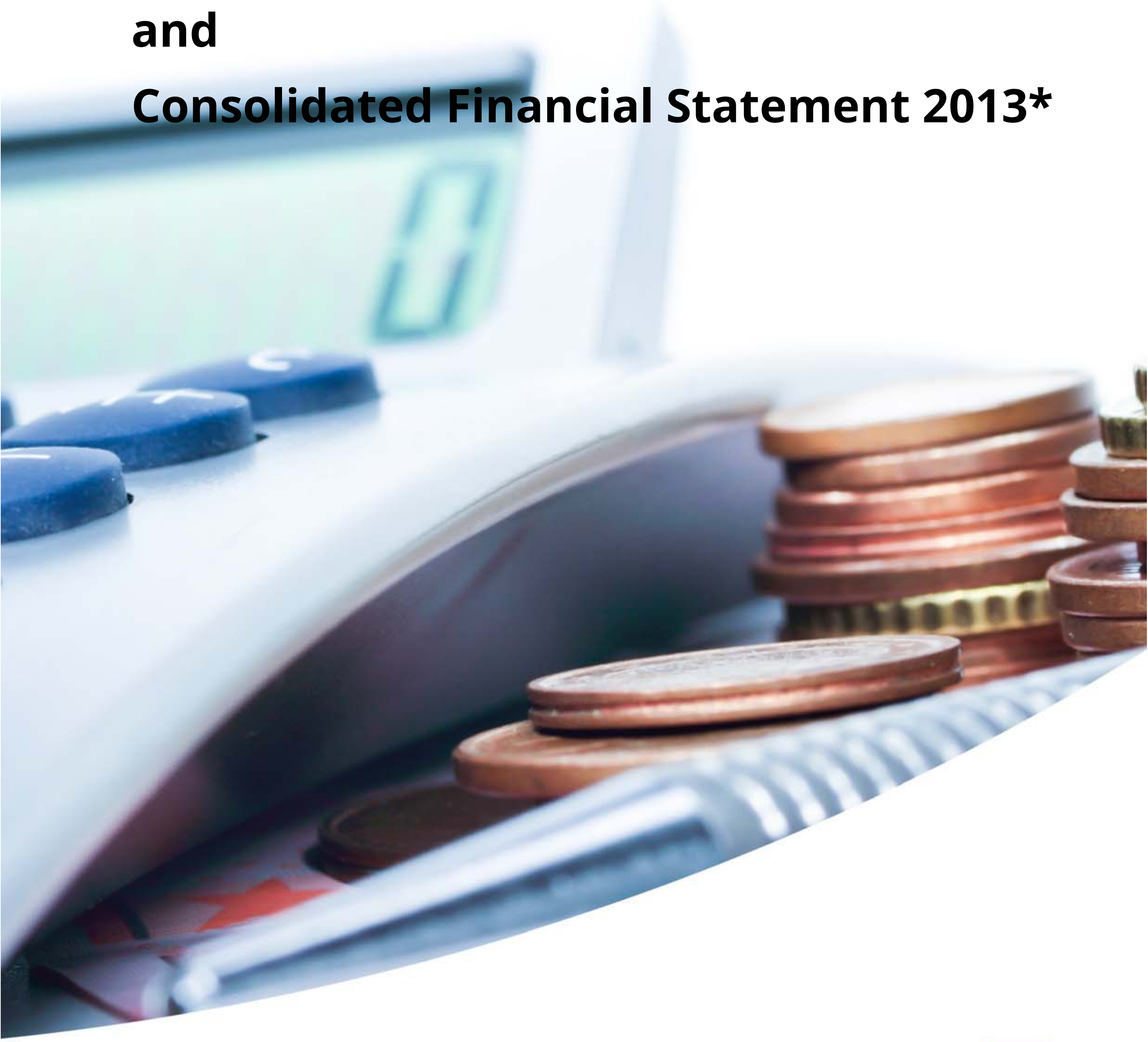
# Management Report for TELES Group

# and

# Consolidated Financial Statement 2013*



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

TELES AG
Informationstechnologien

**Key Figures Pursuant to IFRS**

| TELES Group (in T€) | January 1, 2012 - December 31, 2012 | January 1, 2013 - December 31, 2013 |
|---|---|---|
| Turnover | 12,366 | 10,701 |
| Gross profit | 6,375 | 6,149 |
| EBIT | -3,303 | -1,136 |
| EBT | -2,921 | 69 |

# Content

# Consolidated Management Report

# TELES and the Market

The German telecommunications industry is not anticipating significant growth impulses on the short to medium term. According to a report by Steria Mummert Consulting entitled “Branchenkompass 2013 Telekommunikation” (English: “Industry Compass 2013 Telecommunications”), telecommunications executives are expecting stagnating sales until around the middle of the decade. In view of the present market saturation and challenging competition, the study suggests that customers take excellent connectivity for granted. They are not ready to bear higher costs for improved network quality or stable mobile Internet access. Due to the decline in prices, companies should also expect decreasing sales in their existing business.

In order to counteract the erosion of margins, companies should seek out potential savings and keep a tight lid on costs. Moreover, investments into network expansion, bandwidth and mobile Internet access should be financed by new offerings that boost the willingness of customers to spend money. This brings up questions related to megatrends as well as new technologies that will enable innovative services and encourage business and private customers to increase their expenditures.

In a study entitled “Zukunft der Telekommunikation” (English: “The Future of Telecom”), Booz & Company describes the concept of “Always-on” as one of the main drivers in the telecommunications industry for the second decade. They believe this is also changing the world of work: “Always-on” is leading to a new work environment where “working nomads” (i.e. mobile workers) can work from home on a flexible schedule. Globally speaking, roughly one half of workers already enjoyed a certain degree of flexibility in 2013. Digitalization of the economy and working world is also producing a steady increase in demand for bandwidth as well as applications that facilitate delivery of digital content. In other words, high bandwidths enable new services which in turn require higher bandwidths.

TELES is well positioned with its product portfolio to help customers prepare for these global trends: By upgrading gateways with DSL technology, we can offer dependable solutions especially to carriers who need to supply higher bandwidths to their customers, enable new services and retain existing customers in saturated markets.

For the transition already underway in European home markets from circuit-switched networks to more powerful IP networks with higher bandwidths, we have created solutions with the major benefit of allowing retention of familiar ISDN features that end users appreciate while keeping the existing telephone infrastructure intact. For service providers, investment protection is a valuable added benefit when working to market higher bandwidths.

With our Unified Communications (UC) solutions for enterprise customers, we are likewise well-positioned to satisfy growing demand for high-availability telecommunications, value added and cloud services. In this manner, we can ensure that subscribers are accessible and information is available wherever necessary – regardless of the communications device that is chosen. For our customers and users, this translates into shorter distribution cycles and response times, higher productivity and efficiency in their work as well as improved customer loyalty.

Our sales activities remain focused on our home markets of Germany, Austria and Switzerland (GAS) followed by the rest of Europe, the Middle East, Africa and the United States. In these markets where technology trends are recognizable early on, we believe our solutions have unique potential. We directly handle the markets of Germany, Austria and Switzerland, the rest of Europe and the Middle East, while serving other markets via selected partners to guarantee uniformly high quality, an excellent understanding of our products and solutions as well as fast response times.

# Business Unit Access Solutions

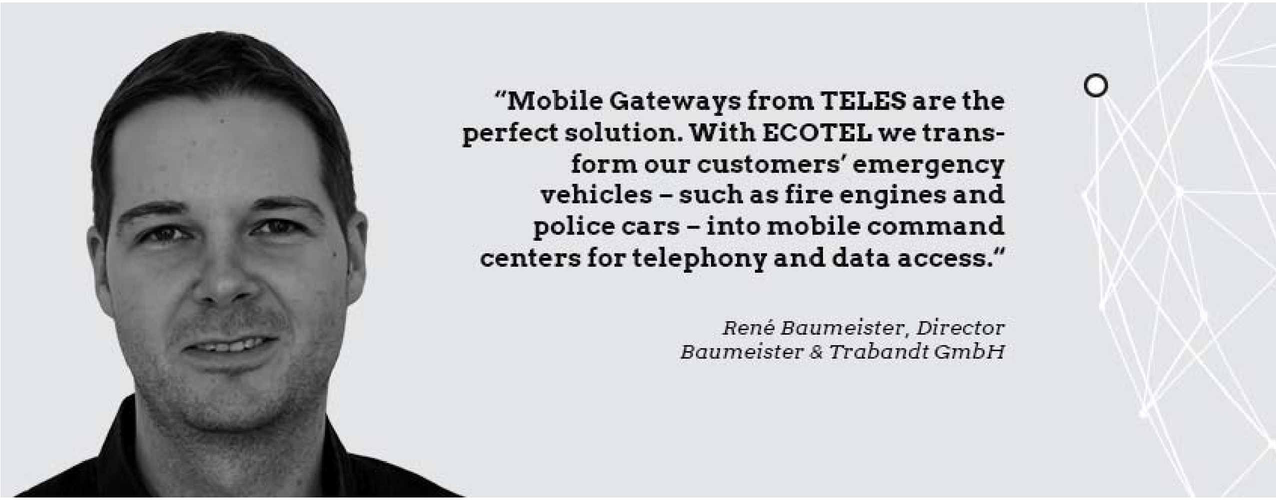
For the business unit Access Solutions, the year 2013 was dominated by the pending ISDN transition at the network level in the European home markets. The objective is to profit from the migration from conventional ISDN switching technology to the Internet Protocol (IP). For this reason, we focused our development efforts on the reorientation of the VoIP gateway product line, integration of DSL technology, automatic provisioning of VoIPBox and optimization of production costs. For the mobile gateway product family, 2013 was shaped by challenging projects involving development of customer-specific hardware and software.

Sales of VoIP gateways were stable in the past business year. Towards the end of the year, there was a noticeable increase in demand and sales. Sales of mobile gateways were modest due to the weakening of one of our major distribution partners. The anticipated sales in this product family were only partially compensated by other projects and regions.

Sales in the United States also continued to develop more slowly than expected. However, major project inquiries increased significantly toward the end of the year. In 2014, we are thus expecting growth in the US market.

## Reference Customer Baumeister & Trabandt

Our customer Baumeister & Trabandt provides a good demonstration of the capabilities of mobile radio gateways in a diverse range of challenging application scenarios. ECOTEL mobile gateways form the heart of the communications center in different types of vehicles outfitted by Baumeister & Trabandt for use by fire departments and police, to name some examples. On such vehicles, ECOTEL provides access to voice communications, fax and Internet service via public networks, allowing personnel to communicate with one another at any time and place. The system automatically selects the optimum access technique from among the available networks, no matter where it is located, while underway.



# Business Unit Carrier Solutions

Over the past business year, the conversion of international telephone networks from traditional circuit-switched technology (TDM) to powerful voice over IP (VoIP) technology has been on the agenda of network operators worldwide. Our existing customers outside of Germany have significantly expanded capacity for IP-to-IP long-haul connections.

In contrast, the changeover of national interconnections from TDM to IP – already planned for years now – is advancing very slowly among most of the former Western European telecommunications monopolies. Many network operators are postponing the necessary technology investments.

With the transition to state-of-the art IP networks, demand is meanwhile growing among operators for components to monitor networks, keep them secure and defend against attacks and unauthorized access. In order to satisfy the growing demand for security solutions, we concentrated our development activities in the past year on a session border controller (SBC) for the IP interconnection. The SBC is a powerful network component that helps carriers to transition to IP with absolutely no hassles. The benefit of our SBC lies in its intuitive configuration and operation based on reasonable mechanisms and tolerance limits, allowing the network component to provide effective protection while recognizing threats and avoiding false alarms. At the same time, the SBC serves as a clear signal to our customers that TELES is positioned as a supplier for IP networks. In 2014, we plan to work on further development of our systems to help IP and NGN carriers derive even greater benefits from their networks – all with increased convenience and security.

## Reference Customer Sultan Telecom

Sultan Telecom is a Spanish minutes trader headquartered in Madrid. The company maintains 50 IP interconnects for its customers worldwide. Due to fast growth in minutes trading, the company decided in 2013 to consider in-house operation of a trading platform in order to regain full control over the platform. Sealing off the network with a dependable session border controller was naturally a key concern. Thanks to our good references especially in Spain, we were able to enter the negotiations with our SBC as a supplier of IP components and compete on an equal basis with established competitors despite their lower prices. There were two factors that tipped the scales in favor of TELES: the ability to rapidly deliver an operational solution after the order was placed, combined with the solid, future-ready architecture of the SBC.

> **"Choosing TELES was a conscious decision on our part to go with a high-class supplier and a secure and durable solution. This is a win-win situation for all because with TELES, while we enjoy increased security, our customers are impressed with the performance."**
>
> *Juan Carlos Sanchez, CFO*
> *Sultan Telecom*

# Business Unit Enterprise Solutions

The business unit Enterprise Solutions developed very favorably in 2013. For the full year, the sales and profit margin grew by more than one quarter. Demand in particular for advanced IP Centrex and Unified Communications solutions is growing noticeably. For this reason, our starting position for 2014 is good.

In 2013, we released a fully reworked and improved software version for our application server on time. The server has thus been enhanced with a number of new functions for greater user convenience. Especially the improved single-number concept has made a powerful impression on our customers and the market: With single number, subscribers are always reachable at their number no matter where they are, i.e. in the office, on the go or at home. A phone number is no longer tied to a single device; instead, the number is flexibly assigned to different devices as required. Subscribers can then choose whether to take a call on their mobile phone or landline, for example. Access via a single number is guaranteed regardless of where a given subscriber is located, and all of the subscriber's devices consistently indicate a single number for reaching the subscriber. In this manner, mobile phones can be transformed into full-fledged extensions with all of the fixed network's standard conveniences. In addition, this solution can be deployed in a wide range of countries with no compromises, thereby bolstering our confidence in the future of this business unit.

## Reference Customer T-Mobile Austria

Under the label “All In Communication”, an impressive application of our Mobile Centrex solution went live at T-Mobile Austria in late summer 2013. The application integrates mobile phones into the Mobile Centrex controlled by TELES so they function like a standard extension with all of the customary services – but without the hassle of installing a separate client on each individual device. Users can make calls with the device of their choice and have a single central mailbox for use with all of the registered devices. Even convenience functions like the busy lamp field on a switchboard and multi-SIM are supported. Mobile Centrex is thus an ideal solution in the matter of convergence: Mobile phones, IP phones, softclients, analog phones and ISDN phones are unified such that users can always choose the device they prefer.

# Business Situation[1]

| TELES Group (in T€) | January 1, 2012 to December 31, 2012 | January 1, 2013 to December 31, 2013 |
|---|---|---|
| Turnover | 12,366 | 10,701 |
| Gross profit | 6,375 | 6,149 |
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| EBT | -2,921 | 69 |

The year 2013 (TELES' 30th anniversary) was again dominated by dealing with mistakes from the past as well as by consolidation and restructuring. Key activities revolved around the cautious reorientation and extension of our product portfolio based on examples such as the new session border controller, the fully updated software version for the hosted IP Centrex system and the new VoIPBox DSL. In this manner, we were able to boost our competitiveness in the core markets.

Moreover, we continued the repositioning of TELES we began in 2012 based on further marketing activities. This included, for example, an intensification of our press activities as well as the successful launch of a two-day German-language customer workshop in the spring and an international event in the fall. We also paid close attention to the stabilization of our sales as well as ongoing cost control measures.

The performance demonstrates we are moving in the right direction: Past consolidation efforts and restructuring measures have translated into a noticeable success in terms of our profit – despite a setback in sales. By focusing on software-only areas of the business, we have managed furthermore to boost our profit margin

[1] For computational reasons, rounding differences to the mathematically exact values (monetary units, percentages, etc.) may occur in tables and references.

by 8 points to an outstanding figure of 75%. At the end of the year, we had roughly the same number of employees as in the previous year.

Since the consolidated financial statement is determined by the net assets, financial position and earnings of TELES AG, only the material changes in the net assets, financial position and earnings of the TELES Group are explained hereafter with no separate consideration of TELES AG.

**Turnover**

At M€ 10.7, the Group obviously fell short of the previous year's figure of M€ 12.3 and the projected turnover growth in the single-digit range in 2013. The primary cause was the ongoing weakness in the US market: Cooperation with the mobile telephony provider Sprint as well as the electronics wholesalers PCD and Ingram Micro has so far failed to bring the desired breakthrough.

In contrast, we managed to beat our high expectations for the young business unit Enterprise Solutions. This business unit developed very well in 2013. Turnover increased in this segment by 14% to M€ 3. Nearly one third of our turnover is now generated by this business unit which has developed into an important pillar for TELES. The profit margin leaped upwards by more than a quarter to a value of 85%, and on this basis the business unit is now the internal leader.

For the full year, the business unit Access Solutions saw a drop in turnover of 18%. This weakness is due to the declining business for mobile radio gateways. The collapse in sales was partially compensated by new projects. The profit margin grew by six points to 66%.

In 2013, the business unit Carrier Solutions recorded a drop in turnover of about 25%. This is due to lower than expected sales of solutions and products for the IP migration. The profit margin grew by eight points to 76%.

## Costs

Thanks to strict cost management, TELES managed a significant improvement in its operating result despite declining sales: For the full year, material and external labor costs fell in 2013 by roughly one third to M€ 2.7. Sales and marketing expenditures dropped by 5% and administrative expenses fell by 16%. Expenses for research and development held at a constant level.

## Operating result

The loss (operating result/EBIT) decreased in the year under review from minus M€ 3.3 to minus M€ 1.1. The decreased material and production costs as well as the lower operating expenses are apparent here. In addition, provisions in the amount of M€ 0.8 were reversed, mainly because the substantial provisions established in 2012 for the audit were not required.

Earnings before tax (EBT) improved from minus T€ 2,921 to T€ 69. Due to the sale of shares in GRAVIS Beteiligungs AG, other income from investments of about M€ 1.1 was generated.

Based on the tax revenue of T€ 736, the result from continued operations improved to T€ 805.

Following the settlement with freenet AG in mid-2013, we were able to release provisions for the 2005 transfer of STRATO AG (discontinued operations) in the amount of T€ 648, thereby attaining Group annual net income of T€ 1,453.

## Equity

In the context of drawing up the annual accounts for 2010, a range of value adjustments were made. In October 2011 these adjustments led to a loss of more than half of the capital stock of TELES AG. In the year under review, the equity capital of TELES AG improved from T€ 284 to T€ 769.

The total assets of the TELES Group decreased in the year under review by T€ 2,914.

On the assets side, the current assets decreased from T€ 6,365 to T€ 4,314. In particular, trade accounts receivable could be reduced based on improved cash and working capital management. Non-current assets decreased from T€ 1,016 to T€ 153. The main reason for this is the sale of the GRAVIS shares.

On the liabilities side, current liabilities fell from T€ 7,214 to T€ 3,656 primarily due to the utilization or release of provisions. Non-current liabilities increased slightly from T€ 10,818 to T€ 11,139. Due to the aforementioned circumstances, the equity capital of the TELES Group increased by T€ 323 from T€ -10,651 to T€ -10,328.

**Liquidity, assets and liabilities**

We were able to further stabilize our liquidity position in 2013. Like in the previous year, the loan by the majority shareholder for financing the operation of the business was not drawn upon. Following the sale of shares of GRAVIS Beteiligungs AG, the assets consist primarily of trade accounts receivable and inventories.

Investments were made in the Company's usual scope.

For further detailed explanations, please refer to the chapter "Financing / Going Concern".

# Human Resources

The successful stabilization of TELES is also reflected in our success in maintaining very low employee fluctuation. With a staffing level of 83 persons, the number of employees in Vienna and Berlin was practically unchanged at the end of the fiscal year. This is in addition to the four-person North American sales team based in the United States.

TELES continues to work with academic institutions to support young talent: As part of its cooperation with the Berlin School of Economics and Law, TELES was working with two computer science students at the end of 2013. Moreover, two other students completed their Bachelor thesis papers sponsored by TELES in the fall of 2013 with excellent results. Both students remain affiliated with the company: one is now in a work-study program pursuing a master's degree and the second was hired permanently.

### Changes within the Management Board

For private reasons, Thomas Roll resigned from his position on the Board (Chief Sales Officer, CSO) effective April 30, 2013.

# Report on Opportunities and Risks

### Unified Communications Growth Market

Especially in the area of Unified Communications (UC), TELES enjoys significant opportunities to generate sales as well as profits. UC involves the convergence of communications media such as the fixed network, mobile telephony, fax service and e-mail into a unified application environment. The benefit is improved subscriber accessibility, especially for mobile employees or in distributed companies. The convergence of different media in a unified environment is also making a major contribution to efficient processes as well as a faster work pace.

TELES recognized the opportunities associated with this trend early on, leading to development work in the business unit Enterprise Solutions. Furthermore, we have observed growing demand for innovative UC solutions along with rising sales of our UC products. We will continue to exploit the favorable market environment in the interest of our stakeholders.

### Risk Report

As a company with international operations, TELES is subject to any number of risks. Risks can result from significant changes in the markets in which the company is active and from a potential shift in the competitive position of TELES. In our consideration of risks, we distinguish between business environment, product, service and technology risks; human resources, regulatory, currency, financial, interest rate and IT risks; and other risks. At the present time, no significant impairment of the company's situation is apparent due to growing risks. However, the Board of TELES AG cannot rule out the possibility of negative trends in the markets and degradation of the overall business environment. Such occurrences could impact the risk situation.

## Business Environment Risks

The entrepreneurial success of TELES AG is generally influenced by the business environment, economic conditions and cyclical demand. Due to weak demand associated with economic uncertainty and the ongoing government debt and financial crisis in some of the European home markets of TELES, the company remains exposed to a dynamic risk situation. Thanks to the worldwide activities of TELES, we are able to limit the impact of demand shortfalls on our operating result. Uncertainties with regard to economic and occasionally political conditions may impair the demand for products and services of TELES AG and aggravate budgeting and forecast accuracy.

Due to stiff competition in the relevant markets, it is not always possible to pass along price increases, e.g. for preliminary products and energy, to our customers. We work to counteract pricing and procurement risks by employing coordinated purchasing and long-term delivery agreements. When procuring components, preliminary products and services, TELES relies on external suppliers. Although TELES works together closely with suppliers it cannot be guaranteed that there will not be any supply difficulties in future. Supply shortages or delays could have a considerable effect on business development. Through continuous monitoring and optimization of our circle of suppliers, we are able to limit the risks associated with supplier relationships.

As a safeguard, TELES AG also makes use of competing suppliers in the same market segments. Due to the ongoing market consolidation, however, in some areas it is hardly feasible to obtain products from alternative suppliers. This entails heightened purchasing and price risks, among other difficulties.

## Product, Service and Technology Risks

Product portfolio and technology risks rank among the most significant risks faced by TELES. In order to exploit business opportunities, it is necessary to rapidly develop and introduce new products. Moreover, the telecommunications market is characterized by short innovation cycles. This demands solid commitment to research and development;

nevertheless, quality problems can arise. Our profitability is highly dependent on our ability to adjust to changing markets and market requirements while continuously optimizing our development processes and reducing the cost of developing and producing new products with high quality and dependability. Moreover, our turnover and results may be negatively impacted by investments into technologies which prove unmarketable or dysfunctional or are not launched in a timely manner.

On-time completion of promised installation services and other services with the expected quality level is also an essential success factor for TELES, especially since service level agreements (SLA) with our customers represent a significant percentage of our sales. Service quality is thus evaluated continuously and promptly. Inadequate service work can lead to additional reworking and non-payment. Through careful engineering and dependable quality control measures, we work to actively constrain risks associated with product defects as well as liability risks.

**Human Resources Risks**

The expertise of our highly qualified staff is the core capital of TELES. This results in the risk that with the loss of staff we also lose the corresponding expertise. It is essential to encourage long-term loyalty of the staff to the company in order to keep fluctuation low. We also work to recruit committed employees through cooperation with universities in a dual course of studies (i.e. combining an apprenticeship with university studies).

**Regulatory Risks**

The telecommunications sector is highly regulated in many countries. In individual cases official regulations or amendments to such regulations may considerably increase costs and/or affect our turnover. In addition, changes to tax laws and regulations may lead to higher tax expenditure and/or have an influence on deferred latent tax or deferred tax liabilities.

## Currency Risks

Since TELES makes part of its turnover and material procurements outside the European Monetary Union, the effects of currency fluctuations on our results cannot be excluded in cases where cash flows are transacted in a different currency than the euro. The risk is reduced by settling business transactions wherever possible in the functional currency. In those cases which are not transacted in the functional currency, TELES reserves the right to use hedging instruments.

## Financial and Interest-Rate Risks

Especially with medium-sized and larger projects, payment delays or defaults can entail problematic consequences for the liquidity of TELES AG. TELES AG therefore seeks to mitigate this risk insofar as possible based on prior assessment of both the customer and the project as well as by arranging the terms of payment (e.g. advance payments) and by employing instruments to secure payments in some cases. Generally, it should be mentioned that TELES AG is not exposed to any customer dependency: The Company realized less than 10% of its total sales with its largest individual customer in 2013.

Interest-rate risk for TELES results exclusively from interest-bearing investments and is limited as a result of the primary liquidity aspects.

## IT Risks

The products and processes of TELES AG are highly dependent on IT hardware, software and systems. Electronic data processing and data security are likewise subject to external risks associated with infiltration, malware and unauthorized access to telecommunications networks and servers. We counteract these risks through continuous improvements in the security of our systems and redundant hardware.

# Financing/Going Concern

The available cash remains low due to the continuing operating losses. To fill any further financing gaps, the majority shareholder in March 2014 agreed to a further loan commitment of M€ 0.8 apart from the already supplied funds. This loan commitment replaces the unused loan commitment for M€ 1.1 of March 2013. The Board continues to consider this loan commitment to be sufficient to cover the estimated financing needs until at least mid-2015.

The business plan includes normal risks and uncertainties. It is based on current assumptions, expectations, estimates and projections of TELES considered to the best knowledge of TELES applying good business practice. To this extent, plan deviations cannot be excluded. In addition, there are forecast uncertainties, since it cannot be excluded that the consequences of the financial crisis may affect our customers.

The survival of the Company depends on the projected revenues for the coming months not falling below the sustainable level and the outstanding funds from the loan commitment by the majority shareholder being sufficient or increased if necessary.

# Forecast

Past years were marked by the Company's restructuring and consolidation as well as the reorientation of its product families and the careful repositioning of the Company within the market and among its customers. The adaptation processes which to some extent were also difficult for the employees have been concluded such that we now expect significant growth and balanced earnings before tax following the many years of restructuring.

Especially the business unit Enterprise Solutions is generating high expectations. Demand exists for powerful IP Centrex and Unified Communications solutions along with strategies for migration from conventional ISDN to IP infrastructures. This has been demonstrated by international studies as well as feedback from our customers. In view of the fact that demand picked up substantially in 2013 compared to prior years, we do believe that double-digit growth (in %) is realistic in this business unit.

Business in the business unit Access Solutions should also rise in 2014. Especially in the area of VoIP gateways, we are expecting substantial momentum after equipping our proven product family with a powerful DSL module in 2013. For users, this translates into shorter installation times, lower costs for network maintenance and not least, lower investment and operating costs since existing ISDN PBXs and telephone equipment can still be used without any hassles. Feedback we have received gives us reason to believe we have hit a nerve with this solution.

In the business unit Carrier Solutions, we are likewise expecting growing demand especially for our session border controller – an IP network component we launched in the summer of 2013 to help network operators effectively defend their networks against attacks.

# Overall Assessment of the Future Development of the TELES Group

Based on the trend during the year under review, the TELES Board believes that the Group's development should remain positive in the financial year 2014.
In our relevant markets we expect substantially positive growth rates.
Based on the trend during the year under review as well as our expectations for the upcoming financial year, we expect a double-digit rise in sales at the level of TELES Group and in all business units. Accordingly, we expect that the operating result will also improve. Our activities are subject to various risks which are described in the risk report. For the 2014 financial year, we see particular risks from the sustainability of the economic recovery, which could materialize in case of a worsening of the government debt crisis. We refer again to the existing risk as to the Going Concern assumption.
According to the Board, TELES Group is well positioned to protect itself against the current risks. We wish to strengthen our market position further, implement our strategy and continue the consolidation course. Therefore, the overall expectations for TELES Group can be evaluated as positive.

# Supplementary Report

There were no extraordinary events after the conclusion of the fiscal year.

# Key Figures TELES Group Pursuant to IFRS

| TELES AG (in T€) | January 1, 2012 to December 31, 2012 | January 1, 2013 to December 31, 2013 |
|---|---|---|
| Turnover | 12,366 | 10,701 |
| Gross profit | 6,375 | 6,149 |
| Operating result/EBIT | -3,303 | -1,136 |
| Financial income and other income from investments | 382 | 1,205 |
| EBT; from continued operations | -2,921 | 69 |
| Income tax expenditures | 11 | -736 |
| Result from continued operations | -2,932 | 805 |
| Discontinued operations | 0 | 648 |
| Annual net loss/surplus | -2,932 | 1,453 |

# Key Figures TELES AG Pursuant to HGB

| TELES AG (in T€) | January 1, 2012 to December 31, 2012 | January 1, 2013 to December 31, 2013 |
|---|---|---|
| Turnover | 12,278 | 10,535 |
| Gross profit | 6,193 | 5,703 |
| Operating result | -2,420 | -740 |
| Income from securities held as investments | 49 | 340 |
| Interest result | 40 | -5 |
| Depreciation of financial assets | 50 | 0 |
| Result from ordinary business activities | -2,381 | -405 |
| Tax expenditures | 1 | -890 |
| Annual net loss/surplus | -2,382 | 485 |

The annual surplus pursuant to HGB is less than the same figure pursuant to IFRS because in particular the debtor warrant was reassessed pursuant to IFRS and the revenue from the GRAVIS shares was not recognized in full in the TELES Group until the sale in 2013.

# Internal Control System

Pursuant to § 289 Sect. 5 and § 315 Sect. 2 No. 5 HGB, TELES AG is obliged to describe the essential features of internal control and risk management system with regard to the (Group) financial accounting process in the (Consolidated) Financial Report. The scope and structure of the financial accounting related internal control and risk management system as well as their adjustment to specific requirements of TELES AG are at the discretion of and are the responsibility of the Board. Therefore, the TELES Group has set up integrated "risk management" for its business processes. Consequently, subsidiaries are responsible for the scope, form and contents of their respective risk management system. Monitoring and coordination of the Group risk management system is the responsibility of Group management. Regular and systematic identification, quantification and assessment of the respective risks and security systems is part of risk reporting of subsidiaries to the Group management. Assessment of risks is based on the amount and probability of occurrence of potential damage.

**Description of the Internal Control System**

The financial accounting related internal control system of TELES AG comprises all principles, processes and measures to secure effectiveness, efficiency and compliance of financial accounting as well as securing observance of relevant legal regulations.

Defined internal controls are embedded in the financial accounting process based on specific risk aspects. The financial accounting related internal control system comprises both preventive and detective controls which include IT-supported and manual reconciliations, plausibility tests, separation of functions, four-eye principle and general IT checks such as access authorization in IT systems.

Within the scope of the organization, control and monitoring structures defined in TELES AG, the internal control system supports the collection, preparation and appraisal of company-related facts and their correct reflection in consolidated financial accounts.

Control of the processes for financial accounting is made by the Group Financial Accounting division. Laws, accounting standards and other statements are continuously analyzed with regard to their relevance and impact on the annual accounts. The Group companies are responsible for ensuring compliant and prompt processing of their financial accounting processes and systems and are supported in this by the Group Financial Accounting division. The financial accounting related internal control system described is enhanced by controls on a Company level executed by the highest decision-making bodies.

However, the possibility of personal discretionary decisions, incorrect controls, criminal acts or other circumstances normally cannot be excluded and then result in restricted effectiveness and reliability of the applied internal control system and the risk management system. Group-wide application of the systems used can therefore not guarantee with absolute security the correct, complete and prompt recording of facts in the consolidated financial accounts.

The statements made apply only to the subsidiaries included in the consolidated accounts of TELES AG for which TELES AG has the direct or indirect possibility to determine the financial and monetary policy in order to benefit from the activities of these companies.

# Litigation

The Company is involved in legal proceedings and litigations arising in the ordinary course of business. The Company generally establishes provisions for such cases assuming usage of the provisions is probable and an amount can be reasonably estimated.

The status of the “skyDSL patent infringement proceedings” (against Deutsche Telekom AG and SES ASTRA net S.A.) has remained unchanged. Reference is made to the Group’s consolidated notes of 2009 in that respect. As regards the action concerning the utility model cancellation, it was established in November of 2011 that the utility model did not unfold any effect from the very beginning. In December 2011, Deutsche Telekom AG filed an action for nullity against the German skyDSL patent. In the first instance, the patent was declared invalid by the Federal Patent Court in May 2013. TELES AG filed an appeal of this decision in September 2013 with the Federal Court of Justice. A summons to oral proceedings is not expected until 2015.

The action brought against freenet AG at the end of 2012 for payment of the balance of the purchase price for the 2005 transfer of STRATO AG to freenet AG was concluded in mid-2013 with an out-of-court settlement. This settlement covered the litigation by TELES AG against freenet AG as well as the counterclaim by freenet AG against TELES AG for payment of tax liabilities resulting from the aforementioned transfer. Upon fulfillment of the settlement with payment of the settlement sum in the amount of roughly M€ 0.2 by TELES AG to freenet AG, all of the mutual claims related to the subject matter have been resolved and the action has been terminated in full.

Comments on the status of the IntraStar patent infringement lawsuits mentioned in previous years are waived from 2009 on, because – as already mentioned in the consolidated financial statement 2008 – the majority shareholder (SSBG = Sigram Schindler Beteiligungsgesellschaft mbH) has assumed all costs connected with the patent lawsuits with effect from January 1, 2009. SSBG and TELES will participate in the outcomes of the IntraStar patent infringement lawsuits.

# Main Features of Remuneration of the Board and Supervisory Board

Total remuneration of members of the Board of TELES AG – with the exception of the remuneration of the Board Chairman – consists of one fixed and one variable remuneration component. The annual variable remuneration is determined based on the degree to which the results-oriented targets specified together with the Supervisory Board at the start of a given fiscal year are met.

For the time being, the remuneration of the Chairman of the Board is limited to provision of a company car and its associated monetary benefit.

The Supervisory Board receives fixed as well as variable allowances. The variable remuneration is results-oriented and is therefore paid only in case positive earnings contributions are achieved. Furthermore, it is limited to the amount of the basic remuneration.

More details are available in the notes.

# Data Pursuant to §§ 289 Sect. 4 and 315 Sect. 4 of HGB

**Composition of subscribed capital**

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

**Restrictions with regard to voting rights or transfer of shares**

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

**Direct or indirect participation in capital, which exceeds 10 % of the voting rights**

Sigram Schindler Beteiligungsgesellschaft mbH, Berlin, Germany, owned 57.09 % of the voting rights in TELES AG on the balance sheet date. Sigram Schindler Beteiligungsgesellschaft mbH is 100% controlled by Prof. Dr.-Ing. Sigram Schindler, thereby granting him the associated voting rights pursuant to § 22 Sect. 1 Sentence 1 No. 1 WpHG. He similarly controls the voting rights of the Sigram Schindler Stiftung (foundation) (1.46%). Together with his direct voting rights, Prof. Dr.-Ing. Sigram Schindler thus controlled a total of 58.61% of the voting rights of TELES AG Informationstechnologien on the balance sheet date.

Otherwise, the Company is not aware of any other direct or indirect participation in capital which exceeds 10 % of the voting rights.

## Shares with special rights: Powers of control

Shares with special rights which provide powers of control do not exist.

## Voting rights control

Control of voting rights within the meaning of § 315 Sect. 4 No. 5 HGB does not take place.

## Regulations for the appointment and dismissal of members of the Board and on amendments to the articles of association

Pursuant to § 6 of the articles of association the Board is made up of at least two members. Definition of the number within the scope of the aforementioned regulation as well as appointment and revocation of appointment is made by the Supervisory Board as is the appointment of a member of the Board to Board Chairman. Otherwise, appointment and dismissal of members of the Board is executed in accordance with §§ 84, 85 Stock Corporation Act.

Amendments to the articles of association are made in accordance with §§ 179, 133 Stock Corporation Act, whereby pursuant to § 14 of the articles of association the Supervisory Board is entitled to decide on amendments to the articles of association which affect only their wording.

## Authorization of the Board with regard to the possibility of issuing or redemption of shares

By means of a decision of the Meeting of Shareholders on August 29, 2008 the Board was authorized, with approval of the Supervisory Board, to increase capital stock by August 28, 2013 once or several times in cash or by contribution in kind by up to T€ 11,652 (approved capital 2008/I). This authorization has expired without having been used.

By means of a decision of the Meeting of Shareholders, conditional capital 1997/I was created; on December 31, 2013 it amounted to T€ 1,947 and served to fulfill options on a total of 1,946,591 no-par shares. The conditional capital 1997/I will only be effective if the rights of issued convertible bonds are exercised or if issued stock options for the employee stock option plans are exercised.

In addition, the conditional capital 2000/I was created by decision of the Meeting of Shareholders. It only becomes effective if stock options from the employee stock option plans are exercised. As of December 31, 2013, conditional capital 2000/I amounted to T€ 384, divided into 383,876 no-par shares.

**Essential agreements of the Company which exist on condition of a change in control as a result of a takeover bid**

Such agreements do not exist.

**Compensation agreements of the Company concluded with members of the Board or employees in the case of a takeover bid**

Such agreements do not exist.

# Final Declaration on the Dependent Company Report

Pursuant to § 312 Sect. 3 Stock Corporation Act, the Board declares that in 2013 between the organization and the controlling Company or a third party, there were no reportable transactions or other measures which the organization undertook or did not undertake at the behest of or in the interest of the controlling Company or a company affiliated with it.

The Board declares furthermore that the organization received an appropriate consideration for the transactions specified in the report on relations to affiliated companies in accordance with the circumstances known at the respective time. In the 2013 fiscal year, no other reportable actions have been taken in the interest of or at the behest of the controlling Company which led to disadvantages on the part of the organization.

# Declaration on Company Management

**Management and Company Structure**

Company management of TELES AG, as a German corporation listed on the stock exchange, is defined by the standards of the Stock Corporation Act and the German Corporate Governance Code in its current applicable version as well as by the regulations of the articles of association. In compliance with its legal form TELES AG has a two-tier company structure with its organs of Board and Supervisory Board which is typified by strict personnel separation between management and monitoring organs. The third organ is the Meeting of Shareholders at which the shareholders exercise their rights. All three organs are obliged to ensure the well-being of the Company.

The Supervisory Board elected by the Meeting of Shareholders consists of three members, in line with statutory requirements. The period of office of the Supervisory Board is normally five years. The Supervisory Board monitors and consults with the Board concerning the management of business activities. The Supervisory Board discusses business development, planning and strategy and their execution at regular intervals. It discusses together with the Board the quarterly and half-yearly reports prior to publication and approves annual planning as well as the individual and consolidated accounts. It takes into consideration the audit report of the accounts auditor. The scope of tasks of the Supervisory Board also includes the appointment of Board members as well as the definition of Board remuneration and respective regular controlling of such.

The Board is the management organ of the Group and currently consists of two persons. It manages the company in its own responsibility with the aim of sustainable creation of added value. The principle of overall responsibility applies, i.e. members of the Board bear common responsibility for the entire business management irrespective of divisional responsibility. The Board is bound by the standards of the internal rules of procedure approved by the Supervisory Board. This especially regulates all issues reserved for the overall responsibility of the Board and also includes a list of issues of fundamental importance which require approval from the Supervisory Board. The Board develops company strategy and ensures its execution in coordination with the Supervisory Board. It is also responsible for the drawing up of quarterly and annual accounts as well as for appointing staff for key positions in the company.

The Meeting of Shareholders is the organ for decision-making on the part of our shareholders. Our shareholders are presented with the annual accounts at the Meeting of Shareholders. The shareholders decide on appropriation of the balance sheet profit and also decide on other issues specified by law and our articles of association. Each share entitles to one vote. Those shareholders are entitled to participate in the Meeting of Shareholders who are registered within the specified deadline and who are entered in the Share Register on the day of the Meeting of Shareholders. Our shareholders can also exercise their voting rights at the Meeting of Shareholders by means of an authorized third party or a voting representative provided by the organization who is bound by the voting instructions.

**Control Systems**

Internal control systems support management in monitoring and controlling the Group and its business units. The systems consist of control, actual and forecast calculations and are based on the annually revised strategic planning of the Group. Special consideration is given to market developments, technological developments and trends, their influence on internal products and services as well as on the financial potential of the Group.

The Group reporting system comprises monthly result calculations as well as quarterly IFRS reports for all consolidated subsidiaries and shows the net assets, financial position and earnings of the Group as well as of its business units. Financial reporting is enhanced by further detailed information required for the assessment and control of the operative business.

Another part of control systems is quarterly reports concerning essential risks for the company.
The reports specified are discussed at Board and Supervisory Board meetings and provide important background data for assessment and decisions.

In accordance with the positioning of the three business units (Access Solutions, Carrier Solutions, Enterprise Solutions), the operative business of the organization is mostly controlled via the indicators turnover, gross earnings, EBITDA and EBIT as well as a range of other important non-financial key figures.

**Corporate Governance**

The concept of corporate governance stands for management and control of companies oriented to responsible, long-term creation of added value. Efficient cooperation between the Board and the Supervisory Board, respect for shareholder interests, openness and transparency of corporate communication are important aspects of good corporate governance.

The Board and Supervisory Board of TELES AG consider themselves obliged to provide for the continued existence of the company and sustainable creation of added value by means of corporate management oriented to responsible and long-term decision-making. This concept is based on the recommendations of the German Corporate Governance Code in its respective current version. After thorough review, the Board and Supervisory Board submitted the following compliance statement pursuant to § 161 Stock Corporation Act in October 2013:

# Corporate Governance

**Declaration of Conformity**

Pursuant to § 161 of the German Stock Corporation Act (Aktiengesetz = AktG), the Board of Directors and Supervisory Board of companies listed on the stock exchange in Germany are required to make an annual declaration stating that the recommendations of the Government Commission on the German Corporate Governance Code have been and are being complied with or listing the recommendations not complied with and disclosing the reasons why not. This declaration must be permanently accessible for the shareholders.

The German Corporate Governance Code (the "Code") contains rules with different binding force. In addition to current and binding stock corporation law regulations, it also contains recommendations from which companies may deviate; they are obliged however, to make full annual disclosure of these deviations. The Code further contains guidelines which may be deviated from without disclosure.

The following declaration refers to the Code in its revised version of 13/05/2013 (published 10/06/2013).

The Board of Directors and the Supervisory Board of TELES AG hereby declare that the recommendations of the "Government Commission of the German Corporate Governance Code" published by the Federal Ministry of Justice in the official section of the electronic Federal Journal have been and are being complied with since the last Compliance Statement of March 2013 with the following exceptions.

**1. Rule 3.8 (Board of Directors and Supervisory Board - D&O Insurance)**

The Code stipulates that an excess corresponding to the legal requirements for the Board of Directors shall be determined for the Supervisory Board respectively, in case the Company procures a Directors' and Officers' Liability Insurance.

The existing D&O Insurance does not have an excess for Supervisory Board members.

In consideration of the nature of the Supervisory Board mandate, a distinction between the Board of Directors and Supervisory Board with respect to the D&O Insurance is deemed adequate. This is also conveyed by the different structure of the remuneration. Furthermore, with regard to the members of the Supervisory Board, the determination of an excess has not been considered as being suitable to enhance motivation and sense of responsibility of the board members who are already acting responsibly and in the interest of the Company due to their functions.

**2. Rule 4.2.1. (Board of Directors)**

In addition to § 77 AktG the German Corporate Governance Code stipulates that the By-Laws shall allocate the duties among individual Management Board members.

The allocation of the duties among individual Management Board members is not necessary as those duties are stipulated directly in the service contracts of the individual Management Board members.

**3. Rule 4.2.3 (Board of Directors – Compensation)**

In addition to § 87 para. 1 AktG the German Corporate Governance Code stipulates that the Director's compensation shall have a nominal cap with regard to the total compensation as well as with regard to the variable compensation elements.

Although the management contracts provide for a variable compensation, such variable compensation is currently only defined by a percentage and has no cap of a nominal amount. At the time the management contracts were signed, the stabilization of the economic situation of the Company within a short term was in focus. Thus, for the moment no cap containing a nominal amount has been agreed.

**4. Rule 5.1.2 (Age Limit for Directors, Diversity)**

The Code recommends that the Supervisory Board specifies an age limit for members of Board of Directors; it also recommends to take diversity into account when appointing Directors, and in particular, to aim for an appropriate consideration of women.

TELES refrains from determination of an age limit for Directors, as in principal the expertise of experienced Directors shall be at the disposition of the Company. A solely age-related disqualification is not considered appropriate by the Board of Directors and Supervisory Board.

In the Company's interest, when appointing Directors, the Supervisory Board mainly pays attention to the availability of maximum professional competence, and thereafter takes further criteria into consideration. Due to the internationality of the Company the availability of key skills, language competence and experiences in different cultural environments is appreciated. Therefore, in the past Directors positions has been regularly filled with foreign managers.

The determination of specific objectives for promotion of the participation of women is currently not intended.

**5. Rules 5.2 and 5.3 (Supervisory Board, Formation of Committees, Chairman)**

The Code recommends that the Supervisory Board forms professionally qualified committees subject to the specific conditions of the company and the number of members. At present, the Supervisory Board of TELES AG consists of three members. As these members deal in their totality with the committee-related topics referred to in the Code - in addition to their other duties – the formation of committees is not considered to be appropriate to enhance the efficiency of Supervisory Board's work and is therefore not indicated.

Thus, the Chairman of the Supervisory Board is also acting as Chairman, if and when the Supervisory Board in its entirety is handling affairs like monitoring of the accounting process, the effectiveness of the internal control system, risk management system and the internal audit system, the audit of the Annual Financial Statements, here in particular the independence of the auditor and the services rendered additionally by the auditor.

**6. Rule 5.4.1 (Constitution of the Supervisory Board, Age Limit, Diversity)**

Since the revised version of 26.05.2010 the Code recommends that the Supervisory Board sets targets for the constitution of the Supervisory Board taking into consideration the specific situation of the Company, the international activities of the Company, potential conflicts of interests, the number of independent Supervisory Board members according to Rule 5.4.2., the age limit to be determined and diversity. These specific targets shall provide for an appropriate participation of women.

The Supervisory Board has not yet determined concrete targets for its constitution so far, and after consideration of the specific situation of the Company does not intend to set these targets for the time being. In the Company's interest, when constituting the Supervisory Board, it is mainly appreciated that candidates have the maximum professional competence as well as international experiences. Only thereafter further criteria are taken into consideration.

Furthermore, the Company refrains from determination of an age limit for Supervisory Board members, as in principal the expertise of experienced Supervisory

Board members shall be at the disposition of the Company. A solely age-related disqualification is not considered appropriate.

**7. Rule 5.4.5 (Supervisory Board – Professional Development Measures)**

Additionally, the Code recommends that the Company appropriately supports the Supervisory Board members in further training and professional development measures required for the performance of their duties.

In principal the Company supports the Supervisory Board members in reasonable further training and professional development measures under the statutory reimbursement of expenses. Which requirements to be fulfilled for the adequacy of Company's support subject to this recommendation is currently unclear. By way of precaution, a deviation from the recommendation is declared herewith.

**8. Rule 7.1.2 (Publication of Financial Statements)**

Subject to the recommendation of the Code, the Consolidated Financial Statements shall be publicly accessible within 90 days after the end of the financial year and Interim Reports shall be publicly accessible within 45 day after the end of the reporting period. In principle, TELES AG publishes the Consolidated Financial Statements and the Interim Reports – as far as possible – within these respites. In case of need TELES reserves the right to take advantage of the legal respites.

# Consolidated Balance Sheet

| in KEUR, excluding number of ordinary shares | | 31. December | |
|---|---|---|---|
| | Note | 2012 | 2013 |
| **ASSETS** | | | |
| **Long-term assets** | | | |
| Property, plant and equipment | 4 | 205 | 145 |
| Intangible assets | 5 | 11 | 8 |
| Other financial assets | 6, 16 | 800 | 0 |
| | | **1,016** | **153** |
| **Short-term assets** | | | |
| Inventories | 7 | 1,691 | 1,863 |
| Trade receivables | 8, 16 | 3,098 | 1,581 |
| Other financial assets | 16 | 568 | 0 |
| Receivables from tax on income | 21 | 43 | 130 |
| Other short-term assets | 9 | 644 | 260 |
| Zahlungsmittel und Zahlungsmitteläquivalente | 16, 24 | 321 | 480 |
| | | **6,365** | **4,314** |
| **Total assets** | | **7,381** | **4,467** |
| **LIABILITIES** | | | |
| **Equity** | | | |
| Ordinary shares (Issued and In circulation: respectively 23,304,676) | | 23,305 | 23,305 |
| Capital reserves | | 11,569 | 11,569 |
| Retained earnings | | -46,470 | -45,017 |
| Reserve for time evaluation | | 788 | 0 |
| Valuation of pension obligations | | -74 | -119 |
| Reserve for currency differences | | 231 | -66 |
| **Shares of the shareholders of the parent company** | | **-10,651** | **-10,328** |
| **Shares without controlling influence** | | **0** | **0** |
| **Total equity** | 10 | **-10,651** | **-10,328** |
| **Long-term liabilities** | | | |
| Long-term provisions | 15 | 361 | 451 |
| Other financial liabilities due to related companies | 11, 16, 26 | 10,457 | 10,688 |
| | | **10,818** | **11,139** |
| **Short-term liabilities** | | | |
| Trade liabilities | 16 | 1,773 | 1,373 |
| Provisions for tax on income | 15 | 133 | 0 |
| Other provisions | 15 | 2,513 | 448 |
| Accrued income | 12 | 1,308 | 670 |
| Other financial liabilities due to related companies | 13, 16, 26 | 73 | 4 |
| Other short-term liabilities | 14, 26 | 1,414 | 1,161 |
| | | **7,214** | **3,656** |
| **Total liabilities** | | **18,032** | **14,795** |
| | | **7,381** | **4,467** |

# Consolidated Profit and Loss Statement

| in KEUR, except share-related information | Note | 01. January - 31. December 2012 | 2013 |
|---|---|---|---|
| CONTINUING OPERATIONS | | | |
| **Sales revenues** | 17, 27 | **12,366** | **10,701** |
| **Production costs** | 17, 27 | **5,991** | **4,552** |
| **Gross profit** | | **6,375** | **6,149** |
| Sales and marketing expenses | 27 | 3,697 | 3,512 |
| Research and development expenses | 27 | 2,756 | 2,752 |
| Administration expenses | 27 | 2,581 | 2,168 |
| Other income | 15, 18 | 374 | 1,342 |
| Other expenses | 18 | 1,018 | 195 |
| **Operating results/ EBIT** | 27 | **-3,303** | **-1,136** |
| Financial income | 16, 19, 27 | 625 | 359 |
| Financial expenses | 16, 19, 27 | 243 | 235 |
| Other participation results | 16, 19, 27 | 0 | 1,081 |
| **Results before tax on income from continuing operations** | 21, 27 | **-2,921** | **69** |
| Income tax expenses/ (income) | 21 | 11 | -736 |
| **Results from continuing operations** | | **-2,932** | **805** |
| DISCONTINUED OPERATIONS | | | |
| Results from discontinued operations, after deduction of taxes | 20 | 0 | 648 |
| **Net loss /income for the year** | | **-2,932** | **1,453** |
| thereof relate to: | | | |
| Shareholders of the parent company | 23 | -2,932 | 1,453 |
| Shares of other shareholders | | 0 | 0 |
| Results per share from continuing operations | | | |
| Undiluted | | -0.13 | 0.03 |
| Diluted | | -0.13 | 0.03 |
| Results per share, total | 23 | | |
| Undiluted | | -0.13 | 0.06 |
| Diluted | | -0.13 | 0.06 |
| Number of underlying shares | | | |
| Undiluted | | 23,304,676 | 23,304,676 |
| Diluted | | 23,304,676 | 23,304,676 |
| Additional details relating to the consolidated financial statements: | | | |
| EBITDA[2] | | -3,075 | -1,008 |

[2] Corresponds with operating results (2012: KEUR -3,303; 2013: KEUR -1,136) before depreciations (2012: KEUR 228; 2013: KEUR 128).

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# Consolidated Statement of Comprehensive income

| (in KEUR) | Note | 01. January - 31. December | |
|---|---|---|---|
| | | **2012** | **2013** |
| **Net loss/income for the year** | | **-2,932** | **1,453** |
| **Other aggregate results:** | | | |
| *Other comprehensive income reclassified affecting net income in the actual period:* | | | |
| Financial assets available-for-sale; valuation | | | 281 |
| Profit from financial assets available-for-sale | 16 | 0 | -1,081 |
| Tax on income effects | | 0 | 12 |
| | 16, 21 | 0 | -788 |
| **Other comprehensive income reclassified affecting net income in the actual** | | **0** | **-788** |
| *Other comprehensive income to be reclassified affecting net income in the* | | | |
| Currency translation differences of foreign subsidiaries | | -110 | -297 |
| Financial assets available-for-sale | 16 | 200 | 0 |
| Tax on income effects | | 3 | 0 |
| | 16, 21 | 197 | 0 |
| **Other comprehensive income to be reclassified affecting net income in the** | | **87** | **-297** |
| Actuarial losses from Defined-Benefit obligations according to IAS 19 | 15 | -74 | -45 |
| **Items to be reclassified not affecting net income in the following periods,** | | **-74** | **-45** |
| **Other comprehensive income, after deduction of taxes** | | **13** | **-1,130** |
| **Aggregate results, after deduction of taxes** | | **-2,919** | **323** |
| there of relate to: | | | |
| Shareholders of the parent company | | -2,919 | 323 |
| Shares of other shareholders | | 0 | 0 |

# Development of the Consolidated Equity

| (in KEUR, except number of ordinary shares) | **Number of ordinary shares** | Nominal value of the shares | Capital reserve | Retained earnings | Cumulative other consolidated results | | | **Total** | Shares without controlling influence | **Total equity** |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Reserve for time evaluation | Valuation of pension obligations² | Reserve for currency differences | | | |
| **31 December 2011** | 23,304,676 | 23,305 | 11,569 | -43,538 | 591 | - | 341 | -7,732 | 5 | -7,727 |
| Net loss for the year | - | - | - | -2,932 | - | - | - | -2,932 | -5 | -2,937 |
| Other compre-hensive income | - | - | - | - | 197 | -74 | -110 | 13 | - | 13 |
| **31 December 2012** | 23,304,676 | 23,305 | 11,569 | -46,470 | 788 | -74 | 231 | -10,651 | 0 | -10,651 |

| (in KEUR, except number of ordinary shares) | **Number of ordinary shares** | Nominal value of the shares | Capital reserve | Retained earnings | Cumulative other consolidated results | | | **Total** | Shares without controlling influence | **Total equity** |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Reserve for time evaluation | Valuation of pension obligations | Reserve for currency differences | | | |
| **31 December 2012** | 23,304,676 | 23,305 | 11,569 | -46,470 | 788 | -74 | 231 | -10,651 | 0 | -10,651 |
| Net income for the year | - | - | - | 1,453 | - | - | - | 1,453 | 0 | 1,453 |
| Other comprehensive income | - | - | - | - | -788 | -45 | -297 | -1,130 | 0 | -1,130 |
| **31. December 2013** | 23,304,676 | 23,305 | 11,569 | -45,017 | 0 | -119 | -66 | -10,328 | 0 | -10,328 |

TELES AG Informationstechnologien

# Consolidated Cash flow Statement

| (in KEUR) | Note | 01. January – 31. December 2012 | 2013 |
|---|---|---|---|
| Cash flow from operative business activities: | | | |
| **Net loss/income for the year** | | **-2,932** | **1,453** |
| Adjustment of the annual loss/income for | | | |
| Results from deconsolidation | | 98 | 0 |
| Tax on income | 21 | 11 | -736 |
| Financial results | 16, 19 | | |
| Follow-up valuation recovery | | 198 | 195 |
| Net interest income | | -13 | 21 |
| Recovery right | | -568 | 0 |
| Dividend GRAVIS | | 0 | -340 |
| Sale of shares GRAVIS | | 0 | -1,081 |
| Value adjustments on receivables | 8, 16 | -150 | 255 |
| Impairments on inventories | 3, 7 | 131 | -128 |
| Depreciations on property, plant and | 4 | 222 | 124 |
| Depreciations on intangible assets | 5 | 6 | 4 |
| Profits from the disposal of fixed | 4, 5 | 2 | 0 |
| Changes to provisions, pension | 3, 15 | 863 | -1,359 |
| Changes to other balance sheet items: | | | |
| Inventories | 7 | 960 | -45 |
| Trade receivables | 8, 16 | 1,062 | 1,203 |
| Other short-term assets and accruals | 9 | 18 | 372 |
| Short-term liabilities | 14 | -90 | -1.276 |
| Provisions and other liabilities | 14, 15,19 | -403 | -790 |
| Effects from changes in exchange rates | | -110 | -297 |
| Received tax on income | 21 | 93 | 748 |
| Paid tax on income | 21 | -13 | 0 |
| Received interest | 16, 19 | 15 | 1 |
| Paid interest | 16, 19 | -2 | 0 |
| **Cash outflow from operative business** | | **-602** | **-1,676** |
| Cash flow from investment activity: | | | |
| Acquisition of property, plant and | 4 | -85 | -57 |
| Acquisition of intangible assets | 5 | -4 | -7 |
| Recovery right | 6, 16 | 149 | 568 |
| Dividend GRAVIS | 16 | 0 | 250 |
| Sale of shares GRAVIS | 16 | 0 | 1,081 |
| Disposal of company | | -7 | 0 |
| **Cash inflow from investment activity** | | **53** | **1,835** |
| Cash flow from financing activity: | | | |
| Loans from related parties | 26 | 207 | 0 |
| **Cash inflow from financing activity** | | **207** | **0** |
| Net change of the cash and cash equivalents | | -342 | 159 |
| Cash and cash equivalents, start of the year | | 663 | 321 |
| **Cash and cash equivalents, end of the** | 24 | **321** | **480** |
| Cash and cash equivalents include: Money | | 70 | 70 |

# Notes to the Consolidated Financial Statement

## Note 1:  General Information

TELES Aktiengesellschaft Informationstechnologien (hereinafter “TELES AG”) and its subsidiaries (hereinafter “TELES” or the “Company”) operate in the field of innovative telecommunication techniques and services: TELES is an efficient provider of equipment, solutions and services for fixed line and und Fixed-Mobile Convergence as well as Next-Generation-Network (NGN) Service Provider.

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

The majority shareholder of TELES AG is Sigram Schindler Beteiligungsgesellschaft mbH with registered seat in Berlin.

The company employed 87 employees on an annual average in the fiscal year (in the previous year: 96). The employees work in the sectors of sales and marketing (20, in the previous year: 20), research and development (35, in the previous year: 37), procurement and logistics (21, in the previous year: 25) and administration (11, in the previous year: 14).

# Note 2: Summary of Essential Accounting Principles

## 2.1 Principle information relating to the presentation

The consolidated financial statements of TELES as of 31 December 2013 were prepared in compliance with § 315a HGB according to the regulations of the guidelines of the International Accounting Standards Board (IASB), London, which were valid on the balance sheet key date. All IAS respectively IFRS as well as interpretations of the International Financial Reporting Interpretations Committee (IFRS IC), which were binding in the EU as of 31 December 2013, are complied with.

## 2.2 Going concern, financing and essential uncertainties

Based on the estimate of the management the going concern was seen as existing and the consolidated financial statements prepared on the "going concern" assumption. In order to be able to close possible financing loopholes the majority shareholder had undertaken in March 2014 by means of a further loan promise in the amount of KEUR 800 – in addition to the already transferred funds – with existing financing requirements in the whole scope to grant additional financial funds. This loan promise replaces the unused loan promise for KEUR 1,100 from March 2013. The Management Board continues to see the loan promise to be sufficient in order to cover the expected requirements for financial funds until at least the middle of 2015. For further information concerning the endanger to the existence of the company reference is made to the consolidated management report, section "financing/ Going Concern".

## 2.3 Consolidation principles Group of consolidated companies

Included in the consolidated financial statements prepared for the fiscal year 2013 are in addition to TELES AG as parent company three domestic and seven foreign subsidiaries. Both the number as well as the composition of the consolidated companies remains unchanged compared with the previous year.

The 19.9 % minority participation in GRAVIS AG, which was continued to be held compared with the previous balance sheet key date, was sold in the closed fiscal year. With regard to further information reference is made to note 16.

There are no participations in associated companies.

A list of the subsidiaries included in the consolidated financial statements can be found in note 28.

**Consolidation methods**

Included in the consolidated financial statements are all companies, with which TELES AG indirectly or directly has the possibility to determine the financial and business policies to the extent that the group companies draw benefits from the activity of these companies. The financial statements were prepared according to standard accounting and valuation principles. The first time inclusion of the companies in the consolidated financial statements is carried out effective as of the day, on which TELES AG enters into the controlling relationship towards the subsidiary. Amounts relating to the minority shareholder are disclosed separately.

The capital consolidated is based upon the acquisition method insofar as the simplification regulations stated in IFRS 1 were not admissibly used insofar with the transfer to IFRS as of 1 January 2002. The acquisition values of the participating interests are offset against the group share of the fair value of the equity of the respective company. The acquired assets and debts, including those not accounted at the acquired company, are hereby recognized with the current value as of the time of acquisition. Minority shares are accounted at the share of the fair values, which is allocated to the minority shareholders. The positive difference between the acquisition costs and the share of the net current value is disclosed as goodwill and at least once a year subjected to an examination for its intrinsic value.

Group-internal transactions are eliminated. Receivables and liability between the consolidated companies are offset against each other. Interim results are eliminated and group-internal income offset against the corresponding expenses.

Insofar as regular results of a group company are to be allocated to minority share-holders, the corresponding amount is disclosed separately in the profit and loss statement. Insofar as losses are incurred, these reduce the balance sheet item “shares of other shareholders” in the balance sheet until this has been used up.

With the sale of a subsidiary the assets and debts included until this time as well as goodwill, which is to be allocated to the subsidiary, are offset against the sales proceeds.

## 2.4 Summary of essential accounting methods

### a) Property, plant and equipment

The property, plant and equipment will be accounted at acquisition costs, reduced by scheduled and if applicable non-scheduled depreciations. New valuations are not carried out. The scheduled depreciation is carried out on a straight-line basis over the following periods of time:

| | |
|---|---|
| Computer hardware: | 3 years |
| Office and operating equipment: | 5 years |
| Installations in rented rooms: | 10 years or shorter residual rental period |
| Other: | 10 years |

One exception from this is formed by the computer hardware, which is to be allocated to the “collective item” according to the EStG [German Income Tax Act]. The depreciation under fiscal law over five years is retained here both for the financial statements under commercial law as well as the IFRS financial statements. In the absence of essentiality no adjustment is made to the period of three years.

Service and repair costs are entered affecting net income at the time when they are incurred.

**b) Intangible assets**

Acquired intangible assets are capitalized if it is likely that a future financial benefit is associated with the use. They are accounted at acquisition costs, reduced by scheduled and if applicable non-scheduled depreciations. The scheduled depreciation is carried out on a straight-line basis over the following periods of time:

| | |
|---|---|
| Software: | 3-5 years |
| Other: | 3-5 years |

**c) Financial instruments, assets**

The categorization of the financial instruments is carried out according to IAS 39. Possible categories of financial instruments (assets) are:

- financial assets, which are valuated affecting net income at the fair value, whereby a distinction is made between those, which (i) are classified with the first-time recognition as such and those, which (ii) are classified as held-for-trading according to IAS 39;
- financial investments held until the final maturity;
- loans and receivables;
- financial instruments available-for-sale.

The 19.9 % minority participation in GRAVIS AG, held as of the previous balance sheet key day, was sold in the closed fiscal year. This minority participation was classified as “available-for-sale assets” in previous years. The balance sheet disclosure is carried out under “other financial assets” (long-term). Changes in value between addition and follow-up valuation were disclosed in the equity, reserve for time evaluation. The valuation of the minority participation is carried out at the fair value. As it concerned non-listed securities, the determination of the fair value is based on a Discounted-Cash-Flow-method. Changes in value between the addition and follow-up valuation were disclosed in the equity, reserve for time evaluation. The input factors, upon which the valuation was based, concerned input factors of the level 3 according to IFRS 7.27. Reference is made to note 16 with regard to further information.

In connection with the afore-mentioned minority participation in GRAVIS AG, TELES has further agreed a recovery right for remitted liabilities, owing to which it participates in the increase in value of GRAVIS AG in the form of profit participations or in the event of a resale of GRAVIS AG shares. The accounting of the receivable resulting from the recovery right is carried out initially at the fair value and subsequently at updated acquisition costs by using the effective interest method. The balance sheet disclosure is carried out under “other financial assets” (long-term). The receivables resulting from the recovery right were settled in full in the closed fiscal year. Reference is made to note 16 with regard to further information.

Trade receivables as well as other receivables are initially recognized at the fair value and subsequently at updated acquisition costs by using the effective interest method. In order to take the general credit risk into consideration the receivables are summarized in groups according to their maturity and subsequently value adjustments carried out owing to the age structure. If however it is required by the fact reasonable single value adjustments are made for individual cases.

The acquisition and the sale of financial assets are accounted as of the day of fulfilment.

### d) Inventories

Inventories are disclosed with the average acquisition or production costs or the lower net sales value. Insofar as inventories, which are difficult to sell and are out-of-date exist, discounts for value will be carried out.

### e) Cash and cash equivalents

The company considers all highly-liquid investments with a term as of the time of acquisition of 90 days or shorter as cash equivalents.

### f) Equity

Decisive for the management of the equity are the regulations of the HGB (above all § 272) respectively the German Stock Corporation Law (above all §§ 71 et seq., §§ 192 et seq.) for the individual financial statements of TELES AG as well as the regulations according to the IFRS for the equity of the TELES group. The afore-mentioned laws respectively regulations are subject to the only external restrictions, to which the TELES equity is subject to. The company satisfied all external minimum capital requirements in the closed fiscal year.

The equity disclosed in the consolidated financial statements corresponds with the equity controlled by the management.

### g) Financial instruments, liabilities

The financial instruments are categorized according to IAS 39. Possible categories of financial instruments (liabilities) are:
financial liabilities, which are valuated affecting net income at the fair value, whereby a distinction is made between those, which (i) are classified as such with the first-time recognition, and those, which are classified (ii) as held-for-trading according to IAS 39; financial liabilities, which are valuated at updated acquisition costs.

Sigram Schindler Beteiligungsgesellschaft mbH waived loans in the previous fiscal years as well as in the closed fiscal year, which were granted to the company. The company respectively enters a financial liability on the balance sheet as of 31 December 2012 and as of 31 December 2013, which results from a recovery agreement reached in connection with the waiver of the loan. The first valuation of the liability is carried out at the fair value. The fair value was determined in the absence of market-related values – by means of Discounted-Cash-Flow-method. The updating is carried out at updated acquisition costs.

The company concluded a factoring contract with Sigram Schindler Beteiligungsgesellschaft mbH (Factor), according to which TELES can offer the factor contractually defined trade receivables for purchase. The purchase price, which is to be paid to TELES by the factor is calculated from the nominal value of the purchased receivable of TELES towards its customers minus the factoring payment in the amount of 1 % of the nominal value of the receivable.

Trade liabilities are entered on the balance sheet by the company at updated acquisition costs.

**h) Provisions**

Provisions are formed if a current legal or de facto obligation has been established for the company from an event in the past, an outflow of resources is likely to fulfil this obligation and the amount of the obligation can be reliably estimated.

**i) Benefits to employees**

The company entered benefits on the balance sheet after the termination of the employment relationship, which are classified as Defined Benefit Plan, according to IAS 19. The total actuarial profits and losses are entered in the other comprehensive income in application of the IAS 19.

Payments for contribution-oriented plans are entered as an expense in the profit and loss statement, when they are due.

**j) Deferred taxes**

The deferred taxes are entered based on the so-called “Assets and Liability Method“: Deferred tax on income is formed for all significant temporary differences between the fiscal computation based and that relevant for accounting of the assets and debts as well as for fiscal losses carried forward based on the tax rates applicable by law. Deferred tax assets are reduced by a valuation discount, insofar as it is likely owing to the known circumstances that a part of the total deferred tax assets cannot be used. Deferred taxes are disclosed as long-term assets or liabilities.

**k) Impairment of assets**

Assets are audited as of each balance sheet key date to the extent whether events or changed circumstances indicate that the book value cannot be realized and thus there is a need for impairment.

**l) Research and development costs**

Research costs will be entered affecting expenses at the time when they are incurred. Costs, which are incurred in connection with the own development of software for telecommunication devices determined for sale, will be examined for their ability for capitalization as self-created intangible assets. In addition to the general pre-requisites for the capitalization and first-time valuation the technical and commercial ability for realization must be proven for the recognition and the attributable expenses reliably capable of valuation. Further it must be probable that the intangible asset leads to a future financial benefit, can be clearly identified and can be allocated to a specific product. If the research phase cannot be clearly distinguished from the development phase then the costs will be treated as research costs on the whole.

Capitalized development costs are depreciated over the expected useful life of the self-created intangible asset. The depreciations are entered in the production costs.

**m) Leasing relationships**

Leasing relationships, which the company has entered into, will be classified as Operating Lease, insofar as the company is not to be seen as the beneficial owner. The leasing rates will be entered affecting net income suitable for the period.

Leased objects, which are to be attributed to the company as beneficial owner, will be capitalized and depreciated over their customary useful life or over the, if applicable, shorter duration of the leasing agreement. Accordingly the liability, which is incurred from the leasing relationship, is entered on the liabilities side and reduced by the redemption share of the paid leasing rates.

**n) Translation of foreign currencies**

The currency of the primary financial environment, in which the individual group company operates, is seen as "functional" currency. This corresponds with the respective national currency of the companies at the subsidiaries of TELES AG. Accordingly all assets and debts were valuated with the actual exchange rate on the balance sheet key date. The income and expenses are translated at the average monthly exchange rates of the year. Profits and losses from the translation of the financial statements of the group companies are not entered in the profit and loss statement, but within the other changes to the equity. Profits and losses from foreign currency transactions are also included with the determination of the annual results.

**o) Employee share option programmes**

The employee share option programmes of the company are accounted according to IFRS 2 "share-based remuneration". IFRS 2 stipulates that the implications of the share-based remuneration are to be taken into consideration in the results and in the net assets and financial position of the company. This includes the expenses from the granting of share options to employees. Accordingly the fair value of the work performance provided by the employees is to be entered as consideration for the granted share options as an expense affecting net income as well as increase in the equity. As the fair value of the work performances provided by the employees cannot however be determined reliably, the fair value of the share options at the time when they are granted is to be used for the valuation.

According to the transitional regulations IFRS 2 was already to be applied to all equity instruments, which were granted after 7 November 2002 and were not yet non-lapsable on 1 January 2005. The comparable information was to be adjusted accordingly.

The exercising of the option is presented to the extent that the basic price, which is to be paid by the authorized party, is accounted not affecting net income as a capital increase.

**p) Principles of the realization of sales revenues**

Products

The company realizes sales revenues from product sales based on a corresponding contract as soon as the product was delivered, the sales price is fixed or can be determined and there are no essential obligations towards customers as well as the provision of the receivables is deemed to be likely. The company forms provisions for all potential costs by the taking back of products, guarantee services and other costs based on experience values.

Services

Sales revenues from the provision of services are realized if these have been essentially provided in full and are capable of invoicing. The company shall provide both services, which are concluded within a period as well as services, with which the provision of the services extends over several periods. If the contractually agreed services last beyond the balance sheet key date, already settled services, however services not yet provided or provided, but not yet settled, will be accrued.

Further transferred transport and shipping costs

The company discloses further transferred shipping costs in the revenues and the associated costs in the production costs.

**q) Production costs**

The production costs of the sold products include the indirect overheads including the depreciations on the production plants and the other intangible assets as well as the devaluations on inventories in addition to the directly attributable material and production costs.

**r) Results per ordinary share**

The undiluted net income for the year per ordinary share is calculated based on the weighted average number of ordinary shares, which are in circulation during the period under review. Own shares reduce the number of ordinary shares in circulation. The diluted net income for the year per ordinary share is calculated based on the weighted average number of the ordinary shares and diluted ordinary-related shares, which are in circulation during the period under review. Dilution effects are based solely on issued share options.

**s) Segment reporting**

The internal control of the company represents the basis for the segment reporting (Management Approach). The external segment reporting is carried out based on the internal organization and management structure as well as the internal financial reporting coordinated hereto to the highest management body (Chief Operating Decision Maker).

**t) Grants of the public sector**

Grants of the public sector, paid for the acquisition of property, plant and equipment, are principally disclosed under the other long-term liabilities within the long-term liabilities and collected affecting income on a straight-line basis over the period of depreciation of the subsidized assets. Insofar as the property, plant and equipment concerned have already been partly or fully depreciated at the time when the entitlement for the grant is incurred, a collection will be carried out immediately.

#### u) Dividend income

Dividend income is entered at the time at which the right to receipt of the payment is incurred.

#### v) Discontinued operations

The company principally presents Continuing Operations and Discontinued Operations separately within the profit and loss statement whereby the contribution to operating results of discontinued operations is disclosed in a summary. The composition of the amount as well as the discontinued operations in the amounts which are allocated to the cash flow statement are listed in note 20.

Subsequent contributions to operating results of operations, which were discontinued in previous years, are disclosed as "operating result from discontinued operations, after deduction of taxes".

### 2.5 Essential discretionary decisions, estimates and assumptions Estimates

When preparing the consolidated financial statements the Management Board must make estimates and assumptions in line with the generally recognized accounting principles, which influence the disclosed amounts in the consolidated financial statements and notes.

Essential assumptions and estimates are in particular carried out with the accounting and valuation of provisions. We refer in this respect to the note 15. The amounts actually produced can deviate from these estimates.

The valuation of the financial liability from the recovery right for remitted liabilities is carried out based on a Discounted-Cash-Flow-method. The ability to pay the amounts depends on certain operative conditions. The essential assumptions, on which the determination of the amount which is to be paid are based, therefore includes assumptions with regard to the development of revenue or income. We refer to note 17.

In the previous years, essential assumptions and the estimate with the valuation of the financial assets, which are available-for-sale with the valuation (non-listed shares in companies) were carried out at the fair value. This concerned the non-listed securities of GRAVIS AG.

## 2.6 Standards, interpretations and changes, which were to be applied binding for the first time in the closed fiscal year

The following Standards and interpretations were to be applied as obligatory as of 1 January 2013:

**IFRS 13 – Fair value measurement**

The new Standard determines what is to be understood under the fair value. Together with the definition of the fair value the IASB stipulates that companies have to make a host of disclosures relating to the fair values in the notes of their balance sheet. This way it should be easier for the readers of the balance sheet to understand, from which data or with which assumptions the fair value was determined.

This IFRS is expected to be applied from the start of the fiscal year, in which it will be applied for the first time. The disclosure regulations must not be applied for comparable information of the previous periods.

The Standard essentially led to new disclosure obligations.

## Change to IAS 1 – Presentation of parts of the other comprehensive income

The change to the IAS 1 led to a changed grouping of items, which are presented in the other comprehensive income. Items, which are regrouped at a later time into the period results (e.g. translation differences from the currency translation of foreign business operations and the hedging of cash flows and from the financial assets available-for-sale), are to be disclosed separately from the positions, with which no re-grouping will be carried out (e.g. actuarial profits and losses from defined benefit pension plans).

The Standard is to be applied retrospectively. The change merely relates to the presentation and does not have implications on the net assets, financial position and results of operations of the company.

## Change to IAS employee benefits

The most important change to the IAS 19 consists of the fact that fluctuations in the pension obligations expected in future as well as possible planned asset holdings, so-called actuarial profits and losses, have to be entered directly in the other comprehensive income (other comprehensive income, OCI). The previous option between immediate entry in the profit or loss, in the other comprehensive income (OCI) or the time-delayed entry according to the so-called corridor method will be abolished.

TELES voluntarily applied the changes to IAS 19 prematurely in the fiscal year 2012. With regard to the effects of these changes for the net assets, financial position and results of operations of the company reference is made to note 15. As the implications in the previous year of the first application are insignificant, the preparation of a separate balance sheet was waived.

In addition, as of 1 January 2013 the following Standards, changes to Standards and interpretations came into force, which are of no relevance for TELES AG:

- Improvements to the IFRSs 2009-2011 (affected five IFRS)
- IFRIC 20 – Accounting of clearance costs in the daily mining
- Change to IFRS 1 – First-time application of the IFRS
- Change to IAS 12 – Tax on income

## 2.7 Standards, interpretations and changes, which are to be applied binding in future periods under review (published Standards, not yet to be applied as obligatory)

**IFRS 9 – Financial instruments**

The IASB published a new IFRS on 12 November 2009 for the classification and valuation of financial instruments. The publication represents the conclusion of the first part of a three-phase project for the replacement of IAS 39 "Financial instruments: Recognition and valuation" by a new Standard. With IFRS 9 new regulations are introduced for the classification and valuation of financial assets.

The regulations currently have no fixed time of application. IFRS 9 has not yet been taken over as binding by the EU at the time when the financial statements were prepared.

No statement can be made at the current moment in time yet with regard to possible implications of the new Standards on the net assets, financial position and results of operation of the company.

**IFRS 10 – Consolidated financial statements**

IFRS 10 replaces the guidelines concerning control and consolidation contained in IAS 27 "Consolidated and individual financial statements" and SIC-12 "Consolidation of Special Purpose Entities".

IFRS 10 changes the definition of control to the extent that the same criteria are applied to all companies for the determination of a controlling relationship. This definition is supported by comprehensive application guidelines, which demonstrate the various types, how a reporting company (investor) can control another company (holding company).

The new Standard is to be applied to fiscal years, which begin on or after 1 January 2014. An earlier application is permitted under certain conditions.

The Standard is currently irrelevant for the company as all consolidated companies concern 100 % subsidiaries.

**IFRS 11 – Joint arrangements**

IFRS 11 regulates the accounting of facts, in which a company exercises the joint control over a joint venture or a joint operation. The new Standard replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers as the relevant regulations so far for questions relating to the accounting of joint ventures.

The new Standard is to be applied to fiscal years, which begin on or after 1 January 2014. An earlier application is permitted under certain conditions.

The application of IFRS 11 will not be of any essential relevance for the company.

**IFRS 12 – disclosures of interests in other entities**

According to the new Standard IFRS 12 companies must make disclosures, which enable the addresses of the financial statements, to assess the type, risks and financial implications, associated with the engagement of the company with subsidiaries, associated companies, joint arrangements and non-consolidated structured companies (special purpose entities).

The new Standard shall come into force for accounting periods, which begin on or after 1 January 2014. An earlier application is permitted without this leading to an obligatory application of IFRS 10, IFRS 11 or the changed IAS 27 and IAS 28.

As IFRS 12 exclusively relates to disclosure obligations there are no implications on the net assets, financial position and results of operations of the company.

**IAS 28 – shares in associated companies and joint ventures (revised 2011)**

By IFRS 11 "joint arrangements" the previous possibility for the ratio consolidation of joint ventures was abolished. The mandatory application of the Equity-Method on joint ventures will be carried out in future according to the regulations of the accordingly changed IAS 28, the field of application of which was now extended to the accounting of joint ventures and which was therefore renamed IAS 28 "shares in associated companies and joint ventures (revised 2011)". It is however to be taken into consideration hereby that owing to changes in connection with the classification of companies as joint ventures, not all joint ventures currently included according to the ratio consolidation will in future have to be accounted according to the Equity-Method as obligatory.

IAS 28 (revised 2011) is to be applied for the first time in the first period of a fiscal year beginning on or after 1 January 2014. An earlier application of the Standard is possible, insofar as this is stated in the notes and IFRS 10, 11, 12 and IAS 27 (revised 2011) are also to be applied prematurely.

The change to IAS 28 (revised 2011) will not be of relevance for the company.

**Change to IAS 32 and IFRS 7 - balancing of financial assets and financial liabilities**

The IASB published the regulations for the balancing of financial assets and financial liabilities on 16 December 2011.

Merely the application guidelines in IAS 32 financial instruments: Presentation was supplemented by clarifications. In addition, additional disclosure regulations in IFRS 7 financial instruments: Disclosures introduced for balanced financial instruments. The changes to IAS 32 are to be applied retrospectively for fiscal years, which begin on or after 1 January 2014. The changes to IFRS 7 are to be applied retrospectively for fiscal years, which begin on or after 1 January 2013.

The changes to IAS 32 and IFRS 7 are expected not to be of any relevance for the company.

**Change to IFRS 10, IFRS 11 und IFRS 12: Transitional regulations**

The aim of the change is a clarification of the transitional regulations in IFRS 10. The changes additionally include further facilitations with the transition to IFRS 10, IFRS 11 and IFRS 12. Thus, adjusted comparable information is merely requested for the previous comparable period. In addition, in connection with disclosures in the notes relating to non-consolidated structured entities, the obligation ceases to apply to disclose comparable information for periods, which are before the first application of IFRS 12.

The changes shall come into force for reporting years, which begin on or after 1 January 2014.

The application of these changes will not have essential implications on the consolidated financial statements.

**Change to IFRS 10, IFRS 11 and IFRS 12: Investment companies**

On 31 October 2012 the IASB published the announcement on investment companies (changes to IFRS 10, IFRS 12 and IAS 27).

With the announcement IFRS 10 consolidated financial statements, IFRS 12 disclosures for interests in other entities and IAS 27 separate financial statements are changed in order to grant newly defined investment companies an exception from the consolidation regulations with regard to certain subsidiaries. Instead these relevant subsidiaries are to be accounted affecting net income at the fair value according to IFRS 9 financial instruments or IAS 39 financial instruments: Recognition and valuation.

The changes shall come into force for reporting years which begin on or after 1 January 2014.

These changes were not yet taken over binding by the EU at the time when the financial statements were prepared.

The application of these changes will not have any essential implications on the consolidated financial statements.

# Note 3: Essential parts of the operative results

| | 01 January – 31 December | |
|---|---|---|
| (in KEUR) | **2012** | **2013** |
| **Depreciations** (included in production costs and operating expenses) | 228 | 128 |
| *thereof: scheduled depreciations on property, plant and equipment* | 222 | 124 |
| *thereof: scheduled depreciations on intangible assets* | 6 | 4 |
| **Inventories** | | |
| Acquisition and production costs of the inventories, which are entered as an | 3,824 | 2,421 |
| included therein: Reversal of write-down (py. impairments) on inventories (included in production costs) | 131 | -128 |
| **Value adjustments on trade receivables** (included in operating expenses, sales and marketing) | 85 | 255 |
| *thereof: Value adjustments* | 1,188 | 495 |
| *thereof: Reversals of write-downs* | -1,103 | -240 |
| **Personnel expenses** | | |
| (included in production costs and operating expenses) | 6,449 | 6,415 |
| *included therein: Employer's share for the statutory pension insurance* | 445 | 427 |
| *included therein: Employer's share for the contribution-oriented pension plans* | 11 | 10 |
| **Grants of the public sector (investment allowance)** | | |
| (including in the other income and research and development expenses) | 120 | 25 |

The conditions linked to the grants of the public sector were satisfied in full, there are no possible other uncertainties.

# Note 4: Property, plant and equipment

The property, plant and equipment developed as follows in the fiscal years 2012 and 2013:

| (in KEUR) | Computer hardware | Office and operating equipment | Installations in rented rooms | Other | Total |
|---|---|---|---|---|---|
| **Acquisition costs** | | | | | |
| Status 31 Dec. 2011 | 6,416 | 15 | 681 | 135 | 7,247 |
| Additions | 40 | 0 | 0 | 35 | 75 |
| Disposals | 1 | 0 | 0 | 0 | 1 |
| Currency differences | -1 | -1 | 0 | -22 | -24 |
| **31 December 2012** | **6,454** | **14** | **681** | **148** | **7,297** |
| Additions | 50 | 3 | 0 | 46 | 99 |
| Disposals | 33 | 1 | 0 | 0 | 34 |
| **31 December 2013** | **6,470** | **17** | **681** | **194** | **7,361** |
| **Abschreibungen** | | | | | |
| Status 31 Dec. 2011 | 6,199 | 0 | 628 | 43 | 6,870 |
| Additions | 118 | 5 | 52 | 47 | 222 |
| Disposals | 0 | 0 | 0 | 0 | 0 |
| **31 December 2012** | **6,317** | **5** | **680** | **90** | **7,092** |
| Additions | 70 | 2 | 1 | 51 | 124 |
| Disposals | 0 | 0 | 0 | 0 | 0 |
| **31 December 2013** | **6,387** | **7** | **681** | **141** | **7,216** |
| **Residual book values as of** | | | | | |
| 31 December 2012 | 137 | 9 | 1 | 58 | 205 |
| 31 December 2013 | 83 | 9 | 0 | 53 | 145 |

# Note 5: Intangible assets

The intangible assets developed as follows in the years 2012 and 2013:

| (in KEUR) | Software-licences | Total |
|---|---|---|
| **Acquisition costs** | | |
| Status 31 Dec. 2011 | 4,266 | 4,266 |
| Additions | 3 | 3 |
| Disposals | 0 | 0 |
| **31 December 2012** | **4,269** | **4,269** |
| Additions | 7 | 7 |
| Disposals | 7 | 7 |
| **31 December 2013** | **4,269** | **4,269** |
| **Depreciations** | | |
| Status 31 Dec. 2011 | 4,252 | 4,252 |
| Additions | 6 | 6 |
| Disposals | 0 | 0 |
| **31 December 2012** | **4,258** | **4,258** |
| Additions | 4 | 4 |
| Disposals | 0 | 0 |
| **31 December 2013** | **4,262** | **4,262** |
| **Residual book values as of** | | |
| 31 December 2012 | 11 | 11 |
| 31 December 2013 | 8 | 8 |

All intangible assets have a limited useful life.

The remaining period of depreciation for the essential part of the software licences is approx. one to five years.

# Note 6: Other financial assets

The other (long-term) financial assets are composed as follows:

| (in KEUR) | 31/12/2012 | 31/12/2013 |
|---|---|---|
| Non-listed securities: GRAVIS AG | 800 | 0 |
| | **800** | **0** |

Reference is made to note 16 for further information.

# Note 7: Inventories

The inventories are composed as follows:

| (in KEUR) | 31/12/2012 | 31/12/2013 |
|---|---|---|
| Finished products | 655 | 380 |
| Raw and auxiliary materials and operating supplies | 1,036 | 1,483 |
| | **1,691** | **1,863** |
| inventories included therein: | | |
| accounted at net realizable values | 89 | 207 |
| Range > one year | 111 | 93 |

Reversals of write-downs in the total amount of KEUR 128 were carried out in 2013 among others based on an extended analysis of range. The discount for slow moving products amounted to KEUR 131 for 2012. The risk of the future technological developments in the industry is thus taken into account.

# Note 8: Trade receivables

The trade receivables are composed as follows:

| (in KEUR) | 31/12/2012 | 31/12/2013 |
|---|---|---|
| Trade receivables | 9,446 | 3,729 |
| minus value adjustments on receivables | 6,348 | 2,148 |
| | **3,098** | **1,581** |

As of 31 December 2013 the trade receivables include a long-term share in the amount of KEUR 21 (as of 31 December 2012: KEUR 179). Reference is made to note 16 for further information.

# Note 9: Other short-term assets

The other short-term assets are composed as follows:

| (in KEUR) | 31/12/2012 | 31/12/2013 |
|---|---|---|
| Advanced payments made | 66 | 45 |
| Value added tax receivables | 94 | 101 |
| Receivables due from related persons | 306 | 37 |
| Receivables from the subsidization of investments | 50 | 0 |
| Other | 128 | 77 |
| | **644** | **260** |

# Note 10: Equity

The fully paid in share capital is composed of 23,304,676 no par individual share certificates with a calculable value of EUR 1.00 each.

A contestation action has been filed by a shareholder against the reduction in the share capital decided in the General Meeting of 5 December 2011 before Berlin Regional Court. In line with the settlement of 10 August 2012 the plaintiff withdrew the contestation action after the resolution of the General Meeting of 24 May 2013 concerning the revocation of the resolution to reduce the capital.

**Approved capital**

As of 31 December 2013 the company no longer has approved capital.

The approved capital 2008/I is based on a resolution of the General Meeting of 29 August 2008 and entitled the Management Board, with the approval of the Supervisory Board, to increase the share capital until 28 August 2013 against cash and/ or non-cash contributions one-time or several times by up to KEUR 11,652. This approval was not used until the expiry of the deadline.

**Conditional capital**

As of 31 December 2013 the conditional capital amounts to a total of KEUR 2,330, divided into 2,330,467 individual share certificates, thereof:

Conditional capital 1997/I: KEUR 1,947, divided into 1,946,591 individual share certificates
Conditional capital 2000/I: KEUR 384, divided into 383,876 individual share certificates

The conditional capital I created for the first time by the ordinary General Meeting 1997 amounted as of 31 December 2007 to KEUR 1,947 and served to satisfy the options on a total of 1,946,591 individual share certificates. On 29 August 2008 by a resolution of the General Meeting the designation of the conditional I was adjusted to the designation in the register of companies (conditional capital 1997/I). Further the purpose of the conditional capital 1997/I was extended to the extent that in addition to the satisfaction of convertible bonds and share options issued to employees owing to past resolutions of General Meetings it should also serve to securitize such share options, which are issued to employees owing to the corresponding resolution under Item of the agenda 7 of the General Meeting on 29 August 2008. The conditional capital 1997/I will only come into force with the exercising of the conversion options of issued convertible bonds or in the event of the exercising of issued share options from the employees share option programmes. In the closed fiscal year the conditional capital 1997/I was not used in the absence of share options.

The General Meeting of 11 July 2000 had further decided to create the conditional capital III of up to KEUR 1,300. This will only come into force in the event of the exercising of share options from the employees share option programmes. As of 31 December 2007 the conditional capital III amounted to KEUR 384, divided into 383,876 individual share certificates. The authorization resolution of the General Meeting of 31 August 2001 to issue share options to Management Board members and employees of the company expired on 30 August 2006. On 29 August 2008 the afore-mentioned authorization resolution was revoked by a resolution of the General Meeting as well as the resolution of the General Meeting of 28 August 2007 with regard to the part not exercised so far in the amount of KEUR 67, divided into 66,896 individual share certificates, and the purpose of the conditional capital III changed to the extent that it should also serve to securitize such share options, which are issued to employees owing to the corresponding resolution under the item on the agenda TOP 7 of the General Meeting on 29 August 2008. Moreover the designation was changed with the resolution of the General Meeting of 28 August 2009 to conditional capital 2000/I.

**Own shares**

The company does not hold own shares.

## Capital reserves

The capital reserve includes share premiums from the issue of shares minus the offsetting not affecting net income within the framework of the company acquisitions accounted previously according to US-GAAP pursuant to the pooling of interests method.

Respectively as of 31 December 2013 and 2012 the capital reserve further includes KEUR 14,981, resulting from the redemption of a loan liability owing to a waiver announced by the shareholder Sigram Schindler Beteiligungsgesellschaft mbH, minus KEUR 10,371, resulting from a recovery agreement reached with the shareholder in connection with the loan waiver. Reference is made to note 16 for further information.

In addition the capital reserve includes KEUR 1,939 (respectively as of 31 December 2013 and 2012) owing to the accounting of the employees share option programmes according to IFRS 2.

## Reserve for time evaluation

The reserve for time evaluation includes KEUR 0 (as of 31 December 2012: KEUR 788) for the change in value between addition and follow-up valuation of assets available-for-sale, reduced by the deferred taxes in this respect.

## Valuation of pension obligations

In addition, the equity is reduced by KEUR 119 (as of 31 December 2012: KEUR 74) for actuarial losses from Defined Benefit Plan obligations according to IAS 19.

# Note 11: Other long-term financial liabilities due to related companies

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

| (in KEUR) | 31/12/2012 | 31/12/2013 |
|---|---|---|
| Recovery agreement Sigram Schindler Beteiligungsgesellschaft mbH | 10,130 | 10,326 |
| Other | 327 | 362 |
| | **10,457** | **10,688** |

Reference is made to note 16 (financial instruments) and note 26 (relations to related parties) for further information.

# Note 12: Accrued income

The amounts entered under this item relate to accrued sales revenues from the provision of services.

| (in KEUR) | 2012 | 2013 |
|---|---|---|
| **Status 1 January** | **996** | **1,308** |
| Accrued in the period under review | 2,542 | 2,139 |
| Collected affecting net income in the period under review | 2,230 | 2,777 |
| **Status 31 December** | **1,308** | **670** |

# Note 13: Other financial liabilities

The other (short-term) financial liabilities are composed as follows:

| (in KEUR) | 31/12/2012 | 31/12/2013 |
|---|---|---|
| Factoring | 73 | 4 |
| | **73** | **4** |

Reference is made to note 16 (financial instruments) and note 26 (relations to related persons) for further information.

# Note 14: Other short-term liabilities

The other short-term liabilities are composed as follows:

| (in KEUR) | 31/12/2012 | 31/12/2013 |
|---|---|---|
| Liabilities due to related persons | 94 | 184 |
| Value added tax liabilities | 106 | 75 |
| Other | 1,214 | 902 |
| | **1,414** | **1,161** |

Reference is made to note 26 with regard to the relations to related parties.

The position "other" includes various key date-related liabilities, among others from the sectors of personnel and rent as well as preparation and audit of annual financial statements.

# Note 15: Provisions

The company accounts the following provisions:

| (in KEUR) | 31/12/2012 | 31/12/2013 |
|---|---|---|
| **Long-term provisions** | | |
| Employee benefits according to IAS 19 | 361 | 451 |
| | **361** | **451** |
| **Short-term provisions** | | |
| Provisions for tax on income | 133 | 0 |
| Other provisions | 2,513 | 448 |
| | **2,646** | **448** |

The provisions are composed as follows:

| (in KEUR) | 31 December | | | | |
|---|---|---|---|---|---|
| | **2012** | **Consump-tion** | **Writing back** | **Transfer** | **2013** |
| **Long-term provisions** | | | | | |
| Employee benefits | 361 | 0 | 0 | 90 | 451 |
| | **361** | **0** | **0** | **90** | **451** |
| **Short-term provisions** | | | | | |
| Provisions for tax on income | 133 | 4 | 129 | 0 | 0 |
| | 133 | 4 | 129 | 0 | 0 |
| Provision | | | | | |
| Sale of company | 725 | 206 | 519 | 0 | 0 |
| External tax audit | 1,000 | 486 | 444 | 0 | 70 |
| Procedural risks | 666 | 0 | 353 | 0 | 313 |
| Warranty | 25 | 18 | 7 | 20 | 20 |
| Other | 97 | 80 | 7 | 35 | 45 |
| Total | 2,513 | 790 | 1,330 | 55 | 448 |
| | **2.646** | | | | **448** |

Writing back of provisions are entered with KEUR 648 in the end for discontinued operations (reference is made to note 20 for further information), the other comprehensive income are part of the operative results (reference is made to note 15.2 for further information).

The asset outflow is essentially expected – with the exception of the amount presented as long-term above – within the next fiscal year.

### 15.1 Long-term provisions – employee benefits

The accounted long-term provisions for "employee benefits" concerns Defined Benefit obligations according to IAS 19.

#### i. Clearance claims

Owing to the statutory provisions in Austria employees of one of the TELES-subsidiaries are entitled to so-called clearance payments. Clearance payments will be due if an employee leaves the company for certain defined reasons. The amount of the statutory clearance claims depends on the period of service worked until they leave; for employees, who joined the company from 1 January 2003, the clearance obligation ceases to apply.

#### ii. Anniversary money payment

In addition, TELES is obliged owing to a company agreement to make certain payments for employees of one it subsidiaries in case of an anniversary (duration of the employment relationship).

The parts of the expenses for pension benefits entered in the profit and loss statement as well as the amount recognized in the balance sheet for the respective plans are presented in the following tables:

| (in KEUR) | Cash value of the | | |
|---|---|---|---|
| **2012** | **Clearance claims** | **Anniversary obligation** | **Total** |
| | | | |
| **1 January** | **188** | **58** | **246** |
| **Expenses in the period under review** | | | |
| Regular expenses for period of service | 14 | 4 | 18 |
| Interest expenses | 10 | 3 | 13 |
| Actuarial loss | 0 | 14 | 14 |
| Subtotal included in the costs | 24 | 21 | 45 |
| | | | |
| **Paid benefits** | **0** | **4** | **4** |
| **Other comprehensive income** | | | |
| Actuarial loss | 74 | 0 | 74 |
| **Total 31 December** | **286** | **75** | **361** |

| (in KEUR) | Cash value of the | | |
|---|---|---|---|
| **2013** | **Clearance claims** | **Anniversary obligation** | **Total** |
| | | | |
| **1 January** | **286** | **75** | **361** |
| **Expenses in the period under review** | | | |
| Regular expenses for period of service | 20 | 5 | 25 |
| Interest expenses | 10 | 3 | 13 |
| Actuarial loss | 0 | 7 | 7 |
| Subtotal included in the costs | 30 | 15 | 45 |
| **Paid benefits** | **0** | **0** | **0** |
| **Other comprehensive income** | | | |
| Actuarial loss | 45 | 0 | 45 |
| **Total 31 December** | **361** | **90** | **451** |

The actuarial loss results in full from changes to the financial assumptions.

The Projected Unit Credit method was applied to the determination of the scope of the obligations. Increases in salaries expected in future, which influence the amount of the clearance claim, were taken into consideration. The following assumptions were used as a basis for determining the Defined Benefit Obligation:

| | 2012<br>(in %) | 2013<br>(in %) |
|---|---|---|
| **Discounting rate (actuarial interest rate):** | | |
| Clearance claims | 3.50 | 3.50 |
| Anniversary obligations | 3.50 | 3.50 |
| **Salary trend:** | | |
| Clearance claims | 2.50 | 3.00 |
| Anniversary obligations | 2.50 | 3.00 |

| | 2012<br>(in years) | 2013<br>(in years) |
|---|---|---|
| **Calculated end age (normal retirement age):** | | |
| **Clearance claims** | | |
| Men | 65 | 65 |
| Women | 60 - 65 | 60 – 65 |
| **Anniversary obligations** | | |
| Men | 65 | 65 |
| Women | 60 - 65 | 60 - 65 |
| **Start of financing:** | | |
| Clearance claims | Date of entry | Date of entry |
| Anniversary obligations | Date of entry | Date of entry |
| **End of financing:** | | |
| Clearance claims | Respective time of payment | Respective time of payment |
| Anniversary obligations | Respective time of payment | Respective time of payment |
| **Fluctuation** | | |
| Clearance claims | None | None |
| Anniversary obligations | None | None |

The calculation basis for determining the clearance claims and the anniversary obligation is the AVÖ 2008-P (actuary association Austria), computation bases for the pension insurance, Pagler & Pagler, employee – generations table.

A quantitative sensitivity analysis for the essential assumptions as of 31 December 2013 was conducted as follows:

| **Interest sensitivity** | **Actual assumption** | **Variation 1** | **Variation 2** |
|---|---|---|---|
| 1. Interest rate | 3.50% | 4.00% | 3.00% |
| 2. Salary trend | 3.00% | 3.00% | 3.00% |
| 3. Inflation | 2.00% | 2.00% | 2.00% |
| **Obligation as of 31.12.2013** | **451** | **377** | **543** |
| Clearance | 361 | 299 | 438 |
| Percentage effect | | -17.14% | 21.53% |
| Anniversary | 90 | 78 | 105 |
| Percentage effect | | -13.41% | 16.34% |
| **Expenses for period of service** | **30** | **24** | **36** |
| Clearance | 24 | 19 | 29 |
| Percentage effect | | -18.12% | 22.97% |
| Anniversary | 6 | 5 | 7 |
| Percentage effect | | -14.49% | 17.85% |
| **Aufwand in der GuV 2014** | **45** | **39** | **52** |
| Clearance | 36 | 31 | 42 |
| Percentage effect | | -13.70% | 16.47% |
| Anniversary | 9 | 8 | 10 |
| Percentage effect | | -9.97% | 11.75% |

| Sensitivity with regard to salary trend | Actual assumption | Variation 1 | Variation 2 |
|---|---|---|---|
| 1. Interest rate | 3.50% | 3.50% | 3.50% |
| 2. Salary trend | 3.00% | 3.50% | 2.50% |
| 3. Inflation | 2.00% | 2.00% | 2.00% |
| **Obligation as of 31.12.2013** | **451** | **494** | **412** |
| Clearance | 361 | 397 | 328 |
| Percentage effect | | 10.04% | -9.04% |
| Anniversary | 90 | 97 | 84 |
| Percentage effect | | 7.75% | -7.09% |
| **Expenses for period of service** | **30** | **33** | **27** |
| Clearance | 24 | 26 | 21 |
| Percentage effect | | 10.96% | -9.81% |
| Anniversary | 6 | 7 | 6 |
| Percentage effect | | 8.71% | -7.90% |
| **Expenses in the profit and loss statement 2014** | **45** | **50** | **42** |
| Clearance | 36 | 40 | 33 |
| Percentage effect | | 10.65% | -9.55% |
| Anniversary | 9 | 10 | 9 |
| Percentage effect | | 8.38% | -7.63% |

The afore-mentioned sensitivity analysis, based on a method, which calculates the extrapolated implications on the Defined Benefit obligations, was entered as a result of reasonable changes to the assumptions made at the end of the period under review.

The following are the expected payments relating to the Defined Benefit obligations in the next few years:

| (in KEUR) | 2013 |
|---|---|
| within the next 12 months (next period under review) | 1 |
| Between 2 and 5 years | 20 |
| Between 5 and 10 years | 74 |
| **Total expected payments** | **95** |

### 15.2 Short-term provisions

External tax audit

The provision formed in the previous year for the external tax audit essentially related to risks for value added tax from external tax audits which have not yet been concluded for the periods 2004 to 2012 and was therefore encumbered by substantial uncertainties. The external tax audits were completed in 2013. A part of the risks estimated by TELES and the tax adviser were not realized, which is why provisions were written back with KEUR 444 in the operative results.

Procedural risks

Owing to the existing agreement with the majority shareholder SSBG with regard to the take-over of the costs in connection with the IntraStar patent lawsuits, provisions could be written back for procedural risks in the amount of KEUR 353 in the operative results. The assessment of the procedural risks is based on the estimates in this respect of the lawyers representing the company. For the essential lawsuits reference is made to note 25.

Warranty

The company principally agrees upon a warranty obligation of twelve months with its commercial customers with the sale of telecommunication products, in individual cases the statutory warranty period of two years will apply. Estimated future warranty obligations for certain products will be deferred at the time, at which the sales revenues are disclosed. These provisions are based on historical experiences and the estimate of future claims.

# Note 16: Financial instruments

## 1. Significance of financial instruments

The company has financial instruments of the following categories:

| (in KEUR) | 31/12/2012 | 31/12/2013 |
|---|---|---|
| | | |
| **Financial assets** | | |
| **Loans and receivables** | **3,666** | **1,581** |
| Other financial assets (long-term) | 568 | 0 |
| Trade receivables | 3,098 | 1,581 |
| | | |
| **Financial assets available-for-sale** | **800** | **0** |
| Other financial assets (long-term) | 800 | 0 |
| | | |
| | **4,466** | **1,581** |
| | | |
| **Financial liabilities** | | |
| **Financial liabilities, which are valuated at updated acquisition costs** | **12,303** | **12,065** |
| Other financial liabilities (long-term) | 10,457 | 10,688 |
| Trade liabilities | 1,773 | 1,373 |
| Other financial liabilities (short-term) | 73 | 4 |
| | | |
| | **12,303** | **12,065** |

The company does not have financial instruments of other categories.

### ***Loans and Receivables***

| (in KEUR) | 31/12/2012 | 31/12/2013 |
|---|---|---|
| Recovery right for remitted liabilities | 568 | 0 |
| Trade receivables | 3,098 | 1,581 |
| | 3,666 | 1,581 |

| (in KEUR) | 01 January – 31 December | |
|---|---|---|
| | **2012** | **2013** |
| **Recovery right for remitted liabilities** | | |
| Financial income | | |
| Recovery right for remitted liabilities | 568 | 0 |
| | 568 | 0 |
| Financial income; interest | | |
| Recovery right for remitted liabilities | 8 | 0 |
| | 8 | 0 |
| **Trade receivables** | | |
| Operating expenses; sales and marketing | | |
| Value adjustments | 1,188 | 495 |
| Reversals of write-downs | -1,103 | -240 |
| Trade receivables; operating expenses | 85 | 255 |

## Recovery right for remitted liabilities

In connection with the minority participation in GRAVIS AG, TELES has agreed a recovery right for remitted liabilities (see in this respect also note 2). The receivables resulting from the recovery right were settled in full in the closed fiscal year.

## Trade receivables

The trade receivables which were accounted as of 31 December 2013 almost exclusively concern those from the corporate customer business (contracts are as a rule concluded with small- and medium-sized enterprises). These receivables are principally valuated individually. The first indication for the existence of impairment is initially the factual element of the non-fulfilment of the contractually agreed terms of payment. If there is default of payment the reasons will be evaluated in a further step and an estimate made with regard to the ability to remedy these. Based upon this the trade receivables will be value adjusted individually.

The value adjustment account for trade receivables developed as follows:

| | 31 December | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2012** | Consumption | Written back | Transfer | Currency differences | Reclassification | **2013** |
| Value adjustments on trade receivables | 6,348 | -4,590 | -240 | 495 | 4 | 131 | 2,148 |

With regard to the creditworthiness of trade receivables, which are neither in default, nor impaired, reference is made to the statements further below relating to the credit risk.

The trade receivables accounted as of the balance sheet key date include those, with which there is a default of payment, which however are not seen as impaired:

| (in KEUR) | | Default of payment | | | | |
|---|---|---|---|---|---|---|
| | **Neither default of payment, nor impaired** | **<= 3 months** | **> 3 and <= 6 months** | **> 6 months and <= 1 year** | **> 1 year** | **Total** |
| 31. December 2012 | 2,057 | 835 | 66 | -3 | 143 | 3,098 |
| 31. December 2013 | 1,042 | 496 | 31 | 12 | 0 | 1,581 |

The fair value of the trade receivables corresponds with their book value. Reference is made to note 8 for further information.

### *Financial assets available for sale*

| (in KEUR) | 31/12/2012 | 31/12/2013 |
|---|---|---|
| Non-listed securities: GRAVIS AG | 800 | 0 |
| | 800 | 0 |

| (in KEUR) | 31/12/2012 | 31/12/2013 |
|---|---|---|
| **Non-listet securities: GRAVIS AG** | | |
| **1 January** | **600** | **800** |
| Valuation (equity; time evaluation) | 200 | 281 |
| Disposal | 0 | -1,081 |
| **31 December** | **800** | **0** |
| **Valuation at fair value; recorded directly to equity** | | |
| Non-listet securities: GRAVIS AG | 800 | 0 |
| | **800** | 0 |
| Less: taxes | -12 | 0 |
| Fair value, net of tax | **788** | 0 |

The financial assets available-for-sale were valuated as of the previous balance sheet key date at the fair value. In the closed fiscal year TELES AG sold its shares in GRAVIS Beteiligungs AG to GRAVIS Beteiligungs AG for the purpose of collection. It concerns 222,222 individual share certificates denominated in the holder's name with a nominal amount of EUR 1.00 per share. The purchase price amounted to KEUR 1,081.

The afore-mentioned financial instruments are neither financial assets valuated at the fair value affecting net income, nor financial assets held-for-trading or until the end maturity or loans and receivables within the meaning of IAS 39. Accordingly they were classified as financial assets available-for-sale.

***Financial liabilities, which are valuated at updated acquisition costs***

| (in KEUR) | 31/12/2012 | 31/12/2013 |
|---|---|---|
| Recovery agreement Sigram Schindler Beteiligungsgesellschaft mbH; long-term | 10,130 | 10,325 |
| Trade liabilities | 1,773 | 1,373 |
| Factoring | 73 | 4 |
| Other | 327 | 363 |
| | 12,303 | 12,065 |

| (in KEUR) | 01 January – 31 December | |
|---|---|---|
| | **2012** | **2013** |
| **Financial expenses; interest** | | |
| Factoring | 6 | 4 |
| Other | 31 | 36 |
| | 37 | 40 |

In previous fiscal years Sigram Schindler Beteiligungsgesellschaft mbH waived the loans, which were granted to the company. As of 31 December 2013 the company accounted a financial liability, which results from the in connection with the waivers of loans in the fiscal years 2009, 2010 and most recently from recovery agreements reached in 2011. The revival of the liability is essentially linked with a positives result (EBITDA) as well as the availability of a defined “free cash flow”. The first valuation of the liability was carried out at the fair value. The fair value was – in the absence of market-related values – determined by means of a Discounted-Cash-Flow-method. The updating is carried out at updated acquisition costs.

The cash inflow can be seen in the consolidated cash flow statement in the position “loans from related parties”.

**Factoring**

The company concluded a contract with Sigram Schindler Beteiligungsgesellschaft mbH (Factor) according to which TELES can offer the factor contractually defined trade receivables for purchase. The purchase price which is to be paid by the factor to

TELES is calculated from the nominal value of the purchased receivable of TELES towards its customers minus the factoring charge in the amount of 1 % of the nominal value of the receivable.

### Trade liabilities

The liabilities entered as of balance sheet key date are mainly due and payable within one month.

***Interest income and expenses for financial assets and liabilities, which are not valuated at the fair value affecting net income***

| (in KEUR) | 1 January - 31 December | |
|---|---|---|
| | **2012** | **2013** |
| **Interest income** | | |
| Cash and cash equivalents | 45 | 0 |
| Recovery right for remitted liabilities; interest | 8 | 0 |
| | **53** | **0** |
| **Interest expenses** | | |
| Cash credit line drawn during the year | 1 | 0 |
| Loan Sigram Schindler Beteiligungsgesellschaft mbH | 31 | 36 |
| Factoring Sigram Schindler Beteiligungsgesellschaft mbH | 6 | 4 |
| | **38** | **40** |

Expenses from charges are incurred in connection with the processing of bank transactions (KEUR 23; in the previous year KEUR 31).

### 2. Risks from financial instruments

TELES uses a host of coordinated risk management and control systems; these serve among others to identify, measure and control risks from financial instruments. Risk positions can essentially arise in the form of credit and liquidity risk as well as market risks.

***Credit risk***

The non-payment risks of the company are limited to a customary business risk, which is taken into account by the formation of value adjustments. Their creditworthiness is principally examined with new customers and regularly with existing customers based on customary market information. In addition, – as far as possible and required – work is carried out with down payments. Further in the overseas business – in particular in the non-European business – customary market payment letters of credit or payment guarantees are agreed. In individual cases – such as for example described below in connection with the sales partner – more detailed evaluations of the financial circumstances are carried out.

In the fiscal year 2013 TELES generated with the largest individual customers a revenue share of less than 10 %, with the next two biggest customers a total of approx. 13 % of the revenues were realized. A long-term business relationship exists with the largest individual customer. The further revenues or the thus resulting trade receivables are broadly diversified. In individual cases and insofar as this was required to enter into such Risk-Exposures/Obligations with a view to the amount as well as the terms of payment and their permanent valuation TELES carried out more detailed evaluations of the financial circumstances based on actual figures as well as further information of the customers.

The maximum non-payment risk is derived from the book values of the receivables.

The liquid funds are essentially invested at two well-known financial institutions. A non-payment loss does not exist in this case.

***Liquidity risk***

Group-wide financial control instruments are used for monitoring and controlling, above all weekly liquidity reports.

***Market risks***

1. Foreign currency risks

Fluctuations in exchange rates can lead to unwanted and unforeseeable results and cash flow volatilities. The risk is reduced by the fact that business transactions are settled in the functional currency as far as possible. Future changes in exchange rates can have implications on prices for products and services and lead to changes in the profit margins. TELES currently accounts foreign currency receivables in the amount of KUSD 358 and –liabilities in the amount of KUSD 169. If the exchange rate, which was used as a basis as of the key date, changes by 10 % upwards (downwards) this will have an implication for reduction (increase) on the balance sheet value of the receivables with KEUR 24 (KEUR 29).

2. Interest change risk

The interest change risk of TELES exclusively results from interest-bearing investments. The focus of the TELES investment strategy is essentially placed on liquidity aspects, i.e. the repayment ability of these investments.

3. Price risk

TELES currently does not account any listed share investments, insofar the company is not exposed to any price risk.

# Note 17: Composition of the sales revenues and production costs

| (in KEUR) | 01. January – 31. December | |
|---|---|---|
| | **2012** | **2013** |
| **Sales revenues** | **12,366** | **10,701** |
| Products | 8,927 | 7,520 |
| Services | 3,439 | 3,181 |
| **Production costs** | **5,991** | **4,552** |
| Products | 4,395 | 2,975 |
| Services | 1,596 | 1,577 |

# Note 18: Other income and expenses

The other income essentially includes income for the fiscal year 2013 from the writing back of provisions (KEUR 788) as well as from depreciated receivables (KEUR 143) and currency translation gains in the amount of KEUR 338 (previous year: KEUR 80).

The other expenses essentially include for the fiscal year 2013 expenses from the value adjustment of other assets of a subsidiary (KEUR 99; previous year: KEUR 0) as well as currency translation losses in the amount of KEUR 77 (previous year: KEUR 29).

# Note 19: Financial results and other participation results

The following table shows the composition of the financial income and expenses as well as the other participation results:

| (in KEUR) | 01 January - 31 December | |
|---|---|---|
| | **2012** | **2013** |
| **Financial income** | | |
| Dividend GRAVIS AG | 0 | 340 |
| Interest | 57 | 19 |
| Recovery right for remitted liabilities | 568 | 0 |
| Total | **625** | **359** |
| **Financial expenses** | | |
| Interest loan Sigram Schindler Beteiligungsgesellschaft mbH | 31 | 36 |
| Interest factoring Sigram Schindler Beteiligungsgesellschaft mbH | 6 | 4 |
| Interest follow-up valuation recovery agreement | 198 | 195 |
| Sigram Schindler Beteiligungsgesellschaft mbH | | |
| Shares in investment funds | 6 | 0 |
| Other | 2 | 0 |
| Total | **243** | **235** |
| **Other participation results** | | |
| Sale of shares in GRAVIS AG | 0 | 1,081 |
| Total | **0** | **1,081** |

# Note 20: Discontinued operations

The action filed against freenet AG at the end of 2012 for payment of a residual amount of the purchase price for the assignment carried out in 2005 of STRATO AG to freenet AG was ended by an out-of-court settlement in the middle of 2013. This settlement comprises both the claims which were the object of the action of TELES AG against freenet AG, as well as a counter-claim of freenet AG against TELES AG for reimbursement of tax liabilities from the same assignment process. With the fulfilment of the settlement – payment of the settlement total amount of around KEUR 200 by TELES AG to freenet AG – all reciprocal claims resulting from the contribution contract have been settled and the process has been wound up in full.

The results from discontinued operations are presented as follows:

| (in KEUR, except share-related information) | **01 January – 31 December** | |
|---|---|---|
| | **2012** | **2013** |
| Results from the discontinuation of operations, before tax | 0 | 519 |
| Income tax income | 0 | 129 |
| **Results from the discontinuation of operations, after tax** | **0** | **648** |
| Weighted average number of shares for calculating the profit (loss) per share | | |
| Undiluted | 23,304,676 | 23,304,676 |
| Diluted | 23,304,676 | 23,304,676 |
| Results from discontinued operations per share: | | |
| Undiluted | 0,00 | 0,03 |
| Diluted | 0,00 | 0,03 |

The results from discontinued operations relates to the writing back of the provisions from the sale of the company as well as the dissolution of provisions for tax on income from the settlement with freenet AG.

A cash outflow resulted from this residual processing of the original transaction in the amount of KEUR 207.

# Note 21: Tax on income

The results before tax on income are divided as follows:

| (in KEUR) | 01 January – 31 December | |
|---|---|---|
| | **2012** | **2013** |
| Germany | -2,860 | 820 |
| Overseas | -61 | -232 |
| **Results before tax on income** | **-2,921** | **588** |

The expenses and income from tax on income include:

| (in KEUR) | 01 January - 31 December | |
|---|---|---|
| | **2012** | **2013** |
| **Regular taxes** | | |
| Germany | 14 | -879 |
| Overseas | 0 | 1 |
| **Total:** | **14** | **-878** |
| **Latente Steuern** | | |
| Germany | -3 | 12 |
| Overseas | 0 | 0 |
| **Total:** | **-3** | **12** |
| | | |
| **Income tax expense (income):** | **11** | **-865** |

The total tax burden of TELES since the corporate tax reform 2008 came into force amounts to approx. 30.2 % (corporate income tax including solidarity surcharge of 15.8 %; trade tax 14.4 %).

The following table shows the essential differences between the effective tax expenses of the group and the expenses according to German fiscal law with an effective tax rate of approx. 30.2 %:

| (in KEUR) | 01 January – 31 December | |
|---|---|---|
| | **2012** | **2013** |
| Results before tax on income | -2,921 | 588 |
| Expenses / or income tax income with statutory tax rate | -882 | 177 |
| Differences in tax rates | -12 | -28 |
| Difference owing to items which are not to be taxed | -36 | 0 |
| Difference owing to non-deductible items | 11 | 11 |
| Omitted recognition of deferred tax assets | 861 | 361 |
| Waiver of receivable | 60 | 59 |
| Tax items not relating to the period | 11 | -890 |
| Effects from shareholdings or sales | 0 | -556 |
| Other items, net | -2 | 1 |
| **Effective income tax expense/ income** | **11** | **-865** |

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

| (in KEUR) | 31/12/2012 | 31/12/2013 |
|---|---|---|
| **Deferred tax assets:** | | |
| Assets available-for-sale | 14 | 0 |
| Losses carried forward | 3,604 | 9 |
| Devaluations | -603 | 0 |
| Total deferred tax assets | 3,015 | 9 |
| Offsetting against deferred tax liabilities | -3,015 | -9 |
| Disclosure on the balance sheet | 0 | 0 |
| **Deferred tax liabilities:** | | |
| Group-internal transactions | 3,001 | 0 |
| Assets available-for-sale | 12 | 0 |
| Other | 2 | 9 |
| Total deferred tax liabilities | 3,015 | 9 |
| Offsetting against deferred tax assets | -3,015 | -9 |
| Disclosure on the balance sheet | 0 | 0 |
| **Deferred taxes, net** | **0** | **0** |

Losses carried forward of active companies, for which an accounting of the deferred tax claim, was omitted, relate with KEUR 70,561 to corporate income tax and with KEUR 76,636 to trade tax in Germany as well as with KEUR 7,947 to corporate taxes overseas, as these cannot be realized.

In addition, the account of a deferred tax claim on losses carried forward was omitted with non-active companies in the amount of approx. EUR 20 million, as these are also considered to not be capable of realization.

# Note 22: Employees share option programmes

TELES AG carried out employees share option programmes in the years 1998 and 1999 as well as 2001, 2002, 2004 and 2005, in which the company surrenders equity instruments. The consideration, if these are exercised, is also equity instruments. It is envisaged in all programmes that the exercising of equity instruments may only be carried out with the achievement of certain targets for performance: The average price development of a share of the company in the reference period must exceed the average development of the reference index in the same period of time by at least ten percentage points per annum (performance hurdle).

The option programmes in 1998, 1999, 2001 and 2002 envisaged that 70 % of the promised options can be exercised in any case. The remaining 30 % can only be exercised insofar as the employees do not sell any subscribed shares until the last year of the term (“bonus share”). The programmes in 2004 and 2005 do not envisage any bonus regulation.

The subscription rights can be exercised for the last time eight to ten years after their issue. The option programmes 1998, 1999, 2001 and 2002 have expired.

Owing to the capital reduction passed at the extraordinary General Meeting in 2004, with the share options granted up to and including 2004 within the framework of the employees' share option programmes the calculable nominal value is reduced from EUR 2.00 to EUR 1.00.

The individual parts of the still active programmes are described below:

**Employees share option programme 2004**

On 17 August 2004 581,572 options were issued to employees by the company within the framework of the authorization of the General Meeting which was granted on 31 August 2001 and 22 August 2003. The conditional capital I as well as a residual amount of the conditional capital III remaining according to the past ESOP editions served to satisfy the issued options according to the amending resolution passed in the General Meeting 2004. A part of the options were granted to so-called "recurring parties" within the framework of an "exchange programme" after these had waived older exchange rights from convertible bonds.

Each option grants the right to subscribe to an individual share certificate with a calculable nominal value of EUR 1.00 per share at a subscription price in the amount of EUR 6.19 per share. The options can be exercised in instalments; the exercising can begin no earlier than two years after the issue and be completed after six years.

The latest possible time to exercise the options was the 16 August 2010 for the exchange programme respectively is the 16 August 2014 for all other issued options.

The pre-requisite for the exercising of the options of the programmes is that the average price development of a share of the company in a reference period exceeds the average development of the reference index in the same period of time by at least ten percentage points per annum (performance hurdle). The reference period will begin on the day after the conclusion of the option agreement and last until the day on which the party entitled to participation declares the exercising of the option. The average price development is calculated from the arithmetic means of the official closing prices determined in the Xetra-trade for a share of the last ten trading days before issue of the options and the last ten trading days before the day on which the party entitled to participation declares that the exercising of the option. The average development of the reference index is calculated accordingly. The reference index is either the TECDAX (respectively the NEMAX 50) or the DAX, depending on which index develops better in the reference period. If the performance target has been reached one time for a non-lapsable option it remains capable of being exercised, even if at the time when it is exercised the respective performance target is no longer reached.

The option conditions include a limitation to exercising in connection with the occurrence of extraordinary, non-foreseeable developments.

**Employees share option programme 2005**

On 22 November 2005 295,290 options were issued to employees by the company within the framework of the authorization of the General Meeting granted on 2 April 2004. The conditional capital I serve to fulfil the issued options according to the resolutions passed in the afore-mentioned General Meeting.

Each option grants the right to subscribe to an individual share certificate with a calculable nominal value of EUR 1.00 per share at a subscription price in the amount of EUR 6.98 per share. The options can be exercised in instalments; the exercising can begin no earlier than two years after the issue and be completed after six years.

The latest possible time to exercise the options is the 21 November 2015.

The performance targets or the conditions in this respect correspond with those of the 2004 programme.

The option conditions include a limitation to exercising in connection with the occurrence of extraordinary, non-foreseeable developments.

**Development of the stocks of the share options from employees share option programmes**

The stock of the share options issued within the framework of the employees share option programmes developed as follows:

| | Employees share option programme | | | |
|---|---|---|---|---|
| Share options | **2002** | **2004** | **2005** | **Total** |
| **In circulation as of 31 December 2011** | **221,371** | **371,969** | **137,361** | **730,701** |
| Issued | 0 | 0 | 0 | 0 |
| Exercised | 0 | 0 | 0 | 0 |
| Lapsed | 0 | 0 | 0 | 0 |
| End of the term of the programme | -221,371 | 0 | 0 | -221,371 |
| **In circulation as of 31 December 2012** | **0** | **371,969** | **137,361** | **509,330** |
| Issued | 0 | 0 | 0 | 0 |
| Exercised | 0 | 0 | 0 | 0 |
| Lapsed | 0 | 0 | 0 | 0 |
| End of the term of the programme | 0 | 0 | 0 | 0 |
| **In circulation as of 31 December 2013** | **0** | **371,969** | **137,361** | **509,330** |
| | | | | |
| **Non-lapsable rights as of 31 December 2013** | **0** | **371,969** | **137,361** | **509,330** |

<u>Employees share option programme 2002</u>
The employees share option programme incepted in 2002 expired on 16 December 2012.

<u>Employees share option programme 2004</u>
The employees share option programme incepted in 2004 expired on 16 August 2010 is composed of two partial programmes; the partial programme 1.

The share options outstanding as of 31 December 2013 have a weighted average remaining contractual term of one year.

# Note 23: Results per share

The following table shows the calculation of the undiluted and diluted results per ordinary share, which relates to the shareholders of the parent company:

| (in KEUR, except share-related information) | 01 January - 31 December | |
|---|---|---|
| | **2012** | **2013** |
| Annual results, relating to shareholders of the parent company | -2,932 | 1,453 |
| Weighted average number of shares for calculating the results per share | | |
| Undiluted | 23,304,676 | 23,304,676 |
| Diluted | 23,304,676 | 23,304,676 |
| Results per share | | |
| Undiluted | -0.13 | 0.06 |
| Diluted | -0.13 | 0.06 |

# Note 24: Restrictions to availability, other financial obligations and contingent liabilities

### Restrictions to availability

In the amount of KEUR 147 (previous year: KEUR 145) liquid funds of the company are subject to a restriction on availability as of the balance sheet key date (rental deposit).

### Rental and leasing obligations

The company rents buildings, vehicles, storage rooms and certain office equipment within the framework of non-terminable leasing agreements without a purchase option. The leasing agreements for offices are limited to no longer than 31 January

2017 and partly include extension options. The costs for rental agreements (Operating Lease) amounted to KEUR 528 or KEUR 492 for the fiscal years ending on 31 December 2013 or 2012.

Future minimum payments within the framework of the non-terminable rental agreements with initial terms of one year or longer amount to:

| (in KEUR) | 31/12/2012 | 31/12/2013 |
|---|---|---|
| Up to one year | 583 | 749 |
| Between one and five years | 472 | 1,044 |
| **Total** | **1,055** | **1,793** |

***Financial obligations from other contracts***

Future minimum payments owing to legally valid agreements amount to:

| (in KEUR) | 31/12/2012 | 31/12/2013 |
|---|---|---|
| Other services | 362 | 304 |
| Maintenance | 20 | 6 |
| **Total** | **382** | **310** |

## Contingent liabilities

Already paid out as well as all already agreed as per contract – not yet paid out – loans with the majority shareholder are secured with a global assignment on trade receivables.

# Note 25: Lawsuits

The company participates in court proceedings and lawsuits occur in the customary business transactions. The company principally forms provisions for corresponding cases if the assertion of a claim is likely and an amount can be estimated.

The status of "skyDSL patent infringement proceedings" (against Deutsche Telekom AG and SES ASTRAnet S.A.) is unchanged, insofar reference is made to the consolidated notes 2009. With regard to the utility model deletion action it was determined in the last instance in November 2011 that the utility model did not have any effect from the start. 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 Federal Patent Court in May 2013. TELES AG filed an appeal against the judgement in September 2013 at the Federal Court of Justice. A summons to the hearing is not expected until in 2015.

The action filed against freenet AG at the end of 2012 for payment of a residual amount of the purchase price for the assignment carried out in 2005 of STRATO AG to freenet AG was ended by an out-of-court settlement in the middle of 2013. This settlement comprises both the claim of TELES AG against freenet AG, which were the object of the action as well as a counter-claim of freenet AG against TELES AG for reimbursement of tax liabilities from the same transmission process. With the fulfilment of the settlement – payment of the settlement total amount of around EUR 200,000 by TELES AG to freenet AG – all reciprocal claims resulting from the contribution contract have been settled and the proceedings wound up in full.

The comment of the status of the patent lawsuits disclosed in the previous years is waived from 2009 – as stated in the consolidated financial statements 2008 already – the majority shareholder (SSBG = Sigram Schindler Beteiligungsgesellschaft mbH) effective as of 1 January 2009 took over all costs in connection with the patent lawsuits; SSBG and TELES will participate in the results of the IntraStar patent disputes.

# Note 26: Relations to related parties

The following essential business transactions took place between the group and related parties:

***Controlling company, company under joint control***

**Loan Sigram Schindler Beteiligungsgesellschaft mbH**

Sigram Schindler Beteiligungsgesellschaft mbH waived loans, which were granted to the company, in previous fiscal years. As of 31 December 2013 the company accounts a financial liability, which results from the recovery agreements reached in connection with the loan waivers in the fiscal years 2009, 2010 and 2011. The first valuation of the liability was carried out at the fair value. The fair value was – in the absence of market-related values – determined by means of a Discounted-Cash-Flow-method. The updating is carried out at updated acquisition costs. Reference is made to note 16 for further information.

The revival of the liability is essentially linked to a positive result (EBITDA) as well as the availability of a defined “free cash flow”. With the revival of the recover agreement the amounts deferred so far bear interest at a rate of 12 %.

**Factoring**

The company concluded a contract with Sigram Schindler Beteiligungsgesellschaft mbH (Factor) according to which TELES can offer the factor contractually defined trade receivables for purchase. The purchase price which is to be paid by the factor to TELES is calculated from the net value of the purchased receivable of TELES towards its customers minus the factoring charge in the amount of 1 % of the nominal value of the receivable. The company accounts a liability as of the balance sheet key date in the amount of KEUR 4 (previous year: KEUR 73); in the fiscal year the company incurred financial expenses in the amount of KEUR 4 (previous year: KEUR 6).

For further information reference is made to note 13 (other financial liabilities) and to note 16 (financial instruments).

**Patent take-over contract**

Sigram Schindler Beteiligungsgesellschaft mbH was sold contractually defined patents, at the same time effective as of 1 January 2009 it took over all costs in connection with the patent disputes; SSBG and TELES will participate in the results of the patent disputes concerned.

**Agency agreement**

Within the framework of an agency agreement concluded with Sigram Schindler Beteiligungsgesellschaft mbH, TELES AG provides various services for Sigram Schindler Beteiligungsgesellschaft mbH, for companies affiliated with it as well as for Sigram Schindler Stiftung.

As of the balance sheet key date the company accounts receivables in the amount of KEUR 32 (previous year: KEUR 306) against Sigram Schindler Beteiligungsgesellschaft mbH and companies affiliated with it; the receivable were settled in the fiscal year 2014. Reference is made to note 9 for further information.

***Management Board, Supervisory Board***

**Expenses from the procurement of services:**

| (in KEUR) | 01 January - 31 December | |
|---|---|---|
| | **2012** | **2013** |
| Mock-Rechtsanwälte | 27 | 0 |
| **Total** | **27** | **0** |

## Mock-lawyers

The services relate to services of the law firm, with which the representative of the Supervisory Board of the TELES is a shareholder or partner. The provided services were settled under these parties.

## Liabilities of the company towards related persons:

| (in KEUR) | 01 January - 31 December | |
|---|---|---|
| | **2012** | **2013** |
| Shareholders SSBG | 0 | 58 |
| Representatives of the Supervisory Board from provision of sevices | 87 | 127 |
| Factoring SSBG | 73 | 4 |
| Loan SSBG | 228 | 253 |
| Assignment of loan repayment claim SSBG | 98 | 109 |
| **Total** | **486** | **551** |

## Salaries of the Management Board:

| (in KEUR) | 01 January - 31 December | | | |
|---|---|---|---|---|
| | **2012** | | **2013** | |
| | **Fixed** | **Variable** | **Fixed** | **Variable** |
| Oliver Olbrich | 205 | 40 | 215 | 18 |
| Thomas Roll | 87 | 30 | 56 | 10 |
| Frank Paetsch | 81 | 0 | 0 | 0 |
| | **373** | **70** | **271** | **28** |

Prof. Dr.-Ing. Schindler received remuneration in the amount of KEUR 41 (in the previous year: KEUR 44), which corresponds with the pecuniary advantage from the provision of a motor vehicle.

Mr Roll: Total salaries for the period of time 1 July to 31 December 2012 as well as 1 January to 30 April 2013.

Mr Paetsch: Total salaries for the period of time 1 January to 30 June 2012.

## Shareholdings and subscription rights of the Management Board members as of 31 December 2013:

| | Subscription rights | Shares |
|---|---|---|
| Herr Prof. Dr. - Ing. Sigram Schindler (directly and indirectly) | 0 | 13,658,442 |
| | 0 | 13,658,442 |

## Shareholdings and subscription rights of the Management Board members as of 31 December 2012:

| | Subscription rights | Shares |
|---|---|---|
| Herr Prof. Dr. - Ing. Sigram Schindler (directly and indirectly) | 0 | 13,658,442 |
| | 0 | 13,658,442 |

As of 31 December 2013 Prof. Dr.-Ing. Sigram Schindler holds directly and indirectly 58.61 % (in the previous year: 58.61 %) of the shares in TELES AG: 57.09 % (in the previous year: 57.09 %) of the shares are held by Sigram Schindler Beteiligungsgesellschaft mbH, 1.46 % (in the previous year: 1.46 %) of the shares are held by Sigram Schindler Stiftung and a further 0.06 % (previous year: 0.06 %) are held directly by Prof. Dr.-Ing. Sigram Schindler.

## Remuneration of the Supervisory Board:

The compensation for expenses for the members of the Supervisory Board amounted in the closed fiscal year to KEUR 75.0 (previous year: KEUR 75.0).

| (in KEUR) | 01 January - 31 December | |
|---|---|---|
| | **2012** | **2013** |
| Prof. Dr. Walter Rust | 37.5 | 37.5 |
| Prof. Dr. h.c. RaduPopescu-Zeletin | 22.5 | 22.5 |
| Prof. Dr. Ernst Denert | 15.0 | 5.9 |
| Prof. Dr.-Ing. Dr.-Oec. Thomas Schildhauer | 0.0 | 9.1 |
| | **75.0** | **75.0** |

# Note 27: Segment reporting

According to IFRS 8 the internal control of the company represents the basis for the segment reporting (Management Approach). The external segment reporting is carried out based on the internal organization and management structure as well as the internal financial reporting coordinated hereto to the highest management body (Chief Operating Decision Maker). The internal organization and management structure as well the internal financial reporting of TELES coordinated hereto pursue a product-oriented perspective.

TELES established a business unit structure ("Profit Center") for the better exhaustion of the market in the fiscal year 2011. This leads in the end to three operative business fields:

- Access Solutions
- Carrier Solutions
- Enterprise Solutions

With the Access-Solution products TELES offers network operators, service providers, system integrators and distributors a complete product line for the transfer between various communication technologies. This way the reasonably priced VoIP telephone can also be used with ISDN systems, fixed line and mobile radio networks can be linked. This is primarily carried out in EMEA (Europe, Middle East and Africa), North and South America in indirect distribution channels.

The main markets of the business field Carrier Solutions are Europe and south-western Asia. Its products go to connection network operators with an own infrastructure, to virtual network operators as well as to wholesalers of TC services. They connect networks of all kinds and guarantee a simple transfer between various media and signalisations such as for example ISDN and VoIP.

With the Enterprise Solutions network operators and TC service providers can offer their business and end customers IP-based telephone services and thus integrate video, fax and mobile telephone as well as the available telephone systems. A variety of terminals of known manufacturers can be used with the TELES solution. The ability for administration of the system, which is easy anyway, can moreover be expanded by open interfaces – the basis of a good customer service by the provider. The TELES NGN-solutions are primarily offered in Germany, Austria and Switzerland, incidentally in the further European countries. The sales are primarily carried out indirectly via system integrators, in an individual case wholesale and reference customers are supervised directly.

In the category “other business activities” balances are disclosed, which result from an agency agreement concluded with the majority shareholder of TELES as well as an patent assignment contract also concluded with the majority shareholder of TELES.

The accounting principles of the segments are principally the same, as described in the “summary of essential accounting principles” in note 2.

The service of the operative segment is assessed based on the operating results corrected by the other income and expenses (EBIT). Financial results and other participation results (EBT) are not included in the assessment of the operative segments as these factors are controlled centrally in the group.

Business between the segments took place to an insignificant extent.

The following segment information is reported to the highest management body:

| Revenues and income of the operative segments as well as other business activities (in KEUR) | 01 January – 31 December | |
|---|---|---|
| | **2012** | **2013** |
| **Sales revenues** | **12,366** | **10,701** |
| Access Solutions | 5,160 | 4,248 |
| Carrier Solutions | 4,565 | 3,436 |
| Enterprise Solutions | 2,641 | 3,017 |
| **EBITDA; operative** | **-2,431** | **-2,155** |
| Operating depreciations | 228 | 128 |
| **EBIT; operative** | **-2,659** | **-2,283** |

The afore-mentioned operating results can be transferred as follows to the EBT of the TELES group:

| Revenues and income of the operative segments as well as other business activities (in KEUR) | 01 January – 31 December | |
|---|---|---|
| | **2012** | **2013** |
| **EBIT; operative** | **-2,659** | **-2,283** |
| Other income and expenses | -644 | 1,147 |
| **EBIT TELES group** | **-3,303** | **-1,136** |
| Financial income | 625 | 359 |
| Financial expenses | 243 | 235 |
| Other participation results | 0 | 1,081 |
| **EBT TELES group (results before tax on income from continuing operations)** | **-2,921** | **69** |

## Access Solutions:

| Erlöse und Erträge nach Segment (in T€) | 1 January – 31 December | |
|---|---|---|
| | **2012** | **2013** |
| **Sales revenues** | **5,160** | **4,248** |
| Production costs | **2,730** | **2,144** |
| *Depreciations including therein* | *15* | *8* |
| **Gross profit** | **2,430** | **2,104** |
| *Gross profit margin* | *47%* | *50%* |
| Sales and marketing expenses | 1,351 | 1,332 |
| Research and development expenses | 867 | 1,038 |
| Administration expenses | 994 | 814 |
| **EBITDA; operative** | **-767** | **-1,072** |
| Operating depreciations | 56 | 44 |
| **EBIT; operative** | **-838** | **-1,123** |

## Carrier Solutions:

| Erlöse und Erträge nach Segment (in T€) | 1 January – 31 December | |
|---|---|---|
| | **2012** | **2013** |
| **Sales revenues** | **4,565** | **3,436** |
| Production costs | 2,040 | 1,405 |
| *Depreciations including therein* | *7* | *7* |
| **Gross profit** | **2,525** | **2,031** |
| *Gross profit margin* | *55%* | *59%* |
| Sales and marketing expenses | 1,294 | 1,073 |
| Research and development expenses | 814 | 836 |
| Administration expenses | 871 | 655 |
| **EBITDA; operative** | **-447** | **-526** |
| Operating depreciations | 82 | 38 |
| **EBIT; operative** | **-536** | **-571** |

Enterprise Solutions:

| Revenues and income according to segments (in KEUR) | 1 January – 31 December | |
|---|---|---|
| | **2012** | **2013** |
| **Sales revenues** | **2,641** | **3,017** |
| Production costs | 1,221 | 1,003 |
| *Depreciations including therein* | *3* | *5* |
| **Gross profit** | **1,420** | **2,014** |
| *Gross profit margin* | *54 %* | *67%* |
| Sales and marketing expenses | 1,062 | 1,079 |
| Research and development expenses | 956 | 840 |
| Administration expenses | 622 | 659 |
| **EBITDA; operative** | **-1,217** | **-559** |
| Operating depreciations | 65 | 24 |
| **EBIT; operative** | **-1,285** | **-589** |

## Information about geographical regions

The revenues according to sales markets of the company are seen as follows:

| (in KEUR) | 1 January – 31 December | | Changes |
|---|---|---|---|
| | **2012** | **2013** | **2013 vs. 2012** |
| Germany | 1,987 | 2,059 | 4% |
| Austria | 2,646 | 1,561 | -41% |
| EMEA (other countries) | 6,557 | 6,152 | -6% |
| NORAM & LATAM | 680 | 687 | 1% |
| APAC | 496 | 242 | -51% |
| **Total** | **12,366** | **10,701** | **-13%** |

The revenues are allocated in line with the country of origin of the customer.

In the segment Access Solutions sales revenues are generated with one customer in the amount of 23 % of the segment revenue (previous year: 36 %).

## Long-term assets

The long-term assets relate to the regions as follows:

| (in KEUR) | 31/12/2012 | 31/12/2013 |
|---|---|---|
| Germany | 202 | 145 |
| EMEA | 14 | 8 |
| **Total** | **216** | **153** |

The long-term assets are allocated in line with the registered seat of the respective group company.

# Note 28: Other disclosures

### Services of the auditing company

Ernst & Young GmbH auditing company did not provide any other services for TELES AG in the closed fiscal year, as well as in the previous year, in addition to the auditing activity (KEUR 100).

### Consolidated companies

The consolidated annual financial statements include the financial statements of TELES AG and those of the following companies, which are all 100 % subsidiaries of TELES AG, insofar as not otherwise shown:

| Tochtergesellschaft | Ort |
|---|---|
| TELES Communications Corp. | Hillsborough, USA |
| TELES France S.A.R.L. | Courbevoie, France |
| TELES S.R.L. | Mailand, Italy |
| TELES N.G.N. Solutions Ltd. | Yokneam, Israel |
| TELES Communication Systems GmbH | Wien, Austria |
| TELES NetSales Spain S.A. | Madrid, Spain |
| TELES NetService GmbH | Berlin, Germany |
| DirectSat AG | Berlin, Germany |
| callmediaservices Ltd. | Cheshunt, Great Britain |
| TCS Cloud Services GmbH | Berlin, Germany |

### Corporate Governance Codex

The Management Board and Supervisory Board of TELES AG have submitted a declaration of compliance according to the German Corporate Governance Code (§ 161 AktG), which was published on the homepage of TELES AG in October 2013 (www.teles.com).

### Management Board

The following persons belonged to the Management Board of TELES AG during the past year:

Prof. Dr.-Ing. Sigram Schindler, CEO;
Oliver Olbrich, Director operative business;
Thomas Roll, Director of sales; until 30 April 2013.

The members of the Management Board performed the following group-internal Supervisory Board mandates or mandates in comparable control bodies:

| | |
|---|---|
| Prof. Dr.-Ing. Sigram Schindler: | TELES Communications Corp.;<br>DirectSat AG |
| Oliver Olbrich: | DirectSat AG |

### Supervisory Board

During the past year the following persons belonged to the Supervisory Board of the company:

Prof. Dr. Walter Rust, lawyer and notary public, Berlin (chairman of the Supervisory Board);

Prof. Dr. h.c. Radu Popescu-Zeletin, University professor, Berlin (deputy chairman of the Supervisory Board);

Prof. Dr. Dr.-Ing. Ernst Denert, Software engineer retired, Grünwald; until 24 May 2013

Prof. Dr.-Ing. Dr.-Oec. Thomas Schildhauer, University professor, Berlin; from 25 May 2013.

The following Supervisory Board members performed further Supervisory Board mandates or mandates in comparable control bodies:

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

Prof. Dr. h.c. RaduPopescu-Zeletin,
Member of the Board of Directors of OpenLimit Holding AG
Member of the Supervisory Board of EICT GmbH
Member of the Supervisory Board of EIT ICT Labs.

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

Berlin, dated 28. March 2014

The Management Board

Prof. Dr.-Ing. Sigram Schindler
Oliver Olbrich

# List of abbreviations

| | |
|---|---|
| AG | Aktiengesellschaft – joint stock company |
| AktG | Stock corporation law |
| APAC | Asia-Pacific |
| DRS | German accounting standard |
| DRSC | Accounting Standards Committee of Germany (ASCG) |
| EITF | Emerging Issues Task Force |
| EMEA | Europe, Middle East, Africa |
| ESOP | Employee´s Share Ownership Program |
| EStG | German Income Tax Act |
| FIFO | First-in, First-out |
| GmbH | Gesellschaft mit beschränkter Haftung – Private Limited Company |
| HGB | German Commercial Code |
| IAS | International Accounting Standards |
| IASB | International Accounting Standards Board |
| IFRS | International Financial Reporting Standard |
| LATAM | Latin America |
| Ltd | Limited |
| NORAM | North America |
| SIC | Standing Interpretations Committee |
| SPSS | Sales & Post Sales Services |
| SSBG | Sigram Schindler Beteiligungsgesellschaft mbH, Berlin |
| T€ | One thousand Euro |
| TUSD | One thousand US Dollar |
| USGAAP | United States Generally Accepted Accounting Principles |

# 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, March 28, 2014

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 2013. 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 majority shareholder made a further loan commitment of EUR 0.8m, in addition to the loans already granted, 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 by the majority shareholder being sufficient or will be increased if necessary.

Berlin, 28 March 2014

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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|---|---|
| (signed) | (signed) |
| Schepers<br>Wirtschaftsprüfer<br>[German Public Auditor] | Klemm<br>Wirtschaftsprüfer<br>[German Public Auditor] |