 | 0 |
| Interest, subsequent measurement of debtor warranty agreement | - | 2.126 |
| Interest | 6 | - |
| Total | **21** | **2.126** |
| **Financial expenses** | | |
| Interest on loans, Sigram Schindler Beteiligungsgesellschaft mbH | 45 | 169 |
| Interest, subsequent measurement of debtor warranty agreement | 97 | - |
| Other | 2 | 6 |
| Total | **144** | **175** |

# Explanation 19: Discontinued Operations

The very disappointing business development in 2015, with a decline in sales of 40 percent in the half-year comparison, is mainly attributable to the massive slump in business with access technologies (business unit Access Solutions). For this reason, a fundamental restructuring was decided upon and implemented in the third quarter of 2015: The division for access technology (Access Solutions) was discontinued. The existing business units and reporting segments Carrier Solutions and Enterprise Solutions have been restructured and combined as Core Solutions. TELES focuses on the growth area of software-based solutions for network operators.

It is against this background that the former access technology segment is presented as a discontinued business segment. Thanks to the merging of the two remaining business units into the business unit Core Solutions, the Company sees itself as a one-segment Company in 2015. The profit and loss statement and balance sheet for the entire Group represent the financial information for Core Solutions.

The result from discontinued operations is comprised as follows:

| (in K€, except for share-related information) | **01 January - 31 December** | |
|---|---|---|
| | **2014** | **2015** |
| Sales revenues | 2.852 | 1.539 |
| Production costs | 2.088 | 1.384 |
| ***Gross profit*** | **764** | **154** |
| Sales and marketing expenses | 250 | 308 |
| Research and development expenses | 801 | 637 |
| Administration expenses | 148 | 98 |
| Other income | 268 | - |
| Other expenses | 145 | - |
| | - | - |
| ***Operating result/EBIT*** | **-314** | **-889** |
| Financial income | 122 | - |
| ***Result from discontinued operations before taxes on income*** | **-436** | **-789** |
| Income tax expense | - | 1 |
| **Result from discontinued operations after taxes on income** | **-436** | **-788** |
| Weighted average number of ordinary shares for calculating the gain (loss) per share | | |
| Undiluted | 23.304.676 | 23.304.676 |
| Diluted | 23.304.676 | 23.304.676 |
| Result from discontinued operations per share: | | |
| Undiluted | -0,02 | -0,03 |
| Diluted | -0,02 | -0,03 |

# Explanation 20: Income Taxes

The result before income taxes is broken down as follows:

| (in K€) | 01 January - 31 December | |
|---|---|---|
| | **2014** | **2015** |
| Germany | -1.182 | -1.474 |
| Other countries | -598 | 63 |
| **Result before taxes on income** | **-1.780** | **-1.411** |

The income and expenses from income taxes include:

| (in K€) | 01 January - 31 December | |
|---|---|---|
| | **2014** | **2015** |
| **Current taxes** | | |
| Germany | -12 | - |
| Other countries | 7 | 22 |
| **Total:** | **-5** | **22** |
| **Deferred taxes** | | |
| Germany | 0 | - |
| Other countries | 0 | - |
| **Total:** | **0** | |
| **Income tax expense:** | **-5** | **22** |

The overall tax burden for TELES since entry into force of the 2008 corporate tax reform is approximately 30.2% (income tax, including the solidarity surcharge 15.8%; trade tax 14.4%).

The tax expense related to the discontinued business amounts to € 0,- with regard to the result from the discontinuation of the business unit and as well amounts to € 0,- with regard to the result from regular operation of such discontinued business (previous year: € 0,-).

The following table shows the main differences between the effective tax burden of the Group and the expense under German tax law at an effective rate of approximately 30.2%:

| (in K€) | 01 January - 31 December 2014 | 2015 |
|---|---|---|
| ***Result before taxes on income (continuing and discontinued operations)*** | ***-1.780*** | ***-1.411*** |
| Income tax expense and/or income at statutory tax rate | -537 | -426 |
| Tax rate differences | 16 | -11 |
| Difference due to non-deductible items | 11 | 14 |
| Non-recognized deferred tax assets | 491 | 1.090 |
| Receivable waiver | 29 | -642 |
| Tax items not related to the period | -11 | -11 |
| Effects from shareholdings held and/or disposed of | -4 | |
| Other items, net | 0 | 7 |
| **Effective income tax expense** | **-5** | **22** |

The tax effects of the temporary differences that cause deferred taxes are:

| (in K€) | 01 January - 31 December 2014 | 2015 |
|---|---|---|
| **Deferred tax assets:** | | |
| Losses carried forward | 8 | 2 |
| Deferred tax assets, total | 8 | 2 |
| Offset with deferred tax liabilities | -8 | -2 |
| Reported on the balance sheet | 0 | 0 |
| **Deferred tax liabilities:** | | |
| Other | 8 | 2 |
| Deferred tax liabilities, total | 8 | 2 |
| Offset with deferred tax assets | -8 | -2 |
| Reported on the balance sheet | 0 | 0 |
| **Deferred taxes, net** | **0** | **0** |

Losses carried forward from active companies, for which reporting of the deferred tax claim in the balance sheet was not applied because they cannot be realized, relate at K€73.222 (previous year: K€ 70,699 corporation tax and K€ 79.147 (previous year: K€ 76,661) trade taxes in Germany and K€ 7,576 (previous year: K€ 7,809) corporate taxes abroad.

Furthermore, the reporting of a deferred tax claim for losses carried forward in the balance sheet in the case of companies that are not active in the amount of approx. EUR 10.5 million was omitted, as these are also considered to be unrealizable.

# Explanation 21: Employee Stock Option Programmes

In previous years, TELES AG implemented various employee stock option programmes, most recently in 2005, in which the Company granted equity instruments. The consideration upon exercise of these was also equity instruments. In all programmes, it was provided that the exercise of equity instruments was only permitted upon achieving certain performance targets: The average price development of a share in the Company during the reference period had to exceed the average development of the reference index during the same period by at least 10 percentage points per year (performance hurdle).

The options could be exercised for the last time eight to ten years after they were issued. All option programmes have expired, the last one in November 2015 based on the 2005 employee stock option programme, with a final exercise date of 21 November 2015.

The portfolio of share options issued in the context of employee stock option programmes developed as follows:

| Share options | Employees' share option program 2004 2004 | 2005 2005 | Summe Sum |
|---|---|---|---|
| **In circulation as of 31 December 2013** | **371.969** | **137.361** | **509.330** |
| Issued | 0 | 0 | 0 |
| Exercised | 0 | 0 | 0 |
| Forfeited | 0 | 0 | 0 |
| End of program term | -371.969 | 0 | -371.969 |
| **In circulation as of 31 December 2014** | **0** | **137.361** | **137.361** |
| Issued | 0 | 0 | 0 |
| Exercised | 0 | 0 | 0 |
| Forfeited | 0 | 0 | 0 |
| End of program term | 0 | -137.361 | -137.361 |
| **In circulation as of 31 December 2015** | **0** | **0** | **0** |
| | | | |
| **Nonlapsable rights as of 31 December 2015** | **0** | **0** | **0** |

# Explanation 22: Earnings per Share

The following table shows the calculation of undiluted and diluted earnings per ordinary share due to the shareholders of the parent company:

| (in K€, except for share-related information) | **01 January - 31 December** | |
|---|---|---|
| | **2014** | **2015** |
| Annual result attributable to parent company shareholders | -1.775 | -1.433 |
| Weighted average number of shares to calculate the result per share | | |
| Undiluted | 23.304.676 | 23.304.676 |
| Diluted | 23.304.676 | 23.304.676 |
| Result per share | | |
| Undiluted | -0,08 | -0,06 |
| Diluted | -0,08 | -0,06 |

# Explanation 23: Disposal Restrictions, Other Financial Commitments and Contingent Liabilities

## 23.1 Disposal Restrictions

The Company's liquid funds are subject to disposal restriction (rental collateral) on the balance sheet date in the amount of K€ 148 (previous year: K€ 146).

## 23.2 Rental and leasing obligations

The Company leases buildings, vehicles, warehouses and certain office equipment within the context of non-cancellable lease contracts without an option to buy. The lease contract for the office space has a fixed term limited to 31 January 2017 and is renewed thereafter by one year respectively. The option to extend for a period of five years fix was not drawn. The cost of leasing contracts (operating lease) amounted to K€ 624 or K€ 521 for the fiscal year ending on 31 December 2015.

Future minimum payments within the context of the non-cancellable lease contracts with initial maturities of one year or longer amounted to:

| (in K€) | 31.12.2014 | 31.12.2015 |
|---|---|---|
| Up to one year | 700 | 646 |
| Between one and five years | 675 | 134 |
| **Total** | **1375** | **780** |

### 23.3 Financial commitments from other contracts

Future minimum payments due to legal agreements amount to:

| (in K€) | 31.12.2014 | 31.12.2015 |
|---|---|---|
| Other Services | 518 | 359 |
| Service engineering | 10 | 27 |
| **Total** | **528** | **386** |

# Explanation 24: Legal Disputes

The Company is involved in court proceedings and legal disputes arising in the ordinary course of business. The Company essentially forms provisions for the corresponding cases, if a claim is probable and the amount can be estimated.

With regard to the "skyDSL patent infringement proceedings" (against Deutsche Telekom AG and SES ASTRAnet S.A.), the judgment of the BGH (German Federal Supreme Court) in the invalidity proceedings regarding the German skyDSL patent was adopted at the end of 2015. In December 2011, Deutsche Telekom AG filed a nullity action against the German skyDSL patent. In the first instance, the patent was declared invalid by the German Federal Patent Court in May 2013. In September 2013, TELES AG had submitted an appeal against the judgment to the German Federal Supreme Court. After the hearing in October 2015, the German Federal Supreme Court amended the judgment of the German Federal Patent Court of 15 May 2013 and dismissed the action. Thus, the German skyDSL patent is valid and can be used as a basis for the assertion of a claim for damages within the context of a patent infringement procedure (in the narrower sense).

As regards the utility model cancellation proceedings, in November 2011 it was determined in the final instance that the utility model had no effect from the beginning.
For further details, please refer to the Notes to the Consolidated Financial Statement 2009.

Commentary on the status of patent disputes referred to in earlier years has been dispensed with since 2009 because - as already explained in the 2008 Group Consolidated Financial Statement - the majority shareholder (SSBG = Sigram Schindler Beteiligungsgesellschaft mbH) assumed all costs in connection with the patent disputes with effect from 01 January 2009; SSBG and TELES shall participate in the outcome of the IntraStar patent disputes.

# Explanation 25: Relationships to Related Companies and Persons

The following significant transactions took place between the Group and related companies and people:

### 25.1 Controlling Company, companies under common control

Loans granted by Sigram Schindler Beteiligungsgesellschaft mbH
In previous fiscal years, Sigram Schindler Beteiligungsgesellschaft mbH waived loans granted to the Company. On 31 December 2015, the Company recorded a financial liability in the balance sheet that resulted from the debtor warrant agreement in connection with the loans waived in the fiscal years 2009, 2010 and 2011. The initial assessment of the liability was recognized at fair value. The fair value was - in the absence of market-related values - determined using a discounted cash flow method. The update is car-

ried out at amortized acquisition costs. For more information, please refer to Explanation 15.

The reinstatement of the liability is essentially linked to a positive result (EBITDA) as well as the availability of a defined free cash flow. In the case of reinstatement of the debtor warrant agreement, 12 % interest shall be charged on the previously deferred amounts.

Use of Loans

The remaining amount of K€ 400 from the loan agreed with the majority shareholder in March 2014 (total loan amount K€ 800) was used in order to bridge gaps in financing. In order to be able to close any additional financing gaps, in April 2015 the majority shareholder approved a further loan of EUR 1.0 million in addition to the funds already injected. This amount was fully used in the fiscal year. Among other things, these loans are including in the balance sheet under "Other financial liabilities'.

Patent Acquisition Agreement

In 2009 and up to 31/12/2015, contractually defined patents were sold to Sigram Schindler Beteiligungsgesellschaft mbH. At the same time, it assumed all costs in connection with the patent disputes with effect from 01 January 2009 or on 01/01/2016; SSBG and TELES shall participate in the outcome of the relevant patent disputes.

Business Procurement Agreement

Within the context of a business procurement agreement concluded with Sigram Schindler Beteiligungsgesellschaft mbH, TELES AG provides various services for Sigram Schindler Beteiligungsgesellschaft mbH with its affiliated companies (TELES Patent Rights International GmbH, Berlin and TELES FMC+C Innovations GmbH, Berlin) as well as for the Sigram Schindler Stiftung.

On the balance sheet date, the Company reported receivables in the amount of K€ 17 (previous year: K€ 50) against Sigram Schindler Beteiligungsgesellschaft mbH and its affiliated companies; the receivables were settled in the fiscal year 2016. For more information, please refer to Explanation 8.

## 25.2 Executive Board, Supervisory Board

### Remuneration of the Executive Board:

| (in K€) | 01 January - 31 December | | | |
|---|---|---|---|---|
| | **2014** | | **2015** | |
| | **Fix** | **Variable** | **Fix** | **Variable** |
| Oliver Olbrich | 225 | 0 | 243 | 30 |
| | **225** | **0** | **243** | **30** |

Professor Dr.-Ing. Schindler received remuneration in the amount of K€ 43 (previous year: K€ 40), which correspond to the cash-value benefits from the provision of a Company car.

### Stock and subscription rights of the members of the Executive Board on 31 December 2015:

| | **Subscription rights** | **Shares** |
|---|---|---|
| Professor Dr. - Ing. Sigram Schindler (directly and indirectly) | 0 | 13.733.442 |
| | 0 | 13.733.442 |

### Stock and subscription rights of the members of the Executive Board on 31 December 2014:

| | **Subscription rights** | **Shares** |
|---|---|---|
| Professor Dr. - Ing. Sigram Schindler (directly and indirectly) | 0 | 13.678.442 |
| | 0 | 13.678.442 |

On 31 December 2015, Prof. Dr.-Ing. Sigram Schindler directly and indirectly held 58.93 % (58.69 % in the previous year) of the shares in TELES AG: 57.41 % (57.18 % in the previous year) of the shares were held by Sigram Schindler Beteiligungsgesellschaft mbH, 1.46 % (previous year: 1.46%) of the shares by the Sigram Schindler Stiftung and the other 0.06 % (previous year: 0.06%) were held directly by Prof. Dr. -Ing. Sigram Schindler.

**Supervisory Board Remuneration:**

The expenses of the members of the Supervisory Board in the past financial year amounted to K€ 75.0 (previous year: K€ 75.0).

| (in K€) | 01 January - 31 December | |
|---|---|---|
| | **2014** | **2015** |
| Prof. Dr. Walter Rust | 37,5 | 37,5 |
| Prof. Dr. h.c. Radu Popescu-Zeletin | 22,5 | 22,5 |
| Prof. Dr.-Ing. Dr.-Oec. Thomas Schildhauer | 15 | 15 |
| | **75** | **75** |

## Liabilities of the Company to related companies and persons:

| (in K€) | 01 January - 31 December | |
|---|---|---|
| | **2014** | **2015** |
| Debtor warranty agreement | 10.423 | 8.297 |
| SSBG shareholder | 0 | 15 |
| Supervisory Board members for services | 160 | 221 |
| SSBG factoring | 0 | - |
| SSBG loans | 687 | 2.246 |
| SSBG abandonment of loan repayment claim | 120 | 130 |
| **Total** | **11.390** | **10.908** |

# Explanation 26: Segment Reporting

In accordance with IFRS 8 "Operating Segments", up to Q1/2015 TELES AG was internally controlled analogous to the three operating product-oriented business units and at the same time based its financial reporting on these:

- Access Solutions
- Carrier Solutions
- Enterprise Solutions

Based on the basic restructuring agreed on because of the massive slump in the Access Solutions business segment, in the first half-year report 2015 a distinction was no longer made between the business units. Instead, the key financial figures were only differentiated according to continuing and discontinued business segments.

Whereas Access Solutions essentially corresponded to the discontinued field of business, existing business units Carrier and Enterprise Solutions were combined as Core Solutions, whereby Core Solutions represented the only field of business and thus the entire Company.

TELES AG sees itself as being in accordance with IFRS 8.12, according to which two or more business segments can be combined, if this is in accordance with the core principles, if the segments have similar economic characteristics and are similar in various other aspects mentioned.

## Information on geographical areas

The sales revenues according to the Company's sales markets are as follows:

| (in K€) | 01 January - 31 December | | Change |
|---|---|---|---|
| | **2014** | **2015** | **2015 vs. 2014** |
| Germany | 2.080 | 1.296 | -784 |
| EMEA (other countries) | 6.840 | 4.659 | -2.181 |
| NORAM & LATAM | 2.099 | 104 | -1.995 |
| APAC | 427 | 341 | -86 |
| **Total** | **11.446** | **6.399** | **-5.047** |

## Long-term assets

The long-term assets are allocated as follows across the regions:

| (in K€) | 31.12.2014 | 31.12.2015 |
|---|---|---|
| Germany | 124 | 90 |
| EMEA | 13 | 11 |
| **Total** | **137** | **101** |

The allocation of long-term assets is carried out according to with the registered office of the respective Group Company.

# Explanation 27: Other Information

## 27.1 Services of the auditing Company

In the past fiscal year, as well as in the previous year, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft did not provide any additional services for TELES AG in addition to the auditing activities (K€ 113).

## 27.2 Consolidated companies

The consolidated financial statements include the financial statement of TELES AG and those of the following companies, which are all wholly-owned subsidiaries of TELES AG, if not otherwise stated:

| Subsidiary | Location |
|---|---|
| TELES Communications Corp. | Hillsborough, USA |
| TELES France S.A.R.L. | Courbevoie, France |
| TELES S.R.L. | Milan, Italy |
| TELES N.G.N. Solutions Ltd. | Yokneam, Israel |
| TELES Communication Systems GmbH | Vienna, Austria |
| TELES NetSales Spain S.A. | Madrid, Spain |
| TCS Cloud Services GmbH | Berlin, Germany |

TCS Cloud Service GmbH ceased its business operations in the course of 2015 and sold its IT platform in full. It is intended to merge the Company with TELES Aktiengesellschaft Informationstechnologien Berlin with retroactive effect to 1 January 2016. The necessary entries in the Commercial Register shall be submitted on time in 2016.

## 27.3 Corporate Governance Code

The Executive Board and the Supervisory Board of TELES AG have submitted a declaration of compliance with the German Corporate Governance

Code (Sec. 161 AktG [German Stock Corporation Act]), which was announced on the TELES AG website in November 2015 (www.teles.de).

### 27.4 Executive Board

During the past year, the following persons were on the Company's Executive Board:

Prof. Dr.-Ing. Sigram Schindler, Co-chairman of the Executive Board;
Oliver Olbrich, Co-chairman of the Executive Board.

The members of the Executive Board assumed the following Group-internal Supervisory Board mandates or mandates on comparable supervisory committees:

| | |
|---|---|
| Prof. Dr.-Ing. Sigram Schindler | TELES Communications Corp. |

### 27.5 Supervisory Board

During the past year, the following persons were on the Company's Supervisory Board:

Professor Walter Rust, lawyer and notary, Berlin
(Chairman of the Supervisory Board);

Prof. Dr. h.c. Radu Popescu-Zeletin, University Professor, Berlin
(Deputy Chairman of the Supervisory Board);

Prof. Dr.-Ing. Dr.-Oec. Thomas Schildhauer, University Professor, Berlin.

The following members of the Supervisory Board assumed Supervisory Board mandates or mandates on comparable supervisory committees:

Prof. Dr. Walter Rust,
Chairman of the Supervisory Board of SHF Communication Technologies AG, Berlin

Chairman of the Supervisory Board of Fiagon AG, Hennigsdorf
Member of the Supervisory Council of Charité Research Organisation GmbH, Berlin

Prof. Dr. h.c. Radu Popescu-Zeletin,
Member of the Administrative Council of Open Limit Holding AG

Prof. Dr. Dr. Thomas Schildhauer,
Member of the Supervisory Board of Stone One AG, Berlin
Member of the Supervisory Board of bluechip Computer AG, Meuselwitz.

Berlin, 13 June 2016

TELES Aktiengesellschaft Information Technologies
Board of Directors

Prof. Dr.-Ing. Sigram Schindler

Oliver Olbrich

# List of Abbreviations

| | |
|---|---|
| AG | Aktiengesellschaft - Stock Corporation |
| AktG | Aktiengesetz - German Stock Corporation Act |
| APAC | Asia-Pacific |
| EMEA | Europe, Middle East, Africa |
| GmbH | Gesellschaft mit beschränkter Haftung - Limited liability Company |
| HGB | Handelsgesetzbuch - German Commercial Code |
| IAS | International Accounting Standards |
| IASB | International Accounting Standards Board |
| IFRS | International Financial Reporting Standard |
| K€ | Thousands of euros |
| kUSD | Thousands of US dollars |
| LATAM | Latin America |
| Ltd | Limited |
| NORAM | North America |
| SSBG | Sigram Schindler Beteiligungsgesellschaft mbH, Berlin |

# Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Berlin, June 13, 2016

Management Board of
TELES Aktiengesellschaft Informationstechnologien

# Audit opinion

We have audited the consolidated financial statements prepared by TELES Aktiengesellschaft Informationstechnologien, Berlin – comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements – together with the combined management report for the fiscal year from 1 January to 31 December 2015. The preparation of the consolidated financial statements and the combined management report in accordance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The combined management report of the Company and the Group is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Without qualifying this opinion, we draw attention to the management board's comments in the section entitled "Financing/going concern" in the combined management report. This section states that the Company received a loan commitment of EUR 0.75m to maintain the Company's solvency. The Company's ability to continue as a going concern depends on it achieving its planned revenue targets and on the outstanding funds from the loan commitment of EUR 0.75m and the grant for research funding of EUR 0.28m being sufficient or will be increased if necessary.

Berlin, 13 June 2016

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Schepers | Klemm |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| [German Public Auditor] | [German Public Auditor] |