9-Months Report 2010

telegate

LOCAL SEARCH GOES MOBILE

Letter from the Management Board

Dear shareholders,

after nine months of the current financial year we still expect that at year end we will reach an EBITDA before possible non-recurring items at the lower end of the projected range of € 23 m to € 27 m, in spite of the missing contribution to earnings of the Italian business, which was sold this year.

In order to reach that target, we continually need to reduce our cost base and work hard for it in operational terms. This is valid in terms of our company's current business transformation phase and also for the next financial year. The general market trend of the classic DA business with a strong margin still shows a double-digit decline – telegate compensates this market trend still as well as possible and, by the way, better than the competition. We also see a pleasing vitalization of the brand 11 88 0 and e. g. attracted more than 2,500 fans of our Facebook fanpage in a few months. Development in Spain is also positive, showing a slowing market decline compared to the very challenging previous year.

Furthermore, the success of the advertising sales business is of vital importance for the conversion of our business model and stabilization of our profits. We are still on a dynamic growth course here with a year-on-year-increase in revenues of approx. 26 percent over the first 9 months and 28 percent in the third quarter of the annual year. Our sales force, which in our view has meanwhile reached a sufficient and powerful size, has access to an even broader range of products today. For example, to useful new products for advertisers, e. g. the new Premium-Online-entry with integrated video clip or the production of professional company websites. It is also helpful for our sales team that our B2B-customers and their services are listed via our applications in the smartphone and navigation solutions of our cooperation partners Nokia and Vodafone – and thus we further extend the coverage of our customers.

A SME-study "midsized companies and advertising" commissioned by our company shows that there is a golden ground and great catch up potential for digital marketing experts such as telegate in the SME sector. While today every second search for businesses and company's services is generated via the web by now, SMEs still remain with their communication activities in the last century advertising world. Referring to that survey, 75 percent of the companies invest their average annual advertising budget in the amount of
€ 1,000 to € 5,000 in the traditional print media yellow pages, daily newspapers and advertising papers – and thus do not include today's customer in their planning, who searches already digital. Furthermore, approx. 40 percent of German SMEs do not even have an own website as "digital business card".
Therefore, there is still much to be done and there is also a significant need to convince. We will put our SME customers even more in the focus of all of our activities during the next months. For this purpose, we will further optimize our customer-related processes and revise our organizational structure in a customer-oriented way. In addition to the topic "growth and acquisition of new customers", we will focus even more on the topics "sustainable customer management and retention" and "economic efficiency of customer relations"– with the target to show a sustainable profitable growth in the Media sector.

Finally, a pleasing signal in the matter of the data cost reclamation claims against Deutsche Telekom. The German regulatory authority Federal Network Agency "Bundesnetzagentur" determined as neutral extra-judicial instance a couple of weeks ago that the former monopolist may only charge the total market with no more than € 1.65 m p. a. in the future for the transfer of subscriber data. Thus, we are confidently awaiting the course of the further proceedings and see ourselves strengthened in our optimism, that we will ultimately be successful with our claims.

Planegg-Martinsried near Munich, November 2010

The Management Board of telegate AG

Key Financial Figures

in m Euro	9M 2010	9M 2009	Variance absolute	Variance in Percent
Revenues & profit				
Revenues	93.7	101.0	-7.3	-7.2%
EBITDA before non-recurring items	17.3	26.4	-9.1	-34.5%
EBITDA[1]	17.3	26.1	-8.8	-33.7%
Operating income / loss (EBIT)	10.1	18.8	-8.7	-46.3%
Income[2]	2.4	-2.6	5.0	-192.3%
Net income	11.2	12.5	-1.3	-10.4%
Balance Sheet				
Balance sheet total	145.7	185.6	-39.9	-21.5%
Cash & cash equivalents	57.9	60.1	-2.2	-3.7%
Equity	93.6	93.6	0.0	0.0%
Equity ratio	64.3%	50.4%	13.8%	27.4%
Cash Flow				
Operating cash flow	10.3	25.7	-15.4	-59.9%
Investments (incl. M&A)	0.9	-5.0	5.9	117.4%
Free Cash Flow (before M&A)	7.7	21.4	-13.8	-64.3%
KPI telegate share				
Earnings per share (in Euro)	0.53	0.59	-0.1	-10.3%
Share price (in Euro)[3]	7.11	8.67	-1.6	-18.0%
Market capitalization	151.0	184.1	-33.1	-18.0%
Employees				
Number of employees[4]	2,019	2,902	-883	-30.4%

[1] The EBITDA is defined as earnings before depreciation, interests and taxes within telegate Group.
[2] from discontinued operations
[3] XETRA-closing prices as of last trading day in 3rd quarter
[4] Headcount as of September 30

Management Report

At a glance: 9-months report 2010

The transformation of the business model continued to gain momentum during the third quarter 2010. Correspondingly, telegate launched the new trade advertising offer „MEDIA entry Premium“ on August 02, 2010, which allows that trade directory advertising and modern moving images in the form of video clips are developed easily for SMEs. Furthermore, telegate creates professional web presences for companies and service providers as full-service-package in the meantime. The enormous potential of these product offerings is confirmed in a current study by order of telegate AG.

The transformation of the business model characterizes operative measures on the one hand - focus will be here the increase of customer satisfaction and thus increase of customer commitment of our SME-customers . The transformation of the company is also reflected in the financial earnings on the other hand.

Revenues in the Media business were significantly increased compared to the previous year (+ 26 percent), however, revenues in the classic DA business decreased by 14 percent - due to subsitution with Internet DA.

Earnings before non-recurring items (EBITDA) of the first nine months 2010 of € 17.3 m are significantly below the previous year’s figure of € 26.4 m in 2009. There are no non-recurring items to be recorded in 2010, however, the year 2009 was affected by non-recurring costs of € 1.9 m, primarily for a merger of Call Centers + € 1.7 m positive non-recurring effect following a settlement with Deutsche Telekom AG concerning invoicing issues.

There are also great news regarding the subject „data cost actions“ in the third quarter. The Federal Network Agency fixed the future data costs including additional data and third carrier data at € 1.65 m p.a. for the entire market and thus cornerstones were placed. The company is still very optimistic regarding the chances of success for the claim for return actions, which amount to more than € 100 m including interest.

Financial situation

Profitability

Group revenues decreased by 7 percent compared to the first 9 months of the previous year to € 93.7 m (previous year: € 101.0 m). This is attributable to the still declining DA business (- 14 percent and - € 12.0 m respectively), which cannot be compensated yet by the advertising sales business which increases in terms of revenues - + 26 percent and € 4.7 m respectively compared to the previous year.

The gross earnings margin decreased - against the background of the expansion of the sales force, a stronger share of the new customer business within the revenues mix Media as well as a higher margin of the foreign business, in particular - significantly from 61.3 percent to 55.6 percent.

This is also reflected in the operating earnings (EBITDA) of the first 9 months 2010. Adjustments in almost all fixed cost sectors reduced the decline of EBITDA before non-recurring items to € 17.3 m only slightly (previous year: € 26.4 m).

The sectors France and Italy are included in the discontinued operations. Here, extraordinary depreciations (€ 2.4 m goodwill as well as € 0.5 m on fixed assets, both France) as well as positive earnings from the operative business in Italy (+ € 0.4 m) resulted in a loss after taxes of the discontinued operation in the amount of - € 2.6 m, whereas a profit from the sale of the Italian participation in the amount of € 2.4 m is included in the current reporting period.

Net earnings after taxes of € 11.2 m and € 0.53 per share respectively are - in spite of weaker operating earnings - only slightly below the previous year’s figure of € 12.5 m and € 0.59 per share respectively, due to the different contributions by the discontinued operations (negative during the first 9 months 2009, positive during the first 9 months 2010).

Net worth and financial position

Investments

Overall, investments were further reduced, as expected, after the increased level of the previous year due to the integration expenses with telegate MEDIA AG.

Total investments in the amount of € 2.0 m were made during the first 9 months of the current annual year (previous year: € 3.7 m). It should be taken into consideration here that investments in the business sectors France and Italy, which were sold by now, in the amount of € 0.4 m were still included in the previous year.

Fixed assets and intangible assets investments still concern the expansion of the Customer-Relationship-Management-System, modernization of the IT equipment and infrastructure as well as replacement and maintenance investments.

Balance sheet

The balance sheet quality of the telegate group is solid as usual, also as of September 30, 2010. Thus, equity amounted to € 93.6 m as of the closing date and as in the previous year. In relation to the reduced balance sheet total (€ 145.7 m; previous year: € 185.6 m), the equity ratio increased to 64.3 percent (previous year: 50.4 percent) as of September 30, 2010. The reduction of the balance sheet total from € 185.6 m as of September 30, 2009 to € 145.7 m as of the current closing date (December 31, 2009: € 171.6 m) primarily results from the sale of the Italian and French subsidiaries. The amount of liquid assets decreased from € 60.1 m in the previous year to € 57.9 m as of the closing date due to lower operative earnings compared to the previous year and the unchanged dividend payment in the amount of € 14.9 m in the second quarter.
In comparison with the previous year, there were scheduled depreciations of intangible assets, fixed assets as well as a reduction of trade accounts receivables due to the sale of the Italian subsidiary on the assets site. The reduction of the liabilities side primarily results from the reduction of the deferred short-term liabilities and trade accounts payable, which also result from the sale of the Italian subsidiary.

Cash flow & Financing

The operative cash flow (inflow and outflow of funds respectively from current business activity) amounted to € 10.3 m as of September 30, 2010, compared to € 25.7 m in the previous year's period. The decline results from a significantly lower profitability compared to the previous year as well as an increase of the working capital in the amount of € 3.5 m resulting from the Media business.
Lower investments in the comparative period resulted in a "free cash flow before M&A activities" of € 7.7 m (previous year: € 21.4 m).

The cash flow from investment activity (both investments and M&A activities) during the reporting period amounted to € 0.9 m (previous year: - € 5.0 m). It benefited from the sale of the Italian subsidiary as of June 01, 2010. Hereby, an inflow of funds in the amount of € 3.5 m was generated. In contrast, there was an outflow of funds within the scope of the klickTel acquisition in the amount of € 0.8 m in the previous year.

The dividend payment in the amount of € 0.70 per share for the annual year 2009 and almost unchanged interest earnings result in a cash flow from financing activity of - € 13.2 m which is almost at previous year's level (previous year: - € 13.3 m).

Due to the extremely solid net worth, financial position and profitability, a share repurchase program in the amount of up to 10 percent of the share capital was proposed to the Shareholders´ Meeting on June 09, 2010. The Shareholders´ Meeting adopted the proposal for a resolution by the Management Board and Supervisory Board with an approval of 97.2 percent. Implementation of this resolution shall be carried out before the end of 2010.

Forecast

telegate also expects that the classic DA business will be declining unchanged during the next quarters. This results in a declining profit development in combination with a lower margin of the advertising sales business, which grows strongly in terms of revenues. Nevertheless, the company expects to generate earnings (EBITDA) before non-recurring items for the total year 2010 in the lower range of the forecasted margin of € 23 m - € 27 m. Furthermore, the company expected a positive profit contribution of the Italian subsidiary, which was sold by now, in this profit guidance communicated in March.

In order to continue to operate the DA business economically in the future, telegate AG plans to merge the Call Center in Wismar with the two locations in Rostock and Guestrow. The measure shall serve to reduce existing overcapacities in terms of technology and premises, in particular. The merger will result in extraordinary expenses in the fourth quarter 2010 as well as a corresponding outflow of liquidity during 2011. After the focus in the Media business was on growth in terms of sales previously, the existing customer management shall be paid more attention to in the future. Simultaneously, a program for business process optimization is being implemented with the objective of another cost optimization.

The advertising sales business in Germany is still focus of the strategic orientation of the telegate group. Nevertheless, telegate also sees potential in the classic DA business for the future by means of the project „SMS-Connect" (DA for mobile phone numbers).

Segment report

Germany/Austria

The transformation process from a telecommunications specialist to a local search and marketing of SME businesses expert continues to progress in the segment Germany/Austria. telegate satisfies the demands and requirements of its customers target-oriented with the new product „firmenWEBSITE" (professional web presences especially for companies and service providers).
Because round about 40 percent of SMEs do not have an own Internet presence currently (study: "SMEs and advertising"), telegate sees great potential here. This confirms the company's strategy at the same time to support SMEs with an "All-in-one-carefree" package. Thus, telegate further expands its product portfolio consequently, in addition to directory advertising and search engine marketing.

The advertising sales business also increased in terms of revenues during the first nine months of the current year. The Media business grew by 27 percent and € 4.7m respectively to € 22.4 m as of the closing date, due to an extremely dynamic organic growth.

The decline of revenues in the classic DA business was again compensated by operative measures during the first nine months 2010 - here, increase of revenues per caller, in particular - however, to a lesser extent than previously, as expected. Thus, revenues amount to € 62.9 m as of the closing date (previous year: € 74.6 m, e.g. - 16 percent).

Thus, total revenues of the segment Germany were declining by € 7.0 m and 8 percent respectively to € 85.2 m (previous year: € 92.2 m). The decline of the DA business with a strong margin in connection with the further expansion of sales capacities in the Media sector as well as the high share of new revenues is also significantly reflected in earnings before interest, taxes, depreciation and amortization (EBITDA) before non-recurring expenses of € 25.9 m in 2009 (€ 1.9 m non-recurring costs, primarily for a merger of Call Centers + € 1.7 m positive non-recurring effect following a settlement with Deutsche Telekom AG concerning invoicing issues) and € 16.1 m during the first nine months 2010.

There was also an encouraging development of the topic data cost actions during the third quarter 2010. The Federal Network Agency determined in a decision in September that the recoverable costs for subscriber data for the entire market may only amount to a maximum of € 1.65 m p.a. Thus, the company is still very optimistic to be able to lead the claim for return actions against Deutsche Telekom to success, which amount to more than € 100 m including interest.

Italy/Spain

telegate is still challenged with difficult overall economic conditions in Spain. However, the still declining call volume was compensated very well in terms of revenues by higher revenues per caller. Thus, it was only slightly below the previous year's figure with € 8.5 m during the first 9 months 2010 (previous year: € 8.8 m). The lower call volume was even overcompensated in terms of earnings by capacity adjustments as well as additional various cost reductions. Thus, operative earnings (EBITDA) improved to € 1.3 m (previous year: € 0.9 m) compared to the previous year. However, profitability will show a rather declining development here in the medium-term, analogous to revenues.

As previously reported, the Italian subsidiary was sold on June 01, 2010. The contributions to revenues, costs and earnings from Italy are reported as „discontinued operation" to above the annual net income after taxes, in accordance with IFRS.

Employees

The telegate group employed a total of 2,019 employees - without temporary workers - (headcount, without trainees and dormant employments, which were added in the previous year) as of September 30, 2010. The number of employees decreased by 883 persons (previous year: 2,902 heads) on a comparable basis. The decrease of employees due to the sale of our French and Italian companies on the one hand and, in contrast, establishment of advertising sales with skilled employees on the other hand.

Planegg-Martinsried, October 29, 2010
The Management Board

Consolidated Statements of Operations (IFRS)

	Quarterly Report (unaudited)		9-Months Report (unaudited)	
in kEUR	Q3 2010	Q3 2009	9M 2010	9M 2009
Continuing operations				
Revenues	31,961	33,293	93,691	101,025
Cost of revenues	-14,139	-12,556	-41,571	-39,113
Gross Profit (excl. depreciation & amortization)	**17,822**	**20,737**	**52,120**	**61,912**
Advertising costs	-2,873	-2,766	-7,647	-8,262
Personnel costs (only administration & marketing)	-5,113	-6,116	-16,590	-18,191
Depreciation & amortization	-2,377	-2,372	-7,204	-7,326
Other administrative expenses	-3,712	-3,770	-10,957	-11,389
Other operating income / expense	89	1,810	338	2,054
Total operating expenses	**-13,986**	**-13,214**	**-42,060**	**-43,114**
Operating income	**3,836**	**7,523**	**10,060**	**18,798**
Interest income / expense	510	471	1,582	1,576
Gain / loss from financial assets and marketable securities	0	73	0	73
Gain / loss on foreign currency translation	-4	-3	0	-5
Financial income	**506**	**541**	**1,582**	**1,644**
Income before income tax	**4,342**	**8,064**	**11,642**	**20,442**
Income tax - current	-1,662	-2,552	-5,172	-6,106
Income tax - deffered	580	0	2,275	696
Income tax expense	**-1,082**	**-2,552**	**-2,897**	**-5,410**
Income from continuing operations	**3,260**	**5,512**	**8,745**	**15,032**
Discontinued operations				
Income from discontinued operations	8	416	2,425	-2,567
Net income	**3,268**	**5,928**	**11,170**	**12,465**
Attributable to:				
Equity holders of the parent	3,268	5,928	11,170	12,454
Minority interests	0	0	0	11
Earnings per share - basic and dilutive, for net income for the reporting period attributable to ordinary equity holders of the parent (in euro)	0.15	0.28	0.53	0.59
Earnings per share for continuing operations - basic and dilutive, for net income for the reporting period attributable to ordinary equity holders of the parent (in euro)	0.15	0.26	0.41	0.71
Earnings per share for discontinued operations - basic and dilutive, for net income for the reporting period attributable to ordinary equity holders of the parent (in euro)	0.00	0.02	0.12	-0.12

See accompanying notes to the consolidated financial statements.

Consolidated statement of comprehensive income

in kEUR	Quarterly Report (unaudited) Q3 2010	Q3 2009	9-Months Report (unaudited) 9M 2010	9M 2009
Net income	**3,268**	**5,928**	**11,170**	**12,465**
Foreign currency translation differences	1	1	0	1
Sum of the result which is recorded directly in equity	**1**	**1**	**0**	**1**
Total comprehensive income	**3,269**	**5,929**	**11,170**	**12,466**
Attributable to:				
Equity holders of the parent	3,269	5,929	11,170	12,455
Minority interests	0	0	0	11
	3,269	**5,929**	**11,170**	**12,466**

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets (IFRS)

Assets in kEUR	Sept 30, 2010	Sept 30, 2009	Dec 31, 2009
Current assets			
Cash & cash equivalents	57,882	60,105	59,932
Trade accounts receivable	32,238	56,969	48,481
Prepaid expenses & other current assets	3,309	6,912	5,631
Assets of disposal group classified as held for sale	0	4,588	-
Total current assets	**93,429**	**128,574**	**114,044**
Non-current assets			
Goodwill, net	7,474	7,550	7,474
Intangible assets	32,225	36,506	36,354
Property & equipment	5,008	7,986	7,612
Other financial assets	980	298	733
Deferred tax assets	6,564	4,661	5,421
Total non-current assets	**52,251**	**57,001**	**57,594**
Total assets	**145,680**	**185,575**	**171,638**

Liabilities & shareholders' equity in kEUR	Sept 30, 2010	Sept 30, 2009	Dec 31, 2009
Current liabilities			
Trade accounts payable	1,541	25,821	20,396
Accrued liabilities	14,348	25,265	16,835
Provisions	3,790	3,508	4,475
Other current liabilities	19,279	19,377	18,138
Liabilities directly associated with the assets classified as held for sale	0	3,419	0
Total current liabilities	**38,958**	**77,390**	**59,844**
Non-current liabilities			
Provisions	741	1,284	1,013
Other non-current liabilities	5	460	441
Deferred tax liabilities	12,361	12,820	13,055
Total non-current liabilities	**13,107**	**14,564**	**14,509**
Total liabilities	**52,065**	**91,954**	**74,353**
Equity			
Share capital	21,235	21,235	21,235
Additional paid-in capital	29,899	29,809	29,875
Other revenue reserves	34,822	31,174	34,822
Retained earnings	7,658	11,402	11,352
Accumulated other comprehensive income	1	1	1
Equity attributable to equity holders of the parent	**93,615**	**93,621**	**97,285**
Total shareholders' equity	**93,615**	**93,621**	**97,285**
Total liabilities & shareholders' equity	**145,680**	**185,575**	**171,638**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows (IFRS)

in kEUR	9M 2010	9M 2009
Cash flows from operating activities		
Income before income tax from continuing operations	11,642	20,442
Income before income tax from discontinued operations	2,983	-1,534
Income before income tax	14,625	18,908
Adjustments for:		
Impairment on goodwill	0	2,413
Depreciation & amortization	8,163	9,084
Gain / loss on disposal of property & equipment	-43	53
Gain / loss from government grants	-48	-41
Interest income / expense	-1,577	-1,558
Gain / loss on foreign currency translation	0	5
Stock option expense	60	161
Valuation allowance for trade accounts receivable	708	3,554
Gain / loss due to changes in consolidated group	-5,419	0
Other non-cash expenses / income	0	-156
Changes in non-current provisions	-278	-372
Changes in non-current receivables	-261	-242
Operating profit before changes in operating assets & liabilities	***15,930***	***31,809***
Changes in operating assets and liabilities:		
Trade accounts receivable	-8,737	-5,018
Prepaid expenses & other assets	-274	426
Trade accounts payable	4,970	2,776
Current provisions	1,321	-662
Accrued expenses & other liabilities	394	3,643
Income taxes paid	-3,320	-7,315
Cash provided by operating activities	**10,284**	**25,659**
Cash flows from investing activities		
Capitalized intangible assets	-1,560	-2,820
Purchase of property & equipment	-1,146	-1,486
Proceeds from sale of property & equipment	25	38
Acquisition of a subsidiary, net of cash acquired	0	-76
Purchase of a subsidiary, net of cash purchased	3,505	234
Acquisition of minority interests	0	-952
Proceeds from government grants	48	41
Cash used in / provided by investing activities	**872**	**-5,021**
Cash flows from financing activities		
Costs of equity transaction	-36	0
Dividends paid	-14,864	-14,864
Interest received	1,703	1,614
Interest paid	-12	-75
Cash used in financing activities	**-13,209**	**-13,325**
Effects of exchange rates on cash	3	0
Change in cash and cash equivalents	**-2,050**	**7,313**
Cash & cash equivalents at beginning of reporting period	**59,932**	**53,461**
Cash & cash equivalents at end of reporting period	**57,882**	**60,774**

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Shareholders' Equity (IFRS)

in kEUR	Share capital	Additional paid-in capital	Other revenue reserves	Retained earnings	Accum. other comprehen-sive income (loss)	Total	Minority interests	Total equity
	Equity attributable to equity holders of the parent							
Balance at Jan 1, 2010	**21,235**	**29,875**	**34,822**	**11,352**	**1**	**97,285**	**0**	**97,285**
Net income	-	-	-	11,170	-	11,170	-	11,170
Foreign currency translation	-	-	-	-	-	0	-	0
Sum of the result which is recorded directly in equity	-	-	-	-	-	0	-	0
Total comprehensive income	**0**	**0**	**0**	**11,170**	**0**	**11,170**	**0**	**11,170**
Dividends	-	-	-	-14,864	-	-14,864	-	-14,864
Costs of equity transaction	-	-36	-	-	-	-36	-	-36
Stock option plan	-	60	-	-	-	60	-	60
Balance at Sept 30, 2010	**21,235**	**29,899**	**34,822**	**7,658**	**1**	**93,615**	**0**	**93,615**
Balance at Jan 1, 2009	**21,235**	**31,800**	**31,174**	**11,883**	**0**	**96,092**	**718**	**96,810**
Net income	-	-	-	12,454	-	12,454	11	12,465
Foreign currency translation	-	-	-	-	1	1	-	1
Sum of the result which is recorded directly in equity	-	-	-	-	1	1	-	1
Total comprehensive income	**-**	**-**	**-**	**12,454**	**1**	**12,455**	**11**	**12,466**
Release of other revenue reserves	-	-1,929	-	1,929	-	0	-	0
Dividends	**-**	-	-	-14,864	-	-14,864	-	-14,864
Stock option plan	**-**	161	-	-	-	161	-	161
Acquisition of minority interests	**-**	-223	-	-	-	-223	-729	-952
Balance at Sept 30, 2009	**21,235**	**29,809**	**31,174**	**11,402**	**1**	**93,621**	**0**	**93,621**

See accompanying notes to the consolidated financial statement.

Segment Report (IFRS)

Activities of the telegate group are classified in operating segments for the purpose of management control. In addition to the original regional segmentation of the telegate group in the sectors Germany / Austria, Italy / Spain and France, an additional subdivision of the segment Germany / Austria is made by means of the operating segments „Directory assistance solutions“ and „Media“ as of the fiscal year 2009, because development of the operating segments Media resulted in a reportable business segment. he operating segments „Directory assistance solutions“ offers the user information and directory assistance services via various service channels in Germany and Austria. The operating segments „Media“ renders advertising performances for small and medium-sized enterprises mainly in Germany. he operating segments Italy / Spain comprises all activities of telegate on the Italian and Spanish market, which almost exclusively take place in the directory assistance solutions sector. As at June 01, 2010 the Italian subsidiary 'Telegate Italia S.r.L.' was sold, see also note 9 'Discontinued operations'. This subsidiary was in the operating segment Italy/Spain included. The operating segment France was sold as of November 02, 2009. Sales and costs connected with this discontinued operation were eliminated within the scope of reconciliation. The prevailing measurement standards of the management board correspond to those in the consolidated financial statements of the group and are presented in this report on the same basis. Performance rating of the segments as well as allocation of resources to the segments is mainly made based on operating results. The management controls the segments on the basis of earnings indicator (up to EBITDA) and allocations of investment. Control of capital allocation (debts and assets) on business sector level is not made within the segment Germany / Austria. Sales between segments are shown in the balance sheet with amounts comparable with sales to third party customers and are eliminated within the scope of consolidation.

	Germany / Austria						
in kEUR	Directory Assistance Solutions	Media	sum	Italy / Spain	France	Recon-ciliation	telegate group
01.01.2010 - 30.09.2010							
Revenues							
External revenues	62,874	22,364	85,238	15,002	-	-6,549	**93,691**
Inter-segment revenues	25		25		-	-25	**-**
Total revenues	**62,899**	**22,364**	**85,263**	**15,002**	-	**-6,574**	**93,691**
Earnings							
EBITDA	29,087	-12,949	16,138	675	-	451	**17,264**
Depreciation and amortization	-4,028	-2,817	-6,845	-1,318	-	959	**-7,204**
Financial income/ expense	808	787	1,595	-18	-	5	**1,582**
Income before income tax	25,867	-14,979	10,888	-661	-	1,414	**11,641**

	Germany / Austria						
	Directory Assistance Solutions	Media	sum	Italy / Spain	France	Recon-ciliation	telegate group
01.01.2009 - 30.09.2009							
Revenues							
External revenues	74,608	17,615	92,223	24,929	9,373	-25,500	**101,025**
Inter-segment revenues	92	-	92	-	-	-92	**-**
Total revenues	**74,700**	**17,615**	**92,315**	**24,929**	**9,373**	**-25,592**	**101,025**
Earnings							
EBITDA	35,062	-9,418	25,644	2,492	643	-2,655	**26,124**
Depreciation and amortization	-4,237	-2,514	-6,751	-1,150	-3,595	4,170	**-7,326**
Financial income/ expense	899	893	1,792	-56	-110	18	**1,644**
Income before income tax	31,724	-11,039	20,685	1,286	-3,062	1,533	**20,442**

See accompanying notes to the consolidated financial statement.

Notes to the Consolidated Financial Statements

1 Description of consolidated financial statements

The business activity of telegate AG comprises the performance of telecommunications services of all kinds, the design and marketing of information data bases and marketing advertisements as well as the performance of directory assistance services via the subscribers in public telephone networks and other directory assistance services at home and abroad.

The consolidated interim financial statements of telegate AG and the subsidiaries included in the financial statements were prepared in accordance with the accounting standards of the International Accounting Standards Board (IASB), the International Financial Reporting Standards (IFRS) - as applicable in the European Union - by September 30, 2010.

The interim financial report is prepared in compliance with IAS 34 “Interim financial reporting”. Furthermore, all International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) as well as the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC – formerly SIC) that were mandatory applicable per September 30, 2010 were complied with.

The consolidated interim financial report of telegate AG (hereinafter also the group/telegate/telegate group/company) is stated in Euro. Unless stated otherwise, all values were rounded to thousand (kEUR).

telegate AG is a stock corporation with domicile in Martinsried near Munich, Germany. The shares of telegate AG are traded publicly.

The consolidated annual financial statements and the corporate management report prepared by December 31, 2009 are submitted to the provider of the Electronic Federal Official Gazette and published electronically in the Federal Official Gazette.

2 Summary of main accounting and valuation principles

The accounting policies adopted in the preparation of this consolidated interim financial report are consistent with those followed in the preparation for the group’s consolidated annual financial statements for the year ended December 31, 2009 except for the changes which are explained as follows.

3 Changes of accounting and valuation principles

The group applied following new respectively revised Financial Reporting Standards and Interpretations in the fiscal year 2010. There were no effects on the financial position and condition or profitability due to the application. However, they resulted in additional information.

The mainly effects of these changes can be described as follows:

IFRS 2 Share-based payment

The amendments clarify how an individual subsidiary shall show certain share-based payment agreements in the balance sheet its own financial statement. The subsidiary receives goods or services from employees or suppliers within the scope of these agreements, the parent company or another group company, however, has to pay for these employees or suppliers.

A company receiving goods or services within the scope of a share-based payment agreement, has to show these goods or services on the balance sheet, regardless which company fulfils the corresponding liability in the group and regardless of whether the liability is fulfilled in shares or cash.

It is clarified, that „group“ has the same meaning in IFRS 2 than in IAS 27 Consolidated and separate financial statements, id est it includes only a parent company and its subsidiaries. Guidelines are also included in the standard with the amendments of IFRS 2, which were formerly included in IFRIC 8 Scope of application of IFRS 2 and IFRIC 11 IFRS 2 - Group and treasury share transactions. Therefore, the IASB withdrew IFRIC 8 and IFRIC 11.

The amendments of IFRS 2 were published in June 2009 and shall be applied for the first time for fiscal years starting on or after January 01, 2010; they shall be applied retrospectively. There were no effects on the net worth position, the financial position and the profit position of the group due to the application.

IFRS 3R Business combinations and IAS 27R Consolidated and separate financial statements

The main amendments and supplements compared with the previous version of IFRS 3 and IAS 27 can be described as follows:

The standard introduces changes of the treatment of business combinations on the balance sheet after this period, which have effects on the estimate amount of the goodwill, earnings in the reporting period when a business combination takes places and future events. IAS 27R prescribes that a change of the participation amount in a subsidiary (without loss of control) is recorded on the balance sheet as equity transaction. Therefore, neither goodwill nor a profit or loss arises from this transaction. In addition, provisions regarding the allocation of losses to parent companies and shares without controlling influence and the balance sheet regulations regarding transactions resulting in a loss of control are amended. Subsequent amendments arose for IAS 7 Cash flow statements, IAS 12 Income taxes, IAS 21 The effects of changes in foreign exchange rates, IAS 28 Investments in associates and IAS 31 Interests in joint ventures.
The revised standards were published in January 2008 and shall be applied for the first time for fiscal years starting on or after July 01, 2009. The amendments effect future acquisitions, losses of control and transactions with minority shares, in accordance with IFRS 3R and IAS 27R.

IAS 39 Financial instruments: recognition and measurement

The amendment substantiates how the principles included in IAS 39 for the illustration of hedging relations have to be applied for the designation of a unilateral risk of an underlying transaction as well as for the designation of inflation risks as bottom line. It is clarified, that it is permissible to designate only a part of the changes of the fair value or the cash flow fluctuations of a financial instrument as underlying transaction.

The amendment of IAS 39 was published in July 2008 and shall be applied for the first time for fiscal years starting on or after July 01, 2009; it shall be applied retrospectively. There were no effects on the net worth position, the financial position and the profit position of the group due to the application.

IFRIC 17 Distribution of non-cash assets to owners

Application notes for accounting of distribution of non-cash assets are the object of this interpretation, because differences had to be observed in practice of the balance sheet illustration. IFRIC 17 makes comments both on the date of recording of a distribution liability and how these and the corresponding assets to be delivered to the shareholders shall be measured and at which date the assets and the distribution liabilities have to be written off. The distribution liability shall be entered on the liabilities side with the resolution of the shareholders at the latest. The amount of liability is determined by the fair value of the assets, which are the basis for the distribution. The distribution liability shall be re-measured with the fair value on every balance sheet date and directly before the distribution and measurement adjustments have to be entered directly via equity. The difference between the book value of the assets to be attributed and the fair value shall be recorded which affects the current-period result when performing the distribution.

IFRIC 17 was published in November 2008 and shall be applied for the first time for fiscal years starting on or after July 01, 2009. There were no effects on the net worth position, the financial position and the profit position of the group due to the application.

IFRIC 18 Transfers of assets from customers

The interpretation is relevant in the utility sector, in particular. The IFRS-regulations for agreements, where a company receives from a customer an item of tangible assets, which has to be either used by the company to connect the customer to a network or to allow the customer the lasting access to the supply with goods or services (e.g. supply with electricity, gas or water) by the interpretation The company receives cash from the customer in some events, which shall be exclusively used to purchase or produce the item of tangible assets to connect the customer to a network or to allow the customer the lasting access to the supply with goods or services (or both).

IFRIC 18 was published in January 2009 and basically becomes effective for the transfers of assets from customers made on or after July 01, 2009 and shall be applied prospectively. There were no effects on the net worth position, the financial position and the profit position of the group due to the application.

Annual revision procedure 2007-2009

The IASB published amendments of the IFRS as part of its programme of annual improvements of its standards – a collection of amendments of 12 International Financial Reporting Standards. The IASB uses the annual improvement project to provide the IFRS with amendments, which are necessary but not time-critical, which are not a part of another larger project.

Amendments basically apply to fiscal years starting on or after January 01, 2010. Diverging regulations are separately marked in the following presentation. All amendments in connection with IFRS 3R are an exemption. They shall be applied to fiscal years starting on or after July 01, 2009.
Unless stated otherwise, there were no effects on the net worth position, the financial position and the profit position of the group due to the application.

The contents of the amendments and their effects are presented in the following survey.

IFRS 2 Share-based payment

„Scope of application of IFRS 2 and IFRS 3R“

Clarification, that the contribution of a business operation when founding a joint venture is not covered by the scope of application of IFRS 3R Business combinations (retrospective application).

Only minor effects, because this concerns the correction of an undesirable amendment of the scope of application by the revisions of IFRS 3.

IFRS 5 Non-current assets held for sale and discontinued operations

„Disclosures about long-term assets (or retirement groups) held for sale or classified as discontinued operation“

Clarification, that only the disclosure requirements of IFRS 5 shall apply for long-term assets or disposal groups which are held for sale or are classified as discontinued operations, in accordance with IFRS 5. Disclosure requirements of other standards shall only be observed, if this is expressly required by a standard for assets (disposal groups) shown in accordance with IFRS 5. It is clarified at the same time that the basic requirements of IAS 1 shall also apply for assets shown in accordance with IFRS 5. This shall apply for IAS 1.15 (fair presentation) and IAS 1.125 (sources of estimation uncertainties), in particular, (prospective application).

IFRS 8 Operating segments

„Disclosure of information on the segment assets“

Segment assets and segment debts shall only be presented, if these assets and debts are included in the control variable presented to the major decision-taker (retrospective application).

IAS 1 Presentation of financial statements

„Classification of convertible bonds as short-term or long-term“

If the conditions of a debt provide that the other party to the agreement has the option to request a fulfilment by distribution of equity instruments at any time, this does not affect the classification of the debt as short-term or long-term (retrospective application).

Companies, which have shown the debt component of a convertible bond as short-term so far, because there is the option of the holder to request fulfilment by equity instruments, now have to reclassify these debts as long-term, which may affect the calculation of agreements.

IAS 7 Cash flow statements

„Classification of investments in assets not shown in the balance sheet“

Only expenses resulting in an estimate of an asset may be presented as cash flow from investment activity (retrospective application).

IAS 17 Leases

„Classification of leases by means of land and buildings”

The special regulations for the classification of real estate as object of the lease are removed by the amendment, so that only the general provisions remain (retrospective application).

IAS 18 Revenue

„Determination whether a company acts as dealer (principal) or agent“.

The application guidelines of IAS 18 were supplemented, in order to support users to determine whether a company acts as dealer or agent. A company acts as dealer if:

- the responsibility lies with the company for the provision of goods and services;
- the company bears the stock risk;
- pricing is incumbent on the company
- the company bears the credit risk.

(No transitional provisions, because amendment of the enclosure to IAS 18)

IAS 36 Impairment of assets

„Accounting unit for an impairment test of the goodwill".

Clarification, that the biggest unit possible for an allocation to the goodwill is a business segment within the meaning of IFRS 8, before a summary is prepared for reporting purposes (prospective application).

IAS 38 Intangible assets

„Subsequent amendments from the IFRS 3, as amended"

If an intangible asset can only be identified together with another intangible asset within the scope of a business combination, these assets may recorded as one asset if they have the same useful life (prospective application).

„Measurement of the fair value of an intangible asset acquired within the scope of a business combination"

The amendment concerns the determination of the fair value of intangible assets acquired within the scope of a business combination and which are not dealable on an active market. It clarifies, that the measurement methods presented in the standard for the determination of this fair value are only examples and are not concluding. Other methods are permissible (prospective application).

IAS 39 Financial instruments: recognition and measurement

„Evaluation of prepayment penalties as embedded derivatives"

The amendment clarifies, that a prepayment option is considered as closely connected with the basic agreement, if the exercise price of the prepayment option reimburses the lender the rough cash value of the interest disadvantage for the remaining duration of the basic agreement (retrospective application).

„Exemption of agreements on business combinations from the scope of application of IAS 39"

The exemption of agreements on business combinations at a future date from the scope of application of IAS 39 only refers to binding forward agreements and not to derivative agreements, which still require further steps of the parties (prospective application).

"Cash flow hedge accounting"

Clarification, that profits or losses from cash flow hedges for a future transaction, which subsequently results in the estimate of a financial instrument or from cash flow hedges for estimated financial instruments shall be reclassified in the period, when the hedged future cash flows affect the earnings (prospective application).

IFRIC 9 Reassessment of embedded derivatives

„Scope of application of IFRIC 9 and IFRS 3, as amended"

The scope of application of IFRIC 9 was adjusted. The adjustment is for the clarification, that the interpretation shall not applied for a potential reassessment of embedded derivatives in agreements on the acquisition date, which were acquired within the scope of a business combination between companies, business units under common control or the foundation of a joint venture (prospective application).

IFR IC 16 Hedges of a net investment in a foreign operation

„Amendment regarding the restriction which company is allowed to hold the hedging tool"

The amendment clarifies, that a hedging tool may also be held by the foreign operation with regard to the hedging of a net investment in a foreign operation, as long as the requirements for IAS 39 with regard to designation, documentation and efficiency of the hedging relation are met (effective date in accordance with IFRIC 16 for fiscal years starting on or after October 01, 2008).

Future changes of accounting and valuation principles

In part there was the possibility of an early application with regard to following new and revised International Financial Reporting Standards (IFRS) as well as interpretations (IFRIC). This option, however, was not exercised by September 30, 2010.

telegate examines the effects from the application to these provisions at the moment and basically does not expect any effect on the financial position and performance of the group. However they will rise to additional disclosures.

IFRS 9 Financial instruments

The International Accounting Standards Board (IASB) published a new International Financial Reporting Standard (IFRS) for classification and measuring of financial instruments. The publication represents the completion of the first part of a project of three stages to replace IAS 39 Financial instruments: recognition and measurement by a new standard. IFRS 9 introduces new provisions for the classification and measurement of financial assets. The IASB intends to expand IFRS 9 in 2010, to include new provisions for the classification and measurement of financial debts, the write off of financial instruments, impairment and hedging accounting. IFRS 9 is supposed to be available to replace IAS 39 completely by the end of 2010.

IFRS 9 was published in November 2009. The provisions shall be applied as of January 01, 2013. An earlier application is permissible. The group currently examines the consequences from the application for the net worth position, the financial position and the profit position. An assumption to European law is still to be made.

IAS 24 Related party disclosures

Companies, government-controlled or significantly influenced, were obliged so far to disclose information on all operations with companies, controlled or significantly influenced by the same government. The content of the amendment of IAS 24 is now a simplification of the disclosure requirement of related parties. In fact, those disclosures are still required which are of importance for the user of the financial statements, however, related parties are granted a partial exemption for the disclosure of operations. If the information can only be provided with a high expenditure or are not very informative for the user, these disclosures are exempted from the disclosure requirement, in accordance with the amended IAS 24. Furthermore, the definition of a related party was clarified with the amendment of IAS 24. The amended standard was published in November 2009 and is effective for reporting periods starting on or after January 01, 2011. An earlier application is permissible. The group currently examines the consequences from the application for the net worth position, the financial position and the profit position.

IAS 32 Financial instruments: presentation

The amendments concern the accounting of the issuer of subscription rights, options and warrants for the purchase of a fixed number of equity instruments denominated in another currency than the functional currency of the issuer. These cases were accounted as derivative liabilities so far. According to the revision, these subscription rights issued with a fixed currency amount to the existing shareholders of a company on a pro rata basis have to be classified. The currency of the exercise price is insignificant in this connection.

The amendments of IAS 32 were published in October 2009 and shall be compulsory applied on first fiscal year starting after January 31, 2010. An earlier application is permissible. The group currently examines the consequences from the application for the net worth position, the financial position and the profit position.

IFRIC 14 IAS 19 The limit of a defined benefit asset, minimum funding requirements and their interaction

The IASB published a minor amendment of its provisions regarding the accounting of pension schemes. The amendment applies for the interpretation IFRIC 14, which describes an interpretation of IAS 19 Employee benefits. The amendment shall apply under the limited circumstances, where a company is subject to minimum funding provisions and makes an advance payment of the amounts, which meet this requirement. It is now permitted after the amendment, that a company shows the use of such an advance payment as asset.

The amendment “advance payments within the scope of minimum funding provisions” was published in November 2009 and becomes compulsory effective as of January 01, 2011. An early application as of the financial statements by the end of 2009 is permissible. The amendment shall be applied retrospectively from the begin of the comparative period which is shown at the earliest. The group currently examines the consequences from the application for the net worth position, the financial position and the profit position.

IFRIC 19 Extinguishing financial liabilities with equity instruments

The interpretation explains the requirements of the International Financial Reporting Standards (IFRS), when a company extinguishes a financial liability partly or completely by share issue or other equity instruments. The interpretation clarifies, that equity instrument delivered to a creditor for extinguishing of a financial liability, are a component of the “remuneration paid” within the meaning of IAS 39.41 and the corresponding equity instruments basically have to be measured with the fair value. If this value cannot be determined reliably, the equity instruments shall be measured with the fair value of the extinguished liability. The difference between the book value of the financial liability to be written off and the initial valuation of the equity instruments delivered shall be recorded in the profit and loss statement.

IFRIC 19 was published in November 2009 and shall be compulsory applied for periods starting on or after July 01, 2010. An early application is permissible. The group currently examines the consequences of the application for the net worth position, the financial position and the profit position, because these facts currently do not apply to telegate.

Annual improvements process 2008-2010

In May 2010, the IASB has issued Improvements to IFRSs, an omnibus of amendments to its standards and the related basis for conclusions. The improvements project is an annual project that provides a mechanism for making necessary but non-urgent amendments. This document summarises the eleven amendments to six standards and one interpretation.

The amendments basically apply to fiscal years starting on or after January 01, 2011. Diverging regulations are separately marked in the following presentation. An early application is permissible.

telegate currently examines the consequences of the application for the consolidated financial statements and basically expects, unless stated otherwise, no effects on the net worth position, the financial position and the profit position. An assumption to European law is still to be made.

The contents of the amendments and their effects are presented in the following survey.

IFRS 1 First-time adoption of International Financial Reporting Standards

“Accounting policy changes in the year of adoption”

“Revaluation basis as deemed cost”

“Use of deemed cost for operations subject to rate regulation”

IFRS 3 Business combinations

“Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS 3”

Clarifies that the amendments to IFRS 7 Financial instruments: Disclosures, IAS 32 Financial instruments: Presentation and IAS 39 Financial instruments: Recognition and measurement, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3R. (retrospective application)

“Measurement of non-controlling interests”

Limit the scope of the measurement choices that only the components of non-controlling interests that are present ownership interests that entitle their holders to a proportionate share of the entity ´s net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments proportionate share of the acquiree ´s identifiable net assets. Other components of non-controlling interests are measured at their acquisition date fair value or required by another IFRS. (prospective application from application IFRS 3R)

“Un-replaced and voluntarily replaced share-based payment awards”

Requires an entity (in a business combination) to account for the replacement of the acquiree ´s share-based payment transaction (whether obliged or voluntarily), i.e., split between consideration and post combination expenses. However, if the entity replaces the acquiree ´s awards that expire as a consequence of the business combination, these are recognised as post-combination expenses. Specify the accounting for share-based payment transactions that the acquirer does not exchange for its own awards: if vested – they are part of non-controlling interests and measured at their marked-based measure; if unvested – they are measured at market-based value as if granted at acquisition date, and allocated between non-controlling interests and post-combination expense. (prospective application)

These amendments are applicable to annual periods beginning on or after 1 July 2010.

IFRS 7 Financial instruments: Disclosures

“Clarifications of disclosures”

Emphasise the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments.

Amendments to quantitative and credit risk disclosures are as follows:

- Clarify that only financial assets whose carrying amount does not reflect the maximum exposure to credit risk need to provide further disclosure of the amount that represents the maximum exposure to such risk.
- Equires, for all financial assets, disclosure of the financial effect of collateral held as security and other credit enhancements regarding the amount that best represents the maximum exposure to credit risk (e.g., a description of the extent to which collateral mitigates credit risk).
- Remove disclosure of the collateral held as security, other credit enhancements and an estimate of their fair value for financial assets that are past due but not impaired, and financial assets that are individually determined to be impaired.
- Remove the requirement to specifically disclose financial assets renegotiated to avoid becoming past due or impaired.
- Clarify that the additional disclosure required for financial assets obtained by taking possession of collateral or other credit enhancements are only applicable to assets still held at the reporting date.

(retrospective application)

IAS 1 Presentation of financial statements

"Clarification of statement of changes in equity"

Clarify that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.
(retrospective application)

IAS 27 Consolidated and separate financial statements

"Transition requirements for amendments made as a result of IAS 27 Consolidated and separate financial statements"

Clarify that the consequential amendments from IAS 27 made to IAS 21 The effect of changes in foreign exchange rates, IAS 28 Investments in associates and IAS 31 Interests in joint ventures apply prospectively for annual periods beginning on or after July 01, 2009 or earlier when IAS 27 is applied earlier. (retrospective application)

IAS 34 Interim financial reporting

"Significant events and transactions"

Provide guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around:

- The circumstances likely to affect fair value of financial instruments and their classification
- Transfers of financial instruments between different levels of the fair value hierarchy
- Changes in classification of financial assets
- Changes in contingent liabilities and assets (retrospective application)

IFR IC 13 Customer loyalty programmes

"Fair value of award credit"

Clarify that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.
(retrospective application)

4 Changes in the scope of consolidation

Sale of a company

Telegate Italia S.r.L. was sold as of June 01, 2010. For this purpose, see note 9 "Discontinued operation".

Merger

Telegate Auskunftsdienste GmbH was merged into telegate Media AG as of September 27, 2010. Both companies are wholly owned subsidiaries of telegate AG. In accordance with IFRS 3.2c this intra-group transaction as a combination of entities under common control does not apply to the scope of IFRS 3 Business combinations. On group level the one-entity theory was took as a basis of accounting for this transaction, so that the carrying amounts were continued. The merger therefore had no effect on the consolidated financial statement.

5 Explanations to the profit and loss statement of the group

In accordance with IFRS 5.34, the items of the group's profit and loss statements for the fiscal year 2009 were adjusted due to the sale of the Italian subsidiary Telegate Italia S.r.L. in the fiscal year 2010. For this purpose, see also note 9 "Discontinued operation".
The French subsidiary 118000 SAS (former: telegate 118000 SARL) was sold in the fiscal year 2009 already. Corresponding to IAS 34.6 there are no duplicate information of the impact due to the sell of the French subsidiary within this interim financial reporting as at September 30, 2010, because these information were sufficient provided in the annual financial statements 2009 already.
Therefore the results of discontinued operations include both former subsidiaries.

6 Presenting the consolidated income statement using the conventional cost of sales method

In accordance with IAS 1.88, an entity can present its income statement using either the total cost accounting or the cost of sales method. telegate has opted to use the cost of sales method. The company's method of presentation fulfils the minimum classification as prescribed by IAS 1.81 and 1.82. Additional items can also be included in the classification to extent these as required in order to shed further light on the enterprise's financial position (IAS 1.83). External balance sheet users arguably prefer a presentation using the conventional cost of sales method. In order to cater for the needs of this group, the extended presentation used in the consolidated income statement has been reconciled to the classification principles adopted in the conventional cost of sales method.

Below the reconciliation of the results for the first 9 months of the fiscal year 2010 and 2009 respectively.

in kEUR	**Extented costs of sales method 9M 2010**	**Reclassification**	**Cost of sales method (IAS 1.92) 9M 2010**
Continuing operations			
Revenues	93,691	0	93,691
Cost of revenues	-41,571	-6,965	-48,536
Gross profit (excl. depreciation and amortization)	**52,120**	**-6,965**	**45,155**
Advertising costs	-7,647	-2,609	-10,256
Personnel costs (only administration and marketing)	-16,590	16,590	0
Depreciation and amortization	-7,204	7,204	0
Other administrative expenses	-10,957	-14,220	-25,177
Other operating income / expense	338	0	338
Total operating expenses	**-42,060**	**6,965**	**-35,095**
Operating income	**10,060**	**0**	**10,060**
Interest income / expense	1,582	0	1,582
Financial income	**1,582**	**0**	**1,582**
Income before income tax	**11,642**	**0**	**11,642**
Current income tax	-5,172	0	-5,172
Deferred income tax	2,275		2,275
Income tax expense	**-2,897**	**0**	**-2,897**
Income from continuing operations	**8,745**	**0**	**8,745**
Discontinued operations			
Income from discontinued operations	2,425	0	2,425
Net income	**11,170**	**0**	**11,170**

The following reclassifications were made as at September 30, 2010 in order to present the figures in accordance with the conventional cost of sales method.

1. Reclassification of depreciation and amortisation, which had previously been reported separately and are now reported under cost of revenues (kEUR 6,965) and other administrative expenses (kEUR 239).
2. Allocation of personnel costs between other administrative expenses (kEUR 13,981) and distribution costs (kEUR 2,609).

in kEUR	Extented costs of sales method 9M 2009	Reclassification	Cost of sales method (IAS 1.92) 9M 2009
Continuing operations			
Revenues	101,025	0	101,025
Cost of revenues	-39,113	-7,052	-46,165
Gross profit (excl. depreciation and amortization)	**61,912**	**-7,052**	**54,860**
Advertising costs	-8,262	-2,453	-10,715
Personnel costs (only administration and marketing)	-18,191	18,191	0
Depreciation and amortization	-7,326	7,326	0
Other administrative expenses	-11,389	-16,012	-27,401
Other operating income / expense	2,054	0	2,054
Total operating expenses	**-43,114**	**7,052**	**-36,062**
Operating income	**18,798**	**0**	**18,798**
Interest income / expense	1,576	0	1,576
Gain / loss from financial assets and marketable securities	73	0	73
Gain / loss on foreign currency translation	-5	0	-5
Financial income	**1,644**	**0**	**1,644**
Income before income tax	**20,442**	**0**	**20,442**
Current income tax	-6,106	0	-6,106
Deferred income tax	696	0	696
Income tax expense	**-5,410**	**0**	**-5,410**
Income from continuing operations	**15,032**	**0**	**15,032**
Discontinued operations			
Income from discontinued operations	-2,567	0	-2,567
Net income	**12,465**	**0**	**12,465**
Attributable to:			
Equity holders of the parent	12,454	0	12,454
Minority interests	11	0	11

The following reclassifications were made as at September 30, 2009 in order to present the figures in accordance with the conventional cost of sales method.

1. Reclassification of depreciation and amortisation, which had previously been reported separately and are now reported under cost of revenues (kEUR 7,052) and other administrative expenses (kEUR 274).
2. Allocation of personnel costs between other administrative expenses (kEUR 15,738) and distribution costs (kEUR 2,453).

In the following the reconciliation of the results for the third quarter of 2010 and 2009 respectively.

in kEUR	Extented costs of sales method Q3 2010	Reclassification	Cost of sales method (IAS 1.92) Q3 2010
Continuing operations			
Revenues	31,961	0	31,961
Cost of revenues	-14,139	-2,295	-16,434
Gross profit (excl. depreciation and amortization)	**17,822**	**-2,295**	**15,527**
Advertising costs	-2,873	-803	-3,676
Personnel costs (only administration and marketing)	-5,113	5,113	0
Depreciation and amortization	-2,377	2,377	0
Other administrative expenses	-3,712	-4,392	-8,104
Other operating income / expense	89	0	89
Total operating expenses	**-13,986**	**2,295**	**-11,691**
Operating income	**3,836**	**0**	**3,836**
Interest income / expense	510	0	510
Gain / loss on foreign currency translation	-4	0	-4
Financial income	**506**	**0**	**506**
Income before income tax	**4,342**	**0**	**4,342**
Current income tax	-1,662	0	-1,662
Deferred income tax	580	0	580
Income tax expense	**-1,082**	**0**	**-1,082**
Income from continuing operations	**3,260**	**0**	**3,260**
Discontinued operations			
Income from discontinued operations	8	0	8
Net income	**3,268**	**0**	**3,268**

The following reclassifications were made in the third quarter 2010 in order to present the figures in accordance with the conventional cost of sales method.

1. Reclassification of depreciation and amortisation, which had previously been reported separately and are now reported under cost of revenues (kEUR 2.295) and other administrative expenses (kEUR 82).
2. Allocation of personnel costs between other administrative expenses (kEUR 4,310) and distribution costs (kEUR 803).

in kEUR	Extented costs of sales methodQ3 2009	Reclassification	Cost of sales method (IAS 1.92) Q3 2009
Continuing operations			
Revenues	33,293	0	33,293
Cost of revenues	-12,556	-2,286	-14,842
Gross profit (excl. depreciation and amortization)	**20,737**	**-2,286**	**18,451**
Advertising costs	-2,766	-944	-3,710
Personnel costs (only administration and marketing)	-6,116	6,116	0
Depreciation and amortization	-2,372	2,372	0
Other administrative expenses	-3,770	-5,258	-9,028
Other operating income / expense	1,810	0	1,810
Total operating expenses	**-13,214**	**2,286**	**-10,928**
Operating income	**7,523**	**0**	**7,523**
Interest income / expense	471	0	471
Gain / loss from financial assets and marketable securities	73	0	73
Gain / loss on foreign currency translation	-3	0	-3
Financial income	**541**	**0**	**541**
Income before income tax	**8,064**	**0**	**8,064**
Current income tax	-2,552	0	-2,552
Income tax expense	**-2,552**	**0**	**-2,552**
Income from continuing operations	**5,512**	**0**	**5,512**
Discontinued operations			
Income from discontinued operations	416	0	416
Net income	**5,928**	**0**	**5,928**
Attributable to:			
Equity holders of the parent	5,928	0	5,928
Minority interests	0	0	0

The following reclassifications were made in the third quarter 2009 in order to present the figures in accordance with the conventional cost of sales method.

1. Reclassification of depreciation and amortisation, which had previously been reported separately and are now reported under cost of revenues (kEUR 2.286) and other administrative expenses (kEUR 86).
2. Allocation of personnel costs between other administrative expenses (kEUR 5.172) and distribution costs (kEUR 944).

7 Related party disclosures

Business transactions between the company and its subsidiaries which are considered as related companies were eliminated by consolidation and are not disclosed in these notes.

Related companies include telegate Holding GmbH (Planegg), which holds a majority stake (61.13%) in telegate AG. All shares in telegate Holding are ultimately held by SEAT Pagine Gialle S.p.A. (Milan). SEAT has a direct holding of 16.24% in telegate AG, and – through the arrangement outlined above – an indirect holding of 61.13%.

The ultimate parent company is SEAT Pagine Gialle S.p.A. (Milan).

Terms and conditions of related party transactions

Services are rendered or received at standard market conditions. Outstanding receivables and liabilities at the reporting date are not hedged and are non-interest-bearing. No valuation adjustments were made for receivables from related companies in either the financial year under review or in the previous year. Financial assets bear interest at normal market rates. Interest income is reported in the period to which it relates in accordance with the accrual principle.

Transactions with related companies

Services rendered or received

Telegate Italia S.r.L., up to June 1, 2010 a wholly owned subsidiary of telegate AG, generated income from services rendered to the SEAT group of EUR 6.6 million (2009: EUR 16.0 million) up to June 1, 2010. At the date of selling, Telegate Italia S.r.L. reported receivables towards the SEAT group of EUR 5.3 million (2009: EUR 5.9 million) and liabilities of EUR 22.4 million (2009: EUR 22.7 million). In addition, a receivable existed in the amount of EUR 0.6 million which represents a tax claim against the Italian fiscal authorities. This claim was then directed towards SEAT due to the established special agreement on the relationship between the company and SEAT with their own legal personalities subject to corporation income tax. This item was a liability in the amount of EUR 0.1 million in the previous year.

Effective from June 01, 2010 telegate AG sold the wholly owned subsidiary Telegate Italia S.r.L. to SEAT Pagine Gialle S.p.A.. The purchase price consisted of a one-time fixed payment in the amount of EUR 5.5 million, which was fully paid in form of cash, and a variable share of sales (earn out-component). telegate AG assumed contractual obligations in this connection, which were recognised in accordance with IAS 37.14 in the amount of EUR 0.8 million. For further information see note 9 “Discontinued operation”.

As of the balance sheet date of the previous year, 118000 SAS (formerly: telegate 118000 SARL), which at that time was also a wholly-owned subsidiary of telegate AG, registered short-term deferred liabilities against SEAT of EUR 0.1 million. This French subsidiary was sold as of November 2, 2009.

Fixed-term deposits

telegate AG - also telegate Auskunftsdienste GmbH from June 2009 until June 2010 - deposits fixed-term deposits with short maturities up to three months at SEAT Pagine Gialle S.p.A since February 2004. At the reporting date September 30, 2010, a total of EUR 56.0 million (2009: EUR 53.0 million), split in several tranches, was deposited with SEAT. For the reporting period 2010, the interest income from this investment amounted to EUR 1.6 million (2009: EUR 1.5 million). As at the balance sheet date, EUR 0.1 million (2009: EUR 0.4 million) of this amount was deferred and reported as a receivable.

Transactions with related persons

At the balance sheet date September 30, 2010, three members of the supervisory board of telegate AG were employees of the SEAT group. As at September 30, 2010, supervisory board remuneration of kEUR 25 (2009: kEUR 25) was due to these individuals, which were recorded correspondingly as a current liability.

8 Dividends paid

The proposed appropriation of earnings of the management board and supervisory board was approved according to the resolution of the shareholders´ meeting of June 09, 2010 and the net earnings 2009 in the amount of kEUR 14,864 were used for the a dividend distribution (2009: kEUR 14,864). This corresponds to a dividend of € 0.70 per individual share certificate.

9 Discontinued operation

Telegate Italia S.r.L.

With effect of June 01, 2010, telegate AG sold the wholly-owned subsidiary Telegate Italia S.r.L. to SEAT Pagine Gialle S.p.A., the majority shareholder of telegate AG; for this purpose, see also note 7 "Related party disclosures". The purchase price consisted of a one-time fixed payment in the amount of kEUR 5.534, which was fully paid in form of cash, and a variable share of sales (earn-out-component). At the same time the two call-centers conducted in Italia, in which telegate performed the directory assistance services in the Italian market, passed on to the leading Italian call-center-provider Contacta S.p.A.. The deconsolidation from the telegate group was made correspondingly as of June 01, 2010. As operating segment Telegate Italia S.r.L. was presented within the reportable operating segment "Italy/Spain" of the group. Telegate Italia S.r.L. contributed to the earnings of the telegate group until its sale date as follows:

	Quarterly Report (unaudited)		9-Months Report (unaudited)	
in kEUR	Q3 2010	Q3 2009	9M 2010	9M 2009
Revenues	-	5,527	6,549	16,127
Cost of revenues	-	-3,701	-5,519	-11,771
Gross profit (excl. depreciation and amortization)	**-**	**1,826**	**1,030**	**4,356**
Total operating expenses	**-**	**-1,324**	**-2,439**	**-2,986**
Operating income	**-**	**502**	**-1,409**	**1,370**
Financial income	**-**	**-4**	**-5**	**-18**
Income before income tax	**-**	**498**	**-1,414**	**1,352**
Income tax expense	**-**	**-306**	**-559**	**-984**
Income from discontinued operations	**-**	**192**	**-1,973**	**368**
Income from the disposal of the discontinued operation	8	-	4,560	-
Net income from the discontinued operation	**8**	**192**	**2,587**	**368**

The income from the disposal of the discontinued operation with an amount of kEUR 4,560 includes also direct attributable expenses, which are accrued as a result of the sale of Telegate Italia S.r.L..

Results and subsequent expenses due to the sale of 118000 SAS (former: telegate 118000 SARL) are not included in the above mentioned figures, see also note 5 "Explanations to the profit and loss statement of the group".

Assets and liabilities on the sale date (without cash)

	kEUR
Current assets	24,992
Non-current assets	609
Current liabilities	26,939
Non-current liabilities	414

Cash provided by the sale

	kEUR
Purchase price included	5,534
Cash sold with the discontinued operation	-1,867
Cash provided (balance)	**3,667**

The net cash flows of the discontinued operations are represented as follows:

in kEUR	**1.1.-01.06.2010**	**1.1.-30.09.2009**
Operating activity	1,865	159
Investing activity	-3	-159
Financing activity	0	0
Net cash flows	**1,862**	**0**

The details are calculated without intercompany-transactions. Telegate Italia S.r.L. was integrated in the cash-pooling of telegate AG up to May 26, 2010.

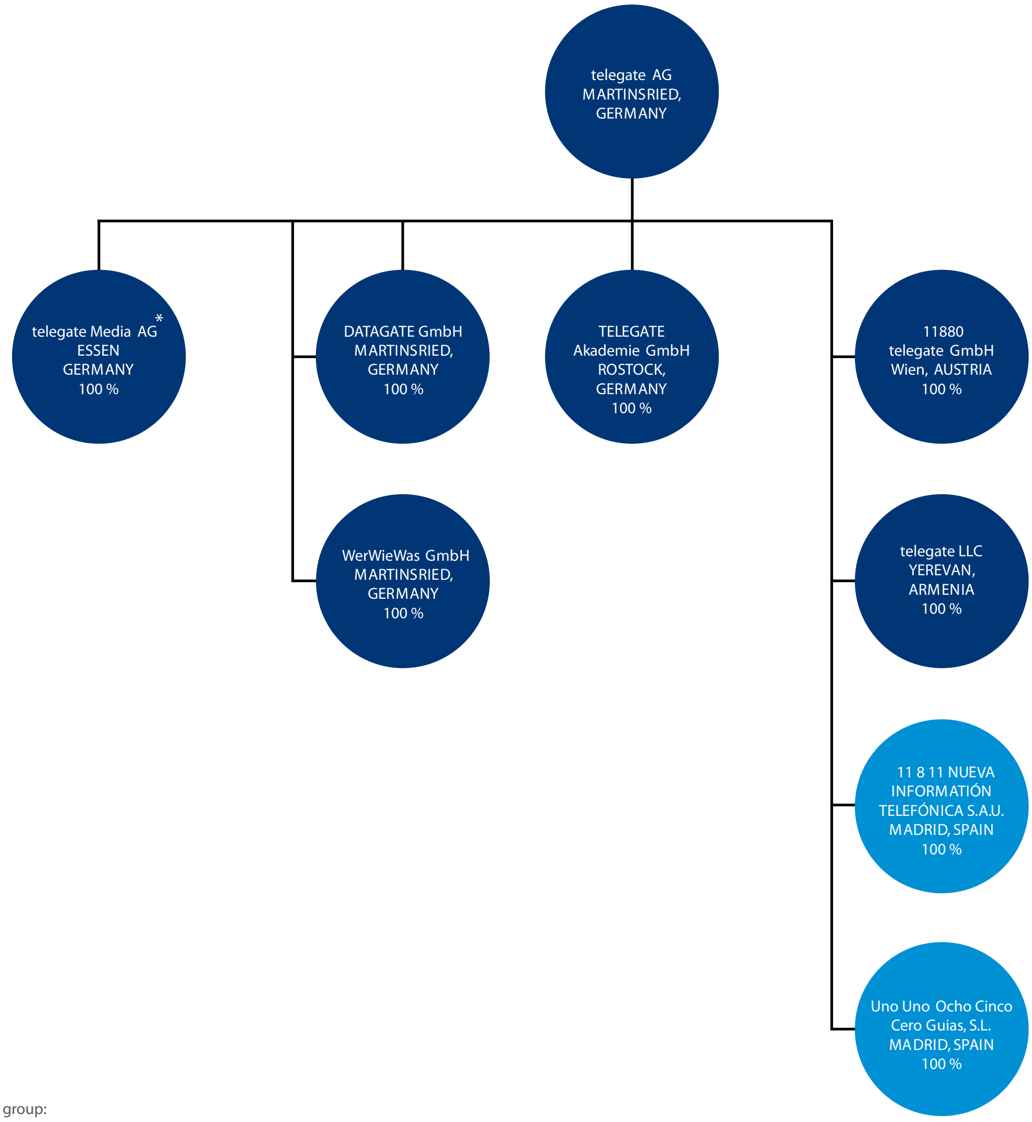
10 German Corporate Governance Code

The joint declaration of compliance of the management board and supervisory board of telegate AG in accordance with section 161 AktG - German Corporation Law was made in December 2009. The exact wording of the declaration can be retrieved under www.telegate.com.

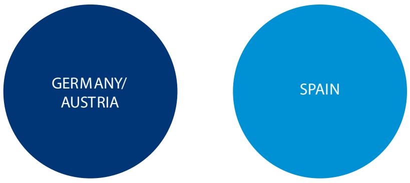
Planegg-Martinsried, October 29, 2010

The Management Board

Corporate Structure Group



Segments of telegate group:



* Merger of telegate Auskunftsdienste GmbH to telegate Media AG as at 01.07.2010

www.telegate.com

telegate AG • Fraunhoferstraße 12a • 82152 Martinsried