9-Months Report 2015

telegate

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klicktel A company of telegate AG.

Content

Letter from the Management Board

Dear shareholders, customers and business partners,

A popular way to assess executives is the first hundred days in office, and I have now completed mine as CEO of telegate AG. With the support of the entire team, I have settled into the position well and have gained a comprehensive insight into the current situation. In short, there is some positive news to report, but – in all honesty – the list of action items left to complete is quite long.

Our company has enormous potential. We have products that are highly profitable and, thanks to experienced and motivated employees, are moving forward successfully. Our 11880 brand is very well known and has become part of daily life in Germany. It is not only one of the most famous phone numbers in Germany, but also synonymous with obtaining help and information quickly. The market for intelligent marketing options for small- and medium-sized companies is huge and offers us a wealth of opportunities.

This potential must be leveraged, and it is precisely here that we have to make a new start in many areas. In recent months, we have lost customers and have failed to work profitably. The much-lauded digital transformation is not yet functioning at our company. Therefore, one thing is clear: We must substantially improve the profitability of the digital business and lower the contract termination rate to ensure our viability for the long term.

In the third quarter of the current financial year, we developed a wide-ranging project plan to this end called "Genesis", which will now be implemented step by step. This plan is based on three pillars – modifying the sales strategy, realigning the product portfolio and boosting competitiveness. At its core is the digital business directory, which will be expanded intelligently to include vertical products: high-reach websites specifically tailored to individual target groups. We must redesign our products so they are considerably more attractive for consumers as well, since consumers are the source of the revenue our customers aim to generate with the help of their digital marketing activities.

As part of a new sales strategy, we will be focusing more on telesales. This effort has been successful, because thanks to the introduction of a new listing product, we were able to quickly stop the negative trend and again report growth in customer numbers in September.

In terms of management, we also eliminated a level of the hierarchy in two divisions to ensure that we are doing business more cost effectively and efficiently going forward.

These were the initial steps we took. In the coming months, we face a huge amount of work, since we want to and will succeed in creating a new, future-proof telegate AG.

Thank you the confidence you have placed in us.

Sincerely,

Christian Maar
CEO of telegate AG

Key Financial Figures

in m Euro	9M 2015	9M 2014	Variance absolute	Variance in Percent
Revenues and earnings telegate Group				
Revenues	40.8	47.5	-6.7	-14.2%
EBITDA[1]	0.1	1.7	-1.6	-91.6%
EBITDA[1] before non-recurring items	3.5	7.6	-4.2	-54.8%
Non-recurring items for data cost claims	0.9	0.2	0.8	-
Non-recurring items for adaption of structural costs	1.8	5.8	-4.0	-
Non-recurring items for relaunches	0.6	0.0	0.6	-
Net loss	-6.0	-4.3	-1.7	-
Details Segments				
Revenues Digital	24.5	26.1	-1.6	-6.1%
EBITDA[1] before non-recurring items Digital	0.0	1.5	-1.4	-98.0%
Revenues Directory Assistance	16.3	21.4	-5.1	-23.8%
EBITDA[1] before non-recurring items Directory Assistance	3.4	6.2	-2.8	-44.7%
Statement of Financial Position				
Total assets	51.6	94.5	-42.9	-45.4%
Cash, cash equivalents & financial assets[2]	21.0	26.8	-5.8	-21.7%
Equity	41.5	49.8	-8.3	-16.6%
Equity ratio (in percent)	80.4%	52.7%	-	-
Cash Flow				
Cash flow from operating activities	-2.9	-1.2	-1.7	-
Cash flow from investing activities	1.2	-2.8	4.0	-
Cash flow from financing activities	0.0	-1.8	1.8	-
Net cash flow[3]	-4.5	-3.5	-1.0	-
KPIs telegate share				
Earnings per share (in Euro)	-0.31	-0.22	-0.09	-
Share price (in Euro)[4]	1.16	4.15	-2.99	-72.0%
Market capitalization	22.17	79.31	-57.14	-72.0%
Employees				
Number of employees[5]	858	1.012	-154	-15.2%

[1] Earnings before interest, tax and depreciationt

[2] cash flow from operations + cash flow from investing activities +/- interest income/expenses adjusted for non-recurring items from data cost litigation and the purchases and disposals of available for sale financial assets

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

[4] Headcounts as of September 30

Management Report

In summary: 9-months report 2015

In the first nine months of the 2015 financial year, the business of telegate AG performed in line with expectations. The group is continuously working on procedural improvements in all divisions for quality assurance purposes. Alongside the implementation of the new product portfolio, the first nine months of the year were dominated by the preparations for and the implementation of the brand relaunch. In addition, customer segments were analysed with the aim of offering customised product concepts and optimising market coverage. In this connection, key partnerships (for example with Google) were renewed in the first quarter.

Earnings (EBITDA) before non-recurring items in the first nine months of 2015 are within the range of the guidance published and continue to be positive. However, the group did not match last year's level of earnings. As expected, consolidated revenues decreased – due in particular to the decline in the directory assistance business. The share of consolidated revenues accounted for by the digital business continues to rise accordingly. Nonetheless, the company fell short of the previous year's result here too. The group's costs showed an encouraging trend, with extensive measures generating a reduction in expenses compared with the prioryear period.

In order to ensure telegate's future success, a comprehensive project plan entitled "Genesis" was developed and is currently being implemented. This project is based largely on three pillars and aims to realign the company, especially in terms of its product portfolio, competitiveness and sales strategy. The goal is to use the digital business directory as a basis for creating attractive vertical products to bring new customers on board. Furthermore, the organisational structure of the group is being reviewed in detail to achieve more efficient results in all areas of the company.

Effective 1 July 2015, telegate Media AG, a wholly owned subsidiary of telegate AG, changed its name to klicktel AG.

Franz Peter Weber, Chief Financial Officer (CFO) of telegate AG, resigned from his post in agreement with the company effective 30 September 2015.

Financial situation

Results of operations

Consolidated revenues at the 30 September 2015 reporting date were € 40.8 million (previous year: € 47.5 million).

The cost of revenues including non-recurring expenses was € 20.9 million in the first nine months of the current financial year, down 15 percent on the prioryear figure (€ 24.6 million). This is due primarily to the adjustment of capacities in the directory assistance business. Cost of revenues excluding non-recurring expenses were € 20.1 million (previous year: € 22.7 million).

Selling and distribution costs were reduced from € 20.3 million to € 18.7 million, mainly on the back of lower sales personnel costs. Adjusted for non-recurring items, selling and distribution costs in the first nine months of the current financial year were € 17.9 million, a € 1.2 million or 6 percent reduction (previous year: € 19.1 million).

The general administrative expenses incurred in the first nine months decreased year-on-year from € 9.9 million to € 9.0 million. This can be attributed in particular to the adjustment of structural overhead costs, which led to high non-recurring expenses in 2014. General administrative expenses incurred as of the reporting date, excluding non-recurring expenses, were € 7.2 million (previous year: € 6.8 million).

Consolidated earnings before interest, taxes, depreciation and amortisation (EBITDA) were € 0.1 million, compared with € 1.7 million in the prioryear period. Adjusted for non-recurring items, EBITDA amounted to € 3.5 million (previous year: € 7.6 million). Earnings after taxes were € -6.0 million (previous year: € -4.3 million).

Net assets and financial position

Capital expenditure

Capital expenditure as of the reporting date totalled € 4.5 million (previous year: € 5.3 million). This figure essentially included capitalised sales commission of € 2.6 million (previous year: € 3.3 million) as well as capitalised customer websites in the amount of € 1.0 million (previous year: € 0.9 million). Acquisitions also included the purchase of licences, production costs for intangible assets under construction and technical equipment.

Statement of financial position

As of 30 September 2015, total assets amounted to € 51.6 million, showing a considerable decrease of € 10.4 million compared with 31 December 2014 (31 December 2014: € 62.0 million).

Assets

Current assets declined from € 41.0 million to € 33.8 million. This is due primarily to the decrease in cash and cash equivalents by € 1.7 million and the decrease in available-for-sale financial assets by € 4.2 million. As of the 30 September 2015 reporting date, telegate had investments in this context mainly in liquid money market funds. The fair value of these investments was € 18.4 million (31 December 2014: € 22.6 million). The decline in trade accounts receivable is attributable to the downturn experienced in the directory inquiries business and the correspondingly lower sales volume. Other current assets increased from € 1.7 million to € 1.8 million. They include capitalised direct selling expenses associated directly with the customer order in the advertising sales business as well as websites for customers which are amortised over their respective contract period.

As of the reporting date, the Group had non-current assets worth € 17.8 million (31 December 2014: € 20.9 million). The decline by € 3.1 million stemmed from the decrease in property and equipment and intangible assets as a result of depreciation and amortisation.

Equity and liabilities

Current liabilities decreased by € 2.9 million to € 9.0 million (31 December 2014: € 11.9 million). This is mainly due to the reduction of accrued current liabilities decreased by € 2.2 million, from € 8.0 million to € 5.8 million.

telegate has no significant noncurrent liabilities, no liabilities in foreign currencies and no loan liabilities to banks.

Equity as of 30 September 2015 was € 41.5 million. This corresponds to a change of € -6.1 million compared with 31 December 2014: (31 December 2014: € 47.6 million) as a result of the accumulated deficit of € -9.6 million to (31 December 2014: € -3.7 million).

As of 30 September 2015, the equity ratio was 80.4 percent (31 December 2014: 76.8 percent).

Cash flow & financing

The cash flow from operations in the first nine months of 2015 amounted to € -2.9 million, compared with € -1.2 million during the prioryear period. This figure includes items related to data cost litigation. Adjusted for these items, the cash flow from operating activities amounted to € -1.7 million (previous year: € 1.0 million).

The cash inflow from investing activities as of the 30 September 2015 reporting date amounted to € 1.2 million (previous year: outflow of € 2.8 million). The cash flow from investing activities includes the purchase and sale of liquid money market funds and the purchase of current financial investments. Adjusted for these investments, the cash flow from investing activities improved by € 1.6 million year-on-year, from € -4.4 mil-lion to € -2.8 million.

The cash flow from financing activities remained at € 0.0 million in the first nine months (previous year: € 1.8 million).

Net cash flow as of 30 September 2015 (cash flow from operations + cash flow from investing activities +/- interest income/expense) improved year-on-year from € -5.8 million to € -1.7 million. Adjusted for the non-recurring items from data cost litigation, the purchases and disposals of available-for-sale financial assets and the valuation of financial assets, the Q3 figure is € -4.5 million (previous year: € -3.5 million) and is therefore in line with the end-of-year forecast of € -6 million to € -7 million.

Segment report

At € 24.5 million, revenues in the Digital business were down year-on-year (previous year: € 26.1 million). The Digital business now accounts for around 60 percent of total revenue (previous year: 55 percent).EBITDA including non-recurring items for adjustments of structural costs, data costs and costs for relaunches in the Digital segment amounted to € -1.7 million (previous year: € -0.9 mil-lion).From a full cost perspective, nine-month earnings (EBITDA) before non-recurring items were € 0.0 million (previous year: € 1.5 million).

The traditional directory assistance business accounted for € 16.3 million of total revenue (previous year: € 21.4 million). The decrease in this segment of € 5.1 million was not as high as in the previous year (€ 7.4 million). EBITDA fell by € -0.8 million in the first nine months of 2015 to € 1.8 million (previ-ous year: € 2.6 million). In addition to the continuing downturn in the market, non-recurring items total-ling € 1.7 million (previous year: € 3.6 million) arose in this segment, largely due to capacity adjust-ments. Adjusted for these items, EBITDA as of the reporting date amounted to € 3.4 million (previous year: € 6.2 million).

Outlook

Directory Assistance segment

The negative trend for call volume in the traditional directory assistance business is expected to continue over the course of the year. Actions to increase revenue per user and reduce expenditure – especially in terms of personnel – will be taken to limit the downturn in revenue and earnings as far as possible.

telegate expects the Directory Assistance segment to generate revenues of € 19 million to € 21 million in 2015. In 2014, segment revenues were € 27.7 million.

In terms of the development of earnings, telegate plans to post EBITDA before non-recurring items for the Directory Assistance segment in 2015 that is at the upper limit of the guidance of around € 2.5 million to € 3.0 million published at the beginning of the year. In 2014, EBITDA before non-recurring items amounted to € 7.7 million.

Digital segment

The main focus in the digital segment is on investments in products and brands with the aim of driving sustained revenue and customer growth. Current brand decisions in particular will also be reviewed in this context. In the area of new customer business, sales efficiency will continue to be improved. This increase is to be achieved by implementing various measures, including the launch of new products, for example (see

letter from the Management Board), as well as the further optimisation of sales pro-cesses based on a review of existing strategies and sales channels. The company is also continually working on improving and ensuring quality in all areas of the company.

In the existing customer business, the churn rate remains a very important key figure. Further improvements in these figures are expected to be achieved through continuing process optimisation and product launches enabling the company to buck the current trend of losing Digital customers in the long term.

At group level, we expect the Digital segment to generate revenues comparable to the previous year. In 2014, segment revenues were € 34.6 million. As far as non-accrued revenues are concerned, the company expects slight growth in the second half of the year, Which will result in year-on-year reve-nue growth in 2016.

Turning to the development of earnings in the Digital segment, telegate AG expects EBITDA before non-recurring items in 2015 of € -1.0 million to € 0.0 million due to the planned capital expenditure. On account of the strong first quarter, we currently anticipate earnings in the upper range of the guidance published. By means of comparison, the figure for the last financial year was € 1.8 million.

Group
At group level, telegate expects to post revenues of € 52.0 million to € 56.0 million in 2015. In comparison, revenues in 2014 were € 62.3 million.

In terms of profitability, the group expects EBITDA before non-recurring items in 2015 to be in the range of € 2.0 million to € 3.0 million as a result of capital expenditure in the digital business. Earnings before non-recurring items in 2014 were € 9.4 million.

Litigation

In a judgement delivered on 22 April 2015, the Düsseldorf Higher Regional Court dismissed an appeal by telegate AG in the action for damages against Deutsche Telekom AG with an amount in dispute of just under € 100 million (including interest). The right to further appeals was not granted.

In compliance with the time limit, telegate AG filed an appeal with the German Federal Court of Justice (BGH) on 21 May 2015 against the refusal of leave to appeal and has now stated the grounds for its appeal. After hearing the opposing party, the BGH will make a decision on allowing an appeal on questions of law only.

Employees

On 30 September 2015, the telegate group had 858 employees (head count; excluding trainees, “mini-jobs” and dormant employment contracts). Year-on-year, this represents a decline of 15 percent (previous year: 1,012). This decline in numbers is largely due to a further capacity reduction in the Directory Assistance segment. Furthermore, the headcount in administration and overhead was reduced in connection with the adjustment of structural costs.

Planegg-Martinsried, 30 October 2015

The Management Board

Consolidated Income Statement (IFRS)

	Quarterly Report Report (unaudited)		9-Months Report (unaudited)	
in kEUR	**1.7. - 30.09.2015**	**1.7. - 30.09.2014***	**1.1. - 30.09.2015**	**1.1. - 30.09.2014***
Continuing operations				
Revenues	13,412	15,451	40,783	47,520
Cost of revenues	-6,952	-7,161	-20,855	-24,561
Gross profit	**6,460**	**8,290**	**19,928**	**22,959**
Selling and distribution costs	-5,885	-6,896	-18,682	-20,299
General administrative expenses	-3,328	-2,620	-8,963	-9,905
Other operating income	0	0	2	159
Other operating expense	-15	-2	-22	-12
Operating income (loss)	**-2,768**	**-1,228**	**-7,737**	**-7,098**
Interest income	0	15	230	319
Interest expense	-6	-20	-15	-65
Gain (loss) from marketable securities	-7	0	-28	33
Gain (loss) on foreign currency translation	0	1	1	1
Financial income (loss)	**-13**	**-4**	**188**	**288**
Income (loss) before income tax	**-2,781**	**-1,232**	**-7,549**	**-6,810**
Current income tax	-2	-3	38	137
Deferred income tax	864	413	1,557	2,004
Income tax	**862**	**410**	**1,595**	**2,141**
Net income (loss) from continuing operations	**-1,919**	**-822**	**-5,954**	**-4,669**
Discontinued operations				
Net income (loss) from discontinued operations	1	-100	-14	376
Net income (loss)	**-1,918**	**-922**	**-5,968**	**-4,293**
Attributable to:				
Owners of the parent	-1,918	-922	-5,968	-4,293
Non-controlling interests	0	0	0	0
	-1,918	**-922**	**-5,968**	**-4,293**
Earnings per share for net income (loss) for the reporting period attributable to ordinary equity holders of the parent (in euro)	-0.10	-0.05	-0.31	-0.22
Earnings per share for *continuing operations* for net income (loss) for the reporting period attributable to ordinary equity holders of the parent (in euro)	-0.10	-0.04	-0.31	-0.24
Earnings per share for *discontinued operations* for net income (loss) for the reporting period attributable to ordinary equity holders of the parent (in euro)	0.00	-0.01	0.00	0.02

* Amount adjusted according to IAS 8 (details see note 5).
See accompanying notes to the consolidated financial statements.

Consolidated Statement of Comprehensive Income (IFRS)

	Quarterly Report Report (unaudited)		9-Months Report (unaudited)	
in kEUR	**1.7. - 30.09.2015**	**1.7. - 30.09.2014***	**1.1. - 30.09.2015**	**1.1. - 30.09.2014***
Net income (loss)	**-1,918**	**-922**	**-5,968**	**-4,293**
Other comprehensive income (loss)				
Items that can be reclassified subsequently to profit or loss				
Available for sale financial assets - Changes of the fair value, net	0	55	-120	45
Available for sale financial assets - Reclassification to profit or loss, net	-11	0	4	-40
Foreign currency translation differences	0	-1	0	-1
Other comprehensive income (loss) after tax	**-11**	**54**	**-116**	**4**
Total comprehensive income (loss)	**-1,929**	**-868**	**-6,084**	**-4,289**
Thereof from:				
Continuing operations	-1,930	-768	-6,070	-4,665
Discontinued operations	1	-100	-14	376
	-1,929	**-868**	**-6,084**	**-4,289**
Attributable to:				
Owners of the parent	-1,929	-868	-6,084	-4,289
Non-controlling interests	0	0	0	0
	-1,929	**-868**	**-6,084**	**-4,289**

* Amount adjusted according to IAS 8 (details see note 5).
See accompanying notes to the consolidated financial statements.

Consolidated Statement of Financial Position (IFRS)

ASSETS in kEUR	(unaudited) 30.09.2015	(unaudited) 30.09.2014*	31. 12. 2014
Current assets			
Cash and cash equivalents	2,550	4,143	4,262
Trade accounts receivable	10,604	12,281	11,915
Current tax assets	199	515	145
Available for sale financial assets	18,445	22,661	22,606
Other financial assets	203	30,481	413
Other current assets	1,846	1,976	1,697
Total current assets	**33,847**	**72,057**	**41,038**
Non-current assets			
Goodwill	6,789	6,789	6,789
Intangible assets	8,022	11,371	10,439
Property and equipment	2,557	4,246	3,693
Other financial assets	13	15	15
Deferred tax assets	401	4	0
Total non-current assets	**17,782**	**22,425**	**20,936**
Total assets	**51,629**	**94,482**	**61,974**
LIABILITIES AND EQUITY			
Current liabilities			
Trade accounts payable	1,087	1,477	1,634
Accrued liabilities	5,760	7,483	7,973
Provisions	150	751	156
Current tax liabilities	0	33	19
Other financial liabilities	0	30,162	0
Other current liabilities	2,001	2,184	2,106
Total current liabilities	**8,998**	**42,090**	**11,888**
Non-current liabilities			
Provisions	489	597	653
Provisions for retirement benefits	88	27	88
Deferred tax liabilities	558	1,993	1,765
Total non-current liabilities	**1,135**	**2,617**	**2,506**
Total liabilities	**10,133**	**44,707**	**14,394**
Equity			
Share capital	19,111	19,111	19,111
Additional paid in capital	32,059	32,059	32,059
Retained earnings	-9,624	-1,500	-3,656
Other components of equity	-50	105	66
Equity attributable to owners of the parent	**41,496**	**49,775**	**47,580**
Total equity	**41,496**	**49,775**	**47,580**
Total liabilities and equity	**51,629**	**94,482**	**61,974**

* Amount adjusted according to IAS 8 (details see note 5).
See accompanying notes to the consolidated financial statements.

Consolidated Statement of Cash Flows (IFRS)

in kEUR	(unaudited) 1.1. - 30.09.2015	(unaudited) 1.1. - 30.09.2014*
Cash flow from operating activities		
Income (loss) before income tax from continuing operations	-7,549	-6,810
Income (loss) before income tax from discontinued operations	-14	376
Income (loss) before income tax	**-7,563**	**-6,434**
Adjustments for:		
Amortisation and impairment of intangible assets	5,160	5,506
Depreciation and impairment of property and equipment	1,373	1,595
Depreciation of current intangible assets	1,346	1,695
Gain (loss) on disposal of property and equipment	20	0
Interest income	-230	-319
Interest expense	15	65
Gain (loss) from marketable securities	28	-33
Gain (loss) on foreign currency translation	-1	-1
Valuation allowance for trade accounts receivable	125	-255
Gain (loss) from the sale of subsidiaries	14	-376
Changes in non-current provisions	-163	239
Changes in non-current other and financial assets	2	0
Operating profit before changes in operating assets and liabilities	***126***	***1,682***
Changes in operating assets and liabilities:		
Trade accounts receivable	835	733
Current intangible assets [1]	-1,474	-1,573
Miscellaneous current assets	190	193
Trade accounts payable	-201	616
Current provisions	-6	69
Accrued expenses and other current liabilities	-2,316	-1,829
Income taxes paid	-37	-1,107
Cash used in operating activities	**-2,883**	**-1,216**
Cash flow from investing activities		
Purchase of intangible assets excl. sales commissions	-1,445	-2,471
Purchase of sales commissions with contract period > 1 year	-1,297	-1,973
Purchase of property and equipment	-254	-161
Proceeds from sale of property and equipment	2	23
Paid subsequent purchase price adjustment	0	-16
Disbursement for the sale of subsidiaries	-21	-164
Proceeds from investment grants	0	57
Purchase of other current financial assets	0	-5,914
Purchase of available for sale financial assets	-6,986	-4,499
Disposal of available for sale financial assets	10,953	12,006
Interest received	231	278
Cash provided by (used in) investing activities	**1,183**	**-2,834**
Cash flow from financing activities		
Dividends paid to free float	0	-1,730
Interest paid	-16	-27
Cash used in financing activities	**-16**	**-1,757**
Effect of exchange rate changes on cash and cash equivalents	**4**	**0**
Change in cash and cash equivalents	**-1,712**	**-5,807**
Cash and cash equivalents at the beginning of reporting period	**4,262**	**9,950**
Cash and cash equivalents at the end of reporting period	**2,550**	**4,143**
Cash and cash equivalents as well as short-term available for sale financial assets at the end of reporting period	*20,995*	*26,804*

[1] Current intangible assets include exclusively purchases for capitalized sales commissions and websites for customer with a contract period up to one year and are shown separately within the operating activities.

* Amount adjusted according to IAS 8 (details see note 5). 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	Retained earnings	Other components of equity	Total	Non-controlling interests	Total equity
Balance at January 1, 2015	**19,111**	**32,059**	**-3,656**	**66**	**47,580**	**0**	**47,580**
Net income (loss)	-	-	-5,968	-	-5,968	-	**-5,968**
Available for sale financial assets	-	-	-	*-116*	*-116*	-	*-116*
Foreign currency translation	-	-	-	*0*	*0*	-	*0*
Other comprehensive income (loss)	-	-	**0**	**-116**	**-116**	-	**-116**
Total comprehensive income (loss)	**0**	**0**	**-5,968**	**-116**	**-6,084**	**0**	**-6,084**
Dividends	-	-	0	-	0	-	0
Balance at September 30, 2015	**19,111**	**32,059**	**-9,624**	**-50**	**41,496**	**0**	**41,496**
Balance at January 1, 2014	**19,111**	**32,059**	**10,437**	**101**	**61,708**	**0**	**61,708**
Net income (loss)*	-	-	-4,293	-	-4,293	-	**-4,293**
Available for sale financial assets	-	-	-	*5*	*5*	-	***5***
Foreign currency translation	-	-	-	*-1*	*-1*	-	*-1*
Other comprehensive income (loss)	-	-	**0**	**4**	**4**	-	**4**
Total comprehensive income (loss)	**0**	**0**	**-4,293**	**4**	**-4,289**	**0**	**-4,289**
Dividends	-	-	-7,644	-	-7,644	-	-7,644
Balance at September 30, 2014	**19,111**	**32,059**	**-1,500**	**105**	**49,775**	**0**	**49,775**

* Amount adjusted according to IAS 8 (details see note 5).
See accompanying notes to the consolidated financial statements.

Notes to the Interim Consolidated Financial Statements

1. Presentation of the interim consolidated financial statements

TThe business operations of the telegate group consisting of telegate AG and its subsidiaries 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 directory assistance services via the subscribers of public telephone networks and other directory assistance services in Germany and abroad.

Telegate AG is a listed stock corporation under German law domiciled in Martinsried near Munich, Germany; it is the parent company of the telegate group.

The interim consolidated financial statements of telegate AG and its subsidiaries for the first nine months ending 30 September 2015 were prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union.

All International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) as well as the interpretations of the IFRS Interpretations Committee (IFRIC) and the interpretations of the Standing Interpretations Committe (SIC) whose application was mandatory as of 30 September 2015 were taken into account.

The interim consolidated financial statements were prepared in accordance with IAS 34 Interim Financial Reporting and should be read in the context of the audited consolidated financial statements of telegate for the 2014 financial year.

The interim consolidated financial statements of telegate AG (hereinafter also the group / telegate / the telegate group / the company) are presented in euros (EUR). Unless stated otherwise, all values were rounded to thousands of euros (EUR thousand).

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

The interim consolidated financial statements have not been audited. They were released for publication by the Management Board on 30 October 2015.

The consolidated financial statements and the group management report prepared as of 31 December 2014 were submitted with the publisher of the Federal Gazette and published electronically in the Federal Gazette.

2. Changes in accounting policies

The accounting policies applied in the interim consolidated financial statements are consistent with those applied in the consolidated financial statements for the 2014 financial year, except for the changes explained below.

Annual improvements to IFRS – 2011-2013 cycle

The IASB published the Annual Improvements to IFRS - 2011-2013 Cycle document. This clarifies the following standards:

- IFRS 1 First-time Adoption of International Financial Reporting Standards
- IFRS 3 Business Combinations
- IFRS 13 Fair Value Measurement
- IAS 40 Investment Property

The amendments were published in December 2013 and must be applied for the first time in financial years beginning on or after 1 January 2015. As a result of adoption of the amendments by the EU, the date of mandatory application was changed for companies within the EU, deviating from the original rule, which stipulated application for reporting periods beginning on or after 1 July 2014.

The application of these amendments do not affect the group's net assets, financial position and results of operations.

3. Future changes in accounting policies

IFRS 15 Revenue from Contracts with Customers – Postponement of the Effective Date

The IASB confirmed the postponement of the effective date of IFRS 15 by one year to 1 January 2018 by publishing the standard amendment "Effective Date of IFRS 15" on 11 September 2015. Voluntary early application – subject to EU endorsement of the standard – remains possible.

4. Changes in the basis of consolidation

The basis of consolidation changed as follows until 30 September 2015 compared with 31 December 2014:

Change of company name

Effective 1 July 2015, telegate Media AG, a wholly owned subsidiary of telegate AG, changed its name to klicktel AG.

5. Adjustment of comparative figures

In financial year 2014, telegate corrected an error with retroactive effect in accordance with IAS 8 with regard to accounting for internally developed intangible assets (see note 4 in the consolidated financial statements for the 2014 financial year).

The comparative figures of these interim financial statements were adjusted accordingly as follows:

Consolidated statement of financial position	**as of 30 September 2014**		
in EUR thousand	Before adjustment	Adjustment acc. to IAS 8	After adjustment
Assets			
Other current assets	1,849	127	1,976
Intangible assets	10,526	845	11,371
Equity and liabilities			
Deferred tax liabilities	1,702	291	1,993
Retained earnings	-2,181	681	-1,500

Consolidated income statement	1 July - 30 September 2014			1 January - 30 September 2014		
in EUR thousand	Before adjustment	Adjustment acc. to IAS 8	After adjustment	Before adjustment	Adjustment acc. to IAS 8	After adjustment
Cost of revenues	-7,040	-121	-7,161	-24,420	-141	-24,561
Income taxes, deferred	376	37	413	1,962	42	2,004
Net loss	-838	-84	-922	-4,194	-99	-4,293

The effects of the adjustments for financial year 2014 on earnings per share were less than EUR 0.01.

6. Non-recurring items in the income statement

The total amount of non-recurring items included in the income before income tax amounts to an expense of EUR 3,312 thousand (2014: EUR 5,951 thousand) and is due to the following:

Adjustment of structural costs

Due to the adjustment of structural costs, the group incurred expenses of EUR 1,764 thousand in the first nine months of the current financial year (2014: EUR 5,062 thousand). These expenses are mainly attributable to costs for capacity adjustments and are reported under cost of revenues, selling and distribution costs as well as general administrative expenses.

The restructuring plan initiated in the 2014 financial year for the purpose of consolidating two call centres was completed in mid May 2015. No costs were incurred in this context in the reporting period (2014: EUR 725 thousand).

Data costs

Current legal disputes regarding data costs resulted in expenses of EUR 915 thousand in the first nine months until 30 September 2015 (2014: EUR 164 thousand). This amount is included in the income statement under general administrative expenses.

Brand and product relaunch

In the first nine months of the current financial year, the group incurred expenses of EUR 633 thousand (2014: EUR 0 thousand) for the brand and product relaunch. These were reported in the income statement under selling and distribution costs, general administrative expenses and the cost of revenues.

7. Operating segments

For the purpose of management control, the telegate group divides its activities into two operating segments, Directory Assistance and Digital.

The two segments‘ main key performance indicators for operations are revenues and EBITDA (earnings before interest, taxes, depreciation and amortisation). EBITDA before non-recurring items is an indicator that provides additional information on the company‘s profitability.

The accounting principles for the segments match those described in the consolidated financial statements for the year ended 31 December 2014.

There were no inter-segment revenues in the first nine months of the current financial year or in the same period of the preceding year.

The table below shows the revenues and earnings of the group's operating segments:

1 January – 30 September 2015 in EUR thousand	**Directory Assistance**	**Digital**	**Group**
Revenues			
Revenues from transactions with external customers	16,264	24,519	**40,783**
Total revenues	**16,264**	**24,519**	**40,783**
Earnings			
EBITDA	1,707	-1,565	**142**
Depreciation and amortisation	-2,005	-5,874	**-7,879**
Net financial income			**188**
Earnings before income taxes			**-7,549**
EBITDA before non-recurring items	3,425	29	**3,454**

1 January – 30 September 2014 in EUR thousand	**Directory Assistance**	**Digital**	**Group**
Revenues			
Revenues from transactions with external customers	21,413	26,107	**47,520**
Total revenues	**21,413**	**26,107**	**47,520**
Earnings			
EBITDA	2,578	-880	**1,698**
Depreciation and amortisation	-2,111	-6,685	**-8,796**
Net financial income			**288**
Earnings before income taxes			**-6,810**
EBITDA before non-recurring items	6,194	1,455	**7,649**

8. 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.

	Carrying amounts pursuant to IAS 39 measurement category:			**Fair value**		
as of 30 September 2015, in EUR thousand	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	-	18,445	-	18,445	-	-
Financial assets not measured at fair value						
Cash and cash equivalents	2,550	-	-			
Trade accounts receivable	10,604	-	-			
Current other financial assets	203	-	-			
Non-current other financial assets	13	-	-			
Financial liabilities not measured at fair value						
Trade accounts payable	-	-	1,087			

as of 31 December 2014, in EUR thousand	Carrying amounts pursuant to 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	-	22,606	-	22,606	-	-
Financial assets not measured at fair value						
Cash and cash equivalents	4,262	-	-			
Trade accounts receivable	11,915	-	-			
Current other financial assets	413	-	-			
Non-current other financial assets	15	-	-			
Financial liabilities not measured at fair value						
Trade accounts payable	-	-	1,634			

In the first nine months until 30 September 2015, there were no changes in the valuation techniques applied and no transfers between the levels of the fair value hierarchy.

9. Related party transactions

Transactions with related parties (companies)

Business transactions between telegate AG and its subsidiaries that are considered related parties were eliminated in consolidation and are not explained in these notes to the financial statements.

No other companies that were related parties existed as of 30 September 2015.

As of 30 September 2014, related parties included telegate Holding GmbH, Planegg, which held a majority interest of 61.13 percent in telegate AG. All shares in telegate Holding GmbH were held by SEAT Pagine Gialle Italia S.p.A. (Turin), which in turn was a subsidiary of SEAT Pagine Gialle S.p.A. (Milan). As of 30 September 2014, the primary controlling parent was SEAT Pagine Gialle S.p.A., which indirectly held a 16.24% stake via SEAT Pagine Gialle Italia S.p.A. and a 61.13% stake via Telegate Holding GmbH in telegate AG.

Services were rendered or purchased at arm‘s length.

As of 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 EUR 30,162 thousand. The interest expenses totalled EUR 20 thousand. This amount was invested as time deposits by telegate AG. The interest rate was commensurate with the rate of the liability described.

Transactions with related parties (persons)

Related parties here primarily comprise the members of the Management Board and the Supervisory Board. In the first nine months of the current financial year, there were no transactions between the telegate group and members of the Management Board or the Supervisory Board extending beyond the existing employment, service or appointment relationship or the contractual remuneration for this relationship.

As of 30 September 2015, members of the management of SEAT Pagine Gialle S.p.A. (former parent company), Turin, Italy, were Supervisory Board members of telegate AG. These persons were entitled to Supervisory Board remuneration in the amount of EUR 23 thousand (2014: EUR 54 thousand), which accordingly was recognised as a current liability.

10. Litigation

In a judgement delivered on 22 April 2015, the Düsseldorf Higher Regional Court dismissed an appeal by telegate AG in the action for damages against Deutsche Telekom AG with an amount in dispute of just under EUR 100 million (including interest). The right to further appeals was not granted.

In compliance with the time limit, telegate AG filed an appeal with the German Federal Court of Justice (BGH) on 21 May 2015 against the refusal of leave to appeal and has now stated the grounds for its appeal. After hearing the opposing party, the BGH will make a decision on allowing an appeal on questions of law only.

11. Governing bodies of telegate AG

Changes in the Management Board

On 24 June 2015, Christian Maar, a specialist in digital transformation, marketing and sales, was appointed to the Management Board of telegate AG and took over as chairman.

Franz Peter Weber, Chief Financial Officer (CFO) of telegate AG, resigned from his post in agreement with the company effective 30 September 2015.

12. German Corporate Governance Code

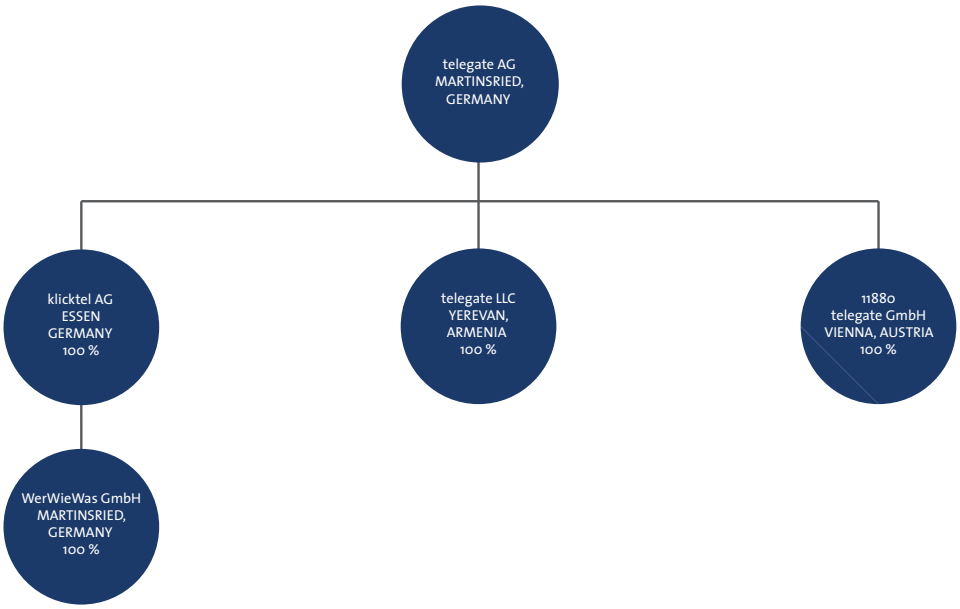
The joint declaration of compliance by the Management Board and Supervisory Board of telegate AG in accordance with section 161 AktG relating to the German Corporate Governance Code was made on 26 May 2015. The exact wording of the declaration can be retrieved under www,telegate,com.

Planegg-Martinsried, 30 Oktober 2015

Christian Maar
Chief Executive Officer

Michael Geiger
Member of the Board

Corporate Structure telegate Group



www.telegate.com

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