telegate

Prospectus

PROSPECTUS

TELEGATE AG

Planegg, Germany

3,273,055 ORDINARY BEARER SHARES
(with no par value)

Ordinary bearer shares, with no par value (the "Shares"), of Telegate AG ("Telegate" or the "Company"), a stock corporation organized under the laws of the Federal Republic of Germany, in an aggregate amount of 3,273,055 Shares (3,764,012 Shares if the over-allotment option is exercised in full) are being offered by the Company and by the Selling Shareholders (the "Offering"). The Shares are being offered in a public offering in Germany, in private placements in other European countries in reliance on Regulation S ("Regulation S") under the U.S. Securities Act of 1933, as amended (the "Securities Act") and in the United States in reliance on Rule 144A under the Securities Act to qualified institutional buyers (as defined in such rule). Prior to the Offering, there has been no public market for the Shares. Up to 26,700 Shares are being offered to the Company's employees at a price which is 20% lower than the Offer Price. The Shares will entitle the holders thereof to dividends, if any, from January 1, 1999 and succeeding years.

The Shares have been admitted to the regulated market (Geregelter Markt) of the Frankfurt Stock Exchange with trading on the Neuer Markt, a market segment of the Frankfurt Stock Exchange. Trading on the Neuer Markt is expected to commence on April 22, 1999.

INVESTING IN THE SHARES INVOLVES RISKS.
SEE "RISK FACTORS" BEGINNING ON PAGE 16.

THE SECURITIES OFFERED IN THE OFFERING HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT AND MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES OR TO, OR FOR THE BENEFIT OF, U.S. PERSONS (AS DEFINED UNDER REGULATION S) EXCEPT PURSUANT TO AN EXCEPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. FOR CERTAIN RESTRICTIONS ON RESALE, SEE "GENERAL INFORMATION—NOTICE TO INVESTORS".

OFFER PRICE: EURO 27 PER SHARE

Certain of the Selling Shareholders have granted the Managers an option, exercisable for 30 days after the commencement of trading of the Shares on the Neuer Markt, to purchase up to 490,957 additional Shares at the Offer Price less the underwriting discount and commissions, solely to cover over-allotments, if any.

The Shares are offered severally by the Managers subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. It is expected that the delivery of the Shares will be made on or about April 26, 1999 in book-entry form through the facilities of Deutsche Börse Clearing AG, and Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System, and Cedelbank, société anonyme.

MORGAN STANLEY DEAN WITTER

DG BANK
Deutsche Genossenschaftsbank AG

Credit Suisse First Boston

Sal. Oppenheim jr. & Cie

Bankhaus Reuschel & Co.

Landesbank Sachsen
Girozentrale

April 20, 1999

This Prospectus is for use exclusively in connection with the offer and sale of the Shares to institutional investors outside the Federal Republic of Germany. Substantially all of the information set forth in this Prospectus has been translated from the German-language prospectus prepared for the Offering to investors in Germany on the basis of the requirements of applicable German laws and regulations.

No dealer, salesman or any other person has been authorized to give any information, or to make any representations, other than those contained in this Prospectus, in connection with the offer contained in this Prospectus, and, if given or made, such information or representations must not be relied upon as having been authorized by Telegate or any Underwriter.

THE SECURITIES OFFERED IN THE OFFERING ARE NOT REQUIRED TO BE AND HAVE NOT BEEN REGISTERED WITH, RECOMMENDED BY OR APPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION OR ANY OTHER FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY OF OR IN THE UNITED STATES, NOR HAS ANY SUCH AUTHORITY REVIEWED OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE UNDER THE LAWS OF THE UNITED STATES.

To the best of the knowledge and belief of Telegate (which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. No representation or warranty, express or implied, is made by the Managers as to the accuracy or completeness of the information contained herein. This Prospectus does not contain all the information that would be included in a prospectus for the Offering, were such offering to be registered under the Securities Act. In making an investment decision, prospective investors must rely on their own examination of Telegate and the terms of the Offering, including the merits and risks involved.

This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of, any Shares to any person in any circumstances or in any jurisdiction in which it is unlawful to make such an offer, solicitation or sale. For a description of certain further restrictions on the offering and sale of the Shares, see "The Offering—General". In addition, for a description of the transfer restrictions imposed, and the representations and acknowledgments that each person acquiring Shares will be deemed to make, with respect to the transfer of Shares to investors in the Offering and in subsequent offers, resales, pledges or transfers, see "General Information—Notice to Investors". Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.

No action has been or will be taken to permit a public offering in any jurisdiction other than Germany where action would be required for that purpose. This Prospectus may not be distributed in any jurisdiction except in accordance with the legal requirements applicable in such jurisdiction. Prospective purchasers are hereby notified that the seller of Shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A thereunder.

This Prospectus may not be issued or passed on in the United Kingdom except to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom such document may otherwise lawfully be issued or passed on.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

This Prospectus contains various forward-looking statements regarding events and trends that are subject to risks and uncertainties that could cause the actual results and financial position of Telegate to differ materially from the information presented herein. When used in this Prospectus, the words "estimate", "project", "intend", "anticipate", "expect", "should" and similar expressions are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Telegate undertakes no obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

No person is authorized in connection with any offering made hereby to give any information or to make any representation other than that contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorized. Neither the delivery of this Prospectus at any time nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of Telegate since the date hereof or that the information set forth herein is correct as of any date subsequent to the date hereof.

IN CONNECTION WITH THIS OFFERING, MORGAN STANLEY BANK AG AND ANY OF ITS AFFILIATES, ON BEHALF OF THE MANAGERS, MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SHARES AT A PRICE WHICH MIGHT NOT OTHERWISE PREVAIL. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. SUCH TRANSACTIONS MAY BE EFFECTED ON THE FRANKFURT STOCK EXCHANGE, THE OVER-THE-COUNTER MARKET OR OTHERWISE.

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GENERAL INFORMATION

Responsibility for the Contents of the Prospectus

Telegate AG (the "Company" or "Telegate") and the Managers named herein undertake, pursuant to §13 of the Securities Sales Prospectus Act and §§77 and 45 of the German Stock Exchange Act, responsibility for the contents of this Prospectus and hereby state that, to the best of their knowledge, the information contained in this Prospectus is correct and that no material circumstances have been omitted.

Inspection of Documents

The documents referred to in this Prospectus which relate to the Company, as well as future annual and interim reports prepared by the Company, may be inspected during customary business hours at the offices of the Company, Fraunhoferstr. 20, 82152 Planegg-Martinsried, as well as at the offices of Morgan Stanley Bank AG, Rahmhofstr. 2-4, D-60313 Frankfurt am Main.

Subject of the Prospectus

The subject of this Prospectus for offering purposes is the offer of the Company's no par value ordinary bearer shares (the "Shares") with a notional par value (calculated by dividing the aggregate Euro value of the Company's share capital by the total number of Shares outstanding) of one Euro each, namely: (a) 2,000,000 Shares (with a notional aggregate par value of Euro 2,000,000) resulting from a capital increase of Euro 2,000,000 which was approved on April 12, 1999, (b) 1,273,055 Shares (with a notional aggregate par value of Euro 1,273,055) from the holdings of the Selling Shareholders and (c) up to 490,957 Shares (with a notional aggregate par value of Euro 490,957) from the holdings of the Selling Shareholders pursuant to the Over-allotment Option ("Greenshoe") (as defined below) granted to the Managers (as defined below). All Shares are entitled to full dividend rights as of January 1, 1999.

The subject of this Prospectus for listing purposes is the entire Share capital of the Company in the amount of Euro 12,730,000 (after the registration of the capital increase of Euro 2,000,000) divided in 12,730,000 ordinary bearer shares in the form of no par value shares of the Company with a notional par value of one Euro per Share. All Shares are entitled to full dividend rights as of January 1, 1999.

Available Information

At any time Telegate is not subject to the reporting requirements of Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended, or exempt therefrom by virtue of Rule 12g3-2(b) thereunder, it will furnish, upon written request, to any holder of a Share, any owner of any beneficial interest in any Share or any prospective purchaser designated by a shareholder or such an owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Presentation of Financial Information

Unless otherwise indicated, any reference in this Prospectus to the financial statements of the Company is to the audited consolidated financial statements (including the notes thereto) included herein of Telegate.

The unconsolidated financial statements of the Company (including the notes thereto) included herein were prepared in accordance with the requirements of the German Commercial Code ("German GAAP"). The consolidated financial statements of the Company and its consolidated subsidiaries included herein were prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). German GAAP relevant to the Company differ from U.S. GAAP in certain material respects. For a discussion of certain material differences between German GAAP and U.S. GAAP relevant to the financial statements of the Company, see "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Enforcement of Liabilities; Service of Process

Telegate is a stock corporation (*Aktiengesellschaft*) incorporated under the laws of the Federal Republic of Germany. None of the members of the Board of Management (*Vorstand*) or, with one exception, the Supervisory Board (*Aufsichtsrat*) of Telegate is a resident of the United States, and all or a substantial portion of the assets of such persons and Telegate are located outside the United States. As a result, it may not be possible for holders or beneficial owners of Shares to effect service of process within the United States upon such persons or Telegate, or to enforce against them in the U.S. courts judgments obtained in such courts whether or not predicated upon the civil liability provisions of the federal securities or other laws of the United States or any state thereof. Telegate has been advised by its German counsel, Hengeler Mueller Weitzel Wirtz, that there is doubt as to the enforceability in Germany in original actions or in actions for enforcement of judgments of U.S. courts of civil liabilities predicated solely upon the federal securities laws or other laws of the United States, in each case against Telegate and against Shareholders, members of the Board of Management or the Supervisory Board of Telegate and employees of Telegate domiciled in Germany. In addition, awards of punitive damages in actions brought in the United States or elsewhere may be unenforceable in Germany.

Notice to Investors

United States Restrictions

Because of the following restrictions, purchasers in the United States are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of Shares.

The Shares have not been and will not be registered under the Securities Act and may not be offered or sold in the United States except pursuant to an effective registration statement or in accordance with an applicable exemption from the registration requirements of the Securities Act, and are being offered and sold in the United States only to "qualified institutional buyers" ("QIBs") within the meaning of Rule 144A under the Securities Act ("Rule 144A") in private sales exempt from the registration requirements of the Securities Act. Each purchaser of Shares pursuant to Rule 144A, whether in the Offering or thereafter, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S under the Securities Act ("Regulation S") are used herein as defined therein):

(1) It is a QIB within the meaning of Rule 144A, and it is acquiring such Shares for its own account or for the account of a QIB; it is aware, and each beneficial owner of such Shares has been advised, that the sale of such Shares to it is being made in reliance on Rule 144A, and it is aware that such Shares are restricted securities under the Securities Act and may not be deposited into any unrestricted depositary facility, unless at the time of such deposit such Shares are no longer restricted securities.

(2) It understands that the Shares have not been and will not be registered under the Securities Act and agrees that if it should sell or transfer the Shares it will do so only in compliance with the Securities Act and only (A)(i) pursuant to Rule 144A to an institutional investor that the seller reasonably believes is a QIB within the meaning of Rule 144A purchasing for its own account or for the account of a QIB, whom the seller has informed, in each case, that the resale or transfer is being made in reliance on Rule 144A; (ii) to a non-U.S. purchaser in an offshore transaction in accordance with Rule 903 or 904 of Regulation S; (iii) pursuant to any other exemption from the registration requirements of the Securities Act, subject, in each such case, to the receipt by Telegate of an opinion of counsel or such other evidence that it may reasonably require that such sale or transfer is in compliance with the Securities Act; or (iv) pursuant to an effective registration statement under the Securities Act and (B) in accordance with all applicable securities laws of the states of the United States. No representation can be made as to the availability of the exemption provided by Rule 144 under the Securities Act for the resale of Shares.

(3) If it is acquiring Shares for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

(4) It acknowledges that Telegate, the Managers, the Selling Shareholders, their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

Any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the above-stated restrictions shall not be recognized by Telegate.

Until 40 days after commencement of the Offering, an offer, sale or transfer of Shares within the United States by any dealer (including dealers who are not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A thereunder.

United Kingdom Restrictions

The Shares may not be offered or sold in the United Kingdom, prior to the expiry of the period of six months from the closing of the Offering, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which do not constitute an offer to the public within the meaning of the Public Offer of Securities Regulations 1995, as amended. All applicable provisions of the Financial Services Act 1986 must be complied with in respect of anything done in relation to the Shares in, from or otherwise involving the United Kingdom. This Prospectus or any other document received in connection with the offering of the Shares may only be issued or passed on in the United Kingdom to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom the Prosepctus or the relevant document may otherwise lawfully be issued or passed on.

Due to the restrictions on the offer and sale of securities in the United States under U.S. securities laws and regulations, there can be no assurance that any offer of pre-emptive rights to shareholders of Telegate will be open to U.S. holders of Shares.

PROSPECTUS SUMMARY

The following summary is supplemented by the information presented in other parts of this Prospectus including the annual financial statements.

The Company

Telegate offers telephone directory assistance throughout Germany under the telephone number 11 88 0. The Company was founded in August 1996 and, thereafter, established its first call center in Neubrandenburg. Since December 1, 1996, Telegate has provided telephone directory assistance throughout Germany over a fixed network, at first under the telephone number 0 11 99 and since October 1997 under the new number 11 88 0. Telegate can also be reached by mobile phone under the telephone number 11 88 0 on the D2 network since January 1, 1998, on the D1 network since February 1, 1998, and on the e-plus network since April 1, 1998. At the end of March 1999, Telegate operated six call centers providing telephone information services. In the first quarter of 1999, Telegate served 19.5 million callers and had a peak turnover of 300,000 calls per day. In addition to its core business of telephone directory assistance, Telegate offers further services such as access to service numbers, weather information and call completion.

The goal of Telegate is to become the leading alternative provider of telephone directory assistance and to become a leading provider of other telephone information services in Germany. In doing so, Telegate relies on the advantages that the telephone currently offers over the internet in terms of market penetration, user friendliness and billing. In the medium term, Telegate also intends to offer information services abroad and to use its technological infrastructure to offer telephony services at special rates.

Selected Consolidated Financial and Statistical Information

The following selected consolidated financial information from the consolidated profit and loss statements and the consolidated balance sheets is presented according to U.S. Generally Accepted Accounting Principles ("U.S. GAAP"). With regard to the scope of the audit, see "Financial Information—Auditors' Certificate on the Consolidated Financial Statements and the Consolidated Cash Flow Statements for the Fiscal Years 1997 and 1998 (according to U.S. GAAP)".

	Year ended December 31,	
	1998	1997
	(DM thousand)	
Selected Financial Information from the Consolidated Profit and Loss Statements According to U.S. GAAP:		
Revenues	79,361	10,270
Gross profit	24,547	(1,281)
Advertising costs	26,620	9,403
Depreciation	5,421	2,241
Personnel costs	6,216	2,805
Net loss	(23,599)	(20,263)

	At December 31,	
	1998	1997
	(DM thousand except employees)	
Selected Financial Information from the Consolidated Balance Sheets According to U.S. GAAP:		
Cash and cash equivalents	7,412	6,870
Net current assets	(10,118)	(3,400)
Total assets	41,380	21,398
Shareholders' Equity	(11,207)	(11,381)
Statistical Data:		
Average number of employees	1,002	113

Summary of the Offering

Offered Shares:	The Offering consists of (a) 2,000,000 Shares from the Company resulting from a capital increase of Euro 2,000,000 through the issue of 2,000,000 Shares, which was approved and subscribed for on April 12, 1999 and registered in the commercial register on April 16, 1999, and (b) 1,273,055 Shares from the holdings of the Selling Shareholders. For details on the amount of Shares sold by individual Existing Shareholders, see "General Information on the Company—Existing Shareholders".
Over-allotment Option:	Certain Selling Shareholders have granted the Managers an option, exercisable on their behalf by Morgan Stanley Bank AG for a period of 30 days from the commencement of trading of the Shares on the *Neuer Markt*, to purchase up to a further 490,957 Shares, solely to cover over-allotments, if any (the "Over-allotment Option").
Global Co-Ordinator and Managers:	Morgan Stanley Bank AG, Frankfurt am Main ("Morgan Stanley") is the global co-ordinator and lead manager of the Offering. Further underwriters are DG BANK Deutsche Genossenschaftsbank AG, Credit Suisse First Boston Aktiengesellschaft, Sal. Oppenheim jr. & Cie. Kommanditgesellschaft auf Aktien, Bankhaus Reuschel & Co. and Landesbank Sachsen Girozentrale (together with Morgan Stanley, the "Managers").
Offering:	The Offering consisted of a public offering in the Federal Republic of Germany and a private placement in other European countries and in the United States during the period from April 13 to April 20, 1999 by the Managers and lead-managed by Morgan Stanley. The number of Shares sold in the Offering may be increased, depending upon whether and to what extent the Over-allotment Option will be exercised.
Price Range, Offer Price and Number of Allotted Shares:	The offer price per Share (the "Offer Price") was determined on the basis of the order book established in the course of the bookbuilding process. The price range for the Offering was Euro 23.5 to Euro 27 per Share. The Offer Price of Euro 27 was determined on April 20, 1999 by Morgan Stanley in consultation with the Company and the Existing Shareholders. It is expected that the Offer Price will be published in the *Börsen-Zeitung*, the *Frankfurter Allgemeine Zeitung* and the *Handelsblatt* on April 22, 1999. The number of Shares allotted to any investor who places an order with a Manager is expected to be available upon request beginning on April 21, 1999, from such Manager. Payment of the Offer Price is expected to be due on April 26, 1999.
Total Share Capital Following Capital Increase:	Euro 12,730,000
Percentage of Share Capital Being Offered:	25.71% (29.57%, if the Over-allotment Option is exercised in full).
Existing Shareholders:	Prior to the completion of the Offering, all of the Shares are held by Telegate Holding GmbH, Planegg (Munich county), RED LINE Telekommunikations GmbH, Miltenberg, THC Century AG, Liechtenstein, Sachsen LB Corporate Finance Holding GmbH, Leipzig, and Mr. Peter Wünsch, Dr. Klaus Harisch, Dr. Christian

	Schwarz-Schilling and Mr. Dirk Roesing. The current shareholders are referred to collectively in this Prospectus as the "Existing Shareholders". From the Existing Shareholders, RED LINE Telekommunikations GmbH and THC Century AG and, if the Over-allotment Option is fully exercised, also Sachsen LB Corporate Finance Holding GmbH (together, the "Selling Shareholders") will sell up to 1,764,012 Shares in the Offering. Upon the completion of the Offering, the Existing Shareholders will own 74.29% of the outstanding Shares of the Company (70.43% if the Over-allotment Option is exercised in full). In this regard and for details on the amount sold by individual Existing Shareholders, see "General Information on the Company—Existing Shareholders".
Lock-up Agreements:	Each of the Existing Shareholders and the Company have agreed pursuant to the Rules and Regulations of the *Neuer Markt* and in compliance with the applicable national stock corporation law for a period of six months from the commencement of trading of the Shares on the *Neuer Markt* of the Frankfurt Stock Exchange not to offer, sell or announce the sale of any Shares, nor take any other measures having the same economic effect as a sale of Shares, whether directly or indirectly. Upon request, which must be substantiated, Deutsche Börse AG may pursuant to the Rules and Regulations of the *Neuer Markt* exempt the Company from the foregoing obligations. In addition to the lock-up agreement pursuant to the Rules and Regulations of the *Neuer Markt* as described above, the Existing Shareholders and the Company have agreed to apply for an exemption from the lock-up agreement described above from Deutsche Börse AG only with the consent of Morgan Stanley. Telegate Holding GmbH has agreed with Morgan Stanley that, for a further period of six months after expiration of the lock-up agreement pursuant to the Rules and Regulations of the *Neuer Markt*, it will only sell Shares to the extent that such sale does not reduce its holding in the Company below 50% plus one Share. Mr. Peter Wünsch and Dr. Harisch have agreed not to sell any Shares during such period. RED LINE Telekommunikations GmbH and THC Century AG have agreed, during the aforementioned period (six months after the expiration of the lock-up agreement pursuant to the Rules and Regulations of the *Neuer Markt*), not to sell Shares constituting more than 0.25% of the share capital of the Company. Mr. Dirk Roesing and Dr. Christian Schwarz-Schilling have each agreed to sell no more than 50% of their shareholdings during the aforesaid period.
Use of Proceeds:	In connection with the Offering, the Company will receive the proceeds from the capital increase of nominal Euro 2,000,000, less the costs of the Offering to be borne by the Company (see "The Offering"). The net proceeds will be used to strengthen the financial statement ratios, and are intended to be used as working capital, as well as to finance further growth and for other general business purposes. See also "The Offering—Use of Proceeds". The Selling Shareholders will receive the proceeds from the sale of 1,273,055 Shares (1,764,012 Shares if the Over-allotment Option is fully exercised) from their holdings, less the costs of the Offering to be borne by them.
Dividend Rights:	All Shares are entitled to dividends from January 1, 1999.

Dividends:	Because of losses carried forward and a reduction in capital resolved in March 1999, the Company will be legally prevented from paying dividends in the near future. See "Loss Carryforwards/Dividend Policy". In addition, the Company does not intend to pay dividends in the foreseeable future. Rather, the Board of Management and the Supervisory Board currently expect to propose to the general shareholders' meeting that, to the extent permitted by law, earnings, if any, will be retained to fund the further development and growth of the Company's business.
Preferential Allocation:	As part of the Offering, a total of 56,500 Shares are offered for subscription on preferential terms to employees of the Company. In addition, 26 private individuals who are employees of Existing Shareholders or are otherwise related to the Company or any Existing Shareholder are offered Shares with an aggregate Offer Price of up to Euro 1.025 million for subscription on preferential terms.
Voting rights:	Each Share has one vote. There are no restrictions on such voting rights.
Listing:	The aggregate share capital of the Company, which amounts to Euro 12,730,000 after the registration of the capital increase which was approved on April 12, 1999, has been admitted to the regulated market of the Frankfurt Stock Exchange, with trading on the *Neuer Markt*, on April 20, 1999. Trading on the *Neuer Markt* is expected to commence on April 22, 1999.
Delivery/Settlement:	The delivery of the Shares against payment is expected to take place on April 26, 1999. The Shares will be represented by one or more global share certificates which will be deposited with Deutsche Börse Clearing AG ("DBC"). It is not intended that the global share certificates be exchanged for definitive share certificates. Investors may choose whether Shares purchased in the Offering are to be credited for the account of such investor to the account of a deposit bank with DBC as central securities depository or to the account of a participant in the Euroclear system operated by Morgan Guaranty Trust Company of New York, Brussels office ("Euroclear") or Cedelbank, société anonyme ("Cedelbank"). See "The Offering—Settlement and Delivery".
Expected Symbol on the *Neuer Markt*:	TGT

THE OFFERING

General

The Shares offered hereby were part of an offering totaling 3,273,055 Shares (3,764,012 Shares if the Over-allotment Option is fully exercised). During the period from April 13 to April 20, 1999, the Shares were publicly offered in the Federal Republic of Germany and privately placed in other European countries and in the United States.

In the Purchase Agreement among the Managers, the Company and the Selling Shareholders (the "Purchase Agreement"), the Company has agreed to issue Shares to the Managers listed below at a subscription price of Euro 1, and the Selling Shareholders have agreed to sell Shares to such Managers, and the Managers have agreed, severally and not jointly, to purchase the number of Shares specified below:

	Number of Shares
Morgan Stanley Bank AG	1,800,181
DG BANK Deutsche Genossenschaftsbank AG	654,611
Credit Suisse First Boston Aktiengesellschaft	294,575
Sal. Oppenheim jr. & Cie. Kommanditgesellschaft auf Aktien	196,383
Bankhaus Reuschel & Co.	196,383
Landesbank Sachsen Girozentrale	130,922

The price range for the Offering was Euro 23.5 to Euro 27 per Share. The Offer Price of Euro 27 per Share was determined on April 20, 1999 by Morgan Stanley, in consultation with the Company and the Existing Shareholders, based on the order book established in the course of the bookbuilding process. It is expected that the Offer Price per Share will be published in the *Börsen-Zeitung,* the *Frankfurter Allgemeine Zeitung*, and the *Handelsblatt* on April 22, 1999. The number of Shares allotted to any investor who places an order with an Underwriter is expected to be available upon request beginning on April 21, 1999 from such Underwriter. Payment of the Offer Price for any Shares purchased is expected to be due on April 26, 1999. The delivery of the Shares against payment is expected to take place on April 26, 1999. See "Settlement and Delivery".

A total of 2,000,000 Shares being sold by the Company were issued in a capital increase against cash contributions which was approved on April 12, 1999. A total of 1,273,055 Shares (1,764,012 Shares if the Over-allotment Option is fully exercised) are being sold by the Selling Shareholders.

In the Purchase Agreement, the Managers have been granted the option for a period of 30 days from the date of the commencement of trading of the Shares on the *Neuer Markt*, to purchase up to 490,957 Shares from the holdings of certain Selling Shareholders for the Offer Price per Share specified in this Prospectus less underwriting fees and commissions (the "Over-allotment Option" or "Greenshoe"). In addition, these Selling Shareholders have granted the Managers the option to borrow up to 490,957 Shares for a period of up to 35 days from the commencement of trading of the Shares on the *Neuer Markt.* This loan may be wholly or partially repaid through the exercise of the Over-allotment Option.

Each of the Existing Shareholders and the Company have agreed pursuant to the Rules and Regulations of the *Neuer Markt* and in compliance with the applicable national stock corporation law for a period of six months from the commencement of trading of the Shares on the *Neuer Markt* of the Frankfurt Stock Exchange, not to offer, sell or announce the sale of any Shares, nor take any other measures having the same economic effect as a sale of Shares, whether directly or indirectly. Upon request, which must be substantiated, Deutsche Börse AG may pursuant to the Rules and Regulations of the *Neuer Markt* exempt the Company from the foregoing obligations.

In addition to the lock-up agreement pursuant to the Rules and Regulations of the *Neuer Markt*, the Existing Shareholders and the Company have agreed to apply for an exemption from the lock-up agreement described above from Deutsche Börse AG only with the consent of Morgan Stanley. Telegate Holding GmbH has agreed with Morgan Stanley that, for a further period of six months after expiration of the lock-up agreement pursuant to the Rules and Regulations of the *Neuer Markt*, it will only sell Shares to the extent that such sale does not reduce its holding in the Company below 50% plus one Share. Mr. Peter

Wünsch and Dr. Harisch have agreed not to sell any shares during such period. RED LINE Telekommunikations GmbH and THC Century AG have agreed, during the aforementioned period (six months after the expiration of the lock-up agreement pursuant to the Rules and Regulations of the *Neuer Markt*), not to sell Shares constituting more than 0.25% of the share capital of the Company. Mr. Dirk Roesing and Dr. Christian Schwarz-Schilling have each agreed to sell no more than 50% of their share holdings during the aforesaid period.

In the Purchase Agreement, the Company has agreed to indemnify the Managers against certain liabilities in connection with the Offering.

Preferential Allocation

A total of 56,500 Shares are offered for subscription on preferential terms to the Company's employees. Each employee is entitled to up to 20 Shares at a purchase price which is 20% lower than the Offer Price. For the subscription of Shares in excess of 20 Shares per employee, the full Offer Price must be paid. In total, up to 39,000 Shares are allocated to the approximately 1,300 operators of Telegate, with each operator being entitled to purchase up to 30 Shares. Up to 17,500 Shares are allocated to approximately 35 senior staff of Telegate, who are entitled to purchase up to 500 Shares each. In addition, the senior staff can subscribe on a *pro rata* basis in excess of 500 Shares for those of the 39,000 Shares or 17,500 Shares, as the case may be, which were not subscribed for by the operators or other senior staff. The senior staff must complete special subscription orders including an obligation not to dispose of their subscribed Shares for a period of 12 months after the commencement of trading of the Shares on the *Neuer Markt*. For this purpose, the Shares which have been subscribed as part of the preferential allocation described above will be credited to a blocked account at Sparkasse Leipzig.

In addition, 26 private individuals who are employees of Existing Shareholders or are otherwise related to the Company or any Existing Shareholder are offered Shares for subscription on preferential terms. Of these 26 private individuals, 15 are entitled to subscribe on preferential terms for Shares with an aggregate Offer Price of up to Euro 50,000 and 11 on preferential terms for Shares with an aggregate Offer Price of up to Euro 25,000.

Voting Rights

Each Share has one vote. There are no restrictions on such voting rights.

Dividend Rights

The Shares are entitled to dividends from January 1, 1999.

Listing

The aggregate share capital of the Company, which amounts to Euro 12,730,000 after the registration of the capital increase which was approved on April 12, 1999, has been admitted to the regulated market of the Frankfurt Stock Exchange, with trading on the *Neuer Markt* of the Frankfurt Stock Exchange, on April 20, 1999. Trading on the *Neuer Markt* is expected to commence on April 22, 1999.

Use of Proceeds

The Company intends to use the proceeds from the Offering to strengthen its financial statement ratios, to finance further growth, for working capital and for other general business purposes. The amounts actually expended for each purpose will depend upon various factors. Planned investments to be financed with the proceeds from the Offering include, in particular, the establishment of new call centers, the purchase of switching technology and the extension of Telegate's network of telephone lines as well as the expansion into other international markets. The proceeds from the sale of the Shares of the Selling Shareholders will go to such Selling Shareholders, less the costs of the Offering to be borne by the Selling Shareholders (including commissions relating to the Shares sold by them).

In connection with the Offering, the Company will incur costs of approximately DM 4 million plus the underwriting commissions for the placement of Shares in connection with the capital increase. The Managers will receive from the Company approximately Euro 2.16 million in aggregate commissions. In addition, the Company has undertaken to pay to Morgan Stanley an additional amount of up to DM 1.5

million, depending on Telegate's satisfaction with Morgan Stanley's performance in connection with the services rendered by Morgan Stanley with respect to the Offering and the listing of the Shares. Thus, the net proceeds from the Offering to Telegate will be approximately Euro 49 million.

Settlement and Delivery

The Shares will be represented by one or more global share certificates which will be deposited with DBC. It is not intended that the global share certificates be exchanged for definitive share certificates. Investors may choose to have the Shares they purchase credited to the account of either a deposit bank with DBC as the central securities depository or a participant in Euroclear or Cedelbank. The Shares that continue to be owned by the Existing Shareholders are also represented by global share certificates.

Pursuant to the Company's articles of association, the shareholders have no right to have their Shares represented by definitive share certificates. Therefore, no printing of individual share certificates is anticipated.

The German Securities Identification Number (*Wertpapier-Kenn-Nummer*) ("WKN") for the Shares is 511880. The International Securities Identification Code ("ISIN") for the Shares is DE 000 511 880 6, and the Common Code is 9633421.

RISK FACTORS

Because of the short business history of Telegate and consequently the limited historical information available for an evaluation of the Company as well as uncertainty regarding the successful expansion of the Company into further business segments in the future, the purchase of Shares offered in this Prospectus involves certain risks. In addition to the other information contained in this Prospectus, investors should pay particular attention to the following specific risk factors in deciding whether to purchase Shares in this Offering:

Short Company History; Initial Losses

Telegate is a young company which started its business activity (offering telephone directory assistance services) only after the beginning of the liberalization of the German telecommunications market at the end of 1996. Investors, therefore, have only very limited and relatively inconclusive historical financial information regarding the Company and its valuation. Given that the full business activity of Telegate started only recently and in view of the competition in a market which is just now developing, there can be no assurances that the Company will be able to maintain a position as a major directory assistance provider on a long-term basis.

Since being established, Telegate has sustained losses, determined in accordance with German GAAP, amounting to DM 1.7 million in the fiscal year 1996, DM 16.1 million in the fiscal year 1997 and DM 31.1 million in the fiscal year 1998. Telegate operates in a market that is subject to extreme competition, constant changes in technology and possible changes to the regulatory framework. Telegate thus operates in a very risky business environment. In particular, the ability of the Company to achieve positive results will depend upon its ability to constantly acquire new customers, maintain existing customers and increase its brand awareness in the market. The Company's business success will also depend on a continuous increase of the attractiveness of the general information services that it provides, the amount of the costs for network and database access, as well as the level of its competitors' prices, its own prices and the income earned thereby. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Significantly Influencing the Results of Operations."

Risks Inherent in Developing New Business Sectors

Telegate's core business until now has been directory assistance services. Telegate intends to further develop its general information services, and to use its network infrastructure to offer fixed network telephony services at special prices. See "Business—Strategy".

Telegate's ability to offer general information services under the number 11 88 0 is restricted by regulatory requirements, in particular by the Provisional Rules for the Assignment of Telephone Numbers for Directory Assistance Providers (*Vorläufige Regeln für die Zuteilung von Rufnummern für Auskunftsdienste, the "Rules"*), which the competent authorities may change as necessary. The Rules provide that a directory assistance number may only be used to provide information on data regarding subscribers and to connect callers with a requested number. The regulatory framework is unclear as to whether and under what conditions Telegate may provide general information services through its directory assistance number. Telegate can thus give no assurances that the regulatory framework will allow expansion into new business sectors. Violation of the Rules may result in the issuance of an administrative order to stop unauthorized provision of services or even in the revocation of Telegate's directory assistance number. See "Business—Licenses". The revocation of its directory assistance number would endanger the economic viability of the Company.

Just as in Germany, the expansion of Telegate's international business activities will depend on the economic and regulatory environment in each country as well as on the willingness of the respective network operators in these countries to cooperate with Telegate. It is therefore uncertain as to whether Telegate will be able to expand abroad, and if so, to what extent.

Competition in the telephony sector is especially extreme, and is currently characterized by price wars and uncertainty in the interpretation of the regulatory framework. In addition, the regulatory framework may be amended in the future to the disadvantage of alternative network operators.

As a result, no assurances can be given that Telegate will be able successfully to expand into this business sector. If such expansion is not possible, the investments made in relation thereto would be unprofitable, which would have a material adverse effect on the financial condition of the Company and its operating results.

Dependence on DTAG

Telegate maintains a network based on dedicated lines leased from Deutsche Telekom AG ("DTAG"). The Company has concluded an agreement on special network access with DTAG which is applicable to the feeding and transfer of calls from the DTAG fixed network into the Telegate network. Each switch in the Telegate network has a certain number of points of access for telecommunication service providers (*AfTD*), *i.e.*, facilities through which connections are received from the DTAG network. These *AfTD* access points are currently available only from DTAG (for a fee). Because any increase in the number of calls that the Company handles will require a greater number of *AfTD* access points, the Company is dependent upon DTAG making such access points available in a timely manner.

Risks Involved in Billing Via DTAG

Telegate is currently dependent on DTAG for the billing of the information services provided through the DTAG fixed network. DTAG renders collection services on the basis of a billing and collection agreement which has been terminated by DTAG effective September 30, 1999. However, the insolvency and collection risk in respect of Telegate's customers is borne by Telegate. In addition, DTAG is entitled to decide, without prior consultation with Telegate, whether to waive or reimburse an amount billed for the account of Telegate up to a maximum of DM 50.00 (net), should a customer fail to pay or challenge such amount. This arrangement did not result in major losses for Telegate in the past. There can be no assurances that this will not change in the future.

The collection fee to be paid pursuant to the billing and collection agreement comprises a certain percentage of the turnover value of the billed directory assistance services and a fixed rate for printing and sending the bills. The issue of whether the collection fee is subject to regulation by the German Regulatory Authority for Telecommunication and Postal Affairs (*Regulierungsbehörde für Telekommunikation und Post*, the "Regulator") has not yet been resolved. According to press reports in March 1999, DTAG intends to charge much higher fees in the future for the collection of telephone bill amounts. It cannot be ruled out that DTAG will charge Telegate higher collection fees once the termination has become effective. This would have a material adverse effect on the financial condition, operating results and profitability of the Company.

Competition

Telegate operates in a market that has been shaped to a great extent by DTAG, which previously held a network monopoly. With an estimated total turnover for telephone directory assistance in Germany of DM 1 billion in 1998, Telegate had a market share of approximately 10%. The Company competes with DTAG, which has significantly greater financial resources and is considerably better known than Telegate. Telegate competes through quality and service at competitive prices. In the recent past DTAG increased its prices for telephone directory assistance in order to reduce its losses in this business sector and respond to the accusation of cross subsidization. However, no assurances can be given that DTAG will not reduce its prices for telephone directory assistance in the future without engaging in cross subsidization, or that new competitors—such as telecommunication companies other than DTAG—will not enter the market with lower prices. See "Business—Competitors". Telegate believes that because it has entered the market early and because of the barriers to market entry thus created, it has established a good basis to expand and ensure its market position. However, because this market has only just opened to competition, the Company can give no assurances that it will remain the leading independent provider of telephone directory assistance services, second only to DTAG.

No Contractual Customer Relationship

Apart from certain outsourcing partners, Telegate's customers are not contractually bound, but rather decide on a call-by-call basis whether to use the services of Telegate. See "Business—Services Provided". Customers can therefore quickly switch to competitors, especially to DTAG, and other new competing firms. As a result, Telegate finds itself in constant price and performance competition with its competitors.

Changes in Technology and Competition from other Media

The telecommunications industry and directory assistance services are subject to rapid changes in technology and changing customer needs. The success of Telegate will, therefore, depend on its ability to adjust to changes in technology and customer needs and, as necessary, employ alternative technology such as the Internet. Currently, various service providers offer directory assistance on the Internet. Therefore, no assurances can be given that Telegate will be able successfully to offer its services in this medium. The use of CD-ROMs also presents a certain degree of competition. However, access to information on the Internet is still relatively slow, and CD-ROMs, like telephone directories, require constant updating to incorporate new data. These media are also often not available when directory assistance is needed. The Company therefore expects that, particularly due to the increasing use of mobile phones and the directory assistance services requested by mobile phone users, the importance of competitors on the Internet and the use of CD-ROMs will be limited to the users of the fixed network and, because of the disadvantages of these media as discussed above, currently present only limited competition for the Company even on the fixed network. However, because of rapid technological change, no assurances can be given that in the future services comparable to those of Telegate may not be offered in ways that are not yet foreseeable, thus rendering Telegate's services technologically or economically out of date.

Dependence on Key Personnel

To a large extent, the future success of the Company depends upon the continued availability of the members of the Board of Management and executive employees of the Company. Competition for such personnel is intense. The loss of key employees or the inability to attract and retain suitably qualified personnel could have a material adverse effect on the Company's business operations, financial condition and operating results.

Dependence on Information Systems

Telegate uses certain information systems for the operation of its telephone directory assistance services and for billing purposes. The Company expects that such systems and the required hardware and software will need upgrading from time to time to adapt to the increasing number of customers and changes in technology. Difficulties in using new information systems or upgrading existing information systems could have temporary negative effects on Telegate and its financial condition and operating results.

Year 2000

Certain generally known and generally applicable risks arise from the programming of electronic data processing upon entry into the year 2000. In the case of Telegate, this risk relates both to Telegate's own electronic data processing and to that of third parties with whom Telegate does business. Telegate believes that it has taken the steps necessary to avoid disruption of its operations at the beginning of the year 2000 as a result of data processing malfunctions. In particular, Telegate has requested each of its hardware and software suppliers to confirm that the respective hardware and software is year 2000 compliant. Part of the hardware and software that the Company itself uses is currently being upgraded (EWSD switches and ADMOSS — see "Business—Network, Call Centers and Database"). However, no assurances can be given that at the beginning of the year 2000 no disruptions will occur at Telegate or at any firm that supplies services to Telegate, thereby causing delays or failures in providing services in the appropriate form. Any such disruption could have a material adverse effect on the Company's financial condition and operating results.

Current Shareholders and Future Sales of Shares; Control of the Company

The Existing Shareholders may freely sell their Shares following expiration of the lock-up period. These sales could have a material adverse effect on the market price of the Shares. See "General Information on the Company—Existing Shareholders".

Following the completion of the Offering, the Existing Shareholders will together hold 74.29% of the share capital of the Company (70.43% if the Over-allotment Option is exercised in full). Telegate Holding GmbH (in which RSL Com Deutschland GmbH ("RSL Com") is the majority shareholder) will control more than 50% of Telegate's share capital upon the completion of the Offering. The Existing Shareholders will, therefore, have a sufficient majority necessary to adopt most resolutions at the general shareholders' meetings, including the election of Supervisory Board members and the resolutions regarding dividend payments. In the event that the Existing Shareholders represent 75% of the share capital present at a general shareholders' meeting, they could adopt even those resolutions requiring a super-majority if they agree to pool their votes.

***Neuer Markt*, Absence of a Public Market and Possible Volatility of Share Price**

Prior to the Offering, there was no public market for the Shares. The Offer Price of the Shares was determined by Morgan Stanley, in consultation with the Company and the Existing Shareholders, following conclusion of the bookbuilding process. There can be no assurances that the Offer Price of the Shares will correspond to the price at which the Shares are traded after the Offering or that active trading in the Shares will develop and continue after the Offering. The market for shares in telecommunication companies or other growth companies has in the past experienced large fluctuations in price and trading volume that often did not, or at least not fully, correspond to the operating results of the relevant issuer. These market fluctuations could also have a negative effect on the price of the Shares. The price of the Shares could also be materially adversely affected by negative developments in the share prices of similar companies. The Company will apply for the Shares to be admitted on the regulated market of the Frankfurt Stock Exchange, with commencement of trading on the *Neuer Markt*, a market segment of the Frankfurt Stock Exchange for the shares of young and growth-oriented companies, which was introduced approximately two years ago. As only 73 companies were traded on the *Neuer Markt* as of the end of March 1999, and as some of these securities have shown strong price fluctuations, there can be no assurances that the share price volatility of other companies could affect the price development of the Shares.

Forward-Looking Statements

This Prospectus contains certain forward-looking statements, including statements using the words "estimate", "project", "intend", "anticipate" "should", "presumes", "expects" or other formulations with a similar meaning. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which could lead to substantial differences between the actual future results, financial situation, developments or performance of the Company or the relevant branches of industry and those either expressed or implied by such statements. Such factors include for example: competition from other companies, the Company's continuing need for capital, financing costs, changing operating expenses, the continued availability of the members of the Board of Management in office on the date of this Prospectus and, if relevant, the Company's ability to hire qualified managers, uncertainties in the business activities of Telegate and other factors which are set forth in this Prospectus. In view of these uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements. The Company does not assume any obligations to update such statements with respect to future events or developments.

LOSS CARRYFORWARDS/DIVIDEND POLICY

The Company has not paid any dividends in the past. As at December 31, 1998, the Company's losses carried forward amounted to DM 48.94 million pursuant to German GAAP. The losses incurred since the foundation of Telegate in August 1996 are primarily due to the following reasons: Prior to the activation of the number 11 88 0 on October 1, 1997, Telegate rendered its services under the old number 0 11 99. Hardly any advertising was undertaken with respect to the old number due to the proposed change of numbers. Therefore, revenues were low for approximately one year. At the same time, technology-related expenses for the establishment and the maintenance of full capacities were high, with marginal unit costs declining only slowly. Following the activation of the number 11 88 0, the brand awareness of Telegate as a whole, and of its number 11 88 0 in particular, was actively promoted, thus resulting in high advertising costs. High cost of revenues payable to DTAG for network and data access contributed further to the losses.

Any annual profits in future years must first be used to offset the losses carried forward before they may be distributed as dividends. In addition, based upon a shareholders' resolution of March 18, 1999, the Company reduced its share capital by Euro 7,129.51. The Stock Corporation Act provides that, following such a reduction of capital, profits may not be distributed until the total of the statutory and capital reserves equals 10% of the reduced share capital. In addition, no more than 4.0% of profits may be distributed until the fiscal year that begins at least two years after the resolution to reduce Telegate's share capital was adopted. In addition, the Board of Management and the Supervisory Board intend to exercise their right pursuant to the Company's articles of association to allocate the end of year profits remaining after deduction of the amount allocated to the statutory reserve and any loss carried forward, either in whole or in part, to the Company's other earnings reserves without the approval of the general shareholders' meeting. In so far as this right is limited to a maximum amount (See "General Information on the Company—Dividends"), the Board of Management and the Supervisory Board currently intend to propose to the general shareholders' meeting that the remaining profits should also be allocated to other earnings reserves. This dividend policy, however, may change in the future.

As long as the Shares are represented by global certificates which have been deposited with DBC and thus the Shares entitled to dividends are kept in a clearing system, dividends will be paid in accordance with the rules of such clearing system.

Results per Share according to U.S. GAAP for the fiscal years 1997 and 1998 (on a consolidated basis) are shown below. The share capital of Telegate as of March 31, 1999, amounting to Euro 10,730,000, converted into DM at a conversion rate of 1 Euro = DM 1,95583, was taken as a basis for purposes of calculating the result per Share (taking into account the capital increase of DM 19,550,000 which was approved on December 30, 1998 and the capital reduction of Euro 7,129.51). The result per Share has been calculated on a pro forma basis for a no par value Share with a notional par value of one Euro.

	Year-end Loss Pursuant to U.S. GAAP	
	per no par value Share in DM (rounded)	**DM (million)**
Year ended December 31, 1997 (pro forma)	(0.96)	(20,263)
Year ended December 31, 1998 (pro forma)	(1.12)	(23,599)

Pursuant to German GAAP, the loss per Share calculated as described above amounted to DM (0.77) in 1997 and to DM (1.48) in 1998.

CAPITALIZATION

The following table shows the capitalization of the Company as of December 31, 1998 according to U.S. GAAP (i) without the capital increase of Euro 2,000,000 million which was approved on April 12, 1999 and (ii) on a pro forma basis taking into account the aforementioned capital increase (with the proceeds of the Offering calculated on the basis of the Offer Price of Euro 27 per Share). However, the capitalization of the Company which does not include the capital increase of Euro 2,000,000 approved on April 12, 1999 does include a capital increase of up to DM 27,550,000 which was approved on December 30, 1998, subscribed for on March 18, 1999 and registered with the commercial register on March 31, 1999 in the amount of DM 19,550,000. This table should be read in connection with the Company's financial statements, the notes thereto and the discussion thereof which are presented elsewhere in this Prospectus.

	As of December 31, 1998	
	Prior to the Offering*	**Subsequent to the Offering**
	(DM thousand)	
Short-term Liabilities (including long-term liabilities with a remaining term of up to 1 year)	32,110	32,110
Long-term Liabilities (including pension reserves in the amount of DM 153,000)	20,478	20,478
Ordinary Share Capital	21,000	24,898
Capital Reserves	33,432	125,356
Losses Carried Forward	(22,490)	(22,490)
Current Year Net Loss	(23,599)	(23,599)
Total Shareholders' Equity	8,343	104,165
Total Capitalization	28,821	124,643

* Pro forma taking into account the capital increase of up to DM 27,550,000 resolved on December 30, 1998, which was registered with the commercial register in the amount of DM 19,550,000 on March 31, 1999.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the financial condition and the results of operations of Telegate is to be read in conjunction with the description of its business activities, as well as the audited financial statements of the Company prepared in accordance with German GAAP and the notes thereto and the audited consolidated financial statements of the Company and its consolidated subsidiaries prepared in accordance with U.S. GAAP and the notes thereto, each as contained in "Financial Information".

The following discussion and analysis covers the financial condition and results of operations of the Company for the fiscal years 1997 and 1998. Telegate was founded and began its business activities in August 1996. In the fiscal year 1996, the Company commenced its business activities and installed its technical infrastructure, so that no significant revenues were realized. Thus, the fiscal year 1996 may not serve as a reference period. Since the Company's start-up period still continued in 1997 and 1998, a retrospective analysis of such fiscal years also allows for only very limited conclusions to be drawn regarding future developments.

The analysis of Telegate's financial condition and results of operations is presented on the basis of consolidated financial statements which have been prepared in accordance with U.S. GAAP. The annual financial statements as of December 31, 1997 and 1998 were prepared on a consolidated basis including the three subsidiaries which were operating the Telegate call centers in the past. Two of the three subsidiaries were merged with Telegate with effect as of January 1, 1998. The business operations of the third subsidiary were transferred to Telegate as of August 1, 1998. The unconsolidated annual financial statements of Telegate prepared in accordance with German GAAP as of December 31, 1998 show a merger-related loss in the amount of DM 3.822 million arising from loss carryforwards of the merged subsidiaries, which resulted in a corresponding increase of the net loss for such year pursuant to German GAAP. In the consolidated financial statements pursuant to U.S. GAAP, this merger-related loss was transferred to the loss carried forward.

The application of different accounting principles pursuant to German GAAP and U.S. GAAP results in the following substantial differences between the audited financial statements prepared in accordance with U.S. GAAP as compared with the audited financial statements prepared in accordance with German GAAP:

- Pursuant to U.S. GAAP, the other operating income and personnel expenditures for the operators, which are included in the cost of revenues, are reduced by the amount of wage-related government grants that Telegate received for hiring long-term unemployed persons.
- The allocation to the special item with equity portion *Sonderposten mit Rücklageanteil* pursuant to §6 of the Income Tax Act (*Einkommensteuergesetz*) in the amount of the investment-related government grants receivable is to be eliminated from the item "other operating expenses". At the same time, "other operating income" must be reduced by the same amount with respect to the recognition of investment-related government grants receivable. The dissolution of such special item is to be eliminated from "other operating income" and depreciations without affecting results. Accordingly, no special item will be shown in the balance sheet pursuant to U.S. GAAP.
- Pursuant to U.S. GAAP, personnel expenditures for the team leaders and operators in the call centers are not shown in the item "personnel costs", but rather in the item "cost of revenues".
- Pursuant to U.S. GAAP, advertising costs are not included in "other operating expenses", but shown as a separate item.
- Pursuant to U.S. GAAP, extraordinary expenses are reduced with regard to the provisions for the initial public offering in 1998 (approximately DM 3.35 million), thus improving the result. The provisions will be reduced by the same amount.
- In the U.S. GAAP financial statements, the leased operator places (technology) will be capitalized as assets and regularly depreciated over a period of 60 months.
- The loss not covered by shareholders' equity, which is shown as an asset in the German GAAP financial statements, will be shown as a liability in the U.S. GAAP financial statements and deducted from shareholders' equity.

- According to U.S. GAAP, the investment-related government grants receivable are not part of the "other assets", but rather constitute a separate item under "Assets".
- Contrary to German GAAP, accounts prepared according to U.S. GAAP also show the short-term portion of the long-term liabilities, the interest deferrals and the long-term liabilities as separate items under "Liabilities".
- Due to the differences between the net result pursuant to German GAAP and the net result according to U.S. GAAP, deferred tax benefits are to be shown on the balance sheet according to U.S. GAAP. However, the value of these taxes has been adjusted in full due to uncertainties in the management's assessment of future taxable profits, which would be necessary to realize such deferred taxes.

Because of the different accounting principles and different basis used for the preparation of consolidated financial statements on the one hand and unconsolidated financial statements on the other hand, the audited consolidated financial statements pursuant to U.S. GAAP are not comparable with the audited financial statements pursuant to German GAAP included in this Prospectus. The Company was not obliged under German GAAP to prepare consolidated financial statements for 1996, 1997 and 1998. The distribution of dividends is determined exclusively on the basis of the financial statements of Telegate prepared in accordance with German GAAP.

Selected Consolidated Financial and Statistical Data

The following selected consolidated financial data from the consolidated profit and loss statements and the consolidated balance sheets has been prepared according to U.S. GAAP. With regard to the scope of the audit, see "Financial Statements—Auditors' Certificate on the Consolidated Financial Statements and the Consolidated Cash Flow Statements for the Fiscal Years 1997 and 1998 (according to U.S. GAAP)".

	Year ended December 31	
	1998	**1997**
	(DM thousand)	
Selected Profit and Loss Statement Data according to U.S. GAAP:		
Revenues	79,361	10,270
Gross profit	24,547	(1,281)
Advertising costs	26,620	9,403
Depreciation and amortization	5,421	2,241
Personnel costs	6,216	2,805
Net loss	(23,599)	(20,263)

	At December 31	
	1998	**1997**
	(DM thousand except shareholders)	
Selected Balance Sheet Data according to U.S. GAAP:		
Cash and cash equivalents	7,412	6,870
Net current assets	(10,118)	(3,400)
Total assets	41,380	21,398
Equity	(11,207)	(11,381)
Statistical Data:		
Average number of employees	1,002	113

Results of Operations

Overview

Telegate offers telephone directory assistance (domestic and international) throughout Germany under the telephone number 11 88 0. The Company was founded in August 1996 and thereafter established its first call center in Neubrandenburg. Since December 1996, Telegate has provided telephone directory assistance throughout Germany over the fixed network, initially under the telephone number 0 11 99 and since October 1997 under the new number 11 88 0. Telegate can also be reached by mobile phone under the telephone number 11 88 0 on the D2 network since January 1, 1998, on the D1 network since February 1, 1998, and on the e-plus network since April 1, 1998. Currently, Telegate operates six call centers providing telephone directory assistance. Telegate served just over 16.6 million callers in the last quarter of 1998 and 19.5 million in the first quarter of 1999, and had peak turnovers of up to 280,000 calls per day in the last quarter of 1998 as compared to peak turnovers of 300,000 calls per day in the first quarter of 1999.

Source of Revenues

In 1997, the Company derived its revenues exclusively from providing telephone directory assistance to customers who selected Telegate on a call-by-call basis. Since the beginning of 1998, Telegate has also provided telephone directory assistance to other telecommunication companies, most of which started operating such businesses with the liberalization of the German telecommunications market. Currently, these companies include Mannesmann Arcor, debitel, e-plus and o.tel.o.

Composition of the Cost of Revenues

The cost of providing telephone directory assistance comprises mainly the cost of connection services provided by DTAG, *i.e.*, the cost of using the DTAG networks to route a directory assistance call to the eight points of interconnection between the DTAG and the Telegate network, the rent for the leasing of dedicated lines between such points of interconnection and Telegate's switching systems in Rostock and Neubrandenburg, and the leasing of dedicated lines between the switching systems and the individual call centers. The largest part of the cost of providing telephone directory assistance which accounted for approximately 60% in 1998 results from the use of DTAG services, particularly cost of data and network access. The fees for these services are in part determined by decisions made by the Regulator. Further costs of providing telephone directory assistance include data access costs, in particular for access to data held by DTAG, and personnel expenditures for the team leaders and the operators in the individual call centers. See "Business—Economic and Regulatory Environment—Prices".

Factors Significantly Influencing the Results of Operations

The Company expects its results of operations to be primarily affected by the following factors:

Price Scale for Directory Assistance. Telegate's price scale is essentially determined by the costs of the service components (network access, data, personnel) and the prices that DTAG, as the leading directory assistance provider, charges for directory assistance. Although DTAG originally offered telephone directory assistance free of charge, it began charging a fee in response to accusations of cross subsidization. However, no assurances can be given that DTAG or another of Telegate's competitors will not in the future offer directory assistance prices that are lower than those offered today.

Growth of the Directory Assistance Market. The Company's future results will also be affected by the growth of the telecommunications market in general and the market for telephone directory assistance in particular. Telegate intends to increase its market share at the cost of DTAG and expects the growing mobile phone market in Germany to create an increased demand for telephone directory assistance.

Cost of Network Access and Data Access. Telegate relies on access to other carriers' networks and especially on the network access agreement with DTAG. Therefore, Telegate's future operating income is considerably influenced by the prices developing for network access. The current average rate that Telegate pays for access to the DTAG network is DM 0.059 per minute.

Telegate and another alternative network provider challenged the rate which DTAG used to charge for data access as an abuse in proceedings before the German Federal Cartel Authority. The German Federal Cartel Authority discontinued the proceedings and provided principal terms to be followed in determining future data access rates. On the basis of these principal terms, Telegate expects a price reduction in the future. See "Business—Economic and Regulatory Environment—Prices—Data Access Prices".

Personnel Costs. As of December 31, 1998, Telegate had 1,283 employees (corresponding to 951 full-time employees). On average, Telegate had 1,002 employees in 1998. Most employees are occupied on a permanent basis. The personnel costs in 1998 equaled approximately 35% of revenues. The Company's results of operations will depend on personnel costs per employee not rising significantly in the future.

Advertising Costs. Call volume, and thus the Company's results of operations, depends to a large extent on the amount of its advertising costs. Since beginning its business activity, Telegate has continuously raised its advertising costs. In 1998, such costs were DM 26,620,000. During the next few years, Telegate plans a rigorous continuation of its advertising efforts, primarily on radio and television, and to a more limited extent also in print, and has planned a further increase in advertising costs for 1999.

Seasonality. Telegate's business has shown slight fluctuations in the course of the year. Decreases in call volume have been regularly noted in the summer months from June through September and in December.

Government Grants. To date, Telegate has regularly received state government grants both with respect to investments and personnel costs; DM 6.738 million thereof are reflected in the 1997 annual financial statements and DM 6.919 million thereof in the 1998 financial statements. For investments in facilities and software, a government grant of approximately 18 to 35% of the original acquisition cost can as a rule be expected. When increasing its capacity, such as establishing a new call center, Telegate will apply for further government subsidy funding. However, no assurances can be given that such subsidy funding will always be granted.

Analysis of the Results of Operations

Comparison of Fiscal Year 1998 with 1997

	Year ended December 31, 1998		Year ended December 31, 1997	
	DM thousand	as % of revenues	DM thousand	as % of revenues
Profit and loss statement pursuant to U.S. GAAP:				
Revenues	79,361	100%	10,270	100%
Cost of revenues	54,815	69	11,551	112
Gross profit	24,547	31	(1,281)	(12)
Advertising costs	26,620	34	9,403	92
Personnel costs	6,216	8	2,805	27
Depreciation and amortization	5,421	7	2,241	22
Other administrative expenses	8,208	10	3,640	35
Interest and similar income	238	0	20	0
Interest and similar expenses	1,956	2	912	9
Extraordinary expenses and income	37	0	(1)	0
Net loss	(23,599)	(30)	(20,263)	(197)

Revenues. Revenues of the Company increased by 673% from DM 10,270,000 in the fiscal year 1997 to DM 79,361,000 in the fiscal year 1998. The revenues are the result of the number and duration of calls from customers. The increase in 1998 reflects the expansion of business activity including a greater variety of services offered and a continuous increase in the number of calls from approximately 8.4 million calls in the first quarter of 1998 to approximately 16.6 million calls in the fourth quarter of 1998.

Cost of Revenues. The cost of revenues increased by 375% from DM 11,551,000 in 1997 to DM 54,815,000 in 1998. As a percentage of revenues, the cost of revenues decreased from 112.47% to 69.07%. This shows the trend of decreasing costs in relation to increasing capacity utilization. The cost of revenues consists primarily of costs for network access and data access, totaling DM 8,531,000 in 1997 and DM 35,704,000 in 1998. In addition, cost of revenues includes personnel expenditures for team leaders and operators in the call centers, amounting to DM 3,020,000 in 1997 and to DM 19,111,000 in 1998.

Gross Profit. The gross profit rose from DM (1,281,000) in 1997 to DM 24,547,000 in 1998. This also reflects the Company's improved capacity utilization.

Advertising Costs. Advertising costs rose by 183% from DM 9,403,000 in 1997 to DM 26,620,000 in 1998. The costs for television advertising nearly quadrupled from 1997 to 1998. In 1998, television advertising represented approximately 50% of total advertising costs. Other material cost factors were radio advertising, fees paid to advertising agencies for advertising consultancy services, advertising production, and promotions.

Personnel Costs. The item personnel costs includes all personnel expenditures except those for the call center team leaders and operators. Personnel costs increased by 122% from DM 2,805,000 in 1997 to DM 6,216,000 in 1998. However, as a percentage of revenues, these costs decreased from 27.31% to 7.8%. Personnel costs are incurred in the areas of finance and personnel, technology and operations, as well as marketing and sales.

Depreciation and Amortization. Depreciation and amortization increased by 142% from DM 2,241,000 in 1997 to DM 5,421,000 in 1998, primarily because of new investments, especially for new operator work stations, hardware for gateway and server units, EWSD facilities for the call centers, and software upgrades.

Other Administrative Expenses. Other administrative expenses rose by 125% from DM 3,640,000 in 1997 to DM 8,208,000, but as a percentage of revenues decreased from 35.44% to 10.34%. The most significant components of this item were legal and consulting costs during both years in connection with the establishment and the financing of the Company and lease payments in 1998. The remainder of the administrative expenses were travel and motor vehicle expenses, as well as insurance expenses.

Interest Income. Interest income includes primarily interest on fixed term deposits.

Interest Expenses. Interest expenses of DM 912,000 in 1997 include primarily interest payments on loans granted in 1997 by the shareholders of the Company at that time. In 1998, the interest expenses and similar expenses increased to DM 1,956,000. This increase was primarily due to the interest expense for a bank loan of DM 5,550,000 granted in 1998.

Net Loss. The net loss increased by 16.5% from DM (20,263,000) in the fiscal year 1997 to DM (23,599,000) in the fiscal year 1998. As a percentage of revenues, this shows a significant improvement in the results of operations. The relative decrease of all cost items expressed as a percentage of revenues is typical for growth companies. Because of high start-up costs, particularly for advertising, the Company did not achieve a net profit.

Liquidity and Capitalization

	Year ended December 31, 1998	1997
	(DM thousand)	
Cash-Flow Statement according to U.S. GAAP:		
Net loss	(23,599)	(20,263)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	5,421	2,241
Gain on sale of fixed assets	(33)	0
Provision for losses on accounts receivable	544	0
Changes in operating assets and liabilities:		
Trade accounts receivable	(11,443)	66
Other assets	428	(1,817)
Trade accounts payable	2,405	3,341
Other liabilities	12,612	4,337
Cash used by operating activities	**(13,666)**	**(12,094)**
Investing activities:		
Property and equipment additions	(14,834)	(10,178)
Proceeds from the sale of fixed assets	46	0
Cash used by investing activities	**(14,788)**	**(10,178)**
Financing activities:		
Capital contributions	1,440	0
Proceeds from share issuance	20,000	8,848
Proceeds from government grants	3,556	2,823
Loans from shareholders	0	17,085
Proceeds from bank borrowings	5,500	0
Repayment of bank borrowings	(1,100)	0
Restricted cash	(400)	0
Cash provided by financing activities	**(28,996)**	**(28,756)**
Increase in cash and equivalents	542	6,484
Cash and equivalents at beginning of year	6,870	386
Cash and equivalents at end of year	**7,412**	**6,870**

Cash Used by Operating Activities

Because of its high net losses, Telegate could not achieve a positive cash flow from operating activities in either 1997 with losses of DM 12,094,000 or 1998 with losses of DM 13,666,000.

Depreciation and Amortization. The increase in depreciation of 142% from DM 2,241,000 in 1997 to DM 5,421,000 in 1998 reflects Telegate's substantial investing activities.

Changes in Operating Assets and Liabilities. Because of an increase in trade accounts receivable resulting from the expansion of business, operating assets increased by 78.9% from DM 12,294,000 in 1997 to DM 21,992,000 in 1998. Operating liabilities increased by 105% from DM 15,694,000 at December 31, 1997 to DM 32,110,000 at December 31, 1998. These primarily consist of liabilities from trade accounts payable to Siemens AG and DTAG and provisions for outstanding invoices from third parties. Due to the amount of current liabilities, net current assets were negative throughout the reference period and amounted to DM (3,400,000) at December 31, 1997 and DM (10,118,000) at December 31, 1998).

Investing Activities

The amount of cash used by investing activities in 1997 (DM 10,178,000) and in 1998 (DM 14,788,000) is due to the expansion of Telegate's business. Investments principally related to the establishment and expansion of the technical infrastructure for the core business, telephone directory assistance, including the equipment for the call centers. In particular, investments were made in the expansion of call center capacity through the opening of new centers and the increase in Siemens EWSD switching technology. The investments were made exclusively in Germany.

Financing Activities and Cash and Cash Equivalents

Financing Activities. In 1997, financing was obtained primarily from shareholder loans of DM 17,085,000 and two capital increases of DM 532,000 and DM 353,000. In 1998, there was a further capital increase of DM 132,000 par value with a premium of DM 19,868,000, and a loan of DM 5,500,000 that had already been approved in 1997 was funded. In addition, Telegate received government investment grants of DM 2,823,000 in 1997 and of DM 3,556,000 in 1998.

Cash and Cash Equivalents. During the reference period, cash and cash equivalents increased from DM 6,870,000 at the end of 1997 to DM 7,412,000 at the end of 1998, because the DM 28,454,000 used for operating activities and investment activities were more than compensated by the DM 28,996,000 proceeds from financing activities.

Capitalization and Long-Term Liabilities

Shareholders' Equity. Shareholders' equity increased from DM (11,381,000) at December 31, 1997 to DM (11,207,000) at December 31, 1998. In spite of a payment of DM 21,308,000 into capital reserves, shareholders' equity was fully depleted in 1998. Thus, pursuant to German GAAP, the Company was overindebted as at December 31, 1998. However, the Company was not overindebted for purposes of German bankruptcy law as at this date because of subordinated shareholder loans totaling DM 17,197,000, which qualify as equity capital.

Long-Term Liabilities. In 1997, Telegate was granted a long-term investment credit line totaling DM 13,500,000, of which DM 5,500,000 was funded during 1998, and DM 1,100,000 was repaid in the same year. The loan outstanding is to be repaid in semi-annual installments by 2004.

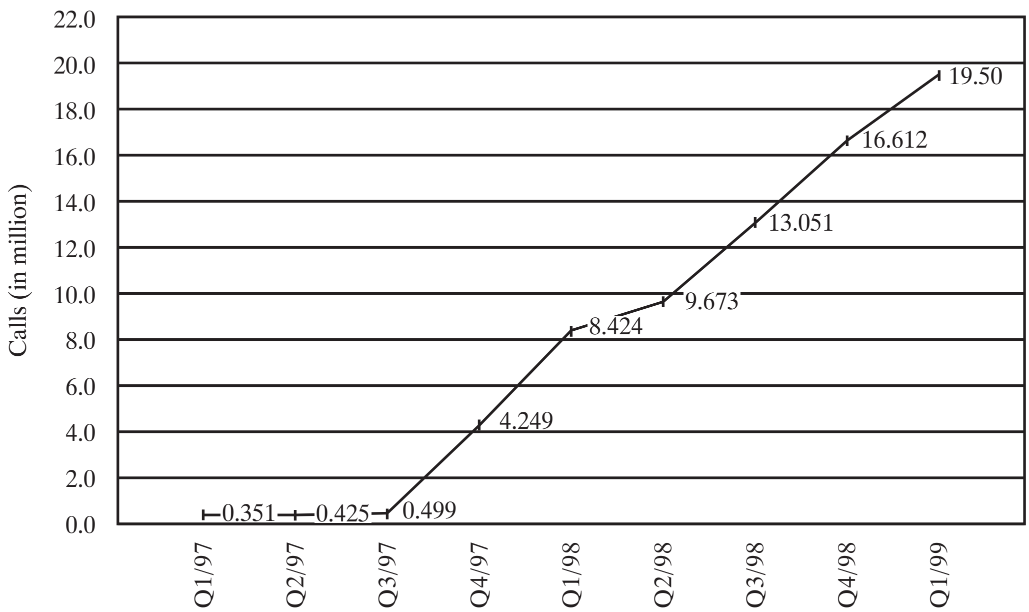
BUSINESS

Introduction

Telegate offers telephone directory assistance services (national and international) throughout Germany under the number 11 88 0. The Company was founded in August 1996 and, thereafter, established its first call center in Neubrandenburg. Since December 1996, Telegate has provided telephone directory assistance throughout Germany over the fixed network, initially under the telephone number 0 11 99 and since October 1997 under the new number 11 88 0. Telegate can also be reached by mobile phone under the telephone number 11 88 0 on the D2 network since January 1, 1998, on the D1 network since February 1, 1998, and on the e-plus network since April 1, 1998. At the end of March 1999, Telegate operated six call centers providing directory assistance services. In the first quarter of 1999, Telegate served 19.5 million callers and had a peak turnover of 300,000 calls per day. In addition to its core business of telephone directory assistance, Telegate offers further services such as access to service numbers, weather information and call completion.

The graph below illustrates the development of the call volume from the beginning of the Company's business activity through the end of March 1999.

DEVELOPMENT OF CALLS PER QUARTER*



* *The graph shows the number of all calls processed (including outsourcers).*

Strategy

The goal of Telegate is to become the leading alternative provider of telephone directory assistance and to become a leading provider of other information services in Germany. In the medium term, Telegate also intends to offer information services abroad and to use its technical infrastructure to offer telephony services at special rates.

Telegate intends in particular the following:

Development of Umbrella Brand Name. By way of systematic marketing, especially on radio and television, Telegate believes that it has achieved substantial awareness of its name and the telephone number 11 88 0. The Company plans to use the name Telegate as the umbrella brand name for services related to telephone directory assistance as well.

Development as a Leading Information Provider. After DTAG, Telegate is Germany's leading provider of telephone directory assistance, offering national and international directory assistance. Telegate intends to develop its business as a general information provider within the limits prescribed by the Rules. See

"Risk Factors—Risks Inherent in Developing New Business Sectors" and "—Licenses". By providing access to weather information, it already offers one service in this segment. In the course of 1999, this business segment is to be expanded by nationwide cinema, stock market and sports information, and further services are to be added continosly thereafter. Telegate receives the required information from third-party suppliers. Telegate expects the demand for its information services to increase, especially as a result of the growth in the telecommunications sector. Whereas in the fixed network sector, such demand for information can also be met by other media, such as the Internet, such options are generally unavailable in the mobile phone sector. Moreover, the Internet has a limited number of users and accessing information through the Internet is currently fairly complex.

Providing Call Center Services. In the segment call center services, Telegate already provides directory assistance services to new telecommunications companies that outsource this aspect of their business, namely Mannesmann Arcor, debitel, o.tel.o and e-plus. With a view to making optimal use of its infrastructure, Telegate intends to make its existing call centers available for providing other third-party services, such as making reservations, taking orders and providing customer services.

Data Marketing. At present, Telegate obtains the data it requires to provide its directory assistance services from third parties, in particular DTAG. In the future, Telegate intends to manage and update such data internally and make the database available to third parties for a fee.

International Expansion. As was the case in Germany until recently, directory assistance services are provided in most European countries by the state-owned or formerly state-owned telecommunications enterprises. Telegate intends to exploit the know-how acquired in Germany and the experience gained in developing directory assistance services, subject to the regulatory frameworks in the countries concerned, by offering directory assistance services in other European countries and in the United States. In Europe, Telegate has identified Austria, Spain, the United Kingdom, Switzerland, Italy, Liechtenstein, France, Turkey, and the Benelux countries as target countries in the medium term. Telegate is currently investigating the possibility of offering outsourcing services to foreign telecommunications enterprises to allow the customers of such enterprises to obtain data on German subscribers from abroad through Telegate. As part of its international expansion plans, Telegate has already secured use of the numbers 11 88 0 in Luxembourg and 11 88 00 in Austria.

Providing Telephony Services. As the technical basis for providing its directory assistance services, Telegate has a leased telecommunications network and its own switches. With a view to exploiting the available synergies, Telegate intends to use this infrastructure to offer telephony services in the fixed network in selected regions (network access number 0 10 80). Telegate will focus on telephony services from and to selected large cities and offer especially favorable prices for calls between and from these cities ("city to city" and "city to nation"). It is expected that Telegate will start in May to offer telephony services in Hamburg under its network access number. The Company intends by June 1999 to extend this service to include Berlin, Frankfurt, Hanover, Munich, Nuremberg and Stuttgart. After a call has been collected from DTAG's network, it is routed through the Telegate network. In addition, call completion may also be effected through other telecommunications networks, including RSL Com.

Economic and Regulatory Environment

Overview

Germany is Europe's largest telecommunications market. According to the Company's estimates, based on information given by DTAG in its 1997 annual report while it was still a monopoly, the number of directory assistance calls in Germany per year is approximately 500 million. At current prices the annual market volume is thus about DM 1 billion.

Until the German telecommunications market was gradually liberalized, DTAG was the sole provider of public telecommunications services in the fixed network and of directory assistance services. This situation did not change when the mobile telecommunications sector was opened for competition in the beginning of the 1990's. Not until the public telephony service in the fixed network was also fully liberalized as of January 1, 1998, did it become meaningful in economic terms for private providers to offer directory assistance services in competition with DTAG. Until then, high and unregulated network access and database costs and a DTAG directory assistance price that was cross-subsidized and did not cover costs had prevented competition in this market. In early summer 1996, Telegate was provisionally assigned the directory assistance number 0 11 99, which it used from December 1996 to October 1997. On March 19, 1997 the Federal Ministry for Post and Telecommunications ("BMPT") issued "Provisional Rules for the Assignment of Telephone Numbers for Directory Assistance Providers". These Rules allowed directory assistance providers to apply for a number if they could show, by way of a detailed implementation concept, that they intended to operate a directory assistance service. Telegate was assigned the number 11 88 0 at a conference for directory assistance number assignment in June 1997. Since October 1, 1997, this number has been activated nationwide for Telegate.

License Requirements

No license is required for offering directory assistance services, including call completion. However, in order to render optimal services, a directory assistance provider does need to be assigned a special telephone number, which is issued according to the Rules of the BMPT. These Rules prescribe a reliability audit for a prospective directory assistance provider. Pursuant to the provisional Rules currently in effect, the exclusive purpose of a directory assistance service is to pass on numbers and subscriber data. In addition, it is also permissible to connect calls to a subscriber number requested by the caller. Telegate may therefore render under the directory assistance number 11 88 0 information services that do not serve the purpose of providing numbers and subscriber data only in the form of call completion. In the case of non-compliance with these Rules, in particular by rendering services other than directory assistance under a directory assistance number, the directory assistance number may be revoked. See "—Licenses".

The German Telecommunications Act ("TKG") provides that a license is required for the provision of telephony services. TKG provides four classes of licenses, namely for:

- operating transmission paths for the public for mobile telephone services (class 1 license), satellite communications services (class 2 license) and other telecommunications services (class 3 license), and
- offering telephony services on the basis of self-operated telecommunications networks (class 4 license).

Generally, there is no limit on the number of licenses that may be issued. Telegate first held a class 4 license that was restricted to connection lines between the eight regular hub areas of DTAG and the two switching nodes of Telegate in Rostock and Neubrandenburg. On February 11, 1999, Telegate was granted a nationwide class 4 license for telephony.

Prices

The TKG subjects prices in the telecommunications sector to special regulatory control. The TKG differentiates between prices subject to prior approval and prices that are subject only to subsequent examination.

Network Access Prices. As far as network access conditions are concerned, DTAG is obliged to grant other users access to its telecommunications network. This access can be provided via lines that are available to all users (general network access) and via special lines (special network access). Special network access includes the interconnection of networks. For using the feed lines of DTAG, Telegate currently pays fees according to an agreement governing special network access. This contract concerning the access of telecommunications service providers *(AfTD)* provides for a fee that is higher than the one set by the Regulator for interconnection agreements. The average fee currently paid by Telegate is DM 0.059 per minute.

Data Access Prices. The TKG entitles Telegate to obtain subscriber data from DTAG for a fee. First the BMPT and then the Regulator declined to rule on the reasonableness of DTAG's pricing, deciding that subscriber data do not constitute a telecommunications service within the meaning of the TKG. Telegate and an alternative network operator have instituted abuse proceedings against DTAG before the Federal Cartel Office in Berlin. The Federal Cartel Office has since discontinued the abuse proceedings, but has defined basic terms for the relevant agreements between DTAG and the companies concerned. Based upon these terms it is expected that Telegate's data access costs under a new agreement to be concluded with DTAG will be lower.

DTAG Directory Assistance Prices. The TKG requires the directory assistance services provided by DTAG to be "affordable". Whether this effectively prohibits a market-dominating enterprise, such as DTAG, from offering cross subsidized discount prices and thus impairing the ability of other companies to compete on the telecommunications market is not clear.

Services Provided

The core business of Telegate consists of offering information, especially directory assistance services, and call completion to service numbers. Telegate also offers call completion to customer numbers.

National and International Directory Assistance Services

Under the number 11 88 0, Telegate offers customers in Germany directory assistance services relating to subscribers in Germany, Austria, France, Switzerland, United Kingdom and the United States. For international directory inquiries, Telegate has access to the subscriber databases of PTA (Austria), France Télécom (France), SWISSCOM (Switzerland), British Telecom (United Kingdom) and LSSI (USA). It provides information not only on lines (telephone, fax and mobile phone numbers), including full addresses, but also on certain business sectors (such as all dentists in a certain local code area or all car rental companies in Germany, etc.). As a special service with no additional charge, since February 1, 1999, Telegate has offered its directory assistance service in Turkish for Turkish people who live in Germany. A similar service is to be launched in other languages. All information is given by an operator in person, and not in automated form. If Telegate is unable to answer an inquiry within two minutes, it returns the call free of charge.

As an outsourcing service, Telegate has been answering the directory inquiries of subscribers to certain other telecommunications enterprises under the directory assistance numbers assigned to such enterprises since April 1998. The enterprises concerned are Mannesmann Arcor (number 11 87 0), debitel (11 81 8), e-plus (11 87 7) and, since December 1998, o.tel.o (11 88 8), some of which originally provided their own directory assistance service. When customers dial the directory assistance number assigned to such outsourcing partners of Telegate, they are connected directly to the call centers of Telegate. In the call centers, specific operators are assigned to answering inquiries from customers routed through the individual outsourcing partners of Telegate. The operators render the Telegate directory assistance service in the name of the relevant outsourcing partner. The telecommunications enterprises concerned are charged special prices in line with a pricing model for outsourcing partners. Currently, a share of approximately 4.1% of the entire volume of directory assistance services rendered by Telegate are attributable to directory assistance calls routed to Telegate through outsourcing partners.

Other Information Services

Telephone customers often do not have the service number that they need at hand. In addition to answering directory inquiries, Telegate connects calls to more than 4,500 service numbers. For such purposes, the Company has available an extensive database of toll-free 0130/0800 and cost-sharing 0180 numbers. Among the service numbers in its portfolio are automobile service stations, including the German Automobile Club (ADAC), locksmiths and the reservation hotline of Lufthansa AG. Callers can choose either to write down the desired number and dial it themselves or to have their call connected to the desired number. In the latter case, until the end of January 1999, Telegate charged its standard directory assistance prices, and since February 1999 Telegate has been charging a price determined by the distance, time of day, day of the week and duration of the call that it has completed. See "—Prices (gross)".

Through the number 11 88 0 Telegate connects callers to the "WetterMax" on-line database, which provides current weather forecasts and a three-day storm forecast for Germany. The database is a joint development of More&More Communication (Ismaning) and the German Meteorological Service.

Call Completion

Since September 1998, rather than having its operators simply provide the desired number, Telegate has been connecting inquirers' calls, at the caller's request, to the desired subscriber. This service is especially useful for mobile phone users who are often not able to write down the requested number. In technical terms, call completion, as a general rule, is handled by RSL Com, which is connected to

Telegate's switching nodes by leased lines. In cases of capacity bottlenecks, call completion can also be effected through the DTAG network or the telecommunications networks of other providers. Telegate pays RSL Com a fee for its services which is currently based on an informal arrangement.

Prices (gross)

For inquiries from the fixed network of DTAG, Telegate currently charges a flat rate per inquiry of DM 0.968 plus DM 0.121 per 7.5-second unit. Telegate does not charge callers for holding time. Since February 1999, customers are charged variable prices for call completion according to distance, time of day, day of week and duration of the call completed.

For inquiries from the mobile phone network, the network operators are currently charged DM 1.58 per inquiry.

The charge for international directory inquiries differs according to country but is calculated by graduated prices governed by the cost of accessing the data.

Telegate competes with the other market participants on the level of services provided. Telegate does not intend to reduce its prices and enter into a price war with its competitors unless a substantial loss of market share would follow from not cutting prices.

Network, Call Centers and Database

Network

Calls from customers wishing to use Telegate's directory assistance services through a fixed line or mobile phone are collected via the DTAG network at points of interconnection in eight regular hub areas (Düsseldorf, Berlin, Hamburg, Hanover, Frankfurt, Stuttgart, Munich and Nuremberg) and transmitted through leased lines to Telegate's two switching nodes in Rostock and Neubrandenburg, and from there to the call centers. As of the end of February 1999, the capacity of the Telegate network was designed to answer 330,000 directory assistance inquires per day. The Company intends to lease additional lines by the end of May 1999, thus resulting in an expansion of its capacity to up to 450,000 calls per day. The illustration below shows the structure of the Telegate directory assistance network in Germany:

For the use of DTAG's feed lines and points of interconnection, Telegate pays fees to DTAG under a network access agreement with DTAG. These fees currently average DM 0.059 per minute. Calls from the networks of the mobile phone operators are also carried by DTAG as a general rule. The e-plus network is directly connected to the Telegate network by a dedicated line. The links to the outsourcing partners take the form of leased lines to the switching nodes in Neubrandenburg and Rostock.

Telegate has leased a network of dedicated lines starting from the points of interconnection of DTAG. Through such lines the calls are transmitted to Telegate's switching nodes ("switches") in Rostock or Neubrandenburg. These switches are comprised of EWSD *(Elektronisches Wähl System Digital)* digital electronic switching computers supplied by Siemens AG which, given their widespread use in the telecommunications sector, are compatible with various telephone networks. From the switches the calls are transmitted through leased lines to the Telegate call centers. The EWSDs use ADMOSS (advanced multifunctional operator service systems) and their integral ACD (automatic call distribution) functionality to ensure an even distribution of the incoming calls to all logged-on operator terminals. Depending on the nature of the inquiry, the calls may be distributed to trained and experienced operators, which facilitates dealing with inquiries in Turkish, for instance.

The directory assistance technology is implemented by several software products provided by PC-Plus Computing GmbH that give access to the directory databases of the national and international network operators. The link to the DTAG subscriber database is made via data lines to the computer center in Bielefeld.

Call Centers

Telegate currently maintains six call centers with, as of the end of March 1999, a total of 1,527 permanently employed operators to answer directory inquiries. The call centers are located in Neubrandenburg, Greifswald, Anklam, Rostock, Bremen, and (since March 1999) Wismar, and have 748 operator workstations. The call centers are staffed seven days a week, typically in several shifts, and some call centers are operated 24 hours a day. Staffing must be planned accurately in order to avoid waiting times for callers. Special software is used for this purpose. The software program evaluates the relevant data to generate shift models and work schedules for each individual operator according to the personnel demand, desired working hours, vacation plans and sickness projections. The system continuously monitors whether the work schedules it has generated are in line with the actual number of incoming calls.

The call centers consist of three levels: The operators, who may be organized in groups, take all incoming calls. The team leaders head a group of operators who can forward calls to their leader in the case of difficulties. A staffing coordinator organizes the assignment of operators to individual groups as well as their individual working hours. Operators answer the inquiries from workstations equipped with call completion- and directory-related software packages.

Data Basis

Telegate does not have its own stock of subscriber data. To date the only database in Germany that contains subscriber data is that of DTAG in Bielefeld. Telegate's operators access this database directly using the NDIS (National Directory Inquiry System) search engine. For international directory inquiries, Telegate has concluded agreements that give it on-line access to the databases of PTA (Austria), France Télécom (France), SWISSCOM (Switzerland), British Telecom (United Kingdom) and LSSI (USA).

Pursuant to the TKG, Telegate in its capacity as a licensee for voice communication services is entitled to obtain subscriber data from DTAG for a fee. DTAG currently charges directory assistance service providers DM 0.12 per database access and demands a monthly retainer in the amount of DM 15,065. On March 1, 1998, DTAG announced its intention to raise the fee for accessing the database to DM 0.1547. It has so far refrained from implementing this change. On average, a caller's directory assistance inquiry requires the operator to access the DTAG database 3.5 times. Thus, each inquiry gives rise to an average access cost of approximately DM 0.42. When the German Federal Cartel Office discontinued abuse proceedings that Telegate and an alternative network operator brought against DTAG, the German Federal Cartel Office defined certain basic terms for future data access prices. Telegate expects these basic terms to result in a price reduction. See "—Economic and Regulatory Environment—Prices—Data Access Prices".

In the near future, Telegate will set up its own database for subscriber data. This project is driven by both economic and technical reasons. It will enable Telegate to record, systematize and enrich the subscriber data in line with its own concepts in its own database. In essence, the technical possibilities for exploiting the data are restricted only by the regulatory requirements of the applicable telecommunications and data protection laws.

Customers

Telegate has entered into outsourcing agreements with four alternative telecommunication companies, for which Telegate provides outsourcing directory assistance services. Otherwise, individual customers decide on a call-by-call basis whether to use the directory assistance services of Telegate or those of another provider. Similarly, the customers of Telegate's outsourcing partners are free to choose their directory assistance provider on a call-by-call basis.

Sales and Marketing

Telegate was well placed to increase its brand awareness when it was assigned the number 11 88 0, which is very similar to the former directory assistance number of DTAG (0 11 88). In October 1997, Telegate commenced an extensive advertising campaign on radio and television and in the printed media. Advertising costs totaled approximately DM 9.4 million in 1997. With a view to enhancing its brand awareness, Telegate continued advertising in 1998, spending approximately DM 26.6 million, above all on radio and television advertisements. Advertising is highly significant for increasing the volume of calls. In the coming years, Telegate intends rigorously to continue its advertising campaign, especially on radio and television and, to a lesser extent, in printed media, and has increased its budget for this purpose in 1999.

Billing System

The directory assistance services rendered by Telegate through the fixed network are billed by DTAG on the basis of a billing and collection agreement. This agreement has been terminated by DTAG effective September 30, 1999. Until January 31, 1999, the billing took the form of on-line billing. DTAG's points of interconnection registered the duration of calls made by individual subscribers to the Telegate directory assistance service under the number 11 88 0. On the basis of the Telegate prices, subscribers were charged for using the call number 11 88 0 in the normal telephone bill issued by DTAG. See "—Prices (gross)". DTAG passed on to Telegate the amounts collected for it in this manner. The fee for DTAG's collection services was included in DTAG's prices for routing the calls.

As of February 1, 1999, billing was changed to an off-line procedure. The incoming call and subscriber data are recorded in the two EWSDs in Neubrandenburg and Rostock and allocated to the relevant Telegate products (directory inquiries, call completion and other services). Such allocation allows a specific calculation of the different services, in particular call completion, including to international destinations. Technically, the fees will continue to be collected by DTAG, although Telegate introduced its own billing system on March 1, 1999. Telegate transmits the billing data produced by it to DTAG, which bills the subscriber, stating the relevant Telegate services, and forwards the collected monies to Telegate after deducting a collection fee. Telegate bears the risk of the customer's insolvency or other collection risks.

In the mobile phone sector, DTAG is also responsible for billing calls made from the D1 and D2 networks, whereas calls from the e-plus network are charged to customers directly by the mobile phone operator.

Competitors

Many network operators became active on the German telecommunications market when it was fully deregulated on January 1, 1998. The Regulator has assigned directory assistance numbers to a total of 25 companies. The new network operators have, however, generally refrained from operating their own directory assistance service. Some operators are outsourcing this service to Telegate under the number they were assigned (Mannesmann Arcor, debitel, o.tel.o, e-plus). The following describes the companies that are in direct competition with Telegate at present.

DTAG. Because of its former monopoly position, DTAG is the market leader in the area of directory assistance services. Its current prices are largely in line with those of Telegate, but Telegate's prices are lower from the beginning of the second minute.

FragFred/Deutsche Telefonbuch Verlags GmbH. Since April 1, 1998, various regional telephone directory publishers have been offering directory assistance services under the "Frag Fred" (Ask Fred) brand and call number 11 81 1. This service has a deliberately youthful image.

Talkline. Since October 1998, Talkline has offered directory assistance service under the number 11 85 0. Talkline's directory assistance services also include call completion.

Others. In addition to the competitors mentioned above, the mobile phone network operators T-Mobil and Mannesmann Mobilfunk also provide directory assistance services, but these are available only to the respective network operator's customers on the relevant network. Telegate's outsourcing partners are ultimately also competitors because they offer a directory assistance service via a dedicated number, although the service is in fact rendered by Telegate without the subscriber's knowledge. Despite the technological lead established by Telegate in the directory assistance service sector, there can be no assurances that such network operators, most of which have substantially larger financial resources, will decide to terminate the outsourcing agreements with Telegate and more actively market and offer directory assistance services themselves.

Competition from Other Media. Those seeking directory assistance can obtain the data that they require from a great variety of sources. These include the Internet, telephone directories and data records stored on CD-ROMs. In the view of the Company, the directory assistance provided by telephone directories, CD-ROMs and the Internet, as marketed by DTAG and a large number of other companies, does not thus far constitute significant competition to the telephone-based directory assistance service. Telephone directories and CD-ROMs must be regularly updated and need to be replaced once they are outdated. The directory assistance service available on the Internet is relatively slow at present. In particular, in the growing mobile phone sector, such media do not represent an alternative because the caller generally cannot access them at the very moment when the information is needed.

Licenses

Offering directory assistance services, including call completion, does not require a license. In order to provide an optimal service, however, a directory assistance provider does need to be assigned a special call number. Telegate was assigned the number 11 88 0 (as well as the numbers 11 88 7, 11 89 0, 11 89 9) in June 1997 at a conference for directory assistance number assignment. These numbers are to be used exclusively for providing information on telephone numbers and subscriber data; connecting calls to a subscriber number requested by the caller is also allowed. In case of non-compliance with the Rules, in particular by rendering services other than directory assistance, the call number can be revoked. Telegate is determined strictly to comply with the requirement that only information on certain subscriber-related data may be requested via the number 11 88 0. All other information services which are not directory assistance-related are to be made available exclusively by connecting calls to a separate geographical number or service number. The precise limits of the permissible marketing and use of a directory assistance number are, however, unclear. See "Risk Factors—Risks Inherent in Developing New Business Sectors".

On December 18, 1997, the BMPT initially granted Telegate a class 4 license restricted to specific connection lines and for a telephony service on the basis of self-operated telecommunications networks. This license entitled Telegate, pursuant to the TKG and the regulations issued thereunder, to offer a telephony service on the basis of self-operated telecommunications networks in the license area within the framework of its class 4 license. Telegate was allowed to launch its service on January 1, 1998. The geographical scope of the license encompassed the long-distance lines between Telegate facilities in Neubrandenburg and Rostock and the endpoints in Düsseldorf, Berlin, Hamburg, Hanover, Frankfurt, Stuttgart, Munich and Nuremberg. This geographical restriction has since then been lifted because on February 11, 1999, Telegate was granted a nationwide class 4 license.

Material Agreements

Outsourcing Agreements. Telegate renders directory assistance services for other telecommunications companies as an outsourcing partner. In the course of 1998, Telegate concluded outsourcing agreements with Mannesmann Arcor, debitel, e-plus and o.tel.o. According to these contractual arrangements, Telegate answers calls under the directory assistance numbers assigned to the outsourcing partners and provides the callers with the desired subscriber data. In addition, at the request of the outsourcing partners, Telegate offers callers to connect their call to the desired number. The agreements with the outsourcing partners have terms of approximately three years and at the expiration of such term may be terminated upon three to 12 months' notice.

Contracts with DTAG. On November 8, 1996, Telegate entered into an agreement with DTAG concerning access to DTAG's telephone network by means of an "access facility for service providers (AfD)". This agreement is also applicable for Telegate's access to the database of DTAG and the inquiry system AKS, and the rendering of billing services by DTAG. This agreement will remain in effect until December 31, 1999 and will automatically be extended by one year unless it is terminated upon at least three months' notice prior to expiry of the relevant one-year period. The contract has been revised several times. By way of an amendment of October 21/28, 1997, Telegate was connected to DTAG's new interrogation system, NDIS. An amendment of May 7, 1998 gave Telegate access to the network on the basis of the more favorable "access facility for telecommunications service providers (AfTD)". Since February 1999 accounts have been settled with DTAG on the basis of a separate billing and collection agreement of October 2/12, 1998, which has been terminated by DTAG effective September 30, 1999, see "Risk Factors—Risks Involved in Billing via DTAG".

In addition to the AfD/AfTD agreement, Telegate entered into an interconnection agreement with DTAG on April 7, 1998, which provides for the connection of the Telegate network (leased dedicated lines connected by points of interconnection) with the fixed network of DTAG. The directory assistance services of Telegate are currently rendered on the basis of the AfD/AfTD contract, however, and not the interconnection agreement. Since Telegate has been granted a nationwide class 4 license, it may provide additional telecommunications services, such as nationwide telephony, alongside its existing core business of information services on the basis of the interconnection agreement. The interconnection agreement may be terminated upon six months' notice before the end of each year. In addition, in certain circumstances defined in the agreement, each party may demand that the contract be renegotiated or amended. The prices contemplated in the interconnection agreement are preliminary and have been agreed subject to the condition that the prices provisionally or conclusively fixed by the Regulator would become binding based on rulings of the Regulator or court decisions, where applicable with retroactive effect. In a letter dated December 21, 1998 DTAG terminated its interconnection agreement with Telegate, as it had done with respect to other telecommunication companies as well, effective as of December 31, 1999, in order to initiate a renegotiation of the prices for interconnection services. This termination does not affect the core business of Telegate because the directory assistance services are currently rendered on the basis of the AfD/AfTD agreement.

Interconnection Agreement with RSL Com. Telegate is currently negotiating an interconnection agreement with RSL Com. It is proposed that RSL Com will provide call completion and telephony (call by call) services on the basis of that agreement. Currently, such services are provided on the basis of an informal arrangement.

Legal Proceedings

With the exception of those stated below, Telegate and its subsidiary companies are not and have not been a party to judicial or arbitration proceedings that could have a material impact on the financial condition of the Company or its subsidiaries, or that had such impact in the last two fiscal years. The Company and its subsidiaries are also not aware that any such proceedings have been threatened.

Telegate is a plaintiff in a series of administrative court proceedings instituted against the Federal Republic of Germany in particular. These proceedings seek to force the competent regulatory authority to take action against the cross-subsidies that DTAG provides with respect to its directory assistance service, to take action against DTAG's data access costs, which Telegate considers to be excessive, and to impose a more favorable price for special network access. In some cases, these lawsuits have been superseded by anti-trust proceedings or changes in regulatory provisions, so that a pursuit of the administrative court proceedings pending may prove unnecessary. In addition, Telegate would benefit from a favorable outcome of these proceedings. If it were to lose in the administrative court proceedings, Telegate would not suffer any retroactive adverse effects and such loss would have no material impact on the financial condition of the Company.

Employees

As of December 31, 1998, Telegate employed 1283 employees on a permanent basis. As of December 31, 1996, Telegate had 56 permanent employees as compared to 488 permanent employees as of December 31, 1997. The Company only occasionally employs temporary staff. The Company believes that it has established good relations with its labor force in the past. This is evidenced by the low number of instances where employees tendered notice and the absence of any form of strike action. Telegate's employees are not covered by any collective bargaining agreements. The Company's standard employment contracts provide for a working week of 30 hours or 130 hours per month. Annual days of vacation number between 25 and 30 working days, depending upon seniority.

Real Estate

Telegate does not own any real estate. All of the office buildings and operating premises, including the call centers, are leased. The lease agreements generally have a term of ten years. In 1998, the aggregate lease payments of the Company totaled approximately DM 1.4 million.

Current and Future Investments

The current investment activities relate primarily to technology, such as the expansion of the EWSD facilities in Rostock and Neubrandenburg, the establishment of the call center in Wismar and the expansion of Telegate's network of fixed lines. Further investment projects are the establishment of Telegate's own data base and the gradual adjustment of the technological infrastructure to the requirements for the introduction of new services. The financing of these investments is currently assured through long-term loans granted by existing or former shareholders and through long-term bank loans.

In addition to adequate replacement and modernization of its technical facilities, Telegate's medium-term investment plans also include sufficient expansion of its capacity so as to meet the growing demands of its customers. To this end, investments are planned in new locations, switching technology and networks. A goal of further investments will be the expansion of the Company into new business sectors. This will in particular include foreign activity (internationalization) and telephony (call by call). Planned investments in foreign activity are related to Telegate's market entrance into selected foreign countries. In addition, further development of new customer services is planned. Future investments should be financed mainly by the funds received by Telegate from this Offering, and otherwise from its free cash flow.

GENERAL INFORMATION ON THE COMPANY

Registration in the Commercial Register; Registered Office of the Company

The Company is registered in the commercial register of the local court (*Amtsgericht*) of Munich under HR B 114518. The Company's registered office is in Planegg-Martinsried (Munich county).

Formation

The Company was founded on August 7, 1996 under the name Telegate Aktiengesellschaft für telefonische Informationsdienste and registered in the commercial register of the local court of Munich on October 30, 1996 with a share capital of DM 325,000. The founding shareholders were Christiane Baierl, Taufkirchen, Thomas Franke, Penzberg, Angelika Franke, Penzberg, Peter Wünsch, Gauting, Susanne Wünsch, Gauting, Dr. Klaus Harisch, Altenstadt and Dr. Christian Schwarz-Schilling, Büdingen. The formation was audited by the external auditor Gerhard Fischer, who found the information provided by the founders regarding the subscription of shares and the contributions to share capital as well as the determinations pursuant to §§26 and 27 of the German Stock Corporation Act to be correct and complete.

Fiscal Year

The Company's fiscal year is the calendar year.

Purpose of the Company

Following an amendment to the articles of association that was adopted on March 18, 1999 and registered in the commercial register on April 1, 1999, the purpose of the Company now comprises the provision of all kinds of telecommunications services, the formation and marketing of databases as well as the supplying of directory assistance services pertaining to public telephone network subscribers and of other information and directory assistance services both within Germany and abroad. The Company is authorized to engage in all such business and implement all such measures as serve the purpose of the Company. The purpose of the Company permits the Company to form, purchase, or acquire interests in, other companies, to establish branches, and to employ any other measures or engage in any transactions that are necessary or expedient for achieving and promoting the purpose of the Company. The Company may transfer its operations, in whole or in part, to such companies.

Share Capital and Shares

Current Share Capital

As of its registration on October 30, 1996, the Company's share capital amounted to DM 325,000, divided into 65,000 ordinary registered shares with a par value of DM 5 per share. The shareholders, at a general shareholders' meeting on November 15, 1996, resolved to increase the Company's share capital by DM 108,000 to DM 433,000 by cash contribution. The capital increase was registered in the commercial register on December 30, 1996. By resolution of the general shareholders' meetings on July 2, 1997 and August 1, 1997, two further capital increases were adopted, one of DM 532,385 bringing the share capital to DM 965,385 and another of DM 325,795 bringing the share capital to DM 1,318,180. Both capital increases were registered in the commercial register on September 15, 1997.

Another capital increase by DM 131,820 was resolved by the general shareholders' meeting on May 28, 1998, bringing the share capital to DM 1,450,000, and registered in the commercial register on June 22, 1998. By resolution of the general shareholders' meeting on December 30, 1998, the share capital of the Company was increased from DM 1,450,000 by up to DM 27,550,000 to up to DM 29,000,000. The new shares were offered to the Existing Shareholders of the Company at a ratio of 1:19. The Existing Shareholders exercised their pre-emptive rights only in part. Accordingly, the capital increase was effected only in an amount of DM 19,550,000. The issue price was DM 5 per share; the shares are entitled to dividends as of January 1, 1999. The capital increase by DM 19,550,000 to DM 21,000,000 was registered in the commercial register on March 31, 1999.

At the general shareholders' meeting on March 18, 1999, the shareholders resolved to redenominate the Company's share capital into Euro. As a result of this redenomination, taking into account the capital increase by DM 19,550,000, the Company's share capital initially amounted to Euro 10,737,129.51. At the same general shareholders' meeting, the shareholders resolved to reduce the share capital by Euro 7,129.51 to Euro 10,730,000 through a re-nominalisation of the shares, to convert the registered shares into bearer shares, and simultaneously to convert par value shares into shares with no par value. As a result of this resolution, the Company's share capital amounts to Euro 10,730,000 and is divided into 10,730,000 bearer shares with no par value.

All of the above-mentioned shareholders' resolutions adopted on March 18, 1999 were registered in the commercial register on April 1, 1999.

Also by resolution of the general shareholders' meeting on March 18, 1999, the Board of Management was authorized for a period until March 17, 2004, to increase the Company's share capital one or more times through the issue of new shares against cash contributions, by an amount of up to Euro 2,000,000. The Board of Management is authorized, with the approval of the Supervisory Board, wholly or partially to exclude shareholders' pre-emptive rights with respect to such new shares, provided that the shares are subscribed for by one or more credit institutions at a subscription price of one Euro per share for the purpose of a broad placement in the context of an initial public offering of the Company. Any remaining portion of the authorized capital is subject to shareholders' pre-emptive rights. The Board of Management approved an increase of the share capital of the Company to Euro 12,730,000 on April 12, 1999 through the issue of 2,000,000 bearer shares with no par value at a subscription price of one Euro per share, subject to the condition that these shares have full dividend rights as of January 1, 1999. The Supervisory Board approved this resolution on April 12, 1999. The capital increase was registered in the commercial register on April 16, 1999. Since the registration of the capital increase the share capital of the Company has amounted to Euro 12,730,000. The new Shares offered in this Offering were issued on the basis of this resolution.

Shares may be issued in the form of global certificates representing more than one Share. Shareholders are not entitled to have their Shares represented by definitive share certificates. The Shares are freely transferable.

Conditional Capital

The Company has established the framework for a stock option program for certain members of the Board of Management and managerial staff of Telegate. To this end, Telegate's general shareholders' meeting on March 18, 1999 adopted a resolution authorizing a conditional increase of the share capital of the Company of up to Euro 200,000. The sole purpose of such conditional capital increase is to grant stock option rights on Telegate shares. The Board of Management has been authorized to grant stock option rights on Telegate shares to Telegate managerial staff on one or more occasions through March 17, 2004. The Supervisory Board has been authorized to grant stock option rights on Telegate shares to members of the Board of Management on one or more occasions through March 17, 2004. The persons entitled to stock options shall be members of the Board of Management and managerial staff. The persons entitled to stock options and the number of stock options granted on each occasion shall be determined by the Board of Management or, in the event that members of the Board of Management are to be granted such rights, by the Supervisory Board. No more than 40 persons may acquire option rights. The maximum number of shares that may be subscribed for under this stock option program shall not exceed 200,000 in the aggregate and of that number, 25% shall be set aside for the Board of Management and 75% for managerial staff. The window period during which stock option rights may be subscribed for (subscription window) shall be one month in each case. For purposes of clarifying the shareholders' resolution adopted at the general shareholders' meeting of March 18, 1999, a further extraordinary shareholders' meeting was held on April 12, 1999 which adopted a resolution clarifying which persons are entitled to stock options. Such resolution, which was registered in the Commercial register on April 16, 1999, states that the term "managerial staff" for purposes of the above resolution, including the terms and conditions of the option rights described below, comprises not only executive managers (*leitende Angestellte*) within the meaning of the German Works Council Constitution Act (*Betriebsverfassungsgesetz*), but also other senior staff of Telegate.

The stock option rights shall be valid for a term of four years from the time they are granted. The rights may be exercised during certain defined exercise windows within that term once a waiting period of 24 months from the date on which they were granted has expired. The holders of such rights may exercise their right to subscribe for new shares and to acquire new shares with no par value in the Company upon payment of a certain strike price per share.

In the case of persons who have been granted such stock option rights before Telegate's initial public offering, the strike price shall correspond to the Offer Price determined in the Offering. See "The Offering—General". In the case of stock option rights granted following the Offering, the strike price shall correspond to the arithmetic mean of the closing price for Telegate Shares on the Frankfurt Stock Exchange over the ten trading days preceding the granting of such rights. If held by a member of the Board of Management, such stock option rights may only be exercised if the mid-day spot price of the Telegate shares on the Frankfurt Stock Exchange outperforms the MSCI Europe Telecoms Index by an average of 5% (performance target) during the period between the granting of such stock option rights and the exercise thereof. If held by managerial staff, such stock option rights may only be exercised if the mid-day spot price of the Telegate Shares on the Frankfurt Stock Exchange outperforms the *Neuer Markt* Performance Index or the MSCI Telecoms Europe Index by an average of 5% (performance target) during the period between the granting of such stock option rights and the exercise thereof. The Board of Management is authorized to determine additional details pertaining to the issuance of stock option rights (including the persons entitled to such rights), the terms and conditions for the stock option rights, and the sale of shares acquired by means of the exercise of stock option rights with the approval of the Supervisory Board, unless such rights are to be issued to members of the Board of Management, in which case additional details shall be determined by the Supervisory Board. The terms and conditions may also contain special provisions that shall apply in the event that persons who are entitled to acquire stock option rights leave the Company due to the termination of their employment, such as through retirement or death.

Future Capital Increases

The share capital of the Company may be increased through cash contributions or contributions in kind by a resolution of the general shareholders' meeting, adopted by a majority of at least three quarters of the share capital represented at such meeting.

Under the German Stock Corporation Act (*Aktiengesetz*), shareholders have statutory pre-emptive rights on newly issued shares (as well as on convertible bonds, bonds with warrants attached, profit participation certificates and bonds with a profit participation). The general shareholders' meeting may exclude the statutory pre-emptive rights by a majority of at least three quarters of the share capital represented at the meeting at which the resolution is adopted. In addition to these formal requirements, the exclusion of pre-emptive rights requires a material justification which must be set forth by the Board of Management in a written report to the general shareholders' meeting. The interests of the Company in excluding pre-emptive rights must outweigh the interests of the shareholders in maintaining them. Pre-emptive rights may be excluded without further justification if the capital increase is made against a cash contribution, does not exceed 10% of the existing share capital, and the issue price is not significantly less than the current stock market price.

Pre-emptive rights are freely transferable and may be traded on German stock exchanges for a specified time until two days before the end of the subscription period.

Dividends and Statutory Reserves

Following a proposal of the Board of Management and the Supervisory Board, the ordinary shareholders' meeting resolves on the allocation of annual balance sheet profit (*Bilanzgewinn*). Dividends may be paid only from the Company's annual balance sheet profit. The Board of Management and the Supervisory Board are authorized, in their discretion, to allocate up to half of the Company's annual net profit in any fiscal year to other earning reserves. Furthermore, the articles of association authorize the Board of Management and the Supervisory Board, when approving the annual financial statements, to allocate a larger portion of the annual balance sheet profit to the other earning reserves. This right, however, may not be exercised if the other earning reserves would, after such allocation, exceed half of the share capital. Shareholders participate in dividend payments in proportion to the national par value of their shareholdings. Under certain circumstances, the Board of Management may, after the end of any fiscal year, make advance payments with respect to the expected annual balance sheet profits to shareholders.

The Stock Corporation Act requires the formation of a statutory reserve in the amount of one tenth of the Company's share capital or any higher portion as may be specified in the Company's articles of association. The articles of association of Telegate do not provide for such higher portion. Until the statutory reserve and the capital reserves pursuant to §272(2) Nos. 1-3 of the German Commercial Code reach such amount, the Company is required to allocate 5% of its net profits (net of amounts allocated to cover losses carried forward from the previous year) to such reserves. If the statutory reserve and these capital reserves do not exceed one tenth of the share capital, they may be applied to cover any net losses, but only to the extent that such losses are not covered by profits carried forward from the previous year or cannot be balanced by the transfer from other earning reserves, and may be applied to cover any losses carried forward from the previous year, but only to the extent that such losses are not covered by net annual income or cannot be balanced by the transfer from other earning reserves. If statutory reserves and the aforementioned capital reserves exceed one tenth of the share capital, the surplus may be used to cover any net losses from the previous year that are not covered by profits carried forward or any losses carried forward from the previous year that are not covered by profits; it may also be used for the purposes of a capital increase from company funds pursuant to §§207-220 of the Stock Corporation Act.

Notice Requirements

Under the Stock Corporation Act, each enterprise owning shares in the Company must notify the Company without undue delay, if and to the extent that the aggregate number of Shares it holds exceeds or falls below 25% of the share capital or if it holds or ceases to hold the majority of the voting rights in the Company. So long as such required notice is not given, no rights that are attached to such shares may be exercised (such as voting rights, pre-emptive rights and dividend rights). These notice requirements under the Stock Corporation Act do not apply to the shares of a company that is listed on a securities exchange within the meaning of the Securities Trading Act (*Wertpapierhandelsgesetz*). The Securities Trading Act provides that any person whose shareholding reaches, exceeds, or falls below the thresholds of 5%, 10%, 25%, 50% or 75% of the voting rights of a company the shares of which are "listed on a securities exchange" must promptly, and at the latest within seven calendar days after such reaching or passing of a threshold, inform the company and the German Federal Supervisory Authority for Securities Trading (*Bundesaufsichtsamt für den Wertpapierhandel*) in writing of such reaching or passing of the threshold, and specify the amount of its shareholding, as well as provide its name and address to the Federal Supervisory Authority for Securities Trading. So long as the notice requirement is not fulfilled, no rights attached to the shares in question may be exercised. A company that is "listed on a securities exchange" within the meaning of the Securities Trading Act is a company with its registered office in the Federal Republic of Germany, the shares of which are admitted to official trading on a securities exchange in a member state of the European Union or in a contracting state to the Agreement on the European Economic Area. Under current law, this definition does not include the *Neuer Markt* segment of the regulated market of the Frankfurt Stock Exchange.

Repurchase of own Shares

Under the Stock Corporation Act, the Company may not purchase its own shares, except for certain limited exemptions provided for in such Act. In addition to the limited exemptions provided by the Stock Corporation Act, a stock corporation may purchase its own shares on the basis of an authorization from the general shareholders' meeting for a specified period which must not exceed 18 months. The respective shareholders' resolution must specify a lower and an upper limit for the purchase price. No such shareholders' resolution has been adopted to date in respect of Telegate. The aggregate nominal amount of its own shares that a company purchases must in no event exceed 10% of its share capital. Details of any transactions of the Company in its own shares must be disclosed each year in the Company's annual report.

Existing Shareholders

The following table sets forth the names of the Shareholders and their respective holdings in the share capital of the Company prior to the Offering (exclusive of the capital increase of Euro 2,000,000):

Shareholder's Name	Shareholdings prior to the Offering	
	Number of Shares	Percentage (rounded)
Telegate Holding GmbH	6,490,577	60.49%
THC Century AG	599,807	5.59
RED LINE Telekommunikations GmbH	1,073,000	10.00
Sachsen LB Corporate Finance Holding GmbH	469,974	4.38
Mr. Peter Wünsch	914,196	8.52
Dr. Klaus Harisch	806,896	7.52
Dr. Christian Schwarz-Schilling	207,089	1.93
Mr. Dirk Roesing	168,461	1.57

After the Offering, the Existing Shareholders will hold the following number of Shares and percentages (rounded) of the Company's total Shares outstanding:

Shareholder's Name	Assuming no exercise of the Over-allotment Option ("Greenshoe")		Assuming full exercise of the Over-allotment Option ("Greenshoe")	
	Number of Shares	Percentage	Number of Shares	Percentage
Telegate Holding GmbH	6,490,577	50.99	6,490,577	50.99
THC Century AG	236,077	1.85	143,782	1.13
RED LINE Telekommunikations GmbH	163,675	1.28	—	—
Sachsen LB Corporate Finance Holding GmbH	469,974	3.69	234,987	1.84
Mr. Peter Wünsch	914,196	7.18	914,196	7.18
Dr. Klaus Harisch	806,896	6.33	806,896	6.33
Dr. Christian Schwarz-Schilling	207,089	1.63	207,089	1.63
Mr. Dirk Roesing	168,461	1.32	168,461	1.32

The share capital of Telegate Holding GmbH is held as follows: RSL Com Deutschland GmbH (an indirect subsidiary of RSL Communications Ltd., Bermuda) holds 50.20%, Ligapart AG, Baar/Switzerland (a company of the Metro Holding AG (Switzerland) Group) holds 42.74%, Mr. Peter Wünsch holds 3.53% and Dr. Klaus Harisch holds 3.53%. Prior to the Offering, the member of the Board of Management, Mr. Peter Wünsch, holds an indirect share of 0.56% of the share capital of Telegate through THC Century AG, Liechtenstein, a private investment company as a fiduciary. Prior to the Offering, a member of the Supervisory Board also holds an indirect share of 0.28% of the share capital of Telegate through THC Century AG as a fiduciary. Otherwise, the Supervisory Board members do not hold Shares of Telegate. The shares of RED LINE Telekommunikations GmbH are held by private individuals. Of these private individuals, two are lawyers in a law firm that has regularly provided legal advice to the Company in the past, and the other shareholders are family members of the aforementioned shareholders.

Relations between the Company and the Existing Shareholders

Some of the Existing Shareholders are also active in the business of telecommunications or related sectors and have entered into agreements with Telegate. The principal contractual relationships are summarized below. Telegate has negotiated and entered into these contracts in arm's length negotiations, as if they had been concluded with companies not related to Telegate.

Interconnection Agreement with RSL Com. Telegate is currently negotiating an interconnection agreement with RSL Com. RSL Com is an indirect shareholder (through Telegate Holding GmbH) of Telegate. It is proposed that this contract provides for interconnection services in the context of telephony (call by call) in addition to the routing of calls into the network of RSL Com. Currently, these services are provided on the basis of an informal arrangement.

Outsourcing Agreement with debitel. In January 1998, Telegate entered into an outsourcing agreement with debitel AG, in which companies controlled by Metro Holding AG (Switzerland) (which has an indirect 25.86% shareholding in Telegate) have a minority shareholding. Under the agreement, Telegate will provide telephone directory assistance to debitel customers for a fee. The structure of the outsourcing agreement with debitel does not differ from Telegate's contracts with its other outsourcing partners.

Call Center Outsourcing Agreement with Walter Telemarketing. Through an outsourcing agreement, Telegate had in the past transferred the handling of directory assistance calls to a call center operated by Walter Telemarketing GmbH & Co., in which BHS Holding GmbH & Co. KG owns an indirect 75% shareholding. The shareholders of BHS Holding GmbH & Co. KG are substantially identical to those of the Metro Holding AG (Switzerland) Group. The outsourcing agreement will be terminated as of June 30, 1999.

Software Agreement with PC-Plus Computing GmbH. Telegate has purchased the software that allows connection to the directory databases of national and international network operators from PC-Plus Computing GmbH. A member of the Board of Management, Mr. Peter Wünsch, owns 29.5% of the parent company of PC-Plus Computing GmbH, PC-Plus Informatik AG.

Loan Agreement with Telegate Holding GmbH. Certain accounts receivable from loans of a former lender of Telegate have been transferred to Telegate Holding GmbH. These accounts receivable currently have a nominal value of approximately DM 8.5 million. The interest rate is 1.1% above six-months DM LIBOR or six-month EURIBOR, which replaces DM LIBOR, and DM LIBOR or EURIBOR are determined with reference to the first day of January and July (reference dates) for the period until the next reference date. Pursuant to a special agreement, the first interest rate for the period commencing on the reference date of January 1, 1999, was set at 4.375%. The loan will be repaid with priority over other shareholder loans, provided such repayment does not violate the principles on the maintenance of share capital, but in any event not before July 1, 1999.

Loan Agreements with Ligapart AG, Baar/Switzerland, and Walter Telemarketing. Accounts receivable with a nominal value of currently DM 5.0 million and DM 1.25 million, respectively, arise from loan agreements between Telegate and Ligapart AG, Baar/Switzerland, and Walter Telemarketing GmbH & Co. KG, respectively. The Metro Holding AG (Switzerland) Group owns a 100% share in Ligapart AG. BHS Holding GmbH & Co. KG holds an indirect 75% majority interest in Walter Telemarketing GmbH & Co. KG. The shareholders of BHS Holding GmbH & Co. KG are substantially identical to the shareholders of Metro Holding AG (Switzerland). The loans bear interest at a rate of 6% per annum, or at least 2% above the base rate (formerly, the discount rate of the Deutsche Bundesbank). No payments of principal are due on the loans until December 31, 2000 and are payable thereafter in four equal semi-annual installments on June 30 and December 31, 2001, and June 30 and December 31, 2002.

Lending Arrangement with Landesbank Sachsen Girozentrale. Landesbank Sachsen Girozentrale (a subsidiary of which, Sachsen LB Corporate Finance Holding GmbH, has owned a 4.38% share in Telegate AG since December 18, 1998) has granted a credit line to Telegate in the amount of DM 20 million, which has not been fully drawn so far.

Corporate Bodies

Overview

The governing bodies of the Company are the Board of Management (*Vorstand*), the Supervisory Board (*Aufsichtsrat*) and the general shareholders' meeting (*Hauptversammlung*). The powers of these bodies are determined in the Stock Corporation Act and the articles of association.

The Board of Management is responsible for managing the Company in accordance with the law, the provisions of the articles of association, the resolutions of the general shareholders' meeting and any rules of procedure for the Board of Management, and is responsible for the representation of the Company in dealings with third parties.

The Supervisory Board appoints, and is authorized to remove, members of the Board of Management. The Supervisory Board supervises the Board of Management in its management of the Company, but is not directly involved in managing the day-to-day business of the Company. The Supervisory Board may, however, request that certain types of transactions be made only subject to its approval. The Supervisory

Board of Telegate has determined in rules of procedure for the Board of Management that particularly significant transactions as more specifically defined in such rules of procedure require approval of the Supervisory Board. Such rules of procedure may only be amended with the consent of the Supervisory Board. If the Supervisory Board refuses to approve such transactions, the Board of Management may request that the general shareholders' meeting resolve on the approval. For the resolution granting such approval, a majority of at least three quarters of the votes cast is required. No person may serve simultaneously as a member of both the Board of Management and the Supervisory Board.

In performing their duties, the members of both the Board of Management and the Supervisory Board are required to meet the standard of care expected from a diligent and prudent manager. To meet this standard, the members of both Boards must take into account a broad range of interests, including those of the Company and its shareholders, its employees and its creditors. If the members of the Board of Management and the Supervisory Board breach their duties, they are jointly and severally liable to the Company for damages. According to current German stock corporation law, shareholders may not sue members of the Board of Management or the Supervisory Board for breach of duty. Only the Company has the right to claim damages from members of the Board of Management or the Supervisory Board.

Under German law, shareholders and other persons are prohibited from using their influence on the Company to induce any member of the Board of Management or the Supervisory Board to act in a way that is detrimental to the interests of the Company. In particular, an enterprise controlling the Company may not use its influence to cause the Company to act against its own interests unless such controlling enterprise compensates the Company for any resulting disadvantage.

Supervisory Board

At the date of its formation, the Supervisory Board of the Company consisted of three members, all of whom were elected by the shareholders. Telegate currently employs more than 500 employees and the composition of its Supervisory Board is therefore subject to the provisions of the German Works Council Constitution Act of 1952 (*Betriebsverfassungsgesetz* 1952). Therefore, in mid-January 1999 a "status" procedure as provided for in the Stock Corporation Act was initiated, and by shareholders' resolution of March 18, 1999 the Company's articles of association were amended to the effect that the Supervisory Board consists of six members, four of whom are elected by the general shareholders' meeting pursuant to the provisions of the Stock Corporation Act and two of whom are elected by the employees pursuant to the provisions of the German Works Council Constitution Act of 1952. The election procedure for the representatives of the employees was initiated in March 1999. The completion of this procedure by appointment of two employee representatives to the Supervisory Board is expected before the end of the first six months of 1999. Members of the Supervisory Board appointed by the shareholders may be removed from office by the shareholders with a majority of at least three quarters of the votes cast at the relevant general shareholders' meeting. Members of the Supervisory Board elected by the employees may be removed from office with a majority of at least three quarters of the votes cast by the employees.

The members of the Supervisory Board elect a chairperson and a deputy chairperson from amongst themselves. The chairperson of the Supervisory Board convenes and chairs meetings of that body. Unless otherwise provided for by law, the Supervisory Board makes decisions by a simple majority of votes cast.

Members of the Supervisory Board may not be elected for a period extending beyond the end of the general shareholders' meeting which discharges the members of the Supervisory Board from their responsibilities for the fourth fiscal year following the year in which such members took office, not including the fiscal year during which the term in office began. Re-election is permitted.

The names and principal occupations of the present members of the Supervisory Board of the Company are as follows:

Name	Principal Occupation
Herbert Brenke	Consultant, Essen
Peter Titz	Director of Invision AG, Baar (Switzerland)
Nir Tarlovsky	Vice President of RSL Communication Inc., New York
Hans-Werner Moritz	Attorney, Munich

The above members of the Supervisory Board have been appointed until the end of the general shareholders' meeting which will resolve on the discharge from responsibilities for the fiscal year 2002. The business address of the members of the Supervisory Board is the same as that of the Company.

Each member of the Supervisory Board receives a remuneration of DM 10,000 annually and reimbursement for expenses. The chairperson of the Supervisory Board receives an annual remuneration of DM 15,000. The members of the Supervisory Board are reimbursed for any value added tax on such amounts. In the fiscal year 1998, the aggregate compensation of the Supervisory Board, which in that year still consisted of three members was DM 39,265.17, including reimbursement of expenses, due to a different provision of the articles of association of the Company in force at that time. Prior to the Offering, the members of the Supervisory Board did not have a direct shareholding in the Company; they did, however, have an indirect shareholding of 0.28%.

Board of Management

The members of the Board of Management, which currently consists of three members, are appointed by the Supervisory Board.

Pursuant to the articles of association of the Company, the Board of Management must consist of at least two members. The Supervisory Board is authorized to increase the number of members of the Board of Management. The maximum term for members of the Board of Management is five years. Re-appointment or extension of their term of office up to five years is permitted. The Supervisory Board may remove members of the Board of Management prior to the expiration of their term for cause. Cause exists, in particular, in the case of gross negligence in the discharge of their duties, the inability to perform management duties properly, or a vote of no confidence by the general shareholders' meeting.

The Board of Management manages the business of the Company. The Company is represented by two members of the Board of Management or a member of the Board of Management together with a holder of statutory powers of attorney (*Prokurist*). The Supervisory Board has issued rules of procedure for the Board of Management pursuant to which certain significant transactions require the approval of the Supervisory Board. A member of the Board of Management may not represent the Company in the case of an agreement between the Company and him or her.

The Board of Management must report regularly to the Supervisory Board on the proposed corporate policy and other major strategic issues of future Company management, profitability (especially the return on equity), progress of business (especially sales), and the general condition of the Company as well as on transactions which could have a significant effect on the Company's profitability or liquidity. The Board of Management also reports to the chairperson of the Supervisory Board on other matters of importance.

The current members of the Board of Management are as follows:

Dr. Klaus Harisch, age 35, is a co-founder of the Company together with Mr. Wünsch and is spokesman of the Board of Management. He is responsible for marketing and sales as well as for regulatory matters. Prior to founding Telegate, Dr. Harisch worked together with Dr. Schwarz-Schilling (former federal Minister of Post and Telecommunications) for five years, providing consultancy services in the telecommunications sector.

Mr. Dirk Roesing, age 35, has been a member of the Board of Management since January 1998 and is responsible for finance and administration. Prior to joining Telegate, Mr. Roesing filled various leading auditing, finance and controlling positions in the Daimler-Benz Group and the Metro Group.

Mr. Peter Wünsch, age 44, is a co-founder of the Company together with Dr. Harisch and is responsible for product development, technical matters, infrastructure and the operation of the call centers. In 1983, Mr. Wünsch founded PC-Plus Computing GmbH, a software provider for telecommunication companies. Mr. Wünsch was a managing director of this company until the formation of Telegate.

The terms of office of the members of the Board of Management end on December 31, 2002. During the fiscal year 1998, the aggregate amount which Telegate paid as remuneration to the members of the Board of Management was DM 1.2 million, including bonuses. As at December 31, 1998, Telegate had extended a loan in the principal amount of DM 45,000 to a member of the Board of Management, who is also one of its Existing Shareholders. The loan bears interest at the base rate (formerly discount rate of the

German Central Bank (*Deutsche Bundesbank*)) and is repayable in three equal installments by December 31, 2001.

Prior to the Offering, the members of the Board of Management have a direct shareholding of 17.61% and an indirect shareholding of 4.83% in the Company.

General Shareholders' Meeting

A general shareholders' meeting may be convened by the Board of Management, the Supervisory Board, or shareholders whose aggregate shareholdings equal at least 5% of the Company's share capital or an aggregate nominal value of Euro 500,000. The annual general shareholders' meeting which, among other things, formally resolves on the discharge of responsibility of members of the Board of Management and the Supervisory Board, the allocation of profits, and the appointment of auditors, must be held during the first eight months of every fiscal year in Planegg, in a German city with a stock exchange, or in a city, where one of the Company's centers of operations or affiliated companies are located. Each Share has one vote at the general shareholders' meeting.

Unless otherwise required by the Company's articles of association or the Stock Corporation Act, shareholders' resolutions are adopted with a simple majority of the votes cast or, if a majority of share capital is required, a simple majority of the share capital represented. Major corporate transactions, such as mergers, the creation of authorized capital or conditional capital, or the conclusion of intercompany agreements require the vote of three quarters of the share capital represented at the shareholders' meeting. Shareholders may grant written proxies. Specific statutory provisions of the Stock Corporation Act govern the exercise of proxies granted to banks. Pursuant to the Company's articles of association, the right to participate in, and vote at, a shareholders' meeting is only attributed to those shareholders who deposit their shares for the duration of the meeting with the Company, a German notary, a central securities depository or any other depository agent specified in the notice of the general shareholders' meeting. Shares are deemed to have been deposited if, with the consent of an approved depository agent, they are deposited with a bank in a blocked custody account until the end of the general shareholders' meeting. The deposit must be made at least five days before the meeting. If the last day of the end of such deposit period falls on a Sunday, Saturday or other official public holiday in a state of the Federal Republic of Germany, then deposits must take place on or before the immediately preceding business day. If the shares are deposited with a German notary or with a securities deposit bank, then a certificate to this effect must be submitted to the Company on the first business day, excluding a Saturday, following the expiration of the deposit period.

The calling of a general shareholders' meeting must be published in the Federal Gazette (*Bundesanzeiger*) at least one month prior to the last day on which the shares may be deposited, not counting the day of publication and the last day on which the shares may be deposited. The notice must specify the date, time and place of the general shareholders' meeting, as well as the agenda and the conditions for shareholder participation. Under certain conditions, shareholders and members of the Board of Management and the Supervisory Board may challenge resolutions of the general shareholders' meeting before the competent district court (*Landgericht*) on various grounds, or seek to have the court declare them void.

Notices, Paying and Depositary Agent

The articles of association require the Company's notices to be published in the Federal Gazette. Notices regarding the Shares must also be published in at least one national newspaper designated for notices by the Frankfurt Stock Exchange. DG BANK Deutsche Genossenschaftsbank AG, Frankfurt am Main, has been appointed as paying and depository agent.

Dividends

Dividends, if any, are paid upon a resolution of the ordinary general shareholders' meeting on the allocation of the annual net profits. For the dividend policy of the Company, see "Dividend Policy".

In preparing the annual financial statements, the Board of Management and the Supervisory Board are authorized under the articles of association to allocate to other earning reserves all or parts of the net profits remaining after deduction of amounts allocated to the statutory reserve and any loss carried forward. The retention of more than one half of annual net profits is not permitted if, as a result of such retention, the other earnings retained would exceed one half of the share capital.

As long as the shares which entitle their holders to dividend payments are held in a clearing system, the dividends will be paid in accordance with the rules of such clearing system.

LIQUIDATION

Except in the event of insolvency, the Company may be wound up by a resolution of the general shareholders' meeting that requires the vote of three quarters of the share capital represented. Any assets of the Company remaining after the liabilities have been met (liquidation surplus) will, if so resolved, be distributed amongst the shareholders in proportion to the hypothetical par value of their shareholdings.

AUDITORS

The Company's auditors for the fiscal year 1998 are PwC Deutsche Revision Aktiengesellschaft, Elsenheimerstr. 31, 80687 Munich. The auditors (previously named C&L Deutsche Revision Aktiengesellschaft) audited the Company's financial statements (prepared in accordance with German GAAP) as of December 31, 1996, 1997 and 1998, providing an unqualified audit certificate. Telegate's consolidated financial statements (prepared in accordance with U.S. GAAP) as of December 31, 1997 and 1998 were also audited by the Company's auditors and received an unqualified auditors' certificate. See "Financial Information—Auditors' Report on the Consolidated Financial Statements and the Consolidated Cash Flow Statements for the Fiscal Years 1997 and 1998 (according to U.S. GAAP)."

MARKET INFORMATION

Neuer Markt

The *Neuer Markt* is a market segment of the Frankfurt Stock Exchange which was established in March 1997 for the listing of innovative small and medium-sized companies. At present, shares admitted for trading on the *Neuer Markt* are traded on the floor of the Frankfurt Stock Exchange and in the "Exchange Electronic Trading System" ("Xetra"). Securities listed on the Frankfurt Stock Exchange are generally traded in the auction market, but such securities also change hands in interbank dealer markets. Prices, which are determined by out-cry, are noted by publicly commissioned stock brokers who are members of the Stock Exchange, but who are not permitted to deal with the public. The prices of actively traded securities are continuously quoted during trading hours. For all securities, a single price (*Einheitskurs*) is established around midday on each day on which the Frankfurt Stock Exchange is open for business. With regard to computerized trading on the Frankfurt Stock Exchange, which supplements floor trading, the Integrated Exchange Trading and Information System ("IBIS") was replaced by Xetra on November 28, 1997. Xetra is managed by Deutsche Börse AG. The securities that are currently traded in Xetra include the DAX 100 shares, and all *Neuer Markt* securities, as well as options, bonds, treasury notes, and securities issued by other public issuers. It is expected that Xetra will be expanded in the coming years, perhaps to include all securities traded on the Frankfurt Stock Exchange. Xetra trading is performed by banks and securities firms that are admitted to at least one German securities exchange. During regular trading hours, traders have access through their computers to a list of all buy and sell orders outstanding at any given moment. Xetra share trading hours are between 8:30 a.m. and 5:00 p.m. on each day on which the securities exchange is open for business. Xetra is integrated into the Frankfurt Stock Exchange and is bound by its rules and regulations.

On behalf of the Frankfurt Stock Exchange, the Association of Members of the Frankfurt Stock Exchange publishes an official daily list of quotations containing the established single prices as well as the yearly high and low prices for all traded securities.

Transactions on the Frankfurt Stock Exchange are settled on the second business day following a transaction. OTC transactions (which may take place in the case of large trade volumes or if one of the parties is a foreigner) are generally also settled on the second business day following the trade, although a different period may be agreed upon by the parties. Following a recent amendment to the German banks' standard terms and conditions for securities transactions (*Sonderbedingungen für Wertpapiergeschäfte*), customers' orders for listed securities must be executed on a stock exchange unless the customer gives specific instructions to the contrary. A quotation can be suspended by the Frankfurt Stock Exchange if orderly trading is temporarily endangered or if a suspension is deemed to be necessary in order to protect the public.

Trading activities on the German stock exchanges are supervised by the Federal Supervisory Authority for Securities Trading *(Bundesaufsichtsamt für den Wertpapierhandel)*.

TAXATION IN THE FEDERAL REPUBLIC OF GERMANY

The following is a discussion of certain tax matters arising under German law. The discussion does not purport to be a comprehensive description of all of the tax considerations which may be relevant to a decision to purchase the Offered Shares. The discussion is based on the tax laws of Germany in effect on the date of this Prospectus, which are subject to change, possibly with retroactive effect. This discussion does not address aspects of German taxation other than the taxation of dividends, capital gains taxation, and gift and inheritance taxation, and does not address all aspects of such German taxation. This discussion does not consider any specific facts or circumstances that may apply to a particular purchaser of the Offered Shares. In addition, it does not address tax considerations relevant to individuals who are tax residents of Germany. Any persons who are in doubt as to their tax position are urged to contact their own tax advisor.

Taxation of Dividends

Dividends paid by a German resident stock corporation (*Aktiengesellschaft*) to non-resident shareholders are subject to withholding tax equal to 25% of the amount of the gross dividend. Taxation relief is given in individual cases where shareholders who are not resident in Germany are entitled to benefits under a double taxation treaty or the Council's directive No. 90/435/EEC dated July 23, 1990. Broadly speaking, the latter applies only in situations where the shareholder is a qualifying corporation that is not resident in Germany but is treated as a tax resident in one of the other Member States of the European Union.

Under the provisions of an applicable double tax treaty, a shareholder that is not resident in Germany may be entitled to a reduction in the German withholding tax rate on dividends. Tax will be withheld initially at the full statutory rate. The shareholder must then make a claim to the German tax authorities for a refund of the amount by which the actual rate of withholding exceeds the maximum rate of withholding permitted by the applicable double tax treaty. Where the shareholder is a corporation qualifying for a special treaty rate, the distributing corporation may be entitled to withhold initially at the lower rate ("relief at source").

A 5.5% solidarity surcharge on the withholding tax will be levied on dividends paid by a German resident corporation on or after January 1, 1998. The surtax will amount to 1.375% of the amount of the gross dividend. Again, subject to relief available under an applicable double tax treaty, shareholders may be entitled to a refund, in whole or in part, of this surtax or to relief at source.

In case the Shares are part of the business property of a permanent establishment or a fixed place of business of the shareholder located in Germany, the shareholder will be taxed on the same basis as a shareholder resident in Germany who holds the shares as business property of a German trade or business. Such shareholder will be entitled to the German imputation credits in respect of the dividend. For shareholders that are resident in Germany, the German imputation system avoids the double taxation of corporate profits. As a result, the income underlying the dividend is taxed at the individual income or corporation tax rate of the shareholder. To achieve this, the income of the shareholder is taxed on a grossed-up basis, including the corporate income tax paid by the corporation. A declared dividend of DM 70, for example, to an eligible shareholder results in an initial cash receipt of DM 51.5375 and a tax credit of DM 18.4625 for dividend withholding taxes and the solidarity surcharge, as well as the imputation credit of DM 30 in respect of corporate income tax paid by the distributing corporation. The grossed-up amount of DM 100 is includible in taxable income. If the tax assessed at the applicable individual tax rate (including the 5.5% solidarity surcharge) exceeds the amount of the tax credits, the shareholder will be liable for additional taxes. If the amount of the tax credits exceeds the amount of tax assessed (including the surcharge), the shareholder will be entitled to claim a tax refund.

The corporate income tax rate including the solidarity surcharge for a non-resident corporate shareholder holding the shares as part of the business property of a permanent establishment or a fixed place of business of the shareholder located in Germany is 42.2% (40% corporate income tax plus the solidarity surcharge of 5.5% of the tax amount). In the case of a permanent establishment maintained in Germany by a non-resident partnership or individual, the individual tax rates apply with a minimum tax rate of 25% (plus solidarity surcharge). Income from shares held as part of the business property of a permanent establishment located in Germany are generally subject to trade tax on income. There is no withholding tax payable on the remittance of the dividend from a permanent establishment in Germany to its head office abroad.

Capital Gains Tax

Capital gains resulting from the disposition of Shares by a shareholder who is not subject to residence-based taxation in Germany are not subject to German capital gains tax unless either:

(i) the Shares are part of the business property of a permanent establishment or a fixed place of business of the shareholder located in Germany; or

(ii) the shareholder directly or indirectly holds, or at any time during the five-year period immediately preceding the disposition held, 10% of the nominal share capital. Most of the double taxation treaties concluded by the Federal Republic of Germany provide that shareholders that are not residents in Germany and do not maintain a permanent establishment in Germany are subject to neither German personal income tax nor corporate income tax on capital gains.

Shareholders may be subject to taxation on any capital gains realized on a disposition of shares in other jurisdictions to which they have a connection. If a capital gain is subject to German taxation pursuant to clause (ii) above, as a result of an amendment introduced by recent German tax reform legislation (*Steuerentlastungsgesetz* 1999, 2000, 2002), such capital gain will no longer, as in the past, be taxed at one half of the average tax rate up to an amount of DM 15 million, but will rather be taxed at the rate which would be applicable if only ⅕ of the capital gain were added to such taxpayer's other income.

Gift and Inheritance Tax

Shares held by a person not subject to residence-based taxation in Germany are not subject to German inheritance and gift tax on a transfer by reason of death or donation, unless:

(i) the shares are part of the business property of a permanent establishment or a fixed place of business of the shareholder located in Germany;

(ii) the descendant, donor or the acquiror is a German tax resident as defined in section 2 of the German Inheritance and Gift Tax Act; or

(iii) the shareholder holds alone or together with affiliated persons directly or indirectly at least 10% of the nominal share capital of the corporation.

Other Taxes in Germany

There are no German transfer taxes, stamp duties or other similar taxes imposed on the sale or transfer of shares. For tax assessment periods beginning after December 31, 1996, the net wealth tax (*Vermögensteuer*) is no longer levied in Germany.

INFORMATION FOR U.S. INVESTORS

Currency Information

On January 1, 1999, the Euro replaced the Deutsche Mark as legal tender in the Federal Republic of Germany. The Deutsche Mark will continue to exist as a sub-unit of the Euro until December 31, 2001, when it will be replaced for all purposes by the Euro (subject to a possible extension). The official Euro/DM conversion rate, which was invariably determined by the Council of the European Union on December 31, 1998, is DM 1.95583 to Euro 1.00.

Description of Certain Corporate Matters

For a summary of certain information relating to certain provisions of Telegate's articles of association and German law see "General Information on the Company—Corporate Bodies", General Information on the Company—Share Capital and Shares", "General Information on the Company—Dividends and Statutory Reserves" and "General Information on the Company—Notice Requirements" and the following discussion. These sections are qualified in their entirety by reference to the Company's articles of association and German law in effect at the date of this Prospectus.

Pre-emptive Rights

Holders of ordinary shares of Telegate generally have pre-emptive rights with respect to the issuance of new shares (as well as profit participation certificates, convertible bonds, bonds with a profit participation and bonds with warrants attached), unless otherwise provided in the shareholders' resolution authorizing the capital increase. The shareholders, by a majority of three quarters of the share capital represented at the meeting, may authorize the Board of Management to exclude pre-emptive rights with respect to a capital increase and may themselves exclude pre-emptive rights with respect to a capital increase based on the written request of the Board of Management, which request must also state the reasons for such proposed exclusion (which reasons must be legally recognized as valid). Pre-emptive rights are generally transferable and are traded on the German stock exchanges during a period of about twelve calendar days ending at the end of the third stock exchange trading day prior to the final date for the exercise of the pre-emptive rights.

Due to the restrictions on the offer and sale of securities in the United States under U.S. securities laws and regulations, there can be no assurance that any offer of new shares to existing shareholders on the basis of their pre-emptive rights will be open to U.S. holders of Shares.

Limitations Affecting Security Holders

There are no limitations on the right of non-resident or foreign owners to hold or vote the Shares imposed by German law or the Company's articles of association.

United States Taxation

The following is a summary of certain U.S. federal income tax considerations relevant to the purchase, ownership and disposition of Shares by a holder that is a resident of the United States for purposes of the income tax convention between the United States and Germany (the "Treaty") and is fully eligible for benefits under the Treaty (a "U.S. holder"). The summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase Shares. In particular, this summary deals only with U.S. holders that will hold Shares as capital assets, and does not address the tax treatment of holders that may be subject to special tax rules, such as banks, insurance companies, securities dealers, tax-exempt entities, investors liable for alternative minimum tax, persons that own, directly or indirectly, 10% or more of the shares of the Company, persons that hold Shares as part of an integrated investment (including a "straddle") comprised of a Share and one or more other positions, and holders whose "functional currency" is not the U.S. dollar. The summary is based on the Treaty and the tax laws of the United States and Germany in effect on the date hereof, which are subject to change, possibly with retroactive effect. Prospective purchasers should consult their own advisers as to the tax consequences of the purchase, ownership and disposition of Shares in light of their particular circumstances, including the effect of any state, local or other national laws.

In general, a holder will be entitled to Treaty benefits (and therefore will be a U.S. holder, as defined above) if the holder is (i) an individual U.S. resident, a U.S. corporation, or a partnership, estate, or trust to the extent its income is subject to taxation in the United States in its hands or in the hands of its partners or beneficiaries; (ii) not also a resident of Germany for German tax purposes; and (iii) not subject to an anti-treaty shopping article that applies in limited circumstances. The Treaty benefits discussed below generally are not available to U.S. holders who hold Shares in connection with the conduct of business in Germany through a permanent establishment or the performance of personal services in Germany through a fixed base. This summary does not discuss the treatment of such holders.

Dividends

Dividends paid by a German corporation generally are subject to German withholding tax at an aggregate rate of 26.375% (consisting of a 25% withholding tax and a 1.375% surtax). U.S. holders are entitled to claim a refund of a portion of these withholding taxes, and will be treated as receiving additional dividend income from the Company, under the mechanism described below.

Under the Treaty, a U.S. holder will be entitled to receive a cash payment from the German tax authorities equal to 16.375% of the declared dividend. The Treaty provides that a portion of this payment (i.e., 11.375% of the declared dividend) will be treated for U.S. tax purposes as a reduction in German withholding tax to the generally applicable Treaty rate of 15%, and the remainder (i.e., 5% of the declared dividend) will be treated as the net amount of an additional dividend of 5.88% of the declared dividend that has been subject to a 15% German withholding tax. Accordingly, if the Company declares a dividend of 100, a U.S. holder initially will receive 73.625 (100 minus the 26.375% withholding tax). The holder then can claim a refund from the German tax authorities of 16.375, and thereby will receive total cash payments of 90 (i.e., 90% of the declared dividend). For U.S. tax purposes, the holder will be deemed to have received total dividends of 105.88, (consisting of the declared dividend of 100, plus the additional dividend of 5.88 that is associated with the Treaty refund).

Dividends received by a U.S. holder (including, the additional dividend associated with the Treaty refund and amounts withheld in respect of German withholding taxes) generally will be subject to U.S. federal income taxation as ordinary income, and will not be eligible for the dividends received deduction generally allowed to U.S. corporations. German withholding tax at the 15% rate provided by the Treaty will be treated as a foreign income tax that, subject to generally applicable limitations, is eligible for credit against a holder's U.S. federal income tax liability or, at the holder's election, may be deducted in computing taxable income. Thus, in the examples above, the U.S. holder would be deemed to have paid German taxes of 15.88. Under new rules enacted or announced in 1997, foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities or in respect of arrangements in which a U.S. holder's expected economic profit, after non-U.S. taxes, is insubstantial. Holders should consult their own advisors concerning the implications of these rules in light of their particular circumstances.

Dividends paid in foreign currency will be includible in the income of a U.S. holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of receipt by the holder, regardless of whether the payment is in fact converted into U.S. dollars. If dividends paid in foreign currency are converted into U.S. dollars on the date of receipt, holders generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. A U.S. holder may be required to recognize foreign currency gain or loss upon its receipt of a refund of German withholding tax (but not with respect to the portion of the Treaty refund that is treated as an additional dividend) to the extent the U.S. dollar value of the refund differs from the U.S. dollar equivalent of the refund amount on the date of receipt of the underlying dividend.

Distributions to U.S. holders of additional Shares that are made as part of a pro rata distribution to all shareholders of the Company generally will not be subject to U.S. federal income tax.

Refund Procedures

To make an individual claim for refunds payable under the Treaty, a U.S. holder must submit a claim for refund to the German tax authorities within four years of the end of the calendar year in which the dividend was received. Claims for refund are made on a special German form, which must be filed with the German tax authorities: Bundesamt fur Finanzen, Friedhofstrasse 1, 53225 Bonn, Germany. Copies of the required form may be obtained from the German tax authorities at the same address, or from the Embassy of the Federal Republic of Germany, 4645 Reservoir Road, N.W., Washington, D.C. 20007-1998.

As part of the refund claim, a U.S. holder must submit to the German tax authorities the original bank voucher (or certified copy thereof) issued by the paying entity documenting the tax withheld, and an official certification of the holder's last filed United States federal income tax return. Such a certification may be obtained by filing a request with the Internal Revenue Service Center in Philadelphia, Pennsylvania, Foreign Certificate Request, P.O. Box 16347, Philadelphia, PA 19114-0447. Requests for certification must include the holder's name, Social Security number or Employer Identification number, tax return form number, and tax period for which the certification is requested. Requests for certification can include a request to the Internal Revenue Service to send the certification directly to the German tax authorities. If no such request is made, the Internal Revenue Service will send a certificate on IRS Form 6166 to the U.S. holder, which then must submit the certification with its claim for refund.

Refunds under the Treaty are not available in respect of Shares held in connection with a permanent establishment or fixed base in Germany.

Capital Gains

Under the Treaty, a U.S. holder will not be subject to German capital gains tax in respect of a sale or other disposition of Shares unless the Shares are held in connection with a permanent establishment or fixed base in Germany.

Gain or loss realized on the sale or other disposition of Shares generally will be subject to capital gain or loss if the U.S. holder held the Shares as a capital asset and will be long-term capital gain or loss if the Shares were held for more than one year at the time of disposition. A U.S. holder's ability to offset capital losses against ordinary income is limited. Long-term capital gain recognized by an individual holder generally is subject to taxation at a maximum rate of 20 per cent.

German Estate and Gift Taxes

Under the current estate tax treaty between the United States and Germany, a transfer of Shares by gift or by reason of death of a U.S. holder generally will not be subject to German gift or inheritance tax unless the donor or transferor, or the heir, donee or other beneficiary, is domiciled in Germany for purposes of the estate tax treaty at the time the gift was made, or at the time of the donor's or transferor's death, or the Shares were held in connection with a permanent establishment or fixed base in Germany.

The estate tax treaty provides a credit against United States federal estate and gift tax liability for the amount of inheritance and gift tax paid in Germany, subject to certain limitations, in a case where Shares are subject to German inheritance or gift tax and United States federal estate or gift tax.

Information Reporting and Backup Withholding

Dividends on Shares, and payments of the proceeds of a sale of Shares, paid within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding at a 31% rate unless the holder (i) is a corporation or other exempt recipient or (ii) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification as to its non-U.S. status in connection with payments received within the United States or through certain U.S.-related financial intermediaries.

Certain Legal Matters

The validity of the Shares and certain other legal matters will be passed upon for Telegate by Hengeler Mueller Weitzel Wirtz and for the Managers by Cleary, Gottlieb, Steen & Hamilton, German and U.S. counsel for the Managers. Certain regulatory matters will be passed upon for Telegate by Wilkinson, Barker, Knauer & Quinn, LLP. A member of Wilkinson, Barker, Knauer & Quinn, LLP is an indirect shareholder of Telegate and an indirect Selling Shareholder in the Offering, see "General Information on the Company—Existing Shareholders".

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TELEGATE AG

CONSOLIDATED FINANCIAL STATEMENTS (ACCORDING TO U.S. GAAP)

TELEGATE AG
CONSOLIDATED BALANCE SHEETS (U.S. GAAP)

	December 31, 1998	December 31, 1997
	DM	*DM*
ASSETS		
Cash and cash equivalents	7,412,152	6,870,276
Restricted Cash	400,000	—
Trade accounts receivable, net of allowance of DM 543,739 and DM 193 at December 31, 1998 and 1997, respectively.	10,905,770	6,661
Other receivables	138,748	820,497
Grants receivable	1,879,425	3,106,537
Prepaid taxes	471,396	1,202,180
Prepaid expenses and other current assets	784,178	288,205
Total current assets	21,991,669	12,294,356
Property and equipment, net	18,769,455	8,973,434
Loans receivable from shareholders	45,000	—
Intangible and other assets	573,912	130,000
TOTAL ASSETS	41,380,036	21,397,790
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Trade accounts payable	13,400,289	10,995,621
Current portion of long term debt maturing within a year	1,551,733	—
Other liabilities	38,162	820,497
Accrued interest expense	2,445,323	880,467
Accrued expenses and other liabilities	14,674,118	2,997,864
Total current liabilities	32,109,625	15,694,449
Accrued pension liability	153,382	—
Long term debt	20,324,412	17,084,739
SHAREHOLDERS' DEFICIT		
Common shares, par value DM 5; issued 290,000 shares in 1998, and 263,636 shares in 1997.	1,450,000	1,318,180
Additional paid in capital	33,431,805	9,790,320
Accumulated deficit	(46,089,188)	(22,489,899)
Total shareholders' equity	(11,207,383)	(11,381,398)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	41,380,036	21,397,790

The accompanying notes are an integral part of these financial statements

TELEGATE AG

CONSOLIDATED STATEMENTS OF OPERATIONS (U.S. GAAP)

	Year ended December 31,	
	1998	**1997**
	DM	*DM*
Revenues	79,361,082	10,269,691
Cost of revenues	54,814,535	11,550,997
Gross profit	24,546,547	(1,281,306)
Advertising costs	26,620,028	9,403,481
Personnel costs	6,215,933	2,805,048
Depreciation and amortization	5,420,861	2,240,857
Other administrative expenses	8,208,411	3,639,567
	46,465,233	18,088,953
Operating loss	(21,918,686)	(19,370,259)
Interest income	237,795	20,494
Interest expense	1,955,635	911,995
Other income (expense)	37,237	(1,349)
Loss before taxes	(23,599,289)	(20,263,109)
Income tax (expense) benefit	—	—
Net loss	(23,599,289)	(20,263,109)
Basic and diluted loss per share	(84.58)	(119.73)
Number of shares used to compute earnings per share	279,015	169,238

The accompanying notes are an integral part of these financial statements

TELEGATE AG

CONSOLIDATED STATEMENTS OF CASH FLOWS (U.S. GAAP)

	For the year ended December 31,	
	1998	1997
	DM	*DM*
Net loss	(23,599,289)	(20,263,109)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	5,420,860	2,240,856
Gain on sale of fixed assets	(33,000)	—
Provision for losses on accounts receivable	543,546	193
Changes in operating assets and liabilities:		
Trade accounts receivable	(11,442,655)	66,436
Other assets	427,650	(1,816,728)
Trade accounts payable	2,404,668	3,341,113
Other liabilities	12,612,156	4,337,475
Cash Used by Operating Activities	(13,666,064)	(12,093,764)
Investing Activities:		
Additions to Property and equipment	(14,834,120)	(10,177,642)
Proceeds from sale of fixed assets	45,960	—
Cash Used by Investing Activities	(14,788,160)	(10,177,642)
Financing activities:		
Capital contributions	1,440,000	—
Proceeds from share issuance	20,000,000	8,847,600
Proceeds from government grants	3,556,100	2,823,500
Loans from shareholders	—	17,084,739
Proceeds from bank borrowings	5,500,000	—
Repayments of bank borrowings	(1,100,000)	—
Restricted cash	(400,000)	—
Cash Provided by Financing Activities	28,996,100	28,755,839
Increase in cash and equivalents	541,876	6,484,433
Cash and equivalents at beginning of year	6,870,276	385,843
Cash and equivalents at end of year	7,412,152	6,870,276

The accompanying notes are an integral part of these financial statements

TELEGATE AG

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT (U.S. GAAP)

	Shares	Par Value	Additional Paid in Capital	Accumulated Deficit	Shareholders Equity
		DM	*DM*	*DM*	*DM*
Balance at January 1, 1997	86,600	433,000	1,827,900	(2,226,790)	34,110
Issuance of shares	177,036	885,180	7,962,421	—	8,847,601
Net loss	—	—	—	(20,263,109)	(20,263,109)
Balance at December 31, 1997	263,636	1,318,180	9,790,321	(22,489,899)	(11,381,398)
Issuance of shares	26,364	131,820	19,868,180	—	20,000,000
Capital contribution	—	—	1,440,000	—	1,440,000
Capital contribution from conversion of debt	—	—	2,333,304	—	2,333,304
Net loss	—	—	—	(23,599,289)	(23,599,289)
Balance at December 31, 1998	290,000	1,450,000	33,431,805	(46,089,188)	(11,207,383)

The accompanying notes are an integral part of these financial statements

NOTES TO THE 1998 CONSOLIDATED FINANCIAL STATEMENTS (U.S. GAAP)

1. Basis of Presentation

Telegate AG (the "Company") provides operator and directory assistance services for private and corporate customers of various telephone companies in Germany. All of its operations are located in Germany.

The accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"). To comply with German law, the Company is required to prepare and publish financial statements in accordance with the German Commercial Code, which represents generally accepted accounting principles in Germany ("German GAAP"). German GAAP varies in certain significant respects from U.S. GAAP. Accordingly, the Company has recorded certain adjustments in order to present the accompanying consolidated financial statements in accordance with U.S. GAAP.

Since inception, the Company has financed its operations primarily through long term borrowings and capital contributions from shareholders. As a growth company of the telecommunication sector the company, as expected, suffered considerable losses in the start-up phase during the first two years. At December 31, 1998, the Company had negative working capital of 10,117,956. While the Company's management believes that proceeds from future equity offerings and financing received from current shareholders will be sufficient to meet the working capital needs of the Company, there are no assurances that these sources will be sufficient to fund the Company's operations. The accompanying financial statements do not include any adjustments that might result from the outcome of these uncertainties.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. The following companies were included in the consolidated financial statements as at December 31, 1997: Telegate Neubrandenburg Gesellschaft für telefonische Informationsdienste mbH, Neubrandenburg, Telegate Greifswald Gesellschaft für telefonische Informationsdienste mbH, Greifswald, and Telegate Anklam Gesellschaft für telefonische Informationsdienste mbH, Anklam. Telegate Neubrandenburg Gesellschaft für telefonische Informationsdienste mbH and Telegate Greifswald Gesellschaft für telefonische Informationsdienste mbH transferred their entire assets, including all rights and obligations, to Telegate AG as of January 1, 1998, resulting in a dissolution by way of merger without liquidation of the company pursuant to §§ 2 No.1, 46 et. seq. and 60 et. seq. of the German Act on Corporate Transformations (*Umwandlungsgesetz*) (merger). Therefore, the only remaining subsidiary included in the consolidated financial statements pursuant to U.S. GAAP as at December 31, 1998 is Telegate Anklam Gesellschaft für telefonische Informationsdienste mbH. All significant intercompany transactions and accounts have been eliminated in consolidation.

Revenue Recognition

The Company recognizes revenues when services have been provided. Revenues are recognized based on the number and duration of calls received from end customers.

Cost of Revenues

Cost of revenues includes the cost of line fees, costs for access to Deutsche Telekom's information data base and salaries paid to the telephone operators.

Advertising Costs

Advertising costs are expensed as incurred.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original term of three months or less to be cash equivalents.

Restricted Cash

The Company is required by covenants contained in certain lease agreements to maintain cash deposits in banks as collateral in case of default. These restricted cash balances have been shown separately from cash and equivalents on the accompanying balance sheets.

Intangible Assets

Intangible assets, comprising class 4 telephone licenses, which are limited to certain lines, are amortized on a straight line basis over the license term. Accumulated amortization of licensing agreements was 9,375 DM at December 31, 1998. There was no accumulated amortization at December 31, 1997.

Property and Equipment

Property and equipment is recorded at historical cost and depreciated using the declining balance method over the estimated useful life of the asset, which ranges from 3 years (computer equipment, excluding software) to 10 years (office equipment). Purchased software is depreciated using the straight line method over three to five years.

Impairment of Long-Lived Assets

Long-lived assets (including intangible assets) are periodically reviewed for impairment based upon undiscounted cash flows. Long-lived assets with recorded values that are not expected to be recovered through future cash flows are written down to current fair value. Fair value is determined from estimated discounted future net cash flows. Management believes its long-lived assets are realizable and that no impairment allowance is necessary.

Government Grants Receivable

Investment grants from governmental agencies for the acquisition of property and equipment are recorded as a reduction of the cost basis of the related property and equipment. Investment grants from governmental agencies as reimbursement for wages of employees hired from unemployment pools are recorded as a reduction of the Company's personnel costs. Government grants receivable represent reimbursement for expenditures to be received under various investment grant programs. Under the terms of the investment grants the governmental agencies have the right to audit the use of payments received by the Company.

Income Taxes

The Company accounts for income taxes using the liability method. Under this method, deferred income taxes are recognized for temporary differences between financial and income tax bases of assets and liabilities using the enacted tax rates in effect in the years in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the period that the rate change is enacted. Deferred tax assets are reduced by a valuation allowance when the Company cannot make the determination that it is more likely than not that some portion or all of the related tax asset will be realized.

Fair Value of Financial Instruments

The carrying value of financial instruments such as cash, investments, accounts receivable, and accounts payable approximate their fair value based on the short-term maturities of these instruments. The carrying value of the Company's debt approximate fair value, which is estimated using discounted cash flow analyses based on current incremental borrowing rates for similar types of borrowing arrangements.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk

The company does business with a large number of customers. Credit risks are thus widely spread. The major part of the company's revenues from business with end-customers (96% and 100% in fiscal 1998 and 1997 respectively) are collected by DTAG. At December 31, 1998 and December 31, 1997 accounts receivable from DTAG under this collection agreement amounted to 86% and 100% of total receivables respectively. In addition, DTAG is a very important provider of services. Telegate AG has leased the line network from DTAG. They receive most of the calls and the customer data required for directory services via the DTAG network. Should DTAG no longer meet its obligations under the agreement, the Company's operating result could be adversely affected. In view of the sound financial basis of DTAG, the obligations under deregulation of the telecommunications market and the emergency concepts available this appears however rather unlikely.

3. Property and Equipment

Property and equipment consist of the following:

	At December 31,	
	1998	1997
	DM	*DM*
Computer software	2,101,790	664,615
Technical equipment	16,170,234	8,038,531
Office equipment	3,252,259	1,570,831
Capital lease (Technical equipment)	2,832,967	—
Deposits on fixed assets	1,754,827	911,194
	26,112,077	11,185,171
Less depreciation capital lease	(127,484)	—
Less accumulated depreciation	(7,215,138)	(2,211,737)
Property and equipment, net	18,769,455	8,973,434

4. Investments

The Company had a certificate of deposit with a financial institution of 50,000 DM at December 31, 1998 and 1997, which matures in 2001. At December 31, 1998 the Company additionally held an investment in an investment fund of DM 303,720. Both the certificate of deposit and the investment fund have been pledged as collateral for the assumption of lease security guarantees to credit institutions. The investments are classified in other non current assets in the accompanying balance sheets.

5. Leases

The Company leases facilities and equipment under long-term operating leases. Future minimum payments under noncancelable operating and capital leases with initial terms of one year or more are as follows:

	Year ending December 31,	
	Capital Lease	Operating Lease
	DM	*DM*
1999	601,635	2,300,244
2000	601,635	2,281,850
2001	601,635	2,313,862
2002	601,635	2,217,235
2003	400,910	2,017,328
Thereafter		5,478,787

The Company's rental expense under operating leases in the years ended December 31, 1998 and 1997, totaled 1,409,458 DM and 478,069 DM, respectively.

6. Short-term Borrowings

Through arrangements with various banks, the Company has overdraft credit facilities available totaling 21,000,000 DM at December 31, 1998. Interest on borrowings on these facilities is charged at a rate of 6.5%. There is no charge for unused balances. The Company had 269,480 DM outstanding on the overdraft credit facility at December 31, 1997. No amounts were outstanding on the facility at December 31, 1998.

7. Long-term Debt

The Company's long term debt at December 31, 1998 consisted of loans from former shareholders, a bank loan, and a capital lease obligation. In accordance with covenants contained within the shareholder loan agreements and German law, principal and interest payments by the Company are restricted to years in which the Company has positive equity and generates net income from operations. The loans are summarized as follows:

	At December 31,	
	1998	1997
	DM	*DM*
6% Secured debenture A, due in four semiannual installments beginning June 30, 2001	5,400,000	5,400,000
6% Unsecured convertible debenture B, due in four semiannual installments beginning June 30, 2001	3,101,480	3,684,739
6% Unsecured convertible debenture C, due in four semiannual installments beginning June 30, 2001	5,000,000	6,750,000
6% (at least 2% over base rate (formerly discount rate)) Unsecured debenture D, due in four semiannual installments beginning June 30, 2001	1,250,000	1,250,000
Bank loan, principal and interest due in annual payments through December 2002	4,400,000	—
Capital lease obligation—computer equipment	2,724,665	—
	21,876,145	17,084,739
Current portion long term debt	(1,551,733)	—
	20,324,412	17,084,739

Secured debenture A contains a provision for a repayment premium equal to 40% of the nominal value of the loan. This premium is being accrued using the effective interest method over the life of the loan and is included in accrued interest in the accompanying balance sheets. The loan is secured by certain equipment owned by the Company.

Unsecured convertible debenture B contained an option allowing the debenture holder to convert DM 583,304 of the principal value of the loan to shares of common stock of the Company. In March 1998, the shareholder exercised its option (see note 10). In April 1998, the shares were sold to another shareholder.

Unsecured convertible debenture C contained an option allowing the debenture holder to convert DM 1,750,000 of the principal value of the loan to shares of common stock of the Company. In March 1998, the shareholder exercised its option (see note 10). In May 1998, the shares were sold to another shareholder. The debenture also contains a provision for a repayment premium equal to 20% of the nominal value of the loan. This premium is being accrued using the effective interest method over the life of the loan and is included in accrued interest on the accompanying balance sheet. The shareholder sold its rights and obligations under the convertible debenture to another shareholder as at December 31, 1998.

The Company has an investment loan agreement with Deutsche Bank which allows it to borrow up to 13,500,000 DM at a variable interest rate not to exceed 5.5%. The average interest rate charged on amounts borrowed in 1998 was 4.3%.

The Company's long term debt maturities for fiscal years subsequent to December 31, 1998 are as follows:

	Year ending December 31, 1998
	DM
1999	1,551,733
2000	1,582,892
2001	8,991,947
2002	9,027,561
2003	438,705
Thereafter	—

8. Employee Benefit Plans

The Company established a contributory defined benefit pension plan covering the members of the board of directors effective December 31, 1998. The benefit to be paid is a predetermined fixed annual amount, payable from the time the participant reaches 65 years of age. All participants are fully vested in the plan. The following table sets forth the plan's funded status and the amounts recognized for the defined benefit pension plan in the Company's consolidated financial statements.

	At December 31, 1998
	DM
Projected benefit obligation at beginning of year	—
Unrecognized actuarial gain	(8,584)
Unrecognized prior service cost at year end	68,151
Pension expense	93,815
Projected benefit obligation at end of year	153,382
Fair value of plan assets	—
Benefit obligation in excess of fair value of plan assets = Accrued pension cost	153,382
Prepaid asset	(59,567)
Pension expense	93,815

The Company assumed a discount rate of 6% in calculating the plan's projected benefit obligation. The Company did not make any contributions to the plan nor did the plan pay any benefits in the year ended December 31, 1998. The components of pension expense in 1998 are as follows:

	Year ended December 31, 1998
	DM
Service cost	86,442
Interest expense	4,275
Amortization of prior service cost	3,098
Pension expense	93,815

9. Earnings Per Share

The following table sets forth the computation of earnings per share.

	For the year ended December 31,	
	1998	1997
	DM	*DM*
Numerator:		
Net loss—numerator for basic and diluted loss per share	(23,599,289)	(20,263,109)
Denominator:		
Weighted average shares outstanding—denominator for basic and diluted loss per share	279,015	169,238
Basic and diluted loss per share	(84.58)	(119.73)

The denominator for diluted earnings per share excludes the convertible debentures because treatment of the convertible debentures as if converted would have an anti-dilutive effect.

10. Shareholders' Equity

The Company has a total share capital of DM 1,450,000. The general shareholders' meeting of December 30, 1998 has approved an increase of the Company's share capital of up to DM 27,550,000 through the issuance of up to 5,510,000 ordinary shares. Holders of common shares are entitled to one vote per share on all matters submitted to a vote of shareholders. The common shares are not redeemable and have no conversion rights.

Dividends may only be declared and paid from the distributable balance sheet profit determined on the basis of the Company's annual German statutory accounts.

On March 31, 1998, two of the Company's shareholders exercised options to convert a portion of their long term debt to equity in the Company. Instead of the issuance of new shares, however, the outstanding shares of the Company were reallocated, with the approval of the option holders, amongst the existing shareholders in order to adjust the ownership percentages of the individual shareholders to the level at which they would have been reflected in the case of conversion. As a result, the conversion was accounted for as a capital contribution and resulted in an increase of 2,333,304 DM in the shareholders' equity.

11. Provision for Income Taxes

All of the Company's operations are located in Germany. As a result of losses incurred, the Company has not recorded any provisions for income taxes in the two years ended December 31, 1998 and 1997, respectively.

Deferred taxes are attributable to the following:

	At December 31, 1998	At December 31, 1997
	DM	*DM*
Deferred tax assets:		
Net operating loss carryforwards	20,023,679	8,478,111
Property and equipment	416,110	932,491
Other differences	(6,574)	—
Deferred tax assets	20,433,215	9,410,602
Valuation allowance	(20,433,215)	(9,410,602)
Deferred tax assets, net of valuation allowance	—	—

As of December 31, 1998, the Company had available cumulative tax loss carryforwards of approximately DM 48.4 Mio. . Under German tax laws, these loss carryforwards may be off-set against future profits, provided that the conditions for utilization of tax losses in merger situations are met. Management has established a valuation allowance for all of its deferred tax assets. This allowance reflects management's uncertainty regarding the ability to generate sufficient future taxable income necessary to realize these deferred tax assets. However, if the Company is able to generate sufficient taxable income in the future, the valuation allowance will be reversed through a credit to income.

12. Cash Flows

Cash payments for interest totaled DM 277,301 and DM 3,144 for the years ended December 31, 1998 and 1997, respectively. The Company paid income taxes of DM 49,434 in the year ended December 31, 1998 in connection with income earned on short term investments (withholding tax and solidarity surcharge). The Company did not pay any income taxes in the year ended December 31, 1997.

During the year ended December 31, 1998 the Company financed the acquisition of certain computer equipment through the issuance of a capital lease.

13. Related Party Transactions

As described more fully in Note 7, the Company had loans due to its former shareholders of 14,751,480 DM and 17,084,739 DM at December 31, 1998 and 1997, respectively.

The Company also had a loan due from one of its shareholders of 45,000 DM at December 31, 1998. The loan bears interest at a variable rate equal to the base rate (formerly the Deutsche Bundesbank discount rate). The average effective rate in 1998 approximated 2.5%. Principal and interest is due annually.

In the year ended December 31, 1997 the Company received services from a shareholder amounting to DM 1,518,181. Payments for services received from another company that was related to a shareholder of the Company totaled DM 1,064,366 and DM 98,573 for the years ended December 31, 1998 and 1997, respectively. In the year ended December 31, 1998 the Company received further services amounting to DM 37,694 from a former shareholder.

As already detailed in Note 7 Telegate AG received a loan from a former shareholder in the amount of DM 1,250,000 at an interest rate of 6%. From this former shareholder the Company received further services amounting to DM 3,168,513.

14. Commitments and Contingencies

At December 31, 1998 the Company had commitments outstanding for capital expenditures under purchase orders and contracts amounting to DM 4,417,093, all of which are expected to be incurred in the fiscal year 1999.

The company has entered into contracts for marketing and EDP services. Future minimum payments under noncancelable contracts with initial terms of one year or more are as follows:

	Year ending December 31,
	DM
1999	2,694,339
2000	2,490,008
2001	1,334,364
2002	1,334,364
2003	1,000,224
Thereafter	497,520

Management is not aware of any matters that would give rise to significant liabilities which would have a material adverse effect on the Company's financial position or results of operations.

15. Operations

The Company currently operates in one business segment which is the provision of operator aided directory and information services. Based on outsourcing agreements these services are also rendered for other telephone companies in Germany.

16. Year 2000 Issue

Many computer systems and applications currently use two digits to define the applicable year. As a result, two-digit date sensitive systems may recognize the year 2000 as 1900 or not at all, which could cause miscalculations or system failures.

The Company has assessed its computerized systems to determine their ability to correctly identify the year 2000 and whether the efficiency of systems will be maintained during the Euro-introduction phase. The Company is devoting the necessary internal and external resources to replace, upgrade, or modify all significant systems which do not correctly identify the year 2000 or handle the Euro introduction. The Company expects that all its systems and applications will be year 2000 compliant before the end of 1999. The Company has also considered the extent to which its operations may be affected by the year 2000 compliance of its significant customers and suppliers. The Company does not have a contingency plan in place in case of system failure resulting from the year 2000 issue since it believes that all of its computerized systems and applications, as well as those of its significant customers and suppliers, will be year 2000 compliant.

Based on management's assessment and current information, the costs of addressing the year 2000 issue are not expected to have a significant adverse impact on the Company's financial position, results of operations, or cash flows.

17. Recent Pronouncements

In March 1998, the AICPA issued SOP 98-1 "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use". This standard requires that computer software meeting the criteria for internal-use software be expensed as incurred in the preliminary project stage and capitalized thereafter. Amounts capitalized are required to be amortized on a straight line basis over the estimated useful life of the software. The standard is effective for fiscal years beginning after December 15, 1998 and earlier application is permitted. The Company does not expect the impact of SOP 98-1 on the consolidated balance sheets or results of operations to be material.

AUDITORS' REPORT TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF TELEGATE AG ON THE CONSOLIDATED FINANCIAL STATEMENTS AND THE CONSOLIDATED CASH FLOW STATEMENTS FOR THE FISCAL YEARS 1997 AND 1998 (U.S. GAAP)

We have audited the accompanying consolidated balance sheets of Telegate AG, Planegg-Martinsried, and its subsidiaries as of December 31, 1998 and 1997 and the related consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsiblility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material aspects, the financial position of Telegate AG, Planegg-Martinsried, and its subsidiaries at December 31, 1998 and 1997 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Munich, March 26, 1999

C&L Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Wagner)	**(ppa. Straub)**
Wirtschaftsprüfer	**Wirtschaftsprüfer**

TELEGATE AG

FINANCIAL STATEMENTS (ACCORDING TO GERMAN GAAP)

TELEGATE AG

BALANCE SHEET AS AT DECEMBER 31, 1998 (GERMAN GAAP)

(with comparative figures of the prior year)

Assets

	December 31, 1998		December 31, 1997	
	DM	*DM*	*DM*	*DM*
A. Fixed assets				
I. Intangible assets				
1. Concessions, industrial property rights and similar rights and values	2,162,849.00		2.00	
2. Payments on account	960,261.12	3,123,110.12	0.00	2.00
II. Property, plant and equipment				
1. Plant and machinery	14,624,620.00		0.00	
2. Other fixtures, fittings, tools and equipment	2,898,525.00		480,448.00	
3. Payments on account and tangible assets in course of construction	964,565.61	18,487,710.61	80,000.00	560,448.00
III. Financial assets				
1. Shares in affiliated companies	100,000.00		300,000.00	
2. Loans to affiliated companies	0.00		14,690,615.55	
3. Other loans	45,000.00	145,000.00	0.00	14,990,615.55
Total fixed assets		21,755,820.73		15,551,065.55
B. Current assets				
I. Receivables and other assets				
1. Trade accounts receivable	11,444,480.15		0.00	
2. Receivables from affiliated companies	0.00		196,622.41	
3. Other assets	2,591,975.38	14,036,455.53	2,116,547.56	2,313,169.97
II. Other investments		353,720.00		50,000.00
III. Cash at bank and in hand		7,812,156.82		7,023,844.76
Total current assets		22,202,332.35		9,387,014.73
C. Prepayments and accrued income		632,338.34		127,500.00
D. Deficit not covered by equity		14,056,163.90		6,739,296.11
Total assets		**58,646,655.32**		**31,804,876.39**

Equity and Liabilities

	December 31, 1998		December 31, 1997	
	DM	*DM*	*DM*	*DM*
A. Equity				
I. Subscribed capital	1,450,000.00		1,318,180.00	
II. Capital reserves	33,431,804.82		9,790,321.32	
III. Accumulated losses brought forward	(17,847,797.43)		(1,702,482.00)	
IV. Net loss for the year, to the extent covered by equity	(17,034,007.39)	0.00	(9,406,019.32)	0.00
Total net loss for the year DM 31,090,171.29 (prior year: DM 16,145,315.43) thereof not covered by equity (see asset item D) DM 14,056,163.90 (prior year: DM 6,739,296.11)				
B. Special item for fixed asset investment grants		4,869,394.90		0.00
C. Provisions for liabilities and charges				
1. Provisions for old-age pensions and similar liabilities	120,553.00			
2. Other provisions	15,428,211.76	15,548,764.76	8,756,754.72	8,756,754.72
D. Liabilities				
1. Liabilities to banks	4,400,004.63		133,874.91	
2. Advances from customers	38,161.94		820,497.25	
3. Trade accounts payable	13,400,288.65		3,521,978.85	
4. Liabilities to companies with which the company is linked by virtue of participating interests	0.0		18,233,387.49	
5. Liabilities to affiliated companies	99,706.46		243,214.90	
6. Other liabilities	20,275,541.14	38,213,702.82	95,168.27	23,048,121.67
thereof for taxes: DM 233,984.69 (prior year: DM 71,845.54) thereof for social security: DM 923,596.18 (prior year: DM 23,322.73)				
E. Deferred income		14,792.84		
Total liabilities		**58,646,655.32**		**31,804,876.39**

TELEGATE AG

BALANCE SHEET AS AT DECEMBER 31, 1997 (GERMAN GAAP)

(with comparative figures of the prior year)

Assets

	December 31, 1997		December 31, 1996	
	DM	*DM*	*DM*	*DM*
A. Fixed assets				
I. Intangible assets				
Concessions, industrial property rights and similar rights and values		2.00		4,330.00
II. Property, plant and equipment				
1. Other fixtures, fittings, tools and equipment	480,448.00			177,126.00
2. Payments on account and tangible assets in course of construction	80,000.00	560,448.00		0.00
III. Financial assets				
1. Shares in affialiated companies	300,000.00		100,000.00	
2. Loans to affiliated companies	14,690,615.55	14,990,615.55	3,927,015.85	4,027,015.85
Total fixed assets		15,551,065.55		4,208,471.85
B. Current assets				
I. Receivables and other assets				
1. Trade accounts receivable	0.00		73,273.30	
2. Receivables from affiliated companies	196,622.41		3,248,404.96	
3. Other assets	2,116,547.56	2,313,169.97	542,661.88	3,864,340.14
II. Other investments		50,000.00		75,000.00
III. Cash at bank and in hand		7,023,844.76		110,094.35
Total current assets		9,387,014.73		4,049,434.49
C. Prepayments and accrued income		127,500.00		6,491.60
D. Deficit not covered by equity		6,739,296.11		0.00
Total assets		31,804,876.39		8,264,397.94

Equity and Liabilities

	December 31, 1997		December 31, 1996	
	DM	*DM*	*DM*	*DM*
A. Equity				
I. Subscribed capital (authorized but unissued capital: DM 589,525.00)	1,318,180.00		433,000.00	
II. Capital reserves	9,790,321.32		1,827,900.00	
III. Accumulated losses brought forward	(1,702,482.00)		—	
IV. Net loss for the year, to the extent covered by equity Total net loss for the year DM 16,145,315.43 thereof not covered by equity (see asset item D) DM 6,739,296.11	(9,406,019.32)	0.00	(1,702,482.00)	558,418.00
B. Provisions for liabilities and charges				
Other provisions		8,756,754.72		332,451.33
C. Liabilities				
1. Liabilities to banks	133,874.91		0.00	
2. Advances from customers	820,497.25		0.00	
3. Trade accounts payable	3,521,978.85		7,360,021.83	
4. Liabilities to companies with which the company is linked by virtue of participating interests	18,233,387.49		0.00	
5. Liabilities to affiliated companies	243,214.90		0.00	
6. Other liabilities thereof for taxes: DM 71,845.54 (prior year: DM 11,326.84) thereof for social security: DM 23,322.73 (prior year: DM 820.00)	95,168.27	23,048,121.67	13,506.78	7,373,528.61
Total liabilities		31,804,876.39		8,264,397.94

TELEGATE AG

STATEMENT OF OPERATIONS FOR THE PERIOD

FROM JANUARY 1 TO DECEMBER 31, 1998 (GERMAN GAAP)

(with comparative figures of the prior year)

		January 1 to December 31, 1998		January 1 to December 31, 1997	
		DM	*DM*	*DM*	*DM*
1.	Sales revenues	79,550,330.36		10,255,421.37	
2.	Other operating income	11,936,574.87	91,486,905.23	6,124,264.58	16,379,685.95
3.	Cost of sales		34,623,064.57		8,580,269.96
4.	Personnel costs				
	a) Wages and salaries	23,586,828.33		2,007,307.50	
	b) Social security contributions and old-age benefits and support	4,506,876.00	28,093,704.33	155,249.58	2,162,557.08
	thereof for old-age benefits: DM 112,892.00 (prior year: DM 60,000.00)				
5.	Depreciation on intangible fixed assets and property, plant and equipment		6,760,117.85		180,036.15
6.	Other operating expenses		44,321,968.47		21,080,522.01
			(22,311,949.99)		(15,623,699.25)
7.	Income from other investments and long-term loans	81,666.66		380,906.15	
8.	Other interest and similar income	237,794.93		19,794.94	
9.	Interest and similar expenses	1,867,656.16	(1,548,194.57)	911,650.91	(510,949.82)
10.	Loss from ordinary activities		(23,860,144.56)		(16,134,649.07)
11.	Extraordinary expenses	7,172,201.91			
12.	Extraordinary result		7,172,201.91	0.00	
13.	Taxes on income	49,434.07		5,245.53	0.00
14.	Other taxes	8,390.75	57,824.82	5,420.83	10,666.36
15.	Net loss for the year		(31,090,171.29)		(16,145,315.43)

TELEGATE AG

STATEMENT OF OPERATIONS FOR THE PERIOD

FROM JANUARY 1 TO DECEMBER 31, 1997 (GERMAN GAAP)

(with comparative figures of the prior year)

		January 1 to December 31, 1997		August 7 to December 31, 1996	
		DM	*DM*	*DM*	*DM*
1.	Sales revenues	10,255,421.37		177,788.73	
2.	Other operating income	6,124,264.58	16,379,685.95	6,979,092.23	7,156,880.96
3.	Cost of sales		8,580,269.96		205,972.42
4.	Personnel costs				
	a) Wages and salaries	2,007,307.50		420,108.05	
	b) Social security contributions and old-age benefits and support thereof for old-age benefits: DM 60,000.00 (prior year: DM 17,000.00)	155,249.58	2,162,557.08	35,823.90	455,931.95
5.	Depreciation on intangible fixed assets and property, plant and equipment		180,036.15		29,835.55
6.	Other operating expenses		21,080,522.01		8,170,046.58
			(15,623,699.25)		(1,704,905.54)
7.	Income from other investments and long-term loans	380,906.15			
8.	Other interest and similar income	19,794.94		2,968.15	
9.	Interest and similar expenses	911,650.91	(510,949.82)	148.61	2,819.54
10.	Loss from ordinary activities		(16,134,649.07)		(1,702,086.00)
11.	Taxes on income	5,245.53			
12.	Other taxes	5,420.83	10,666.36		396.00
13.	Net loss for the year		(16,145,315.43)		(1,702,482.00)

NOTES TO THE 1998 FINANCIAL STATEMENTS (GERMAN GAAP)

A. General information on the 1998 financial statements

The annual financial statements of Telegate Aktiengesellschaft für telefonische Informationsdienste, Planegg-Martinsried, (hereinafter referred to as "Telegate AG") have been prepared in accordance with the large-company provisions of the German Commercial Code and the German Stock Corporation Law. The statement of operations has been prepared in accordance with the type of expenditure format.

In the financial year 1998 the Telegate Group has been restructured, which had the following consequences for Telegate AG: The call centers of Telegate AG had been established as limited liability companies, so that Telegate AG was sole shareholder of the following companies until December 31, 1997:

- Telegate Neubrandenburg Gesellschaft für telefonische Informationsdienste mbH, Neubrandenburg (hereinafter referred to as "Telegate Neubrandenburg GmbH")
- Telegate Greifswald Gesellschaft für telefonische Informationsdienste mbH, Greifswald (hereinafter referred to as "Telegate Greifswald GmbH")
- Telegate Anklam Gesellschaft für telefonische Informationsdienste mbH, Anklam (hereinafter referred to as "Telegate Anklam GmbH")

By acquisition agreement of August 10, 1998 between Telegate AG and Telegate Anklam GmbH the assets and liabilities of Telegate Anklam GmbH were sold and transferred to Telegate AG. In accordance with this agreement, the assets, rights, obligations and liabilities were transferred with effect from July 31, 1998, at 24.00.

By merger agreement of August 24, 1998 between Telegate AG and Telegate Neubrandenburg GmbH as well as between Telegate AG and Telegate Greifswald GmbH, these subsidiaries retroactively transferred their assets as a whole including all rights and obligations to Telegate AG with effect from January 1, 1998 by way of dissolution without winding-up and merger in accordance with sections 2 No. 1, 46 et seq., 60 et seq. of the Conversion Law (merger). From January 1, 1998 all transactions and business activities of Telegate Neubrandenburg GmbH and Telegate Greifswald GmbH have been considered transactions and business activities made for account of Telegate AG. The effect of this restructuring is that Telegate AG operates all of the call centers. Telegate Neubrandenburg GmbH and Telegate Greifswald GmbH perished as a result of the restructuring, while Telegate Anklam GmbH remains in existence as corporate shell.

B. Accounting and Valuation Principles

Intangible assets acquired for a consideration are stated at cost reduced by regular straight-line depreciation.

Property, plant and equipment is valued at cost reduced by regular depreciation calculated mainly by the declining balance method. The declining balance method was chosen for better comparability with telecommunications companies and for the purpose of covering special risks inherent in the future technological development of the telecommunications market. Depreciation is generally calculated at the maximum rates permitted by tax law; convenience rules for tax purposes are applied: for movable fixed assets acquired in the first half of the year, one full year of regular depreciation is charged, for movable fixed assets acquired in the second half, one half year of regular depreciation is charged, in accordance with the convenience rule R 44 (2) clause 3 of the Income Tax Regulations.

Low-value assets are written off in the year of acquisition in accordance with section 6 (2) of the Income Tax Law and are disclosed as additions and as disposals in the fixed-asset table schedule. Additions of assets of up to DM 100.—are directly charged to expense.

The 100% investment in Telegate Anklam GmbH included in **financial assets** has been valued at cost.

Receivables are stated at nominal values. Individual and collective allowances are set up for the risk of non-payment.

Other assets, **investments held as current assets** and **liquid assets** are stated at nominal amounts.

The **equity captions** are stated at nominal amounts.

The legal basis for the **pension liability** to the managing board of Telegate AG pursuant to section 6a of the Income Tax Law in conjunction with Regulation 41 of the Income Tax Regulations are the 1983 mortality tables by Dr. Klaus Heubeck. An interest rate of 6% has been taken as a basis for discounting.

Other accruals provide appropriate cover for all identifiable risks and uncertain liabilities.

Liabilities are stated at their repayment amounts.

C. Notes to the Individual Items of the Balance Sheet

1. Fixed Assets

As regards the classification and the development of the individual fixed asset items and of depreciation, reference is made to the fixed-asset table which is attached to the notes to the financial statements as an Exhibit.

2. Receivables and Other Assets

Trade accounts receivable in the amount of DM 11.444 million are disclosed at the balance sheet date. Of this amount, DM 9.769 million are accounted for by Deutsche Telekom AG (DTAG).

Other assets mainly relate to the pro-rata amount receivable from the approved investment subsidy, input tax refund claims against the local tax office, training allowances receivable from the local labor office and reinsurance policy values.

3. Subscribed Capital

The subscribed capital was increased by DM 131,820 from DM 1,318,180 to DM 1,450,000 in the financial year and is made up of 290,000 restricted registered shares with a par value of DM 5.00 each.

4. Capital Increase Not Yet Effected

The general meeting resolved on December 30, 1998 to increase the capital by up to DM 27.500 million to up to DM 29.000 million by issuing as many as 5,510,000 new restricted registered shares with a par value of DM 5 each. The capital increase had not yet been effected by the end of the financial year.

5. Capital Reserves

The Company's capital reserves increased as follows in the year under review:

	DM thousand
Balance as at January 1, 1998	9,790
Transfer to capital reserves in the financial year 1998	23,642
Balance as at December 31, 1998	33,432

6. Special Item for Fixed Asset Investment Subsidies

The Ministry of Economic Affairs of Mecklenburg-Vorpommern and the Senator for Economy, Small and Medium-Sized Businesses, Technology and European Affairs, Bremen, have granted Telegate AG investment subsidies out of funds from the regional project "improvement of the regional economic structure" in connection with resources stemming from the European Regional Development Fund (Mecklenburg-Vorpommern only). These subsidies, which have been granted for the establishment and extension of call centers, are stated as a special item for fixed asset investment subsidies and are credited to income in line with the depreciation charged on the subsidized asset items. The special item increased as follows:

	DM thousand
Balance as at January 1, 1998	0
Addition from merger January 1, 1998	3,788
Addition from the purchase of Telegate Anklam GmbH August 1, 1998	708
Transfers to the special item in 1998	2,101
Amount of the special item credited to income	(1,728)
Balance as at December 31, 1998	4,869

7. Other Accruals

Other accruals mainly relate to open invoices (DM 9.569 million), expenses for the admission to official listing scheduled for the first half of the year 1999 (DM 3.350 million), consulting fees, litigation costs, financial statement and audit cost and personnel expenses.

8. Liabilities

The terms of the liabilities are as follows:

Term:	up to 1 year	1-5 years	1998	1997
	DM thousand	DM thousand	DM thousand	DM thousand
Liabilities to banks	1,100	3,300	4,400	134
Advances from customers	38	0	38	820
Trade accounts payable	13,400	0	13,400	3,522
Liabilities to companies with which the Company is linked by virtue of participating interests	0	0	0	18,233
Liabilities to affiliated companies	100	0	100	243
Other liabilities	3,079	17,197	20,276	95
	17,717	20,497	38,214	23,047

Other liabilities mainly relate to former shareholder loans including pro-rata deferred interest and redemption premium (prior year liabilities to affiliated companies). The other important positions included in this item reflect liabilities for wages and salaries and for social security.

Liabilities to banks are secured by deeds of assignment of the call center equipment (mainly workstations) and by the assignment of customer receivables.

At the extraordinary general meeting held on August 1, 1997 Management has been authorized to issue convertible bonds in the total amount of up to DM 10,434,783.68 by December 31, 1997. Metro and DIALOG have been admitted to purchase convertible bonds in the amount of up to DM 6,750,000.00 and DM 3,684,783.68 respectively, while the subscription right of the other shareholders has been precluded.

For the purpose of granting the right to convert bonds into shares a contingent capital increase by up to DM 589,525.00 by means of the issue of as many as 117,905 registered shares of DM 5.00 each has been resolved. Management has been authorized to fix the further details of the conversion into shares.

Conversion right I

Metro and DIALOG are entitled to convert bonds of up to DM 1,750,000.00 and up to DM 583,303.50 respectively into shares of Telegate AG as follows:

	Number of shares	Nominal value of the shares in DM	Premium in DM	Total
Metro Vermögensverwaltungsges. GmbH & Co. KG, Düsseldorf	19,773	98,865.00	1,651,135.00	1,750,000.00
DIALOG Beteiligungsges. f. Komm.dienste mbH, Hannover	6,591	32,955.00	550,348.50	583,303.50
	26,364	131,820.00	2,201,483.50	2,333,303.50

This is equivalent to DM 5.00 for each converted share and a premium of DM 83.50 for each share. In the agreement on the adjustment of the participating interest held in Telegate AG, Metro and DIALOG waived their rights under the convertible bonds (conversion right I).

D. Notes to the Statement of Operations

1. General

Due to the above-explained restructuring of the Telegate Group the actual figures can be compared with the prior year´s figures only to a limited extent. For this reason, some selected items have been explained.

2. Sales Revenues

The sales and calls of the financial year are reflected in the table below:

	1998		1997	
	Calls (in thousands)	DM thousand	Calls (in thousands)	DM thousand
German domestic directory assistance	45,970	75,681	5,525	10,255
Other	1,789	3,869	0	0
	47,759	79,550	5,525	10,255

3. Other Operating Income

The other operating income in the amount of DM 11.937 million (prior year DM 6.124 million) mainly relates to job familiarization allowances for telephone operators granted by the labor office (DM 4.817 million, prior year DM 0), on-debiting to Telegate Anklam GmbH (DM 2.273 million, prior year DM 6.063 million to all subsidiaries), income from the allocation of the fixed asset investment subsidies receivable (DM 2.101 million, prior year DM 0) and income from the release of the special item for fixed asset investment subsidies (DM 1.728 million, prior year DM 0). The on-debiting relates to expenses disbursed on behalf of Telegate Anklam GmbH for fixed and variable line and data transaction fees as well as for standby fees for the line network.

4. Personnel Expenses

	1998 DM thousand	1997 DM thousand
Wages and salaries	23,587	2,007
Social security contributions and old-age benefits	4,507	155
(thereof: for old-age benefits)	(113)	(60)
	28,094	2,162

The prior year's personnel expenses resulting from the activities of the former subsidiaries of Telegate AG, which were merged into or acquired by Telegate AG in the 1998 financial year, aggregated DM 4.202 million.

5. Depreciation

Intangible assets have been written down by DM 0.354 million (prior year DM 0.004 million) in the financial year. Property, plant and equipment has been written down by DM 6.406 million (prior year DM 0.119 million). Of this amount, DM 0.014 million is accounted for by extraordinary depreciation and DM 0.260 million is accounted for by write-off in full of low-value assets.

6. Other Operating Expenses

Other operating expenses (DM 44.322 million, prior year DM 21.081 million) mainly include advertising costs (DM 26.611 million, prior year DM 9.372 million), cost of outside services (DM 6.580 million, prior year DM 9.130 million), a charge for the transfer to the special item for fixed asset investment subsidies (DM 2.101 million, prior year DM 0), cost of litigation and consulting fees (DM 2.712 million, prior year DM 1.322 million), rent (DM 1.265 million, prior year DM 0.108 million) and maintenance (DM 0.946 million, prior year DM 0.184 million). The outside services relate to the transfer of sales revenues to Telegate Anklam GmbH for call center services provided between January 1, 1998 and July 31, 1998.

7. Financial Results

	1998 DM thousand	1997 DM thousand
Income from other investments and long-term loans	82	381
Other interest and similar income	238	20
Interest and similar expenses	(1,868)	(912)
	(1,548)	(511)

8. Extraordinary Result

The extraordinary result shows the expenses for the admission to official listing (DM 3.350 million) and the merger-related loss (DM 3.822 million) which is only a book loss and has already been stated in the consolidated financial statements of the 1996 and 1997 financial years.

9. Taxes

	1998 DM thousand	1997 DM thousand
Taxes on income	49	5
Other taxes	8	5
	57	10

This item includes the following types of tax: capital gains tax, solidarity surcharge, lump-sum wage tax and vehicle tax.

E. Supplementary Data

1. Number of Employees

In the financial year 1998, the number of employees was spread over the three management areas as follows:

	Reporting Date December 31, 1998		Annual Average	
	total	full-time	total	full-time
Finance / Personnel	19	19	13	13
Technology / Operating	1,257	922	983	738
(thereof telephone operators)	(1,190)	(855)	(925)	(680)
Marketing / Distribution	7	7	6	6
	1,283	948	1,002	757

In the prior year, Telegate AG had three salaried employees and two part-time employees on an average basis. The former subsidiaries of Telegate AG, which were merged into or acquired by Telegate AG in the 1998 financial year, had a total of 368 employees on December 31, 1997 (annual average: 113).

2. Other financial commitments

The other financial commitments are made up as follows:

	1998 DM thousand	1997 DM thousand
Rent and lease agreements	19,416	4,568
Service agreements	6,862	1,687
Commitment	4,417	6,406
Advertising agreements	2,485	1,990
	33,180	14,651

The prior year's other financial commitments from the activities of the former subsidiaries of Telegate AG, which were merged into or acquired by Telegate AG in the 1998 financial year, aggregated DM 9.344 million.

The Company shows a letter of comfort on behalf of Telegate Anklam GmbH (DM 2.000 million) and rent guarantees (DM 0.373 million) as contingent liabilities in the notes to the financial statements on the reporting date.

F. Relations to Affiliated Companies

Telegate AG is sole shareholder of Telegate Anklam GmbH; both companies are affiliates pursuant to section 271 (2) of the German Commercial Code. The obligation of Telegate AG to prepare consolidated financial statements is not applicable because of the size-dependent exemption under section 293 (1) of the German Commercial Code. The profit of Telegate Anklam GmbH für Telekommunikation aggregated KDM 533 in the financial year 1998. Telegate Holding GmbH, Planegg, holds a majority interest in Telegate AG.

G. Particulars on the Boards of the Company

1. Supervisory Board

Mr. Günther H. Scheuten, chairman of the supervisory board
Lawyer
Hanover

Mr. Richard Leitermann, deputy chairman (until July 7, 1998)
Lawyer and Diplom-Kaufmann
Frankfurt am Main

Mr. Nir Tarlovsky (from July 7, 1998)
Vice President
New York, USA

Mr. Peter Titz, deputy chairman from July 7, 1998
Director
Oberwil, Switzerland

2. Managing Board

Mr. Peter Wünsch, spokesman of the managing board until September 30, 1998
Diplom-Informatiker
Gauting

Dr. Klaus Harisch, spokesman of the managing board from October 1, 1998
Diplom-Physiker
Altenstadt

Mr. Dirk Roesing
Diplom-Betriebswirt (BA)
Munich

3. Emoluments Paid to the Supervisory Board and to the Managing Board

The emoluments paid to the Supervisory Board aggregated DM 0.039 million in the 1998 financial year (prior year DM 0.055 million).

The emoluments paid to the managing board totaled DM 1.164 million in the 1998 financial year (prior year DM 0.980 million).

4. Loans

The Company granted a loan of DM 0.060 million to a member of the managing board. The loan is to be redeemed by four equal installments of DM 0.015 million at the respective date of December 31 from 1998 to 2001 and carries interest at the discount rate of Deutsche Bundesbank.

1998 MANAGEMENT REPORT FOR TELEGATE AG, PLANEGG-MARTINSRIED

Telegate Aktiengesellschaft für telefonische Informationsdienste was founded on August 7, 1996 at Herrsching am Ammersee and was renamed Telegate AG with effect from January 11, 1999.

Revenue Trends and Products

Telegate has been providing directory assistance services (national and international) throughout Germany over the fixed network since December 1996, initially under the telephone number 0 11 99 and since October 1997 under the new number 11 88 0. Telegate can also be reached by mobile phone under the telephone number 11 88 0 on the D2 network since January 1, 1998 and on the D1 network since February 1, 1998 and on the e-plus network since April 1, 1998. Today, Telegate operates six call centers providing directory assistance services. In addition to its core business of telephone directory assistance, Telegate offers further services, such as access to service numbers and weather information, as well as call completion. The table below illustrates the development of call volume from the beginning of the Company's business activity through the end of 1998.

Development of Calls Per Quarter

1997				1998			
1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
0.351	0.425	0.499	4.250	8.424	9.673	13.051	16.611

The figures represent millions of calls.

The price rise in the market for directory assistance services triggered by the deregulation of the telecommunications market prompted a short-term decline in demand. As such services are largely independent of the economic conditions prevailing at any given time, the Company expects the market to grow over the next few years.

No license is required for the sole provision of directory assistance services, including call completion. However, a directory assistance provider does need to be assigned a telephone number, which is issued in accordance with rules (the "Rules") drawn up by the Federal Minister of Post and Telecommunications ("BMPT"), Bonn. These Rules require a reliability audit to be conducted.

Pursuant to the provisional Rules currently in effect, the exclusive purpose of directory assistance service is to pass on numbers and subscriber data. In addition, it is also permissible to connect calls to a subscriber number requested by the caller. Information services that do not serve the purpose of providing numbers and subscriber data may therefore be rendered under the directory assistance number 11 88 0 only in the form of call completion.

The German Telecommunications Act ("TKG") provides that a license is required for the provision of telephony services.

Telegate AG has held a nationwide class 4 license for the provision of telephony services since February 1999, qualifying it for Deutsche Telekom AG's network access fees on the basis of the interconnection fee schedule.

Under the TKG, the fees levied by DTAG for the provision of data to third parties (license holders) must be reasonable.

Under an abuse proceeding, the Federal Cartel Office defined the key points for a contractual agreement between DTAG and, for example, Telegate AG. It is to be expected that these key points will result in data costs being lowered to an economically acceptable level upon the conclusion of a new agreement between Telegate and DTAG.

Telegate aims to become the leading alternative provider of directory assistance services alongside DTAG and to become a leading provider of other information services in Germany. Telegate further intends to provide information services outside Germany in the medium term and to use its technical infrastructure to provide telephony services according to a special price schedule.

Telegate intends to continue developing towards becoming a general provider of information services, having already taken a first step in this direction by supplying access to weather information. During the course of 1999, this area of business is to be extended through the provision of nationwide access to cinema, stock market and sports information and the continuous addition of further information services.

In the area of call center services, Telegate already provides outsourcing directory assistance services for other telecommunications companies: Mannesmann, debitel, o.tel.o and e-plus. Telegate intends to make its existing call centers available for other third-party services (*e.g.*, the making of reservations, taking of orders and customer services) to make optimal use of its infrastructure.

Telegate currently obtains the data it requires for the provision of directory assistance services from third parties, such as DTAG in particular. In the future, Telegate will manage and maintain the data thus obtained by itself in order to make such data resources available to third parties (such as market research companies, publishing companies and to firms in general for mail-shots campaigns) against payment of a fee.

Telegate intends to employ the know-how obtained in Germany and the experience gained in developing a directory assistance service to offer directory assistance in other European countries and in the United States in accordance with national regulatory frameworks.

Thus, Telegate initially plans, for example, to offer a so-called travel service in Europe that can be accessed solely by mobile phone. It will enable vacationers from the Federal Republic of Germany to obtain access to Telegate from abroad by dialing a special number via mobile phone.

For purposes of the technical handling of its directory assistance services, Telegate has available a leased telecommunications network and its own switches. With a view to exploiting available synergies, Telegate intends to use this infrastructure to offer telephony services in the fixed network in selected areas (network access number 0 10 80). Telegate will focus on telephony services from and to selected large cities and offer especially favorable prices for calls between and from these cities ("city to city" and "city to nation").

Financial Condition and Results of Operations

Since the date of its incorporation, the Company has invested over DM 25 million in assets, with the greater part of that sum attributable to the development and expansion of the technical infrastructure for its core business.

As of the balance sheet date (December 31, 1998), Company liabilities exceeded assets, the equity capital shortfall amounting to DM 14.056 million. From a legal perspective, the consequences for Telegate AG were remedied with effect as of the balance sheet date by means of a subordination of outstanding loans from former shareholders.

The growth in revenues in 1998 reflects the expansion of business during the course of 1998. The number of calls received increased continuously, rising from about 8.4 million in the first quarter of 1998 to 16.6 million in the fourth quarter of 1998. The result as a percentage of revenues showed a significant improvement. The relative decline in all cost items in relation to revenues is typical for a growth company. As a result of high start-up costs, especially those relating to the technical equipping of the switching facilities and call centers as well as disproportionately high advertising costs in connection with the establishment of a brand image, it has not been possible to achieve a net profit thus far.

If earnings develop as planned in 1999, the Company expects to achieve a positive result.

Affiliated Companies

The Management Board has reported separately on links with affiliated companies pursuant to § 312 of the German Stock Corporation Act. The report contains the following closing statement:

With reference to the foregoing information, we declare that to the best of our knowledge at those times when the aforementioned transactions were entered into, the Company received appropriate consideration in respect of each transaction. Other measures giving rise to a reporting obligation were neither implemented nor omitted.

Outlook

Telegate operates in a market that is heavily influenced by DTAG as the former monopoly network operator. Telegate's market share of total estimated revenues of DM 1 billion for directory assistance service in Germany in 1998 amounted to approximately 10 percent. The Company is in competition with DTAG, a company that has available much greater financial resources and is far more widely known than Telegate. Telegate seeks to be competitive primarily in terms of quality and service in conjunction with competitive pricing. DTAG recently raised its prices for directory assistance services to cut losses in this business segment and thus counter accusations of cross-subsidizing.

Telegate believes that it has created a good basis for the further development and securing of its competitive position with the advantage gained from early entry into the market and the obstacles to market entry created therewith for other competitors.

Telegate operates a network based on dedicated lines leased from DTAG. The Company has concluded a special network access agreement with DTAG regulating the feeding and transfer of calls from the DTAG network to the Telegate network. Each of the Telegate switching nodes possesses a certain number of so-called interconnection points (ICA), i.e., technical facilities which allow receipt of calls from the DTAG network. These interconnection points are currently only available from DTAG (against payment). The Company is dependent on DTAG for the timely supply of a sufficient number of interconnection points in the event of an increase in the number of calls processed by Telegate.

Directory assistance services have so far formed Telegate's core business. Telegate intends to develop toward becoming a general provider of information services and to employ its network infrastructure to offer fixed network telephony at special rates. Telegate's opportunities for offering general information services under the 11 88 0 telephone number are limited as a result of regulatory restrictions and, in particular, by the provisional Rules for the allocation of telephone numbers for directory assistance providers, Rules that may be changed by the responsible government agency if necessary.

Competition in the telephony field is exceptionally fierce and marked by uncertainty concerning the interpretation of the regulatory framework. It cannot be ruled out that the regulatory framework may be modified in the future in a manner that will be to the disadvantage of alternative network operators. Thus, there can be no assurances that Telegate will be able to successfully expand into new business sectors. Should this be the case, the related investments would not be profitable. This would have a negative impact on the financial condition and results of operation of the Company.

To secure the further existence of the Company through the inflow of new capital, the Company is planning to obtain a listing on the regulated market with trading on the *Neuer Markt* of the Frankfurt Stock Exchange. The Management Board expects the Company to be listed on the *Neuer Markt* of the Frankfurt Stock Exchange at the end of April.

Planegg-Martinsried, March 12, 1999

The Managing Board

AUDITORS' CERTIFICATES ON THE FINANCIAL STATEMENTS AND THE CASH FLOW STATEMENTS OF TELEGATE FOR THE FISCAL YEARS 1996, 1997 AND 1998 (ACCORDING TO GERMAN GAAP)

The financial statements of Telegate AG (which had the corporate name "Telegate Aktiengesellschaft für telefonische Informationsdienste" up to January 11, 1999) for the years ended December 31, 1996, 1997 and 1998 were provided with the following auditors' certificate:

Telegate Aktiengesellschaft für telefonische Informationsdienste
Financial Statements for the year ended December 31, 1996
Auditors' Certificate

"The accounting and the annual financial statements, which we have audited in accordance with professional standards, comply with the legal provisions. With due regard to the generally accepted accounting principles the annual financial statements give a true and fair view of the company's assets, liabilities, financial position and profit or loss. The management report is consistent with the annual financial statements.

Munich, June 19, 1997

C&L Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Eiber	**Bartl**
Wirtschaftsprüfer	**Wirtschaftsprüfer**

Telegate Aktiengesellschaft für telefonische Informationsdienste
Financial Statements for the year ended December 31, 1997
Auditors' Certificate

"The accounting and the annual financial statements, which we have audited in accordance with professional standards, comply with the legal provisions. With due regard to the generally accepted accounting principles the annual financial statements give a true and fair view of the company's assets, liabilities, financial position and profit or loss. The management report is consistent with the annual financial statements.

Munich, June 26, 1998

C&L Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Wagner	**Straub**
Wirtschaftsprüfer	**Wirtschaftsprüfer**

Telegate Aktiengesellschaft für telefonische Informationsdienste
Financial Statements for the year ended December 31, 1998
Auditors' Certificate

"The accounting and the annual financial statements, which we have audited in accordance with professional standards, comply with the legal provisions. With due regard to the generally accepted accounting principles the annual financial statements give a true and fair view of the company's assets, liabilities, financial position and profit or loss. The management report is consistent with the annual financial statements.

Munich, March 12, 1999

C&L Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Wagner	**Straub**
Wirtschaftsprüfer	**Wirtschaftsprüfer**

RECENT DEVELOPMENTS AND OUTLOOK

The business development in the first months of 1999 may be taken as an indication that the positive trends of last year may continue. The number of calls processed could be increased from 8.4 million in the first quarter of 1998 to 19.5 million in the first quarter of 1999. In January 1999 revenues were DM 9.6 million and in February 1999 DM 9.9 million. To date, the level of costs is in line with the estimates reflected in Telegate's business plan. Pursuant to the unaudited internal management accounts of the Company, the shareholders' equity requirements of Euro 1,500,000 set forth in the Rules and Regulations of the Neuer Markt were met as at March 31, 1999, shareholders' equity being adjusted by eliminating the provisions for the estimated costs of the Offering and the listing of the Shares. In addition, shareholders' equity was determined as at such date without taking into account the capital increase from authorized capital in the nominal amount of Euro 2,000,000 which was approved on April 12, 1999 and effected and registered prior to the listing of the Shares. Taking into account the continued dynamic growth in revenues and the effects of the trend of decreasing costs in relation to improved capacity utilization, one may expect an improvement of Telegate's results within the next years. In addition, agreement reached between the Federal Cartel Office and DTAG on a reasonable price structure for DTAG's provision of access to subscriber data is expected to result in a significant reduction of data access costs, which are one of Telegate's major cost factors for the provision of directory assistance services. From a current perspective, the Company expects that the results for the fiscal year 1999 will improve as compared to the amount of losses incurred in the previous year. However, there can be no assurances for such improvement, see "Risk Factors—Short Company History; Initial Losses" for the risks involved in the future business development.

Within the next few months, Telegate plans to continuously expand its existing service portfolio and promote international expansion of business activities. For such purposes, call center capacities in Germany and, if necessary, abroad, will be gradually increased. Telegate plans to increase its market share further through improvements in the already high quality of services, a gradual expansion of the service portfolio and the implementation of an integrated product and marketing strategy. With the expansion into new areas of business (*e.g.*, marketing of data and telephony) Telegate aims at diversifying its service portfolio and making use of existing synergy potentials.

The implementation of Telegate's strategy of international expansion will to a large extent depend on the progress of deregulation of the telecommunication and directory assistance markets in the target countries. Due to the fact that Telegate has made a substantial contribution to the opening of the directory assistance market to competition in Germany, Telegate intends to play an active role in this respect in the target countries of its international expansion as well.

As a step towards meeting the above goals, the Company has started at an early stage to form a strong management team. The Company is aware of the fact that hiring additional highly-qualified personnel and extending a well-functioning organisational structure are crucial to achieve the planned growth. In addition, the formation of strategic alliances is intended to assure further the long-term success of the Company.

Munich, April 20, 1999 Telegate AG

On the basis of the above Prospectus

Euro 12,730,000
12,730,000 ordinary bearer Shares with no par value

each representing a notional par value of Euro 1 and full dividend rights as of January 1, 1999

of

TELEGATE AG
Planegg (County of Munich)

have been admitted

to the regulated market (*Geregelter Markt*) with trading on the *Neuer Markt*

of the Frankfurt Stock Exchange

Frankfurt am Main, April 20, 1999

Morgan Stanley Bank AG

DG BANK Deutsche Genossenschaftsbank AG **Credit Suisse First Boston Aktiengesellschaft**

Sal. Oppenheim jr. & Cie. Kommanditgesellschaft auf Aktien **Bankhaus Reuschel & Co.** **Landesbank Sachsen Girozentrale**

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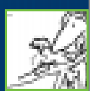

www.telegate.de