9-Months Report 2014

telegate

Content

Letter from the Management Board

Dear shareholders, customers and business partners,

Now that the first nine months of the 2014 financial year are over, we can look back with satisfaction at our company's stable economic performance. Our two most important key performance indicators, revenues and EBITDA, are in line with guidance. By reorganising internal processes we also succeeded in creating a reliable basis for continuing the positive development of our digital business.

Nonetheless, the third quarter brought about significant changes. Elio Schiavo, who had acted as CEO since November 2011, left the company in mid-October to pursue a new challenge at Apple in the United States. Our new member of the Management Board is Michael Geiger, who has held various positions at telegate since 2003 and was the Vice President Technology for many years. Having two long-standing telegate employees at the helm of the company gives continuity to telegate's transformation into a digital company.

At operating level, the focus in the third quarter of 2014 was on analysing all of our sales and customer management processes in detail and improving these in many areas. We help small and medium-sized enterprises to take advantage of the opportunities presented by online marketing. Our objective is to get them on board as long-term partners. Over its many years in operation, telegate has built up experience and developed a broad portfolio with customised products that give small business owners exactly what they need to help them gain clients and expand their business. We will continue to pursue this strategy. Going forward, we will consistently monitor and analyse the latest trends and build them into our offerings if they benefit our customers. This is the key to healthy, stable growth of our digital business, which is increasingly making up for the declining utilisation of directory assistance services.

We appreciate your continued support in this endeavour and thank you for your trust in us.

Franz Peter Weber
Spokesman of the Management Board

Michael Geiger
Member of the Management Board

Key Financial Figures

in m Euro	9M 2014	9M 2013	Variance absolute	Variance in Percent
Revenues & profit Group				
Revenues	47.5	55.2	-7.7	-14%
EBITDA[1]	0.8	5.4	-4.5	-
EBITDA[1] before non-recurring items	6.8	8.1	-1.3	-16%
Non-recurring items from data cost claims	0.2	0.3	-0.1	-
Non-recurring items from adaption of structural costs	5.1	2.4	2.7	-
Non-recurring items from restructuring mesuares	0.7	0.0	0.7	-
Net income	-4.2	-1.9	-2.3	-
Details Segment Germany / Austria				
Revenues Digital	26.1	26.4	-0.2	-1%
EBITDA[1] before non-recurring items Digital	0.6	-0.7	1.3	-
Revenues Classic DA	21.4	28.8	-7.4	-26%
EBITDA[1] before non-recurring items Classic DA	6.2	8.8	-2.6	-29%
Balance Sheet				
Balance sheet total	93.5	105.9	-12.4	-12%
Cash, cash equivalents & financial assets	26.8	37.7	-10.9	-29%
Equity	49.1	61.0	-11.9	-19%
Equity ratio (in percent)	53%	58%	-	-
Cash flow				
Operating Cash flow	-1.8	-8.9	7.0	-
Operating Cash flow adjusted by effects from data cost claims	0.3	2.8	-2.5	-
Net Cash flow[2] adjusted by effects from data cost claims & selling of marketable securities	-3.5	-4.9	1.4	-
KPIs telegate share				
Earnings per share (in Euro)	-0.24	-0.09	-0.15	-
Share price[3] (in Euro)	4.15	6.59	-2.44	-37%
Market capitalization	79.3	125.9	-46.6	-37%
Employees				
Number of employees[4]	998	1,163	-165	-14%

[1] Earnings before interest, tax and depreciation

[2] Operating CF + investing CF +/- interest income/expenses

[3] XETRA-closing prices as of last trading day

[4] Headcount as of September 30

Management Report

In summary: 9-Month Report 2014

After the end of the first nine months of the 2014 financial year, telegate's operating business was still developing in line with planning. telegate successfully advanced its strategy of transforming itself into a focused online company by concentrating on increasing the profitability of the Digital business as well as optimising structural costs across the telegate group. Comprehensive measures to drive quality improvements in sales and production as well as technical and procedural quality assurance measures were implemented.

Consolidated earnings (EBITDA before non-recurring effects) are within the range of the guidance of € 7-9 million for 2014 as a whole. Consolidated revenue in the first nine months of 2014 was down 14 percent compared with the prior-year period. The negative trend in caller volume in the traditional directory assistance business continued as expected. Revenue in this segment decreased by 26 percent. By contrast, in the Digital business the encouraging trend continued, with revenue remaining virtually stable year-on-year. The proportion of the Digital business in consolidated revenue was 55 percent, 7 percentage points higher than the year-earlier figure (48 percent). The Digital division saw a repeat of the positive earnings (EBITDA) before non-recurring effects from the previous quarters. The consistent profitability was mainly the result of the continuous cost optimisation and a more efficient sales team, as well as improved customer loyalty. Compared with the prior-year period, the cost of revenues was reduced substantially in the current financial year.

Key indicators for determining customer satisfaction are demonstrating a sustained uptrend. Similar to in the first two quarters of 2014, further improvements were achieved in the termination rate. The termination rate is now 29.3 percent (previous year: 31.7 percent). The proportion of new customer contracts with a 24-month term continued to develop encouragingly. In the current financial year, 73 percent of our new customers signed a 24-month agreement.

Financial situation

Results of operations

Consolidated revenue in the first nine months was € 47.5 million (previous year: € 55.2 million).

Cost of revenues at the reporting date totalled € 24.4 million (previous year: € 25.5 million). Adjusted for non-recurring effects, the consolidated cost of revenues was € 22.6 million. This is a decrease of 8 percent compared to the previous year's figure of € 24.4 million.

Selling and distribution costs were reduced from € 22.9 million to € 20.3 million. Adjusted for non-recurring effects, selling and distribution costs in the first nine months of the current financial year were € 19.1 million, a € 3 million or 14 percent improvement (previous year: € 22.1 million). The primary reason for this welcome development is to be found in reduced expenditure on advertising and marketing, alongside reduced sales personnel costs in the Digital division resulting from a reduction in sales employee numbers and decreasing employee turnover.

At € 9.9 million, general administrative expenses in the first nine months remained almost flat year-on-year (€ 9.7 million). General administrative expenses adjusted for non-recurring effects were € 6.8 million, thus showed a clear improvement over the previous year's figure of € 8.5 million. This can be attributed in particular to the adjustment of structural costs in the area of overhead, for which significant restructuring and capacity adjustment costs were expended in the current financial year.

The consolidated earnings before interest, taxes, depreciation and amortisation (EBITDA) as of the reporting date amounted to € 0.8 million (previous year: € 5.4 million). They include non-recurring effects amoun-

ting to € 6.0 million (previous year: € 2.7 million) from structural cost adjustments of € 5.8 million (previous year: € 2.4 million) plus items related to data cost litigation in the amount of € 0.2 million (previous year: € 0.3 million). EBITDA adjusted for these non-recurring effects decreased by € 1.3 million, from € 8.1 million in the previous year to € 6.8 million.

Earnings after taxes amounted to € -4.2 million in the first three quarters – primarily as a result of the high level of non-recurring effects – compared with earnings after taxes of € -1.9 million in the prior-year period. This figure includes items recognised in the wake of the disposal of the discontinued Spanish and Italian operations in the amount of € 0.4 million (previous year: € -0.2 million).

Net assets and financial position

Capital expenditure

Investments in the first nine months of financial year 2014 totalled € 3.1 million (previous year: € 5.6 million). These were mainly expenses for the CRM system as well as sales commission for contracts with a term of more than one year. Capital expenditure in the previous year had focused mainly on acquisitions for the modernisation of the technology for the traditional directory assistance business as well as sales commission paid for contracts with a term of more than one year.

Statement of financial position

As of 30 September 2014, total assets amounted to € 93.5 million (previous year: € 105.9 million),

with current assets decreasing from € 81.3 million to € 71.9 million. This was due mainly to the decrease in cash and cash equivalents and the available-for-sales assets as a result of the dividends paid in June 2014 for the shares held in free float. The cash to be used to pay the dividends to the majority shareholder Seat Pagine Gialle is recorded in a separate account and reported under other financial assets. Other current assets fell from € 4.2 million to € 1.8 million. This is primarily related to the reimbursement of court costs and attorney fees, which telegate recognised as a receivable in connection with the data cost litigation. The decline in trade accounts receivable is attributable to the downturn experienced in the directory inquiries business and the correspondingly lower sales volume.

As of the reporting date, the Group had non-current assets worth € 21.6 million (previous year: € 24.6 million). The decline by € 3.0 million stems from the decrease in property and equipment and intangible assets.

Liabilities fell by € 0.5 million to € 44.4 million year-on-year (previous year: € 44.9 million). The outstanding dividends payable to the majority shareholder Seat Pagine Gialle have been recognised under other current liabilities. Among non-current liabilities, deferred taxes decreased by € 1.8 million to € 1.7 million (previous year: € 3.5 million).

Equity fell by € 11.9 million to € 49.1 million (previous year: € 61.0 million). On the reporting date of 30 September 2014, net retained profits/net accumulated losses were € -2.2 million (30 September 2013: € 5.5 million). The year-on-year reduction in equity is related to the dividend. On the reporting date of 30 September 2014, the equity ratio was 52.5 percent (31 December 2013: 57.9 percent; 30 September 2013: 57.6 percent).

Cash flow & financing

The cash flow from operating activities in the first nine months of 2014 was € -1.8 million (previous year: € -8.9 million). Adjusted for cash effects from data cost litigation and tax audits, the cash flow from operating activities was € 0.3 million (previous year: € -2.8 million).

The cash outflow from investing activities as of the reporting date was € -2.2 million (previous year: € -56.9 million). The group invests cash in liquid money market funds. In the nine months of the current financial year, telegate bought fund units in the amount of € 4.5 million (previous year: € 53.0 million) and sold fund units in the amount of € 12.0 million (previous year: € 28.0 million). In addition, € 5.9 million (previous year: € 24.2 million) was invested as call money in connection with the outstanding dividend payments to the majority shareholder Seat Pagine Gialle. After adjusting for cash flows in connection with investments and dividend payments, the cash flow from investing activities amounted to € -3.8 million (previous year: € -7.7 million).

The cash flow from financing activities was € -1.8 million (previous year: € -14.9 million) and comprises dividend payments in the 2014 financial year amounting to € 1.7 million (previous year: € 14.0 million).

After adjusting for cash flows in connection with data costs, investments, tax audits and dividend payments, the net cash flow (cash flow from operations + cash flow from investing activities) amounted to € -3.5 million (previous year: € -4.9 million).

Cash and cash equivalents and financial assets available for sale totalled € 26.8 million as at 30 September 2014 and decreased by € 10.9 million compared to the previous year in particular due to dividends paid (30 September 2013: € 37.7 million).

Segment report

Situation

Revenue in the Digital business hovered around the prior-year level at € 26.1 million (previous year: € 26.4 million). The Digital business now accounts for around 55 percent of total revenue (previous year: 48 percent). EBITDA including non-recurring effects for adjustments of structural costs and data costs in the Digital segment amounted to € -1.7 million (previous year: € -2.2 million). From a full cost perspective, nine-month earnings (EBITDA) before non-recurring items were € 0.6 million, representing a year-on-year improvement of € 1.3 million (previous year: € -0.7 million). This development is a consequence of a strategy of focusing on sustainability, quality and profitability.

The traditional directory assistance business accounted for € 21.4 million of total revenue (previous year: € 28.8 million). The decrease in this segment of € 7.4 million was not as high as in the previous year (€ 9.4 million). On a full cost basis, earnings (EBITDA) fell by € 5.0 million in the first nine months to € 2.6 million (previous year: € 7.6 million). In addition to the continuing downturn in the market, non-recurring effects of € 3.6 million (previous year: € 1.2 million) arose in this segment, largely due to capacity adjustments. Adjusted for these items, EBITDA amounted to € 6.2 million at 30 September 2014 (previous year: € 8.8 million).

Outlook

We expect the negative trend in caller volume in the traditional directory assistance business to continue. Actions to reduce expenditure – especially in terms of personnel and structural costs – will be taken to limit the downturn in earnings as far as possible.

In the Digital business, we will continue to focus primarily on improving sustainable customer loyalty and earnings. This increase is to be achieved by implementing various measures. These include continuously improving products as well as optimising sales and customer service processes. Another focal point will be quality improvements in sales and production as well as additional technical and procedural quality assurance measures achieved, for example, through comprehensive training. Strategic partnerships and product developments will be stepped up further in the coming months. This will enable the Group to generate even greater benefits for its customers in the future and will provide the basis for growth in 2015.

The positive trend in the relevant indicators of termination rate and the proportion of 24-month contracts will be advanced further. This will have a noticeable effect in the medium term in the form of revenue and earnings growth.

For the full year 2014 we continue to expect EBITDA before non-recurring effects in the forecast range of € 7 – 9 million. On account of the significant expenses for adjustments of structural costs and restructuring measures, we expect a negative net cash flow for the 2014 financial year.

Employees

On 30 September 2014, the telegate Group had 998 employees (head count; excluding trainees, “mini-jobs” and dormant employment contracts). Year-on-year, this represents a decline of 14 percent (previous year: 1163). This decline is primarily due to capacity adjustments made within the declining directory assistance business and in administrative jobs. There was only an insignificant reduction in sales personnel.

Planegg-Martinsried, 27 October 2014

The Management Board

Consolidated Statements of Operations (IFRS)

	Quarterly Report (unaudited)		9-Months Report (unaudited)	
in kEUR	Q3 2014	Q3 2013	9M 2014	9M 2013
Continuing operations				
Revenues	15,451	18,212	47,520	55,171
Cost of revenues	-7,040	-8,021	-24,420	-25,544
Gross Profit	**8,411**	**10,191**	**23,100**	**29,627**
Selling and distribution costs	-6,896	-7,720	-20,299	-22,942
General administrative expenses	-2,620	-2,915	-9,905	-9,690
Other operating income	0	69	159	453
Other operating expense	-2	-10	-12	-33
Operating income (loss)	**-1,107**	**-385**	**-6,957**	**-2,585**
Interest income	15	23	319	125
Interest expense	-20	-34	-65	-120
Gain (loss) from marketable securities	0	18	33	18
Gain (loss) on foreign currency translation	1	0	1	0
Financial income (loss)	**-4**	**7**	**288**	**23**
Income (loss) before income tax	**-1,111**	**-378**	**-6,669**	**-2,562**
Current income tax	-3	69	137	60
Deferred income tax	376	184	1,962	742
Income tax	**373**	**253**	**2,099**	**802**
Net income (loss) from continuing operations	**-738**	**-125**	**-4,570**	**-1,760**
Discontinued operations				
Net income (loss) from discontinued operations	**-100**	**155**	**376**	**-175**
Net income (loss)	**-838**	**30**	**-4,194**	**-1,935**
Attributable to:				
Owners of the parent	-838	30	-4,194	-1,935
Non-controlling interests	0	0	0	0
	-838	30	-4,194	-1,935
Basic and dilutive earnings per share for net income (loss) for the reporting period attributable to ordinary equity holders of the parent (in euro)	-0.04	0.00	-0.22	-0.10
Earnings per share for continuing operations - basic and dilutive, for net income (loss) for the reporting period attributable to ordinary equity holders of the parent (in euro)	-0.03	-0.01	-0.24	-0.09
Earnings per share for discontinued operation - basic and dilutive, for net income (loss) for the reporting period attributable to ordinary equity holders of the parent (in euro)	-0.01	0.01	0.02	-0.01

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Comprehensive Income (IFRS)

	Quarterly Report (unaudited)		9-Months Report (unaudited)	
in TEUR	Q3 2014	Q3 2013	9M 2014	9M 2013
Net income (loss)	**-838**	**30**	**-4,194**	**-1,935**
Other comprehensive income (loss)				
Items which can be reclassified subsequently into the profit or loss				
Available for sale financial assets - Changes of the fair value, net	55	51	45	46
Available for sale financial assets - Reclassification to profit or loss, net	0	0	-40	0
Foreign currency translation differences	-1	0	-1	0
Other comprehensive income (loss) after tax	**54**	**51**	**4**	**46**
Total comprehensive income (loss)	**-784**	**81**	**-4,190**	**-1,889**
Thereof from:				
Continuing operations	-684	-74	-4,566	-1,714
Discontinued operations	-100	155	376	-175
	-784	**81**	**-4,190**	**-1,889**
Attributable to:				
Owners of the parent	-784	81	-4,190	-1,889
Non-controlling interests	0	0	0	0
	-784	**81**	**-4,190**	**-1,889**

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets (IFRS)

Assets in kEUR	(unaudited) Sep 30, 2014	(unaudited) Sep 30, 2013	Dec 31, 2013
Current assets			
Cash and cash equivalents	4,143	12,621	9,950
Trade accounts receivable	12,281	13,485	13,158
Current tax assets	515	336	499
Available for sale financial assets	22,661	25,054	30,128
Other financial assets	30,481	25,600	24,570
Other current assets	1,849	4,230	2,035
Total current assets	**71,930**	**81,326**	**80,340**
Non-current assets			
Goodwill	6,789	6,773	6,773
Intangible assets	10,526	11,739	12,393
Property and equipment	4,246	6,043	5,729
Other financial assets	15	15	15
Deferred tax assets	4	13	0
Total non-current assets	**21,580**	**24,583**	**24,910**
Total assets	**93,510**	**105,909**	**105,250**

See accompanying notes to the consolidated financial statements.

Liabilities and equity in kEUR	(unaudited) Sep 30, 2014	(unaudited) Sep 30, 2013	Dec 31, 2013
Current liabilities			
Trade accounts payable	1,477	1,594	2,064
Accrued liabilities	7,483	9,907	9,502
Provisions	751	1,876	1,103
Current tax liabilities	33	1,028	1,265
Other financial liabilities	30,162	24,214	24,227
Other current liabilities	2,184	2,458	2,112
Total current liabilities	**42,090**	**41,077**	**40,273**
Non-current liabilities			
Provisions	597	364	374
Provisions for retirement benefits	27	0	18
Deferred tax liabilities	1,702	3,502	3,657
Total non-current liabilities	**2,326**	**3,866**	**4,049**
Total liabilities	**44,416**	**44,943**	**44,322**
Equity			
Share capital	19,111	19,111	19,111
Additional paid in capital	32,059	32,059	32,059
Other revenue reserves	0	4,236	0
Retained earnings	-2,181	5,513	9,657
Other components of equity	105	47	101
Equity attributable to owners of the parent	49,094	60,966	60,928
Total equity	**49,094**	**60,966**	**60,928**
Total liabilities and equity	**93,510**	**105,909**	**105,250**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows (IFRS)

in kEUR	(unaudited) 9M 2014	(unaudited) 9M 2013
Cash flows from operating activities		
Income (loss) before income tax from continuing operations	-6,669	-2,562
Income (loss) before income tax from discontinued operation	376	-160
Income (loss) before income tax	**-6,293**	**-2,722**
Adjustments for:		
Amortisation and impairment of intangible assets [1]	4,843	3,946
Depreciation and impairment of property and equipment	1,595	1,629
Depreciation of current intangible assets [2]	1,351	2,520
Gain (loss) on disposal of property and equipment	0	7
Gain (loss) from goverment grants	0	-8
Interest income	-319	-125
Interest expense	65	123
Gain (loss) from marketable securities	-33	-18
Gain (loss) on foreign currency translation	-1	0
Valuation allowance for trade accounts receivable	-255	-477
Valuation allowance for current financial asset	0	638
Gain (loss) from the sale of subsidiaries	-376	690
Changes in non-current provisions	239	20
Changes in non-current other and financial assets [1]	0	163
Operating profit before changes in operating assets and liabilities	***816***	***6,386***
Changes in operating assets and liabilities:		
Trade accounts receivable	733	1,775
Current intangible assets [2]	-1,340	-1,449
Miscellaneous current assets [2]	193	1,764
Trade accounts payable	616	339
Current provisions	69	-1,482
Accrued expenses and other current liabilities	-1,829	-4,884
Income taxes paid	-1,107	-11,302
Cash used in operating activities	**-1,849**	**-8,853**
Cash flows from investing activities		
Purchase of intangible assets excl sales commissions	-1,838	-3,002
Purchase of sales commissions with contract period > 1 year [1]	-1,973	-1,623
Purchase of property and equipment	-161	-3,702
Proceeds from sale of property and equipment	23	0
Paid subsequent purchase price adjustment	-16	-27
Disbursement (proceeds) for the sale of subsidiaries	-164	555
Proceeds from government grants	0	8
Proceeds from investment grants	57	0
Purchase of other current financial assets	-5,914	-24,209
Purchase of available for sale financial assets	-4,499	-52,981
Disposal of available for sale financial assets	12,006	28,012
Interest received [3]	278	96
Cash used in investing activities	**-2,201**	**-56,873**

in kEUR	(unaudited) 9M 2014	(unaudited) 9M 2013
Cash flows from financing activities		
Dividends paid	-1,730	-14,014
Interest paid	-27	-889
Cash used in financing activities	**-1,757**	**-14,903**
Change in cash and cash equivalents	**-5,807**	**-80,629**
Cash and cash equivalents at the beginning of reporting period	**-9,950**	**93,250**
Cash and cash equivalents at the end of reporting period	**4,143**	**12,621**
Cash and cash equivalents as well as short-term available for sale financial assets at the end of reporting period	*26,804*	*37,675*

[1] Purchases of capitalized sales commissions with a contract period more than one year are shown in investing activities.

[2] Depreciations and acquisitions/retirements of current intangible assets (capitalized sales commissions with a contract period up to one year) are shown separatly within the operating activities.

[3] For reasons of better classification the interest received is allocated in investing activities. For the purposes of comparison the previous year values were adjusted accordingly.

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Shareholders' Equity (IFRS)

in kEUR	Equity attributable to owners of the parent							
	Share capital	Additional paid-in capital	Other revenue reserves	Retained earnings	Other components of equity	**Total**	Non-controlling interests	**Total equity**
Balance at Jan 1, 2014	**19,111**	**32,059**	**0**	**9,657**	**101**	**60,928**	**0**	**60,928**
Net income (loss)				-4,194		-4,194		-4,194
Available for sale financial assets					5	5		5
Foreign currency translation					-1	-1		-1
Other comprehensive income (loss)					**4**	**4**		**4**
Total comprehensive income (loss)	**0**	**0**	**0**	**-4,194**	**4**	**-4,190**	**0**	**-4,190**
Dividends				-7,644		-7,644		-7,644
Balance at Sep 30, 2014	**19,111**	**32,059**	**0**	**-2,181**	**105**	**49,094**	**0**	**49,094**
Balance at Jan 1, 2013	**19,111**	**32,059**	**4,236**	**45,670**	**1**	**101,077**	**0**	**101,077**
Net income (loss)				-1,935		-1,935		-1,935
Available for sale financial assets					46	46		46
Foreign currency translation					0	0		0
Other comprehensive income (loss)					**46**	**46**		**46**
Total comprehensive income (loss)	**0**	**0**	**0**	**-1,935**	**46**	**-1,889**	**0**	**-1,889**
Dividends				-38,222		-38,222		-38,222
Balance at Sep 30, 2013	**19,111**	**32,059**	**4,236**	**5,513**	**47**	**60,966**	**0**	**60,966**

See accompanying notes to the consolidated financial statements.

Segement Report (IFRS)

The activities of the telegate group are assigned to operating segments for the purpose of management control. In addition to the historically developed regional segmentation of Germany/Austria and Spain, the Germany/Austria segment is further divided into Directory Assistance and Digital. In the actual fiscal year the Media segment war renamed into Digital segment.

Directory Assistance generates revenue mainly with end customers or retail customers; this is known as B2C. It offers users information and directory assistance services via various service channels in Germany and Austria. Digital generates revenue almost exclusively with commercial clients, this is known as B2B. The Digital segment provides advertising services for small- and medium-sized enterprises mainly in Germany.

The business in Spain was sold with effect from 07 June 2013. The Italian business which was assigned to the segment „Spain / Italy“ was sold as of June 01, 2010 already. The Spain operating segment comprised all activities on the Spanish market, which almost exclusively concerned directory assistance. The revenues and costs associated with these discontinued operations were eliminated in the reconciliation.

The prevailing measurement standards of the Management Board correspond to those in the consolidated financial statements of the group and are presented in this report on the same basis. Performance of the segments is assessed and resources are allocated to the segments mainly based on operating results. Inter-segment sales, insofar as they exist, are recognized at amounts comparable with sales to third party customers and are eliminated during consolidation.

The company manages the segments using earnings performance indicators up to EBITDA (earnings before interest, taxes, depreciation and amortisation) level. The business ratio EBITDA before non-recurring effects illustrates an additional information of the profitability of the company. Information to non-recurring effects can be found in the note “Non-recurring effects on the income statement”.

Capital allocation (liabilities and assets) within the Germany/Austria segment is not controlled at division level. Financial income and financial expenses are not components of net income, since these are decided centrally and are not subject to the direct control of segment management. Elimination is carried out at the level of Germany/Austria and Spain.

For reasons of materiality the management decides in the actual fiscal year, no longer eliminate the effects of data cost proceedings within the reconciliation but allocate it to EBITDA of the segment Directory Assistance or segment Digital respectively. In the fourth quarter of 2013, the company decided to assign the software business to the Digital segment (to date part of the Directory Assistance segment). The background to this reorganisation is the strict breakdown of revenue generation into commercial clients and digital services (-> Digital segment) on the one hand and retail customers and directory assistance (-> Directory Assistance segment) on the other hand. Segment reporting was revised to reflect the respective customer focus and type of services provided. The prior-year figures were adjusted for purposes of comparability of the indicators.

in kEUR	Germany / Austria			Spain / Italy	Recon-ciliation [1]	**telegate group**
	Directory Assistance	Digital	Sum			
01.01. - 30.09.2014						
Revenues						
External revenues	21,413	26,107	47,520	0	0	**47,520**
Total revenues	**21,413**	**26,107**	**47,520**	**0**	**0**	**47,520**
Earnings						
Earnings before interest, taxes, depreciation and amortization (EBITDA)	2,578	-1,746	832	376	-376	**832**
Depreciation and amortization	-2,111	-5,678	-7,789	0	0	**-7,789**
Financial income (loss)			288	0	0	**288**
Income (loss) before income tax			-6,669	376	-376	**-6,669**
EBITDA before non-recurring effects	6,194	589	6,783	376	-376	6,783

in kEUR	Germany / Austria			Spain	Recon-ciliation [1]	**telegate group**
	Directory Assistance	Digital	Sum			
01.01. - 30.09.2013						
Revenues						
External revenues	28,821	26,350	55,171	1,875	-1,875	**55,171**
Total revenues	28,821	26,350	55,171	1,875	-1,875	**55,171**
Earnings						
Earnings before interest, taxes, depreciation and amortization (EBITDA)	7,589	-2,225	5,364	678	-681	**5,361**
Depreciation and amortization	-2,951	-4,995	-7,946	-148	148	**-7,946**
Financial income (loss)			-18	38	3	**23**
Income (loss) before income tax			-2,600	568	-530	**-2,562**
EBITDA before non-recurring effects	8,773	-714	8,059	678	-681	**8,056**

[1] Income and expenses of the discontinued operations are not included the consolidated income statement but shown separate as „income from discontinued operations“.

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

1. Presentation of the consolidated financial statements

The business operations of telegate AG comprise the performance of telecommunications services of all kinds, the design and marketing of information databases and marketing advertisements as well as the performance of DA services (directory assistance services) via the subscribers of public telephone networks and other DA services in Germany and abroad.

The consolidated interim report of telegate AG and the subsidiaries included in the financial statements was prepared in accordance with the accounting standards of the International Accounting Standards Board (IASB) and the International Financial Reporting Standards (IFRSs) – as applicable in the European Union – as of 30 September 2014.

The interim report was prepared in compliance with IAS 34 Interim Financial Reporting in particular. Furthermore, all International Accounting Standards (IASs), International Financial Reporting Standards (IFRSs) as well as the interpretations of the IFRS Interpretations Committee (formerly IFRIC) whose application was mandatory as of 30 September 2014 were taken into account.

The consolidated interim report of telegate AG (hereinafter also the group / telegate / the telegate group / the company) is presented in euros (EUR). Unless stated otherwise, all values were rounded to thousands of euros (EUR thousand). For computational reasons, rounding differences of the mathematically exact values may occur in tables and references.

The consolidated financial statements are generally prepared using the historical cost system.

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

The consolidated financial statements and the group management report prepared as of 31 December 2013 were submitted with the publisher of the Electronic Federal Gazette and published.

2. Accounting and measurement

The accounting policies adopted in the preparation of this consolidated interim report are consistent with those followed in the preparation of the consolidated financial statements for the 2013 financial year except for the changes explained below.

3. Changes in accounting policies

3.1 IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities (revised 2012)

The IASB issued „Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)“.

This clarifies the transition guidelines in IFRS 10 and grants additional exemptions in all three standards, including, among other things, the limitation of the disclosure of adjusted comparative figures to the two immediately preceding periods in the case of first-time application.

The amendments were published in June 2012 and shall be applied for the first time for financial years beginning on or after 01 January 2014 (corresponding to the first-time application of IFRS 10, IFRS 11, IFRS12). Application of the amendments has no effects on the group's net assets, financial position and results of operations because it does not affect the group's basis of consolidation.

3.2 IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the requirements of both IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities.

IFRS 10 establishes a uniform control concept that applies to all companies, including special purpose entities. In contrast to the previously prevailing legal situation, the changes that IFRS 10 introduces generally require management to exercise substantial discretion in answering the question which entities the group controls and whether the given entities thus should be included in the consolidated financial statements by means of full consolidation. IFRS 10 also sets forth the accounting requirements for the presentation of consolidated financial statements.

IFRS 10 was published in May 2011 and shall be applied for the first time for financial years beginning on or after 01 January 2014 (retrospective application). The application of the new IFRS 10 does not affect the basis of consolidation and thus has no effects on the group's net assets, financial position and results of operations.

3.3 IFRS 11 Joint Arrangements

IFRS 11 replaces both IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities - Non-Monetary Contributions by Venturers. IFRS 11 thus eliminates the previously available option of proportionate consolidation for joint ventures. In the future, such entities may only be consolidated using the equity method.

IFRS 11 was published in May 2011 and shall be applied for the first time for financial years beginning on or after 01 January 2014. With regard to the effects, please see the explanations to IAS 28.

3.4 IFRS 12 – Disclosures of Interests in Other Entities

This standard governs the disclosure requirements related to group accounting principles and consolidates the disclosures required of subsidiaries (heretofore subject to IAS 27); the disclosures required of jointly controlled and associated entities (heretofore subject to IAS 31 and IAS 28, respectively); as well as those required of structured entities. The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial position, cash flows and financial performance.

IFRS 12 was published in May 2011 and shall be applied for the first time for financial years beginning on or after 01 January 2014. The application of the new IFRS 12 only results in more comprehensive disclosure requirements and has no effects on the accounting methods applied by the group.

3.5 IAS 27 Separate Financial Statements (revised and renamed 2011)

The adoption of IFRS 10 and IFRS 12 has limited the scope of IAS 27 solely to the accounting for subsidiaries, jointly controlled entities and associates in a company's separate financial statements.

The revised standard was published in May 2011 and shall be applied for the first time for financial years beginning on or after 01 January 2014. The application of revised IAS 27 does not affect the group's net assets, financial position or results of operations.

3.6 IAS 28 Investments in Associates and Joint Ventures (revised and renamed 2011)

The adoption of IFRS 11 and IFRS 12 broadened the scope of IAS 28 such that the equity method shall now also be applied to joint ventures besides associates.

The revised standard was published in May 2011 and shall be applied for the first time for financial years beginning on or after 01 January 2014. Since neither associates nor joint ventures are included in telegate's consolidated financial statements, the revised standard does not have any effect on the presentation of its net assets, financial position or results of operations.

3.7 IAS 32 Financial Instruments: Presentation

The amendments to IAS 32 clarified the netting provisions for financial instruments in order to remove existing inconsistencies regarding the interpretation of existing provisions for the netting of financial assets and financial liabilities.

The amendments were published in December 2011 and shall be applied for the first time for financial years beginning on or after 01 January 2014 (retrospective application). These amendments solely concern the presentation in the consolidated financial statements and thus do not affect the group's net assets, financial position and results of operations.

3.8 IAS 39 Changes to novation of derivatives and continuation of hedge accountiang

The IASB has issued amendments to the rules on discontinuing hedging relationships in IAS 39. According to these changes, derivatives remain designated as hedging instruments in continuing hedges despite novation. The amendments aim to avoid effects on hedge accounting as a result of derecognition of the derivative when the contract is switched to a central counterparty.

The amendments were published in June 2013 and shall be applied for the first time for financial years beginning on or after 01 January 2014 (retrospective application). The application of this amendment does not affect the group's net assets, financial position or results of operations because telegate does not currently practise hedge accounting.

3.9 IFRIC 21 Levies

IFRIC 21 provides guidance on when to recognise a liability for a levy imposed by a government. The interpretation applies both to levies reported in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is known.

IFRIC 21 was published in May 2013 and enters into force for reporting periods beginning on or after 1 January 2014 (retrospective application). There are currently no levies imposed by a government which would have to be taken into account in accordance with the interpretation of IFRIC 21. Application therefore does not affect the group's net assets, financial position and results of operations.

4. Future changes in accounting policies

4.1 Annual Improvements to IFRSs – 2012-2014 Cycle

On 25 September 2014, the IASB concluded and issued the Annual Improvements to IFRSs (2012-2014 Cycle), a series of amendments to IFRSs in response to issues raised during this cycle. The changes effect the following four standards:

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*
- *IFRS 7 Financial Instruments: Disclosures (with subsequent amendment to IFRS 1)*
- *IAS 19 Employee Benefits*
- *IAS 34 Interim Financial Reporting*

The amendments apply to reporting periods beginning on or after January 1, 2016; earlier application is permitted. Application of these amendments will primarily influence the scope of disclosures in the notes and thus will not affect the group's net assets, financial position and results of operations.

The amendments have not yet been transposed into European law.

4.2 IAS 28/IFRS 10 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address a conflict between the provisions of IAS 28 Investments in Associates and Joint Ventures and IFRS 10 Consolidated Financial Statements. They clarify that in a transaction involving an associate or joint venture the gain or loss resulting from the transaction is determined on the basis of whether the assets that are sold or contributed constitute a business.

The changes were published on 11 September 2014 and are applicable to reporting periods beginning on or after 1 January 2016. Earlier application is permitted. Given that there are no investments in associates and joint ventures, these amendments are not expected to have any effect on the net assets, financial position and results of operations.

The amendments have not yet been transposed into European law.

4.3 IAS 27 – Equity Method in Separate Financial Statements

The amendments issued by the IASB on 12 August 2014 allow the equity method to be used once more to account for investments in subsidiaries, joint ventures and associates in the separate financial statements of an investor. The options to measure these investments at cost or in accordance with IAS 39/IFRS 9 are still provided.

The changes are applicable to reporting periods beginning on or after 1 January 2016. Earlier application is permitted. The application of the amendments to IAS 27 is not expected to affect the group's net assets, financial position and results of operations.

The amendments have not yet been transposed into European law.

4.4 IFRS 15 Revenue from Contracts with Customers

The IASB published the new revenue recognition standard, IFRS 15 Revenue from Contracts with Customers, in May 2014. The objective of the revised standard is to create a common revenue recognition standard for IFRS and US GAAP so as to improve the transparency and comparability of financial information.

IFRS 15 shall be applied for the first time for financial years beginning on or after 01 January 2017. The effects of the amendment on the net assets, financial position and results of operations are currently being reviewed.

The amendments have not yet been transposed into European law.

4.5 IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets relate to the application of revenue-based methods of depreciation and amortisation. Additional guidance is provided on the methods to be used for the depreciation of property, plant and equipment and the amortisation of intangible assets.

The changes were published in May 2014 and are applicable prospectively to reporting periods beginning on or after 1 January 2016. Earlier application is permitted. The effects of the amendment on the net assets, financial position and results of operations are currently being reviewed.

The amendments have not yet been transposed into European law.

4.6 IFRS 11 Acquisitions of Interests in Joint Operations

The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. All of the principles on business combinations accounting must now be applied to the acquisition of interests in a joint operation of this nature.

The amendments were published in May 2014 and are applicable to reporting periods beginning on or after 1 January 2016. Earlier application is permitted. The group currently does not have any items that fall within the scope of the amendments of IFRS 11. Consequently, the amendments are not expected to affect the group's net assets, financial position and results of operations.

The amendments have not yet been transposed into European law.

5. Restructuring measures and non-recurring effects on the income statement

The total amount for restructuring measures and non-recurring effects included in the net income for the period before taxes amounts to an expense of € 5,951 thousand (2013: € 2,695 thousand) and is composed of the following:

5.1 Restructuring measures

In the current financial year, a detailed and formal restructuring plan for the purpose of consolidating two call centres was announced and initiated.

With this plan, the group responds to the ongoing negative trend in demand for traditional directory assistance services. This measure should be completed in the first quarter of 2015.

The total amount of € 725 thousand (2013: € 0 thousand) incurred until the reporting date that is related directly to this restructuring measure is shown in the income statement under cost of revenues and general administrative expenses.

5.2 Non-recurring effects on the income statement

Data cost litigation
Expenses of € 164 thousand were incurred in the first nine months of 2014 (2013: € 310 thousand) subsequent to the successful data cost litigation in 2012 and from as yet unresolved legal disputes regarding data costs. This amount is included in the income statement, mostly in other operating income and expenses and in general administrative expenses.

Adjustment of structural costs
The adjustment of structural costs gave rise to expenses of € 5,062 thousand in the first nine months of the current financial year (2013: € 2,385 thousand). These expenses are mainly attributable to costs for capacity adjustments and contract terminations and are reported under cost of revenues, selling and distribution costs and general administrative expenses.

6. Financial instruments

The following table shows both the carrying amounts and the fair values of all financial instruments recognised in the consolidated financial statements, including their levels in the fair value hierarchy: It does not contain any information about the fair value of financial assets and liabilities that were not measured at fair value if the carrying amount suitably approximates the fair value.

as of 30.09.2014	Carrying amounts of the IAS 39 measurement category			Fair value		
	Loans and receivables	Available-for-sale	Financial liabilities measured at amortised cost	Level 1	Level 2	Level 3
Financial assets measured at fair value						
Securities	-	22,661	-	22,661	-	-
Financial assets not measured at fair value						
Cash and cash equivalents	4,143	-	-			
Trade accounts receivable	12,281	-	-			
Current other financial assets	30,481	-	-			
Non-current other financial assets	15	-	-			
Financial liabilities not measured at fair value						
Trade accounts payable	-	-	1,477			
Other financial liabilities	-	-	30,162			

as of 31.12.2013	Carrying amounts of the IAS 39 measurement category			Fair value		
	Loans and receivables	Available-for-sale	Financial liabilities measured at amortised cost	Level 1	Level 2	Level 3
Financial assets measured at fair value						
Securities	-	30,128	-	30,128	-	-
Financial assets not measured at fair value						
Cash and cash equivalents	9,950					
Trade accounts receivable	13,158	-	-			
Current other financial assets	24,570	-	-			
Non-current other financial assets	15	-	-			
Financial liabilities not measured at fair value						
Trade accounts payable	-	-	2,064			
Other financial liabilities	-	-	24,227			

In the first nine months until 30 September 2014, there were no changes in the valuation techniques applied and no transfers between the levels of the fair value hierarchy.

7. Dividend paid

In accordance with the resolution of the annual general meeting dated 25 June 2014, the proposal by the Management and Supervisory Boards on the appropriation of profit was approved and € 7,644 thousand (2013: 38,222 thousand) of the retained earnings for 2013 shown on telegate AG's single-entity HGB financial statements were used to distribute a dividend. This corresponds to a dividend of € 0.40 per no-par value share (2013: 2.00 Euro).

Due to the application for a composition procedure with creditors made by SEAT Pagine Gialle Italia S.p.A. to the insolvency court in Turin in accordance with Article 161 Paragraph 6 Royal Decree 267/1942, a contractual agreement was made with the principal shareholder not to pay the dividend resolved by the annual general meeting of telegate AG proportionally attributable to the shares held directly or indirectly by SEAT Pagine Gialle Italia S.p.A. to the shareholders of Telegate Holding GmbH / SEAT Pagine Gialle Italia S.p.A. for the time being. As a consequence, the dividend payment of € 5,914 thousand to SEAT that was resolved at the annual general meeting on 25 June 2014 will be added to the outstanding dividend payment from 2013 and invested as time deposits by telegate AG. The amount will be paid out at a future date to be determined by SEAT or the insolvency court. The financial investment totalling € 30,153 thousand (2013: € 24,209 thousand) including interest is shown under other financial assets. The corresponding liability is reported under other financial liabilities.

8. Related party transactions

Business transactions between the company and its subsidiaries that are considered affiliated companies were eliminated in consolidation and are not explained in these notes to the financial statements.

Related parties include Telegate Holding GmbH, Planegg, which holds a majority interest of 61.13 percent in telegate AG. Seat Pagine Gialle Italia S.p.A., Turin, Italy, in turn holds a 100 percent stake in telegate Holding. SEAT Pagine Gialle S.p.A. (Milan) holds a 100% stake in SEAT Pagine Gialle Italia S.p.A. as of the reporting date.

SEAT Pagine Gialle S.p.A. indirectly holds a 16.24% stake via SEAT Pagine Gialle Italia S.p.A. and a 61.13% stake via Telegate Holding GmbH in telegate AG.

The primary controlling parent is SEAT Pagine Gialle S.p.A. (Milan).

Terms of transactions with related parties

Services are rendered or purchased at arm's length. Unless stated otherwise, receivables and liabilities outstanding as of the reporting date are not secured and bear no interest.

Rendering or receiving of services

As at 30 September 2014 there were dividend distribution liabilities including interest expenses to Telegate Holding GmbH and SEAT Pagine Gialle Italia S.p.A. in the amount of € 30,162 thousand (2013: € 24,214 thousand). The interest expenses for the 2014 financial year add up to € 20 thousand (2013: € 5 thousand).

This amount was invested as time deposits by telegate AG and will be paid at a future point in time to be determined by SEAT or the insolvency court. The interest rate is commensurate with the rate of the liability described.

Transactions with related parties (persons)

As of 30 September 2014, employees of the SEAT Group were members of telegate AG's Supervisory Board. These persons are entitled to Supervisory Board compensation in the amount of € 54 thousand (2013: € 42 thousand), which accordingly was recognised as a current liability.

9. Governing bodies of telegate AG

Changes in the Management Board

As at 24 June 2014, Franz-Peter Weber was appointed to the Management Board of telegate AG as Ralf Grüßhaber's successor. Ralf Grüßhaber stepped down from the Management Board of telegate AG at the end of the annual general meeting on 25 June 2014.

Changes in the Supervisory Board

With the election of the employee representatives in the Supervisory Board on 3 June 2014, Jens Sturm (Head of IT and Voice Operations) was elected to the Supervisory Board. The following members are no longer members of the Supervisory Board: Claudia Dollase (HR Group Specialist/Recruiting, telegate AG), Jörn Hausmann (Business Unit Manager Telesales, telegate AG), Anett Kaczorak (released for a Works Council position, telegate AG), Leonard Kiedrowski (Senior IT Expert, telegate Media AG) and Silke Lichner (Data Editor, telegate AG).

The following persons were newly elected as members of the Supervisory Board with immediate effect at the annual general meeting on 25 June 2014:

- *Dr, Michael Wiesbrock (Lawyer, holder of a German degree in business administration)*
- *Ralf Grüßhaber (holder of a German degree in business administration)*

At the end of the annual general meeting on 25 June 2014, the term of office of the following Supervisory Board members expired:

- *Jürgen von Kuczkowski (former Chairman of the Executive Management of Vodafone D2 GmbH)*
- *Ezio Cristetti (Director of Operations, Prontoseat S.r.L.)*
- *Massimo Christofori (Manager Special Projects, Seat Pagine Gialle S.p.A.)*
- *Gautam Giorgio Sahgal (Managing Director, Corporate Media Partners Ltd)*

10. Events after the reporting period

Elio Schiavo, CEO of telegate AG, resigned from his post on 10 October 2014 and left the company at his own request. Michael Geiger, who had been Vice President Technology for many years, was appointed to the Management Board by the Supervisory Board on 11 October 2014.

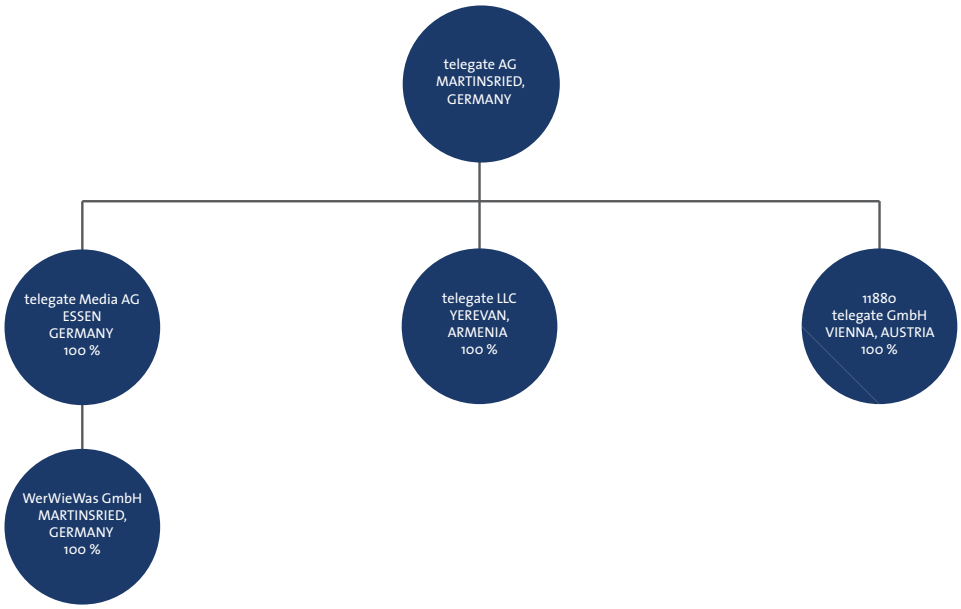
11. German Corporate Governance Code

The joint declaration of compliance by the Management Board and Supervisory Board of telegate AG in accordance with section 161 AktG relating to the German Corporate Governance Code was made on 23 June 2014. The exact wording of the declaration can be retrieved under www.telegate.com.

Planegg-Martinsried, 27 October 2014

The Management Board

Corporate Structure telegate Group



www,telegate,com

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