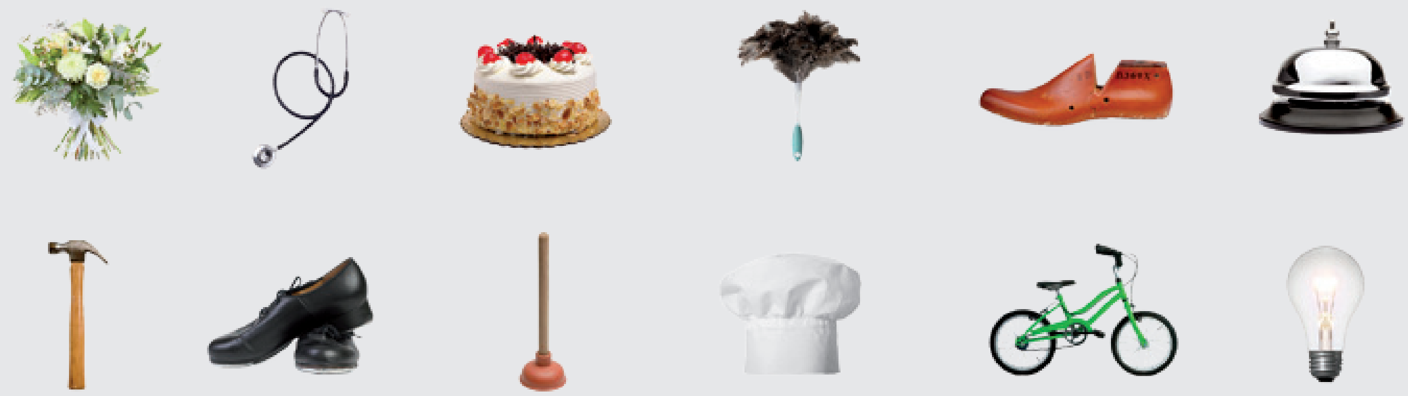


Digital Marketing for small and
medium sized Business.

Annual Report 2010

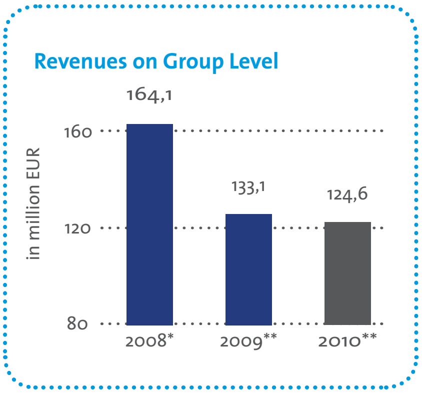
telegate

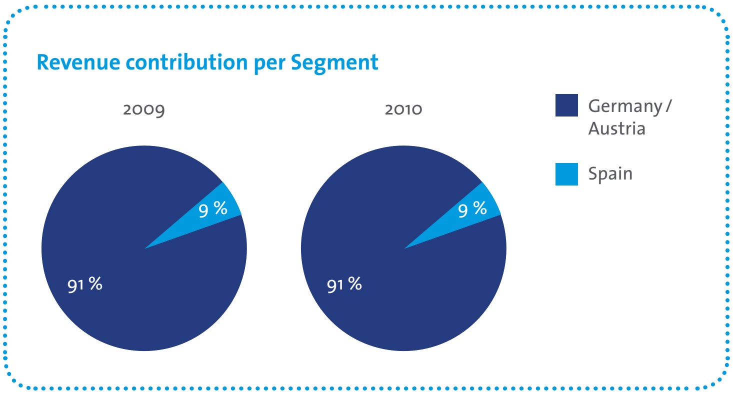
A BRAVE NEW WORLD: INTERNET

Results telegate Group

in million EUR	2010	2009	Variation absolute	Variation in %
Revenues and profit				
Revenues	124,6	133,1	-8,5	-6,4 %
EBITDA[1]	22,1	32,4	-10,3	-31,8 %
EBITDA before non-recurring effects	23,2	33,0	-9,8	-29,7 %
Operating profit (EBIT)	4,0	22,7	-18,7	-82,4 %
Income from continuing operations	5,0	18,6	-13,6	-73,1 %
Income from discontinued operations	2,3	-2,5	4,8	-192,0 %
Revenue per Segment				
Germany/Austria	113,6	121,7	-2,6	-2,1 %
Spain	11,0	11,4	-0,4	-3,3 %
Balance sheet				
Balance sheet total	127,5	171,6	-44,2	-25,7 %
Cash and cash equivalents	48,8	59,9	-11,2	-18,6 %
Equity	74,8	97,3	-22,4	-23,1 %
Equity ratio	58,7 %	56,7 %	-	-
Cash Flows				
Cash Flows from operating activities	16,6	24,7	-8,1	-32,8 %
Cash Flows from investing activities (incl. M&A)	-0,1	-4,5	4,4	-97,8 %
Free Cash Flow (before M&A)	13,1	19,6	-6,5	-33,3 %
KPI telegate share				
Earnings per share for continuing operations (in Euro)	0,24	0,88	-0,6	-72,7 %
Share price at the end of year (in Euro)[2]	7,07	9,16	-2,09	-22,8 %
Market capitalisation at the end of year	150,0	194,5	-44,4	-22,8 %
Dividend per share (in Euro) (proposal)	0,50	0,70	-	-
Dividend (proposal)	9,6	14,9	-5,3	-35,6 %
Dividend yield (in %)[3]	7,1 %	7,6 %	-	-
Employees				
Number of employees[4]	1.951	2.890	-940	-32,5 %

1 *The EBITDA is defined as earnings before depreciation, interest and taxes within telegate group.*
2 *XETRA closing prices*
3 *The dividend yield defines as (proposed) dividend per share divided by the closing share price (Xetra) as of closing data or accordingly the last trading day of corresponding financial year.*
4 *Headcount as of 31 December*





* *France = discontinued operations*
** *Italy = discontinued operations*

Milestones 2010

February

- **Vodafone Germany and freenet GmbH become telegate's strategic partners for Local search:** freenet develops and implements a fully-integrated and map-based Local search offer for the stationary and mobile Internet, powered by **www.11880.com**. The DA 11 88 0 is available for Vodafone customers on all mobile devices in the future and the mobile Local search App "klickTel" is preinstalled on may smartphones sold by Vodafone.

March

- **Cooperation with Nokia:** the address and contact data of the product brand **www.11880.com** are integrated in the Ovi maps in the future and thus are available on both Nokia smartphones and on the Internet under **www.maps.ovi.com** for the Local search of Nokia's map and navigation App.
- **Leading Local search offer on the German web:** according to the IVW (Information Association for the Ascertainment of Distribution of Advertising Media, registered association), the Local search online platforms **www.11880.com** and **www.klicktel.de**, which are bundled to "telegate MEDIA", reached more than 10 m visits for the first time.

June

- **Focus on the German market:** telegate AG sold its wholly-owned Italian subsidiary telegate Italia S. r. l., Turin, as well as the two Call Centers operated in Italy.
- **Unchanged dividend:** in spite of a slightly declining profit performance, telegate AG's Shareholders' Meeting resolves to distribute an unchanged dividend of EUR 0.70 for the annual year 2009.

July

- **Moving image marketing:** telegate MEDIA launches video advertising for SMBs. Business customers can also book the production and marketing of a 30-second company clip for their "MEDIA Eintrag Premium".

August

- **Further expansion of the digital advertising portfolio:** the company offers the creation and maintenance of professional web pages. The product "firmenWEBSITE" is directed towards SMBs which do not have an own Internet presence so far or want to update their existing web page.

September

- **The Federal Network Agency is "capping" data costs:** Deutsche Telekom AG suffers another defeat in the data cost dispute. The Federal Network Agency comes to a leading decision according to which the costs for permitting the use of subscriber data demanded by Deutsche Telekom from all market participants may only amount to no more than EUR 1.65 m p.a. in the future. telegate considers its position in the long-term dispute on excessive data costs further strengthened.

October

- **More efficiency in the Call Centers:** the company announces to merge the Call Center in Wismar with the two locations in Rostock and Guestrow. The reason is overcapacities in terms of technology and premises.
- **SMBs in Germany did not arrive yet in the digital advertising world of the 21st century:** this is proved by the psyma-GfK study on behalf of telegate AG "Mittelstand und Werbung". Thus, German SMBs invest 75 % of their advertising budget in traditional print media - whereas the majority of German consumers search for local information on regional companies on the Internet today. There is a significant need to catch up even with regard to online basics: approx. 40 % of the SMBs questioned do not have a company website. Today, SMBs are still far from the subjects "Social media" and "Facebook marketing".
- **Sale of the development center:** Within the scope of a transfer of business, telegate's development center with a seat in Hanover passes into the ownership of Logiball GmbH, a specialist for navigation maps, as of October 01, 2010. Furthermore, the two companies agree upon a close partnership for 3 years.

November

- **New web 2.0 function "Wer kennt die Besten?":** users may submit ratings and search cross-trade for the provider with the best rating on the online portals **www.11880.com** and **www.klicktel.de** as well as the mobile Apps.

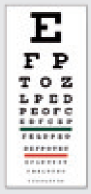
December

- **Share repurchase program:** with this program, the company repurchases approx. 2.1 m company-owned shares and 10 % of the capital stock respectively at a price of EUR 7.00 per share and thus distributes an excessive liquidity to the shareholders.








39% of German SMBs don't have a website.



Content

* Source: market research "Mittelstand und Werbung" an behalf of telegate AG, october 2010

Letter from the Management Board

Dear Shareholders,

The transformation of the "telegate house" is still under way. We completed many construction sites in the previous fiscal year and are generally satisfied with the change from a DA specialist to a digital specialist for SMB marketing and local search. The new foundation stands more and more solid: we have a broad sales force with our current staff in telesales and field sales. The advertising sales unit of telegate MEDIA is increasingly more experienced in addressing SMBs, and business customers appreciate our competence as an expert in a digital advertising world, which becomes more and more complex. They benefit from using our full service offers and do not have to worry about anything regarding digital marketing. Thus, they save time and can completely focus on their day-to-day business – in line with the principle "Do it for me" instead of "Do it yourself". Due to this strategy earnings of the Media sector showed a dynamic growth of 27 % in the fiscal year 2010. As a consequence, the share of the media revenues reached 28 % in the fourth quarter of 2010.

The fact that we further coordinate our marketing portfolio for SMBs according to the requirements of the advertising world of the 21st century contributed to the growth in the Media sector. For example, the professional design and hosting of websites as well as the production of video clips have been added to the portfolio for our business customers. And we continue to work to enhance the attractiveness of our local information offers for users and thus the reach for our advertisers: for example via the sales partnership with NOKIA and Vodafone launched in 2010, new features of our klickTel Apps for smartphones and the new user review function "Wer kennt die Besten?" ("who knows the best"), which is directly linked with Facebook.

2010: challenging struggle for revenues and earnings

Even if the Media business showed a good development – we still generate approx. 75 % of our sales with directory assistance and the klickTel software business. The growth in the new business was not sufficient to compensate the still significant decline in revenues of 14 % in the classic business. However, it was positive that the segment Spain was able to maintain its revenues almost at the previous year's level. But this is even outweighed by the fact that there is significantly more left currently from each Euro of revenues in the DA business, after deduction of all costs, compared to the Media business. Here, the currently extensive investment and establishment phase forces the profitability down.

This resulted in a stronger decrease of the operating profit at group level than revenues. We expected this development at the beginning of 2010 and reduced our profit guidance 2010 accordingly in terms of EBITDA before non-recurring items from EUR 35 m achieved in 2009 to EUR 23-27 m. On the cost side, we intensified our efforts again and can record a visible success here. It is positive that we reached our profit target on the bottom line – even though by a narrow margin. It should be also considered here that the profit guidance prepared in March still included the positive contribution to earnings of the Italian subsidiary, which has been sold by now. We made another important strategic step with the sale of our business in the extremely mature Italian DA market, to accelerate the transformation from an international-oriented DA provider to a specialist for local search and SMB marketing with a focus on Germany.

2011: DA innovation, focus on customer satisfaction and sales efficiency

The current fiscal year will build another step in the transformation of our business model. Media business will continue progressing as it did last year, though not fully offsetting DA solutions decline. We still search for options in the classic DA business to soften the declining market trend by new revenue models. Focus is here to open up mobile phone numbers for DA services. Today, only approx. 3 % of the German mobile subscribers are registered and thus a market potential is given. If "SMS-Connect" is launched in the second half-year, as anticipated, this shall result in positive contribution to the business sector DA solutions. We have a good starting position with our established and well-known DA service 11 88 0 to benefit from the new market and business opportunities.

The establishment of the sales team with approx. 500 digital marketing experts has now been completed. Here, we will especially focus on working more efficiently and pushing measures to increase the customer loyalty and customer satisfaction, in addition to further expanding the range of products for the advertisers. For example, this includes a "return-on-advertising-system" which enables us to show business customers transparently the advertising success of their investments. Overall, we expect that we will still benefit from the structural change in the local advertising market towards advertising in the digital Media in 2011 and that we can record a corresponding strong two-digit growth in the business sector Media again.

Together with additional cost reductions, the concentration on improving sales efficiency shall help us to partly compensate the disproportionate decline of the high-margin DA business and the group profit. Due to the ongoing decline of the high-margin DA business we expect that we will not be able to reach the sales and profit level of 2010. However, there are encouraging signs that our profit can be stabilized in 2012.

These financial considerations do not include any payments from Deutsche Telekom AG regarding the current data cost reclamation claims. After the encouraging news which strengthened our legal position in 2010, we optimistically look forward to the further course of the proceedings in 2011.

Thank you that you accompany us loyally as a shareholder along the rocky road of the transformation of the company. We wish you a ongoing successful year 2011!

Planegg-Martinsried near Munich, March 2010

Yours sincerely,

Dr Andreas Albath Chairman of the Board	Ralf Grüßhaber Member of the Board	Dr Paolo Gonano Member of the Board

Report of the Supervisory Board

The transformation of the company from a user-financed DA business to an advertising-financed Media business was still the focus in the annual year 2010. The Supervisory Board accompanied the Management Board's management of the business intensively, in compliance with its legal advisory and supervisory function.

Supervisory Board's activity in the annual year 2010

The Supervisory Board performed its duties in the annual year 2010, which are established by law and the articles of incorporation. It advised the Management Board continuously with regard to the company's management and supervised the management. The Management Board made reports on a regular basis and thus the Supervisory Board was informed of the progress of business of the telegate group, the most important financial data, the main questions of the management and the risk situation at all times. Deviations of the progress of business from the approved planning as well as important business transactions were presented, explained in detail and discussed with the Supervisory Board. Strategic projects were discussed in detail and coordinated with the Management Board. The strategy and market environment of the Media business, the sale of the Italian subsidiary, cost optimization as well as the decision on the merger of the Call Center Wismar with the Call Centers Guestrow and Rostock were the main focus.

The body dealt with the accounting process as well as with the effectiveness of the internal control system and risk management. In addition, the Supervisory board also dealt with the effectiveness of the group auditing as well as with reports on potential and pending legal disputes. The awarding of the audit assignment to the auditor was also a subject of the discussions. This includes the monitoring of his independence and qualification as well as services performed and fixing of the remuneration.

Organization of the supervisory board's work

For an efficient performance of its duties according to section 27 subsection 3 MitBestG – Codetermination Law (human resources committee), the Supervisory Board established an audit committee and an investment committee in accordance with the Supervisory Board's rules of internal procedure. These committees prepare resolutions of the Supervisory Board as well as subjects which have to be dealt with in the main board. The audit committee increasingly deals with supervision of the accounting and the internal control system as well as the annual audit. In addition, a nomination committee was established. All these committees were already existing in the previous annual years. The flow of information between the committees and the main board is ensured by reporting of the chairpersons of the committees on a regular basis.

Meetings and participation

The Supervisory Board held a meeting at least once per quarter in the annual year 2010.

Ms. Goers only participated in one meeting due to the withdrawal from the Supervisory Board. Mr. Cristofori participated in two meetings and both Mr. Cappellini and Mr. Giuri participated in three meetings. The other Supervisory Board members participated in all four meetings.

The human resources committee met four times in the annual year 2010. The investment committee and the audit committee met twice and four times respectively for ordinary meetings in the reporting period. There were no meetings of the nomination committee in 2010.

Composition and personal data of the Supervisory Board

The company's Supervisory Board is composed of 12 members, in accordance with figure 4 of the articles of incorporation in connection with the Codetermination Law, as amended 1976. They were elected in accordance with the articles of incorporation by the shareholders' meeting and the personnel respectively of telegate AG according to the Codetermination Law in 2006.

With regard to its composition, telegate AG's Supervisory Board has the objective to support the company-specific situation of the telegate group regarding the company's transformation strategy in a target-oriented manner. In this connection, trade knowledge of the digital economy, international expierence, a variety of different professional competences as well as an appropriate participation of women shall be taken into consideration.

Ms. Claudia Dollase moved up as a substitute member as of November 08, 2010, due to the withdrawal of Ms. Brunhilde Goers as of September 23, 2010.

Corporate Governance

The Supervisory Board again dealt with the proposals and recommendations of the German Corporate Governance Code and its implementation at telegate intensely also in the annual year 2010.

The implementation of the German Corporate Governance Code was a subject of the meeting of December 09, 2010. The Management Board and the Supervisory Board made a declaration of compliance, in accordance with section 161 AktG – Stock Corporation Law. Deviations of the recommendations of the German Corporate Governance Code were resolved after a careful consultation and with a particular regard to the company's conditions and requirements.

The joint declaration of compliance by the Management Board and Supervisory Board is permanently available on telegate AG's website **www.telegate.com**. You can find further information on the implementation of the recommendations and proposals of the German Corporate Governance Code in the Corporate Governance report and the notes to the consolidated financial statements respectively.

Annual audit and consolidated financial statements 2010

Annual audit according to commercial law and the management report as well as the IFRS-consolidated financial statements including the management report on the annual year 2010 of telegate AG were audited by Ernst & Young GmbH, CPA company, Munich, with the inclusion of accounting. The consolidated financial statements and the corporate management report were prepared in accordance with section 315a HGB – Commercial Code on the basis of the international accounting standards IFRS, as applicable within the EU. The auditor performed the audit in compliance with the generally accepted auditing standards in Germany, as determined by the German CPA institute (IDW) as well as in supplementary compliance of the international standards on auditing (ISA).

The auditor did not raise any objections and granted the unqualified audit certificate to both the annual audit and the consolidated financial statements.

The annual audit according to commercial law including the management report, the IFRS-consolidated financial statements including the management report and the auditor's reports were dealt with in detail with the auditor and the audit committee and were forwarded to all members of the Supervisory Board in due time. The auditor also participated in the concluding discussions of the audits at the Supervisory Board Meeting on March 29, 2011. He reported on the performance of his audit and furnished explanatory information in the course of the discussion.

The Supervisory Board examined the annual audit and the management report of telegate AG. We examined the Management Board's proposal for the allocation of earnings considering the interests of the company and the shareholders, in particular. Due to the company's solid liquidity situation, in particular, we support the Management Board's proposal.

Furthermore, the Supervisory Board took notice of the auditor's result approvingly. It approves the management report presented by the Management Board and the annual audit 2010 of telegate AG, which is approved thereby.

The Supervisory Board also examined the IFRS-consolidated financial statements of telegate AG and the management report. It took notice of the auditor's result approvingly and approves the management report presented by the Management Board and the consolidated financial statements 2010 of telegate AG.

Dependency report

Ernst & Young AG, CPA company, also examined the report on the relations with affiliated companies ("Dependency report"), which was prepared by the Management Board in accordance with section 312 Stock Corporation Law. The dependency report was provided with the following unqualified audit certificate:
"We hereby confirm after our audit and evaluation according to our duty, that

1. the actual information of the report is correct,
2. the company's performance with regard to the legal transactions stated in the report was not unreasonably excessive."

The dependency report was made available to the Supervisory Board members for examination. The auditor participated in the discussion of the report in the Supervisory Board. He reported on the performance of the audit and furnished information. The Supervisory Board considered the report to be in order. In addition, it agrees to the auditor's result of the audit and raises no objections to the Management Board's closing declaration, which is included in the report, after the concluding result of its examination.

Risk management system

The auditor examined and evaluated the risk management system. He determined in conclusion that the Management Board took the actions required by section 91 subsection 2 AktG – Stock Corporation Law, in order to recognize risks at an early stage, which may endanger the continued existence of the company.

The Supervisory Board agrees to the auditor's result of the audit.

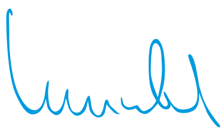
Closing declaration

We took notice of the auditor's result approvingly and raise no objections after our own examinations of the annual audit, management report, consolidated financial statements and corporate management report of telegate AG. We approve the annual audit prepared by the Management Board, which is approved thereby. We also approve the IFRS-consolidated financial statements prepared by the Management Board. In addition, we agree to the Management Board's proposal to fully distribute the net earnings in the amount of kEUR 9,556.

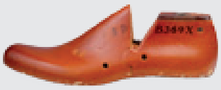
The management and the employees of the telegate group cooperated responsible and very determined in 2010. The Supervisory Board expresses its special thanks and recognition to the Management Board and all employees for their work, which contributed to another successfull annual year.

Planegg-Martinsried, March 2011

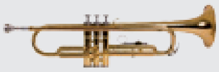
Yours sincerely



Jürgen von Kuczkowski
Chairman of the Supervisory Board

63 % of German SMBs don't use
online directories for marketing purposes.

A brave new world: Internet

* Source: market research "Mittelstand und Werbung" an behalf of telegate AG, october 2010

The telecommunications provider make it possible: today, users and consumers receive DA and information on services of local companies at any time with modern smartphones, favourable flat rates and high-speed data connections. And all this at the touch of a button via GPS, the mobile web and Apps – based on the current location and in a matter of seconds. For purchases, modern rating platforms replace more and more a good piece of advice of the neighbourhood. People keep in touch with friends in real time even from the most remote locations via social networks and reveal a lot about interests and preferences.

Thus, it is "a brave new world: Internet" from the point of view of the users and consumers. But do SMBs really coordinate their advertising activities and budgets according to their customers' behaviour from the regional environment? Do they know where their customers are? Do they use the many new forms of digital marketing and recommendation marketing to draw attention to their services and acquire customers? The current user and advertising pattern of Germans with regard to Local search was examined in 2010 in a study by psyma-GfK "Mittelstand und Werbung" on behalf of telegate AG.

Today, Local search is digital

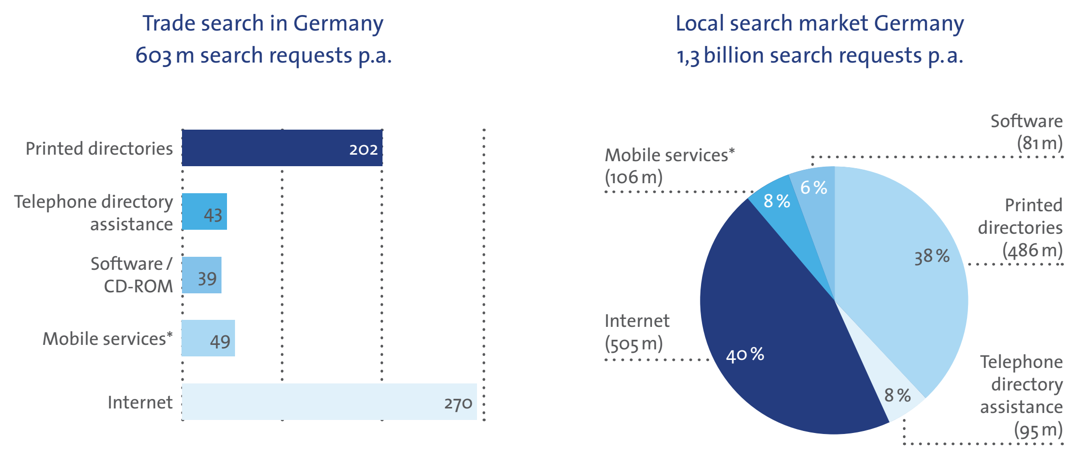
Where do consumers search for local information today? On the stationary or mobile web or still traditional in the printed telephone books and local media?

The Internet is a part of the German's everyday life today, especially with regard to Local search for contact data and information on companies and service providers. According to the Consumer Research Association (GfK), the Internet is the number one search media today for Local search. The Germans make more than 40 % of the approx. 1.3 bn regional search requests via PC or laptops. This corresponds to another increase of 8 % compared to the previous year.

The Local search via SMS/WAP services and via Local search Apps of modern smartphones, in particular, is in great demand. Already approx. 8 % of regional search requests were made here in 2010. According to the Association for Information Technology, Telecommunications and New Media, registered association (BITKOM e.V.), already every fourth mobile device is Internet-capable in Germany and thus the mobile Internet is no longer a future trend – it is a part of the everyday life.

The Germans still establish contact with the telephone DA in approx. 8 % of their Local searches. The search via CD-ROM records more than 80 m search queries every year. Losers of the market trend are the printed telephone books and yellow pages, which are ignored increasingly. The printed directories lost 15 % of search requests in the previous year alone.

Customers are searching online – and more often mobile

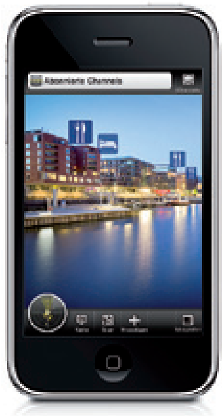


Web dominates – the usage of traditional printed directories is regressive – trend: mobile directory assistance

** e. g. SMS / WAP / Apps*
Source: market research "Mittelstand und Werbung" an behalf of telegate AG, october 2010

The new consumer habits are even more visible with regard to the specific trade search for local companies and service provider. The Germans use the stationary or mobile Internet for already 50 % of all 603 m business requests. The reasons are obvious: speed, up-to-date data and a user-friendly operation speak for the Local search web portals and Apps.

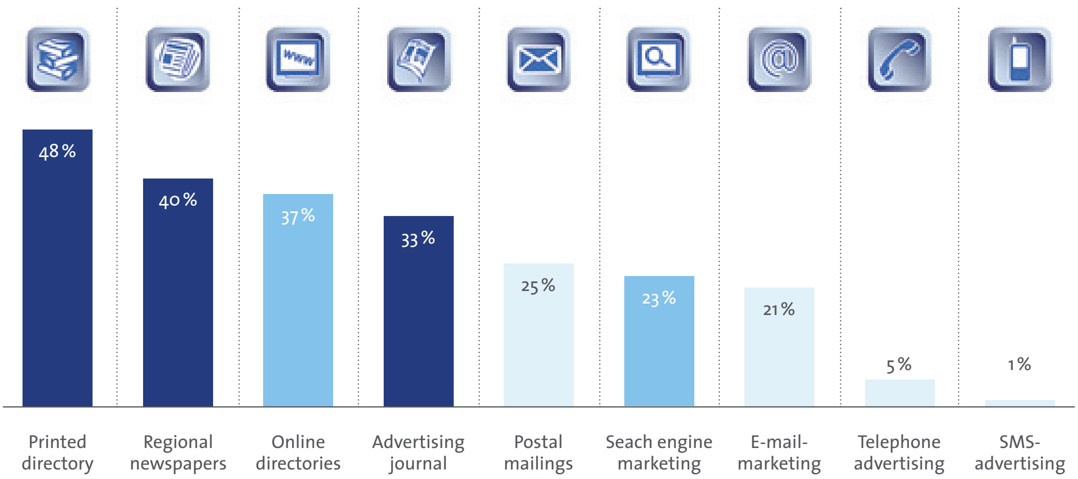
Instead of going through yellow pages to search a suitable service provider in the neighbourhood, Internet platforms offer current and detailed information as well as additional features, e.g. route planning, call function, transfer of the search result to the directory and many more. And all this at the touch of a button – and also mobile increasingly with smarthphones and other devices. Printed yellow pages are only used for one third of all search requests.



Convenient: trade search via mobile internet

German SMBs do not take their customers into account in their planning

In fact, the German consumers are long used to the stationary or mobile Internet, however, companies acting in the regional environment still invest the majority of their marketing budgets in traditional advertising media, e.g. printed yellow pages, the local advertiser or the regional daily newspaper. This is evident from the results of the psyma/GfK study "Mittelstand und Werbung" on behalf of telegate AG: several hundred SMBs of the trades craft, specialist, insurance and real estate broker as well as catering and hotel business were questioned for this purpose. Result: on average, German SMBs spend a mid four-digit amount in EUR for advertising. However, 75 % of these budgets still flow into expensive print media and not the web – the number one search media for Local search. Thus, SMBs miss great chances for revenues.



Advertising media of SMBs: only online directories are ranked in the top-position

40 % do not have an own website: chances for customer contact are not used

According to the telegate study, almost 40 % of the SMBs questioned still do not have an own website in the age of digital search and thus cannot even be found on the Internet. The main reasons are a lack of time and know-how as well as high and often non-transparent costs and thus companies often decide not to have an own web presence. The value of a professionally designed website is also often underestimated. For example, one third of the companies questioned for the telegate study could not give an answer to the question “How much did it cost to create the own homepage?” This is an example for the great lack of transparency and cost range on the market. The companies which know their budget invest surprisingly little in their website. At least one third of all SMBs stated that they do not have costs for this at all and additional 20 % had development costs of less than EUR 500.

A website is a modern business card

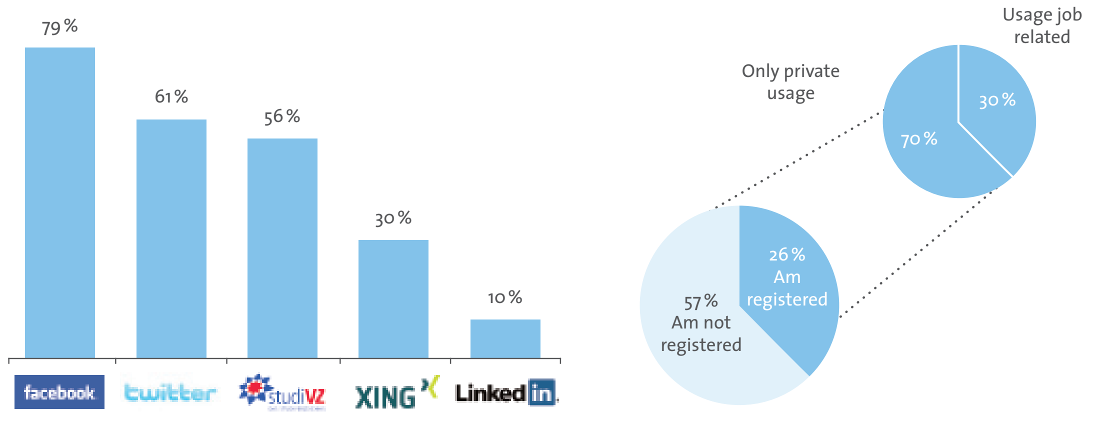
But almost all SMBs questioned with an own homepage run their web presence primarily for information purposes: company websites are furnitures and fixtures like the business card. 83 % of the companies want to acquire new customers with a website and at least almost 70 % have a website so that they can be found on the Internet at all. However, very few have detailed knowledge of the correct marketing also in this case: almost 70 % want to be present at Google and on other search engines, but only 23 % invest any budget for search engine marketing.

German SMBs are far from Facebook-marketing

The backlog demand of German SMBs with regard to digital marketing is especially visible when it comes to trend subjects such as promotion and marketing in the booming social networks. The new world of Facebook, Twitter and other networks is generally known to German SMBs, however, the adoption as marketing instrument in the own everyday working life fails: almost 80 % of the companies questioned already heard about Facebook, 61 % know Twitter, the VZ networks have a level of awareness of 56 % and Xing (business networking for professionals) is at least known to 30 % of the SMBs in Germany.

However, only one fourth of the companies questioned are registered in a social network – mostly private. Only 7 % of German SMBs make use of the new promotion and marketing chances via Facebook, Twitter and other networks for the working everyday life. But German SMBs are well aware of the relevance of the new interactive and dialogue web. Two thirds of the companies know that negative customer ratings may do damage to their business. In turn, only one in ten companies uses positive customer ratings on the web for its own marketing.

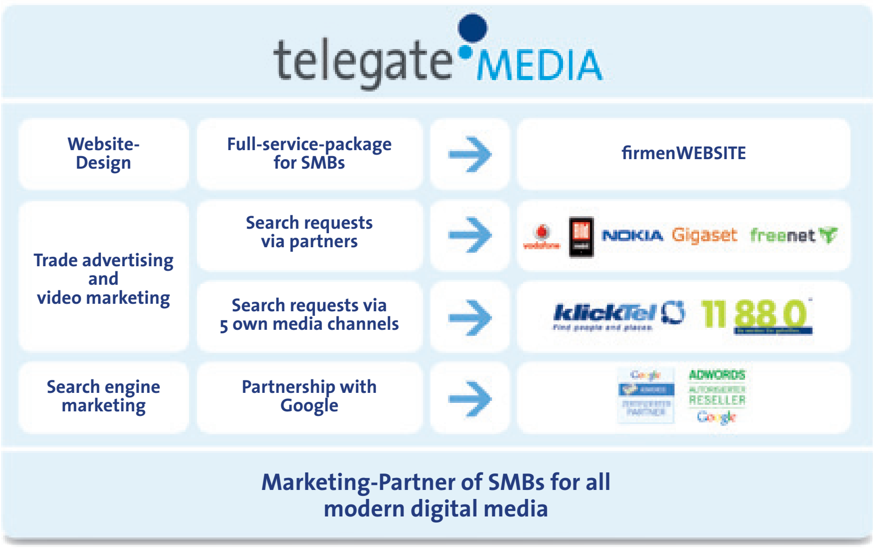
Despite a high awareness level only a few SMBs use social networks job related



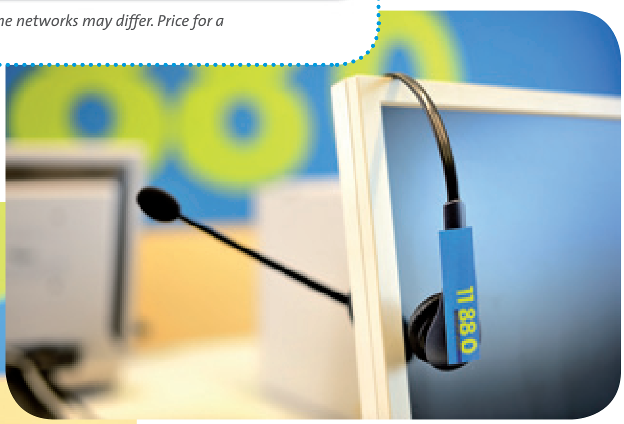
Only 7 % of german SMBs use social networks job related

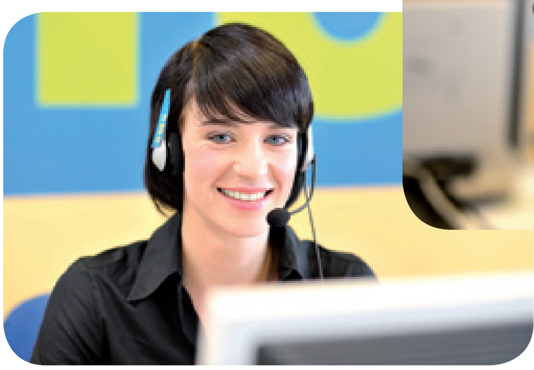
telegate MEDIA: marketing partner for SMBs

The gap between user habits and the advertising behaviour of regional companies offers chances for marketers like telegate, which is specializing in full-service services. Small businesses in Germany often do not have the time or the know-how to adjust to the latest trends and offers of online marketing on the continuously growing "digital advertising playing field". The "Do-it-for-me" solutions from the experts are a solution for this problem. Thus, telegate MEDIA further expanded the "All-in-one-carefree offer" for German SMBs in 2010: companies receive a complete starter package from one source for the entry into the digital world. telegate's specialists perform the complete design possibilities of digital marketing from trade advertising, video and search engine marketing to an own company website. Approx. 500 Media consultants advise the business customers on the best selection of their marketing mix on the web. telegate, as an authorized Google AdWords reseller and qualified partner of the search engine, offers in addition efficient search engine marketing in a bundle – including ongoing optimization and detailed reporting.



* EUR 1.99/min. from the Deutsche Telekom landline. Prices from mobile phone networks may differ. Price for a SMS inquiry (domestic) only EUR 1.99 (Vodafone D2 share EUR 0.12).





Professional websites for little money

The “firmenWEBSITE” is a new offer of the company: it is a service especially designed for the requirements of SMBs. For this purpose, telegate established an own sector in 2010 with approx. 100 Web Producers by now who design and create customized professional websites. All costs are included in the complete package “firmenWEBSITE”: from domain registration and webhosting, web design, programming, making of a video to ongoing maintenance and update.

Almost half of German SMBs still have no website in the digital age

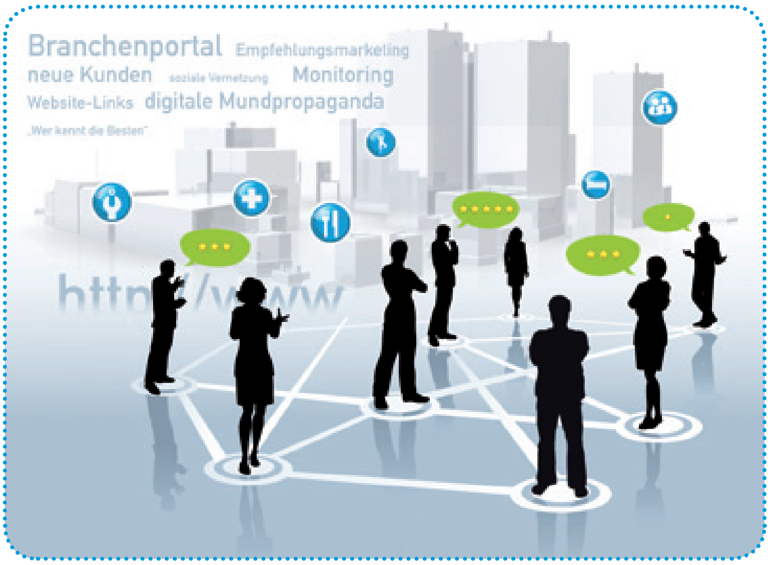
Video advertising made easy for SMBs

telegate also raised the classic trade advertising to the next level in 2010: now the MEDIA Eintrag Premium integrates the making and marketing of an own company video clip. Thus, telegate makes the trend subject “moving image advertising” affordable and available for SMBs. The company’s video specialists make a 30-seconds video clip with little effort based on footage and company information, which can be watched in the trade entry on the telegate portals. The clip also runs on the video portal Youtube automatically and in addition ensures that it can be better found in the big search engines.

According to the psyma/GfK study “Mittelstand und Werbung”, company clips enjoy a high level of acceptance among the users, however, only 6 % of the companies questioned did ever make an own video. The main reason is the great lack of transparency of the costs on the market. telegate's 12-months solution solves this problem for a complete price of EUR 99 including marketing and all rights.

Efficient trade advertising with integration of Social Media

telegate is one of the leading names for trade advertising in Germany with more than 280 m search requests in the company-owned 5 media channels as well as the offers of partners such as Vodafone and Nokia. The search portals **www.11880.com** and **www.klicktel.de** combined under "telegate MEDIA" are still racing head-to-head with GelbeSeiten.de for the Internet-pole position as top favourite of the German consumers. The mobile Apps for iPhone, Android, BlackBerry and similar devices further expanded its market-leading position with more than 650,000 downloads by now.



Consumers also find more than 400,000 recommendations on companies and service provider throughout Germany since last year. The new function "Wer kennt die Besten?" integrates Web 2.0 functionality in the yellow pages for the first time and makes the search possible for the best provider of a region, both on the stationary and the mobile Internet. A practical solution for all those who are currently travelling in a foreign environment. And even a more practical solution for local companies which thus have a very simple but effective instrument for recommendation marketing. The more positive rankings a company has, the higher is the ranking in the search results and thus the chance for potential new customers.

A brave new world: Internet

Investor Relations

Capital market environment

The recovery of the capital market, which was hit particularly hard by the financial crisis in 2008, continued in 2010. The German Stock Index (DAX) increased by 23 % in 2009 and also showed an increase by 16 % to 6,914 points in the previous year. This good performance of the leading index is particularly due to “old economy” and export-oriented securities.

Trend of the telegate share during the stock market year 2010

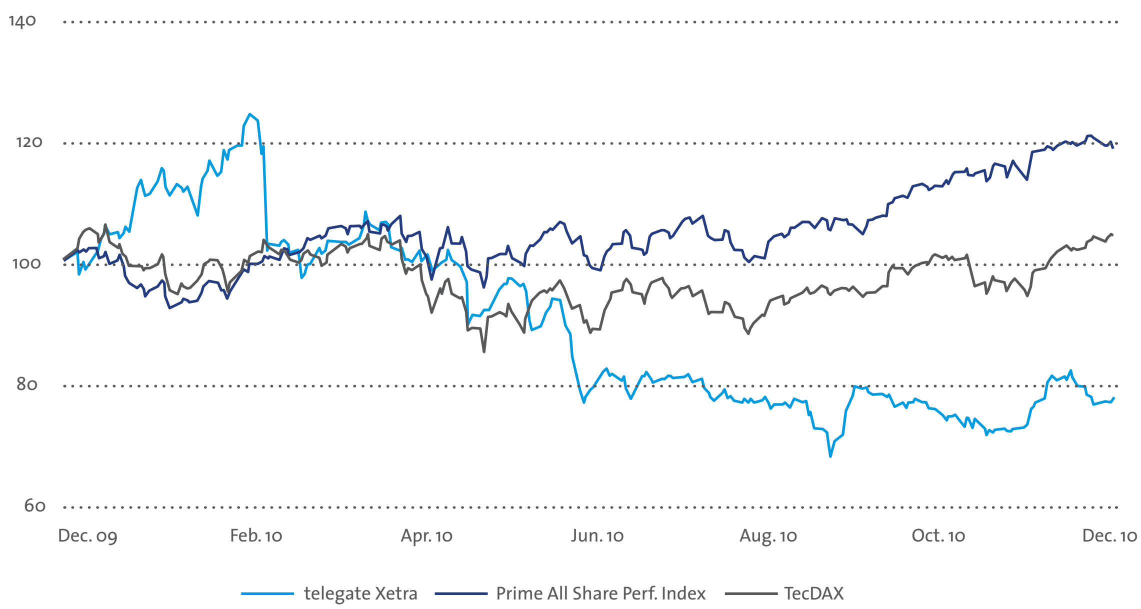
Compared to market development, the telegate share shows a downside trend since the beginning of March 2010. This development was primarily caused by a delay in the transformation process from a telecommunications specialist to an expert for Local Search and SMB-marketing and thus a lower profitability in the next two years. The delay in the legal dispute with Deutsche Telekom AG regarding repayment of excessive data costs also contributed to a weaker share price performance. The telegate share fell to an all-year-low of EUR 6.18 on September 23, 2010. The share price stabilized at an average of EUR 7 m in the fourth quarter 2010.

An intensive contact (e.g. roadshows) with investors was also maintained during the annual year.

It should be particularly mentioned that all analysts are still convinced of the company’s positive business development. Thus, both GSC and Silvia Quandt adhere unchanged to the “BUY”-recommendation and Hauck & Aufhaeuser to the “HOLD”-recommendation.

Overall, the share closed with a minus of 23 % in the previous annual year. By comparison, the Prime All Share Performance Index and the TecDAX both recorded a plus of 18 % and 4 % respectively during the reporting period.

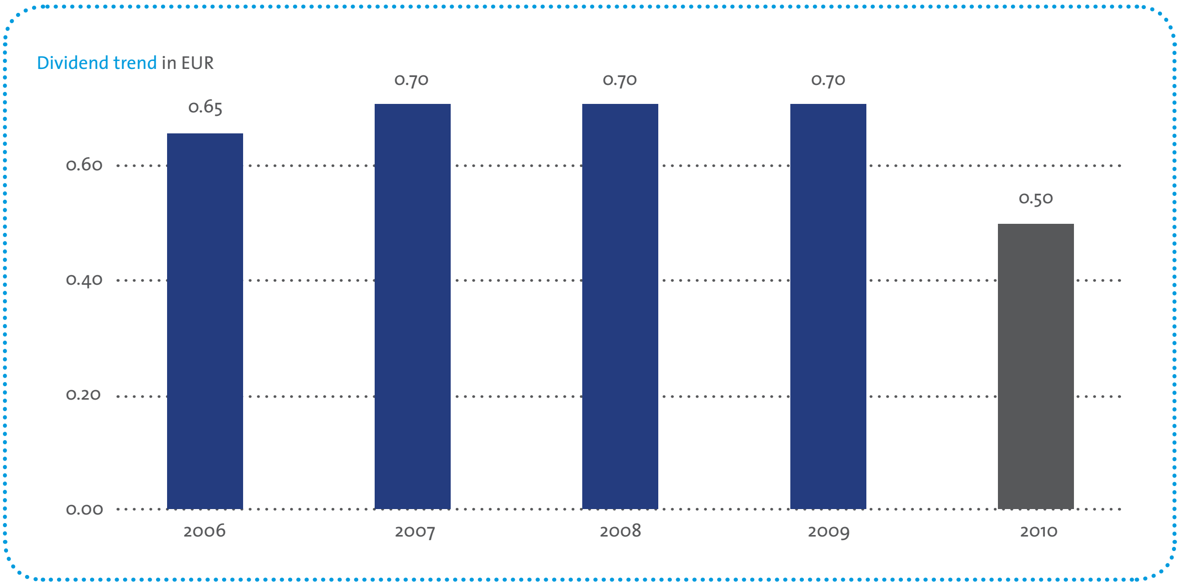
The telegate share in comparison with the Prime All Share and TecDAX



Ratios of the telegate share

		2007	2008[3]	2009[3]	2010[3]
Number of shares	Pieces	21,234,545	21,234,545	21,234,545	21,234,545
Capital stock	Euro	21,234,545	21,234,545	21,234,545	21,234,545
Year-end stock market price [1]	EUR	14.45	6.10	9.16	7.07
Top stock market price[1]	EUR	23.50	14.70	9.55	11.39
Bottom stock market price[1]	EUR	14.45	6.10	6.23	6.18
Market capitalization by the end of the year[1]	Mio. EUR	306.8	129.5	194.5	150.0
Profit per share	EUR	1.74	1.16	0.90	0.24[4]
Dividend and dividend proposal respectively per share	EUR	0.70	0.70	0.70	0.50[5]
Dividend yield[2]	%	4.8	11.5	7.6	7.1

1 XETRA-closing prices
2 Referring to the corresponding XETRA-closing price
3 Profit per share from continuing operations
4 The number of shares refers to the average weighted pro rata temporis of the shares in circulation during the reporting period (21.1 m)
5 For all shares in circulation (19.1 m)



Share repurchase program

The offer period for the repurchase of no more than 10 % of the capital stock, which corresponds up to 2,123,454 shares, by means of a voluntary public offer was from November 17, 2010 to December 01, 2010. The offer price amounted to EUR 7.00 per share. The offer was fully exhausted, e.g. 2,123,454 shares were acquired at a price of EUR 7.00 per share (corresponding to EUR 14.86 m). telegate AG's high free liquidity was the background of the share repurchase program. Thus, EUR 29.7 m flowed back to the shareholders as a result of the share repurchase program and dividend payment.

Shareholder structure

Due to the share repurchase program performed, 19,111,091 shares (previous year: 21,234,545) are in circulation as of December 31, 2010. 2,123,454 shares were held as company-owned shares at this time, which were redeemed by now according to a resolution by the Management Board and the Supervisory Board. Thus, the shareholder structure changed compared to the previous year. The main shareholder SEAT Pagine Gialle S.p.A directly and indirectly holds 69.6 % as of December 31, 2010. 22.6 % are in portfolio investments and 10 % are held by telegate AG as company-owned shares due to a share repurchase program. The main shareholder SEAT Pagine Gialle S.p.A directly and indirectly holds 77.4 % of the shares in circulation. The remaining 22.6 % of the shares in circulation are in portfolio investments primarily with institutional investors.

Dividend

The Management Board and the Supervisory Board intend to propose to the Shareholders' Meeting, which takes place on June 29, 2011, a dividend distribution according to the current situation in the amount of EUR 9.555,546 m for the annual year 2010 This corresponds to EUR 0.50 per share entitled for dividend and a dividend yield of 7.1 % respectively referring to the closing price by the end of the year (previous year: 7.6 %). Thus, the company emphasizes its target to give the shareholders an appropriate share in telegate AG's success.

Investor Relations activities

The Investor Relations sector informed institutional investors, analysts and private shareholders promptly about the company's economic development in the previous year, too. telegate was represented for institutional investors and analysts at numerous roadshows and conferences at home and abroad, e.g. the German Equity Forum in Frankfurt or an event in London. The company's current development and the perspectives resulting from the transformation into a Local Search provider and SMB-marketing were the main focus of capital market communications. The development of the legal dispute with Deutsche Telekom AG regarding repayment of excessive data costs was also always presented in detail.

Furthermore, we reported on our quarterly earnings and settings of the company's future course periodically by means of conference calls. In addition, a so-called "investor kit" is offered on the website, which includes the most important and latest documents about the current development and strategy of the telegate group available for download. The regular repertoire of investor communications also includes a newsletter, which informs interested investors about the company's main developments periodically.

Corporate Governance Report 2010

To secure and extend the capital markets' trust in the company, telegate considers it to be important that the management and control are responsible, transparent and focused on sustained value added.

Declaration of Compliance 2010

The Management and Supervisory Board have issued the legal declaration of compliance pursuant to Article 161 of the (German) Stock Corporations Act. Their latest declaration was made permanently available to all shareholders in December 2010 under www.telegate.com, in the section "Investor Relations".

All recommendations of the Government Commission German Corporate Governance Code, published in the official section of the electronic Federal Gazette by the Federal Ministry of Justice in the amended version of May 26, 2010, have been and will be met with the following justified exceptions:

Support of postal vote (Clause 2.3.1 / 2.3.3)
The company neither offers postal vote nor the support provided in this respect of shareholders regarding the performance of a postal vote.

telegate AG's Articles of Incorporation do not provide postal vote as participation and the relevant provisions of the German Corporate Governance Code are not applied accordingly.

Own risk retention in the case of D&O insurance (Clause 3.8)
The D&O liability insurance of members of telegate AG's Management Board and Supervisory Board does not provide for own risk retention.

The practice exercised by telegate is according to international standards and also to the practice of the majority shareholder SEAT Pagine Gialle, who has taken out the D&O insurance for its board members and executive staff without deductible.

telegate is bound by existing insurance contracts for the annual year 2010. In this respect, however, telegate AG concluded new insurance contracts for the members of the Management Board, which come into effect on January 01 and May 01, 2011 respectively and provide for a corresponding own risk retention.

Period of computation compensation cap (Clause 4.2.3)
By derogation from clause 4.2.3, subsection 4 GCGC, the computation of the compensation cap is adjusted to the fixed remuneration of the previous annual year before termination of the employment and computation of the variable remuneration is adjusted to the amount of the average value of the variable remuneration paid during the 3 preceding annual years. According to the company, this computation has appropriate results. It avoids an overproportional weighting of a remuneration paid in a certain annual year within the variable remuneration field. Thus, a distant effect of individual and singular circumstances, if applicable, is avoided and a broader assessment basis is established.

Individual disclosure of remuneration of Management Board (Clause 4.2.4 / 4.2.5)
The total remuneration of each one of the members of the Management Board is not disclosed by name, telegate reports the remuneration of the Management Board as a total sum.

This is due to an according resolution by the Shareholders' Meeting from May 15, 2006, which has been passed with the necessary three-quarters majority.

Diversity/Composition of the Management Board (Clause 5.1.2)
telegate AG's Management Board shall be comprised of 3 members. A new Management Board position was not created and an existing Management Board position was not filled with a female candidate, because the Supervisory Board expressed its confidence to the current Management Board members to the continuing successful management of the company.

Age limit for members of the Management Board and the Supervisory Board (Clause 5.1.2. / 5.4.1.)
An age limit has not been set for members of the Management Board and the Supervisory Board.

telegate upholds the opinion that the performance of a Management and Supervisory Board member is independent of age. Furthermore, we consider the definition of an age limit for Supervisory Board members to be an inappropriate restriction of the shareholders' right to elect the members of the Supervisory Board.

Proposed candidates for the chairmanship of the Supervisory Board shall be announced to the shareholders (Clause 5.4.3)
Election of the chairman by the Supervisory Board is its particular competence and is stipulated in telegate AG's Articles of Incorporation. Therefore, it shall remain in the Supervisory Board as well as the discussion of proposed candidates. Publication of proposed candidates before a final vote affects the Supervisory Board's secrecy of deliberation and is suited to discredit candidates who were not elected.

Remuneration of Supervisory Board members (Clause 5.4.6)
Chairmanship of committees of the Supervisory Board is currently not taken into account with regard to the remuneration of the members of the Supervisory Board (paragraph 1) and a performance-related remuneration is not provided (paragraph 2). telegate shows the remuneration of its Supervisory Board as a whole in the notes to its financial statements. telegate does not provide an individualized breakdown (paragraph 3).

The chairmanship of committees of the Supervisory Board is currently not taken into account with regard to the remuneration of the members of the Supervisory Board, because the Articles of Incorporation do not provide that. However, the commitment within the several committees is being taken into consideration regarding the remuneration.

In addition to a fixed remuneration, the Code recommends performance-oriented remuneration for Supervisory Board members. In our opinion, telegate should not create a performance-oriented incentive system for the members of the Supervisory Board. The existing remuneration system is better suited to ensure the independence of the Supervisory Board for the effective performance of its supervision and monitoring duties.

Furthermore, the Code recommends reporting the remuneration paid to the Supervisory Board members on an individual basis. In the following remuneration report, telegate lists the total remuneration for the full Supervisory Board and the work undertaken as committee activity in one sum. Remuneration is not reported on an individual basis, as we believe that this is of no relevance to the capital markets.

telegate AG complied with the recommendations by the German Corporate Governance Code as amended on June 18, 2009 since delivery of the previous declaration of compliance in December 2009 with the restrictions mentioned to clause 3.8, 4.2.4, clause 5.1.2 / 5.4.1 and clause 5.4.6.

All proposals of the German Corporate Governance Code continue to be implemented, with the following exception: telegate does not offer the opportunity to follow the shareholders' meeting via electronic communications media, such as the Internet, as the company considers the additional organizational and financial expense for this not to be justified.

Cooperation between Management and Supervisory Board

The Management and Supervisory Board cooperate closely for the benefit of the company. Using the means of an extensive reporting system the Management Board provides the Supervisory Board with regular, thorough, and timely information regarding all key questions of strategy, planning, business performance, the financial and profit situation, as well as corporate opportunities and risks that are of relevance to the company. Deviations from the scheduled plans and objectives were explained in detail and by outlining the reason thereof. Business transactions of material significance are subject to approval by the Supervisory Board in accordance with the Articles of Incorporation.

There were no consultancy, other services or work contracts between the members of the Supervisory Board and the company during the period under review. Management Board and Supervisory Board members had no conflicts of interest.

Shareholders and Shareholders' Meeting

Our shareholders are kept regularly informed of significant dates through the annual report, the quarterly reports and the company's website. telegate provides news on the Group several times during the year by means of an electronic newsletter (in German and English), which is available for subscription to all shareholders and interested readers. Shareholders have the opportunity to exercise their vote in person, or by proxy, at the annual shareholders' meeting.

Active, open and transparent Communication

In order to guarantee maximum transparency, the claim of telegate's business communication is to provide all stakeholders with the same information at the same time. To ensure this, telegate makes detailed documentation and information available on the company's website, such as financial dates and reports, details on the shareholders' meeting, presentations, ad-hoc and press releases.

Details on Director's Dealings required under Sec. 15a of the (German) Securities Trading Act are also made available on the Internet in the "Investor Relations" section. However, in this reporting period no Director's Dealings occurred.

There was no ownership of shares and/or derivative financial instruments that are subject to notification according to item 6.6 of the German Corporate Governance Code. The Notes to the annual financial statement provides supplementary information on company organs and the relations to related parties.

Responsible Opportunity and Risk Management

A responsible corporate governance system requires a functioning risk management system. The Management Board has implemented a multistage, integrated planning and controlling system. The Supervisory Board is integrated into the risk management process through quarterly reports and the reports made to the Supervisory Board meetings. Further details are provided in the management report.

Annual Audit

For fiscal year 2010 Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft once again acted as auditor. It was agreed that the chairman of the audit committee is to be informed without delay of all findings and occurrences established during the course of the audit, which are of material importance for the tasks and duties of the Supervisory Board, unless these are immediately corrected. Furthermore, the auditor is to inform the Supervisory Board and/or make a note in the audit report of any facts established in the course of the audit that could imply a false statement in the declaration of compliance issued by the Management Board and Supervisory Board under Section 161 of the (German) Stock Corporation Act.

Remuneration Report

Remuneration of the Management Board

The Supervisory Board's Human Resources Committee advises and regularly reviews the structure of the remuneration system for the Management Board.

At the proposal of this committee the full Supervisory Board determines the total compensation of the individual Management Board members. Furthermore it regularly reviews the Management Board compensation system.

The remuneration model for the Management Board shall be attractive and appropriate to compete for highly qualified management personnel. Criteria for the appropriateness of remuneration are, in particular, the duties of the respective Management Board member, his personal performance, the performance of the Management Board as well as the economic situation, success and future prospects of the company in the context of the peer group.

General Remuneration System

The Management Board's remuneration consists of fixed (performance-independent) and performance-related components. The performance-independent components comprise a fixed salary and benefits in kind, while the performance-related components are made up of bonuses and a component with long-term incentive effects. Further to these, the members of the Management Board have received pension benefits.

As a basic remuneration element independent on the annual performance, the fixed salary is paid out as monthly salary. It is based on the income schedule that is defined by the full Supervisory Board. This schedule takes into account the state and midterm goal setting of the company and the criteria to be considered regarding Article 87 para. 1 German Stock Corporations Act and German Corporate Governance Code. The benefits in kind essentially comprise the value recognized by taxation guidelines for the usage of a company car. The taxes due for that company car are paid by the individual Management Board member.

Loans or advances were not granted to Management Board member in the year under review.

The bonus payment constitutes one element of the performance-related remuneration. It is contingent on achieving key targets that are most important for increasing the company's enterprise value. Sales and earnings targets serve as benchmark figures for the annual plan within the regularly adjusted 3 year plan, which is subject to approval by the Supervisory Board. In addition, further quantitative and qualitative goals are set, whose achievement is the basis of a lasting realisation of mid-term goals of the company. This remuneration component acts as an incentive for the Management Board's successful work and constitutes an important element in the total cash remuneration. It can be as high as 55 % of said cash remuneration.

Remuneration in 2010

Since fiscal year 2006 legal stipulations require the remuneration of Management Board members to be disclosed on an individual basis. telegate lists the remuneration of Management Board members collectively as one sum, as the shareholders' meeting of May 15, 2006 had made use of the so-called opting-out clause (dispensation of disclosure of individual remuneration for the fiscal years 2006 - 2010).

In fiscal year 2010 the Management Board remuneration per IAS / IFRS came to 1,129,000 EUR (prior year 1,142,000 EUR).

Of this 530,000 EUR (prior year 520,000 EUR) were for salaries and 496,000 EUR for bonuses (prior year 540,000 EUR). The value of benefits in kind totaled 36,000 EUR (prior year 36,000 EUR).

In the last fiscal year no stock options were granted to Members of the Management Board.

The Management Board members received pension benefits totaling 67,012 EUR per IAS / IFRS (prior year 45,763 EUR). They are essentially based on the time of service and individual remuneration of the Management Board members. The pension benefit is linked only to the fixed remuneration component. The Notes to the Group's annual financial statement provide further details under the section "Retirement benefit plans".

Management Board Remuneration in EUR

	2010 (IAS/IFRS)	2009 (IAS/IFRS)	2010 (HGB)	2009 (HGB)
Fixed salary	530,381.59	520,000.00	530,381.59	520,000.00
Bonus	495,807.00	540,445.50	495,807.00	540,445.50
Benefits in kind	35,772.42	35,630.31	35,772.42	35,630.31
Pension Benefits	67,012.00	45,763.00	0	0
Total without stock options	1,128,973.01	1,141,838.81	1,061,961.01	1,096,075.81
Stock options	0	0	0	0
Total including stock options	1,128,973.01	1,141,838.81	1,061,961.01	1,096,075.81

No Management Board member received benefits or corresponding undertakings from third parties regarding his activities as a Management Board member during the preceding fiscal year. Group-internal memberships on Management or Supervisory Boards were not and are not reimbursed.

Additional remuneration components, beyond the cash payments and benefits in kind described, do not exist.

Supervisory Board Remuneration

Sec. 4.6, of the Articles of Incorporation defines the remuneration of the Supervisory Board. It is based on the duties and responsibilities of the members of the Supervisory Board.

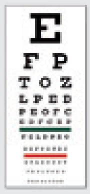
In addition to the refund of expenses, each member of the Supervisory Board receives a fixed annual salary of 10,000 EUR. The remuneration is due for payment after the shareholders meeting has formally ratified the actions of the Supervisory Board for the preceding fiscal year. The chairperson receives two times that sum and his deputy receives one and a half times of said sum. Supervisory Board members who joined the Supervisory Board in the course of the fiscal year shall receive a smaller remuneration payment proportionate to the period of time served. Supervisory Board members, who did not attend at least 75 % of all Supervisory Board meetings during a fiscal year, shall receive a lower remuneration reduced by 50 %.

In addition to the basic remuneration, membership in one of the Supervisory Board's Committees shall be remunerated at an annual fixed amount of 1,000 EUR. This shall be contingent upon the committee having convened during the fiscal year and the member actually having attended at least one meeting of the committee.

For fiscal year 2010, the total remuneration for the Supervisory Board came to 136,000 EUR (prior year 146,000 EUR).

No member of the Supervisory Board received additional remuneration or advantages for services personally provided, particularly for consulting or agency services.

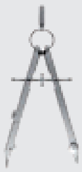
In the financial year 2010 one member of the supervisory board has been granted a credit of 5,000 EUR with an interest rate of 5.50 % p.a., further loans or advances were not granted to Supervisory Board members in the year under review.






77% of German SMBs don't invest in search engine marketing (SEM).

Group Management Report

* Source: market research "Mittelstand und Werbung" an behalf of telegate AG, october 2010

Group Management Report

Fiscal year 2010: Overview

The telegate group recorded earnings before interest, taxes, depreciation and amortization (EBITDA), adjusted by non-recurring items, in the lower range of the forecasted margin in the annual year 2010. In addition, a positive contribution to earnings of the Italian subsidiary, which was sold by now, was still included in the profit forecast communicated in mid-March. Overall, 2010 was a challenging but also successful annual year for the group.

EBITDA from continued operations, adjusted by non-recurring items, amounted to EUR 23.2 m compared to EUR 33.0 m in the previous year (previous year incl. Italy: EUR 35.0 m). Non-recurring items from the resolved merger of Call Centers in the amount of EUR 1.1 m were already recorded in the balance sheet as of December 31, 2010, because implementation of the restructuring plan was already started in 2010. The merger of Wismar with the two locations Guestrow and Rostock is performed as of May 2011. In 2009, non-recurring items concerned costs of EUR 1.4 m for a merger of Call Centers, EUR 0.9 m for the integration of telegate Media AG and a positive non-recurring item in the amount of EUR 1.7 m following a settlement with Deutsche Telekom AG concerning invoicing matters.

The company also worked successfully on the implementation of the transformation strategy from a classic DA provider to a “Local Search” expert in 2010. Thus, the reach was extended for our advertising customers by sales partnerships with NOKIA, freenet and Vodafone and our digital Media were expanded by the rating function “Who knows the best”. With regard to the range of products for advertising customers, telegate positioned itself on an even broader basis in 2010. Thus, the company creates professional web presences by now for business customers as full-service package under the name “firmenWEBSITE”. In this context, yellow pages advertising with moving image videoclips is also offered now to SMBs in Germany. This range of products has a great market potential and supplement telegate MEDIA's product family in a reasonable manner. The share of the advertising sales business in segment revenues increased in the core market Germany from 20 % in the annual year 2009 to 27 % by now.

Another important step regarding the transformation of the business model was the sale of the Italian subsidiary telegate Italia S.r.L. as of June 01, 2010. The already advanced phase of consolidation of the Italian DA market as well as an increased focus on the changes of the German market were the background of this transaction.

In view of the continuing trend towards Local Search in the digital Media channels due to which the company benefits by means of its advertising business, the classic DA business continued to decline across Europe. In terms of revenues, this was again partly compensated by an increase of revenues per caller, however, to a lower extent than in the past – as expected.

Furthermore, there were pleasant news with regard to the data cost actions. The Federal Network Agency fixed future data costs including additional and third-carrier data at EUR 1.65 m p.a. for the entire market in September 2010. Thus, an important cornerstone was placed regarding the apportionable costs of Deutsche Telekom. The company is still very optimistic regarding the chances of success of the claim for repayment actions of the telegate group, which amount (interest included) to more than EUR 100 m. In this connection, a hearing at the OLG – Higher Regional Court Duesseldorf fixed for the beginning of March 2011 is the next step.

Due to the solid balance sheet quality of telegate AG, the Shareholders' Meeting authorized the Management Board and the Supervisory Board in June 2010 to perform a share repurchase program. The share repurchase program was fully exhausted with 10 % of the capital stock during the fourth quarter of the previous annual year and thus shares in the amount of EUR 15.0 m were redeemed. A capital reduction of 10 % of the capital stock and 2.1 m shares respectively was applied for at the commercial register before the fixed date December 31, 2010.

Economic environment

Overall economic conditions

After the big economic crisis, the economy recovered more quickly and dynamic than expected in Germany, in particular, in the calendar year 2010. The worldwide financial and economic crisis and the following economic recovery had no significant effect on the German business so far.

Market changes in the DA business are now primarily based on technological innovations and changes of the user behaviour towards digital Media.

The advertising sales business is primarily influenced by the advertising behaviour of SMBs as well as trade-specific and overall economic conditions. A gradual adjustment of the advertising behaviour of businesspersons to the search behaviour of the German consumers – already approx. 50 % of all Local Search requests are digital by now – offers great potential for this business sector. The general trend towards digital Media is still the main factor for the advertising sales business. SMBs in Germany are still underrepresented here, because less than 10 % of the total advertising expenses are spent for digital advertising.

The development of the conditions in the markets relevant for the telegate group is explained below.

Market development

Germany/Austria

The German DA market is still changing. The strongly declining trend in the classic telephone DA market continues. The use of the new social networks (Facebook, in particular) helped to revitalize the German DA brand "11 88 0" and increase customer commitment. The possible option of a mobile number DA as of the second half-year 2011 offers the classic telephone DA market a certain market expansion and thus the chance of decelerating decline rates.

telegate MEDIA with its bundled Local Search platforms "**11880.com**" and "**klickTel.de**" is still in a neck-and-neck race with the platform of Gelbe Seiten in the fight for the online yellow pages in Germany with the most reach. telegate MEDIA celebrated a big success in March 2010 and recorded more than 10 m visits for the first time in its history.

Local Search for contact data and information on companies and service providers is made increasingly on the Internet nowadays. While Internet-based search increased, the print Media loose another 15 % compared to the previous year (period August to September 2010). Mobile DA services is the winner of the market, with double search request compared to the previous year. telegate maintained and even increased the leadership in the Mobile sector. Almost 650,000 downloaded Local-Search-Apps are attributable to telegate by now. The company generates more than 4 m search requests every month, which corresponds approx. to double the number compared to the previous year. Thus, already approx. one third of all digital search requests are generated via the mobile Internet.

Italy

As in all countries, there is also a strong decline of the classic DA business in Italy. The Italian DA market is already in an advanced phase of consolidation.

The above mentioned reasons as well as the changed strategic orientation of telegate AG caused the company to sell the Italian subsidiary telegate Italia S.r.L.

Accordingly, the disclosure of the pro rata earnings of the Italian subsidiary until the final consolidation date is made as a discontinued operation.

Spain

Spain was particularly affected by the financial and economic crisis in 2009. This also left its mark on the telephone DA market, which is usually independent of business cycles to a large extent. After a sharp decline, the economy is recovering again by now. Nevertheless, the situation remains strained due to a high state indebtedness and unemployment. The market decline of the classic DA, which was increased by the trend towards digital DA Media, decreased from approx. -28 % in 2009 to approx. -20 % in the previous annual year.

telegate also makes use of the trend towards digital DA services in Spain. Analogous to Germany, businesspersons shall have the option to advertise on the company-owned platform **www.guias11811.es**. However, the advertising sales business is still in the start-up phase, whereas the numerous synergies and experiences with regard to the German core market are used here.

Financial situation

Profitability

Segment Report

• Germany / Austria

The transformation process of telegate from a telecommunications specialist to a Local Search expert and marketer of SMBs continues to advance successfully in the segment Germany/Austria. Thus, the company completed the establishment of the sales force to a large extent by the end of the year. telegate is now well positioned on the classic directory Media market, which has an advertising volume of approx. EUR 1,3 bn (directory Media advertising) and approx. EUR 6.0 bn (gross and in total for local advertising) and covered all important sales regions to further increase the share of advertising-financed revenues in the future.

telegate MEDIA, the first authorized Google reseller in Germany, was also awarded the status "AdWords Certified Partner" in the previous annual year. This certificate proves that telegate meets Google's high requirements.

telegate further expanded its range of products consequently during the year with the introduction of the new product "firmenWEBSITE" (professional web presence especially for SMBs), in addition to directory advertising and search engine advertising. According to the current study of psyma-GfK "SMBs and advertising", approx. 40 % of the SMBs still have no own web presence. This fact shows that there is a demand by the customers and great potential from the company's point of view for the "firmenWEBSITE".

The transformation of the business model in Germany can be clearly seen in Germany also in terms of revenues. There is still a shift of DA and search requests to the digital channels. This resulted in a decrease in revenues of the classic DA business from EUR 97.4 m to EUR 82.7 m in 2010 (-15.1 %). The decline was again partly compensated by higher revenues per caller, however, to a lower extent than in the past – as expected. In order to operate the DA business economically in the future, telegate AG merges the Call Center in Wismar with the two locations in Rostock and Guestrow in 2011. This measure shall serve to reduce existing overcapacities in terms of technology and premises, in particular.

By contrast, the Media sector shows increasing revenues according to plan. Due to a dynamic organic growth of 27 % (2009: 8 %), revenues 2010 amount to EUR 31.0 m (previous year: EUR 24.3 m). Overall, telegate generates with the advertising sales business in Germany 27 % of the revenues by now (previous year: 20 %).

Thus, the declining trend of the classic DA business was not completely compensated by the positive trend of the Media sector yet. Total revenues in Germany decreased compared to the previous year by 6.6 % from EUR 121.7 m to EUR 113.6 m.

The already mentioned expansion of sales capacities in the Media sector, the high share in new revenues with weaker margins and the decline of the DA business with a strong margin are reflected in the EBITDA adjusted by non-recurring items and amounts to EUR 21.9 m as of the balance sheet date (previous year: EUR 32.5 m).

• Italy / Spain

The total market for classic DA is still declining both in Spain and Italy. This resulted in Spain in higher capacity adjustments and additional relocations to cost effective locations in Latin America. In terms of revenues, the lower call volume was compensated to a large extent by higher revenues per caller. Revenues in the amount of EUR 11.0 m were only slightly below the previous year's level (previous year: EUR 11.4 m).

The decline in revenues and higher non-recurring expenses due to capacity adjustments were even overcompensated by several cost savings. Thus, earnings in Spain improved compared to the previous year to EUR 1.4 m (previous year: EUR 1.0 m). However, telegate expects in the medium-term that earnings will develop analogous to revenues.

The Italian subsidiary is taken into account in the consolidated financial statements as discontinued operation. The sale of telegate Italia S.r.L. was on June 01, 2010. Thus, the group generated an inflow of funds in the amount of EUR 3.5 m.

For further information on the discontinued operation, we refer to the "Notes to the consolidated financial statements".

Group

Revenues amounted to EUR 124.7 m and thus was 6.3 % below the previous year's figure (previous year: EUR 133.1 m).

Due to the sale of the Italian subsidiary, the share in revenues of the European foreign countries – only the segment Spain by now – currently amounts to 9 % (previous year: 21 % with Italy).

The gross earnings margin in the amount of 59.3 % is slightly above the previous year´s figure (previous year: 58.2 %)

Regular customers "Media", revealed within the scope of the acquisition of telegate Media AG in 2008, was extraordinary depreciated and amortized by EUR 8.6 m due to a higher termination rate in the annual year 2010.

EBITDA adjusted by non-recurring items were generated in the previous annual year in the amount of EUR 23.2 m (previous year: EUR 33.0 m). Including non-recurring items, this results in EBITDA in the amount of EUR 22.1 m (previous year: EUR 32.4 m). Adjustments in almost all fixed costs sectors reduced the decline only marginal.

Net earnings after taxes of the discontinued operations also includes proceeds and expenses which are directly linked to the sale, in addition to the pro rata net earnings. Here, extraordinary impairments (EUR 2.4 m goodwill, EUR 0.6 m fixed assets, both France) as well as positive earnings of the operative business in Italy (+ EUR 0.4 m) resulted in a loss after taxes of the discontinued operation in the amount of – EUR 2.5 m, whereas a profit from the sale of the Italian subsidiary in the amount of EUR 2.3 m is included in the current reporting period.

Due to weaker operating earnings and the additional impairment of regular customers – partly compensated by different contributions of the discontinued operations (negative in 2009, positive in 2010) as well as income from deferred taxes, net earnings after taxes in the amount of EUR 7.3 m and EUR 0.35 per share respectively is below the previous year's figure of EUR 16.1 m and EUR 0.76 per share respectively. The number of shares (21.1 m) taken as a basis here is made on the basis of the weighted average pro rata temporis of the number of ordinary shares in circulation during the reporting period.

Net worth and financial position

Investments

Total investments (without the segment Italy) in the previous annual year amount to EUR 2.5 m and thus were significantly reduced compared to the previous year – as expected. Investments in property and equipment and intangible assets mainly comprehend investments in the customer-relationship-management-system to support the advertising sales business, the modernization of the IT equipment and infrastructure as well as replacement and maintenance investments. The higher investments 2009 are connected with the integration of telegate Media AG (previous year: EUR 5.3 m without the segments Italy and France).

Balance sheet

A dividend distribution and the share repurchase program in 2010 did not affect the solid balance sheet quality of the telegate group. Company-owned shares reduce the equity of telegate AG by EUR 15 m as of the balance sheet date. However, the equity ratio is still at a very pleasing 58.7 % (previous year: 56.7 %).

The decline of liquid assets to EUR 48.8 m as of December 31, 2010 (previous year: EUR 59.9 m) is primarily attributable to the share repurchase program.

The balance sheet total decreased by EUR 44.2 m and 26 % respectively in the previous annual year to EUR 127.5 m now (previous year: EUR 171.6 m), primarily as a result of the sale of the Italian subsidiary and the redemption of shares.

Compared to the previous year, there were scheduled and extraordinary impairments of intangible assets, property and equipment as well as a decrease of trade accounts receivable due to the sale of the Italian subsidiary on the assets side. The reduction of the liabilities side primarily results from a decrease of the deferred current liabilities and the trade accounts payable, which also result from the sale of the Italian subsidiary.

Cash flow & Financing

• General

The liquidity development in 2010 is primarily affected by a lower profitability, the sale of the Italian subsidiary (M&A activity), the dividend payment and the share repurchase.

The operative cash flow (inflow and outflow of funds respectively from current business activity) amounted to EUR 16.6 m as of December 31, 2010, compared to EUR 24.7 m in the previous year's period. The decline is a result of a significantly lower profitability compared to the previous year, which was partly compensated by lower tax payments.

Lower investments in the comparative period of the previous year resulted in a "free cash flow before M&A activities" of EUR 13.1 m (previous year: EUR 19.6 m).

The cash flow from investment activity (both investments and M&A activities) amounted to -EUR 0.1 m (previous year -EUR 4.5 m) in the reporting period. It benefited from the sale of the Italian subsidiary as of June 01, 2010. Thus, an inflow of cash in the amount of EUR 3.5 m was generated.

The same dividend payment compared to the previous year in the amount of EUR 0.70 per share and the additional outflow of funds due to the share repurchase in the amount of EUR 15 m resulted in a cash flow from financing activity in the amount of -EUR 27.7 m in the previous annual year (previous year: -EUR 13. 7 m).

Thus, the above-named items overall result in a negative change of the cash and cash equivalents by EUR 11.2 m to EUR 48.8 m as of December 31, 2010.

• Capital structure / Dividend / Share repurchase program

telegate AG shows in its individual financial statements according to commercial law net earnings in the amount of EUR 9.6 m (previous year: EUR 14.9 m) for the annual year 2010. According to the Stock Corporation Law, the amount available for a dividend payment to the shareholders depends on the net earnings of the parent, which is determined according to the provisions of the HGB-Commercial Code.

The Management Board and the Supervisory Board will discuss an appropriate distribution for the annual year 2010 and thus the proposal to the Shareholders' Meeting on June 29, 2011. Due to the traditional solid balance sheet situation, the company redeemed shares with a value of EUR 15 m in 2010.

Acquisitions & Disinvestments/Changes in consolidation

The Italian subsidiary telegate Italia S.r.L. was sold as of June 01, 2010 to focus more on the chances of the German market.

For this purpose, you can find further information in the notes under point 14 "Discontinued operation".

Within the course of the group optimization, the merger of telegate Auskunftsdienste GmbH to telegate Media AG became effective retrospectively as of July 01, 2010 with the registration in the commercial register on September 27, 2010. The assets of telegate Auskunftsdienste GmbH passed as a whole with all rights and obligations excluding dissolution to telegate Media AG within the course of a merger of one company with another.

Events subsequent to the reporting date

After the closing of the annual year until the preparation of this management report, the applied capital reduction is recorded in the commercial register on Feburary, 15th. Beyond that, no further events or developments of particlular importance occured.

Research & Development

Basic research and development with the original meaning is not performed by telegate as a service company.

However, the expansion and development of innovative services as well as product developments are of main importance for telegate. Successful Internet and Software offers as well as the new generation of mobile applications were developed and successfully positioned on the market in 2010. telegate has a subsidiary in Armenia especially for the product development sector.

Employees

The approx. 2,000 employees of the telegate group make an important contribution to the success of the company. Therefore, the objective is to recruit skilled employees and to promote and commit them to the company in the long-term.

The employees shape the image of the group for customers and business partners with their personal commitment and high degree of responsibility. They contribute to the success of the telegate group in their corresponding fields of duty. Therefore, the personnel strategy of the telegate group is an integral component of the company strategy. The objective of the personnel policy of telegate is to employ employees with the required skills in the correct positions at the right time, in order that both the company and employees and also the customers can benefit from this. For this purpose, the company offers both internal and external customized and targeted training and qualification measures for the professional further development of the employees.

The establishment of the advertising sales team with skilled sales experts in Germany was the priority in 2010, which was successfully completed by the end of the year.

The declining classic DA business resulted in a reduction in the number of employees in this sector.

The telegate group employed – without temporary workers – a total of 1,951 employees (headcount, without trainees, mini-jobs and dormant employments) as of December 31, 2010. On a comparable basis (previous year: 2,890 heads), the number of employees decreased by 939 persons. The decrease of employees due to the sale of our Italian company and the declining classic DA business was opposite to the establishment of advertising sales with skilled employees.

Opportunity and risk management

General explanations

The observance of laws and internal regulations is the basis of a sustained business success of our company and the cooperation with business partners, customers and colleagues.

telegate, as a multi-channel provider of Local Search, is by its nature exposed to business and trade-specific opportunities and risks. The group's risk management is coordinated to systematically and continuously increase the goodwill and to reach the medium-term financial target figures. The name and reputation of the telegate group are of significant importance for the group.

Therefore, the risk and opportunity management is a basic component of all business processes and decisions of the telegate group. telegate AG's Management Board has summarized the basic elements of the opportunity and risk management system in guidelines for this reason. They are valid for all companies of the group. Control and management systems were implemented at the same time, in order to measure, evaluate and manage the business development and the risks and opportunity connected. The chances and risk management is the original duty of the managers of all business units as well as the process and project managers. In turn, they ensure the involvement of the employees in the opportunity and risk management process defined by the Management Board.

telegate group's opportunity and risk management is incorporated in the strategy development and is integrated in all further planning processes. All business activities are examined and evaluated with regard to the opportunity and risks in annual planning groups. In turn, this results in objectives (revenues and earnings targets, in particular) and the fulfilment of these objectives is controlled by the controlling and reporting system across the group during the annual year. Thus, deviations of the actual business development compared to the planned business development can be identified and analyzed on a monthly basis. This approach makes it possible to detect risks of success promptly and to take actions regarding their handling and counteracting respectively. In addition, the risks and opportunity of the telegate group are identified and evaluated within the scope of the planning during the annual year on a quarterly basis. telegate AG's Management Board is informed on the main risks and opportunities of the business activity, the initiated countermeasures as well as their effects on the earnings on a quarterly basis. There is an internal ad-hoc reporting for risks which occur unexpectedly, in addition to the described regular reporting.

The opportunity and risk management system of the telegate group is reviewed on a regular basis with regard to efficiency and usefulness. If potentials for improvement are determined, they will be reported to the Management Board and are implemented.

The segments "Media" and "DA solutions" are also observed, in addition to the view at a corporate level.

A Compliance committee was established in addition, in order to ensure responsible action.

telegate group corporate accounting procedured explanation of essential features of the internal control- and risk management system with regard to the accounting procedure

Consolidated accounting process:

Because the parent telegate AG is a capital market-oriented corporation within the meaning of section 264d HGB-Commercial Code, the main characteristics of the internal control and risk management system both with regard to the accounting processes of the included companies and also the group accounting process shall be described according to section 315 subsection 2 no. 5 HGB-Commercial Code.

The internal control and risk management system regarding the accounting process and the group accounting process is not stipulated by law. We understand the internal control and risk management system as a comprehensive system and orientate us based on the definitions of the Institut der Wirtschaftspruefer in Deutschland e.V. (German CPA Institute), Duesseldorf, on the internal control system based on accounting (IDW PS 261 marginal no. 19 f.) and on the risk management system (IDW PS 340, marginal no. 4). Accordingly, an internal control system includes the principles, procedures and measures introduced in the company by the management, which are targeted to the organizational implementation of the management's decisions

- to ensure the effectiveness and economic efficiency of the business activity (this also includes protection of assets including prevention and disclosure of damages to assets),
- on the propriety and reliability of the internal and external accounting as well as
- to observe the statutory provisions which are authoritative for the company.

The risk management system includes the organizational regulations and measures as a whole to detect risks and handling of risks of business activity.

With regard to the accounting process, the following structures and processes are implemented within the group:

The overall responsibility for the internal control system of the telegate group lies with telegate AG's Management Board. All strategic business sectors of the group are integrated by means of a clearly defined management and reporting organization.

The departments and sectors cooperating in the accounting process are properly equipped in terms of quantity and quality. There are uniform guidelines for the consolidated accounting in the entire group for accounting, bookkeeping as well as Controlling. Bookkeeping data received or transmitted is reviewed for completeness and correctness periodically. Programmed plausibility checks are made with software used for this purpose.

Furthermore, the four-eye principle is applied to control important operations, e.g. within the scope of payment runs. The confirmation of the examination and orders to pay shall be made with signature and date.

Invoices received are also presented to the corresponding departments for an objective and calculated review. This means that the person ordering must confirm by his/her signature that the goods were received and service rendered respectively and corresponds to the order.

Review shall be made promptly and passed on with a cost center accounting to the superior and the person responsible for the cost center respectively, so that he/she can approve the payment. As a last instance, two persons authorized to sign with a power of attorney cause the payment.

In addition to the internal control system of the individual subsidiaries, these control levels also exist at a corporate level. Controls across the group are managed by central units, e.g. Finances, HR or Legal department and are also centrally proved by documents. The central approval of investments is a typical example in this connection.

In addition, the internal control system is supported by IT systems, which are examined regarding their effectiveness and efficiency periodically.

Summary of the essential features:
The internal control and risk management system with regard to the accounting process, which main characteristics were described above, shall ensure that business facts are recorded, processed and assessed in the balance sheet as well as taken over in accounting correctly at all times. The appropriate allocation of HR, the use of adequate software as well as clear statutory and internal standards are the basis for a duly, uniform and continuous accounting. The clear definition of areas of responsibility as well as several control and review mechanisms, as described in detail above, make it possible to ensure a correct and reliable accounting. In detail, this makes it possible that business transactions are recorded, processed and proved by documents according to the statutory provisions and internal guidelines. Thus, they can be recorded in terms of bookkeeping promptly and correctly. At the same time, this shall ensure that assets and debts are assessed, shown and valuated correctly in the annual and consolidated financial statements and relevant information is furnished completely and promptly.

Opportunities and risks of the telegate group

Growth market Local Search
Every consumer has a permanent demand for local information. Thus, the market volume of local information in Germany remains at a high level. However, an increasing digitalization resulted in a change of the user behaviour. While users mainly search on the Internet and increasingly more with mobile device in the future, companies still advertise in print Media. An advertising behaviour adjusted to the search behaviour of the users offers telegate great chances for growth in the future.

Both a big chance and a certain risk exists for telegate in the “Local Search” sector with regard to the partnership with Google. telegate Media is the first and biggest of now four authorized Google AdWords reseller in Germany. Google wants to open up the Local Search market with telegate MEDIA as a competent partner.

The model selected by telegate to address customers by Telesales employees and a new staff of field sales employees is mainly successful so far, because telegate made search engine marketing easy for the SMB customer. It proved itself, because the customers save their valuable own time by not having to manage their own account. A possible risk is that the customers do not value the service (“Do it for me”) and the companies buy directly from advertisers such as Google (“Do it yourself”).

In order to benefit from the chances offered, investments are necessary which can be compared to the previous years.

Regulation of the telecommunications business

The business activity of the telegate group is dependent on legal conditions and decisions of the lawmakers and regulatory authorities to a large extent. This includes e.g. the regulations on the allotment of phone numbers, the access to subscriber data and telecommunications advance performances etc. Regulation provisions determine e.g. what kind of telephone DA services are performed by telegate or how the allotment of the telephone DA numbers is made. For example, a violation of the allotment regulations for DA numbers may result in an adhortatory letter of the regulatory authority and as a last consequence in the withdrawal of a telephone number respectively. The latter would considerably impair the company's economic existence of the company.

Former monopolists such as Deutsche Telekom AG are a main supplier of advance performances for telegate, which results in certain economic dependencies. The main components of these service procurements, however, are subject to a regulatory and competitive monitoring and thus the risk becomes relative. However, there is also the risk in this connection that the competent authorities do not act.

Legal disputes

On the one hand, this concerns passive disputes e.g. the subsequent payment of data costs to Deutsche Telekom AG. On the other hand, there are active disputes against Deutsche Telekom AG, in particular, with regard to the repayment of data costs paid by telegate and affiliated companies from 1997 to 2004. In addition, there are actions which refer to compensation of the loss occurred due to the excessive data costs. The outcome of these disputes, where claims are also asserted against telegate or telegate asserts claims against third parties, cannot be predicted. In fact, the BGH – Federal High Court of Justice annulled the positive judgments by the Higher Regional Court Duesseldorf of May 16, 2007, June 20, 2007, June 27, 2007 and June 28, 2007 and remitted the cases to the OLG – Higher Regional Court Duesseldorf for a further hearing. But the BGH – Federal High Court of Justice also confirmed the violation of the cartel law by Deutsche Telekom AG and thus Deutsche Telekom AG has to make a repayment to telegate AG, from the company's point of view.

In September 2010 the Federal Network Agency fixed the future data costs including additional and third-carrier data at EUR 1.65 m p.a. for the total market and thus placed another important cornerstone.

The company is still very optimistic regarding the chances of success of the claim for repayment actions, which amount (interest included) to more than EUR 100 m.

Further information on concrete legal disputes is included in the notes to the consolidated financial statements.

Use of financial instruments

The group has several financial assets at its disposal such as trade accounts receivable and cash and cash equivalents. The risk of losses of receivables outstanding is significantly higher in the Media business compared to the historical low rate of the DA business. This default risk is taken into account by a professional collection and billing process.

The main financial liabilities comprise trade accounts payable as well as available current account credits, which were only used to a minor extent during the annual year.

Due to the company's risk assessment, no hedging businesses were concluded for the financial instruments. You can find more detailed information on the financial instruments and the financial risks in the notes to the consolidated financial statements under point 42 "Financial risks".

Other risks
The migration of skilled specialists and managers is a risk for both telegate and other companies. telegate limits the risk of a loss of know-how by personnel development programs and other personnel measures.

Unauthorized data access and data abuse can severely disturb business operations. telegate protects itself against this by internal guidelines, which regulate the access to and handling of information by the employees bindingly. Furthermore, telegate uses technical measures such as firewall systems, virus scanner as well as redundant IT systems. Data which is important for business operations is simultaneously duplicated with a prevention program. The entire prevention system is continuously adjusted to business and technological requirements with regard to IT risks.

Unlikely risks, which may not be excluded completely, are environmental risks such as fire or water damages in telegate's operational facilities. This may severely disturb business operations. Within the scope of the international insurance management, telegate established a comprehensive property and business interruption cover.

Risks of the future overall economic development
It is expected that the recovery of the world economy continues in the next years. Overall, there are still risks on the financial markets which increase the forecast risk. The uncertainty is increased due to the debt crisis of individual Euro countries. If the situation deteriorates again, this could have negative effects on the development of our advertising sales business and the call behaviour of our customers.

A bad overall economic situation increases the already existing risk of customer failures – along with a loss of receivables outstanding – and involves the risk of a delay of the increase in revenues of the advertising sales business due to lower advertising budgets of our potential customers. For example, if the buyer confidence deteriorates considerably again, there is the danger – especially in Spain – of another decline of the classic DA business exceeding the existing negative trend.

Disclosures in accordance with section 315 subsection 4 HGB – (German Commercial Code) and explanatory report

Composition of the subscribed capital
The subscribed capital of telegate AG is divided into 21,234,545 ordinary shares in the name of the holder without a nominal amount (individual share certificates) as of December 31, 2010. Thereof, 19,111,091 shares are in circulation as of December 31, 2010 (previous year: 21,234,545). The remaining 2,123,454 shares are held by telegate as company-owned shares.

The 19,111,091 shares each grant the same right and the same votes, in particular. The company has no rights from the company-owned shares held by telegate AG.

The number of shares issued remained unchanged compared to December 31, 2009.

Limitations affecting the voting rights and the transfer of shares
telegate AG's Management Board has no knowledge of any restrictions concerning the votes and transfer of shares.

Shareholders exceeding 10 % of the voting rights
The main shareholder SEAT Pagine Gialle S.p.A. with corporate seat in Turin, Italy, directly and indirectly holds a total of 69.6 % of the votes as of December 31, 2010 (previous year: 77.4 %). The remaining 20.4 % are in portfolio investments primarily with institutional investors and 10 % are held by telegate AG as company-owned shares due to the share repurchase. SEAT Pagine Gialle S.p.A. again receives the original 77.4 % of the shares with the registration of the capital reduction and redemption of the shares in the commercial register.

Shares vested with special rights granting powers of control

There are no shares with special rights which grant supervisory powers.

System of control of employee share schemes when control rights are not exercised directly by the employees

Employees who receive shares within the scope of the share repurchase program may directly exercise control rights like the other shareholders in accordance with the statutory provisions and provisions of the articles of incorporation.

Appointment and removal of Management Board members

telegate AG's Management Board is composed of at least two members. The appointment of deputy Management Board members shall be permissible, in accordance with figure 3.1 subsection 1 of the articles of incorporation. Determination of the number, the appointment and removal of the full as well as deputy Management Board members is made by the Supervisory Board which may also determine a chairperson of the Management Board.

Changes to the articles of incorporation

Amendments of the articles of incorporations are made by resolutions at the Shareholders' Meeting, in accordance with section 179 AktG – Stock Corporation Law. The required update of the articles of incorporation regarding the amount of the share capital, which may be increased due to stock options to be exercised, was assigned to the Supervisory Board by a resolution of the Shareholders' Meeting of May 12, 2005 and was renewed on May 15, 2006, May 09, 2007, June 11, 2008 and May 27, 2009. Furthermore, the Supervisory Board is entitled to resolve amendments of the articles of incorporation, which only concern the version, in accordance with figure 4.5 of the articles of incorporation.

Powers of the Management Board and with particular regard to the option of issuing or buying back shares

In accordance with a resolution of the Shareholders' Meeting of June 09, 2010, the Management Board has the power to redeem own shares and the board made use of this power by means of the repurchase offer to all shareholders in November 2010.

The Management Board is entitled to a conditional increase of the capital stock of telegate AG by up to EUR 1,000,000 in nominal terms within the scope of a stock option program until June 30, 2013, in accordance with figure 2 subsection 7 of the articles of incorporation. The conditional capital increase is used for the granting of stock options to Management Board members, members of the managements of affiliated companies as well as employees of telegate AG and affiliated companies, in accordance with the resolutions of the Shareholders' Meetings on May 12, 2005, May 15, 2006, May 09, 2007, June 11, 2008 and May 27, 2009. No more than 400,000 stock options may be issued every annual year. Determination of the number of stock options to be issued in every annual year is subject to the Supervisory Board's approval. There are 532,150 stock options in circulation as of December 31, 2010. They shall expire if they are not exercised until June 30, 2013.

Significant agreements in the event of a takeover bid

There are no agreements as of December 31, 2010.

Compensation agreements in the event of a takeover bid

There are no compensation agreements of telegate AG with Management Board members and employees in the event of a takeover bid (change of Control).

Annual corporate governance statement

The management report (section 289a HGB – Commercial Code) includes a declaration of compliance, disclosures of management practices and a description of the working method of the Management Board and the Supervisory Board. telegate has the objective here to present the management in a clear and concise manner.

The above-named information can be found on our webpage under **“www.telegate.com > Investor Relations > Corporate Governance > Management report”**.

Compensation system

The payment report summarizes the principles which apply to the determination of the total payment of telegate AG's Management Board members and explains both the structure and amount of the payment for the Management Board members.

Payment of the Management Board members consists of performance-independent and performance-related components. Performance-independent components comprise a fixed salary and benefits in kind, whereas performance-related components are made up of a management bonus and a long-term incentive component. Furthermore, the Management Board members received pension commitments.

The fixed salary is a basic payment irrespective of the annual performance. It is paid as salary on a monthly basis and is oriented to an income schedule, which is determined by the HR committee. This schedule takes the current business situation and the planning and objectives of the telegate group into account. Benefits in kind primarily comprise the value for the use of a company car to be assessed according to the tax directives. These taxes are paid by the individual Management Board member.

The management bonus is one element of the performance-related payment. It is dependent on the achievement of the most important key targets to increase the goodwill. Both revenue and proceeds targets of an annual plan, to be approved by the Supervisory Board, are the benchmark figures. This payment component may amount to no more than 55 % of the total cash payment.

You can find further information on telegate AG's payment system under point 45 of the notes “Disclosure of the corporate bodies of telegate AG”.

Forecast report

Business strategy

telegate expects an opposite development in the business sectors DA solutions and Media also in the next years. Thus, the European telephone DA market will be still declining during the next 2 years. This will result in decline in revenues and earnings. By contrast, the Local Search advertising market offers great chances for growth in Germany, in particular. The project “SMS-Connect” (mobile number DA) offers a chance in Germany to weaken the existing negative trend in the classic DA business. The option to give DA for mobile numbers – currently possible for less than 5 % of the participants – can be presumably performed as of the second half-year 2011.

Our existing customer's satisfaction will bet he focus during the next annual year, in particular. The implementation of a CRM system, the evidence of the advertising success for the customers and the improvement of the After-Sales process shall result in a sustained increase of the customer satisfaction and thus to a reduction of the customer termination rate. In addition, the efficiency and effectiveness of sales shall be significantly improved after completion of the establishment of the sales team.

With regard to the user sector, the main focus is still on the development of mobile applications and innovative online offers.

But also the range of products for the advertiser shall be further expanded during the next years.

The company expects that it will benefit from the structural change in the local advertising market towards advertising on the digital channels, from the recovery of the advertising industry and from the completed establishment of the sales capacities and thus expects a clearly double-digit growth of revenues of the advertising business in 2011.

In spite of a planned reduction of the structural costs, telegate expects in the next 2 years that it will not be able to hold the revenues and earnings level 2010, because the DA business with a strong margin still shows a declining development. However, telegate expects an increase in profits in the medium-term by a continuous improvement of the margin of the advertising sales business.

Any other income from payments by Deutsche Telekom AG within the scope of the data costs-claim for repayment actions are not taken into consideration in this forecast.

Financial strategy

On the one hand, the financial strategy of the telegate group pursues the securing of liquidity in the long-term and on the other hand an appropriate participation of the shareholders in the company's profit. Therefore, the financial strategy basically supports the implementation of the company strategy and ensures that the transformation of the company can be implemented. However, it is also subject to the requirement to make cost financing – e.g. by the use of factoring – more flexible and thus also chances may be taken which are offered in the short-term.

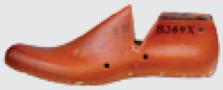
Planegg-Martinsried, March 09, 2011
The Management Board

Responsibility statement

"To the best of our knowledge and in accordance with the applicable accounting principles, we assure that the consolidated financial statements provide a fair review of the group's net worth, the financial position and the profit position and the corporate management report includes a fair review of the business trend and business result, together with a description of the main chances and risks associated with the group's expected development."

Planegg-Martinsried, March 09, 2011

Dr Andreas Albath Management Board Chairman	Ralf Grüßhaber Management Board Member	Dr Paolo Gonano Management Board Member

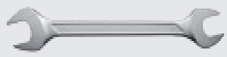




93 % of German SMBs don't use social networks for marketing purposes.









Consolidated Financial Statements

* Source: market research "Mittelstand und Werbung" an behalf of telegate AG, october 2010

Consolidated Balance Sheets (IFRS)

ASSETS in kEUR	notes	December 31, 2010	December 31, 2009
Current assets			
Cash and cash equivalents	17	48,768	59,932
Trade accounts receivable	18	33,666	48,481
Current tax assets	13	0	957*
Other financial assets	19	970	1,129*
Other current assets	20	1,993	3,545
Total current assets		**85,397**	**114,044**
Non-current assets			
Goodwill	21 / 22	7,474	7,474
Intangible assets	23	22,101	36,354
Property and equipment	24	4,669	7,612
Other financial assets	19	549	369
Other non-current assets	20	330	364*
Deferred tax asset	25	6,938	5,421
Total non-current assets		**42,061**	**57,594**
Total assets		**127,458**	**171,638**

** Adjusted disclosure (see note 3, Presentation of the consolidated balance sheets) .*

See accompanying notes to the consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY in kEUR	notes	December 31, 2010	December 31, 2009
Current liabilities			
Trade accounts payable	26	2,489	20,396
Accrued liabilities	27	15,811	15,758
Provisions	28	2,843	4,475
Current tax liabilities	13	1,996	1,077*
Other financial liabilities	29	751	0
Other current liabilities	30	18,583	18,138
Total current liabilities		**42,473**	**59,844**
Non-current liabilities			
Provisions	28	748	1,013
Defined benefit liability	31	0	0
Other non-current liabilities	32	0	441
Deferred tax liability	25	9,390	13,055
Total non-current liabilities		**10,138**	**14,509**
Total liabilities		**52,611**	**74,353**
Shareholders' equity			
Share capital	33	21,235	21,235
Additional paid in capital	33	29,935	29,875
Treasury shares	33	-14,951	0
Other revenue reserves	33	37,758	34,822
Retained earnings		870	11,352
Accumulated other comprehensive income		0	1
Equity attributable to owners of the parent		74,847	97,285
Total shareholders' equity		**74,847**	**97,285**
Total liabilities and shareholders' equity		**127,458**	**171,638**

** Adjusted disclosure (see note 3, Presentation of the consolidated balance sheets) .*

See accompanying notes to the consolidated financial statements.

Consolidated Income Statement (IFRS)

in kEUR	Quarterly Report (unaudited) 1.10. - 31.12.2010	1.10. - 31.12.2009*	notes	12-Months Report 1.1. - 31.12.2010	1.1. - 31.12.2009*
Continuing operations					
Revenues	30,957	32,035	5	124,648	133,060
Cost of revenues	-13,544	-12,451	6	-50,730	-55,611
Gross profit	**17,413**	**19,584**		**73,918**	**77,449**
Selling and distribution costs	-20,293	-12,504	7	-55,390	-42,363
General administrative expenses	-3,209	-3,364	8	-14,895	-14,626
Other operating income	3	205	11	396	2,337
Other operating expense	-1	-1		-56	-79
Operating income (loss)	**-6,087**	**3,920**		**3,973**	**22,718**
Interest income	556	588		2,226	2,370
Interest expense	-57	-119		-145	-325
Gain (loss) from financial assets and marketable securities	0	-9		0	64
Gain (loss) on foreign currency translation	1	1		1	-4
Financial income	**500**	**461**	12	**2,082**	**2,105**
Income before income tax	**-5,587**	**4,381**		**6,055**	**24,823**
Current income tax	-1,525	-957		-6,697	-7,063
Deferred income tax	3,345	144		5,620	840
Income tax expense	**1,820**	**-813**	13	**-1,077**	**-6,223**
Income from continuing operations	**-3,767**	**3,568**		**4,978**	**18,600**
Discontinued operations					
Income from discontinued operations	-85	30	14	2,340	-2,537
Net income	**-3,852**	**3,598**		**7,318**	**16,063**
Attributable to:					
Owners of the parent	-3,852	3,598		7,318	16,052
Non-controlling interests	0	0		0	11
	-3,852	3,598		7,318	16,063
Earnings per share – basic and dilutive, for net income for the reporting period attributable to ordinary equity holders of the parent (in EUR)	**-0,19**	**0,17**	16	**0,35**	**0,76**
Earnings per share for continuing operations – basic and dilutive, for net income for the reporting period attributable to ordinary equity holders of the parent (in EUR)	**-0,18**	**0,17**	16	**0,24**	**0,88**

** Previous year's figures adjusted partly (see note 3, Presentation of the consolidated income statement).*

See accompanying notes to the consolidated financial statements.

Consolidated statement of comprehensive income (IFRS)

in kEUR	Quarterly Report (unaudited) 1.10. - 31.12.2010	1.10. - 31.12.2009	12-Months Report 1.1. - 31.12.2010	1.1. - 31.12.2009
Net income	-3,852	3,598	7,318	16,063
Foreign currency translation differences	-1	0	-1	1
Sum of the result which is recorded directly in equity	**-1**	**0**	**-1**	**1**
Total comprehensive income	**-3,853**	**3,599**	**7,317**	**16,064**
Attributable to:				
Owners of the parent	-3,853	3,599	7,317	16,053
Non-controlling interests	0	0	0	11
	-3,853	**3,599**	**7,317**	**16,064**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Shareholders' Equity (IFRS)

	Equity attributable to owners of the parent								
in kEUR	Share capital	Additional paid in capital	Treasury shares	Other revenue reserves	Retained earnings	Accum. other comprehensive income (loss)	Total	Non-controlling interests	Total equity
	(note 33)	(note 33)	(note 33)	(note 33)					
Balance at January 01, 2010	**21,235**	**29,875**	**0**	**34,822**	**11,352**	**1**	**97,285**	**0**	**97,285**
Net income	-	-	-	-	7,318	0	7,318	0	7,318
Foreign currency translation	-	-	-	-	-	-1	-1	-	-1
Sum of the result which is recorded directly in equity	-	-	-	-	-	-1	-1	0	-1
Total comprehensive income	**0**	**0**	**0**	**0**	**7,318**	**-1**	**7,317**	**0**	**7,317**
Allocation to other revenue reserves				2,936	-2,936		0		0
Dividends	-	-	-	-	-14,864	-	-14,864	-	-14,864
Stock option plan	-	60	-	-	-	-	60	-	60
Purchase of treasury shares	-	-	-14,951	-	-	-	-14,951	-	-14,951
Balance at December 31, 2010	**21,235**	**29,935**	**-14,951**	**37,758**	**870**	**0**	**74,847**	**0**	**74,847**
Balance at January 01, 2009	**21,235**	**31,800**	**0**	**31,174**	**11,883**	**0**	**96,092**	**718**	**96,810**
Net income	-	-	-	-	16,052	-	16,052	11	16,063
Foreign currency translation	-	-	-	-	-	*1*	*1*	-	*1*
Sum of the result which is recorded directly in equity	-	-	-	-	-	1	1	0	1
Total comprehensive income	**0**	**0**	**0**	**0**	**16,052**	**1**	**16,053**	**11**	**16,064**
Release additional paid in capital	-	-1,929	-	-	1,929	-	0	-	0
Allocation to other revenue reserves		-	-	3,648	-3,648	-	0	-	0
Dividends	-	-	-	-	-14,864	-	-14,864	-	-14,864
Stock option plan	-	227	-	-	-	-	227	-	227
Acquisition of non-controlling interests	-	-223	-	-	-	-	-223	-729	-952
Balance at December 31, 2009	**21,235**	**29,875**	**0**	**34,822**	**11,352**	**1**	**97,285**	**0**	**97,285**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows (IFRS)

in kEUR	notes	1.1. - 31.12.2010	1.1. - 31.12.2009
Cash Flows from operating activities:			
Income before income tax from continuing operations		6,055	24,823
Income before income tax from discontinued operations		2,898	-1,908
Income before income tax		8,953	22,915
Adjustments for:			
Impairment on goodwill	22	0	2,413
Amortisation and impairment of intangible assets	23	15,418	6,930
Depreciation and impairment of property and equipment	24	3,649	4,770
Gain / loss on disposal of property and equipment		-43	81
Gain / loss from goverment grants		-69	-51
Interest income	12	-2,226	-2,370
Interest expense	12	150	349
Gain / loss on foreign currency translation	12	-1	4
Stock option expense	37	60	227
Valuation allowance for trade accounts receivable		667	4,105
Valuation allowance for non-current assets		0	649
Gain / loss due to changes in consolidated group		-5,419	206
Other non-cash expenses / income		0	-142
Changes in non-current provisions		-271	-648
Changes in other non-current and financial assets		-153	-258
Operating profit before changes in operating assets and liabilities		*20,715*	*39,180*
Changes in operating assets and liabilities:			
Trade accounts receivable		-9,936	2,874
Other current and financial assets		144	2,339
Trade accounts payable		6,246	-3,740
Current provisions		373	306
Accrued expenses, other current and financial liabilities		3,143	-206
Income taxes paid		-4,055	-16,066
Cash provided by operating activities		**16,630**	**24,687**

in kEUR	notes	1.1. - 31.12.2010	1.1. - 31.12.2009
Cash Flows from investing activities:			
Capitalized intangible assets		-2,282	-3,263
Purchase of property and equipment		-1,380	-1,905
Proceeds from sale of property and equipment		25	13
Purchase of a subsidiary, net of cash purchased	14	3,505	623
Proceeds from government grants		69	51
Cash used in investing activities		**-63**	**-4,482**
Cash Flows from financing activities			
Purchase of treasury shares	33	-14,987	0
Acquisition of non-controlling interests*	4	0	-952
Dividends paid	34	-14,864	-14,864
Interest received		2,171	2,155
Interest paid		-55	-73
Cash used in financing activities		**-27,735**	**-13,734**
Effects of exchange rates on cash		**4**	**0**
Change in cash and cash equivalents		**-11,164**	**6,471**
Cash and cash equivalents at beginning of reporting period	**17**	**59,932**	**53,461**
Cash and cash equivalents at end of reporting period	**17**	**48,768**	**59,932**

* *adjusted disclosure (see note 3, IAS 7 Statements of Cash Flows)*

See accompanying notes to the consolidated financial statements.

Presentation of consolidated financial statements

General principles

1. Presentation of the consolidated financial statements

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

The consolidated financial statements of telegate AG and the subsidiaries included in the financial statements were prepared in accordance with the accounting standards of the International Accounting Standards Board (IASB) and the International Financial Reporting Standards (IFRS) – as applicable in the European Union – by December 31, 2010.

All International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) as well as the interpretations of the International Financial Reporting Interpretations Committee (IFRIC – formerly SIC) were taken into account, which were obligatory on the balance sheet date of the financial statements.

The consolidated annual financial statements were supplemented by specific disclosures, in accordance with article 4 of the directive (EC) no. 1606/2002 of the European Parliament and Council of July 19, 2002 in conjunction with section 315a HGB (Commercial Code).

The consolidated financial statements of telegate AG (hereinafter also group/telegate/telegate group/company) are stated in euro. Unless stated otherwise, all values were rounded to thousand (kEUR). For computational reasons, rounding differences of the mathematically exact values may occur in tables and references.

Preparation of the consolidated financial statements is basically made by using the acquisition cost concept.

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

The consolidated annual financial statements and corporate management report prepared by December 31, 2010 are submitted to the provider of the electronic Federal Official Gazette and electronically published in the Federal Official Gazette.

Consolidation

Basically, the individual financial statements of all direct and indirect subsidiaries (with telegate AG having a controlling influence according to IAS 27.13) are included in the consolidated financial statements, in addition to the individual financial statements of telegate AG, according to IAS 27 "Consolidated and separate financial statements". These financial statements were prepared according to standard and IFRS-conforming accounting principles by the fixed date of the consolidated financial statements December 31, 2010.

Below is a statement of the investment holdings of the telegate group by December 31, 2010, in accordance with section 313 subsection 2 HGB (Commercial Code):

Name	Seat	Share in
telegate Media AG	Essen	100 %
Datagate GmbH	Martinsried, community Planegg	100 %
WerWieWas GmbH [1]	Martinsried, community Planegg	100 %
telegate Akademie GmbH i.L. [2]	Rostock	100 %
11811 Nueva Información Telefónica S.A.U.	Madrid, Spain	100 %
Uno Uno Ocho Cinco Cero Guías, S.L.	Madrid, Spain	100 %
11880 telegate GmbH	Vienna, Austria	100 %
telegate LLC [3]	Yerewan, Armenia	100 %

[1] *Shares of this group company are held indirectly.*
[2] *Dissolution of telegate Akademie GmbH i.L. was resolved as of December 31, 2009.*
[3] *Share capital of the Armenian company amounts to AMD 50,000 (Armenian Dram).*

Consolidation changed in the annual year 2010 in comparison to December 31, 2009 as follows (for this purpose see also note 4 "Changes in consolidation"):

- Telegate Auskunftsdienste GmbH was merged into telegate Media AG as of July 01, 2010, see note 4.
- Final consolidation of Telegate Italia S.r.L. (Turin, Italy) as of June 01, 2010, see note 14.

Consolidation methods

Capital consolidation is made according to the purchase method in accordance with IFRS 3 "Business combinations". Here, the identifiable assets acquired and debts assumed are valued with their fair value on the date of acquisition. Acquisition cost of a business combination is based on the amount of consideration transferred, valued with the fair value on the date of acquisition and interest in the company acquired without controlling influence. For every business combination, the buyer values the interest in the company acquired without controlling influence either with the fair value or the corresponding share of the identifiable net assets of the company acquired. Costs accruing within the scope of the business combination are recorded as expense.

Goodwill is valued on the date of acquisition at the difference of the surplus of the consideration transferred and the amount of interest without controlling influence compared to the identifiable assets acquired and debts assumed of the group. If this consideration is under the fair value of the net assets of the subsidiary acquired, the difference is recorded in the profit and loss statement.

Earnings of the subsidiaries, which are acquired or sold, are included in the group's profit and loss statement from the time when control is obtained and until the actual loss of control respectively.

All main receivables and liabilities, expenses and income as well as interim earnings between the group companies are eliminated within the scope of consolidation, in accordance with IAS 27.20.

The equity of a subsidiary which is not, directly or indirectly, attributed to a parent is a non-controlling interest. This interest shall be shown in the group's balance sheet under equity, however, separated from shareholders' equity. Profits, losses and each component of other income are correspondingly attributed to the non-controlling interest.

A set off of the difference between the acquisition cost and the value of the non-controlling interest against the parent's equity is made for the acquisition of a non-controlling interest.

Consolidated cash flow statement

The company shows its funds statement in accordance with IAS 7 "Cash flow statements". The option of an indirect representation is chosen in accordance with IAS 7.18 (b) with regard to the presentation of cash flow from business operations. However, direct presentation is provided by IAS 7.21 for the presentation of cash flow from investment and financing activity. This was applied accordingly.

2. Summary of main accounting and valuation principles

The main accounting and valuation principles used for preparation of the consolidated financial statements are explained below.

Realization of revenues

Revenues are valued with the fair value of the consideration received or to be claimed. Revenues accrue as gross inflow of economic advantages within the scope of the ordinary business operation of a company, which increases the net assets of the corresponding annual year (IAS 18.7 in connection with RK 74 of the IFRS framework concept). Deductions, value added taxes and other taxes connected with the sale shall be deducted from this amount.

In line with IAS 18.20 "Rendering of services", revenues are basically realized and entered, if they can be assessed reliably. This is the case when all of the four conditions below have been met collectively:

- the amount of income can be assessed reliably;
- it is reasonably probable that the company derives the economic benefit of the business;
- the degree of completion of the business on the balance sheet date can be determined reliably; and
- the costs accrued for the business and the costs to be expected until the business is completely winded up can be assessed reliably.

Amounts, which not result in an equity increase are not shown as revenue, in accordance with IAS 18.8. A net statement (balancing of proceeds and costs) of the revenues is made on this basis, whenever the company acts as agent instead of principal in the corresponding contractual relationships. In turn, this would result in a gross statement (costs are deducted from proceeds).

The telegate group shows its revenues in the profit and loss statement, if services were rendered. Revenues of the core business directory assistance solutions are entered affecting the current-period result on the date of rendering of the service on the basis of the number and duration of the calls made by the end customer via the company. Revenues generated by virtue of service agreements with telecommunications providers are based on the number and duration of the calls made by the end customer via the company of the corresponding telecommunications provider.

Revenues from the advertising sales sector are realized affecting the current-period result on the basis of an agreement concluded with the end customer in accordance with the degree of completion. Basis of the calulation are the estimated costs for the individual details of the service wanted by the customer. The degree of completion is determined in proportion of the costs accrued to the estimated total costs for the business as of the fixed date. Revenues from the supply of services, whose appropriate costs accure over the whole contract period, are allocated linear over that contract period; by services, whose appropriate costs accure entirely predominant at the begin of the contract period, these allocation is not applicable. Proceeds are composed of the sales price for individual packages respectively services and are graded according to package sizes. SMBs are the end customers in this field of revenues, in particular.

Revenues from the software business sector are recorded affecting the current-period result as of the date of the transfer of the software to the customer. These revenues are based on the agreements concluded with the customers on the type and volume of the corresponding software. Both private and corporate customers are the target group.

Realization of income from interest

Income from interest is recorded when interest accrued. Calculation of income from interest is made on the basis of the outstanding investment and the interest rate agreed with the contracting party. An accrual on an accrual basis is made.

Functional currency concept

Accounting of foreign currency transactions is made in accordance with IAS 21 "The effects of changes in foreign exchange rates" in the telegate group.

Foreign currency transactions are recorded for the first time with the exchange rate on the transaction date. Monetary assets and debts expressed in foreign currency are converted in euro (IAS 21.23a) with the exchange rate of this day (fixed day rate) on every balance sheet date. The resulting conversion differences are recorded affecting the current-period result. Non-monetary assets and debts expressed in foreign currency, which are valued with their fair values, are converted in euro with the valid rates of the day of the determination of the fair values, in accordance with IAS 21.23c. Any resulting differences are directly recorded under equity.

Assets and debts of the foreign group company are converted with the exchange rate of the balance sheet date within the scope of consolidation. Income and expenses are converted with average exchange rates of the corresponding reporting period, with the exception of significant fluctuations of the conversion rates. The resulting currency conversion differences are classified as equity and are recorded not affecting the operating result under the position "Accumulated other comprehensive income". These accumulated conversion differences are recorded affecting the current-period result on the date when the group company leaves.

Advertising costs

Advertising and marketing costs are entered as expense in the period of their accrual, in accordance with IAS 38.69c. Expenses are accrued on an accrual basis under the position "Other current assets" and are shown as expense in the period when the group receives the right of access for the goods or services, with regard to the settlement of production costs for the making of commercials, which is normally made by means of advance payments.

Old age pension schemes

Accounting of old age pension schemes at the telegate group is made in accordance with IAS 19 "Employee benefits" and is dependent on its classification as defined contribution or defined benefit plans.

For *defined benefit pension plans*, an actuarial valuation is performed on the balance sheet date of the annual financial statements in each case.

The amount of the pension obligation to be recorded is calculated by means of the present value expectancy procedure, in accordance with IAS 19.64 ff. Demographic presumptions (e.g. fluctuation rate) and financial presumptions (e.g. discount interest rate, salary and pension increase trends) are included in the valuation of the present value of the defined benefit obligation in this procedure.

Actuarial profits and losses are recorded affecting the current-period result over the average remaining years in service of the beneficiary, provided that they exceed 10 % of the higher amount from the scope of liability and the fair value of the plan assets.

Expenditure of years in service to be set off is immediately recorded affecting the current-period result to the extent that the benefits are already non-forfeitable and are otherwise allocated linear over the average period until the non-forfeitability of the changed benefits.

The current expenditure of years in service is shown under general administrative expenses and the interest share is shown under financial results.

The positive balance, which is determined in accordance with IAS 19.54, of the present value of the defined benefit liability on the balance sheet date and the fair value of plan assets on the balance sheet date, adjusted by expenditure of years in service to be set off subsequently which were not recorded yet affecting the current-period result and actuarial profits and losses is shown in the balance sheet under the position "Provision for old age pension schemes". Should the value of the plan assets exceed the corresponding pension obligations, the exceeding amount is shown under the position "Other current assets", considering the ceiling specified in IAS 19.58 (b).

For *defined contribution pension plans*, the company pays contributions to public or private social security insurance authorities by virtue of statutory or contractual provisions. By payment of the contributions, the company has no other performance liabilities.

The accruing contribution payments are recorded as expense in the period when the payment becomes due.

Share-based payment

telegate AG grants members of the Management Board, members of the management bodies of affiliated companies as well as other employees of the telegate group share-based payments with compensation by means of equity instruments (stock options), which are shown in the balance sheet under "Share-based payment", in accordance with the provisions of IFRS 2.

These share-based payments are valued with the fair value on the date of undertaking, which is determined by means of the modified Black-Scholes Options-Pricing-Model. The fair value of the stock options, which is determined on the date of undertaking, is recorded linear as expense in the profit and loss statement with a corresponding cross entry under equity (position "Additional paid in capital") over the blocking period. The in-house estimation of the number of exercisable stock options to be expected serves as basis for this purpose. This estimation is reviewed and adjusted on a quarterly basis, if there is information that the number of exercisable stock options to be expected deviates from the previous estimation. Necessary adjusting entries are recorded to the full amount affecting the current-period result in the period when the estimation changes.

The dilution effect of the outstanding stock options is taken into consideration as additional dilution (see note 16), with regard to the calculation of the earnings per share.

Cash and cash equivalents

The telegate group considers all balances with financial institutions which are immediately available, cash and short-term deposits with a remaining life of 3 months or less – calculated from the date of acquisition – as cash or cash equivalents (IAS 7.6), in accordance with IAS 7 "Cash flow statements". Deposits of no more than 3 months are considered as cash equivalents, if the risk of fluctuations in value is irrelevant or a notice of withdrawal is possible at any time due to a contractual provision.

Financial instruments

Financial assets and financial liabilities are considered in the balance sheet from the time, when the corresponding group companies become a contracting party of the financial instrument (IAS 39.14).

Financial assets are classified

- as financial assets valued affecting the current-period result with the fair value,
- as loans and receivables,
- as investments kept until the final due date,
- as financial assets available for sale,
- as derivatives designated as hedging tool and which are effective as such.

For the first estimate, financial assets are valued with their fair value.

In addition, transaction costs are included which can be directly attributed to the financial asset with regard to financial investments without a valuation affecting the current-period result with the fair value. The group determines the classification of its financial assets with the first estimate and reviews this assignment at the end of each annual year, provided that this is permissible and appropriate.

All purchases and sales of financial assets, which are usual in the market, are recorded in the balance sheet on the trading day, e.g. the day when the company enters into the purchase commitment. Purchases and sales, which are usual in the market, concern purchases and sales of financial assets providing the delivery of the assets within a period determined by market provisions or conventions.

Trade accounts receivable are assigned to the financial assets, because they represent a right granted by contract to receive liquid assets at a future time. Trade accounts receivable are valued with the current purchase price applying the effective yield method and deducting value adjustment for decreases in value. Profits and losses are recorded in the net earnings, if the accounts are written off or depreciated as well as within the scope of amortizations.

Securities are valued with accession with the value to be assessed including transaction costs, in accordance with IAS 39.43. Securities are either classified as belonging to the trading portfolio ("trading securities") or available for realization ("available-for-sale") and are valued with their fair value in the following periods. If securities are kept for trading purposes, the profits and losses which result from changes of the fair value are recorded in the net earnings. For securities available for sale, profits and losses of changes of the fair value are directly recorded under equity, until the security is sold or a decrease in value was determined. The accumulated profits and losses which were previously recorded under equity are shown at this time in the profit and loss statement of the period.

Trade accounts payable are allocated to financial liabilities representing a liability granted by contract to dispose liquid assets at a future time. Trade accounts payable are estimated with their fair value and valued at amortized acquisition cost subsequently.

Impairment of financial assets

The group determines on every balance sheet date if a decrease in value of a financial asset or a group of financial assets is existent.

Financial assets shown in the balance sheet by their amortized acquisition cost

Should there be an objective indication that a decrease in value occurred of loans and receivables shown in the balance sheet at amortized acquisition cost, the loss amount is calculated from the difference between the book value of the asset and the cash value of the future cash flow expected (excepting future loan losses expected which did not arise yet), discounted with the original effective interest rate of the financial asset (e.g. the effective interest rate determined at the first estimate). The book value of the asset is reduced using an absorption account. The decrease in value loss is recorded affecting the current-period result.

Initially, it is determined if there is an objective indication to a decrease in value of financial assets which are of significance individually and financial assets which are not of significance individually or collectively. If the group determines that there is no objective indication to a decrease in value of a financial asset which was examined individually (whether of significance or not), the group assigns the asset to a group of financial assets with comparable default risk profiles and examines them for decreases in value collectively. Assets which were examined for a decrease in value individually and with a value adjustment entry are not included in the decrease in value assessment on a portfolio basis.

The previously recorded value adjustment is cancelled if the amount of the value adjustment decreases during one of the following reporting periods and this decrease can be objectively attributed to facts which arose after the recording of the decrease in value. The increased valuation on previous balance sheet figures is limited to the amortized acquisition cost at the time of the increased valuation on previous balance sheet figures with regard to the amount. The increased valuation on previous balance sheet figures is recorded affecting the current-period result.

A decrease in value using an absorption account is made, if there are objective indications (e. g. probability of insolvency or considerable financial difficulties of the debtor) for trade accounts receivable that not all amounts due will be received in accordance with the originally agreed payment conditions. Amounts of decreases in value are written off, if they are classified as uncollectible.

Financial investments available for sale

If a financial investment available for sale is decreased in value, an amount recorded under equity in the difference between the acquisition cost (less any redemptions and amortizations) and the fair value less any value adjustments of this financial asset, which may have been recorded affecting the current-period result at an earlier period, is transferred to the profit and loss statement. Increased valuations on previous balance sheet figures of equity instruments classified as available for realization are not recorded in the profit and loss statement.

Increased valuations on previous balance sheet figures of liability instruments classified as available for sale are recorded affecting the current-period result, if the increase of the fair value of the instrument objectively results from an event arising after the record of the decrease in value affecting the current-period result.

Write off of financial assets and financial liabilities

Financial assets are written off, if the contractual rights to payments from the financial assets exist no longer or the financial assets are transferred with all main risks and opportunities.

A financial liability is written off, if the obligation, which is the basis of this liability, was met, terminated or expired.

Goodwill

The goodwill arising within the scope of consolidation represents the difference between the consideration transferred and the identifiable assets acquired and debts assumed of the group, in accordance with IFRS 3.32 to IFRS 3.33.

This goodwill is assigned to a cash generating item which represents the corresponding group company at telegate as of the date of acquisition.

The goodwill is recorded as asset and is subject to a lower of cost or market examination settled by IAS 36 at least once a year. A decrease in value expense recorded for the goodwill shall not be brought forward in the following reporting periods.

Self-produced intangible assets

The estimate of intangible assets is made in accordance with the regulations of IAS 38 "Intangible assets". Thus activation is only performed if all of the conditions below were fulfilled:

- the asset prepared is identifiable (e.g. software and new procedures),
- it is probable that the asset prepared renders a future economic benefit and
- the cost of the asset can be reliably determined.

Self-produced intangible assets are depreciated and amortized linear over their useful life.

Acquired intangible assets

Acquired intangible assets are activated as acquisition cost on accession, in accordance with IAS 38.24. They also include any other costs required to transfer the asset in the condition intended by the management, in accordance with IAS 38.27 to IAS 38.30. Third party grants reduce the acquisition cost according to IAS 20.24 in connection with IAS 20.27. Depreciation and amortization of an intangible asset with a limited useful life is made linear over the average useful life according to plan, in accordance with IAS 38.97 and IAS 38.98. Period and method of depreciation and amortization for intangible assets with a limited useful life are reviewed and adjusted, if necessary, at the end of each annual year, in accordance with IAS 38.104.

For intangible assets with an indefinite useful life, a review for recoverability is performed for the individual asset at least once a year, in accordance with IAS 38.108. Depreciation and amortization according to plan is not made (IAS 38.107). The useful life of an intangible asset with an indefinite useful life is reviewed once a year with respect to the fact whether the assessment of an indefinite useful life is still justified. The change of the assessment is made on a prospective basis, if this is no longer the case.

Profits and losses of the write off of intangible assets are determined as difference between the net revenues and the book value of the assets and are recorded affecting the current-period result in the period when this item is written off.

Property and equipment

Treatment of property and equipment is regulated by IAS 16 "Property, plant and equipment". Property and equipment are assessed with their acquisition or production cost for their first estimate, in accordance with IAS 16.15. All costs which are directly attributable and arise for the transfer of the asset in the condition and surroundings intended by the management increase the acquisition cost, in accordance with IAS 16.16b. Property and equipment are valued by the company with accrued acquisition or production cost after their first estimate, in accordance with IAS 16.30.

Depreciation and amortization is made by linear allocating the costs or valuation of assets, excepting equipment under construction, over their expected useful life. Any extraordinary depreciation and amortization is taken into consideration. Residual value and period of depreciation and amortization are reviewed and adjusted, if necessary, at the end of each annual year, in accordance with IAS 16.51.

Third party grants reduce the acquisition cost according to IAS 20.24 in connection with IAS 20.27. Maintenance costs are entered as expense.

In addition, costs are activated which will be incurred due to the obligation entered into for the removal of fixtures by tenants, in accordance with IAS 16.16c. These obligations are entered on the liabilities side as provisions in the same amount at the same time, in accordance with IAS 37.48. First entry is made not affecting the operating result and the expense is allocated over the periods only by the arising depreciation and amortization of the asset item.

Impairment of non-financial assets

The group reviews the book values of its property and equipment and intangible assets at every balance sheet date, in accordance with IAS 36 "Impairment of assets", in order to determine if there are clues to a demand for a decrease in value of these assets. If such clues are existent, the recoverable amount of the asset is estimated to determine the extent of the possible decrease in value expense. Estimate of the recoverable amount is made with the cash generating item to which the asset belongs, in accordance with IAS 36.22, if the recoverable amount for the individual asset cannot be estimated.

Decrease in value tests are performed each year for intangible assets with an indefinite useful life. This also applies in the event of clues to a decrease in value. The recoverable amount is the higher amount of the fair value less sale costs and utility value. The estimated future payment flows are deducted by the current common input tax rate, which reflects the specific risks of the assets not considered in the payment flows to the cash value. The book value of the asset (the cash generating item) is reduced to the recoverable amount, if the estimated recoverable amount of an asset (or a cash generating item) is lower than the book value. Decrease in value expense is immediately recorded affecting the current-period result, in accordance with IAS 36.60.

If the reason for a decrease in value performed at an earlier stage is no longer applicable, an appreciation in value affecting the current-period result is made on the accrued acquisition or production cost (IAS 36.114 in connection with IAS 36.117).

Government assistance

In accordance with IAS 20 "Accounting for government grants and disclosure of government assistance", this assistance is not recorded until there is a sufficient security that the company fulfils the connected conditions and the company actually receives the assistance (IAS 20.7). IAS 20 distinguishes between grants related to income and investment allowances. Grants related to income are described as performance-based assistance and are recorded affecting the current-period result in the period, when the corresponding expenses accrue. In accordance with IAS 20.26, investment allowances may both be allocated in the balance sheet as passive items of accrual and deferral and be appropriated over the useful life or they reduce the book value of the asset acquired, in accordance with IAS 20.27.

The company decided to treat government assistance for assets as reduction of acquisition cost, in accordance with IAS 20.27.

Provisions

Provisions are established provided that there is a current liability towards third parties from an event from the past, which probably result in an outflow of resources in the future and whose amount can be assessed reliably, in accordance with IAS 37 "Provisions, contingent liabilities and contingent assets". Provisions which not result in an outflow of resources in the subsequent year are assessed with their amount of settlement discounted to the balance sheet date. For this purpose, the amount of settlement most likely to arise is presumed for individual liabilities. Discounting is based on market interest rates. The amount of settlement also includes expected increases in costs. Provisions are not set off against recourse accounts.

Provisions for reorganization expenses are recorded, when the group prepared a detailed and formal reorganization plan which was communicated to the parties concerned, in accordance with IAS 37.72.

Removal liabilities are entered on the liabilities side as provision, when the liability comes into existence and are entered on the assets side as fixtures by the tenant – as ancillary costs of acquisition – at the same time, in accordance with IAS 37.48. The expense is allocated over the periods of use with the arising depreciation and amortization of the asset item and accumulation of the provision.

Accrued liabilities

These liabilities are defined in IAS 37.11 and concern debts for the payment of goods or services received or delivered, which were neither paid nor invoiced by the supplier or formally agreed. They differ from trade accounts payable, because they were invoiced by the supplier or formally agreed. The company shows liabilities under this position, which result from invoicing by the supplier not received yet as well as liabilities towards employees.

Leases

The determination whether an agreement includes a lease is made on the basis of the economic content of the agreement at the time of conclusion of the agreement, in accordance with IFRIC 4 and requires an assessment whether the performance of the contractual provision is dependent on the use of a particular asset or particular assets and whether the agreement grants a right of use for the asset. A new valuation shall be performed after commencement of the lease, when one of the conditions described in IFRIC 4.10 was fulfilled, e.g. an amendment of the terms of the contract or major changes of the asset.

Financing-leases, which basically transfer all chances and risks connected with the property in the asset transferred to the group, result in an entering on the assets side of the leasing object with the fair value of the leasing object or with the cash value of the minimum leasing payment, provided that this value is lower, at the time of the conclusion of the lease. Leasing payments are allocated to financial expenses and the amortization portion of the residual debt in a manner that a constant interest on the remaining leasing debt is created over the period. Financial expenses are immediately recorded affecting the current-period result.

The leasing objects are fully depreciated and amortized over the shorter of the two periods of expected useful life and duration of the lease, if the passing of ownership to the group is not sufficiently secure at the end of the duration of the lease.

Leasing payments for operating-leases are recorded linear as expense in the profit and loss statement over the duration of the lease.

Taxes

Effective income taxes

Effective tax refund claims and tax liabilities of current and previous periods are assessed with the amount of an expected refund by the tax authority and payment to the tax authority respectively. Tax rates and tax laws applicable on the particular tax assessment periods from the basis of calculation of the amount.

The effective tax expenditure is determined on the basis of the taxable income for one annual year. The taxable income differs from the annual net income of the profit and loss statement, because expenses and income are excluded which are deductible for tax purposes in another assessment period or never will be deductible for tax purposes and are exempted from taxation respectively.

Deferred taxes

Deferred taxes concern a tax burden and tax relief respectively to be expected from differences between book values of assets and debts of the annual commercial and tax financial statements. IAS 12 uses the temporary-concept as a basis of the balance sheet estimate of deferred taxes. This balance sheet oriented concept considers the differences of assets and debts between the IFRS-financial statements and the fiscal determination of profits. These differences are described as temporary differences and are defined as differences between the book value of an asset or a debt in the balance sheet and its tax value, in accordance with IAS 12.5. In general, the company assesses deferred tax liabilities for all taxable temporary differences and for deferred tax claims to the probable extent that taxable profits are available for which the deductible temporary differences may be used.

The balance sheet item obligation of deferred tax asset also includes deferred taxes on losses brought forward which were not used yet, in accordance with IAS 12.34. Deferred tax assets were entered on the assets side to the probable extent that a taxable earning is available in the future or that sufficient deferred tax liabilities exist, against which deductable temporary differences and fiscal losses not yet used may be set of against.

The book value of deferred tax assets is reviewed with regard to its recoverability on every balance sheet date, in accordance with IAS 12.56.

Deferred taxes are assessed on the basis of the tax rates expected, which are applicable at the time of the pay of the debt or realization of the asset. In general, they are recorded affecting the current-period result, except for such positions which are directly entered under equity. Deferred taxes are assessed in accordance with the tax regulations of the countries where the group is active.

Non-current assets held for sale and discontinue operations

In accordance with IFRS 5 “Non-current assets held for sale and discontinued operations”, non-current assets or sale groups are classified as held for sale, if the respective book value is mainly realized by a sale transaction and not a continued use. According to IFRS 5.15, they shall be measured with the lower value of the book value and fair value less sale costs. No scheduled depreciation and amortization is made for plant and property and intangible assets classified as held for sale.

Income and expenses of discontinued operations are recorded in the profit and loss statement of both the reporting period and comparative period separately from income and expenses of continuing operations and are separately shown as earnings after taxes of the discontinued operation. (IFRS 5.33).

Earnings per share

The company calculates earnings per share in accordance with the provisions of IAS 33 "Earnings per share".

Basic earnings per share shall be determined by division of the net earnings due to the ordinary shareholders of the parent (numerator) with the weighted average amount of ordinary shares in circulation within the reporting period (denominator), in accordance with IAS 33.10.

The net earnings due to the ordinary shareholders of the parent as well as the weighted average amount of ordinary shares in circulation are validated by all watering effects of potential ordinary shares, in accordance with IAS 33.31 (a conversion option is existent which was not exercised yet), for the calculation of the dilutive earnings.

The potential ordinary shares with watering effects at telegate result from stock options which are only included in the calculation, when the corresponding exercised conditions were fulfilled on the balance sheet date of the financial statements.

Determination of the watering effect of the stock options is exclusively made, when the conversion of stock options in ordinary shares has no counteracting effects to the watering.

Delayed purchase price payments for subsidiaries sold (earn out)

Contracts for the sale of subsidiaries may include a variable part, which may result in delayed payments of purchase prices (earn out) in the future.

Claims for payment arising herefrom increase the sales price, when the inflow of economic use is considered as secure. However, if the inflow of economic use is only probable, no asset is assessed and a consideration of the facts as contingent assets is made in the notes to the financial statements instead (IAS 37.34).

Contingent assets are valued on every balance sheet date. The asset and the corresponding income are recorded in the financial statements of the reporting period where the change occurs, if an inflow of economic use becomes almost secure (IAS 37.35).

Estimates and discretionary decisions

An estimate of the effects of indefinite future events is required for the determination of the book values of certain assets and debts. Therefore, the management makes discretionary decisions, estimates and presumptions for the preparation of the consolidated financial statements, which affect the presentation of the net worth position, the financial position and the profit position. The most important presumptions for the future as well as other main sources of estimate uncertainties existing at the balance sheet date, which represent a considerable risk that a major adjustment of the book values of assets and debts becomes necessary within the next annual year, are explained below.

Value adjustments on trade accounts receivable

telegate creates value adjustments on doubtful trade accounts receivable, in order to take expected losses into account which may be a consequence of a default of receipts of customer payments. Maturity profiles of the receivables, experiences with regard to the write off of receivables in the past and knowledge of the customer's credit standing are the basis for the evaluation of the reasonableness of these value adjustments. With regard to the development of these value adjustments, see note 18.

Impairment of goodwill
The group reviews whether the goodwill is decreased in value at least once a year. This requires an estimate of the utility value of the cash generating items to which the goodwill is allocated. The executive management has to estimate the probable cash flows from the cash generating items for the estimation of the utility value and, in addition, has to choose an appropriate discounting rate to determine the cash value of these cash flows. The book value of the goodwill amounted to kEUR 7,474 (2009: kEUR 7,474) as of December 31, 2010. For this purpose see note 22.

Asset cooperation agreement
A cooperation agreement was identified as intangible asset and shown in the balance sheet with its fair value in the amount of kEUR 7,414, with regard to the first consolidation of "Telegate Auskunftsdienste GmbH", which was merged into telegate Media AG as of July 01, 2010 (see note 4), within the scope of the purchase price allocation in the year 2006. Depreciation and amortization period was determined to 7 years due to the evaluation of the management. Estimation of the probable future cash flows from this agreement and the discounting rate to be used for the determination of the cash value of these cash flows was the basis for the determination of the depreciation and amortization period. The book value of this intangible asset amounted to kEUR 2,560 (2009: kEUR 3,619) as of December 31, 2010.

Intangible assets
With regard to the first consolidation of "telegate Media AG" in 2008, regular customers were identified as intangible assets and shown in the balance sheet with their fair value within the scope of the purchase price allocation. Here, a depreciation and amortization period of 10 years was determined and a linear method of depreciation and amortization was selected due to the evaluation of the management. The estimate of the probable future cash flows from these assets and the discounting rate to be used for the determination of the cash values of these assets was the basis for the determination of the depreciation and amortization period. After an extraordinary depreciation in the preceding fiscal year the book value of these regular customers acquired amounted to kEUR 13,335 (2009: kEUR 24,998) as of December 31, 2010. For this purpose see also note 23.

Deferred taxes on fiscal losses brought forward
telegate also assesses deferred taxes on losses brought forward which were not used yet, in accordance with IAS 12.34. They shall be considered to the probable extent that a taxable earning is available in the future and the fiscal losses brought forward which were not used yet can be set off against this earning. The management relies on the criteria described in IAS 12.36, with regard to the probability valuation. However, all valuations which are aimed to the future include the risk that an adjustment of the book values may have to be performed.

The gross value of the deferred tax asset on fiscal losses brought forward (before value adjustment) amounts to kEUR 8,038 (2009: kEUR 6,001) as of the balance sheet date. kEUR 0 (2009: kEUR 0) of this amount are attributable to discontinued operations.

Provisions within the scope of legal disputes
The company uses margins of discretion within the scope of the creation of provisions for unsettled legal disputes. The assessment of main risks with regard to the unsettled legal disputes in connection with data costs, in particular, is among others supported by opinions of external experts.

3. Changes of the accounting and valuation principles

The applied accounting and measurement methods basically correspond to the methods applied in the previous year. Furthermore, telegate made changes in the disclosure of the consolidated profit and loss statement and the consolidated balance sheet. In addition, the group applied new standards and interpretations and amendments respectively for the first time in the annual year 2010. There were no effects from this application on the group´s net worth, financial and earnings situation, however, it resulted in modified additional notes to the financial statements and a changed disclosure of the consolidated cash flow statement.

Presentation of the consolidated income statement

A company may present its profit and loss statement using either the total expenditure format or the cost-of-sales format. telegate decided to use the cost-of-sales accounting format. With regard to the disclosure of the cost-of-sales accounting format, telegate followed the minimum classification format in the previous annual years, in accordance with IAS 1.81 and IAS 1.82. Additional items were added, if they were considered to be supporting for the understanding of the company's profit situation. In addition, a transition to the classic cost-of-sales accounting format was listed in the notes to the consolidated financial statements, as defined by IAS 1.103.

telegate further continued the implementation of its transformation strategy since the annual year 2009. These steps were accompanied by the integration of telegate Media AG, which is a wholly-owned subsidiary of telegate AG since March 16, 2009, a focus on the German market which was reflected in the sale of the French and Italian subsidiaries and a further expansion of a classic sales force and the contract of sales partnerships to extend the reach for the advertisers.

The cost structure of telegate, which previously was a pure telecommunications specialist, changed significantly due to the considerable expansion by the business sector Media and local search expert and advertising partner for SMB business customers respectively and the corresponding completed establishment of a strong sales force in the annual year 2010.

In accordance with the provisions of IAS 1.45 and IAS 1.46, telegate therefore adapted the attribution of individual cost items and thus the disclosure of the area of activities within the profit and loss statement, in order to furnish the addressees of the consolidated financial statements more reliable, meaningful and relevant information.

Therefore, the company also decided to directly disclose the profit and loss statement according to the classic cost-of-sales accounting format, as defined by IAS 1.103, in the consolidated profit and loss statement and no longer make a transition to the notes of the consolidated financial statements, as in the previous years. Thus, an improved comparability on the basis of the consolidated profit and loss statement is guaranteed with other companies with the same or similar structure.

This change of disclosure and the changed cost allocation respectively results in a changed profit situation within the operating income. On the other hand, the change of disclosure does not affect the net worth and the financial situation and the earnings per share.

In accordance with IAS 1.41, the previous year's figures were reclassified according to the disclosure method of the current annual year as follows:

in kEUR	Expanded cost-of-sales accounting format like primary	Reclassification	Classic cost-of-sales accounting format
Continuing operations			
Revenues	133,060	0	133,060
Cost of revenues	-51,536	-4,075	-55,611
Gross profit – excl. depreciation and amortization (Gross profit)*	**81,524**	**-4,075**	**77,449**
Advertising costs (Selling and distribution costs)*	-12,661	-29,702	-42,363
Personnel costs – only administration and marketing	-23,539	23,539	0
Depreciation and amortization	-9,694	9,694	0
Other administrative expenses (General administrative expenses)*	-15,170	544	-14,626
Other operating income	2,337	0	2,337
Other operating expense	-79	0	-79
Total operation expenses	**-58,806**	**4,075**	**-54,731**
Operating income	**22,718**	**0**	**22,718**
Interest income	2,370	0	2,370
Interest expense	-325	0	-325
Gain (loss) from financial assets and marketable securities	64	0	64
Gain (loss) on foreign currency translation	-4	0	-4
Financial income	**2,105**	**0**	**2,105**
Income before income tax	**24,823**	**0**	**24,823**
Current income tax	-7,063	0	-7,063
Deferred income tax	840	0	840
Income tax expense	**-6,223**	**0**	**-6,223**
Income from continuing operations	**18,600**	**0**	**18,600**
Discontinued operations			
Income from discontinued operations	-2,537	0	-2,537
Net income	**16,063**	**0**	**16,063**
Attributable to:			
Owners of the parent	16,052	0	16,052
Non-controlling interests	11	0	11

**in brackets the description fort the cost-of-sales accounting format in the new disclosure*

Disclosure of the consolidated balance sheet

In accordance with IAS 1.29 and IAS 1.30, telegate consolidated items in the consolidated balance sheet and gave a detailed explanation in the corresponding note of the notes to the consolidated financial statements in the previous years. Items, which are described in detail below, were shown separately in the consolidated balance sheet for the first time by the balance sheet date December 31, 2010. Items of the previous year as at December 31, 2009 were reclassified analogously, in order to establish a better comparability.

Due this change of the disclosure no significant reclassifications within the group´s net worth arise.

Income tax items are shown separate under current tax liabilities amounted to kEUR 1,996 and current tax assets amounted to kEUR 0 respectively by December 31, 2010.These amounts were recorded under accrued liabilities and other current assets respectively in the previous years. Current tax liabilities amounted to kEUR 1,077 by December 31, 2009 and current tax assets amounted to kEUR 957.

Receivables from real factoring and accrued interest in the amount of kEUR 970 are shown under other financial assets by December 31, 2010. These amounts were recorded under other current assets in the previous years. The two items amounted to a total of kEUR 1,129 by December 31, 2009.

A receivable from a balance for advertising services in the amount of kEUR 330 is shown under other non-current assets by December 31, 2010. This amount of kEUR 364 was recorded under other financial assets (non-current) in the previous year.

IFRS 2 Share-based payment

The IASB published an amendment of the IFRS 2 for the scope of application and accounting of share-based payments with a cash settlement in the group.

The amendment was published in June 2009 and shall be applied for the first time for annual years starting on or after January 01, 2010 (retrospective application).

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

The major amendments and supplements compared to the previous version of IFRS 3 and IAS 27 can be stated as follows:

The standard introduces amendments of the treatment of business combinations on the balance sheet after this period, which have effects on the estimate amount of the goodwill, on earnings in the reporting period when a business combination takes places and future events. IAS 27R prescribes that a change of the participation amount in a subsidiary (without loss of control) is recorded on the balance sheet as equity transaction. Therefore, neither a goodwill nor a profit or loss arises from this transaction. Furthermore, provisions regarding the allocation of losses to parent companies and interest without a controlling influence and the balance sheet regulations regarding transactions resulting in a loss of control are amended. Subsequent amendments arose for IAS 7 “Cash flow statements”, IAS 12 “Income taxes”, IAS 21 “The effects of changes in foreign exchange rates”, IAS28 “Investments in associates” and IAS 31 “Interests in joint ventures”.

The revised standards were published in January 2008 and shall be applied for the first time for annual years starting on or after July 01, 2009. They will have effects on future acquisitions, losses of control and transactions with interest with a non-controlling influence.

IAS 39 Financial instruments: recognition and measurement

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

The amendment of IAS 39 was published in July 2008 and shall be applied for the first time for annual years starting on or after July 01, 2009. There were no effects from the application, because these facts currently do not concern telegate.

IFRIC 17 Distribution of non-cash assets to owners

The interpretation includes guidelines for the accounting of non-cash assets to owners. It clarifies the time of recording of a debt, the assessment of the debt and assets concerned and the time of the write off of these assets and the debt assessed.

IFRIC 17 was published in November 2008 and shall be applied for the first time for annual years starting on or after July 01, 2009. There were no effects from the application, because these facts currently do not concern telegate.

Improvements in IFRS 2009

The IASB made necessary, however, no time-critical amendments of the IFRS, which are not a part of another larger project, as part of the program of annual improvements. The amendments of the IFRS were published in April 2009 and shall be applied for the first time for annual years starting on or after January 01, 2010. Diverging regulations are separately identified in the representation below.

IAS 7 Cash flow statements

In connection with the amendments of IAS 27R "Consolidated and separate financial statements" and IFRS 3R "Business combinations" to be applied prospectively as of January 01, 2010, IAS 7 was also amended.

Cash flows due to changes of the ownership interest in a subsidiary, which do not result in a loss of control, shall be classified as cash flow from financing activity (retrospective application).

As a result, telegate changed the representation in the consolidated cash flow statement and reclassified the previous year figure of these facts to the cash flow from financing activity.

There were no effects of the other new regulations of improvements in IFRS 2009 to the accounting principles and presentation of the net worth position, the financial position and the profit position of the group, because these facts currently do not concern telegate:

- IAS 1 Presentation of financial statements
- IFRS 2 Share-based payment
- IFRS 5 Non-current assets held for sale and discontinued operations
- IFRS 8 Operating segments
- IAS 17 Leases
- IAS 36 Impairment of assets
- IAS 38 Intangible assets
- IAS 39 Financial instruments: recognition and measurement
- IFRIC 9 Reassessment of embedded derivatives
- IFRIC 16 Hedges of a net investment in a foreign operation

Published standards, however, not obligatory

In part, there is the option of an early application for the following new standards and interpretations and amendments of these standards and interpretations respectively. However, this option was not exercised as of December 31, 2010. telegate currently examines the results of the application on the consolidated financial statements and basically expects no effects on the net worth position, the financial position and the profit position, unless stated otherwise.

IFRS 9 Financial instruments

The IASB published a new IFRS for the classification and measurement of financial instruments in November 2009. The publication is the completion of the first part of a project of three stages to replace IAS 39 “Financial instruments: recognition and measurement” by a new standard. IFRS 9 introduces new provisions for the classification and measurement of financial assets.

The IASB published provisions for the accounting of financial liabilities in October 2010. These provisions are added to IFRS 9 and are the completion of the stage to classify and measure the IASB-project to replace IAS 39. They supplement the publication of IFRS 9 of November 2009, which regulates the classification and measurement of financial assets.

The provisions shall be obligatory for periods starting on or after January 01, 2013. Early application shall be permissible. Incorporation in European law is still to be expected.

IAS 24 Related party disclosures

The definition of related parties is clarified due to the amendment, in order to make the establishment of such relations easier and to remove inconsistencies regarding the application. It is a content of the amendment to make the disclosure requirements of companies easier which are related to government authorities.

The amended standard was published in November 2009 and is effective for reporting periods starting on or after January 01, 2011. An earlier application shall be permissible.

IAS 32 Financial instruments: presentation

Here, the definition of a financial liability is amended in so far that subscription rights (and certain options or warrants) shall be classified as equity instruments, if such rights give a right to acquire a fixed number of equity instruments of the company at a fixed amount in any currency and the company offers it to all present owners of the same category of its non-derivative equity instruments.

The amendments of IAS 32 were published in October 2009 and shall be obligatory with the start of the first annual year starting after January 31, 2010. An earlier application shall be permissible.

IFRIC 14 The limit on a defined benefit asset, minimum funding requirements and their interaction

The amendment includes guidelines for the determination of the realizable amount of a net pension asset. The amendment enables companies to treat the advance payments within the scope of minimum funding requirements as an asset.

The amendment was published in November 2009 and is obligatory effective as of January 01, 2011. The amendment shall be applied retrospectively as of the earliest comparative period presented.

IFRIC 19 Extinguishing financial liabilities with equity instruments
The interpretation clarifies, that equity instruments delivered to a creditor for extinguishing of a financial liability, shall be classified as paid remuneration. The equity instruments delivered are valued with their fair value. If this value cannot be determined reliably, the fair value of the extinguished liability shall be the basis of the valuation. Profits and losses are immediately recorded affecting the current-period result.

IFRIC 19 was published in November 2009 and shall be compulsory for periods starting on or after July 01, 2010. An early application shall be permissible.

IFRS 7 Financial instruments: disclosures
The amendments make it possible for the users of financial statements, to get a better insight into transactions for the purpose of the transfer of assets (e.g. securitizations), including an insight into possible effects of the risks which still remain with the delivering company. Additional disclosures are also required due to the amendments, if there is a disproportionate share of transfers during the end of a reporting period.

The amendments of IFRS 7 were published in October 2010 and shall be applied for the first time for annual years starting on or after July 01, 2011. Comparative disclosures shall not be required during the first year of application. Incorporation in European law is still to be expected.

IAS 12 Deferred taxes: recovery of underlying assets
The amendment provides that deferred tax assets and deferred tax liabilities of certain assets are measured based on the assumption that the book value of these assets is fully recovered by the sale.

The amendment of IAS 12 was published in December 2010 and shall be applied for the first time for annual years starting on or after January 01, 2012. An assumption to the European law is still to be made.

Improvements in IFRS 2010
The IASB published the third collection of standards of the annual amendment procedure, under which minor amendments of minor urgency are made to the IFRS. The amendments to the IFRS were published in May 2010 and shall be applied for the first time for annual years starting on or after July 01, 2010 and January 01, 2011 respectively. Early application shall be permissible. Incorporation in European law is still to be expected.

telegate examined the amendments to the following standards for its relevance. No effects are expected on the group's net worth position, the financial position and the profit position.

- IFRS 3 Business combinations
- IFRS 7 Financial instruments: disclosures
- IAS 1 Presentation of financial statements
- IAS 27 Consolidated and separate financial statements
- IFRIC 13 Customer loyalty programs

4. Changes in consolidation

There were the following changes in consolidation in the annual year 2010:

Sale company
Telegate Italia S.r.L. was sold as of June 01, 2010. For this purpose see note 14.

Merger
The merger of telegate Auskunftsdienste GmbH to telegate Media AG became effective retrospectively as of July 01, 2010 by the registration in the commercial register on September 27, 2010. Both companies are wholly-owned subsidiaries of telegate AG.

According to IFRS 3.2c, this transaction within the group as a business combination under common control is not covered by the scope of application of IFRS 3 “Business combinations”. Accounting of this transaction was based on the entity point of view at group level, and thus the book values were carried on. Thus, the merger did not have any effects on the consolidated financial statements.

There were the following changes in consolidation in the annual year 2009:

New foundation
telegate AG launched a subsidiary in Armenia as of April 14, 2009 which was included in the consolidated financial statements as of April 2009. The name of the company is telegate LLC.

Sale company
118000 SAS (formerly: telegate 118000 SARL) was sold as of November 02, 2009. For this purpose, see note 14.

Dissolution company
The final consolidation of mobilSafe AG i.A. was performed as of November 30, 2009. The cancellation of mobilSafe AG i.A. was registered in the commercial register on January 29, 2010.

Acquisition of non-controlling interest in companies acquired
telegate AG increased its interest in telegate Media AG from 96.973 % to 100 % during the first quarter 2009 due to fresh buyings of voting shares. Here, the acquisition cost amounted to kEUR 952. The difference between the acquisition cost and the book value of the shares acquired additionally in the amount of kEUR 223 was recorded not affecting the current-period result under additional paid-in capital.

Explanations to the profit and loss statement of the group

Due to the sale of the Italian subsidiary Telegate Italia S.r.L., for this purpose see note 14, the items of the group's profit and loss statement for the annual year 2009 were adjusted, in accordance with IFRS 5.34.

5. Revenues

telegate AG and the subsidiaries included in the consolidated financial statements render telephone directory assistance services for end customers and business customers at home and abroad. These services are also rendered for other telephone companies in Germany and Europe on the basis of outsourcing agreements.

In addition, telegate sells marketing advertisements to businesspersons in Germany, in particular. Companies can inform their customers detailed, individually and promptly about their business activities, services and contact information on a regional and nationwide level by virtue of these marketing advertisements.

The product sector PC software includes digital telephone books and yellow pages as well as route planners on CD-ROM and DVD. The software solutions are ideal for private use and use in SMBs.

Revenues of the group amounted to kEUR 124,648 (2009: kEUR 133,060) in the annual year 2010.

6. Cost of revenues

The cost of revenues in the amount of kEUR 50,730 (2009: kEUR 55,611) primarily consist of the capacity costs and infrastructure costs of the directory assistance and Media business. As a result of the decline of the directory assistance business, the cost of revenues decreases for the personnel costs of the operators and the costs for temporary workers, in particular.

7. Selling and distribution costs

The selling and distribution costs in the amount of kEUR 55,390 (2009: kEUR 42,363) primarily include advertising costs (television advertising, externally consulting advertising agencies and cooperation agreements) in the amount of kEUR 9,695 (2009: kEUR 12,661), the costs for the own sales staff especially for Media business (telesales, telemarketing and sales force) in the amount of kEUR 19,100 (2009: kEUR 12,002) as well as the costs of the receivables management including the losses on receivables.

Furthermore, selling and distribution costs include the scheduled depreciations and amortizations of the customer bases of the Media and software business as well as the brand klickTel, which were assessed within the scope of the purchase price allocation in connection with the acquisition of the former klickTel AG (today telegate Media AG). An extraordinary impairment of the customer base Media in the amount of kEUR 8,633 resulted in a significant increase of the depreciations and amortizations within the selling and distribution costs in the annual year 2010.

In total, the selling and distribution costs increase in comparison to the previous year due to the expansion of the sales team of the Media business.

8. General administrative expenses

The general administrative expenses primarily include the costs of corporate functions of the management, e.g. finances, legal relations, HR, IT and the infrastructure costs of these units. Furthermore, the item includes consulting expenses which accrued for the data cost actions and other consulting projects across the company.

The general administrative expenses in the amount of kEUR 14,895 (2009: kEUR 14,626) are at the previous year's level.

9. Expenses for employee benefits

in kEUR	2010	2009
Wages and salaries	49,130	46,207
Social security contribution	8,999	7,871
Old age pension schemes	169	179
Expense for share-based payment	60	227
Total	**58,358**	**54,484**

10. Depreciation and amortisation

Depreciation and amortization which are included the functions are composed as follow:

in kEUR	2010	2009
Depreciation and amortization of intangible assets	15,393	6,664
Depreciation and amortization of property and equipment	2,715	3,030
Total	**18,108**	**9,694**

Further information see note 23 and 24 (due to the disclosure of discontinued operations the here shown amounts deviate from the disclosure in the summary of fixed assets).

11. Other operating income

Other operating income in the amount of kEUR 396 (2009: kEUR 2,337) primarily concern income due to a prohibition to compete. In addition, an out-of-court settlement payment of a supplier in the amount of kEUR 1,700 was collected affecting the current-period result in the annual year 2009, in order to avert an action for damages by telegate AG.

12. Financial income

Interest income

in kEUR	2010	2009
Interest income from fixed deposit investments	2,139	2,111
Interest income from loans and overdue accounts	16	189
Interest income from bank deposits	11	32
Other interest and similar income	60	38
Interest and similar income	**2,226**	**2,370**

in kEUR	2010	2009
Interest expense from forfaiting	-31	-52
Interest expense for current account credits and guarantees	-24	-31
Other interest and similar expenses	-90	-242
Interest and similar expenses	**-145**	**-325**
Interest income	**2,081**	**2,045**

Interest income from fixed deposit investment solely results from the fixed deposit investment with a related company, see note 43.

Income from investments and securities

in kEUR	2010	2009
Profit from the sale of securities	0	64
Income from investments and securities	**0**	**64**

The profit from a sale of securities in the previous year results from subsequent income from a financial investment. telegate AG called in this investment already in 2007.

Income from currency translation

in kEUR	2010	2009
Foreign currency profits	24	14
Foreign currency losses	-23	-18
Income from currency translation	**1**	**-4**

Net gains and net losses from financial instruments

	Interest from financial instruments		Net earnings from financial instruments	
in kEUR	2010	2009	2010	2009
Cash and cash equivalents	2,126	2,112	3	-3
Loans and receivables (exclusively trade accounts receivable)	-15	137	-3,756	-4,052
Available-for-sale financial assets	0	0	0	64
Financial liabilities measured at amortised costs	0	0	-2	-1

Net earnings from loans and receivables compromise exclusively changes in the valuation allowances, losses from write off as well as gains from subsequent cash inflow and appreciation in value for positions which were primarily written off.

13. Taxes on income

Income taxes in Germany are composed of corporation income tax, trade tax and solidarity surcharge.

in kEUR	2010	2009
Actual income taxes of continuing operations	6,697	7,063
Actual income taxes of discontinued operations	120	660
Actual income taxes	**6,817**	**7,723**
Thereof:		
- At home	6,565	6,983
- Abroad	252	740
Deferred income taxes from continuing operations	-5,620	-840
Deferred income taxes from discontinued operations	438	-31
Deferred income taxes	**-5,182**	**-871**
Taxes, final consolidation	-558	-629
Income tax expenditure shown	**1,077**	**6,223**

The following fiscal reconciliation presents the reasons why the tax expenditure shown of the current year does not correspond to the tax expenditure to be expected, if the earnings before taxes are multiplied with the total tax rate of 29.301 % (2009: 29.363 %), which is applicable for the annual year 2010:

in kEUR	2010	2009
Net income before taxes of continuing operations	6,055	24,823
Net income before taxes of discontinued operations	2,898	-1,702
Net income before taxes	**8,953**	**23,121**
Applicable total tax rate	**29.301 %**	**29.363 %**
Tax expenditure expected – according to the methods presented	**-2,623**	**-6,789**
Increase/Reduction of the income tax burden by:		
Tax effects from losses brought forward and temporary differences without a previous record of a deferred tax asset	4	55
Tax effects on temporary differences/losses brought forward and no deferred tax asset was created in the current period	-110	-211
Value adjustment on a deferred tax asset	105	0
Valuation allowance for a deferred tax asset	0	-710
Income tax rate differences	220	329
Taxes previous years	0	1,845
Tax effect on (permanently) non-deductible expenses/income for tax purposes	237	-854
Tax effect on non-taxable income	1,089	153
Tax effect of other differences	-2	-5
Effects of an tax investigation	3	-36
Income tax expenditure shown for the annual year	**-1,077**	**-6,223**
Thereof:		
-of continuing operations	-1,077	-6,223
-of discontinued operations (including taxes from a final consolidation)	0	0

The marginal change of the total tax rate results from the adjusted trade tax rates of assessment.

The current tax liabilities amount to kEUR 1,996 (2009: kEUR 1,077). The current tax assets in the amount of kEUR 957 result from an overpayment of tax by telegate AG in the annual year 2009.

The company shows a deferred tax asset in the amount of kEUR 6,938 as of December 31, 2010. Previous year's value amounted to kEUR 5,421. The estimate of a deferred tax liability decreased by kEUR 3,665 from kEUR 13,055 (as of December 31, 2009) to kEUR 9,390. For this purpose, see note 25. The discontinued operation neither includes a deferred tax asset nor a deferred tax liability (as of December 31, 2009: a deferred tax asset of kEUR 438) in the current annual year.

14. Discontinued operations

Telegate Italia S.r.L.

telegate AG sold the wholly-owned subsidiary Telegate Italia S.r.L. to SEAT Pagine Gialle S.p.A., the main shareholder of telegate AG, as of June 01, 2010. For this purpose, see also note 43. The purchase price consisted of a one-time fixed payment in the amount of kEUR 5,534, which was fully paid in the form of cash, and a variable share of sales (earn out-component).

Background of the sale is the advanced consolidation phase on the Italian directory assistance market on the one hand and the changed strategic orientation of telegate AG on the other hand.

The final consolidation from the telegate group was accordingly made as of June 01, 2010. Telegate Italia S.r.L. was shown as operational segment within the group's business segment required to report "Italy/Spain".

118000 SAS

telegate AG sold the wholly-owned subsidiary 118000 SAS (formerly: telegate 118000 SARL) as of November 02, 2009.

The final consolidation from the telegate group was accordingly made as of November 02, 2009. 118000 SAS represented a separate business segment of the group, which was required to report.

Telegate Italia S.r.L. and 118000 SAS contributed to the earnings of the telegate group until their sale date as follows:

	2010			2009		
in kEUR	Telegate Italia S.r.L.	118000 SAS	Total	Telegate Italia S.r.L.	118000 SAS	Total
Revenues	6,549	0	6,549	20,829	10,405	31,234
Expenses	-7,958	0	-7,958	-19,658	-13,253	-32,911
Operating income (loss)	**-1,409**	**0**	**-1,409**	**1,171**	**-2,848**	**-1,677**
Total financial income	**-5**	**0**	**-5**	**-24**	**0**	**-24**
Income before income tax	**-1,414**	**0**	**-1,414**	**1,147**	**-2,848**	**-1,701**
Total income taxes	**-559**	**0**	**-559**	**-616**	**-14**	**-630**
Income from discontinued operations	**-1,973**	**0**	**-1,973**	**531**	**-2,862**	**-2,331**
Income from the disposal of the discontinued operations	4,560	-247	4,313	0	-206	-206
Total income from discontinued operations	**2,587**	**-247**	**2,340**	**531**	**-3,068**	**-2,537**

In addition, the income from the sale of the discontinued operations in 2010 includes expenses, which are directly attributable, and were accrued due to the sale of Telegate Italia S.r.L. and 118000 SAS.

Assets and debts by the sale date (without cash)

in kEUR	Telegate Italia S.r.L. As of June 01, 2010	118000 SAS As of November 02, 2009
Current assets	24,992	2,648
Non-current assets	609	1,285
Current liabilities	26,939	3,338
Non-current liabilities	414	0

Cash flow due to the sale

in kEUR	Telegate Italia S.r.L. As of June 01, 2010	118000 SAS As of November 02, 2009
Purchase price received	5,534	1,000
Cash sold with the discontinued operation	-1,867	-611
Cash flow (balance)	**3,667**	**389**

Net cash flow (without intercompany transactions) of the discontinued operations

	2010			2009		
in kEUR	Telegate Italia S.r.L.	118000 SAS	Total	Telegate Italia S.r.L.	118000 SAS	Total
Business operations	1,865	0	1,865	214	965	1,179
Investment activity	-3	0	-3	-214	-369	-583
Financing activity	0	0	0	0	0	0
Net cash flow	**1,862**	**0**	**1,862**	**0**	**596**	**596**

15. Follow-up costs from business combinations

The following survey shows the non-recurring item of the profit and loss statement of the previous year, which was caused by the sustained integration of telegate Media AG, which was already acquired in the annual year 2008:

in kEUR	2010	2009
General administrative expenses	0	938
Total	**0**	**938**

16. Earnings per share

Annual year which ended on December 31 in EUR	2010	2009
Basic and dilutive earnings per share from *continuing operations*, with respect to earnings attributable to ordinary shareholders of the parent	0.24	0.88
Basic and dilutive earnings per share from *discontinued operations*, with respect to earnings attributable to ordinary shareholders of the parent	0.11	-0.12
Basic and dilutive earnings per share, with respect to earnings attributable to ordinary shareholders of the parent	0.35	0.76

Determination of the basic and dilutive earnings per share for the annual years which ended on December 31 is based on the following data:

Annual year which ended on December 31 in kEUR	2010	2009
Earnings of continuing operations, attributable to ordinary shareholders of the parent	4,978	18,590
Earnings of discontinued operations, attributable to ordinary shareholders of the parent	2,340	-2,538
Earnings attributable to ordinary shareholders of the parent for the calculation of the basic and dilutive earnings per share	7,318	16,052

Annual year which ended on December 31 in kEUR	2010	2009
Weighted average number of ordinary shares for the calculation of basic earnings per share	21,083	21,235
Dilution of the stock options	0	0
Weighted average number of ordinary shares for the calculation of dilutive earnings per share	21,083	21,235

Acquisition of company-owned shares was included in the calculation of the weighted average number of ordinary shares, according to its time weighting.

The shares of the company stock were redeemed with the registration of the capital reduction in the commercial register on February 15, 2011.

There were no additional transactions with ordinary shares or potential ordinary shares in the period between the balance sheet date and preparation of the consolidated financial statements.

Explanations to the group's balance sheet

17. Cash and cash equivalents

Cash and cash equivalents are shown with their fair value and are composed as follows:

Annual year which ended on December 31 in kEUR	2010	2009
Current fixed deposits	45,000	57,500
Banks' and cash holdings	3,768	2,432
Total	**48,768**	**59,932**

Banks' holdings are kept with renowned German financial institutions by the balance sheet date, which obtained the highest awards from international rating agencies. Interest is paid on balances with variable interest rates for balances at call. Current deposits are made for different periods between one day and 3 months, depending on the corresponding cash requirements of the group. Interest is paid on current deposits with interest rates applicable for current deposits in each case. Current fixed deposits concern investments with an affiliated company at a fixed term of up to 3 months. They are shown under cash equivalents, because the interest rate level is not subject to fluctuations, the risk of a value fluctuation is measured as not material and there is the option of calling in at any time by virtue of a contractual fixation.

The fair value of cash and current deposits amounts to kEUR 48,768 (2009: kEUR 59,932) and thus corresponds to their book value.

The decrease of cash and cash equivalents in the reporting period is primarily attributable to telegate AG's share re-purchase program.

The company has unused overdraft credit lines by financial institutions at its disposal in the amount of kEUR 3,000 (2009: kEUR 3,000) as of December 31, 2010.

18. Trade accounts receivable

The amounts shown in the balance sheet are amounts *after* value adjustment, which was performed in order to take a possible default risk into account. Gross receivables amount to kEUR 37,422 (2009: kEUR 59,775) by the balance sheet date.

The significant decline of gross receivables primarily results from the sale of the subsidiary Telegate Italia S.r.L., which resulted in a decrease of kEUR 26,435 in the current annual year (kEUR 5,321 thereof are receivables from affiliated companies). For further information, see also note 14 and 43.

Trade accounts receivable are yielding interest and usually have a due date of 8 to 90 days dependent on the individual arrangement of an agreement.

in kEUR				Thereof: not impaired as of the closing date of the financial statements and overdue in the following time bands		
		Book value before value adjustment	Thereof: neither impaired nor overdue as of the closing date of the financial statements	Less than 90 days	Between 91 and 180 days	More than 180 days
Trade accounts receivable	As of December 31, 2010	37,422	26,754	4,151	968	1,793
Trade accounts receivable	As of December 31, 2009	59,775	44,138	2,079	577	1,687

Trade accounts receivable with a nominal value of kEUR 3,756 (2009: kEUR 11,294) were impaired as of December 31, 2010. Development of the absorption account is as follows:

in kEUR	Individual value adjustment	Value adjustment on portfolio basis	Amount
As of January 01, 2009	**6,891**	**434**	**7,325**
Additions expensed	489	2,369	2,858
Additions not expensed	2,586	0	2,586
Utilization	-383	-524	-907
Release	-172	-261	-433
Disposals from final consolidation	-11	-124	-135
As of December 31, 2009	**9,400**	**1,894**	**11,294**
Additions expensed	159	3,522	3,681
Additions not expensed	429	0	429
Utilization	-3.399	-1,544	-4,943
Release	-349	-549	-898
Release not affecting current-period result	-3.451	0	-3,451
Disposals from final consolidation	-2.356	0	-2,356
As of December 31, 2010	**433**	**3,323**	**3,756**

The Italian subsidiary invoices directory assistance services by order of the main shareholder SEAT to Telecom Italia, in particular. In this connection, non-valuable trade accounts receivable are value adjusted not affecting the current-period result. Disposals from a final consolidation in the annual year 2010 solely concern these additions not affecting the current-period. For this purpose, see also note 14.

19. Other financial assets

Annual year which ended on December 31 in kEUR	2010	2009
Real factoring receivable	828	744
Accrued interest	142	385
Other financial assets – current	**970**	**1,129**
Receivable from balance of advertising performances	549	369
Other financial assets – non-current	**549**	**369**

Information related to accrued interest see note 43.

Current other financial assets are measured with amortized acquisition cost and non-current other financial assets are measured using the effective interest method with amortized acquisition cost.

20. Other current assets and other non-current assets

Annual year which ended on December 31 in kEUR	2010	2009
Prepaid expenses	803	885
Social security contributions paid in advance	641	619
Witholding taxes Italy	222	211
Liquid assets with restraint on disposal	78	101
Main shareholder receivable	0	794
Other current assets	249	935
Other current assets	**1,993**	**3,545**
Other non-current assets	**330**	**364**

Prepaid expenses were primarily created for paid expenses in the technology sector which are not expensed. Liquid assets with a restraint on disposal are solely securities for rent. With regard to main shareholder receivable, see note 43.

Other non-current assets contain mainly a receivable from a balance of advertising performances.

21. Goodwill

Acquisition cost

in kEUR	Goodwill
As of January 01, 2009	**11,137**
Disposals from final consolidation	-3,655
As of December 31, 2009	**7,482**
Disposals from final consolidation	-6
As of December 31, 2010	**7,476**

Cumulated impairments

in kEUR	Goodwill
As of January 01, 2009	**1,250**
Impairments	2,413
Disposals from final consolidation	-3,655
As of December 31, 2009	**8**
Impairments	0
Disposals from final consolidation	-6
As of December 31, 2010	**2**

Book values as of December 31, 2009	**7,474**
Book values as of December 31, 2010	**7,474**

The disposal of the previously value adjusted goodwill in the annual year 2010 in the amount of kEUR 6 results from the final consolidation of Telegate Italia S.r.L. For this purpose, see also note 14.

Disposals of goodwill and cumulated impairments in the annual year 2009 concern the final consolidation of 118000 SAS (see note 14) with kEUR 2,413 and the final consolidation of mobilSafe AG i.A. (see note 4) with kEUR 1,242.

22. Impairment of goodwill

Goodwill acquired within the scope of business combinations are assigned to cash generating units for review of the recoverability. The cash generating unit represents the corresponding group company.

Following book values of the goodwill were assigned to the corresponding cash generating units:

Annual year which ended on December 31 in kEUR	2010	2009
telegate Media AG	7,474	7,058
Telegate Auskunftsdienste GmbH	0	416
Total	**7,474**	**7,474**

Due to merger (see note 4), goodwill in the amount of kEUR 416 passed from Telegate Auskunftsdienste GmbH to telegate Media AG.

The recoverable amount of the cash generating unit of the group company is determined on the basis of a calculation of the utility value using cash flow-forecasts by the management for a period of 4 years. The discounting rate used for the cash flow-forecasts amounts to 12.7 % before taxes (previous year: within a range of 10.9 % to 12.9 %). Cash flows after the 4-year period are estimated as perpetual pension. A discount on growth of 1 % (previous year: 0 % to 1 %) is used for the determination of the values of the perpetual pension for the purpose of determination of the utility value to review the recoverability of the goodwill.

Basic presumptions

The basic presumptions are explained below, which were the basis for the executive management to prepare the cash flow-forecasts to review the recoverability of the goodwill.

Gross margin planned – Gross margins are determined by the average gross margins realized in comparative markets and were previously known and are increased taking the expected efficiency improvement into account.

Nominal interest rate for bonds – Payment of interest of a 10-year federal loan is used at the begin of the date of valuation.

Sensitivity of the presumptions made

In the opinion of the management, the following main presumptions have the biggest influence on the valuation of the corresponding utility value of the cash generating unit and thus are revised on a regular basis:

- Discount factor: The discount factor was determined based on the average cost of capital of the telegate group and adjusted to the specific risks attributable to the cash generating unit in each case. Market-specific and social changes respectively may result in an adjustment of the discount factor.

- Changes of customer demand in the Media business, in particular, may have a significant effect on future payment flows of the cash generating unit.

It is the management's opinion that no possible change, at reasonable discretion and according to information present on the closing date of the financial statements, of a basic presumption made to determine the utility value of the cash generating unit listed above would result in the event that the book value of the cash generating unit is significantly lower than its recoverable amount.

23. Intangible assets

Acquisition cost

in kEUR	Software	Licences	Self-developed data base	Regular customers acquired	Acquired brand klickTel	Other intangible assets	Advance payments on intangible assets	Total
As of January 01, 2009	**14,233**	**14,208**	**2,073**	**30,301**	**997**	**3,286**	**49**	**65,147**
Additions	2,770	442	0	0	0	293	149	3,654
Disposals	-571	0	0	0	0	0	0	-571
Entry transfers	0	0	0	0	0	72	-72	0
Disposals from final consolidation	-149	-12	0	0	0	-945	-15	-1,121
As of December 31, 2009	**16,283**	**14,638**	**2,073**	**30,301**	**997**	**2,706**	**111**	**67,109**
Additions	774	406	0	0	0	17	11	1,208
Disposals	-229	-1	0	0	0	0	0	-230
Entry transfers	92	0	0	0	0	0	-92	0
Disposals from final consolidation	-412	-250	0	0	0	0	0	-662
As of December 31, 2010	**16,508**	**14,793**	**2,073**	**30,301**	**997**	**2,723**	**30**	**67,425**

Cumulated depreciations and amortizations and impairments

in kEUR	Software	Licences	Self-developed data base	Regular customers acquired	Acquired brand klickTel	Other intangible assets	Advance payments on intangible assets	Total
As of January 01, 2009	**10,398**	**7,881**	**2,073**	**2,273**	**75**	**2,193**	**0**	**24,893**
Depreciation and amortization	1,507	1,735	0	3,030	100	558	0	6,930
Disposals	-571	0	0	0	0	0	0	-571
Disposals from final consolidation	-119	0	0	0	0	-378	0	-497
As of December 31, 2009	**11,215**	**9,616**	**2,073**	**5,303**	**175**	**2,373**	**0**	**30,755**
Depreciation and amortization	1,754	1,708	0	3,030	100	180	0	6,772
Impairments	13	0	0	8,633	0	0	0	8,646
Disposals	-229	-2	0	0	0	0	0	-231
Disposals from final consolidation	-372	-246	0	0	0	0	0	-618
As of December 31, 2010	**12,381**	**11,076**	**2,073**	**16,966**	**275**	**2,553**	**0**	**45,324**

in kEUR	Software	Licences	Self-developed data base	Regular customers acquired	Acquired brand klickTel	Other intangible assets	Advance payments on intangible assets	Total
Book values as of December 31, 2009	**5,068**	**5,022**	**0**	**24,998**	**822**	**333**	**111**	**36,354**
Book values as of December 31, 2010	**4,127**	**3,717**	**0**	**13,335**	**722**	**170**	**30**	**22,101**

Useful life for intangible assets was determined in the annual year 2010 as follows:

Software	3 to 7 years
Licences	3 to 15 years
Self-developed data base	3 years
Regular customers acquired	7 respectively 10 years
Acquired brand klickTel	10 years
Other intangible assets	3 years

Linear depreciation and amortization is made over the determined useful life.

According their utilization depreciation and amortization are inlcuded in cost of revenue, selling and distribution costs as well as general administrative expenses.

The impairment loss in the amount of kEUR 8,633 constitutes a value adjustment of the *regular customers acquired* within the scope of the acquisition of telegate Media AG in 2008 in the segment "Media" to its recoverable amount and is shown in the profit and loss statement under selling and distribution costs. This impairment loss according to IAS 36 arose, because the actual termination rate of Media customers is higher in 2010 than originally estimated within the scope of the purchase price allocation, see also note 2, heading "Intangible assets". The recoverable amount was determined on the basis of the utility value, which was determined by using current forecasts regarding the continuing use of the regular customers. With regard to the forecast of the cash flows, there are risks regarding the future customer termination rate, in particular. For the determination of the utility value, cash flows were discounted with a interest rate after taxes of 5.7 %. Due to the latest available information, a change of the estimate regarding the further useful life of the regular customers Media is made for the annual years starting 2011. Useful life is reduced accordingly, due to the higher float off rate of customers. The book value of the acquired regular customers "Advertising sales" amounted to kEUR 6,903 (2009: kEUR 17,679) as of the balance sheet date.

The acquisition cost of the intangible assets, which are fully depreciated and amortized but still used as of the balance sheet date, amount to kEUR 16,901 (2009: kEUR 16,622).

The telegate group had current liabilities from orders on intangible assets in the amount of kEUR 1,423 (2009: kEUR 200) as of December 31, 2010, which will accrue in the annual year 2011, in the amount of kEUR 1,087 and in the annual year 2012 in the amount of kEUR 336, as expected.

No investment allowances were granted both in the annual year 2010 and the previous year, which otherwise reduce the book values of intangible assets, in accordance with IAS 20.27.

24. Property and equipment

Acquisition cost

in kEUR	Technical equipment	Other equipment, furnitures and fixtures	Advance payments made for property and equipment	Total
As of January 01, 2009	**47,190**	**8,564**	**0**	**55,754**
Additions	1,304	805	1	2,110
Disposals	-3,788	-437	0	-4,225
Disposals from final consolidation	-1,959	-64	0	-2,023
As of December 31, 2009	**42,747**	**8,868**	**1**	**51,616**
Additions	989	263	0	1,252
Disposals	-2,408	-241	0	-2,649
Entry transfers	0	1	-1	0
Effects from foreign currency translation	0	2	0	2
Disposals from final consolidation	-7,001	-1,659	0	-8,660
As of December 31, 2010	**34,327**	**7,234**	**0**	**41,561**

Cumulated depreciations and amortizations and impairments

in kEUR	Technical equipment	Other equipment, furnitures and fixtures	Advance payments made for property and equipment	Total
As of January 01, 2009	**38,942**	**5,794**	**0**	**44,736**
Depreciations and amortizations	3,477	732	0	4,209
Impairments	561	0	0	561
Disposals	-3,728	-401	0	-4,129
Disposals from final consolidation	-1,326	-47	0	-1,373
As of December 31, 2009	**37,926**	**6,078**	**0**	**44,004**
Depreciations and amortizations	2,300	607	0	2,907
Impairments	420	322	0	742
Disposals	-2,445	-222	0	-2,667
Effects from foreign currency translation	0	1	0	1
Disposals from final consolidation	-6,500	-1,595	0	-8,095
As of December 31, 2010	**31,701**	**5,191**	**0**	**36,892**

Book values as of December 31, 2009	**4,821**	**2,790**	**1**	**7,612**
Book values as of December 31, 2010	**2,626**	**2,043**	**0**	**4,669**

Useful life for property and equipment was determined in the annual year 2010 as follows:

Technical equipment	3 to 9 years
Other equipment, furnitures and fixtures	3 to 10 years

Linear depreciation and amortization is made over the determined useful life. There were no adjustments of the useful life compared to the previous year.

Value adjustments of property and equipment were made due to capacity adjustments in the second quarter 2009 (segment "France") and in the second quarter 2010 (segment "Italy/Spain"). These impairments are included in disposals from final consolidation due to the sales of the French and Italian subsidiary, see note 14.

Acquisition cost of equipment, which is fully depreciated and amortized but still used as of the balance sheet date, amount to kEUR 31,015 (2009: kEUR 28,761).

The telegate group had current liabilities from orders on property and equipment in the amount of kEUR 2,314 (2009: kEUR 200) as of December 31, 2010, which will accrue in the annual year 2011 in the amount of kEUR 1,942 and in the annual year 2012 in the amount of kEUR 372, as expected.

In accordance with IAS 38.4, system software was assigned to the position property and equipment, because it constitutes an integral part of the hardware.

No investment allowances were granted both in the annual year 2010 and the previous year, which otherwise reduce the book values of property and equipment, in accordance with IAS 20.27.

25. Deferred tax asset and liability

Income taxes in Germany were composed of corporation income tax, trade tax and solidarity surcharge. A corporation income tax rate of 15.0 % plus a trade tax rate of 13.48 % plus a solidarity surcharge of 0.83 % was applied for the calculation of the deferred taxes for the corporate income tax and trade tax group of telegate AG. Tax rates are based on a standard corporation income tax rate of 15.0 % for distributed and retained earnings, a solidarity surcharge on the corporation income tax rate of 5.50 % and an average trade tax rate of assessment of 385.03 %. The trade tax rate of the subsidiaries with a domicile in Germany, which are not included in the corporate income tax and trade tax group, deviates due to different trade tax rates of assessment. Deferred taxes of foreign subsidiaries are determined with the corresponding national tax rates.

Deferred tax asset and liability was created due to measurement differences with regard to time of assets and debits in the IFRS and tax balance sheet, namely with the tax rates of the years when the differences reverse, as expected. Deferred taxes are composed as follows:

As of December 31 in kEUR	2010	2009
Gross value of deferred tax assets:		
Tax losses brought forward not yet used	8,038	6,001
Property and equipment	43	61
Financial investments	1	39
Other assets	23	5
Provisions	314	905
Less value adjustment	-1,481	-1,590
Deferred tax assets	**6,938**	**5,421**
Thereof:		
- for discontinued operations	0	438
Less deferred tax liabilities:		
Property and equipment	-20	-19
Intangible assets	-5,430	-9,527
Other assets	-205	-213
Provisions	-1	-64
Other liabilities	-3,734	-3,232
Deferred tax liabilities	**-9,390**	**-13,055**
Thereof:		
- for discontinued operations	0	0
Net value of deferred taxes	**-2,452**	**-7,634**

Cumulated tax losses of the company brought forward amount to approx. EUR 28 m as of December 31, 2010 (2009: EUR 22 m). The German group companies incurred EUR 24 m (2009: EUR 18 m) and other European group companies incurred EUR 4 m (2009: EUR 4 m); EUR 0 m (2009: EUR 0 m) can be attributed to discontinued operations.

Tax losses brought forward, which were not shown due to insufficient usability amount to kEUR 7,550 (2009: kEUR 7,898) as of the balance sheet date; kEUR 0 (2009: kEUR 0) are attributable here to discontinued operations.

Tax losses brought forward, which were assessed in Germany, may be brought forward without limitations and used for a set off against future profits, in accordance with the applicable German fiscal law, however, various tax provisions (e.g. minimum taxation etc.) shall be observed. Restrictions of the loss brought forward due to country-specific regulations were observed with regard to the other group companies.

26. Trade accounts payable

The amount shown as of the balance sheet date amounts to kEUR 2,489 (2009: kEUR 20,396).

The significant decrease of the trade accounts payable primarily results from the sale of the subsidiary Telegate Italia S.r.L., whereby kEUR 22,789 were disposed in the current annual year (thereof kEUR 22,409 trade accounts payable towards related companies). For further information, see also note 14 and 43.

The trade accounts payable include current liabilities from transactions concerning deliveries and services as well as current costs. The average period of payment used is between 14 and 60 days. The management expects that the book value of the trade accounts payable almost corresponds to their fair value.

Trade accounts payable are estimated with their redemption amount.

27. Accrued liabilities

The company shows the following liabilities on the fixed date below:

As of December 31 in kEUR	2010	2009
Outstanding invoices	8,500	7,491
Liabilities towards employees	7,311	8,267
Total	**15,811**	**15,758**

Accrued liabilities include debts for payment of goods or services received or delivered, which were neither paid nor invoiced by the supplier or formally agreed, in accordance with IAS 37.11. They differ from trade accounts payable, because they were invoiced by the supplier or formally agreed. Liabilities towards employees include wage and salary payments, in particular, which only become due in the new annual year.

28. Provisions

Provisions showed the following development in the annual year 2010:

in kEUR	Contractual risks	Personnel	Other	Total	Contractual risk	Impending losses	Total
Provisions for	Current	Current	Current	Current	Non-current	Non-current	Non-current
As of January 01, 2010	**3,845**	**510**	**120**	**4,475**	**38**	**975**	**1,013**
Dissolution	-779	-252	-31	-1,062	-38	0	-38
Consumption	-804	-14	-83	-901	0	-322	-322
Allocation	2,250	0	207	2,457	0	82	82
Disposal from final consolidation	-2,126	0	0	-2,126	0	0	0
Interest effect	0	0	0	0	0	13	13
As of December 31, 2010	**2,386**	**244**	**213**	**2,843**	**0**	**748**	**748**

telegate identified and measured all risks known to the company as of the balance sheet date December 31, 2010. Risks were considered in the form of provisions in the financial statements, if estimate provisions of IAS 37.14 were fulfilled. The main risks include the facts presented below.

The amount of provisions for reorganization is in total kEUR 1,154 as of December 31, 2010, thereof kEUR 18 non-current (2009: kEUR 278, thereof kEUR 158 non-current). Provisions were created in connection with combinations of individual call centers in the annual years 2010 and 2009, for this purpose, see note 36. These provisions for reorganization are not shown separately. They are primarily included in the above-named provisions.

In addition, the company is involved in various legal disputes where it appears both as plaintiff and defendant. Provisions were created in line with IAS 37.23 for risks, which may result in an outflow of economic use, according to the legal counsels of the company.

Disposal from final consolidation results from the sell of the Italian subsidiary, see note 14.

Risks identified as contingent liabilities were not estimated as of the balance sheet date (IAS 37.27). Instead, a description is made in accordance with IAS 37.86 of the individual risks and their potential financial effects within the note 39.

29. Other financial liabiliities

The amount shown as of the balance sheet date amounts to kEUR 751 (2009: 0 kEUR).

Other financial liabilities are estimated with their redemption amount.

30. Other current liabilities

The other current liabilities amounts to kEUR 18,583 (2009: 18,138) and is primarily composed of deferrend income, value added tax liabilities against tax authorities, an obligation to pay for the purchase of shares in 2008 and other liabilities towards Deutsche Telekom AG. Within the scope of the action of telegate AG against Deutsche Telekom AG regarding repayment claims for data costs, which were overcharged in the years 1997 – 2000, Deutsche Telekom AG transferred an amount of kEUR 12,285 on July 17, 2007 with the reservation of a repayment in the event of a reversed decision in the instance of appeal.

31. Old age pension schemes

There are defined contribution and defined benefit pension schemes for the company pension scheme.

Defined benefit schemes

telegate AG grants the individual commitments for benefits from the company pension scheme (old age pension, disablement pension and survivors' pension) to the members of the management board since December 31, 1998. The amount of the pension commitments from defined benefit pension schemes is basically assessed in accordance with the employment duration and the basic salary of the individual members of the management board.

Employer's pension obligation insurances were effected for securing the corresponding pension payments from the pension guarantees and their benefits were pledged for the benefit of the persons entitled to a pension. The employer's pension obligation insurances with pledging the claims for the benefit of the persons entitled to a pension are estimated as plan assets, because this concerns a qualified insurance policy within the meaning of IAS 19.7.

The actuarial measurements of the plan assets and cash value of the defined benefit plan liability were performed as of December 31 of the corresponding fiscal year, considering the following actuarial presumptions:

in %	2010	2009
Discounting rate	4.86	5.25
Income expected from plan assets	5.10	5.10
Pension progression	2.00	2.00
Salary progression	0.00	0.00

The company recorded the following expense and income in the net earnings of the annual year, with regard to these defined benefit pension schemes:

in kEUR	2010	2009
Expenditure of years in service	-67	-51
Interest expense	-28	-21
Income expected from plan assets	33	26
Actuarial losses of the reporting period, which shall be recorded immediately, in accordance with IAS 19.58A	-87	-111
Expense for pension payments	**-149**	**-157**

Expenses of the accumulation of pension obligations as well as the expected income from plan assets are shown under interest expenses and interest income respectively. All other expenses and income with regard to defined benefit pension schemes are recorded under the position general administrative expenses (2010: kEUR -154; 2009: kEUR -162).

The actual income from plan assets amounted to kEUR 34 (2009: kEUR 26).

The cash value of the defined pension liability is calculated with the projected unit credit method, in accordance with IAS 19.64, and showed the following development:

in kEUR	2010	2009
Cash value of the defined liabilities as of January 01	**536**	**353**
Expenditure of years in service	67	51
Interest expense	28	21
Actuarial losses	87	111
Cash value of the defined liabilities as of December 31	**718**	**536**

Actuarial losses incurred in the amount of kEUR 87 in the annual year 2010 are in particular attributable to the change of the discounting rate from 5.25 % to 4.86 %.

Changes of the fair value of plan assets are as follows:

in kEUR	2010	2009
Fair value of plan assets as of January 01	**656**	**528**
Income expected from plan assets	33	26
Actuarial profits	1	0
Employer's contributions	102	102
Fair value of plan assets as of December 31	**792**	**656**

The amount shown in the balance sheet of the telegate group under the position "Provision for old age" regarding defined benefit pension schemes is as follows:

As of December 31 in kEUR	2010	2009
Cash value of defined benefit liability	-718	-536
Fair value of plan assets	792	656
Net assets (Net debt)	**-74**	**120**
Actuarial profits not recorded	-2	-2
Plan assets not recorded due to the ceiling, in accordance with IAS 19.58 (b)	-72	-118
Debt recorded in the balance sheet	**0**	**0**

The company expects contributions to defined benefit pension schemes in the amount of kEUR 102 in the annual year 2011.

The following table shows the development of the contributions for the current and 4 previous reporting periods, with regard to the surplus and deficit respectively of the plan:

in kEUR	2010	2009	2008	2007	2006
Cash value of defined benefit liability	718	536	353	355	336
Fair value of plan assets	-792	-656	-528	-410	-234
Plan deficit (Plan surplus)	**-74**	**-120**	**-175**	**-55**	**102**
Experience adjustment of plan debts	-24	-25	8	-13	-37
Experience adjustment of plan assets	-	-	-	-	-

Defined contribution schemes

Since September 2004, the company has offered an assistance to the old pension scheme, which is financed by the employees. The assistance amount depends on the contributions paid by the employees themselves. The amount of the current assistance payments which were recorded as expense was kEUR 21 kEUR (2009: kEUR 24) in the annual year 2010.

The country-specific revision of additional old age pension schemes in Italy resulted in the fact that the group incurred expenses for defined contribution pension schemes of a total amount of kEUR 263 (2009: kEUR 646), which are, due to the sale of Telegate Italia S.r.L. (for this purpose, see note 14), shown in the result from discontinued operations.

32. Other non-current liabilities

The amount shown as of the balance sheet date amounts to kEUR 0 (2009: kEUR 441).

Until the sale of the Italian subsidiary on June 01, 2010, see note 14, this position has shown the liability towards Italian employees who have a claim for compensation upon termination of employment due to country-specific provisions.

33. Shareholders' equity

Share capital

The subscribed capital of telegate AG is divided into 21,234,545 (2009: 21,234,545) individual share certificates without par value. All individual share certificates issued by the company have been fully paid-up.

As of December 31, 2010, the number of the shares in circulation amounts to 19,111,091 pieces (2009: 21,234,545 pieces). 2,123,454 pieces (2009: 0 pieces) are held as own shares, see the following explanation "Own shares".

Shareholders of ordinary shares have one vote per share regarding all matters presented to the shareholders for voting. Ordinary shares are not repayable and do not include rights of conversion. Dividends may only be resolved and paid from the distributable net profits of the year, which results from the individual financial statement that telegate AG has issued in accordance with the provisions of the German Commercial Code. The own shares held by telegate AG, from which the company is not entitled to any membership rights, are exempted herefrom.

Authorized but unissued capital

Subscribed capital was conditionally increased by up to kEUR 1,000 (authorized but unissued capital 2005/I), by resolution of the Shareholders' Meeting on May 12, 2005, amended by the resolutions as of May 15, 2006 and May 09, 2007). 247,500 stock options were exercised within the scope of the stock option plan in the annual year 2007. This results in a decrease of the authorized but unissued capital to EUR 752,500 and to an increase of the subscribed capital by EUR 247,500 to EUR 21,234,545.

By resolution of the Shareholders' Meeting on June 11, 2008, the Management Board, with approval of the Supervisory Board, was authorized to increase the share capital with contribution in cash and/or contribution in kind once or several times by a total of up to kEUR 500 until June 10, 2010, whereby the shareholders' subscription right could have been excluded (authorized capital 2008/I).

Additional paid in capital

The additional paid in capital amounts to kEUR 29,935 (2009: kEUR 29,875) as of December 31, 2010. It increased by kEUR 60, compared to the figure of December 31, 2009 (decreased by kEUR 1,925 in the previous year).

The increase in the annual year 2010 is based on the personnel expenses for share options in the amount of kEUR 60, which were still in the blocking period in the annual year, for this purpose see also note 37.

The change in the annual year 2009 is based on a decrease in the amount of kEUR 223 due to the difference between the acquisition cost and the book value of additionally acquired shares in telegate Media AG which are non-controlling, for this purpose, see note 4, and on an increase of personnel costs for stock options in the amount of kEUR 227, which were still subject to a blocking period in the annual year, for this purpose see also note 37. On May 06, 2009, the management board of telegate AG resolved the liquidation of the additional paid in capital in the amount of kEUR 1,929, in accordance with section 272 subsection 2 number 4 HGB (German Commercial Code); net earnings were increased correspondingly.

Other revenue reserves

By resolution of the Management Board on January 18, 2011, it is proposed to the Supervisory Board, in accordance with figure 6 (2) of the articles of incorporation, to allocate kEUR 2,936 to the revenue reserves of telegate AG. The Supervisory Board's approval is still to be expected.

By resolution of the Management Board on February 01, 2010, it is proposed to the Supervisory Board, in accordance with figure 6 (2) of the articles of incorporation, to allocate kEUR 3.648 to the revenue reserves of telegate AG, which was already taken into account at the preparation of the annual financial statements as of December 31, 2009, in accordance with section 270 subsection 2 HGB (German Commercial Code). The Supervisory Board agreed.

Other revenue reserves amount to kEUR 37,758 (2009: kEUR 34,822) as of the balance sheet date.

Treasury shares

telegate AG's Management Board performed a share repurchase program in November/December 2010 on the basis of the authorization granted at the Shareholders' Meeting of June 09, 2010. Here, own shares in the amount of 10 % of the capital stock or corresponding to 2,123,454 individual share certificates (corresponds to EUR 2,123,454 of the subscribed capital) were acquired at a price of EUR 7.00 per individual share certificate. As at December 31, 2010 the own shares were deducted from equity in an amount of kEUR 14,951, whereat transaction costs which are direct attributable to the purchase and the associated benefits in income tax were considered.

In addition, the above mentioned authorization allows the Management Board, to collect the own shares with approval of the Supervisory Board without any further resolution by the Shareholders' Meeting. Against this background, the Management Board resolved a simple capital decrease on December 08, 2010, in accordance with section 237 subsection

3 number 2, subsections 4 and 5 AktG (Stock Corporation Act), which is subject to the Supervisory Board's approval; in this connection, the company's capital stock is reduced by EUR 2,123.454. The Supervisory Board gave its approval to the capital decrease on December 09, 2010. Entry of the capital decrease in the commercial register was still to be expected on December 31, 2010, and was therefore not effective at closing date .

34. Paid and proposed dividend

In accordance with a resolution of the Shareholders' Meeting of June 09, 2010, the Management Board's and Supervisory Board's proposal for the use of earnings was complied with and net earnings 2009 in the amount of kEUR 14,864 were used for the distribution of a dividend (2009: kEUR 14,864). This corresponds to a dividend of EUR 0.70 per individual share certificate.

By resolution of the Management Board of January 18, 2011, a dividend distribution in 2011 for the annual year 2010 in the amount of kEUR 9,556 is proposed to the Shareholders' Meeting, which was not recorded as liability yet as of December 31, 2010. This corresponds to a dividend of EUR 0.50 per individual share certificate. The Supervisory Board's approval is still to be expected.

Other explanations and disclosures

35. Business segments

Activities of the telegate group are classified in business segments for the purpose of management control.

In addition to the historically developed regional segmentation of Germany/Austria and Spain/Italy, an additional subdivision is made within the segment Germany/Austria, according to directory assistance solutions and Media.

The business segment "directory assistance solutions" offers the user information and directory assistance services via various service channels in Germany and Austria.

The business segment "Media" provides advertising services for SMBs mainly in Germany.

The business segment "Italy/Spain" comprises now all activities on the Spanish market, which almost exclusively take place in the directory assistance solutions sector. The business segment Italy that was assigned to the segment "Italy/Spain" was sold as of June 01, 2010. Revenues and costs for the business segment Italy are also eliminated within the scope of reconciliation, analogous to the sold business segment France in the previous year.

The prevailing measurement standards of the Management Board correspond to those in the consolidated financial statements of the group and are presented in this report on the same basis. Performance rating of the segments as well as allocation of resources to the segments is mainly made based on operating results.

The management controls the segments on the basis of earnings indicators (up to EBITDA) and allocations of investments. Control of capital allocation (debts and assets) at business sector level is not made within the segment Germany/Austria.

Sales between the segments are shown in the balance sheet with amounts comparable with sales to third party customers and are eliminated within the scope of consolidation.

As of December 31, 2010 in kEUR	Germany / Austria: Directory assistance solutions	Media	Total	Italy / Spain	Reconciliation [1]	Group
Revenues						
External revenues	82,703	30,938	113,641	17,556	-6,549	124,648
Inter-segment revenues	25		25		-25	0
Total revenues	**82,728**	**30,938**	**113,666**	**17,556**	**-6,574**	**124,648**
Earnings						
Earnings before interest, taxes, depreciation and amortization (EBITDA)	37,100	-16,289	20,811	819	451	22,081
Financial income	1,055	1,040	2,095	-17	4	2,082
Income before income tax	28,597	-23,332	5,265	-626	1,416	6,055
Tax expenditure	-1,273	268	-1,005	-630	558	-1,077
Income after income tax	27,324	-23,064	4,260	-1,256	1,974	4,978
Assets and debts						
Segment assets			123,303	4,155		127,458
Segment debts			51,402	1,209		52,611
Other segment information						
Investments			2,218	242	-3	2,457
Depreciation and amortization on property and equipment	1,507	777	2,284	1,365	-934	2,715
Depreciation and amortization on intangible assets	8,051	7,306	15,357	61	-25	15,393

1) Revenues and costs of the discontinued operations are not included in the group's profit and loss statement. They are shown separately as "Income after tax from discontinued operations".

As of December 31, 2009 in kEUR	Germany / Austria: Directory assistance solutions	Media	Total	Italy / Spain	France	Reconciliation [1]	Group
Revenues							
External revenues	97,355	24,328	121,683	32,206	10,405	-31,234	133,060
Inter-segment revenues	130		130			-130	0
Total revenues	**97,485**	**24,328**	**121,813**	**32,206**	**10,405**	**-31,364**	**133,060**
Earnings							
Earnings before interest, taxes, depreciation and amortization (EBITDA)	45,545	-13,659	31,886	2,535	733	-2,742	32,412
Financial income	1,128	1,115	2,243	-51	-110	23	2,105
Income before income tax	39,659	-14,535	25,124	1,023	-3,025	1,701	24,823
Tax expenditure	-6,212	83	-6,128	-711	-14	630	-6,223
Income after income tax	33,447	-14,452	18,995	312	-3,038	2,331	18,600
Assets and debts							
Segment assets			145,913	25,725			171,638
Segment debts			51,035	23,318			74,353
Other segment information							
Investments			5,088	505	171	-432	5,332
Depreciation and amortization on property and equipment	1,891	666	2,557	1,173	1,040	-1,740	3,030
Depreciation and amortization on intangible assets	3,752	2,696	6,448	288	194	-266	6,664
Impairment of goodwill					2,413	-2,413	0

1) Revenues and costs of the discontinued operations are not included in the group's profit and loss statement. They are shown separately as "Income after tax from discontinued operations".

36. Restructuring measures

In the fourth quarter 2010, a detailed and formal restructuring plan for improvement of the economic efficiency as well as for optimization of the cost structure of the business sector directory assistance solutions was announced for the purpose of the combination of a call center with two further ones. Implementation of this plan started in 2010. The restructuring measure will presumably be completed in November 2011.

There was already a combination of a call center in the previous annual year. This restructuring was successfully completed as far as possible in 2009.

The total amount amounted to kEUR 1,117 (2009: kEUR 1,365), which is directly linked to the restructuring measures, is not shown separately in the profit and loss statement, but is instead shown in the cost of revenues.

For further information, see note 28.

37. Share-based payment

The annual Shareholders' Meeting of telegate AG on May 12, 2005 resolved the introduction of a stock-option program, in the scope of which stock options of up to 1,000,000 individual share certificates of telegate AG can be granted. According to the resolution of the Shareholders' Meeting of May 15, 2006, a maximum of 400,000 stock options can be distributed per calendar year. The Supervisory Board must approve the determination of the number of stock options to be granted to the beneficiaries each calendar year. The group of beneficiaries includes members of the Management Board of telegate AG, members of the management of companies affiliated with telegate AG in accordance with sections 15 ff. AktG (Stock Corporation Law), and employees of telegate AG as well as employees of companies affiliated with telegate AG, according to sections 15 ff. AktG (German Stock Corporation Law). The stock options are non-transferable.

1,000,000 stock options were distributed in the meantime, 247,500 stock options were exercised by their owners and thus 752,500 stock options remain.

Each stock option entitles the owner to the purchase of an individual share certificate of telegate AG at the exercise price. A cash settlement is excluded. The exercise price per individual share certificate is equivalent to the average closing price of the share of telegate AG in the XETRA-exchange of Deutsche Boerse AG during the 10 trading days immediately preceding the date, when the stock options are distributed.

It is only possible to exercise the stock options if one of the following targets is alternatively reached in the exercise period:

- The development of the stock market price of the telegate share in the period between being granted and exercising the option is better than the development of the Prime All-Share-Index of Deutsche Boerse AG in the same period (outperformance);
- The stock market price of telegate AG increases by more than an average of 7 % p.a. in the period between which the option was granted and exercised.

The waiting period for the initial exercise of the stock options is two years from the date it was granted. Stock options may be exercised until June 30, 2013. These options expire if this does not happen, regardless of when they were granted. In addition, the options also expire when the employee leaves the company before the waiting period is over.

No stock options were granted in the annual year 2010.

The stock options granted by telegate AG are shown in the balance sheet, in accordance with the regulations of IFRS 2 "Share-based payment" (in connection with IFRIC 8).

Total expenses for share-based payments recorded in the profit and loss statement amounted to kEUR 60 (2009: kEUR 227) in the annual year 2010.

The actual fluctuation during the annual year was taken into consideration in the cost estimate accordingly.

Development of the stock option during the annual year is as follows:

	2010		2009	
	Number of stock options	Weighted average exercise price (in EUR)	Number of stock options	Weighted average exercise price (in EUR)
Outstanding as of January 01	651,250	13.60	699,375	13.72
Forfeited	-119,100	14.63	-48,125	15.30
Outstanding as of December 31	532,150	13.37	651,250	13.60
Exercisable as of December 31	-	-	-	-

Stock options outstanding as of December 31, 2010 could not be exercised due to failure to fulfil the targets.

	Exercise price (in EUR)	Outstanding options as of December 31, 2010	Weighted average contractual remaining life (in years)
Tranche June 2008	11.01	281,500	-
Tranche May 2006	16.09	241,650	-
Tranche May 2005	14.28	9,000	-

The group applies the modified Black-Scholes Options-Pricing-Model for the measurement of the stock options granted.

The fair value of the stock options on the fixed date of granting was as follows:

	Tranche June 2008	Tranche May 2006	Tranche May 2005
Fixed date of measurement	June 30, 2008	May 31, 2006	May 31, 2005
Fair value of stock options (EUR)	1.48	2.28	1.87

The following parameters were integrated in the modified Black-Scholes Options-Pricing-Model:

	Tranche June 2008	Tranche May 2006	Tranche May 2005
Average share price (in EUR)	11.01	16.09	14.28
Exercise price (in EUR)	11.01	16.09	14.28
Expected volatility (%)	32.3	27.2	23.8
Risk-free interest rate (%)	4.5	3.3	2.2
Expected dividends (%)	7.3	4.0	2.5
Expected term (in years)	2.25	2.25	2.25

The term of contract of the stock options, which forms the basis for the expected duration, was adjusted by the management according to the best possible estimation, in order to take into consideration the particularities of employee stock options, such as non-transferability and limited exercising.

38. Other financial liabilities and claims

Future minimum expenses within the scope of non-redeemable agreements with an original duration of one year and more are as follows:

Liabilities from marketing and EDP-service level agreements

Annual year which ended on December 31	kEUR
2011	5,717
2012	558
2013	281
2014	434
2015	584
Subsequent years	585

Liabilities from rental and leasing agreements

Annual year which ended on December 31	kEUR
2011	5,014
2012	2,183
2013	1,433
2014	987
2015	974
Subsequent years	590

Claims from leasing agreements

At the same time, there are future minimum earnings from non-callable subleases as of the balance sheet date and they are as follows:

Annual year which ended on December 31	kEUR
2011	53
2012	53

39. Contingent liabilities and contingent claims

If the outflow of economically useful resources is possible, the risk that the company is exposed to is reflected in a provision in the financial statement. In the event of a possible yet unlikely outflow, in accordance with IAS 37.86, the financial impact shall instead be described as a contingent liability in the notes to the financial statements.

Contingent claims may not be assessed (IAS 37.31), but are subject to the disclosure requirement according to IAS 37.89, if a future inflow of resources is likely. If the corresponding profit realization is considered practically certain, however, the general estimate criteria for assets apply (IAS 37.33), so that the position can be recorded as claim.

Legal disputes
As of the balance sheet date, the company is a party to a number of different court proceedings, especially regarding data costs, both as a plaintiff and as a defendant (active/passive proceedings).

The occurrence of risks from the passive proceedings against Datagate GmbH and telegate Media AG, and the related outflow of resources was classified as unlikely by the company's legal advisers after a detailed review. These events are therefore not taken into account as contingent liability.

In addition, telegate AG as well as Datagate GmbH and telegate Media AG are plaintiffs in a number of actions concerning data costs within the scope of active proceedings.

telegate AG, Datagate GmbH as well as telegate Media AG brought actions for the recompensation of excessively invoiced costs for data of participants from the years 1997 until 2004. In May 2007, the OLG Duesseldorf (Higher Regional Court) adjudged DTAG in the case of the telegate-action to pay EUR 52 m plus interest payable as from commencement of proceedings. In June 2007, again the OLG Duesseldorf adjudged DTAG in the case of the Datagate-action to pay EUR 30.5 m plus interest payable as from commencement of proceedings. Furthermore, the OLG Duesseldorf adjudged DTAG upon application of telegate Media AG to pay EUR 2.9 m. Upon appeal of DTAG, all three judgments were annulled and the proceedings were referred back to the OLG Duesseldorf for a new hearing.

As far as the above-named active proceedings are concerned, telegate AG, Datagate GmbH and telegate Media AG as well estimate that they have positive chances of success.

Tax risks
Within the telegate group, tax risks can be ruled out for the periods which have already been subject to review by the tax authorities in the respective countries. The main corporate companies were reviewed up until and including 2007 (telegate Media AG) and 2004 (telegate AG, Datagate GmbH, telegate Akademie GmbH, WerWieWas GmbH) respectively. By experience, as far as the periods which have not yet been reviewed are concerned, both tax risks and tax chances cannot be ruled out.

Delayed purchase price payment (earn out-regulation)
telegate AG sold the wholly-owned French subsidiary 118000 SAS on November 02, 2009, and the wholly-owned Italian subsidiary Telegate Italia S.r.L. on June 01, 2010, for this purpose see also note 14. In both cases, earn out-regulations were agreed upon within the scope of the transactions.

Guarantees and indemnities
The company provided guarantees in the amount of kEUR 29 (2009: kEUR 192) as of December 31, 2010, in order to collateralize leasing liabilities incurred towards third parties. In addition, the group disposes at its house banks of credits by way of bank guarantees in the total amount of kEUR 2,200 (2009: kEUR 2,200).

40. Number of employees

The following table shows the number of employees of the telegate group. The Management Board was not included in the calculation.

Annual year 2010	Fixed date December 31, 2010		Annual average	
	Total	Headcount full-time employees	Total	Headcount full-time employees
telegate group				
Total	1,951	1,610	2,180	1,728
Thereof: operators and sales	1,577	1,254	1,780	1,344

Annual year 2009	Fixed date December 31, 2009		Annual average	
	Total	Headcount full-time employees	Total	Headcount full-time employees
telegate group				
Total	2,890	2,080	2,996	2,112
Thereof: operators and sales	2,397	1,615	2,516	1,652

41. Auditor's remunerations

The remunerations of the auditor (Ernst & Young GmbH, auditing company, Munich), taken into account in the profit and loss statement, are composed as follows:

in kEUR	2010	2009
Annual audit	151	211
Other certification services	3	46
Total	**154**	**257**

42. Financial risks

The group has different financial assets at its disposal, e.g. trade accounts receivable and cash and cash equivalents resulting directly from the group's business operations.

The main financial liabilities used by the group comprise trade accounts payable as well as available overdrafts, the use of which was restricted to a minimum in the annual year.

In the fiscal years 2010 and 2009 were no trade in derivatives.

The risks that arise from the financial instruments for the group are explained in detail below:

Credit and default risk

The group concludes transactions in the directory assistance business with carriers, which are characterized by a high degree of creditworthiness and with end customers respectively, which are historically characterized by marginal losses of receivables due to the wide portfolio. In the Media business, customers are mostly SMB-businesspersons. There is a significantly higher default risk in this case, which is met by a professional collection procedure.

All main customers were subject to a credit assessment and the receivables are also constantly monitored. Default risks are accounted for by means of individual value adjustments and value adjustment on a portfolio basis.

The group's default risk primarily results from trade accounts receivable. The amounts shown in the balance shall be less the value adjustments of potential uncollectible receivables, which were estimated and subjected to an individual valuation respectively by the group's Management Board, based on previous experience and the current economic situation.

The maximum credit risk at the balance sheet date of the categories of financial assets mentioned below corresponds with the respective book value.

The company transacts business with a large number of customers. telegate AG has the majority of its revenues with end customers in Germany centrally invoiced by Deutsche Telekom AG ("DTAG") (annual year 2010: 49 %, annual year 2009: 56 %).

The share of receivables towards DTAG from this invoicing contract of telegate AG's total receivables amounts to 27 % (2009: 32 %) as of December 31, 2010. In addition, DTAG is a very important supplier of advance performances for telegate AG. telegate AG leased a part of the German telephone line network from DTAG and receives a large proportion of the calls as well as some of the participants' data required for telephone directory assistance services from DTAG via this network. If DTAG no longer complies with its contractual obligations, this could have negative effects on the company's operative result. However, due to DTAG's financial strength and profitability, and due to the commitments arising from the deregulation of the telecommunications market and the existing emergency measures, this case can be ruled out from today's point of view. Outsourcing customers are invoiced directly, both in Germany as well as in other European countries.

Liquidity risk

Financial instruments which may result in a concentration of the company's liquidity risk are primarily cash and cash equivalents. The company's liquid assets are made out almost exclusively in EUR. The company constantly monitors its positions with the financial institutions and the creditworthiness of the financial institutions which are contractual partners of its financial instruments and does not consider that there is a risk of non-performance.

Besides, a part of the cash equivalents is invested in an affiliated company as fixed deposits with a duration of no more than 3 months, see note 43. The default risk of the fixed deposits is monitored by using the appropriate indicators. The company does not consider that there is a risk of non-performance of the affiliated company as contractual partner.

As of December 31, 2010, the group's financial commitments are subject to the following due dates. Disclosures are based on the contractual, non-discounted payments. For this purpose, see also note 26 and 29.

Annual year which ended on December 31, 2010 in kEUR	Due at call	No more than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Amount
Trade accounts payable	-	**2,489**	-	-	-	**2,489**
Other financial liabilities	-	**751**	-	-	-	**751**

Annual year which ended on December 31, 2009 in kEUR	Due at call	No more than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Amount
Trade accounts payable	-	**20,396**	-	-	-	**20,396**
Other financial liabilities	-	**0**	-	-	-	**0**

Interest rate risk

The group's risk of changes in the interest rate results from time deposits and fixed deposits with permanently fixed interest rates. A change of the general interest level may result both in a lower income from interest and in increased income from interest compared to the market interest. However, since the fixed deposit investments are of a current nature and since it is possible to terminate immediately, the group estimates that it is currently not exposed to any significant interest rate risk in this respect.

The following table shows the sensitivity of the group earnings before taxes which are compared to a change in the interest rates, which may be possible after reasonable consideration. All other variables remain constant and there are no significant effects on the group's equity. Within this scope, only the current fixed deposit investment with a related company is taken into account. For this purpose, see also note 17.

	2010	2009
Increase/decrease in basis points	+25	+25
	-20	-20
Effects on earnings before taxes in kEUR	137.24	130.01
	-109.79	-104.01

Currency risk

The main business transactions of the company are settled in EUR within Europe. Only a minor part of the procurement operations is made with other currencies (among others, in US-dollar, Swiss francs or Norwegian krone). Basically, the corresponding amounts can be classified as irrelevant and thus no foreign currency risk arises.

Capital management

Equity includes no-par-value bearer's individual share certificates. The main objective of the group's capital management is to ensure to maintain a high credit rating and appropriate equity interest for the support of its business activity and maximization of the shareholder value.

The group manages its capital structure and makes adjustments considering the change of the general economic setting. The group may make adjustments of the dividend payments for shareholders or a repayment of capital to shareholders or issue new shares, in order to maintain or adjust the capital structure.

An important ratio of the group is the equity ratio. It amounts to 58.7 % (2009: 56.7 %) as of December 31, 2010.

No amendments were made of the objectives, guidelines and procedures compared to the previous year.

Fair value of financial instruments

The following table shows book values and fair values of all financial instruments recorded in the consolidated financial statements.

	Book value		Fair value	
in kEUR	2010	2009	2010	2009
Financial assets				
Cash and cash equivalents	48,768	59,932	48,768	59,932
Trade accounts receivable	33,666	48,481	33,666	48,481
Current other financial assets	970	1,129	970	1,129
Non-current other financial assets	549	369	549	369
Financial liabilities				
Trade accounts payable	2,489	20,396	2,489	20,396
Other financial liabilites	751	0	751	0

The fair value of cash and cash equivalents corresponds to their book value. Trade accounts receivable are measured at amortized costs, less value adjustments due to impairment. They correspond to the fair value. Cash and cash equivalents as well as trade accounts receivable have short maturities.

Trade accounts liabilities are estimated with their repayment value, which corresponds to their fair value.

43. Related party operations

Business transactions between telegate AG and its subsidiaries (see note 1), which have to be considered as affiliated companies, were eliminated due to the consolidation and are not explained in these notes to the financial statements.

The following companies are affiliated companies:

Telegate Holding GmbH, Planegg, holds a majority interest (as of December 31, 2010: 55.02 %, after capital decrease: 61.13 %) in telegate AG. SEAT Pagine Gialle S.p.A. is directly (as of December 31, 2010: 14.61 %, after capital decrease: 16.24 %) and indirectly via Telegate Holding GmbH (as of December 31, 2010: 55.02 %, after capital decrease: 61.13 %) participated in telegate AG. Further information concerning the decided capital decrease can be found under note 33.

SEAT Pagine Gialle S.p.A., Milan, Italy, wholly owns Telegate Holding GmbH as of the fixed date and includes telegate AG as a parent of the largest consolidation into its annual consolidated financial statements within the scope of the full consolidation. The annual consolidated financial statements of SEAT Pagine Gialle S.p.A. are deposited at the commercial register in Milan, Italy, (Registro imprese presso la Camera di Commercio di Milano) under the number 03970540963 and at the Italian stock exchange. There is no publication in Italy similar to that in the German Federal Official Gazette according to German law. However, the annual consolidated financial statements may be viewed on the homepage of SEAT Pagine Gialle S.p.A., www.seat.it.

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

Conditions of the related party operations

Services rendered or received are made at regular market conditions. Any open receivables and liabilities as of the balance sheet date are not collateralized and are interest-free. Value adjustments for receivables towards affiliated companies were not created during the annual year (and in the previous year). Interest is paid on fixed deposit investments at regular market conditions. Any interest income is timely recorded and accrued correspondingly.

Related party operations (companies)

Sale subsidiary

telegate AG sold the wholly-owned subsidiary Telegate Italia S.r.L. to SEAT Pagine Gialle S.p.A as of June 01, 2010. The purchase price consisted of a one-time fixed payment in the amount of EUR 5.5 m, which was paid in full in cash, and of a variable sales share (earn out-component). For further information, see also note 14.

Services rendered or received

The total amount of the transactions from services with the SEAT Group is listed below:

	Telegate Italia S.r.L.		telegate AG		118000 SAS	
in EUR m	2010	2009	2010	2009	2010	2009
Revenues	* 6.6	* 20.7	-	-	-	-
Other operating income	-	-	0.1	-	-	-
Trade accounts receivable	* 5.3	5.3	0.1	-	-	-
Trade accounts payable	* 22.4	16.4	-	-	-	-
Accrued liabilities	-	-	-	-	-	* 0.1
Other current assets	* 0.6	0.6	-	-	-	-

* *The positions of Telegate Italia S.r.L (and also of 118000 SAS) shall be until their respective date of sale, whereby the receivables and liabilities were disposed and revenues are shown in the income from discontinued operations. For this purpose, see note 14. Other current assets represent a net tax claim towards the Italian tax authorities. Due to the establishment of a corporation tax group with SEAT, this claim now also addresses this company.*

Fixed deposit investments

Since February 2004, telegate AG – and from June 2009 until June 2010 telegate Auskunftsdienste GmbH as well – invested in fixed-term deposits with short durations of no more than 3 months with SEAT Pagine Gialle S.p.A. EUR 45.0 m (2009: EUR 57.5 m) were invested with SEAT as of the fixed date December 31, 2010. The interest income resulting from this for the annual year 2010 amounted to EUR 2.1 m (2009: EUR 2.1 m). As of the balance sheet date, EUR 0.1 m (2009: EUR 0.4 m) were accrued and shown as other financial assets.

Related party operations (persons)

As of December 31, 2010, three employees of the SEAT Group were members of telegate AG's Supervisory Board. These persons were entitled to Supervisory Board payments in the amount of kEUR 27 for the annual year 2010 (2009: kEUR 34), which were recorded correspondingly as current liabilities.

Payment of the persons in key positions of the management

This disclosure is made in note 45.

44. Events after the balance sheet date

On Feburary 15, 2011 the registration of the capital reduction in the commercial register took place, for further informations see note 33.

The consolidated financial statements of telegate for the annual year 2010 were released for publication by the Management Board on March 09, 2011.

45. Disclosure of the corporate bodies of telegate AG

Supervisory board of telegate AG

	Member since / Occupation	Additional assignments in the annual year(*):
Mr. Juergen von Kuczkowski	Chairman of the Supervisory Board (since October 01, 2007), since May 15, 2006, former chairman of the Management Board of Vodafone D2 GmbH, Gauting	• Vodafone Holding GmbH, Duesseldorf, chairman of the Supervisory Board
Ms. Ilona Rosenberg	Vice-chairwoman of the Supervisory Board (since May 15, 2006), since January 30, 2001, employee (operator), Rostock	--
Dr. Arnold R. Bahlmann	Since May 15, 2006, independent business consultant Munich	• Business Gateway AG, Starnberg, Supervisory Board • TVN Group, Warsaw, Poland, Supervisory Board • YOC AG, Berlin, Supervisory Board • Senator Entertainment AG, Berlin, Supervisory Board • Freenet AG, Hamburg, Supervisory Board • eCircle AG, Munich, chairman of the Supervisory Board
Mr. Alberto Cappellini	Since June 23, 2009, CEO, Seat Pagine Gialle S.p.A., Turin, Italy	• TDL Infomedia Ltd., Farnborough (Hampshire), Great Britain, Chairman • Thomson Directories Ltd., Farnborough (Hampshire), Great Britain, Chairman • Seat Corporate University S.c.a.r.l., Turin, Italy, Chairman/Director
Mr. Massimo Cristofori	Since September 19, 2008, CFO, Seat Pagine Gialle S.p.A., Turin, Italy	• TDL Infomedia Ltd., Farnborough (Hampshire), Great Britain, Director • Thomson Directories Ltd., Farnborough (Hampshire), Great Britain, Director
Ms. Claudia Dollase	Since November 08, 2010, chairwoman of the works council, Operator, Stralsund	--
Mr. Paolo Giuri	Since December 15, 2007, CEO, Europages S.A., Nanterre, France	• Europages Benelux SPRL, Brussels, Belgium, Gérant
Mr. Juergen Heinath	Since January 30, 2001, head Call Center projects, Neubrandenburg	• Interact Tele Service AG, Neubrandenburg, Supervisory Board • Telemarketing Initiative M-V e. V., Schwerin, chairman of the Advisory Board
Ms. Anett Kaczorak	Since May 15, 2006, chairwoman of the works council, employee, Neubrandenburg	--
Ms. Birgit Labs	Since February 20, 2001, employee (specialist process control), Neubrandenburg	--

Mr. Stanislas Laurent	Since March 15, 2005, CEO, Photoways Group, London, Great Britain	• Photoways Inc., Delaware, USA, Director • PhotoBox Ltd., London, Great Britain, Director • Fine Media SAS, Paris, France, Supervisory Board
Ms. Silke Lichner	Since May 15, 2006, employee (Data management) , Neubrandenburg	--
Ms. Brunhilde Goers	From July 01, 2009 to September 23, 2010, employee (staff planner), Guestrow	--

(*) A strict separation between the Supervisory Board and the Management Board bodies, as stipulated by German law, does not always exist in an international context. Therefore, also assignments are disclosed which have both characteristics of a Supervisory Board and a Management Board.

In accordance with the announcement of the Management Board of June 27, 2000, the Supervisory Board of telegate AG shall be set up in accordance with the regulations of sections 96 subsection 1, 101 subsection 1 AktG (Stock Corporation Law) in connection with sections 1 subsection 1, 5 subsection 1 and 7 subsection 1 Codetermination Law 1976. The Supervisory Board consists of 6 members to be appointed by the Shareholders' Meeting and 6 members to be appointed by the employees since 2001.

Management Board of telegate AG

		(Supervisory Board) assignments in the annual year (*):
Dr. Andreas Albath	Chairman of the Management Board, lawyer, Martinsried/Munich, responsible for the sectors Germany/Austria, marketing strategy, law, regulation, personnel and corporate communications	• Endurance Capital AG, Munich, Supervisory Board, • telegate Media AG, Essen, chairman of the Supervisory Board
Dr. Paolo Gonano	Member of the Management Board, Master of Business Administration, Turin, responsible for all international sectors	• Telegate Italia S.r.L., Turin, Italy, Director • 11811 Nueva Información Telefónica S.A.U., Madrid, Spain, Director • Pagine Gialle Phone Service S.r.L., Turin, Italy, President
Mr. Ralf Grüßhaber	Member of the Management Board, Dipl.-Betriebswirt (FH), Martinsried/Munich, responsible for the sectors finances as well as Technology & Operations	• Telegate Italia S.r.L., Turin, Italy, Director • Uno Uno Ocho Cinco Cero Guias S.L., Madrid, Spain, Director • telegate Media AG, Essen, Supervisory Board

(*) A strict separation between the Supervisory Board and the Management Board bodies, as stipulated by German law, does not always exist in an international context. Therefore, also assignments are disclosed which have both characteristics of a Supervisory Board and a Management Board.

PAYMENT REPORT

Payment Management Board

The Human Resources Committee of the Supervisory Board discusses and reviews the structure of the payment model for the Management Board periodically. Based on the suggestions of this body, the plenum of the Supervisory Board determines the total payment for the individual members of the Management Board. In addition, it reviews the payment model for the Management Board periodically.

The payment model for the Management Board shall be attractive and appropriate to compete for highly qualified management personnel. Criteria for the appropriateness of the payment are, in particular, the duties of the corresponding member of the Management Board, his/her personal performance, the performance of the Management Board as well as the economic situation, success and future prospects of the company in the context of its peer group.

Payment system in general

Payment for the members of the Management Board consists of performance-independent and performance-related components. Performance-independent components comprise a fixed salary and benefits in kind, whereas the performance-related components are made up of a management bonus and a long-term incentive component. Furthermore, the members of the Management Board received pension commitments.

The fixed salary as basic payment irrespective of the annual performance is paid as salary on a monthly basis and is oriented to an income schedule, which is determined by the Supervisory Board. This schedule takes the current situation and the objectives in the medium-term of the company into account, as well as the criteria to be considered according to section 87 subsection 1 AktG - Stock Corporation Law and the German Corporate Governance Code. Benefits in kind primarily comprise the value for the use of a company car to be assessed according to the tax directives. These taxes are paid by the individual member of the Management Board.

Loans or advances were not granted to a member of the Management Board in the year under review.

The management bonus is one element of the performance-related payment. It is dependent on the achievement of the most important key targets to increase the goodwill. Both revenue and proceeds targets of an annual plan to be approved in each case by the Supervisory Board within the scope of the continuous 3-year planning, are the benchmark figures, as well as other quantitative and qualitative targets and their achievement is the basis for a sustainable implementation of the company's medium-term targets. Thus, this payment component, which shall be an incentive for the Management Board's successful work, is an important element and can amount to no more than 55 % of the cash payment mentioned.

Payment in 2010

As required by law, the disclosure of the Management Board's salary is provided since the annual year 2006. telegate shows the Management Board's salary in one amount, because the Shareholders' Meeting made use of the so-called Opting-Out clause on May 15, 2006 (exemption from the obligation of an individualized disclosure of the Management Board payment for the annual years 2006 to 2010).

The Management Board's payment amounted to kEUR 1,129 (2009: kEUR 1,142) for the annual year 2010, in accordance with IAS/IFRS.

Of this total, kEUR 530 (2009: kEUR 520) were attributable to the fixed salary and kEUR 496 (2009: kEUR 540) were attributable to the management bonus. The value of the benefits in kind amounted to a total of kEUR 36 (2009: kEUR 36).

No stock options were granted to the members of the Management Board in the previous annual year.

The members of the Management Board received pension commitments in the amount of kEUR 67 (2009: kEUR 46), in accordance with IAS/IFRS. These amounts basically depend on the duration of employment and the payment of the individual members of the Management Board. A pension commitment shall only be linked to the fixed salary component. For details, see note 31 “Old age pension schemes”.

in EUR	2010	2009
Fixed salary	530,382	520,000
Management bonus	495,807	540,446
Benefits in kind	35,772	35,630
Pension commitments	67,012	45,763
Total without stock options	**1,128,973**	**1,141,839**
Stock options	0	0
Total with stock options	**1,128,973**	**1,141,839**

No member of the Management Board received benefits or corresponding commitments by a third party regarding his/her work as member of the Management Board in the previous annual year. Intracompany Management Board and Supervisory Board assignments respectively were and are not paid.

There are no other payment components in addition to the cash payments and benefits in kind described.

Payment Supervisory Board

The payment of the Supervisory Board is regulated in section 4.6 of the articles of incorporation. It is based on the duties and responsibilities of the members of the Supervisory Board.

In addition to reimbursement of expenses, each member of the Supervisory Board receives a fixed annual payment in the amount of kEUR 10. Payment is payable after the Shareholders' Meeting in each case, which resolves on the discharge of the Supervisory Board for the previous annual year. The chairman receives double the payment and the vice-chairman receives 1.5 times this amount. Members of the Supervisory Board who belonged to the Supervisory Board for a part of the annual year only, receive a lower time-proportional payment. If any member did not attend a minimum of 75 % of all Supervisory Board meetings during an annual year, the payment is reduced by 50 %.

In addition to the basic payment, an annual lump sum of kEUR 1 is paid for a participation in a Supervisory Board committee, provided that the committee held any meetings during the annual year and the member actually attended at least one of the meetings of the committee.

Payments for the Supervisory Board amounted to kEUR 136 (2009: kEUR 146) in the annual year 2010.

In addition to the payments above, no member of the Supervisory Board received any further payment and benefits for performances rendered personally and consulting and mediation services, in particular.

A member of the Supervisory Board was granted a loan in the amount of kEUR 5 at an interest rate of 5.50 % p.a. in the annual year 2010. The members of the Supervisory Board did not receive any other loans and advances in the year under review.

46. German Corporate Governance Code

JOINT DECLARATION OF COMPLIANCE
by the Management Board and Supervisory Board
of telegate AG, in accordance with section 161 AktG (Stock Corporation Law)
relating to the Corporate Governance Code

The German Corporate Governance Code was adopted by the "Government Commission German Corporate Governance Code" on February 26, 2002 and was revised several times in the meantime. The current version is of May 26, 2010. It describes essential statutory provisions relating to the management and supervision of listed German companies (management) and includes international and national accepted standards for an efficient and responsible management.

The joint declaration of compliance by the Management Board and Supervisory Board of telegate AG, in accordance with section 161 AktG (Stock Corporation Law), relating to the Corporate Governance Code, was declared on December 09, 2010. The exact wording of the declaration can be retrieved under **www.telegate.com**.

Planegg-Martinsried, March 09, 2011

The Management Board

Audit opinion

We have audited the consolidated financial statements prepared by telegate AG, Planegg-Martinsried, comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement, the statement of changes in equity and the notes to the financial statements, together with the group management report for the fiscal year from 01 January to 31 December 2010. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks relating to future development.

Munich, 14 March 2011

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Broschulat
Wirtschaftsprüfer
[German Public Auditor]

Gallowsky
Wirtschaftsprüfer
[German Public Auditor]

Corporate Information

Place of Business

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Legal Form: Aktiengesellschaft (AG)

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HRB 114518

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Tax Number: 143/802/54205

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telegate on the Web

More information on telegate AG and telegate Group can be found on our website **www.telegate.com**.

Information about single brands and subsidiaries are available at:

- **www.telegate-media-ag.de**
- **www.telegate.de**
- **www.telegate.at**
- **www.telegate.es**

PDF files of our Annual Report as well as interim reports, Investor Presentations and general investor information are available on our website in the section Investor Relations/Reports and can be downloaded in both German and English.

Quarterly telephone conferences are published via Webcast on the day of announcement.

To receive an investor package or request other information please contact our Investor Relations department at

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Fax.: +49 (0)89 8954 - 1010
Mail: Investor.Relations@telegate.com

Auditor

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft
München

Forward-looking statements

This document contains forward-looking statements that reflect the management‘s current views with respect to future events. Such statements are subject to risks and uncertainties that are beyond telegate‘s ability to control or estimate precisely, such as future market and economic conditions, the behaviour of other market participants, the ability to successfully integrate acquired businesses and achieve anticipated synergies and the actions of government regulators. If any of these or other risks and uncertainties occur, or if the assumptions underlying any of these statements prove incorrect, then actual results may be materially different from those expressed or implied by such statements. telegate does not intend or assume any obligation to update any forward-looking statements to reflect events or circumstances after the date of these materials.

Glossary

AktG
Stock Corporation Law

App
Application software, a computer program which runs a function useful for the user

Federal Network Agency
Federal Network Agency for Electricity, Gas, Telecommunications, Post and Railway – Regulatory authority which regulates the corresponding markets in Germany (formerly: RegTP – Regulatory Authority for Telecommunications and Post)

Call Center services
Call Center services are very diverse and include DA and information services, intelligent field sales management, customer support and Telesales

Cash flow
Cash flow of a company and net inflow of liquid assets respectively during an annual year as a rule

COGS
Cost Of Goods Sold – Cost of revenues

CRM system
System for customer care

German Corporate Governance Code
Main statutory provisions for the management and control of listed German companies

Dividend yield
A dividend yield is defined as dividend per share by a certain fixed date price

DTAG
Deutsche Telekom AG - Former German monopolist

EBIT
Earnings before interest and taxes

EBITDA
Earnings, before interest, taxes, depreciation and amortization

ECJ
European Court of Justice

HGB
Commercial Code

IAS
International Accounting Standards – Standards of international accounting, prepared and published by the IASC

IASB
International Accounting Standards Board

IASC
International Accounting Standards Committee – Independent organization under private law, which was responsible for the adoption of the standards of accounting, predecessor of the IASB

IFRS
International Financial Reporting Standards – Standards of international accounting, prepared and published by the IASB

ICS
Internal control and risk management system

Capital increase
The increase of a company’s equity: for a corporation, by increase of the nominal capital on issue of new share certificates

SMB
Small and medium-sized enterprises

Local Search
“Local Search” refers to the search for contact data of a company or service provider in the regional environment

Market capitalization

A market capitalization – also referred to as market capitalization or market value – of a stock corporation results from the multiplication of the share price by the number of the company's issued shares

OLG

Higher Regional Court

Outsourcing

Assignment of tasks/subtasks to external companies or service companies

Outsourcing partner

Companies which assumes DA services for telegate within the scope of outsourcing contracts

SPG

Seat Pagine Gialle S.p.A.

Visits

Access frequency to a website

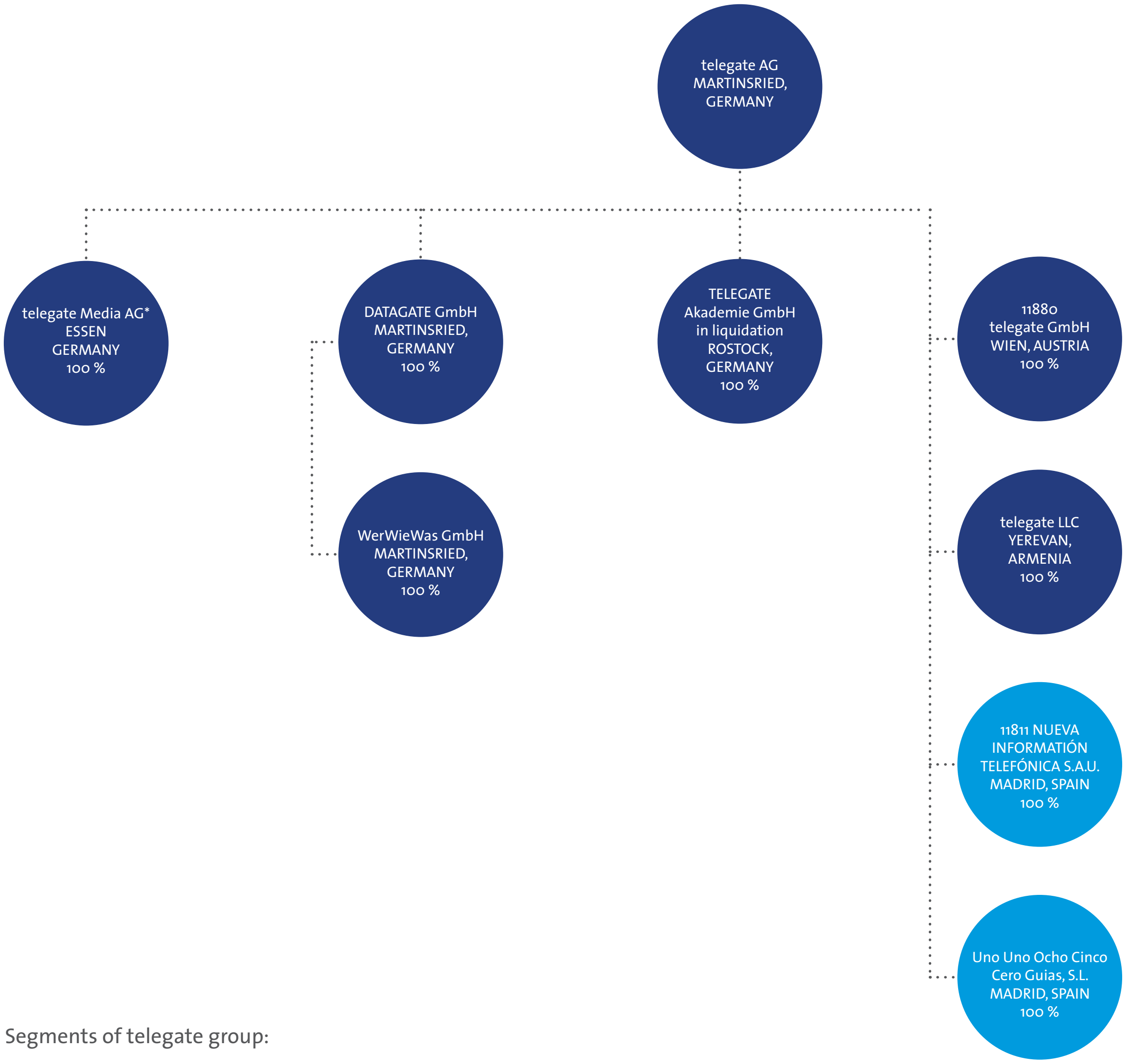
W-LAN

Wireless LAN – refers to a wireless local network and is used to realize a network access for mobile computers

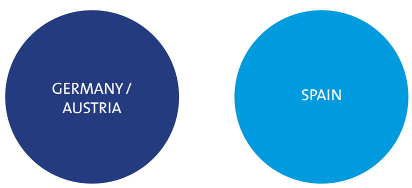
WpHG

Securities Trading Law

Corporate Structure telegate Group



Segments of telegate group:



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

Financial Calendar 2010 / 2011

March 30, 2011	Annual results 2010
May 05, 2011	3-months results 2011
June 29, 2011	AGM 2011
August 11, 2011	6-month results 2011
November 08, 2011	9-month results 2011

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Imprint

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