Annual Report 2011

Simple to find – Simplified

telegate

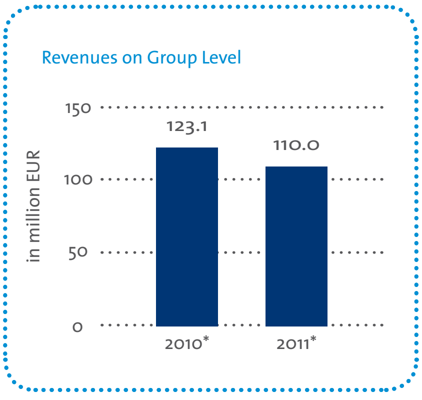
11 88 0.com

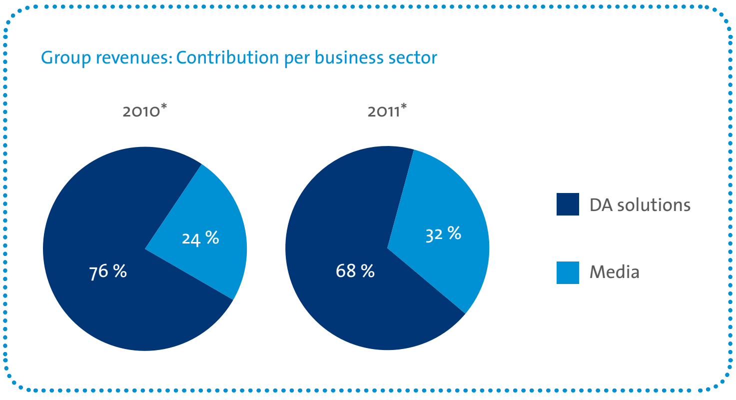
klickTel
Find people and places.

Results telegate Group

in million EUR	2011	2010	Variation absolute	Variation in %
Revenues and profit				
Revenues	110.0	123.1	-13.1	-10.6 %
EBITDA[1]	11.1	21.2	-10.1	-47.5 %
EBITDA before non-recurring effects	14.7	22.3	-7.6	-34.0 %
Operating profit (EBIT)	3.2	3.1	0.2	4.9 %
Income from continuing operations	3.4	4.4	-0.9	-21.6 %
Income from discontinued operations	0	2.3	-2.3	-100.0 %
Revenue per Segment				
Germany / Austria	101.3	112.1	-10.8	-9.6 %
Spain	8.7	11.0	-2.3	-20.9 %
Balance sheet				
Balance sheet total	115.5	130.2	-14.7	-11.3 %
Cash and cash equivalents	39.0	48.8	-9.7	-19.9 %
Equity	62.3	68.5	-6.1	-9.0 %
Equity ratio	54.0 %	52.6 %	-	-
Cash Flows				
Cash Flows from operating activities	1.4	16.6	-15.3	-91.8 %
Cash Flows from investing activities (incl. M&A)	-2.8	-0.1	-2.7	4306.0 %
Free Cash Flow (before M&A)	-1.4	13.1	-14.5	-
KPI telegate share				
Earnings per share for continuing operations (in EUR)	0.18	0.21	-0.03	-13.5 %
Share price at the end of year (in EUR)[2]	5.31	7.07	-1.77	-25.0 %
Market capitalisation at the end of year	101.4	150.1	-48.7	-32.5 %
Dividend and dividend proposal	6.7	9.6	-2.9	-30.0 %
Dividend and dividend proposal per share (in EUR)	0.35	0.50	0.15	-30.0 %
Dividend yield (in %)[3]	6.6 %	7.1 %	-	-
Employees				
Number of employees[4]	1,507	1,951	-444	-22.8 %

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 December 31*





* *from continued operations*

Milestones 2011

March

- telegate is partner of the major trade initiative by Google "Online Motor Deutschland" (Online Engine Germany). The objective of the initiative is to help SMEs in Germany to get started in the digital world.
- Dr Paolo Gonano retires from telegate AG's Management Board.
- Dr Christian Boeing becomes the new Sales Manager of the business unit Media.

April

- The first judgment is delivered on the data cost repayment actions: the Higher Regional Court Duesseldorf orders Deutsche Telekom AG to repay telegate approx. EUR 46 m.

June

- Second judgment on the data cost reclamation claims: the Higher Regional Court Duesseldorf orders Deutsche Telekom AG to pay an additional amount of approx. EUR 49 m. Thus, a total of approx. EUR 95 m is awarded to telegate from all actions (as at Dec. 31, 2011).
- The Shareholders' Meeting resolves to distribute a dividend of EUR 0.50 per registered share to the company's shareholders.

August

- Number 1 in Germany again: according to the IVW (German Information Association for the Ascertainment of Distribution of Advertising Media, registered association), telegate MEDIA regains the top position in the ranking of German Local Search providers on the web with 9.5 m visits on the portals **11880.com** and **klicktel.de** and thus is ahead of the competitor GelbeSeiten.de and expands the top position until the end of the year.
- Continuous further development of the digital advertising portfolio: with the new products "BranchenWEBSITE" (trade website) and "MiniWEBSITE" (mini website), telegate now also offers SMEs professional starter solutions for the offer "firmenWEBSITE"(company website).

October

- Excellent search engine marketing specialist: telegate becomes a "Google Adwords Premium-SME-Partner" in Germany.
- SMEs make progress in terms of digital marketing. Thus, the importance of online advertising Media for SMEs increased by 33 percent compared to the previous year. However, there is still potential regarding efficiency review: more than half of the companies do not perform an effective monitoring of their online marketing measures. This is shown by the study "SMEs and Advertising" carried out by telegate together with the marketing research institute psyma also this year.
- Mobile business remains on the road to success: the klickTel App for Local Search via Smartphones exceeds the mark of 1 m downloads.

November

- Record figures for telegate: the portals **11880.com** and **klicktel.de** reach a new visitor record with 11.6 m visits in October.
- Dr Andreas Albath withdraws from telegate AG's Management Board.

December

- Elio Schiavo becomes the new CEO of telegate AG. In this function, he is responsible for both the entire operating business and the strategic development of the business sectors DA solutions and MEDIA.

Content

Anna's new winter tires

MECHANIC – SIMPLY FOUND

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Letter from the Management Board

Dear Shareholders,

What was the previous year like for you? Perhaps you already ended the year on new year's eve. As a company we can draw a balance of the previous fiscal year just now. 2011 was again affected by the conversion of our business model from a telephone DA specialist to an Information and Internet service specialist. We also made significant progress in this transformation process of our company in the previous fiscal year. But we have also determined that there were a few shadows in addition to a great deal of light.

For example, it is pleasing that we can report "accomplishment" with regard to our annual profit guidance now: with a group EBITDA before non-recurring items in the amount of EUR 14.7 m we are exactly within the margin forecasted at the beginning of the year of EUR 13 m to EUR 18 m. Nevertheless, the operating profit decreased by approx. one third compared to 2010. This profit trend, in connection with a very comfortable availability of liquid funds in the amount of approx. EUR 39 m, provides the financial basis to submit our investors a dividend proposal at the annual general meeting in June of EUR 0.35 per individual share certificate bearing dividend. This corresponds to an attractive dividend yield of approx. 6 percent on the basis of the current share price.

Also positive: the Media sector increased again by almost 20 percent and now contributes approx. one third to group revenues. The other side of the coin: growth of the advertising sales business has failed to live up to our expectations and was still not sufficient yet to compensate the revenues of the classic DA business decreasing due to the overall market trend. At the same time, we did not succeed adequately in increasing the profit margin of the Media business and thus to bring it closer to the break-even level. The high churn rate of existing customers is the main reason. It is essential to continue to take actions here consequently!

Advertisers benefit from an increased reach of approx. 10 percent regarding telegate's Local information services for customers

There was a positive trend in the previous year regarding the reach of our local information services for customers and users. Via partner channels like Nokia and Vodafone and via our own information channels, in particular, we answered approx. 300 m Local search requests in 2011. Overall, this corresponds to an increase of approx. 10 percent compared to the previous year. And 75 percent of these Local searches were made via our digital channels today: via our very successful online portals and our increasingly popular mobile apps with already 1.2 m downloads out of the different app stores to date.

Fortunately, the positive trend continued in this year. According to figures by the IVW (the German Information Association for the Establishment of the Distribution of Advertising Media), we have topped the 13 m visitor barrier with 13.3 m Visits for the first time in January 2012. Thus we achieved a new record for our online reach. Furthermore, we extended our lead over the online offer of Gelbe Seiten to more than 4 m Visits. With this reach we "throw the ball" in the court of our advertising sales force for their daily persuasion of SMEs.

Not least, we can state again by the end of the fiscal year, that telegate has the best funding without any debt and with liquid assets in the amount of approx. EUR 39 m to continue to operate independently.

2012: more efficiency and more profitable growth in the business sector Media

We have set ourselves ambitious and challenging targets again for the current fiscal year. Our main focus is on a significant improvement of profitability of the Media business. How do we intend to achieve this? With a greater focus on our existing customers, more transparency for advertisers regarding their return on advertising investment, a greater product diversity and flexibility as well as improved customer loyalty measures. With these measures we want to satisfy our customers even more, increase their stickyness and loyalty and reduce the churn rate significantly.

Thus, our concentration in the advertising sales business business shifts slightly from new customers to existing customers. We have already set the course for this in the sales force at the end of the previous year. Nevertheless, we will continue to work hard to develop the enormous potential of the Local marketing market in Germany in a determined way and to convert our steadily increasing reach even more into cash by new customer revenues.

Thus, efficiency and more profitable growth of the Media sector are the main targets of our business strategy in 2012. We also want to achieve these targets with the assistance of additional cost reductions. With regard to the DA business, we still need to cushion the decline in revenues and profits by optimal capacity control and the best possible customer service. With this strategy we want to build the foundation for a profit turnaround in the German business in this year and, as a start, stabilize the operating profit. Our specific profit guidance for the full year 2011 regarding EBITDA before non-recurring items is within a margin between EUR 10 m to EUR 12 m.

We would be pleased if you continue to accompany us as shareholder on our challenging way of the company transformation. Unfortunately, the telegate share reached a new low in 2011 in a difficult general environment on the financial markets and for small and mid-cap shares, in particular. To stand that clear: We are not satisfied about that!

We are convinced that we will be even more successful on the market in operational terms with the measures initiated and thus can both stabilize the profit situation and generate new prospects for the telegate share again. Be sure that we have an excellent initial position on the market with a market leading position regarding our Local Internet information services and a large sales force specialized in digital marketing and focussed on the requirements of SMEs.

Not at least, as shareholder of our company you can look forward that there will be a significant inflow of funds for our company, because it is very likely that final judgments on our data cost reclamation claims against Deutsche Telekom AG are delivered during the next months. You will also benefit from this.

We wish you a very successful new year!

Planegg-Martinsried, March 2012
The Management Board of telegate AG

Elio Schiavo Ralf Grüßhaber

Report of the Supervisory Board

The annual year 2011 was still affected by a transformation of the company from a user-financed DA business to an advertising-financed Media business. In connection with the adjustment of structural costs, conditions were created to maintain the group's profitability. 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 2011

The Supervisory Board performed its duties in the annual year 2011, 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 business development of telegate group, the most important financial data, the main topics of company controlling and the risk situation at all times. Deviations of business development from 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. Strategy and market environment of the Media business, optimization of the sales force, development and establishment of an existing customer management, cost optimization of structural costs, in particular, the merger of the Call Center Wismar with the Call Centers Guestrow and Rostock as well as capacity adjustments at the Spanish subsidiary were the main focus. Furthermore, the body dealt intensively with the change in telegate AG's Management Board.

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

Organization of the Supervisory Body's work

For an efficient performance of its duties according to section 27 subsection 3 MitBestG – Codetermination Law (Human Resources Committee) as well as in accordance with the Supervisory Board's rules of internal procedure, the Supervisory Board established an Investment Committee and an Audit Committee. 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 deals increasingly with the supervision of accounting and internal control system as well as annual audit. In addition, a Nomination Committee was established. All these committees were already existing in 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.

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 2011 in accordance with the articles of incorporation by the Shareholders' Meeting as well as the personnel of telegate AG according to the Codetermination Law.

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.

The members Mr. Giuri, Mr. Heinath, Ms. Labs and Mr. Laurent withdrew from the Supervisory Board within the course of elections in 2011. The members Mr. Cristetti, Mr. Hausmann, Mr. Kiedrowski and Mr. Sahgal were elected as new members to the Supervisory Board.

Meetings and participation

The Supervisory Board held a meeting in every quarter in the annual year 2011. Due to scheduled elections in 2011, the Supervisory board held a meeting with a new composition three times after the Shareholders' Meeting on June 29, 2011.

The members Mr. Giuri, Mr. Heinath, Ms. Labs and Mr. Laurent participated in one meeting, as scheduled. The members Mr. Cristetti, Mr. Hausmann, Mr. Kiedrowski and Mr. Sahgal participated in three meetings, as scheduled. Mr. Cristofori also participated in three meetings. The other Supervisory Board members participated in all four meetings.

The Human Resources Committee met twice in the annual year 2011. The Investment Committee met three times and the Audit Committee met five times in the reporting period. The Nomination Committee met once in 2011.

Changes of the Management Board

Mr. Andreas Albath withdrew from telegate AG's Management Board as of November 15, 2011. The Supervisory Board appointed Mr. Elio Schiavo as Management Board member and chairman of the company's Management Board as of December 01, 2011.

Corporate Governance

The Supervisory Board also dealt with the proposals and recommendations of the German Corporate Governance Code and its implementation at telegate intensely in the annual year 2011.

The implementation of the German Corporate Governance Code at telegate AG was subject of the meeting of December 07, 2011. 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 careful consultation and with 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 2011

The annual audit according to commercial law and management report as well as IFRS-consolidated financial statements including management report on the annual year 2011 of telegate AG were audited by Ernst & Young GmbH, CPA company, Munich, with inclusion of accounting. The consolidated financial statements and 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 generally accepted auditing standards in Germany, as determined by the German CPA institute (IDW).

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

The annual audit according to commercial law including management report, IFRS-consolidated financial statements including management report and auditor's reports were dealt in detail with the auditor in the Audit Committee and 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 07, 2012. He reported on the performance of his audit and furnished explanatory information within the course of the discussion.

The Supervisory Board examined the annual audit and management report of telegate AG. We examined the Management Board's proposal for allocation of earnings considering the interests of the company and 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 annual audit 2011 of telegate AG, which is approved thereby.

The Supervisory Board also examined the IFRS-consolidated financial statements of telegate AG and management report. It took notice of the auditor's result approvingly and approves the management report presented by the Management Board and consolidated financial statements 2011 of telegate AG.

Dependency report

Ernst & Young AG, CPA company, also examined the report on 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 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. Furthermore, 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 Management Board established a risk management system in accordance with section 91 subsection 2 Stock Corporation Law, in order to recognize significant risks to the company and its subsidiaries at an early stage. The audit of the auditor revealed that the Management Board performed its duties required by section 91 subsection 2 Stock Corporation Law. 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 report, management report, consolidated financial statements and corporate management report of telegate AG. We approve the annual report prepared by the Management Board, which is approved thereby. We also approve the IFRS-consolidated financial statements prepared by the Management Board. Furthermore, we agree to the Management Board's proposal to fully distribute net earnings in the amount of kEUR 6,689.

The management and employees of the telegate group cooperated in a responsible and very determined manner in 2011. The Supervisory Board expresses its thanks and recognition to the Management Board and all employees for their work.

Planegg-Martinsried, March 2012

Jürgen von Kuczkowski
Chairman of the Supervisory Board

Simple to find – simplified!

Daniel’s new wall paint

PAINTER – SIMPLY FOUND

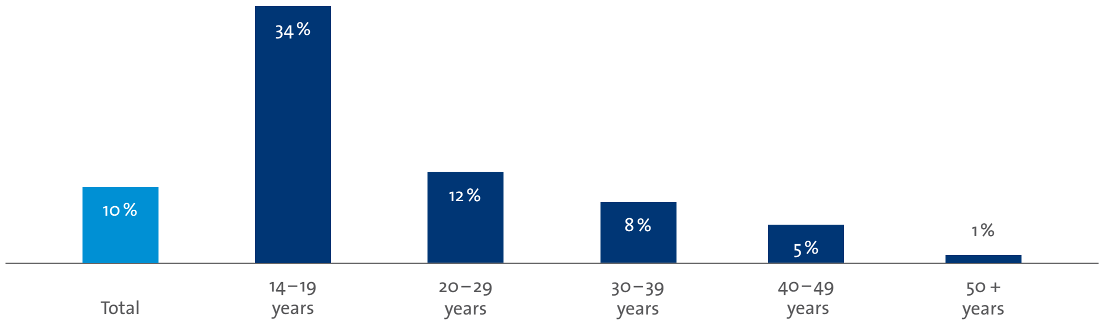
Simple to *find*: Local search to go!

"I can't imagine life without my smartphone. I often use local search while on the go, for example to quickly reserve a table in an 'in' restaurant, to check the Daily Deals in my neighborhood or to find the nearest ATM of my bank. Only one thing counts: It has to be simple to find." **– Daniel A. (25)**

Daniel A. is not an individual case – within a few years mobile surfing turned into an integral part of our everyday life. Almost every third internet user in Germany uses the mobile web in 2011[1]. Not only the number of users has grown continuously, but also the intensity of the usage. Almost 60 percent of mobile internet users are online at least once a day. It is fun and sometimes even addictive to surf the web, listen to music, play games, chat live with friends or just write eMails with the modern, powerful and intuitive to use smartphones und tablet-PCs. Affordable flat rates of the mobile phone providers and a continuous expansion of fast mobile data services also contribute to a quick penetration of the market.

Here, the so-called apps are the pillars of the mobile boom: eight out of ten users use those mini-programs for mobile web services[1]. Alone in October 2011 124 m mobile apps have been downloaded in Germany. This corresponds to 1.5 apps per month and capita[2]! Location Based Services such as local search are killer-apps of the mobile world. Getting information quickly, e.g. on local businesses, service providers or restaurants, counts even more when you are on the go. Especially young users between 14 and 29 like Daniel A. consider these information services as indispensable today. Market research also confirms this trend: 23 percent of local search requests for companies and service providers are originated from the mobile internet[3].

Use of Location Based Services 2011 – Evaluation by Age Group



Source: "Mobile Web Watch 2011", Accenture study

"Simple to find" is the demand of mobile internet users. A local search app must show the result without detour, load quickly and, at best, provide additional information such as customer ratings, opening hours, map display, directions or sorting by distance to the current location.

telegate recognized this potential and is far ahead of its competitors. The first app for BlackBerry was already put on the market in 2005. Today, mobile local search apps by telegate are available for all leading smartphone operating systems. There were already more than 1.2 m downloads of the telegate apps for the brands **klickTel** and **11880.com** and they respond to more than 3 m search requests per month.

1 *Source: "Mobile Web Watch 2011", Accenture study*
2 *Source: Xyologic, App Download Report 2011*
3 *Source: "Market DA business", GfK study by order of telegate, September 2011*

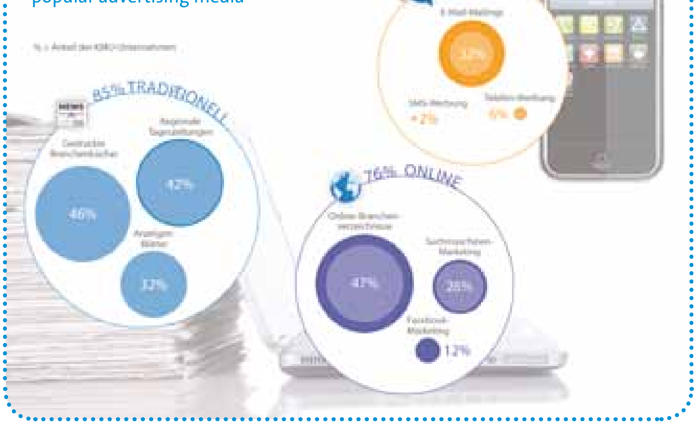
The smartphone apps by telegate are among the most popular local search apps in Germany.

Online advertising *simplified*!

"Of course I have a smartphone and I also use it. I have no clue if and how I can advertise my business there. I still prefer to invest my money in newspaper ads. At least I know how that works. Of course it would be nice, if I could also be located on the web and mobile. But it has to be simple, because I don't have time." – **Luca M. (35), owner of a pizzeria**

Luca M. thinks like many of his colleagues. Advertising in printed yellow pages, regional daily newspapers and local advertising papers still dominates the marketing mix of small and medium-sized enterprises (SMEs) in Germany. This is a key result of the current psyma study "SMEs and Advertising 2011" by order of telegate AG[4]. Many business persons still deny the fact that the internet has now become the most preferred search media of the Germans and they still rely on well-known things from the past. But already half of the 557 m annual local search requests for companies and service providers is made digitally today[3].

German SMEs still have reservations about digital marketing. The key task of internet service providers like telegate is to link the requirements of users and advertisers, show the businesses how easy and efficient online marketing is today and how they invest their budget in the right way, in particular.



The online directory is the most popular advertising media

Source: psyma study "SMEs and Advertising" im Auftrag by order of telegate AG, October, 2011

Advertisements in digital yellow pages such as telegate's MEDIA advertisement are well on the way to develop from an add-on-advertising instrument into an integral part of the marketing mix of German SMEs. Half of German small businesses book advertisements in online directories today. Here, most companies are familiar with the principle "yellow pages" and the transition into digital media is made easily. In addition, an advertisement in online directories costs only a fraction of expensive print products, can also be planned with a narrow budget and is available by providers like telegate on a broad digital front. Without any detour and additional costs, a regional company can also reach themodern mobile customers. This can be worthwhile: online and offline world melt together through the mobile web. Via the smartphone a small cornershop competes directly with big brands and internet retailers – but with a decisive competitive advantage: it can reach a prospective customer at exactly the right time.

3 Source: "Market DA business", GfK study by order of telegate, September 2011
4 Source: "SME and advertising", psyma study by order of telegate, October / November 2011

Simple to *find*: only the best, please!

"I organize the household in addition to family and job and actually never have any time. I cannot search long if I need a craftsman, specialized trade or a certain doctor. I must know right away who is the best in my neighborhood. Therefore, I attach great importance to recommendations by other users. For me this means 'simple to find'!" – **Anna G. (38)**

Approximately 80 percent of the Germans think like Anna G. today. They consider the opinion of other consumers before selecting a service provider or a purchasing decision. What previously has been the neighbour's recommendation, takes place on the internet today. The good old word of mouth moves to the web – both to relevant rating portals and local search platforms. As pioneer in the German market, telegate includes user ratings in the online directory. In addition to contact data, the user also receives opinions by previous customers at a glance via smartphone, his desktop or since the end of 2011 via telephone DA.
Several hundred thousand recommendations from all industries are collected by telegate at a central location and new ones are being added daily. Here, the users can inform themselves or also rate service providers. These ratings can also be easily passed on to the own network and friends via an interface to Facebook. In addition to the ratings of the portal users, telegate also includes recommendations by relevant rating portals such as docinsider.de or restaurantkritik.de.

80 percent of the Germans consider recommendations of others before doing a purchase.

Recommendation marketing *simplified* : please tell everybody!

"Without customer recommendations I could close my business down. I know that this happens on the internet today. I would like to have a partner, who shows me how I can use the satisfaction of my customers on the web."
– Andreas R. (42), plumber

Customer recommendations play an important role for business success for 90 percent of small and medium-sized enterprises in Germany. However, only 16 percent of the companies use positive customer opinions for active recommendation marketing. One third of the businesses have knowledge of online ratings about their business. 88 percent state that the customer rating was positive, 9 percent record neutral comments and only 3 percent of the SMEs have been criticized on the Internet before[4]. This trend is consistent with the ratings of popular search portals. Almost 90 percent of the users ratings received on **www.11880.com** and **www.klicktel.de** concern 4-star or 5-star ratings. In fact, the motivation to share a positive result is greater than to talk about negative experiences.

But companies still have reservations regarding active recommendation marketing. Often, there is a lack of "know-how". As proven by the telegate study, the inclusion of customer opinions in the own company website is the most popular method for recommendation marketing[3].

A rating widget for the homepage can be created via **www.11880.com** since 2011. The small window is installed with only a few steps and it shows the online ratings about the business on the own website. Thus, satisfied customers can simply be asked to make a recommendation via the company's homepage. It is automatically transmitted to the telegate portals and is available for millions of search requests. With telegate as partner, German SMEs can achieve the optimum snowball effect of a recommendation. After all, telegate receives approx. 300 m search requests via all media channels per annum[5].

The majority rates positive

Source: telegate, ranking of costumer recommendations on the portals 11880.com & klicktel.de, January 2012

4 *Source: "SME and advertising", psyma study by order of telegate,October / November 2011*
5 *Source: telegate own market research / GfK 2011*

Simple to *find*: local search to the square

“As independent insurance agent I often need telephone numbers and addresses. Because I don’t have Internet access all the time, local search must run on my computer with a reliable software. I think it is practical when I can directly transfer a search result to my mobile phone via QR-code.” **– Ulrich E. (45)**

In public DA software is often considered as a phase-out model, which had its boom in the end of the 90s. But this is not the case: the overall use of CD-ROMs on the local search market today maintains the same level. Germans still make 7 percent of the 557 m annual trade search requests by software solutions such as the “klickTel telephone book and yellow pages”[3]. telegate, as market leader in this segment, further develops software products constantly considering the requirements of private and business customers like Ulrich E. Focus of developments in 2011 was the transferability of search results to mobile devices. As the first local search provider in Germany, telegate included QR-codes in the “klickTel telephone book and yellow pages” on CD-ROM or as download in 2011. The software generates the popular square bar codes for each search result which then can be easily transferred to a modern smartphone via the mobile phone camera with a QR-code reader.

3 Source: “Market DA business”, GfK study by order of telegate, September 2011

Professional websites *simplified*

"Of course I have a website. This is a must-have today. But I don't check if it is efficient. I really don't know how to do that. But at least my website appears on the first page, when I google my name." – **Karsten L. (43), independent tiler**

Modern users like Ulrich E. have ever more sophisticated demands on search and web technologies, but small and medium-sized enterprises in Germany are still even lacking online basics. More than one third of the businesses do not have a website in the digital age and thus are not even visible on the Internet. The SMEs who put a homepage on the Internet today primarily want to address new customers and offer information on the company. Furthermore, 70 percent operate their website in order to be located by big search engines like Google. But only a few check whether this actually works[4]. More than half of the website operators do not use success control – mostly due to a lack of time and know-how. Many think like Karsten L.: at least a website! They don't question whether it addresses and reaches customers. Many business persons are satisfied that their website appears when users search for their company name. They hardly reflect that only customers can find them, who already know their company by name. But prospective new customers search by key words.

Therefore, telegate focuses its sales activities on the professional creation of websites. telegate designs a "digital shop window" for the customer. In addition to the "firmenWEBSITE", the new products "miniWEBSITE" and "branchenWEBSITE" now supplement the portfolio: websites for a small budget and still with the full expert service by telegate. To complete the all-round service for SME customers, telegate additionally bundles its products in affordable combination packages for all-over online marketing. Since autumn 2011 telegate adds the MEDIA advertisement as well as search engine marketing to the website. Companies benefit from the synergies of the harmonized marketing measures and have nothing to worry about. This ensures that many users actually perceive the "digital shop window" of the customer. In 2011 this marketing and consulting competence was appreciated by the cooperation partner Google, amongst others. Since October 2011 telegate is characterized as "Premium SME Partner" by Google. This title represents quality, reliability and first-class expertise on the market for small and medium-sized enterprises.

Google ADWORDS PREMIUM KMU-PARTNER

4 *Source: "SME and advertising", psyma study by order of telegate, October / November 2011*

Simple to *find*: A friendly advice!

"I have little to do with the internet. Sure, I know the basics, but I still prefer to use the phone when searching for a telephone number. This is much quicker and I also can ask questions. For me, 'simple to find' is only with personal service". – **Gisela S. (58)**

telegate's telephone DA turned 15 years of age in 2011. Personal service with added value is still the successful credo of 11 88 0 in its "teenage years". This is justified. Competitors dismissed this as business idea in 1996, however, nowadays it has become a matter of course for the Germans due to 11 88 0: telegate completed the first billion DA calls in 2011. The success of telegate's telephone DA is based on a strong brand: 54 percent of the Germans say spontaneously that they know the number 11 88 0. Thus, 11 88 0 is the best known telephone number in Germany today.
With an integrated Social Media, online and television campaign, telegate further expanded the brand loyalty of 11 88 0 during the previous years. The well-known "mnemonic motive" (11 guys the football team, 88 the grandma and 0 clue) became a popular slogan for topics of conversation during the Football World Cup or the crisis in Greece and could open up additional and younger target groups. Within one year telegate has more than doubled the number of fans of its facebook fan page. With now more than 8,000 fans 11 88 0 is the most successful facebook fan page among local search providers in Germany today.

Future *simplified*

Whether it concerns users or business customers: telegate focusses on the further customer evolution to improve the link between the different customer demands. Product developments are planned analogous to customer requirements which continue to diversify further. Here, the company as partner brings the interests of the users and advertisers together and on a common level: “simple to find – simplified”. Simple local search for users and simplified marketing products for business customers so that they are easy to find.

Simple to *find* in the private customer business shall be made even easier by numerous technical innovations. At the beginning of 2012 telegate expands the mobile portfolio with “AUTO mobil” and “FINANZEN mobil” with topic apps for local search via iPhone and Android smartphones. The new apps contain thematic extracts from telegate’s telephone book and online directories plus specific contents on the topic. A tablet version of the mobile local search app for the iPad has also been launched in spring 2012.

Internet users of the portals **www.11880.com** and **www.klicktel.de** can look forward to a facelift of the portal’s homepages. “City pages” are launched nationwide within the course of the year – with even more individual information at a glance. Furthermore, the integration of the latest technologies is the focus of the software development: the klickTel Server On-Demand interface for business customers will be expanded by access to additional data bases of partners in the first quarter of 2012. Thus, the “klickTel Server On-Demand” offers an even broader data base and extra service for the customer, in addition to a maximum flexibility by Cloud Computing. Within the scope of an industry initiative by the telecommunications industry, the launch of the product “SMS Connect” could already take place in 2012. This enables a far-reaching provision of mobile phone numbers via DA.

The marketing offer of telegate as partner shall be further simplified for SME customers. Here, customer loyalty is the core of the company’s sales strategy. New organizational and sales structures simplify and optimize customer support. Over the entire term of the contract each SME customer will now have assigned partners at telegate, who are responsible for his / her well-being. Product developments are still oriented towards the digital driver efficiency of advertising. SME customers can follow the benefits of their advertising budget easily: optimally harmonized sales products generate synergies and provide the basis for a provable advertising success. Within the newly launched “customer area” telegate provides all customers with individualised monthly analysis on the performance of the booked products. For example, customers can inspect the number of visits of their website, DA provision of the MEDIA advertisement or click analysis of their Google AdWords campaign. Thus, in the future advertisers shall see in writing that their hard earned money is simply in good hands at telegate and that they are simply connected to prospective customers by telegate.

Investor Relations

Capital market environment

After another recovery of the capital market in 2010, 2011 was affected by a highly volatile trend with several negative influencing factors. The reasons were uncertainties regarding refinancing of heavily indebted Euro member states, political riots in oil-producing regions, a general aggravation of the national debt discussion and also fears of another economic deterioration.

Germany could also not escape this trend. The leading index DAX stood stable during the first half of 2011, however, temporarily fell below the margin of 5,200 points in August and, at least partly, recovered until the end of the year. Overall, the DAX recorded a minus of 15 percent by the end of 2011 compared to a plus of 16 percent in the previous year.

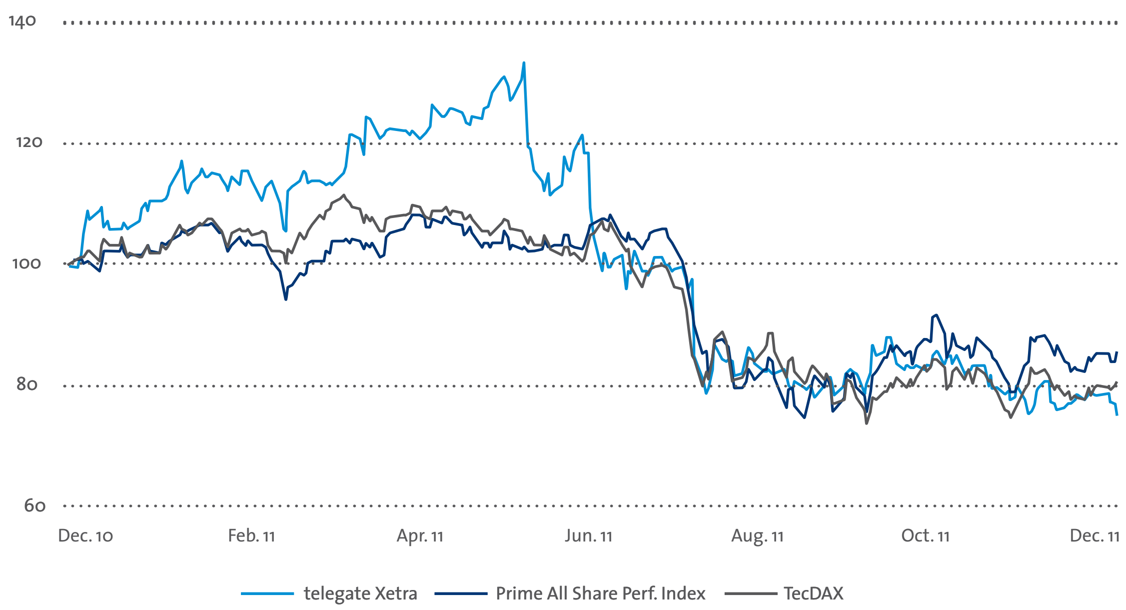
Trend of the telegate share during the stock market year 2011

Compared to the total market, the telegate share initially showed a better performance until the beginning of June 2011. However, the telegate share shows a downside trend since then due to a deceleration of growth dynamics of the Media sector emerging during the year. Here, a delay of legal disputes with Deutsche Telekom AG regarding repayment of excessive data costs also contributed to a weaker share price trend. After a slight stabilization in October, the telegate share fell to an all-year-low of EUR 5.31 on December 30, 2011.

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

Overall, the share closed with a minus of 25 percent in the previous annual year and a minus of 18 percent respectively taking into account the dividend payment. By comparison, the Prime All Share Performance Index and the TecDAX recorded a minus of 14 percent and 19 percent respectively in the reporting period.

The telegate share in comparison with Prime All Share and TecDAX

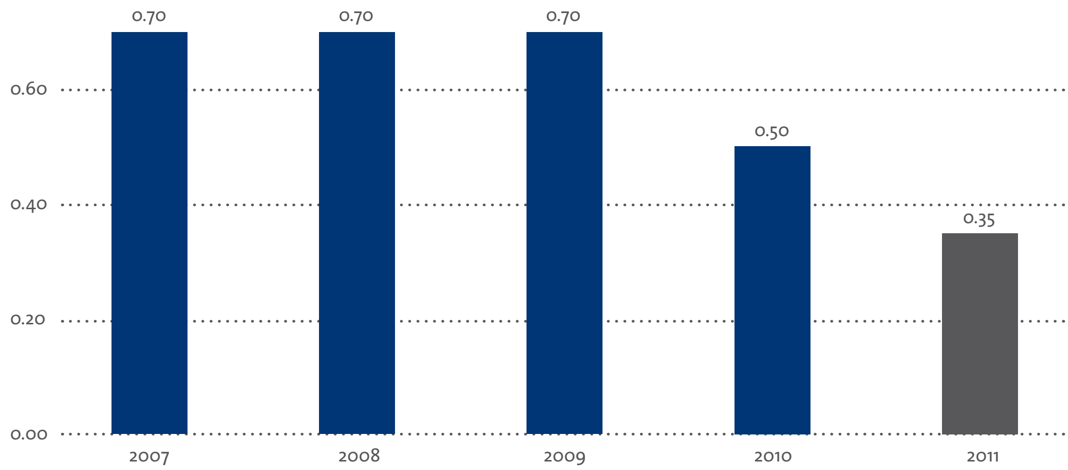


Ratios of the telegate share

		2008	2009	2010	2011
Number of shares	pcs.	21,234,545	21,234,545	21,234,545	19,111,091
Capital stock	EUR	21,234,545	21,234,545	21,234,545	19,111,091
Year-end stock market price [1]	EUR	6.10	9.16	7.07	5.31
Top stock market price[1]	EUR	14.70	9.55	11.39	9.43
Bottom stock market price[1]	EUR	6.10	6.23	6.18	5.31
Market capitalization by the end of the year[1]	EUR m	129.5	194.5	150.0	101.4
Profit per share[3]	EUR	1.16	0.90	0.21[4]	0.18[4]
Dividend and dividend proposal respectively per share	EUR	0.70	0.70	0.50[5]	0.35[5]
Dividend yield[2]	%	11.5	7.6	7.1	6.6

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 (2010: 21.1 m, 2011: 19.1 m).*
5 *For all shares in circulation (19.1 m)*

Dividend trend in EUR



Shareholder structure

The number of shares of telegate AG in circulation amounts to 19,111,091 as of December 31, 2011. The company does not hold any own shares. The main shareholder SEAT Pagine Gialle S.p.A. directly and indirectly holds a total of 77.4 percent of shares in circulation as of December 31, 2011. The remaining 22.6 percent are in portfolio investments.

telegate AG held 2,123,454 own shares due to a share repurchase program performed in 2010, in addition to 19,111,091 shares in circulation as of December 31, 2010. The main shareholder SEAT Pagine Gialle S.p.A directly and indirectly held 69.6 percent as of December 31, 2010. 20.4 percent were in portfolio investments and 10 percent were held by telegate AG as own shares due to a share repurchase program. A capital reduction was performed on January 24, 2011. Own shares were redeemed by means of a basic capital reduction, in accordance with section 237 subsection 3 number 2 subsection 4 and 5 AktG (Stock Corporation Act). Registration of the performance of a capital reduction in the commercial register was made on February 15, 2011.

Dividend

The Management Board and Supervisory Board intend to propose to the annual general meeting, which takes place on June 27, 2012, a dividend distribution according to the current situation in the amount of EUR 6.7 m for the annual year 2011. This corresponds to EUR 0.35 per share entitled for dividend and a very attractive dividend yield of 6.6 percent respectively referring to the closing price by the end of the year (previous year: 7.1 percent). Thus, the company emphasizes its target to continue 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. The company's current development and perspectives resulting from the transformation from a DA specialist to an information and Internet service provider were the main focus of capital market communications. The development of the legal disputes 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 development periodically.

Corporate Governance Report 2011

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 2011

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 2011 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 provides for own risk retention since January 01, 2011 respectively May 01, 2011.
telegate was still 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 came into effect on January 01, 2011 and May 01, 2011 respectively and provide for a corresponding own risk retention. In this respect, telegate AG complies with the recommendations of clause 3.8 German Corporate Governance Code since May 01, 2011.

Composition of the Management Board (Clause 4.2.1)
telegate AG's Management Board consisted of three members until March 31, 2011 and of two members from April 01, 2011 to November 15, 2011. By deviating from clause 4.2.1 German Corporate Governance Code, the Management Board only consisted of one member for a transitional period between November 16, 2011 and November 30, 2011. In this respect, telegate AG complies again with the recommendations of clause 4.2.1 German Corporate Governance Code since December 01, 2011.

Management Board's variable compensation and period of computation compensation cap (Clause 4.2.3)
Regarding the Management Board's variable compensation clause 4.2.3, section 3 p. 3 of the German Corporate Governance Code recommends to exclude retroactive changes concerning performance targets set for the Management Board. telegate AG will deviate in this respect. In light of Mr. Schiavo being nominated as CEO of telegate AG by December 01, 2011 and his performance targets being agreed for the period of the annual years 2012 – 2014, the performance targets as well as the respective assessment period regarding the variable remuneration of the CFO, Ralf Gruesshaber, shall be adapted accordingly as of the accounting year 2012. Synchronisation and standardisation of the Management Board Members' performance targets have to date been the company's code of practise and encourage a common objective for the Management Board in middle and long term perspective.
By deviation from clause 4.2.3, section 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. telegate AG is of the perception that this method of computation has appropriate results. It avoids a disproportional 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 only.
This is due to an according resolution by the Shareholders' Meeting from June 29, 2011, 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 consists of two members since April 01, 2011. A new Management Board position has not been created. As stated in clause 4.2.1, the Management Board only consisted of one member between November 16, 2011 and November 30, 2011. In the process of reappointing the second Management Board position, the Supervisory Board particularly considered the candidate's professional qualification.

Age limit for members of the Management Board and the Supervisory Board and Diversity (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 the Supervisory Board's inalienable 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 (subsection 1) and a performance-related remuneration is not provided (subsection 2). telegate reports on the remuneration of its Supervisory Board as a whole in the notes to its financial statements. telegate does not provide an individualized breakdown (subsection 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 this is not provided by telegate AG's Articles of Incorporation. 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 its remuneration report, telegate lists the total remuneration for the Supervisory Board as well as the work undertaken as committee activity as a total 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 May 26, 2010 since delivery of the previous Declaration of Compliance in December 2010 with the restrictions mentioned to clause 2.3.1 / 2.3.3, 3.8, 4.2.1, 4.2.3, 4.2.4 / 4.2.5, 5.1.2, 5.4.1, 5.4.3 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 communication 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 Annual General 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 general 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 as 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 2011 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 mid-term 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 percent of said cash remuneration.

Remuneration in 2011

Since fiscal year 2006 legal stipulations require the remuneration of Management Board members to be disclosed on an individual basis. Same as in previous years telegate lists the remuneration of Management Board members collectively as one sum, as the shareholders' meeting of June 29, 2011 had again made use of the so-called opting-out clause (dispensation of disclosure of individual remuneration for the fiscal years 2011 – 2015).

In fiscal year 2011 the Management Board remuneration per IAS / IFRS came to EUR 981,000 (prior year EUR 1,129,000).

Of this EUR 525,000 (prior year EUR 530,000) were for salaries and EUR 343,000 for bonuses (prior year EUR 496,000). The value of benefits in kind totaled EUR 33,000 (prior year EUR 36,000).

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

The Management Board members received pension benefits totaling EUR 79,559 per IAS / IFRS (prior year EUR 67,012). 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

	2011 (IAS / IFRS)	2010 (IAS / IFRS)	2011 (HBB)	2010 (HGB)
Fixed salary	525,416.66	530,381.59	525,416.66	530,381.59
Bonus	342,510.3	495,807.00	342,510.3	495,807.00
Benefits in kind	33,484.62	35,772.42	33,484.62	35,772.42
Pension Benefits	79,559.00	67,012.00	0	0
Total without stock options	980,970.58	1,128,973.01	901,411.58	1,061,961.01
Stock options	0	0	0	0
Total including stock options	980,970.58	1,128,973.01	901,411.58	1,061,961.01

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.

Resigned Members of the Board have been granted a severance payment in the total amount of EUR 1,178,000 as generalized compensation for the remaining period of the employment contract.

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 EUR 10,000. 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 percent of all Supervisory Board meetings during a fiscal year, shall receive a lower remuneration reduced by 50 percent.

In addition to the basic remuneration, membership in one of the Supervisory Board's Committees shall be remunerated at an annual fixed amount of EUR 1,000. 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 2011, the total remuneration for the Supervisory Board came to EUR 175,000 (prior year EUR 136,000).

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

Loans or advances were not granted to Supervisory Board members in the year under review. In fiscal year 2010 one member of the supervisory board has been granted a credit of EUR 5,000 with an interest rate of 5.50 percent p.a., which has been repaid in full in fiscal year 2011. Further loans or advances were not granted to Supervisory Board members in the previous year.

Management Report

Dad's old schoolmate

GOOD FRIENDS – SIMPLY FOUND

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Group Management Report

Fiscal Year 2011: Overview

The fiscal year 2011 was still affected by the transformation of the business model. Group revenues decreased compared to the previous year, according to plan, due to a still declining trend in the classic DA business. Fortunately, the share of the growing Media business amounts to almost one third of group revenues by now. Earnings before interest, taxes, depreciaction and amortisation (EBITDA) was within a margin communicated at the beginning of the year. telegate's liquidity is still excellent with liquid assets in the amount of EUR 39.0 m.

Group revenues decreased by 11 percent from EUR 123.1 m to EUR 110.0 m in the previous fiscal year. Revenues of the classic DA business (segment Germany and Spain) decreased, as in previous years. Compared to previous year a decline by 20 percent to EUR 74.9 m (previous year: EUR 93.7 m) has been observed. However, revenues of the Media sector increased by 19 percent compared to the previous year from EUR 29.5 m to EUR 35.1 m.

EBITDA of telegate group including non-recurring items decreased from EUR 21.2 m to EUR 11.1 m. EBITDA before non-recurring items decreased from EUR 22.3 m to EUR 14.7 m in the previous fiscal year. Non-recurring items in 2011 in the amount of EUR 3.6 m are composed of restructuring expenses of EUR 1.3 m for the Call Center closure in Madrid, expenses of EUR 1.0 m for the Call Center merger (Wismar) and adjustment of administration functions (particularly personnel related) in Germany as well as expenses related to the termination agreement with the chairman of the Management Board in the amount of EUR 1.3 m. In 2010 non-recurring effects of EUR 1.1 m for the Call Center merger in Germany were considered.

The strategic focus of telegate AG in 2011 was still on measures to further proceed with the transformation of the company from a pure DA (Directory Assistance) specialist to an information and Internet service provider. The focal point of the new customer business in the Media sector was a completely revised product concept which enables through product bundles and a broadened product range for the website product (the product firmenWEBSITE being the basic component) to even better address the individual needs of the trade professionals. Focus of further development was on activities with the objective to commit existing customers more sustainable to telegate in a long customer life cycle, in addition to measures to acquire additional customers. A further progress of the transformation of the business model is also proven by the fact that the share of the Media business in segment revenues of the core market Germany increased from 26 percent to 35 percent by now in the previous fiscal year. Business development in the classic DA sector was still declining in the previous year, as expected. However, with 65 percent it still contributes the biggest share in segment revenues in Germany.

There was good news regarding the topic data cost claim for return actions in the previous year. After years of legal dispute with Deutsche Telekom AG, the Higher Regional Court Duesseldorf adjudged the telegate group a total of approx. EUR 95 m including interest for improperly excessive data costs by means of three judgments (status December 31, 2011). The right to appeal was not granted. However, the judgments are not final yet due to an appeal filed by Deutsche Telekom with the Federal High Court of Justice from non-admission of the appeal. Therefore profit was not recognised in 2011. It has to be mentioned, that once profit will be recognised in the future, also profit related payments and tax payments will occur. Add to this telegate also sees good chances of success regarding the further actions for damages with an additional amount in dispute of approx. EUR 100 m, based on this positive decision on the claim for return actions.

The company group structure was changed slightly compared to previous year. On August 31, 2011 deconsolidation of telegate Akademie GmbH i.L. was realised.

Dr Gonano resigned as member of the management board of telegate AG on March 31, 2011. Since then the management board consists of two members. Dr Albath resigned as chairman of the management board of telegate AG on November 15, 2011. Elio Schiavo was appointed as successor of the chairman of the management board of telegate AG on December 01, 2011.

Economic environment

Overall economic conditions

Economic recovery of the world economy in 2010 also continued in 2011. However, there were increasing signs in the second half of 2011 of a weakening of the expansion rate of the world economy and also the German economy. Economic development in 2012 will primarily depend on the fact which sustainable solutions in respect of the national debt crisis in the Euro area can be developed and implemented respectively.

telegate's classic DA business can be considered as business largely independent of economic development. A continuous market decline observed for years is primarily based on a change of the user behaviour of consumers towards digital media.

The Media business is primarily affected by the advertising behaviour of SMEs (small medium enterprises) and thus also indirectly by the economic conditions in Germany. Here, the online marketing market offers great potential for telegate. Even if SMEs still rely on traditional, print-based advertising media (85 percent), digital advertising gained importance significantly, according to results of a study by psyma "SMEs and advertising 2011" by order of telegate. 76 percent of German SMEs today consider digital advertising media a necessary part of the advertising mix. In fact, online yellow pages were the most used advertising instrument in 2011. Another reversal in advertising behaviour of SMEs can be assumed considering the fact that users perform almost half of Local search requests for trade entries on the Internet by now.

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

Market development

Germany / Austria

The change in the German DA market continued further in 2011. On the one hand, market volume of the classic DA decreases further. The possibility (presumably as of 2012) of a mobile telephone number DA ("SMS-Connect") will at least offer the DA business a certain market expansion and thus the chance of slightly decelerated decline rates.

On the other hand, a market study of GfK (market research company) carried out by order of telegate in 2011 shows that already approx. 50 percent of German consumers search for regional operating companies and service providers on the Internet (approx. 560 m search requests p.a.). Nearly every fourth online search request is made via the mobile Internet, e.g. Smartphones. However, when also looking at the use of advertising Media of SMEs, the traditional print Media still dominate the advertising market, but Online Media have a greater importance for companies compared to the previous year. 76 percent of the companies questioned also use Online marketing by now. This corresponds to a growth of approx. one third compared to the previous year.

The two Local search portals **klicktel.de** and **11880.com** combined under telegate MEDIA show a very positive trend in the web-based trade DA sector in the previous year. Both online services collectively recorded clearly double-digit growth rates in the previous year and thus were the Local search offer with the greatest reach in Germany in 2011. In this connection, it is pleasing that access figures have been permanently above the online offer of GelbeSeiten publishing house since July.

In terms of figures, both portals collectively recorded 34.8 m visits (number of accesses to a website) in the fourth quarter 2011 according to the IVW (Information association for the establishment of the distribution of advertising Media). The telegate MEDIA portals collectively recorded 21.8 m visits in the same period of the previous year. This corresponds to an increase in reach of approx. 60 percent within one year. Furthermore, telegate recorded with its Internet offer a new all-time record of 11.9 m visits in November 2011. In addition, telegate records a strongly growing number of search requests via its Local search Apps of the brands "klickTel" and "11880" which exceeded a mark of 1.2 m downloads in December 2011. Search requests via mobile Internet increased by almost 100 percent YOY and account to already 21 percent of all digital search requests by now.

Spain
After a moderate recovery of the Spanish economy in the first half-year 2011, economic growth almost came to a standstill in the second half of the year. However, due to a more stable situation than in the recession 2008 and 2009, the decline in CV in 2011 did not exceed the usual negative trend.

But the situation in Spain has been similar to the situation in Germany for years and thus the substitution effect of the classic DA business towards digitalization continues further. Market decline of Voice DA was slightly higher in 2011 with estimated 23 percent compared to approx. 20 percent in 2010.

telegate also follows the trend towards web-based Local search with its strategy in Spain. During the previous year, the company successfully positioned the online offer of the website **www.guias11811.es** at number two in the Local search for business persons sector in the Spanish market with more than 1.5 m search requests on average per month. telegate expects growing user figures also in the future with the launch of Local search Apps for iPhone, Android and iPad.

Financial Situation

Profit Situation

Segment Report

• Germany / Austria

The transformation of the business model from a DA service provider to an information and Internet service specialist also advanced successfully in the previous year. However, growth dynamic of the Media segment decelerated during the fiscal year. Reasons for this are a weaker performance in the new customer business on the one hand and a churn rate of existing customers higher than expected on the other hand. Both items resulted in a growth of revenues behind plan and still in losses of the Media sector due to poor economies of scale. On the other hand, CV of the classic DA sector decreased further according to plan. However, the decline in earnings was not as strong as planned originally due to a slight increase of revenues per caller as well as optimized capacity control. Overall, telegate's Germany business is still declining. The business sector Media is currently being developed and cannot compensate the decline in revenues and earnings of the classic DA business yet.

In order to provide new impulses for the new customer business in the Media sector, the product concept was further revised during 2011. In order to better meet individual requirements of business persons, the offer of the website sector was expanded and the advertising offers were bundled in new combination products. The new strategy focuses on the creation of websites for business persons. These main products can be supplemented by booking different versions of online yellow pages advertisements and search engine advertising via Google AdWords. This offer shall altogether help SMEs to get an adequate internet presence by telegate and to increase their presence in the web via online advertising measures.

A good customer loyalty with a corresponding low churn rate is a main success factor in the Media business. A low churn rate ensures that telegate can generate renewal revenues with a strong margin which secure the success of the business model Media in the long term. The customer support process was fundamentally revised in 2011 against the background of a comparatively high and almost stagnating churn rate within a margin of 40 to 50 percent. Here, various activities were launched with the objective to commit existing customers to the company over a longer customer life cycle. The central starting point here is to present business persons the success of their advertising investment in a transparent way by means of an individual proof of success.

In October telegate was awarded “Premium-SME-Partner” from Google within the new Google partner model for AdWords-reseller. By this, telegate expects another appreciation of customer communications in the future.

telegate generated revenues in the amount of EUR 66.3 m in the classic DA sector in Germany in the previous year due to a lower call volume. This corresponds to a decline of 20 percent and EUR 16.4 m respectively (previous year: EUR 82.7 m). However, an overproportional decline in earnings (basis: EBITDA before non-recurring items) of 26 percent from EUR 38.2 m to EUR 28.3 m was recorded due to a lower productivity and fixed costs base resulting from the declining volume.

Revenues of the Media sector in the amount of EUR 35.0 m also showed a positive trend in 2011 compared to the previous year with a growth of 19 percent and EUR 5.6 m respectively (previous year: EUR 29.4 m). Due to slightly lower fixed cost of revenues and sales EBITDA before non-recurring items improved by EUR 2.6 m with EUR -14.6 m compared to the previous year (previous year: EUR -17.2 m).

Because business dynamics of the Media sector is still not sufficient to compensate the declining CV of the classic DA sector, total revenues of the segment Germany / Austria decreased again from EUR 112.1 m to EUR 101.3 m. A Call Center merger finalised by the end of 2011 as well as savings within fixed costs had positive effects on cost of revenues. In addition, marketing expenses were slightly reduced and EBITDA before non-recurring items of the segment Germany / Austria decreased less strongly from EUR 21.0 m to EUR 13.7 m.

• Spain

The declining call volume trend in the classic DA market continues unchanged also in Spain. The total market decreased by approx. 23 percent compared to the previous year. Call volume handled by telegate in 2011 was approx. 25 percent below the previous year’s level. The declining volume effect was at least partly compensated in terms of revenues. Due to price adjustments and longer call duration, revenues in the amount of EUR 8.7 m were only 21 percent below the previous year’s level (previous year: EUR 11.0 m).

Further progress was made in the Media sector in the previous year. Thus, a rapid traffic growth was realized with the website **www.guias11811.es** during the year. telegate is behind the industry leader Yell at number two in the Local search sector on the Internet for business persons in the Spanish market environment with access figures of approx. 1.5 m visits on average. The Media business in Spain remains challenging in terms of revenues. Establishment of a small but efficient sales force is still in a very early phase and thus revenues are still low.

In order to ensure profitability of the Spanish subsidiary in the long-term, a number of cost reduction measures were realized in 2011. The closure of the own Call Center in Madrid was completed in October 2011. Thus, the total call volume is handled in outsourcing by an external service provider in South America. This measure provides important benefits regarding cost of revenues. In addition to significantly lower costs in the future, these costs will also be fully variable.

The above-named items as well as other savings in the general administration expenses sector resulted in only a slight reduction of EBITDA before non-recurring items compared to the previous year from EUR 1.3 m to EUR 1.0 m. Non-recurring items 2011 amounted to a total of EUR 1.3 m and primarily concern restructuring expenses within the scope of a closure of the own Call Center in Madrid.

Group

Due to a declining business trend in the classic DA sector in both segments Germany / Austria and Spain, telegate's consolidated revenues decreased by 11 percent to EUR 110.0 m in the previous year under review compared to EUR 123.1 m in the previous year. Growth dynamics of the Media sector decreased, however, increase in revenues of the Media sector was again within a double-digit range, as in the previous year. Media revenues at group level increased significantly to 32 percent in 2011 compared to 24 percent in the previous year.

Call Center capacities were further reduced in 2011 due to a declining CV in the classic DA business. Additional cost reductions of fixed cost of revenues partly compensated the decline in revenues. This even resulted in a slight improvement of the gross earnings margin to 59.1 percent in the previous fiscal year compared to 58.8 percent in the previous year. Cost of sales decreased compared to the previous year from EUR 54.8 m to EUR 46.9 m. Reason for that is a special depreciation and amortization of the customer base of telegate Media AG in the amount of EUR 8.6 m in the previous year. General administration expenses decreased slightly by EUR 0.1 m in the previous fiscal year from EUR 14.9 m to EUR 14.8 m.

EBITDA including non-recurring items declined from EUR 21.2 m to EUR 11.1 m compared to previous year. EBITDA before non-recurring items decreased from EUR 22.3 m to EUR 14.7 m compared to the previous year, however, are within the margin communicated for the profit trend at the beginning of the year. Non-recurring items of the reporting period amounted to EUR 3.6 m (previous year: EUR 1.1 m). Reason for this profit decrease is the still declining high margin DA business, which could not be compensated by the growth of the Media business yet.

Consolidated financial income amounted to EUR 1.4 m in 2011 and decreased by EUR 0.7 m compared to the previous year due to lower interest income, in particular. The lower interest income was a result of lower market interests and also due to investments of cash in deposits with lower risk and therefore lower interest (Seat versus deposits at German banks).

Income tax expenditure in the fiscal year 2011 increased by EUR 0.4 m compared to the previous year to EUR 1.2 m (previous year: EUR 0.8 m). Reason are two effects. On the one hand lower earnings before taxes of telegate AG in the reported period resulted in lower current tax in 2011. On the other hand an opposite effect due to deferred taxes can be recorded. This is due to an extraordinary effect from previous year, which is primarily attributable to a special depreciation and amortization of the customer base of telegate Media AG performed in the previous year.

Net earnings after taxes of discontinued operations include the related net earnings of the operations as well as income and expenses directly related to the disposal. In the previous year a profit of EUR 2.3 m was realised here, which was mainly related to the sale of the Italian subsidiary on June 01, 2010.

Net earnings of continued operations decreased only slightly from EUR 4.4 m (EUR 0.21 per share) to EUR 3.4 m (EUR 0.18 per share). Reason therefore is, that in the previous year the higher operating income was compensated by an extraordinary amortisation of the customer base of telegate Media AG in the amount of EUR 8.6 m, resulting in a lower profit. The number of shares taken as a basis here (2011: 19.1 m, 2010: 21.1 m) is based on the average number of ordinary shares weighted pro rata temporis in circulation during the reporting period.

Net worth and financial position

Investments

After a rather low investment volume in the fiscal year 2010, new acquisitions in the sector tangible and intangible assets in the amount of EUR 3.0 m slightly increased again in 2011 (previous year: EUR 2.5 m). Here, focus was on modernization of technology in the Voice DA sector which was started in the segment Germany / Austria by the end of 2010. In addition, spending was made in the Media sector for the CRM system and modernization of IT equipment and infrastructure in the sectors sales and administration. Main investment projects in the next year will be a modernization of Voice technology and extensive renovation and modernization of Inbound work places of the Call Centers. Thus, it is ensured that the classic DA business can offer its customers high quality service with state of the art technology also in the next years.

Balance sheet

The balance sheet total of the group decreased by EUR 14.7 m to EUR 115.5 m compared to December 31, 2010. The share of both current and non-current assets in the balance sheet total remained almost the same. Reason for a decrease of the balance sheet total on the assets side is primarily a decline in cash and cash equivalents in the amount of EUR 9.7 m as well as scheduled depreciation and amortization of intangible assets of EUR 6.1 m. The decrease of the liabilities side primarily results from a decline in equity by EUR 6.1 m as well as a reduction of current liabilities by EUR 6.9 m. The latter mainly results from a decrease of current tax liabilities as well as a decrease of provisions and accrued and other liabilities.

Equity of the group decreased by EUR 6.1 m to EUR 62.3 m compared to December 31, 2010 (previous year: EUR 68.5 m). The decline is primarily attributable to a dividend distribution in the amount of EUR 9.6 m performed in June 2011. The equity ratio amounts to 54 percent as of December 31, 2011 and thus is slightly above the previous year's level of 53 percent. Based on the capital decrease performed on January 24, 2011 the share capital amounts to EUR 19,111,091 as of December 31, 2011 (2010: EUR 21,234,545).

Further details regarding the development of the equity see point 32 of the notes "Equity".

Cash Flow & Financing

• General

telegate's financial management particularly ensures that the group can fulfil its payment obligations at any time and place and that generated surplus is placed on the money market risk- and yield-optimized. Since telegate shows a high position of cash and cash equivalents, any capital requirement within the reporting period was covered by own resources. The company aims to a conservative and low-risk financing due to the comparatively high operating risks from the company transformation.

Liquidity trend in the previous year was primarily affected by declining income, tax payments for the previous year as well as the dividend payment.

The operating cash flow from current business activities amounted to EUR 1.4 m in 2011 and is significantly below the previous year's level of EUR 16.6 m. As already in the previous year, the decline primarily results from lower profitability which was also accelerated by tax payments for the previous year in the amount of EUR 1.7 m.

The "free cash flow before M&A activities" (operating cash flow minus investments) decreased to EUR -1.4 m (previous year: EUR 13.1 m). A lower outflow of funds for tangible and intangible assets partly compensated this decline in the reporting period.

The cash flow from investing activities resulted in an outflow of funds in the reporting period in the amount of EUR -2.8 m (previous year: EUR -0.1 m). Hereby the purchase of assets felt below the previous years' level by EUR 0.8 m. Furthermore a positive item from the sale of the Italian subsidiary in the amount of EUR 3.5 m of the previous year shall be taken into account here.

The cash flow from financing activities in the reporting period results in an outflow of funds in the amount of EUR -8.3 m, the dividend distributed in June as well as interest payments received (previous year EUR -27.7 m). The significantly higher outflow of funds of the previous year is attributable to a share repurchase program, which resulted in a cash outflow in the amount of EUR 14.9 m in the previous year. Additionally the dividend payment of the previous year was higher by EUR 5.3 m compared to the reporting period (2011: EUR 9.6 m, 2010: EUR 14.9 m). Reason for the higher dividend payment is a higher dividend payment per share (EUR 0.50 in 2011, EUR 0.70 in 2010) as well as a higher number of shares qualified for dividend in the previous year.

Compared to the previous year, the above-named items resulted in a decrease of cash and cash equivalents by EUR 9.7 m to EUR 39.0 m as of December 31, 2011 (previous year: EUR 48.8 m).

• *Capital structure / Dividend*

telegate AG shows in its individual financial statements according to commercial law net earnings in the amount of EUR 6.7 m (previous year: EUR 9.6 m). According to the Stock Corporation Law, the amount available for dividend payment to the shareholders depends on the net earnings of the parent, which is determined according to the provisions of the HGB (German Commercial Code). The Management Board and Supervisory Board will discuss dividend distribution at the Supervisory Board meeting on March 07, 2012.

Acquisitions & Disinvestments / Changes in consolidation

Final deconsolidation of telegate Akademie GmbH i.L. (in liquidation) was performed as of August 31, 2011 as a result of the closure of the company. Cancellation of telegate Akademie GmbH i.L. (in liquidation) was registered in the commercial register on September 08, 2011.

Supplementary report

No events of particular importance occurred after the closing of the fiscal year until the date of creation of the annual report which would have required reporting.

Research and development

Basic research and development with the original meaning is not performed by telegate as service company. However, expansion and development of innovative services as well as product development are of main importance for telegate, in order to successfully maintain its position on the Local search market in the long-term. Thus, additional Internet and Software offers as well as the latest generation of mobile Apps for iPhone, Android, BlackBerry and Windows Mobile were further developed and positioned on the market. For the product development sector, telegate has a subsidiary in Armenia which is exclusively active for the product development sector with its team of Software specialists, in addition to a team of developers at the location Essen, in particular.

Employees

Qualified personnel is a central element for telegate to ensure the company's success also in the future. Recruitment of new skilled employees is an important part. It is also important for telegate to further train and support the existing personnel to commit them to the company in the long-term.

Against the background of the increasingly important factor “employee satisfaction”, telegate performed another employee survey across the group in 2011. As a result of this survey, several measures were adopted which put a focus on soft factors for improving the employee’s satisfaction, in particular, in addition to material aspects for the employees.

The telegate group employed a total of 1,507 employees (headcount, without trainees, mini-jobs and dormant employments) as of December 31, 2011. This is a decrease of 444 compared to the previous year (previous year: 1,951). The decline primarily results from another volume-based reduction of capacities of the classic DA business in Germany as well as a Call Center closure in Spain. Furthermore headcount was reduced due to the fact that the sales team in Telesales was down-sized due to optimization of the sales process.

Chances and risk management

General explanations

telegate, as information and Internet service specialist, is exposed to business and trade-specific chances and risks. The objective is to identify material risks for the group in due time, in order to initiate corresponding counter-measures. Risks are potential internal and external developments which may have negative effects on telegate group’s achievement of strategic and operational targets.

Therefore, the risk and chances management is a basic component of all business processes and decisions of telegate. telegate AG’s Management Board has summarized the basic elements of the chances 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 business development and related risks and chances. 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 chances and risk management process defined by the Management Board.

telegate group’s chances and risk management is incorporated in strategy development and integrated in all further planning processes. All business activities are examined and evaluated with regard to the chances 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 fiscal 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 chances of the telegate group are identified and evaluated within the scope of the planning during the fiscal 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 chances 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 a view at a corporate level.

A Compliance committee was also established in 2010, in order to ensure responsible action.

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

Consolidated accounting process

Because the parent telegate AG is a capital market-oriented corporation within the meaning of section 264d HGB (German 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 (German 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. Finance, HR or Legal department and are also centrally proved by documents. The central approval of investments is a typical example in this connection.

Furthermore, 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 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.

Opportunitites and risks for the telegate group

Opportunitites and risks of the development of the business

- *Growth market Local search*

A current GfK (market research institute) study by order of telegate AG shows that German consumers more and more use the Internet to search for regional companies and service providers. In this specific case, 49 percent of Local search requests are attributable to the Internet. Mobile Internet search also gains increasing importance – already 23 percent of Internet search requests for yellow pages entries are attributable to mobile channels. On the other hand, a psyma study by order of telegate shows that there is still a need to catch up for German SMEs in terms of digital marketing and targeted addressing of prospective customers. This offers telegate significant growth opportunities with a sales force especially oriented towards the needs of SMEs. According to psyma, German SMEs use a broad marketing mix and intend to spend higher amounts compared to the previous year.

Print offers still dominate the advertising planning of German SMEs, however, online advertising media increased by a total of one third – online yellow pages are the most used advertising media for the first time in 2011. In addition active reputation marketing has still a low significance for SMEs. Although reputation marketing is considered as important by the majority, only 16 percent of the companies use positive customer reviews actively for referral marketing.

66 percent of SMEs questioned have an own company website. Almost 60 percent of the companies questioned charged a specialized web service provider or agency such as telegate with the creation. Modern reputation, dialogue and social media elements do hardly play a role with regard to website design. Company websites are considered as basic equipment of German SMEs today and are mostly designed in a very simple style. There is also a need to catch up with regard to cost control and proof of success of the Internet presence. 43 percent of SMEs cannot estimate their costs and more than 50 percent do not use any proof of success. This offers chances for service providers like telegate which proves its customers the advertising success in a transparent way. Telegate e.g. provides its customers a monthly reporting in regard to the executed search requests.

More than 70 percent of the companies questioned have a website in order to be found in Google. But only one third optimizes the Internet presence for the search engine. A lack of specialist knowledge of methods, use of means and success of SEO (Search Engine Optimization) measures predominates in the target group. In addition: only few SMEs use search engine marketing (SEM), in spite of a relatively high recognition. Only 9 percent of the survey has experiences with Google AdWords.

Overall, the potential of the Local SME advertising market in Germany is often underestimated: according to the Institute for SME research Bonn (2011), the market currently comprises of approx. 3.5 m SMEs. According to the psyma study 2011, most of the SMEs plan an advertising budget between kEUR 1 and kEUR 5 p.a.

Within the scope of its SEM offer for SME customers, telegate has been cooperating with Google successfully for many years. In this connection, telegate achieved the status "Premium SME Partner" at Google by now. A future cooperation offers telegate both additional growth opportunities and certain risks. A possible termination of the contractual relations with Google can be considered as potential risk. This would have direct effects on telegate's Google-SEM revenues. Another risk is that SME customers no longer use the full service offered by telegate, but purchase the service directly at Google ("do it yourself" instead of "do it for me").

telegate will concentrate its investment budgets on projects also in the next years which ensure the company's success in the long-term. Investment volume 2012 and 2013 will presumably be within a similar margin than in previous years.

• Classic DA market

Due to the substitution effect of classic media towards digital media the market for classic telephony Directory Assistance is shrinking. This situation is included in the Corporate Planning of the classic DA Segment. There is the risk but also the chance that the prospective market development will differ from the declining rates of the past years.

Regulation of the telecommunications industry

The business activity of the telegate group is dependent on legal conditions and decisions of 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 allotment of the telephone DA numbers is made. For example, a violation of the allotment regulations for DA numbers may result in a dissuasion 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.

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 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

telegate is a party of several actions and other disputes with competitors and other parties concerned. 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 repayment of data costs paid by telegate and affiliated companies from 1997 to 2004. In addition, there are actions which refer to compensation of loss occurred due to the excessive data costs.

With regard to the reclamation claims against Deutsche Telekom AG, the Higher Regional Court Duesseldorf adjudged in all three individual actions in the favour of telegate Group in April and June 2011. Accordingly, the former monopolist has to repay the telegate group approx. EUR 95 m for improperly excessive data costs (status December 31, 2011). The judgments are not final yet, because Deutsche Telekom filed an appeal against denial to leave appeal. According to telegate's assessment, the actions will presumably become final and in the favour of telegate until mid-2012.

Further information with regard to specific 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. Due to the increasing importance of the Media business, the objective is to minimize this default risk as far as possible. For this, overdue accounts receivable will be passed over to a debt collection company after having passed the internal dunning process. Already when passing to the debt collection company part of the receivables are revalued. The complete revaluation will be put in execution when the receivables are at the collection company for a period longer than one year.

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

Due to the company's risk assessment, no hedging businesses were concluded for financial instruments. You can find more detailed information on financial instruments and financial risks in the notes to the consolidated financial statements under point 40 "Financial risks".

Other risks

Due to technical difficulties with the main supplier, telegate's currently biggest investment project, the modernization of telecommunications structure of the classic DA sector, was delayed during 2011. A new invitation to tender had to be made for the project by the end of 2011. A successful completion of the project is expected by mid-2013. However, there is an unlikely risk of another delay due to the extent and complexity of the project which cannot be completely excluded. As a consequence this could mean that the technical support of the current system will not be provided sufficiently from that time on.

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 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.

Tax risks within the telegate group can be excluded for periods already audited by fiscal authorities. The main group companies were audited until 2007 (telegate Media AG) and 2004 respectively (telegate AG, Datagate GmbH, telegate Akademie GmbH, WerWieWas GmbH). telegate AG, Datagate GmbH and telegate Akademie GmbH are currently audited with the audit period 2006 – 2009. Experience has shown that risks from this current government tax audit may not be excluded.

Risks of the future overall economic development

After a recovery phase 2010 of the economic and financial crisis 2008 / 2009, different uncertainties on the markets again resulted in a deceleration of economic recovery during 2011. Accordingly, development of the world economy in 2012 and 2013 will presumably be weaker than in 2011. In particular, the reason is a view at Europe and the possible burden of the prevailing debt crisis of some EU member states.

A decline in economic growth is also expected in 2012 for the core market Germany relevant for telegate. Because a deterioration of economic development may also have effects on the advertising behaviour of SMEs, it cannot be excluded that this would also affect development of the advertising sales business.

In addition, a worsening of the overall economic situation increases the risk of customer insolvencies which ultimately may result in a loss of receivables outstanding and in the advertising sales business in particular.

On the other hand, private consumption in Germany should at least remain stable due to increasing wages and declining unemployment. Therefore, the private consumption sector which is relevant for the classic DA business, in particular, does not constitute an increased risk of an accelerated decrease of call volumes, from our present point of view. The existing negative trend due to a substitution effect with the Internet remains unaffected.

There is the risk of a deteriorating consumption climate for the business of the Spanish subsidiary due to a significant deterioration of the economic situation. Another recession would result in the danger that the DA business could again decline beyond the existing negative trend.

Outlook

Statements made in the chapter "Outlook" are based on the operative planning of telegate AG for 2012 and 2013 approved by the Management Board and Supervisory Board in December 2011. The basis are the objectives of the different business segments.

Corporate strategy

After another decline in earnings and profit in 2011, we expect that this trend will continue for the telegate group with weakened dynamics in the next two years. Here, there will be a contrary development of the two business segments DA solutions and Media, as in previous years.

Focus of the core market Germany is still the objective to transform telegate from a DA service provider to an information and Internet service specialist.

In this context, telegate pursues the following objectives within the main business segments:

• *DA solutions*

Both the European and German telephone DA market will continue to decline in the next two years. In order to thwart the effect of a declining call volumes on revenues and earnings to the highest extent possible, work which has been successful for years in the sectors customer satisfaction and performance increase shall be further optimized. In addition, we see a chance to weaken the existing negative trend at least partly due to the introduction of mobile telephone number DA ("SMS-Connect") which is scheduled for 2012. All in all, these measures shall help to limit the decline in evenues and earnings with a further increasing contribution margin per call and realization of savings of capacity costs.

• Media
Strategic focus in the Media sector 2012 and 2013 is on the improvement of customer satisfaction, in particular, along with improved customer loyalty, in addition to a stable trend of the new customer business. In order to achieve a better customer satisfaction in the long-term, we already started in 2011 to optimize customer support processes and sales activities. Focus of the sales staff is shifted from pure "selling" to a strategic existing customer support. It is planned for the sales team to remain stable almost at the level of 2011 in 2012 and 2013.

By virtue of this sustainable "support concept" within sales processes – connected with further process improvements as well as transparency regarding search requests generated for customers – customer loyalty shall be improved and, as a result, churn rates shall be significantly reduced compared to the previous year within the next quarters.

At the same time, customer satisfaction shall be improved by further developments at the product level. In addition to the development of new offers in the mobile use sector, in particular, the proof of success of his / her online marketing measures shall be constantly improved for the advertisers.

For the Media sector the management plans a moderate growth of revenues in 2012 and 2013, however, a significant improvement of profitability, in particular. This should particularly be achieved by further cost reduction measures, an improved sales performance for new customers but also a reduction of the churn rate of existing customers. The Break-even for the Media segment is expected to be reached in 2014.

• Spain
The management plans for Spain almost stable contributions to earnings as a result of restructuring measures performed in 2011.

• Group
In spite of a still planned reduction of the structural cost base, decline in revenues and earnings in the classic DA sector and higher contribution to revenues and earnings of the Media sector, telegate expects for 2012 and 2013 that the revenue and earnings level of 2011 cannot be maintained, however, to generate a positive free cash flow (operating cash flow minus investments) in each of the next two years. Furthermore, it is expected that the decline in earnings will be significantly lower than in the previous two years. Main assumption here is the above described development of the Media Segment in Germany.

Any income from payments of Deutsche Telekom AG within the scope of the data cost reclamation claims are not taken into account in this forecast.

Financial strategy
The financial strategy of the telegate group pursues the securing of liquidity in the long-term on the one hand and an appropriate participation of the shareholders in the company profit on the other hand. Therefore, the financial strategy primarily supports implementation of the corporate strategy and ensures that the transformation of the company can be implemented.

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

Composition of the subscribed capital

The subscribed capital of telegate AG is divided into 19,111,091 ordinary shares in the name of the holder without a nominal amount (individual share certificates) as of December 31, 2011. As of December 31, 2010, this number amounted to 21,234,545. 19,111,091 shares were in circulation, 2,123,454 shares were held by telegate as own shares. A capital decrease was carried out at January 24, 2011. Own shares were redeemed by means of a basic capital reduction.

Limitatations affecting the voting rights and the transfer of shares

Restrictions in regard to the voting rights of shares are not known by the Management Board of telegate AG. In light of the assignment of shares, the Management Board received a note from Seat Pagine Gialle S.p.A. that the directly und indirectly hold shares can not be transferred unrestricted.

Shareholders exceeding 10 percent 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 77.4 percent of votes as of December 31, 2011. The remaining 22.6 percent are in portfolio investments primarily with institutional investors.

Shares with special rights granting powers of control

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

Type of vote control, if employees participate in the capital and do not directly exercise their control rights

Employees who receive shares within the scope of the share repurchase program may directly exercise control rights like 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. 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, 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.

Dr Gonano resigned as member of the management board of telegate AG on March 31, 2011. Since then the management board consists of two members. Dr Andreas Albath, chairman of the Management Board, withdrew from the Management Board of telegate AG as of November 15, 2011. The Supervisory Board appointed Elio Schiavo as Management Board member and also chairman of the Management Board of the company as of December 01, 2011.

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 share capital, which may be increased due to stock options to be exercised, was assigned to the Supervisory Board by 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

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 fiscal year. Determination of the number of stock options to be issued to all owners of subscription rights in every fiscal year is subject to the Supervisory Board's approval. There are 328,290 stock options in circulation as of December 31, 2011. They shall expire if they are not exercised until June 30, 2013.

In regard to the resolution of the annual general meeting held on June 28, 2011, the Management Board has the right to repurchase own shares.

Significant agreements in the event of a takeover bid

There are no agreements as of December 31, 2011.

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, disclosure of management practices and description of the working method of the Management Board and 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 > Explanation".

Compensation system

The payment report summarizes 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 payment for Management Board members.

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

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

The management bonus is one element of performance-related payment. It is dependent on the achievement of the most important key targets to increase goodwill. Both revenue and profit 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 percent of the total cash payment.

You can find further information on telegate AG's payment system under point 43 of the notes "Disclosure of the corporate bodies of telegate AG".

Planneg-Martinsried, February 10, 2012
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, February 10, 2012

Elio Schiavo
Management Board
Chairman

Ralf Gruesshaber
Management Board
Member

Consolidated Financial Statements

Marie's new smile

DENTIST – SIMPLY FOUND

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Consolidated Balance Sheets (IFRS)

Assets in kEUR	notes	December 31, 2011	December 31, 2010*	January 01, 2010*
Current assets				
Cash and cash equivalents	18	39,048	48,768	59,932
Trade accounts receivable	19	32,988	33,666	48,481
Current tax assets	14	647	0	957
Other financial assets	20	1,342	970	1,129
Other current assets	21	4,325	4,703	5,620
Total current assets		**78,350**	**88,107**	**116,119**
Non-current assets				
Goodwill	22	6,715	7,474	7,474
Intangible assets	23	17,692	22,101	36,354
Property and equipment	24	4,120	4,669	7,612
Other financial assets	20	358	549	369
Other non-current assets	21	348	330	364
Deferred tax asset	25	7,919	6,950	5,437
Total non-current assets		**37,152**	**42,073**	**57,610**
Total assets		**115,502**	**130,180**	**173,729**

* *Amounts changed according to IAS 8 (see note 4).*
See accompanying notes to the consolidated financial statements.

Liabilities and shareholder's equity in kEUR	notes	December 31, 2011	December 31,2010*	January 01, 2010*
Current liabilities				
Trade accounts payable	26	1,961	2,489	20,396
Accrued liabilities	27	14,576	15,811	15,758
Provisions	28	1,622	2,843	4,475
Current tax liabilities	14	8	1,996	1,077
Other financial liabilities	29	0	751	0
Other current liabilities	30	29,320	30,532	28,544
Total current liabilities		**47,487**	**54,422**	**70,250**
Non-current liabilities				
Provisions	28	628	748	1,013
Defined benefit liability	31	0	0	0
Other non-current liabilities		0	0	441
Deferred tax liability	25	5,040	6,520	10,483
Total non-current liabilities		**5,668**	**7,268**	**11,937**
Total liabilities		**53,155**	**61,690**	**82,187**
Shareholders' equity				
Share capital	32	19,111	21,235	21,235
Additional paid in capital	32	32,059	29,935	29,875
Treasury shares	32	0	-14,951	0
Other revenue reserves	32	24,401	37,758	34,822
Retained earnings		-13,223	-5,487	5,609
Accumulated other comprehensive income		-1	0	1
Equity attributable to owners of the parent		62,347	68,490	91,542
Total shareholders' equity		**62,347**	**68,490**	**91,542**
Total liabilities and shareholders' equity		**115,502**	**130,180**	**173,729**

* *Amounts changed according to IAS 8 (see note 4).*
See accompanying notes to the consolidated financial statements.

Consolidated Income Statement (IFRS)

in kEUR	Quarterly Report (unaudited) 1.10. – 31.12.2011	1.10. – 31.12.2010*	notes	12-Months Report 1.1. – 31.12.2011	1.1. – 31.12.2010*
Continuing operations					
Revenues	26,419	30,335	6	110,034	123,106
Cost of revenues	-9,496	-13,544	7	-45,008	-50,730
Gross profit	**16,923**	**16,791**		**65,026**	**72,376**
Selling and distribution costs	-11,904	-20,124	8	-46,937	-54,757
General administrative expenses	-4,861	-3,209	9	-14,796	-14,895
Other operating income	1	3	12	2	396
Other operating expense	-20	-1		-80	-56
Operating income (expense)	**139**	**-6,540**		**3,215**	**3,064**
Interest income	204	556		1,442	2,226
Interest expense	-19	-57		-93	-145
Gain (loss) from financial assets and marketable securities	0	0		24	0
Gain (loss) on foreign currency translation	0	1		-3	1
Financial income	**185**	**500**	13	**1,370**	**2,082**
Income (loss) before income tax	**324**	**-6,040**		**4,585**	**5,146**
Current income tax	-385	-1,525		-3,612	-6,697
Deferred income tax	349	3,491		2,449	5,915
Income tax	**-36**	**1,966**	14	**-1,163**	**-782**
Income from continuing operations	**288**	**-4,074**		**3,422**	**4,364**
Discontinued operations					
Income from discontinued operations	0	-85	16	0	2,340
Net income (loss)	**288**	**-4,159**		**3,422**	**6,704**
Attributable to:					
Owners of the parent	288	-4,159		3,422	6,704
Non-controlling interests	0	0		0	0
	288	**-4,159**		**3,422**	**6,704**
Earnings per share – basic and dilutive, for net income for the reporting period attributable to ordinary equity holders of the parent (in EUR)	**0.02**	**-0.20**	17	**0.18**	**0.32**
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)	**0.02**	**-0.20**	17	**0.18**	**0.21**

* *Amounts changed according to IAS 8 (see note 4).*

Consolidated statement of comprehensive income (IFRS)

	Quarterly Report (unaudited)		12-Months Report	
in kEUR	1.10. – 31.12.2011	1.10. – 31.12.2010*	1.1. – 31.12.2011	1.1. – 31.12.2010*
Net income (loss)	288	-4,159	3,422	6,704
Foreign currency translation differences	-1	-1	-1	-1
Sum of the result which is recorded directly in equity	**-1**	**-1**	**-1**	**-1**
Total comprehensive income (loss)	**287**	**-4,160**	**3,421**	**6,703**
Attributable to:				
Owners of the parent	287	-4,160	3,421	6,703
Non-controlling interests	0	0	0	0
	287	**-4,160**	**3,421**	**6,703**

* *Amounts changed according to IAS 8 (see note 4).*
See accompanying notes to the consolidated financial statements.

Consolidated Statements of Shareholders Equity (IFRS)

in kEUR	Share capital	Additional paid in capital	Treasury shares	Other revenue reserves	Retained earnings	Accum. other comprehensive income (loss)	Total	Total equity
	Equity attributable to owners of the parent							
	(note 32)	(note 32)	(note 32)	(note 32)				
Balance at January 01, 2011	**21,235**	**29,935**	**-14,951**	**37,758**	**-5,487**	**0**	**68,490**	**68,490**
Net income	-	-	-	-	3,422	-	3,422	3,422
Foreign currency translation	-	-	-	-	-	*-1*	*-1*	*-1*
Sum of the result which is recorded directly in equity	-	-	-	-	-	-1	-1	-1
Total comprehensive income	**0**	**0**	**0**	**0**	**3,422**	**-1**	**3,421**	**3,421**
Allocation to other revenue reserves	-	-	-	1,603	-1,603	-	0	0
Dividends	-	-	-	-	-9,555	-	-9,555	-9,555
Purchase of treasury shares	-	-	-9	-	-	-	-9	-9
Redemption of treasury shares	-2,124	2,124	14,960	-14,960	-	-	0	0
Balance at December 31, 2011	**19,111**	**32,059**	**0**	**24,401**	**-13,223**	**-1**	**62,347**	**62,347**
Balance at January 01, 2010 (reported)	**21,235**	**29,875**	**0**	**34,822**	**11,352**	**1**	**97,285**	**97,285**
Changes according to IAS 8	-	-	-	-	-5,743	-	-5,743	-5,743
Balance at January 01, 2010 (adjusted)	**21,235**	**29,875**	**0**	**34,822**	**5,609**	**1**	**91,542**	**91,542**
Net income	-	-	-	-	6,704	-	6,704	6,704
Foreign currency translation	-	-	-	-	-	*-1*	*-1*	*-1*
Sum of the result which is recorded directly in equity	-	-	-	-	-	-1	-1	-1
Total comprehensive income	**0**	**0**	**0**	**0**	**6,704**	**-1**	**6,703**	**6,703**
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**	**-5,487**	**0**	**68,490**	**68,490**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows (IFRS)

in kEUR	notes	1.1. – 31.12.2011	1.1. – 31.12.2010*
Cash flows from operating activities			
Income before income tax from continuing operations		4,585	5,146
Income before income tax from discontinued operations		0	2,898
Income before income tax		4,585	8,044
Adjustments for:			
Amortisation and impairment of intangible assets	23	6,106	15,418
Depreciation and impairment of property and equipment	24	1,801	3,649
Gain / loss on disposal of property and equipment		45	-43
Gain / loss from goverment grants		-31	-69
Interest income	13	-1,442	-2,226
Interest expense	13	93	150
Gain / loss from financial assets and marketable securities	13	-24	-
Gain / loss on foreign currency translation	13	3	-1
Stock option expense	35	0	60
Valuation allowance for trade accounts receivable		903	667
Valuation allowance for current financial assets		213	0
Gain / loss due to changes in consolidated group		0	-5,419
Changes in non-current provisions		-96	-271
Changes in other non-current and financial assets		196	-153
Operating profit before changes in operating assets and liabilities		*12,352*	*19,806*
Changes in operating assets and liabilities:			
Trade accounts receivable		-225	-9,936
Other current and financial assets		-440	-490
Trade accounts payable		-705	6,246
Current provisions		-1,221	373
Accrued expenses, other current and financial liabilities		-2,382	4,686
Income taxes paid		-6,016	-4,055
Cash from operating activities		**1,363**	**16,630**

in kEUR	notes	1.1. – 31.12.2011	1.1. – 31.12.2010*
Cash flows from investing activities			
Capitalized intangible assets		-1,566	-2,282
Purchase of property and equipment		-1,285	-1,380
Proceeds from sale of property and equipment		30	25
Disposal of a subsidiary, net of cash disposed of	16	0	3,505
Proceeds from government grants		31	69
Purchase of available for sale financial assets		-25,495	0
Proceeds from sale of available for sale financial assets		25,519	0
Cash used in investing activities		**-2,766**	**-63**
Cash flows from financing activities			
Purchase of treasury shares	32	-12	-14,987
Dividends paid	33	-9,555	-14,864
Interest received		1,284	2,171
Interest paid		-35	-55
Cash used in financing activities		**-8,318**	**-27,735**
Effect of exchange rate changes on cash and cash equivalents		**1**	**4**
Change in cash and cash equivalents		**-9,720**	**-11,164**
Cash and cash equivalents at the beginning of reporting period		**48,768**	**59,932**
Cash and cash equivalents at the end of reporting period		**39,048**	**48,768**

* *Amounts changed according to IAS 8 (see note 4).*
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 DA services (directory assistance services) via the subscribers in public telephone networks and other DA 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, 2011.

All International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) as well as the interpretations of the IFRS Interpretations Committee (formerly IFRIC) 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 EUR. 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.

The consolidated financial statements are principally prepared by applying the historical cost principle.

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, 2011 are submitted to the provider of the electronic Federal Official Gazette and electronically published in the Federal Official Gazette.

Consolidation

Principally, 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 are prepared according to standard and IFRS-conforming accounting principles by the fixed date of the consolidated financial statements December 31, 2011.

Below is a statement of the share holdings of the telegate group by December 31, 2011, in accordance with section 313 subsection 2 HGB (Commercial Code):

Name	Seat	Share in capital
telegate Media AG	Essen	100 %
Datagate GmbH	Martinsried, community Planegg	100 %
WerWieWas GmbH [1)]	Martinsried, community Planegg	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 [2)]	Yerevan, Armenia	100 %

1) Shares of this group company are held directly.
2) Share capital of the Armenian company amounts to AMD 50,000 (Armenian Dram).

Consolidation changed in the annual year 2011 in comparison to December 31, 2010 as follows (for this purpose see also note 5):

- telegate Akademie GmbH i.L. (in liquidation) is no longer consolidated since August 31, 2011 due to liquidation. Deregistration of telegate Akademie GmbH i.L. in the commercial register was recorded on September 08, 2011.

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

Group-Consolidated funds 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 equity 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 principally 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 revenues 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 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 DA solutions are recognised affecting the current-period result on the date of rendering of the service on the basis of the number and duration of calls made by the customer via the company. Revenues generated by virtue of service agreements with telecommunications providers are based on the number and duration of calls made by the customer via the company of the corresponding telecommunications provider.

Revenues from the Media product sector (advertising sales business) are realized affecting the current-period result as percentage of the total performance to be rendered on the basis of an agreement concluded with the customer in accordance with the degree of completion and performance rendered as of the fixed date. As a result, the revenues mentioned are deferred according to the provision over the term of the contract. Cost of services, which are directly attibutable to revenues (direct sales cost) are allocated linear over this term of the contract. SMEs are the 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.

Foreign currency translation
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 EUR (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 EUR 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 a 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 recorded under the position other income. These accumulated conversion differences are recorded in the profit and loss statement 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 fixed 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 percent 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 personnel costs 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 in accordance with the provisions of IFRS 2 "Share-based payment".

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 watering effect of the outstanding stock options is taken into consideration as additional watering (see note 17) for the calculation of 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.

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 financial 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.

The group determines the classification of its financial assets and financial liabilities with the first estimate and reviews this assignment at the end of each annual year, provided that this is admissible and appropriate.

For the first estimate, financial assets or financial liabilities are valued with their fair value. In addition, transaction costs are included which can be directly attributed to the financial asset or liability issue with regard to financial assets or financial liabilities not at fair value through profit and loss.

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 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 for trade accounts receivable (e.g. possibility of insolvency or significant financial difficulties of the debtor) that not all amounts due will be received in accordance with the originally agreed payment conditions. Trade accounts receivable classified as uncollectible are written off from the accounts.

Financial assets 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 or a group of cash generating items 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 self-produced intangible assets is made in accordance with the regulations of IAS 38 “Intangible assets”. Expenses during the research phase of an internal project are entered as expense in the period when they accrue. An activation of development costs of internal projects is only performed if all of the proofs below were furnished:

- the technical realization of a completion of the intangible asset which enables an internal use or sale of the asset,
- the intention and the ability to complete the intangible asset and to use or sale this asset,
- how the intangible asset will presumably generate a future economic benefit,
- the availability of resources to complete development and use or sale the intangible asset,
- the ability to value expenses attributable to the intangible asset reliably during its development.

In the following period, self-produced intangible assets are valued at acquisition or production cost less cumulated depreciation and amortization as well as impairment, analogous to acquired intangible assets.

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. 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. 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 costs 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.

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 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.

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 principally 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 balance sheet date are 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.

They were entered on the assets side to the probable extent that a taxable earning is available in the future or that there is a sufficient deferred tax liability and deductible temporary differences as well as fiscal losses not used yet can be set off against this.

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. If they relate to a non effecting net income item, they will be entered accordingly as non effecting net income. They will be entered accordingly to the transaction they relate to in other income or 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 discontinued 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).

3. 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 19.

Impairment of goodwill
The group reviews whether the goodwill is decreased in value at least once a year. This requires an estimate of the recoverable amount of cash generating items to which goodwill is allocated. Each with the recoverable amount is the higher amount of cash generating items fair value less costs to sell and its value in use. The determination of the recoverable amount is based on estimates and discretionary decisions in particular in terms of anticipated cash flows of the cash generating items and the appropriate discount rate. The book value of the goodwill amounted to kEUR 6,715 (2010: kEUR 7,474) as of December 31, 2011. 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" in 2006 within the scope of a purchase price allocation. This company was merged into telegate Media AG as of July 01, 2010, see note 5. The 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 1,500 (2010: kEUR 2,560) as of December 31, 2011.

Intangible assets
With regard to the first consolidation of "telegate Media AG" in 2008, customer bases were identified as intangible asset 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 originally and a linear method of depreciation and amortization was selected due to the evaluation of the management. The estimate of probable future cash flows from these assets and the discounting rates to be used for determination of the cash values of these cash flows was the basis for determination of the depreciation and amortization period. The book value of these customer bases acquired amounted to kEUR 10,861 (2010: kEUR 13,335) as of December 31, 2011. 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 9,039 (2010: kEUR 8,038) as of the balance sheet date. 0 kEUR of this amount were attributable to discontinued operations in the previous year.

Legal disputes
The company uses margins of discretion within the scope of financial recognition for unsettled legal disputes. The assessment of main chances and risks with regard to the unsettled legal disputes in connection with data costs, in particular, is made with the inclusion of assessments by external legal advisers. For this purpose see also note 37.

4. Changes of the accounting and valuation principles

Changes of the accounting and valuation principles

telegate made changes in the realization of revenues in the annual year 2011, which effects are explained in the following.

telegate changed its accounting principle for the realization of revenues from the Media product sector (advertising sales business) for the first time by June 30, 2011, in accordance with IAS 8.14 (b). The telegate group previously realized its Media revenues according to IAS 18.21 in connection with IAS 18.24 (c) in accordance with the degree of completion determined by the fixed date in proportion to costs accrued and total costs of the business. Starting with the financial statements by June 30, 2011, IAS 18.24 (b) was applied where the determination of the degree of completion is determined on the basis of the performances rendered by the fixed date as percentage of total services to be performed. As a result, the revenues mentioned are deferred over the term of the contract (usually 12 months) in accordance with the provision of the service.

The change of the determination principle of the degree of completion makes it possible that the reader of the balance gets even more meaningful and relevant information on the financial statements. This highlights telegate's future performance liability beyond the corresponding fixed date on the one hand and the periodization of revenues corresponds to the term of contract of the customer contracts on the other hand. Furthermore, there is an improved comparability to other listed companies in comparable industries which apply this accounting.

SEAT Pagine Gialle S.p.A. (Milan), parent of telegate, also switched its realization of revenues for similar products as of June 30, 2011. Due to the change of the accounting principle, telegate can now complies with standard accounting of the SEAT group, in accordance with IAS 27.24 and IAS 27.25.

The change affects the net worth position, the profit position as well as the presentation of the financial position of the telegate group, because the revenues described above and its directly attributable order costs (direct sales cost) are now deferred over the term of the contract.

In accordance with IAS 8.29 (c), the effects on the items of the consolidated balance sheet and consolidated profit and loss statement concerned are presented below:

	by January 01, 2010		
Consolidated opening balance sheet in kEUR	before the change	change in accordance with IAS 8	after the change
Assets			
Other current assets	3,545	2,075	5,620
Deferred tax asset	5,421	16	5,437
Liabilities			
Other current liabilities	18,138	10,406	28,544
Deferred tax liability	13,055	-2,572	10,483
Retained earnings	11,352	-5,743	5,609

The complete opening balance sheet of January 01, 2010 is presented in the consolidated balance sheet, in accordance with IAS 1.39.

Consolidated balance sheet in kEUR	as at December 31, 2011 before the change	as at December 31, 2011 change in accordance with IAS 8	as at December 31, 2011 after the change	as at December 31, 2010 before the change	as at December 31, 2010 change in accordance with IAS 8	as at December 31, 2010 after the change
Assets						
Other current assets	1,981	2,344	4,325	1,993	2,710	4,703
Deferred tax asset	7,899	20	7,919	6,938	12	6,950
Liabilities						
Other current liabilities	18,312	11,008	29,320	18,583	11,949	30,532
Deferred tax liability	7,742	-2,702	5,040	9,390	-2,870	6,520
Retained earnings	-7,281	-5,942	-13,223	870	-6,357	-5,487

Consolidated profit and loss statement in kEUR	January 01 – December 31, 2011 before the change	January 01 – December 31, 2011 change in accordance with IAS 8	January 01 – December 31, 2011 after the change	January 01 – December 31, 2010 before the change	January 01 – December 31, 2010 change in accordance with IAS 8	January 01 – December 31, 2010 after the change
Revenues	109,094	940	110,034	124,648	-1,542	123,106
Selling and distribution costs	-46,570	-367	-46,937	-55,390	633	-54,757
Deferred income tax	2,607	-158	2,449	5,620	295	5,915
Net income	3,007	415	3,422	7,318	-614	6,704

in EUR	January 01 – December 31, 2011 before the change	January 01 – December 31, 2011 change in accordance with IAS 8	January 01 – December 31, 2011 after the change	January 01 – December 31, 2010 before the change	January 01 – December 31, 2010 change in accordance with IAS 8	January 01 – December 31, 2010 after the change
Earnings per share – basic and dilutive, for net income for the reporting period attributable to ordinary equity holders of the parent (in EUR)	0.16	0.02	0.18	0.35	-0.03	0.32
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)	0.16	0.02	0.18	0.24	-0.03	0.21

New and amended standards and interpretations

The accounting and valuation principles applied in the current year principally correspond to the principles applied in the previous year. In addition, the group applied the following new and revised standards and interpretations for the first time in the annual year 2011.

IAS 24 Related party disclosures (amended)

The definition of related parties is clarified due to the amendment of IAS 24, in order to make the establishment of such relations easier and to remove inconsistencies regarding the application. Additional content of the amendment is to make disclosure requirements easier for relations with government authorities.

The amendment was published in November 2009 and is effective for reporting periods starting on or after January 01, 2011. There were no effects on the group's net worth, financial and profit positions from the application of the amendment of IAS 24.

IAS 32 Financial instruments: Presentation (amended)

The definition of a financial liability was 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. The group did not issue such subscription rights in the current as well as the previous annual year. Therefore, there were no effects on the group's net worth, financial and profit positions from the application of the amendment of IAS 32.

IFRIC 14 IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction (amended)

The amendment under the title "Prepayments of a Minimum Funding Requirement" includes guidelines for determination of the realizable amount of a net pension asset. The amendment enables companies to treat 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. There were no effects on the group's net worth, financial and profit positions from the application of the amendment of IFRIC 14, because the group is not subject to any minimum funding requirements.

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. There were no effects on the group's net worth, financial and profit positions from the application of the new interpretation.

Improvements in IFRS 2010

The IASB published its third collection of standards in May 2010 for the amendment of several IFRS with the primary objective to remove inconsistencies and clarify formulations. The amendments concern the following standards and interpretations:

- IFRS 3 Business combinations
- IFRS 7 Financial instruments: disclosures
- IAS 1 Presentation of financial statements
- IAS 27 Consolidated and separate financial statements
- IAS 34 Interim financial reporting
- IFRIC 13 Customer loyalty programs

The amendments shall be applied for the first time for annual years starting on or after July 01, 2010 and January 01, 2011 respectively.

There were no effects on the accounting principles and presentation of the group's net worth, financial and profit positions in the current annual year from the application of the new regulations in Improvements in IFRS 2010, because the corresponding facts did not exist within the telegate group.

Published standards, however, not obligatory

In part, there was the option of an early application for the following standards and interpretations and amendments of these standards and interpretations respectively. The group did not exercise this option as of December 31, 2011.

IFRS 7 Financial instruments: disclosures

The amendments make it possible for 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 still remaining with the delivering company.

The amendments of IFRS 7 were published in October 2010 and have been incorporated in European law by now. They shall be applied for the first time for annual years starting on or after July 01, 2011. These amendments only concern the presentation method in the consolidated financial statements and thus have no effects on the group's net worth, financial and profit positions.

Incorporation of the following standards and interpretations in European law has not taken place till now.

IAS 1 Presentation of financial statements

The amendments of IAS 1 introduce new instructions for the presentation of the other comprehensive income. Thus, the user has the option to either use one individual comprehensive income calculation or present a list of income components (separate profit and loss statement) and a transition to the total comprehensive income showing the components of the other income. Only the presentation of the other comprehensive income was amended to the effect that a subtotal is required for recyclable items (e.g. foreign currency translations) and non-recyclable items.

The amendment of IAS 1 was published in June 2011 and shall be applied for the first time for annual years starting on or after July 01, 2012. An early application shall be permissible. This amendment only concerns the presentation method in the consolidated financial statements and thus has no effect on the group's net worth, financial and profit positions.

IAS 12 Income taxes

The amendment provides that deferred tax assets and deferred tax liabilities of certain assets (real estate with fair value valuation according to IAS 40) are measured based on the refutable assumption that the book value of these assets is fully recovered full by the sale. For non-depreciable property, plant and equipment measured according to the revaluation method, sales shall be presumed at any time.

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. We do not expect any effects on the group's net worth, financial and profit positions from the application of this amendment.

IAS 19 Employee benefits (revised 2011)

The IASB published extensive amendments to IAS 19. Actuarial losses and profits shall be directly recorded in the other comprehensive income in the future, e.g. the so-called corridor approach will be abolished. Other amendments concern the presentation of changes in net liability and net assets respectively of defined benefit pension schemes and further disclosures in the notes of such defined schemes. Accounting of compensation performances including a differentiation between performances in exchange for services rendered and performances in return for termination of employment is changed which effects the measurement and valuation of compensation performances.

The amendments of IAS 19 were published in June 2011 and shall be applied for the first time for annual years starting on or after January 01, 2013. An early application shall be admissible.

telegate currently applies the corridor approach, e.g. in accordance with IAS 19.93 only the balance is recorded of the cumulated and not-recorded actuarial profits and losses of the previous period, should this balance exceed the higher of the following two amounts: 10 percent of defined liability and 10 percent of the fair value of plan assets. The amendment of IAS 19 has the effect that actuarial losses and profits are no longer recorded in the profit and loss statements on a pro rata basis affecting current-period result, but fully in the other comprehensive income in the period when they accrue.

IAS 27 Separate financial statements (revised and renamed 2011)

By adoption of IFRS 10 and IFRS 12, the scope of application of IAS 27 is solely limited to the accounting of subsidiaries, jointly controlled and associated companies in separate individual financial statements of a company.

The revised standard was published in May 2011 and shall be applied for the first time for annual years starting on or after January 01, 2013. We do not expect any effects on the group's net worth, financial and profit positions from the application of the revised IAS 27.

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

By adoption of IFRS 11 and IFRS 12, the scope of regulation of IAS 28 – in addition to associated companies – was also expanded to the application of the equity accounting method for joint ventures.

The revised standard was published in May 2011 and shall be applied for the first time for annual years starting on or after January 01, 2013. telegate does not expect any effects on the presentation of the net worth, financial and profit positions for lack of inclusion of an associated company as well as a joint venture.

IAS 32 Financial instruments: Presentation

With the amendments of IAS 32, the balancing provisions for financial instruments were clarified, in order to remove existing inconsistencies regarding the interpretation of existing provisions for the balancing of financial assets and liabilities.

The amendments were published in December 2011 and shall be applied for the first time for annual years starting on or after January 01, 2013 (retrospective application). These amendments only concern the presentation method in the consolidated financial statements and thus have no effects on the group's net worth, financial and profit positions.

IFRS 7 Financial instruments: Disclosures

By the newly included disclosures in IFRS 7, gross and net amounts from balancing as well as amounts for existing balancing rights, which do not meet balance sheet balancing criteria, shall be stated in the future.

The amendment was published in December 2011 and shall be applied for the first time for annual years and interim periods respectively starting on or after January 01, 2013 (retrospective application). The amendment will have no effects on the accounting principles applied by the group, however, will result in more extensive disclosure requirements.

IFRS 9 Financial instruments

The IASB published a new IFRS for the classification and measurement of financial instruments in November 2009. The publication was 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. It uses a standard approach to show a financial asset in the balance sheet with amortized acquisition cost or fair value.

The IASB published rules for accounting of financial liabilities in October 2010. These rules are added to IFRS 9 and are a 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 regulated the classification and measurement of financial assets.

In December 2011, the IASB postponed the date of first application after which IFRS 9 shall be obligatory applied for periods, from January 01, 2013 to January 01, 2015. An early application shall still be permissible. The company examines the resulting effects on the presentation of the group’s net worth, financial and profit positions.

IFRS 10 Consolidated financial statements

IFRS 10 replaces the terms of the previous IAS 27 “Consolidated and separate financial statements” on consolidated accounting and the interpretation SIC-12 “Consolidation-Special purpose entities”.

IFRS 10 constitutes a standard control concept which is applied to all companies including special-purpose entities. The amendments introduced by IFRS 10 require considerable exercise of discretionary decisions by the management compared to the previous legal position, regarding the assessment over which companies control is exercised within the group and whether these companies shall be included in the consolidated financial statements in the way of full consolidation. Furthermore, the accounting provisions for the presentation of consolidated financial statements are set forth in IFRS 10.

IFRS 10 was published in May 2011 and shall be applied for the first time for annual years starting on or after January 01, 2013 (retrospective application). An early application shall be admissible. The application of the new IFRS 10 will not affect the group’s basis of consolidation and thus has no effects on the group’s net worth, financial and profit positions.

IFRS 11 Joint arrangements

IFRS 11 replaces IAS 31 “Interests in joint ventures” and SIC-13 “Jointly controlled entities – Non-monetary contributions by Venturers”. IFRS 11 abolishes the previous option right to apply pro rata consolidation for joint ventures. These companies will be individually included in the consolidated financial statements at equity in the future.

IFRS 11 was published in May 2011 and shall be applied for the first time for annual years starting on or after January 01, 2013. An early application shall be admissible. With regard to the effects, please see the explanations to IAS 28.

IFRS 12 Disclosure of interests in other entities

The standard uniformly regulates the disclosure requirements for the area of consolidated accounting and consolidates the disclosures for subsidiaries which were previously regulated in IAS 27, disclosures for jointly controlled entities and associated companies which were previously included in IAS 31 and IAS 28 respectively, as well as structured companies. The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its net worth, financial and profit positions.

IFRS 12 was published in May 2011 and shall be applied for the first time for annual years starting on or after January 01, 2013. An early application shall be admissible. The application of the new IFRS 12 will only result in more comprehensive disclosure requirements and has no effects on the accounting principles applied by the group.

IFRS 13 Fair value measurement

The standard defines guidelines for determination of the fair value and defines comprehensive quantitative and qualitative disclosures of valuation with the fair value. The scope of regulation of the standard does not include the issue when assets and debts have to be or can be valued with the fair value. The standard is not applied to business transactions of IFRS 2 "Share-based payments" or IAS 17 "Leases" and valuations which show some similarities to the fair value, however, are not a fair value, e.g. the value in use of IAS 36 "Impairment of assets". IFRS 13 defines the fair value as the price a party of a regular transaction between market participants would receive for the sale of an asset or would pay for the transfer of a liability on the valuation date. For non-financial assets, the valuation premises apply that the fair value shall formulate the value of the best possible use.

IFRS 13 was published in May 2011 and shall be applied for the first time for annual years starting on or after January 01, 2013. An early application shall be admissible (prospectively). The group currently examines future effects of the new standard on the group's net worth, financial and profit positions as well as disclosure requirements.

5. Changes in consolidation

There were the following changes in consolidation in the annual year 2011:

Dissolution company

Deconsolidation of telegate Akademie GmbH i.L. (in liquidation) was performed by August 31, 2011. The cancellation of telegate Akademie GmbH i.L. (in liquidation) was registered in the commercial register on September 08, 2011.

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 16.

Merger

Telegate Auskunftsdienste GmbH was merged into telegate Media AG with retrospective effect as of July 01, 2010 by 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 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 their book values were carried on. Thus, the merger did not have any effects on the consolidated financial statements.

Explanations to the consolidated profit and loss statement of the group

Based on a change of the accounting principle for revenue recognition in the area of Media products, items of the consolidated profit and loss statement of the fiscal year 2010 were changed in accordance with IAS 8. For detailed information, see note 4 under the heading "Changes of the accounting and valuation principles".

6. Revenues

Revenues of the group amounted to kEUR 110,034 (2010: kEUR 123,106) in the annual year 2011.

telegate AG and the subsidiaries included in the consolidated financial statements render telephone directory assistance services for private 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.

telegate creates professional corporate websites for small and medium-sized enterprises in the form of a complete package which includes everything from registration of a domain to hosting and designing of the website. In addition, telegate sells marketing advertisements as well as search engine marketing to business persons in Germany, in particular. Companies can inform their customers with these products detailed, individually and promptly about their business activities and contact information.

The product sector 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 as well as use in medium-sized enterprises.

Explanations on the changes of revenues can be found in the corporate management report and a presentation by business segments under note 34.

7. Cost of revenues

The cost of revenues in the amount of kEUR 45,008 (2010: kEUR 50,730) primarily consist of capacity 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 decreased for personnel costs of the operators, costs for temporary workers as well as fixed costs e.g. for line and maintenance costs, in particular.

8. Selling and distribution costs

The selling and distribution costs in the amount of kEUR 46,937 (2010: kEUR 54,757) primarily include advertising costs (television advertising, externally consulting advertising agencies and cooperation agreements) in the amount of kEUR 8,400 (2010: kEUR 9,695), the costs for the own sales staff especially for Media business (telesales, telemarketing and sales force) in the amount of kEUR 20,177 (2010: kEUR 18,466) as well as the costs for receivables management including the losses on receivables.

Furthermore, selling and distribution costs include the scheduled depreciations and amortizations of 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 depreciations and amortizations within the selling and distribution costs in the previous year.

9. General administrative expenses

The general administrative expenses in the amount of kEUR 14,796 (2010: kEUR 14,895) primarily include the costs of corporate functions such as finances, legal, human resources, IT, management board and infrastructure costs of these units. Furthermore, this item includes consulting fees especially for data cost proceedings and other consulting projects across the company.

10. Personnel expenses

The following schedule shows expenses for employee's benefits which are included in the functions:

in kEUR	2011	2010
Wages and salaries	48,258	48,391
Social security contribution	8,732	8,999
Old age pension schemes	101	169
Expense for share-based payment	0	60
Total	**57,091**	**57,619**

Expenses of the accumulation of pension obligations are shown as part of the financial income under other interest and similar expenses.

11. Depreciation and amortization

Depreciation and amortization which are included in the functions are composed as follows:

in kEUR	2011	2010
Depreciation and amortization on intangible assets	6,106	15,393
Depreciation and amortization on property and equipment	1,801	2,715
Total	**7,907**	**18,108**

Further information on fixed assets see notes 23 and 24.

The amounts mentioned here for the annual year 2010 do not include depreciation and amortization included in the income from discontinued operations and thus deviate from the statement of the fixed assets.

12. Other operating income

Other operating income amounts to kEUR 2 (2010: kEUR 396). This primarily concerned income due to a prohibition of competition in the previous year.

13. Financial income

Interest income

in kEUR	2011	2010
Interest income from short- and fixed-term deposits	1,341	2,139
Interest income from bank deposits	10	11
Interest income from loans and overdue accounts	1	16
Other interest and similar income	90	60
Interest and similar income	**1,442**	**2,226**
Interest expense for current account credits and guarantees	-24	-24
Interest expense from forfaiting	-22	-31
Other interest and similar expenses	-47	-90
Interest and similar expenses	**-93**	**-145**
Interest income	**1,349**	**2,081**

Please see note 41 for information regarding interest income from a fixed-term deposit with an affiliated company.

Income from investments and securities

in kEUR	2011	2010
Profit from sale of securities	24	0
Income from investments and securities	**24**	**0**

The profit from sale of securities results from an investment in money market funds in the annual year 2011.

Income from currency translation

in kEUR	2011	2010
Foreign currency profits	18	24
Foreign currency losses	-21	-23
Income from currency translation	**-3**	**1**

Net gains and net losses from financial instruments by valuation categories

	Net interest income from financial instruments		Net earnings from financial instruments	
in kEUR	2011	2010	2011	2010
Cash and cash equivalents	428	2,126	-2	3
Loans and receivables	879	-15	-4,181	-3,756
Available-for-sale financial assets	0	0	24	0
Financial liabilities at continued acquisition costs	0	0	-1	-2

Interest income from cash and cash equivalents as well as loans and receivables include interests from affiliated companies, for this purpose see note 41.

Net earnings from loans and receivables primarily include changes in valuation allowances, losses from write offs as well as gains from subsequent receipts of payments and increased valuation on accounts receivable which were primarily written off.

14. Income taxes

Income taxes in Germany are composed of corporation income tax, trade tax and solidarity surcharge. Subsidiaries abroad will be charged with income taxes similar to the German corporation income tax.

in kEUR	2011	2010
Actual income taxes from continuing operations	3,612	6.697
Actual income taxes from discontinued operations	0	120
Actual income taxes	**3,612**	**6,817**
thereof:		
- at home	3,519	6,565
- abroad	93	252
Deferred income taxes from continuing operations	-2,449	-5.915
Deferred income taxes from discontinued operations	0	438
Deferred income taxes	**-2,449**	**-5,477**
Taxes, deconsolidation	0	-558
Income tax expenditure shown	**1,163**	**782**

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 29.695 percent (2010: 29.301 percent), which is applicable for the annual year 2011:

in kEUR	2011	2010
Net income before taxes from continuing operations	4,585	5,146
Net income before taxes from discontinued operations	0	2,898
Net income before taxes	**4,585**	**8,044**
Applicable total tax rate	**29.695 %**	**29.301 %**
Tax expenditure expected	**-1,361**	**-2,357**
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	0	4
Tax effects on temporary differences / losses brought forward and no deferred tax asset was created in the current period	0	-110
Value adjustment on a deferred tax asset	2	105
Valuation allowance for a deferred tax asset	-59	0
Income tax rate differences	424	220
Tax effect on (permanently) non-deductible expenses / income for tax purposes	-104	237
Tax effect on non-taxable income	-3	1,089
Tax effect of other differences	-62	27
Effects of an tax investigation	0	3
Income tax expenditure shown for the annual year	**-1,163**	**-782**
Thereof:		
- of continuing operations	-1,163	-782
- of discontinued operations (including taxes from deconsolidation)	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 8 (2010: kEUR 1,996) and the current tax assets amount to kEUR 647 (2010: kEUR 0). The current tax asset in the annual year 2011 primarily results from a tax overpayment of telegate AG.

The company shows a deferred tax asset in the amount of kEUR 7,919 as of December 31, 2011 (2010: kEUR 6,950). The estimate of a deferred tax liability decreased from kEUR 6,520 (as of December 31, 2010) to kEUR 5,040 by kEUR 1,480. For this purpose, see note 25. Discontinued operations neither included a deferred tax asset nor a deferred tax liability in the previous year.

15. Restructuring measures and non-recurring items of the profit and loss statement

The total amount of restructuring measures and non-recurring items of the profit and loss statement amounts to kEUR 3,579 (2010: kEUR 1,117) and is composed as follows:

Restructuring measures

A restructuring plan to improve profitability and optimize the cost structure in the business sector directory assistance solutions was announced to the employees of the Spanish subsidiary 11811 Nueva Información Telefónica S.A.U. in the annual year 2011. The restructuring measure in form of outsourcing of the operative Call Center area was nearly finalized in October 2011.

A merger of a Call Center of telegate AG with two other Call Centers was already started in the previous year 2010. This was almost completed in November 2011. In connection with this restructuring measure additional costs accrued in the annual year 2011.

The total amount of kEUR 1,805 (2010: kEUR 1,117) which is directly related to these restructuring measures is shown within the positions cost of revenues and general administrative expenses in the profit and loss statement.

For further information see note 28.

Non-recurring items of the profit and loss statement

Capacity adjustments were made in the current fiscal year. The resulting of these non-recurring item of the profit and loss statement amounts to kEUR 514 (2010: kEUR 0) and is primarily included in general administrative expenses.

Furthermore, the general administrative expenses includes non-recurring items for (redundancy payments and costs of contract termination) quitted Management Board members in the amount of kEUR 1,260.

16. 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 41. 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 was 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 deconsolidation 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 deconsolidation from the Telegate group was accordingly made as of November 02, 2009.

Telegate Italia S.r.L. and 118000 SAS contributed to the earnings of the telegate group in the previous year as follows:

in kEUR	2010 Telegate Italia S.r.L.	2010 118000 SAS	2010 Total
Revenues	6,549	0	6,549
Expenses	-7,958	0	-7,958
Operating income (loss)	**-1,409**	**0**	**-1,409**
Total financial income	**-5**	**0**	**-5**
Income before income taxes	**-1,414**	**0**	**-1,414**
Total income taxes	**-559**	**0**	**-559**
Income from discontinued operations after taxes	**-1,973**	**0**	**-1,973**
Income from the disposal of the discontinued operations	4,560	-247	4,313
Total income from discontinued operations after taxes	**2,587**	**-247**	**2,340**

In addition, the income from the sale of the discontinued operations in 2010 also 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
Current assets	24,992
Non-current assets	609
Current liabilities	26,939
Non-current liabilities	414

Cash flow from the sale

in kEUR	Telegate Italia S.r.L. as of June 01, 2010
Purchase price received	5,534
Cash sold with the discontinued operations	-1,867
Cash flow (balance)	**3,667**

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

in kEUR	Telegate Italia S.r.L 2010
Business operations	1,865
Investment activity	-3
Financing activity	0
Net cash flow	**1,862**

17. Earnings per share

Annual year by December 31 in EUR	2011	2010
Basic and dilutive earnings per share from *continuing operations*, with respect to earnings attributable to ordinary shareholders of the parent	0.18	0.21
Basic and dilutive earnings per share from *discontinued operations*, with respect to earnings attributable to ordinary shareholders of the parent	-	0.11
Basic and dilutive earnings per share, with respect to earnings attributable to ordinary shareholders of the parent	0.18	0.32

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

Annual year by December 31 in kEUR	2011	2010
Earnings of continuing operations, attributable to ordinary shareholders of the parent	3,422	4,364
Earnings of discontinued operations, attributable to ordinary shareholders of the parent	0	2,340
Earnings attributable to ordinary shareholders of the parent for the calculation of basic and dilutive earnings per share	3,422	6,704

Annual year by December 31 in k	2011	2010
Weighted average number of ordinary shares for the calculation of basic earnings per share	19,111	21,083
Dilution of stock options	0	0
Weighted average number of ordinary shares for the calculation of dilutive earnings per share	19,111	21,083

All shares (2,123,454) acquired by telegate within the scope of a share repurchase program in 2010 were redeemed on January 24, 2011 by means of a basic capital reduction, in accordance with section 237 subsection 3 number 2 subsection 4 and 5 AktG (Stock Corporation Law). Registration of the performance of a capital reduction in the commercial register was made on February 15, 2011.

The redemption of shares itself in the annual year 2011 did not have any effects on the weighted average number of ordinary shares in circulation, because they were already repurchased in the previous year and as portfolio of own shares reduced the average number of ordinary shares.

There were no 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 consolidated balance sheets

Based on a change of the accounting principle for revenue recognition in the area of Media products, items of the consolidated balance sheets as of December 31 of the annual year 2010 were changed in accordance with IAS 8. For detailed information, see note 4 under the heading "Changes of the accounting and valuation principles".

18. Cash and cash equivalents

Cash and cash equivalents are shown with their fair value by the balance sheet date and are composed as follows:

Annual year by December 31 in kEUR	2011	2010
Current deposits	36,038	45,000
Banks' and cash holdings	3,010	3,768
Total	**39,048**	**48,768**

Banks' holdings and current deposits are exclusively kept with renowned German financial institutions by the balance sheet date, which are classified as investment grade by international rating agencies.

Banks' holdings yield interest by variable interest rates for deposits which can be cancelled daily. Current deposits are made for different periods between one day and 3 months, depending on the corresponding cash requirements of the group. Current deposits yield interest with the interest rates for current deposits applicable in each case. As of December 31, 2011 the investments concern current fixed deposits with German financial institutes at a fixed term of no more than three months as well as call money accounts.

As of December 31, 2010 the current deposits concerned the fixed-term deposits with an affiliated company.

The current deposits are shown under cash equivalents, because the interest rate level is either fixed or not subject to essential fluctuations and the risk of fluctuations in value is considered irrelevant.

The fair value of cash and cash equivalents amounts to kEUR 39,048 (2010: kEUR 48,768) and thus corresponds to their book value.

The decrease of cash and cash equivalents in the current reporting period is primarily attributable to less increase from operating activities.

The company has unused overdraft credit lines by financial institutions at its disposal in the amount of kEUR 3,000 (2010: kEUR 3,000) as of December 31, 2011.

19. Trade accounts receivable

The amounts shown in the balance sheets are amounts *after* value adjustment, which was performed in order to take a possible default risk into account. Gross receivables amount to kEUR 37,647 (2010: kEUR 37,422) by the balance sheet date.

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

The following table shows an allocation of trade accounts receivable by the criteria impairment and being past due:

in kEUR		Book value before impairment	Thereof: neither impaired nor past due as of the closing date of the financial statements	Thereof: not impaired as of the closing date of the financial statements and past due in the following time bands: Less than 90 days	Between 91 and 180 days	More than 180 days
Trade accounts receivable	As of December 31, 2011	37,647	25,889	4,412	659	2,028
Trade accounts receivable	As of December 31, 2010	37,422	26,754	4,151	968	1,793

Within the time bands "Thereof: not impaired as of the closing date of the financial statements and past due in the following time bands" is also the part of trade accounts receivable included, which is after fulfilled impairment still accounted as valuable. More information see under note 40.

Trade accounts receivable were impaired with an amount of kEUR 4,659 (2010: kEUR 3,756) as of December 31, 2011. Development of the absorption account is as follows:

in kEUR	Individual value adjustment	Value adjustment on portfolio basis	Amount
As of January 01, 2010	**9,400**	**1,894**	**11,294**
Additions expenses	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
Disposal from deconsolidation	-2,356	0	-2,356
As of December 31, 2010	**433**	**3,323**	**3,756**
Additions	53	4,047	4,100
Utilization	-144	-1,831	-1,975
Release	0	-1,222	-1,222
As of December 31, 2011	**342**	**4,317**	**4,659**

The Italian subsidiary invoiced DA 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 deconsolidation in the financial year 2010 solely concern these transactions not affecting the current-period result. For this purpose, see also note 16.

20. Other financial assets

Other financial assets are composed as follows:

Annual year by December 31 in kEUR	2011	2010
Other financial assets – current	1,342	970
Other financial assets – non-current	358	549

Current other financial assets include real factoring receivable, claims for return and accrued interest. For information on accrued interest in the financial year 2010 see note 41.

In the financial year 2011 the value of the current other financial assets was adjusted by affecting the current period result amounting to kEUR 212 (2010: kEUR 0). As of the balance sheet date kEUR 638 (2010: kEUR 0) of the non-adjusted other financial assets were past due.

Non-current other financial assets include receivables due to a prohibition of competition, which were neither value adjusted nor past due.

Other financial assets are valued with amortized acquisition cost (by applying the effective yield method).

21. Other assets

Other current and non-current assets are composed as follows:

Annual year by December 31 in kEUR	2011	2010
Prepayments	3,289	3,513
Social security contributions paid in advance	580	641
Witholding taxes Italy	122	222
Liquid assets with restraint on disposal	87	78
Other current assets	247	249
Other current assets	**4,325**	**4,703**
Other non-current assets	**348**	**330**

Prepayments primarily includes direct sales cost, which are direct attributable to the sales order in the area of Media products (advertising sales business) and therefore deferred over the term of the customer contract and recorded as expenses on an accrual basis. In addition prepayments include paid expenses in the technology sector which are not expensed yet. Liquid assets with a restraint on disposal are solely securities for rent.

Other non-current assets primarily include receivables from a balance for advertising performances.

22. Goodwill

Acquisition cost

in kEUR	Goodwill
As of January 01, 2010	**7,482**
Disposals from deconsolidation	-6
As of December 31, 2010	**7,476**
Disposals	-759
As of December 31, 2011	**6,717**

Cumulated impairments

in kEUR	Goodwill
As of January 01, 2010	**8**
Disposals from deconsolidation	-6
As of December 31, 2010	**2**
As of December 31, 2011	**2**

in kEUR	Goodwill
Book values as of December 31, 2010	**7,474**
Book values as of December 31, 2011	**6,715**

telegate AG entered into agreements within the scope of the acquisition of telegate Media AG in 2008 and its utilization was dependent of future events (earn out-model). As of April 01, 2008 telegate Media AG was included to the consolidated group due to first consolidation according to IFRS 3 "Business combinations", thus the purchase price adjustments had to be capitalized according to the previous rule of IFRS 3 (revised 2004).

In the current fiscal year the goodwill was reduced in the amount of kEUR 759 due to this earn out clause in accordance with IFRS 3.33 (old version).

The disposal of the previously value adjusted goodwill in the fiscal year 2010 in the amount of kEUR 6 results from a deconsolidation of Telegate Italia S.r.L.. For this purpose, see also note 16.

Impairment test of the goodwill

Goodwill acquired within the scope of business combinations are assigned to cash generating units for review of recoverability, in accordance with IAS 36.80.

There was no impairment requirement from a recoverability test of the goodwill on the basis of cash generating units assigned.

The following book values of the goodwill show the corresponding cash generating units within the Media and DA solutions segments of the group company telegate Media AG:

Fiscal year by December 31 in kEUR	2011	2010
Media sector	6,299	7,058
DA solutions sector	416	416
Total	**6,715**	**7,474**

A merger of Telegate Auskunftsdienste GmbH into telegate Media AG (see note 5) was performed in the fiscal year 2010. Here, goodwill in the amount of kEUR 416 passed to the acquiring company unchanged.

The recoverable amount of the cash generating units is determined on the basis of a calculation of the fair value less costs to sell using cash flow forecasts of the management for a period of 4 years. The discounting rates which are used for the cash flow forecasts are based on the average weighted capital costs (2011: 10.1 percent; 2010: 12.7 percent). Cash flows after the 4-year period are estimated as perpetual pension. A discount on growth of 2 percent (previous year: 1 percent) is used for the determination of the utility value to review recoverability of goodwill.

Basic presumption

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

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

Nominal interest rate for bonds – The risk-free base interest rate is determined according to the so-called Svensson-approach.

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 cash generating units 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 cash generating units 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 cash generating units.

- Changes in market volume in the DA sector, in particular, may have a significant effect on future payment flows of cash generating units.

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 fair value less costs to sell 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 and cost of production

in kEUR	Software	Licences	Self-developed data base	Acquired customer base	Acquired brand klickTel	Other intangible assets	Intangible assets to be acquired	Self-prepared intangible assets to be created	Total
As of January 01, 2010	**16,283**	**14,638**	**2,073**	**30,301**	**997**	**2.706**	**111**	**0**	**67.109**
Additions	774	406	0	0	0	17	11	0	1.208
Disposals	-229	-1	0	0	0	0	0	0	-230
Entry transfers	92	0	0	0	0	0	-92	0	0
Disposals from deconsolidation	-412	-250	0	0	0	0	0	0	-662
As of December 31, 2010	**16,508**	**14,793**	**2,073**	**30,301**	**997**	**2.723**	**30**	**0**	**67.425**
Additions	551	254	0	0	0	224	376	293	1.698
Disposals	-2	0	0	0	0	0	0	0	-2
Entry transfers	64	-6	0	0	0	6	-30	0	34
As of December 31, 2011	**17,121**	**15,041**	**2,073**	**30,301**	**997**	**2,953**	**376**	**293**	**69,155**

Cumulated depreciation and amortization and impairment

in kEUR	Software	Licences	Self-developed data base	Acquired customer base	Acquired brand klickTel	Other intangible assets	Intangible assets to be acquired	Self-prepared intangible assets to be created	Total
As of January 01, 2010	**11,215**	**9,616**	**2,073**	**5,303**	**175**	**2,373**	**0**	**0**	**30,755**
Depreciations and amortizations	1,754	1,708	0	3,030	100	180	0	0	6,772
Impairments	13	0	0	8,633	0	0	0	0	8,646
Disposals	-229	-2	0	0	0	0	0	0	-231
Disposals from deconsolidation	-372	-246	0	0	0	0	0	0	-618
As of December 31, 2010	**12,381**	**11,076**	**2,073**	**16,966**	**275**	**2,553**	**0**	**0**	**45,324**
Depreciations and amortizations	1,797	1,598	0	2,474	100	137	0	0	6,106
Disposals	-1	0	0	0	0	0	0	0	-1
Entry transfers	34	0	0	0	0	0	0	0	34
As of December 31, 2011	**14,211**	**12,674**	**2,073**	**19,440**	**375**	**2,690**	**0**	**0**	**51,463**

in kEUR	Software	Licences	Self-developed data base	Acquired customer base	Acquired brand klickTel	Other intangible assets	Intangible assets to be acquired	Self-prepared intangible assets to be created	Total
Book values as of December 31, 2010	**4,127**	**3,717**	**0**	**13,335**	**722**	**170**	**30**	**0**	**22,101**
Book values as of December 31, 2011	**2.910**	**2.367**	**0**	**10.861**	**622**	**263**	**376**	**293**	**17.692**

Useful life for intangible assets was determined for the annual year 2011 as follows:

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

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

Depreciation and amortization is included in cost of revenues, cost of sales and other administrative expenses according to its use.

Self-prepared intangible assets to be created in the amount of kEUR 293 concerns capitalized development cost for internal Software creation to modernize applications of the DA solutions sector.

The impairment loss in the amount of kEUR 8,633 in the fiscal year 2010 constituted a value adjustment of the *customer base 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 cost of sales. This impairment loss according to IAS 36 arose, because the actual termination rate of Media customers was higher in 2010 than originally estimated within the scope of the purchase price allocation. See also note 3, under the 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 customer base. 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 an interest rate after taxes of 5.7 percent. Due to the latest available information, a change of the estimate regarding the further useful life of the customer base Media was made for the fiscal years as of 2011. Useful life is reduced accordingly due to a higher float off rate of customers. The book value of the acquired customer base "Advertising sales" amounted to kEUR 5,316 (2010: kEUR 6,903) as of the balance sheet date.

The acquisition cost of intangible assets, which are fully depreciated and amortized but still used as of the balance sheet date, amount to kEUR 19,678 (2010: kEUR 16,901).

The telegate group had current liabilities from orders on intangible assets in the amount of kEUR 288 (2010: kEUR 1,423) as of December 31, 2011, which will accrue in the fiscal year 2012, as expected.

No investment allowances were granted both in the fiscal year 2011 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	Equipment to be constructed	Total
As of January 01, 2010	**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
Items from currency translation	0	2	0	2
Disposals from deconsolidation	-7,001	-1,659	0	-8,660
As of December 31, 2010	**34,327**	**7,234**	**0**	**41,561**
Additions	948	380	0	1,328
Disposals	-1,184	-448	0	-1,632
Entry transfers	-34	0	0	-34
Items from currency translation	0	-1	0	-1
As of December 31, 2011	**34,057**	**7,165**	**0**	**41,222**

Cumulated depreciation and amortization and impairment

in kEUR	Technical equipment	Other equipment, furnitures and fixtures	Equipment to be constructed	Total
As of January 01, 2010	**37,926**	**6,078**	**0**	**44,004**
Depreciation and amortization	2,300	607	0	2,907
Impairment	420	322	0	742
Disposals	-2,445	-222	0	-2,667
Items from currency translation	0	1	0	1
Disposals from deconsolidation	-6,500	-1,595	0	-8,095
As of December 31, 2010	**31,701**	**5,191**	**0**	**36,892**
Depreciation and amortization	1,258	543	0	1,801
Disposals	-1,167	-390	0	-1,557
Entry transfers	-34	0	0	-34
As of December 31, 2011	**31,758**	**5,344**	**0**	**37,102**

in kEUR	Technical equipment	Other equipment, furnitures and fixtures	Equipment to be constructed	Total
Book values as of December 31, 2010	**2,626**	**2,043**	**0**	**4,669**
Book values as of December 31, 2011	**2,299**	**1,821**	**0**	**4,120**

Useful life for property equipment was determined in the annual year 2011 as follows:

in kEUR	
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.

Depreciation and amortization is included in cost of revenues, cost of sales and other administrative expenses according to its use.

Value adjustments of property and equipment were made due to capacity adjustments in the fiscal year 2010 in the segment "Italy / Spain". These impairments are included in disposals from deconsolidation due to the sale of the Italian subsidiary, see note 16.

Acquisition cost of equipment, which is fully depreciated and amortized but still used as of the balance sheet date, amount to kEUR 32,530 (2010: kEUR 31,015).

The telegate group had current liabilities from orders on property and equipment in the amount of kEUR 12 (2010: kEUR 2,314) as of December 31, 2011, which will accrue in the fiscal year 2012, as expected.

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

No investment allowances were granted in the fiscal year 2011, 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 are composed of corporation income tax, trade tax and solidarity surcharge. A corporation income tax rate of 15.0 percent plus a trade tax rate of 13.85 percent plus a solidarity surcharge of 0.83 percent 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 percent for distributed and retained earnings, a solidarity surcharge on the corporation income tax rate of 5.50 percent and an average trade tax rate of assessment of 395.63 percent. The trade tax rate of the subsidiaries with a domicile in Germany, which are not included in the 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 temporary valuation differences of assets and debits in the commercial 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	2011	2010
Gross value of deferred tax asset:		
Tax losses brought forward	9,039	8,038
Property and equipment	43	43
Financial assets	0	1
Other assets	38	35
Provisions	316	314
Other liabilities	21	0
Less value adjustment	-1,538	-1,481
Deferred tax asset	**7,919**	**6,950**
thereof:		
- from discontinued operations	0	0
Less deferred tax liability:		
Property and equipment	-20	-20
Intangible assets	-4,275	-5,430
Other assets	-743	-1,068
Provisions	0	-1
Other liabilities	-2	-1
Deferred tax liability	**-5,040**	**-6,520**
thereof:		
- from discontinued operations	0	0
Net value of deferred taxes	**2,879**	**430**

Cumulated tax losses of the company brought forward amount to approx. EUR 31 m as of December 31, 2011 (2010: EUR 28 m). The German group companies incurred EUR 27 m (2010: EUR 24 m) and other European group companies incurred EUR 4 m (2010: EUR 4 m); EUR 0 m can be attributed to discontinued operations in the previous year.

Tax losses brought forward which were not shown due to insufficient usability amount to kEUR 7,742 (2010: kEUR 7,550) as of the balance sheet date; kEUR 0 are attributable here to discontinued operations in the previous year.

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 1,961 (2010: kEUR 2,489).

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 trade accounts payable almost corresponds to its fair value.

Trade accounts payable are estimated with their redemption amount.

27. Accrued liabilities

The company shows the following accrued liabilities under this item on the fixed date below:

Fiscal year as of December 31 in kEUR	2011	2010
Outstanding invoices	7,987	8,500
Liabilities towards employees	6,589	7,311
Total	**14,576**	**15,811**

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 fiscal year.

28. Provisions

Provisions development in the fiscal year 2011 was as follows:

in kEUR	Contractual risks	Personnel	Other	Total	Impending losses
	current	current	current	current	non-current
As of January 01, 2011	**2,386**	**244**	**213**	**2,843**	**748**
Dissolution	-1,190	-222	-88	-1,500	0
Consumption	0	0	-21	-21	-120
Allocation	300	0	0	300	18
Interest item	0	0	0	0	-18
As of December 31, 2011	**1,496**	**22**	**104**	**1,622**	**628**

telegate identified and measured all risks known to the company as of the balance sheet date December 31, 2011. 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.

A change in estimation in respect of shown risks resulted in a dissolution in the actual fiscal year 2011.

The amount of provisions for reorganization amounts to a total of kEUR 267 as of December 31, 2011, (2010: kEUR 1,154, thereof kEUR 18 non-current). Provisions were created in connection with outsourcing of a Call Center in 2011 and a merger of individual Call Centers in the fiscal year 2010. For this purpose, see note 15.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 management and the legal counsels of the company.

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 individual risks and their potential financial effects within note 37.

29. Other financial liabilities

The amounts shown as of the balance sheet date amounts to kEUR 0 (2010: kEUR 751).

Other financial liabilities are estimated with their redemption amount.

30. Other current liabilities

Other current liabilities are composed as follows:

Fiscal year as of December 31 in kEUR	2011	2010
Accruals and deferrals	15,825	15,294
Other liabilities Deutsche Telekom	12,285	12,285
VAT liabilities	693	987
Other liabilities	517	767
Obligation for a purchase of shares	0	1,199
Total	**29,320**	**30,532**

Accrued and deferred items result almost exclusively from a deferral of revenues in the Media product sector.

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 for employees of telegate AG.

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 principally 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 present value of the defined benefit obligation were performed as of December 31 of the corresponding financial year, considering the following actuarial assumptions:

in %	2011	2010
Discounting rate	5.30	4.86
Income expected from plan assets	4.50	5.10
Salary progression	2.00	0.00
Pension progression	1.00	2.00
Turnover rate	4.10	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	2011	2010
Current service cost	-80	-67
Interest expense	-35	-28
Income expected from plan assets	41	33
The effect of the limit in IAS 19.58(b)	-28	-87
Pension expense	**-102**	**-149**

Expenses of the accumulation of pension obligations as well as 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 item general administrative expenses (2011: kEUR -108; 2010: kEUR -154).

The actual income from plan assets amounted to kEUR 41 (2010: kEUR 34).

The present value of the defined benefit obligation is calculated with the projected unit credit method, in accordance with IAS 19.64, and showed the following development:

in kEUR	2011	2010
Present value of the defined benefit obligation as of January 01	**718**	**536**
Current service cost	80	67
Interest expense	35	28
Actuarial gains / losses	-275	87
Present value of the defined benefit obligation as of December 31	**558**	**718**

Actuarial gains in the amount of kEUR 275 in the annual year 2011 are particularly attributable to a change of the assumptions which are the basis of measurement (see table "Actuarial assumptions").

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

in kEUR	2011	2010
Fair value of plan assets as of January 01	**792**	**656**
Income expected from plan assets	40	33
Actuarial gains	0	1
Employer's contributions	102	102
Fair value of plan assets as of December 31	**934**	**792**

The present value of the defined benefit obligation and the fair value of plan assets can be a reconciled like follow to the item "Defined benefit liability" shown in the balance sheet.

As of December 31 in kEUR	2011	2010
Present value of the defined benefit obligation	-558	-718
Fair value of plan assets	934	792
Net assets	**-376**	**-74**
Unrecognised actuarial gains	-348	-2
Plan assets not yet recognised because of the limit in IAS 19.58(b)	-28	-72
Defined benefit liability in the balance sheet	**0**	**0**

The company expects contributions to defined benefit pension schemes in the amount of kEUR 47 in the annual year 2012.

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

in kEUR	2011	2010	2009	2008	2007
Present value of defined benefit obligation	558	718	536	353	355
Fair value of plan assets	-934	-792	-656	-528	-410
Plan surplus	**-376**	**-74**	**-120**	**-175**	**-55**
Experience adjustment of plan debts	-169	-24	-25	8	-13
Experience adjustment of plan assets	-	-	-	-	-

Defined contribution schemes

Since September 2004, the company has offered assistance to an old pension scheme, which is financed by the employees. The assistance amount depends on the contributions paid by the employees. The amount of current assistance payments, which was recorded as expense, amounted to kEUR 22 TEUR (2010: kEUR 21) in the financial year 2011.

32. Equity

Subscribed capital

The subscribed capital of telegate AG is divided into 19,111,091 (2010: 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, 2011, the number of shares in circulation amounts to 19,111,091 (2010: 19,111,091). 0 shares (2010: 2,123,454 shares) are held as own shares.

You can find further information under the following heading "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 statements issued by telegate AG in accordance with the provisions of the German Commercial Code. Own shares held by telegate AG without any membership rights for the company are exempted.

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 resolutions of May 15, 2006 and May 09, 2007. 247,500 stock options were exercised within the scope of the stock option plan in the fiscal year 2007. This resulted in a decrease of the authorized but unissued capital to EUR 752,500 and to an increase of subscribed capital by EUR 247,500 to EUR 21,234,545. Considering the capital reduction in the fiscal year 2011 the subscribed capital amounts to EUR 19,111,091.

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

Additional paid in capital amounts to kEUR 32,059 (2010: kEUR 29,935) as of December 31, 2011. It increased by kEUR 2,124 compared to the figure of December 31, 2010 (2010: kEUR 60).

The increase of additional paid in capital in the amount of kEUR 2,124 in the fiscal year 2011 was made within the course of a redemption of own shares. See following explanation under the heading "Own shares".

The increase in the fiscal year 2010 based on personnel expenses for share options in the amount of kEUR 60, which were still in a blocking period in the fiscal year, for this purpose see also note 35.

Other revenue reserves

Revenue reserves amount to kEUR 24,401 (2010: kEUR 37,758) as of the balance sheet date.

Revenue reserves were reduced by kEUR 14,960 in the fiscal year 2011 within the scope of a redemption of own shares. See the following explanation under the heading "Own shares".

By resolution of the Management Board on January 27, 2012, it is proposed to the Supervisory Board, in accordance with figure 6 (2) of the articles of incorporation, to allocate kEUR 1,603 to telegate AG's revenue reserves. The Supervisory Board's approval is yet to be made.

By resolution of the Management Board on January 18, 2011, it was proposed to the Supervisory Board, in accordance with figure 6 (2) of the articles of incorporation, to allocate kEUR 2,936 to telegate AG's revenue reserves, which was already taken into account at the preparation of the annual financial statements as of December 31, 2010, in accordance with section 270 subsection 2 HGB (German Commercial Code). The Supervisory Board gave its approval.

Own shares
telegate AG's Management Board performed a share repurchase program in November / December 2010 on the basis of an authorization granted at the Shareholders' Meeting on June 09, 2010. Here, own shares in the amount of 10 percent of the capital stock or corresponding to 2,123,454 individual share certificates (corresponds to EUR 2,123,454 of subscribed capital) were acquired at a price of EUR 7.00 per individual share certificate. Own shares in the amount of kEUR 14,951 were deducted from equity by December 31, 2010. Here, transaction costs and related income tax benefits were taken into account, which are directly connected with the acquisition.

In addition, the above mentioned authorization allowed the Management Board, to redeem own shares acquired without another 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 subsection 4 and 5 AktG (Stock Corporation Act), which is subject to the Supervisory Board's approval. In this connection, the company's capital stock was reduced by EUR 2,123.454. The Supervisory Board gave its approval to the capital decrease on December 09, 2010. As of December 31, 2010, the performance and registration of the capital reduction in the commercial register was still to be expected and thus was not effective yet.

The capital reduction was performed on January 24, 2011. Own shares were redeemed by means of a basic capital reduction, in accordance with section 237 subsection 3 number 2 subsection 4 and 5 AktG (Stock Corporation Act). Registration of the capital reduction in the commercial register was made on February 15, 2011.

The company's capital stock was reduced by kEUR 2,124 (corresponds to 10 percent of the capital stock before redemption and capital reduction and 2,123,454 individual share certificates respectively) from kEUR 21,235 (corresponds to 21,234,545 individual share certificates) to kEUR 19,111 (corresponds to 19,111,091 individual share certificates) and an amount of kEUR 2,124 corresponding to the total amount of redeemed shares was allocated to additional paid in capital, in accordance with section 237 subsection 5 AktG (Stock Corporation Act). Other revenue reserves decreased by a total of kEUR 14,960.

telegate AG no longer holds any own shares after this redemption and has a total of 19,111,091 individual share certificates without par value, fully paid-up and in circulation.

33. Paid and proposed dividend

In accordance with a resolution of the Shareholders' Meeting on June 29, 2011 the Management Board's and Supervisory Board's proposal for the use of earnings was complied with and net earnings 2010 according to the individual financial statements (HGB) of telegate AG in the amount of kEUR 9,555 were used for the distribution of a dividend (2010: kEUR 14,864). This corresponds to a dividend of EUR 0.50 per individual share certificate (2010: EUR 0.70 per individual share certificate).

By resolution of the Management Board on January 27, 2012, a dividend distribution in the year 2012 for the fiscal year 2011 in the amount of kEUR 6,689 is proposed to the Shareholders' Meeting, which was not recorded as liability yet as of December 31, 2011. This corresponds to a dividend of EUR 0.35 per individual share certificate. The Supervisory Board's approval is yet to be made.

Other explanations and disclosures

Based on a change of the accounting principle for revenue recognition in the area of Media products, items of the consolidated balance sheets as of December 31 of the annual year 2010 and items of the consolidated profit and loss statement of the fiscal year 2010 were changed in accordance with IAS 8. For detailed information, see note 4 under the heading "Changes of the accounting and valuation principles".

34. 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 DA solutions and Media.

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

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

The business segment "Italy / Spain" now comprises all activities on the Spanish market, which almost exclusively take place in the DA solutions sector. The Italian business which was assigned to the segment "Italy / Spain" was sold as of June 01, 2010. Revenues and costs related to this discontinued operation were eliminated within the scope of reconciliation.

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

The management controls the segments on the basis of earnings 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.

	Germany / Austria					
As of December 31, 2011 in kEUR	DA solutions	Media	Total	Italy / Spain	Reconciliation	Group
Revenues						
External revenues	66,295	35,019	101,314	8,720		110,034
Inter-segment revenues	8		8		-8	0
Total revenues	**66,303**	**35,019**	**101,322**	**8,720**	**-8**	**110,034**
Earnings						
Earnings before interest, taxes, depreciation and amortization (EBITDA)	27,047	-15,632	11,415	-293		11,122
Financial income	671	685	1,356	14		1,370
Income before income taxes	23,731	-18,555	5,176	-591		4,585
Tax expenditure	-1,371	79	-1,292	129		-1,163
Income after income taxes	22,360	-18,476	3,884	-462		3,422
Assets and debts						
Segment assets			111,540	3,962		115,502
Segment debts			51,666	1,489		53,155
Other segment information						
Investments			2,730	296		3,026
Depreciation and amortization on property and equipment	774	765	1,539	262		1,801
Depreciation and amortization on intangible assets	3,213	2,843	6,056	50		6,106

As of December 31, 2010 in kEUR	Germany / Austria DA solutions	Media	Total	Italy / Spain	Reconciliation[1]	Group
Revenues						
External revenues	82,703	29,383	112,086	17,569	-6,549	123,106
Intersegment revenues	25		25		-25	0
Total revenues	**82,728**	**29,383**	**112,111**	**17,569**	**-6,574**	**123,106**
Earnings						
Earnings before interest, taxes, depreciation and amortization (EBITDA)	37,100	-17,210	19,890	831	451	21,172
Financial income	1,055	1,040	2,095	-17	4	2,082
Income before income taxes	28,597	-24,253	4,344	-614	1,416	5,146
Tax expenditure	-1,079	463	-616	-724	558	-782
Income after income taxes	27,518	-23,790	3,728	-1,338	1,974	4,364
Assets and debts						
Segment assets			126,013	4,167		130,180
Segment debts			60,441	1,249		61,690
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 discontinued operations are not included in the consolidated profit and loss statement. They are shown separately as "Income after taxes from discontinued operations".

35. 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 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). 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 percent p.a. in the period between which the option was granted and exercised.

The waiting period for 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 year 2011.

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).

No expenses for share-based payment transactions were recorded in the annual year 2011 (2010: kEUR 60).

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

	2011		2010	
	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	532,150	13.37	651,250	13.60
Forfeited	-203,860	13.66	-119,100	14.63
Outstanding as of December 31	328,290	13.19	532,150	13.37
Exercisable as of December 31	-	-	-	-

Stock options outstanding as of December 31, 2011 could not be exercised due to failure to fulfil the targets.

	Exercise price (in EUR)	Outstanding options as of December 31, 2011	Weighted average contractual remaining life (in years)
Tranche June 2008	11.01	184,000	-
Tranche May 2006	16.09	135,290	-
Tranche May 2005	14.28	9,000	-

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

The fair value of 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 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.

36. Other financial liabilities and claims

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

Liabilities from marketing and EDP service level agreements

Annual year as of December 31	in kEUR
2012	3,251
2013	1,797
2014	1,058
2015	557
2016	203
Subsequent years	205

Liabilities from rental and leasing agreements

Annual year as of December 31	in kEUR
2012	4,231
2013	2,517
2014	1,835
2015	1,081
2016	639
Subsequent years	799

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 as of December 31	in kEUR
2012	59

37. 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 subscriber data from the years 1997 until 2004. On June 08, 2011, the OLG Duesseldorf (Higher Regional Court) adjudged DTAG in the case of the telegate action to pay EUR 41.3 m plus interest payable as from commencement of proceedings. Already on April 13, 2011, the OLG Duesseldorf (Higher Regional Court) adjudged DTAG in the case of the Datagate action to pay EUR 30.7 m plus interest payable as from commencement of proceedings. Furthermore, the OLG Duesseldorf (Higher Regional Court) adjudged DTAG upon application of telegate Media AG to pay EUR 2.9 m plus interest payable as from commencement of proceedings. With these three verdicts the OLG Duesseldorf adjudicated the telegate group a total of roughly EUR 95 m, including interest payable as from commencement of proceedings, as recompense for incorrect excessively invoiced costs for subscriber data as of December 31, 2011. An appeal was dismissed for all three proceedings. Deutsche Telekom AG filed an complaint in each above-mentioned case to the German Federal Court of Justice from non-admission of the appeal. Therefore, the judgments by the OLG Duesseldorf (Higher Regional Court) are not final yet.

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.

In case of a positive decision of the court of ultimate resort and therewith the legal validity of the judgments of OLG Duesseldorf (Higher Regional Court) by non-admission of the appeals of the German Federal Court of Justice the company expects a cash inflow of about EUR 95 m including interest payable as from commencement of proceedings as of December 31, 2011. Due to these payments cash outflows on the one hand in a directly and on the other hand in a indirectly way are expected. Directly payments are expected for performance – related salaries concerning these legal disputs and in addition for contract related payments in case of success; indirectly cash outflows are essentially expected for tax payments allotted to the mentioned cash inflows.

No further information is disclosed in compliance with the protective clause of IAS 37.92, since a further disclosure of information might impair the position of the telegate Group in court proceedings with other parties.

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. Tax authorities are reviewing currently telegate AG, Datagate GmbH and telegate Akademie GmbH on the period of 2006 to 2009. By experience, as far as the periods which have not yet been reviewed are concerned, tax risks cannot be ruled out.

No further information is disclosed in case of reasons of practicability of IAS 37.91.

Delayed purchase price payment (earn out clause)

telegate AG sold the wholly-owned Italian subsidiary Telegate Italia S.r.L. on June 01, 2010, for this purpose see also note 16. In this case, an earn out clause was agreed upon within the scope of the transaction. Furthermore an earn out clause exists for the French 100 % subsidiary company 118000 SAS, which was sold on October 01, 2009. As of December 31, 2011 no claims based on the existing earn out clauses were registered.

Guarantees and indemnities

The group disposes at its house banks of credits by way of bank guarantees in the total amount of kEUR 2,200 (2010: kEUR 2,200) as of December 31, 2011. The company provided guarantees in the amount of kEUR 0 (2010: kEUR 29) as of December 31, 2011, in order to collateralize leasing liabilities incurred towards third parties.

38. 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 2011	Fixed date December 31, 2011		Annual average	
	Total	Headcount full-time employees	absolut	Headcount full-time employees
telegate group				
Total	1,507	1,294	1,738	1,464
thereof: operators and sales	1,096	888	1,322	1,052

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

39. Auditor's remunerations

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

in kEUR	2011	2010
Annual audit services	174	151
Other certification services	15	3
Total	**189**	**154**

40. 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.

No trade in derivates was made in the annual years 2011 and 2010.

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

Credit risk

Credit risk is the risk that a counterpart will not meet its obligations under financial instrument and this lead to a financial loss. The group is exposed to credit risks from its business activity (in particular from trade accounts receivable and cash and cash equivalents). The credit risk is managed on group level.

The company's cash and cash equivalents are made out almost exclusively in Euro. 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 see a very minor risk of non-performance.

The trade accounts receivable shown in the balance sheet 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 group concludes transactions in the DA business with carriers, which are characterized by a high degree of creditworthiness and with customers respectively, which are historically characterized by marginal losses of receivables due to the wide portfolio.

In the Media business, customers are primarily composed of SME. There is a significantly higher default risk in this case, which is met by a professional collection procedure which is monitored and optimized in periodic intervals. Here all overdue trade accounts receivable which passed a reminder procedure will be assigned to a collection company. Already with this assignment a part of the overdue receivables is impaired. A completely impairment takes place, when the receivable is more that one year within the 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 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 customers in Germany centrally invoiced by Deutsche Telekom AG ("DTAG") (annual year 2011: 42 percent, annual year 2010: 49 percent).

The share of receivables towards DTAG from this invoicing contract in total trade accounts receivables of telegate AG amounts to 22 percent (2010: 27 percent) as of December 31, 2011. 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 participant's data required for telephone DA 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

Liquidity risk is the risk that a company has difficulties with the fulfilment of the commitments which arise out of the financial liabilities. The liquidity risk is managed on group level. It will be ensured that telegate has any time the ability to fulfil their payment obligations.

As of December 31, 2011, the group's financial liabilities 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 as of December 31, 2011 in kEUR	Due at call	No more than 3 months	3 to 12 months	More than 1 year	Amount
Trade accounts payable	-	1,961	-	-	1,961

Annual year as of December 31, 2010 in kEUR	Due at call	No more than 3 months	3 to 12 months	More than 1 year	Amount
Trade accounts payable	-	2,489	-	-	2,489
Other financial liabilities	-	751	-	-	751

Interest rate risk

The group's risk of changes in interest rate results from time deposits and fixed-term deposits with agreed fixed interest rates. A change of the general interest level may result in a change of interest income. Because fixed-term deposits concern current investments, the company is able to respond to market interest rate changes promptly.

The following table shows the sensitivity of the group earnings before taxes compared to a change in the interest rates within the limits of the reasonably possible. All other variables remain constant and there are no significant effects on the group's equity. Only current deposit investments with financial institutions and current fixed-term deposits with related companies are taken into account. For this purpose, see also note 18.

	2011	2010
Increase / Decrease in basis points	+25	+25
	-20	-20
Effects on earnings before taxes in kEUR	99.70	137.24
	-79.75	-109.79

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). Principally, 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 changes of the general economic setting. The group may make adjustments of dividend payments for shareholders or 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 54.0 percent (2010: 52.6 percent) as of December 31, 2011.

No amendments were made of 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	2011	2010	2011	2010
Financial assets				
Cash and cash equivalents	39,048	48,768	39,048	48,768
Trade accounts receivable	32,988	33,666	32,988	33,666
Other current assets	1,342	970	1,342	970
Other non-current assets	358	549	358	549
Financial liabilities				
Trade accounts payable	1,961	2,489	1,961	2,489
Other financial liabilities	0	751	0	751

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.

Other current financial assets are valued with amortized acquisition cost and non-current other financial assets are valued with amortized acquisition cost by applying the effective yield method. Fair values correspond to their book values.

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

41. Related party operations

Business transactions between telegate AG and its subsidiaries (see note 1), which shall be considered as affiliated companies, were eliminated due to a 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 of 61.13 percent in telegate AG as of December 31, 2011. SEAT Pagine Gialle S.p.A. (Milan, Italy) is directly with 16.24 percent interested in telegate AG and indirectly via Telegate Holding GmbH with 61.13 percent as of December 31, 2011.

As of December 31, 2010, Telegate Holding GmbH, Planegg, held a majority interest of 55.02 percent (61.13 percent after capital reduction). As of December 31, 2010, SEAT Pagine Gialle S.p.A. was directly interested in telegate AG with 14.61 percent (16.24 percent after capital reduction) and indirectly with 55.02 percent (61.13 percent after capital reduction) via Telegate Holding GmbH. Further information on the capital reduction resolved in the current accounting year can be found in note 32.

SEAT Pagine Gialle S.p.A., wholly owns Telegate Holding GmbH as of the fixed date and includes telegate AG as parent of the largest consolidation into its annual consolidated financial statements within the scope of a 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.

Conditions of 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)

Fixed-term deposits

telegate AG (also Telegate Auskunftsdienste GmbH until June 2010) until mid of 2011 invested fixed-term deposits with SEAT Pagine Gialle S.p.A. Current fixed-term deposits with a term of no more than 3 months were shown as liquid assets in cash equivalents and fixed-term deposits with a term of more than 3 months were shown in other financial assets.

As of the fixed date December 31, 2011, no fixed-term deposits were invested with SEAT (2010: EUR 45.0 m). The resulting interest income of fixed-term deposits amounted to EUR 1.1 m for the annual year 2011 (2010: EUR 2.1 m). As of the balance sheet date, EUR 0 m (2010: EUR 0.1 m) were accrued and shown as other financial assets.

Services rendered or received
telegate AG generated income from services with the SEAT group in the amount of EUR 0 m (2010: EUR 0.1 m) in the current annual year and, in addition, has receivables towards the SEAT group in the amount of EUR 0.1 m (2010: EUR 0.1 m).

Telegate Italia S.r.L. generated income from services with the SEAT group in the amount of EUR 6.6 m until June 01, 2010. In addition, it had receivables in the amount of EUR 5.3 m, liabilities in the amount of EUR 22.4 m and other current assets in the amount of EUR 0.6 m* towards the SEAT group. Items of Telegate Italia S.r.L. are until the date of sale and thus receivables and liabilities were disposed and revenues are shown in income from discontinued operations.

* *Other current assets constitute a net tax claim towards Italian tax authorities which were also directed towards these authorities due to the corporate tax fiscal union formed with SEAT.*

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 fully in cash and a variable sales share (earn out component).

Related party operations (persons)
As of December 31, 2011, employees of the SEAT group were members of telegate AG's Supervisory Board. These persons were entitled to Supervisory Board payments for the annual year 2011 in the amount of kEUR 49 (2010: kEUR 27), which were recorded correspondingly as current liabilities.

Payment of the persons in key positions of the management
This disclosure is made in note 43.

42. Events after the balance sheet date

Consolidated financial statements of telegate for the annual year 2011 were released by the Management Board on February 10, 2012.

43. 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 • Vodafone D2 GmbH, Duesseldorf, 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	• eCircle GmbH, Munich, chairman of the Supervisory Board • Business Gateway AG, Starnberg, Supervisory Board • TVN Group, Warsaw, Poland, Supervisory Board • Freenet AG, Hamburg, 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
Mr Ezio Cristetti	Since June 29, 2011, Human Resources Director, SEAT Pagine Gialle S.p.A., Turin, Italy	• Pagine Gialle Phone Services S.r.l., Turin, Italy, Chairman • Cipi S.p.A., Mailand, Italy, Director • Prontoseat S.r.l., Turin, Italy, 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 Joern Hausmann	Since June 29, 2011, Business Unit Manager Telesales, Rostock	--
Ms Anett Kaczorak	Since May 15, 2006, chairwoman of the works council, employee, Neubrandenburg	--
Mr Leonard Kiedrowski	Since June 29, 2011, Senior IT Expert, Essen	--
Ms Silke Lichner	Since May 15, 2006, employee (Data management), Neubrandenburg	--
Mr Gautam Giorgio Sahgal	Since June 29, 2011, Group Portfolio Strategy Controller, Seat Pagine Gialle S.p.A., Turin, Italy	• TDL Infomedia Ltd., Farnborough (Hampshire), Great Britain, Director • Thomson Directories Ltd., Farnborough (Hampshire), Great Britain, Director • Europages S.A., Neuilly-sur-Seine, France, Director • Pagine Gialle Phone Service S.r.l., Turin, Italy, Director • Cipi S.p.A., Mailand, Italy, Director • Consodata S.p.A., Rome, Italy, Director

Mr Paolo Giuri	From December 15, 2007 to June 29, 2011, CEO, Europages S.A., Neuilly-sur-Seine, France	• Europages Benelux SPRL, Brussels, Belgium, Gérant
Mr Juergen Heinath	From January 30, 2001 to June 29, 2011, Manager Call Center Projects, Neubrandenburg	• Interact Tele Service AG, Neubrandenburg, Supervisory Board • Telemarketing Initiative M-V e. V., Schwerin, chairman of the advisory board
Ms Birgit Labs	From February 20, 2001 to June 29, 2011, employee (specialist process control), Neubrandenburg	--
Mr Stanislas Laurent	From March 15, 2005 to June 29, 2011, CEO, Photoways Group, London, Great Britain	• Photoways Inc., Delaware, U.S.A., Director • PhotoBox Ltd., London, Great Britain, Director • Fine Media SAS, Paris, France, Supervisory Board

(*) A strict separation between Supervisory Board and 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 an 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(*):
Mr Elio Schiavo	Chairman of the Management Board since December 01, 2011 CPA (Certified Public Accountant), Martinsried / Munich responsible for Germany / Austria, Marketing strategy and Corporate communication	• Thomson Directories Ltd., Farnborough (Hampshire), Great Britain, CEO • Mobile Commerce Ltd., Cirencester, Great Britain, Management Board member
Mr Ralf Gruesshaber	Management Board member, Dipl.-Betriebswirt (FH), Martinsried / Munich, responsible for the sectors Finance as well as Technology & Operations; since April 01, 2011 also responsible for Spain; since November 16, 2011 also responsible for Law, Regulation & Personnel	• Uno Uno Ocho Cinco Cero Guias S.L., Madrid, Spain, Director • 11811 Nueva Información Telefónica S.A.U., Madrid, Spain, Director, since April 05, 2011 • telegate Media AG, Essen, Supervisory Board; since June 22, 2011, chairman of the Supervisory Board
Dr Andreas Albath	Until November 15, 2011, Chairman of the Management Board, lawyer, Martinsried / Munich, responsible for the sectors Germany / Austria, Marketing strategy, Law, Regulation, Personnel and Corporate communication	• Endurance Capital AG, Munich, Supervisory Board • telegate Media AG, Essen, Chairman of the Supervisory Board until June 22, 2011
Dr Paolo Gonano	Until March 31, 2011, Management Board member, Master of Business Administration, Turin, responsible for Spain	• 11811 Nueva Información Telefónica S.A.U., Madrid, Spain, Director until April 05, 2011 • Pagine Gialle Phone Service S.r.L., Turin, Italy, President

(*) A strict separation between Supervisory Board and 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 performance-related payment. It is dependent on the achievement of the most important key targets to increase goodwill. Both revenue and proceeds targets of an annual plan to be approved in each case by the Supervisory Board within the scope of 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 percent of the cash payment mentioned.

Payment in 2011

As required by law, the disclosure of the Management Board's salary is provided since the annual year 2006. As in the previous years telegate shows the Management Board's salary in one amount, because the Shareholders' Meeting of June 29, 2011 made use once again of the so-called Opting-Out clause (exemption from the obligation of individualized disclosure of Management Board payment for the annual years 2011 to 2015).

The Management Board's payment amounted to kEUR 981 (2010: kEUR 1,129) for the annual year 2011, in accordance with IAS / IFRS.

Of this total, kEUR 525 (2010: kEUR 530) were attributable to fixed salary and kEUR 343 (2010: kEUR 496) were attributable to management bonus. The value of benefits in kind amounted to a total of kEUR 33 (2010: kEUR 36).

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

Members of the Management Board received pension commitments in the amount of kEUR 80 (2010: kEUR 67), in accordance with IAS / IFRS. These amounts primarily depend on the duration of employment and payment of the individual members of the Management Board. A pension commitment shall only be linked to a fixed salary component. For details, see note 31.

in EUR	2011	2010
Fixed salary	525,417	530,382
Management bonus	342,510	495,807
Benefits in kind	33,485	35,772
Pension commitments	79,559	67,012
Total without stock options	**980,971**	**1,128,973**
Stock options	0	0
Total with stock options	**980,971**	**1,128,973**

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. Intragroup Management Board and Supervisory Board assignments respectively were and are not paid.

Compensation of retired Management Board members was granted in the total amount of kEUR 1,178 for a fixed lump sum payment of the remaining life of the employment contract.

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

Payment Supervisory Board

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 percent of all Supervisory Board meetings during an annual year, the payment is reduced by 50 percent.

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 175 (2010: kEUR 136) in the annual year 2011.

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.

Loans and advances were not granted to Supervisory Board members in the year under review. In 2010 a member of the Supervisory Board was granted a loan in the amount of kEUR 5 at an interest rate of 5.50 percent p.a., which was paid up completely in the annual year 2011. The Supervisory Board members did not receive any other loans and advances in the year under review.

44. 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 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 07, 2011. The exact wording of the declaration can be retrieved under **www.telegate.com**.

Planegg-Martinsried, February 10, 2012

The Management Board

Audit opinion

We have audited the consolidated financial statements, comprising the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes to the consolidated financial statements, together with the group management report of telegate AG, Planegg-Martinsried for the fiscal year from 1 January 2011 to 31 December 2011. 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 ("Handelsgesetzbuch": German Commercial Code) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW: Institute of Public Auditors in Germany). 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 of future development.

Munich, February 16, 2012

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Gallowsky
Wirtschaftsprüfer
[German Public Auditor]

Nöhmeier
Wirtschaftsprüferin
[German Public Auditor]

Corporate Information

Place of Business

telegate AG
Fraunhoferstr. 12a
82152 Martinsried / München
Germany
Tel.: +49 (0)89 8954 - 0
Fax.: +49 (0)89 8954 - 1010

Legal Form: Aktiengesellschaft (AG)

Register Office: Amtsgericht München
HRB 114518

UST-ID-Nr.: DE 182 755 407

Tax Number: 143 / 802 / 54205

Locations of telegate AG:

Armenia
telegate LLC.
Alex Manoogian St. 9
0070, Yerevan
Tel.: +374 10 512 117

Austria
11880 telegate GmbH
Siebensterngasse 21
1070 Wien
Tel.: +43 (0)810 10 - 25 30
Fax.: +43 (0)810 10 - 25 33

Spain
11811 Nueva Información Telefónica S.A.U.
Centro Europa Empresarial
C / Playas de Liencres 2, Edif. Londres 2ª planta Oficina 8.
28290 Las Matas. Madrid.
Tel.: +34 (0)91 640 - 4949
Fax.: +34 (0)91 640 - 3528

Uno Uno Ocho Cinco Cero Guías S.L.
Centro Europa Empresarial
C / Playas de Liencres 2, Edif. Londres, piso 2, Ofic. 8.
28290 Las Matas. Madrid.
Tel.: +34 (0)91 640 - 4949
Fax.: +34 (0)91 640 - 3528

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.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

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

Auditor

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft
Münchent

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

Android
Operating system by Google for mobile devices, also a Software platform

App
Application software for computers or mobile devices (Smartphones) which runs a function useful for the user

BlackBerry
Mobile device (Smartphone) of the producer Research in motion (RIM) for reading and writing E-mails in particular

Call Center services
Call Center services are very diverse and include directory assistance 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

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

COGS
Cost of Goods Sold – Cost of revenues

CRM system
Technical system for customer relationship management

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

DTAG
Deutsche Telekom AG – former monopolist in the German telecommunications market

EBIT
Earnings before interest and taxes

EBITDA
Earnings, before interest, taxes, depreciation and amortization

EuGH
European Court of Justice

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)

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

GfK
Market research institute – the biggest German market research provider located in Nuremberg

Google AdWords
Internet advertising with individual keywords with the search engine operator Google Inc.

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 standards of accounting, predecessor of the IASB

ICS
Internal control and risk management system

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

iPad
Flat, portable computer by Apple Inc. which is completely installed in the casing of a touchscreen and can be operated by finger touch

iPhone
Mobile device (Smartphone) by Apple Inc. with Multi-Touch-Functionality

IVW
Information association for the establishment of the distribution of advertising Media

Local Search
"Local Search" refers to 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 multiplication of the share price by the number of the company's issued shares

M&A
Merger & Acquisitions – Merger and acquisitions of companies

OLG
Higher Regional Court

Outsourcing
Assignment of tasks / subtasks to external companies or service companies

Outsourcing partner
Companies which assume services from other companies within the scope of outsourcing contracts

Regulation
Legal conditions as well as decisions of legislators and regulatory authorities which restrict business operations. For example, this includes in the telecommunications sector regulations on the allocation of telephone numbers, access to subscriber data and telecommunications advance performances. The regulation provisions also determine which telephone DA services can be rendered or how the allocation of DA numbers is made

SEM
Search Engine Marketing – a form of online marketing that includes all advertising measures to attract visitors for an advertising presence via web search engines (e.g. Google)

SEO
Seach Engine Optimization – measures to improve the visibility of a website in a search engine at a higher ranking when user enters certain search terms in the search engine

Smartphone
Small, portable computer with the additional functionality of a mobile telephone

SMEs
Small and medium-sized enterprises

SMS-Connect
Project by telegate in the directory assistance sector of mobile telephone numbers

Social Media
Webbased and mobile technologies used to turn communication into interactive dialogues. Users have the possibility to interchange and create Media content individually or in a group

Traffic
Movement of data – data flow within computer networks

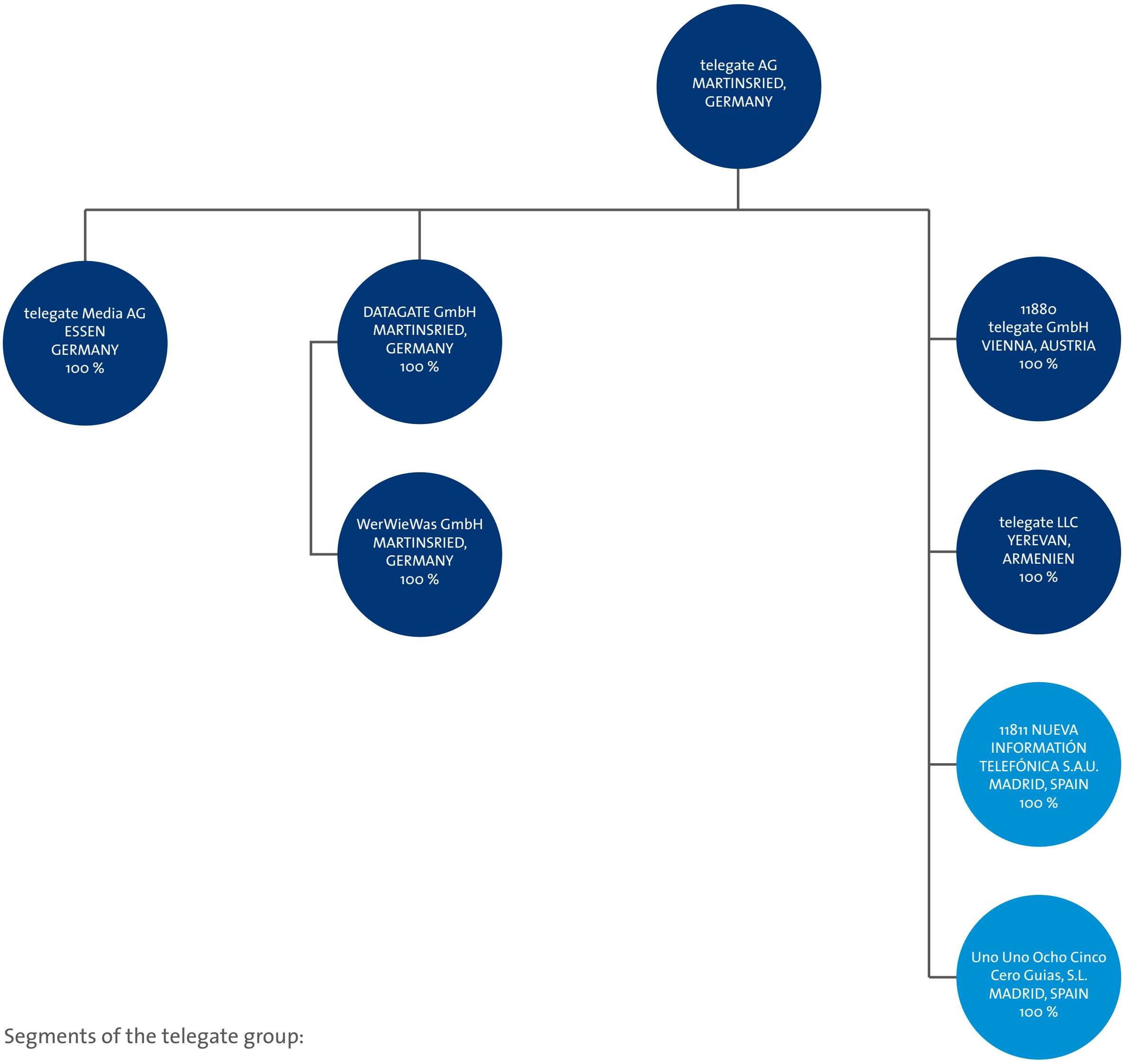
Visits
Access frequency to a website

Windows Mobile
Operating system by Microsoft with a range of Applications for mobile devices such as Pocket PCs und Smartphones

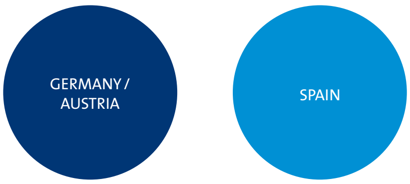
W-LAN
Wireless LAN – refers to a wireless local network and is used to realize network access for mobile computers

WpHG
Securities Trading Law

Corporate Structure telegate Group



Segments of the telegate group:



Financial Calender 2011 / 2012

March 08, 2012	Annual results 2011
May 03, 2012	3-months results 2012
June 27, 2012	AGM 2012
August 02, 2012	6-month results 2012
November 08, 2012	9-month results 2012

Contact

Investor Relations
• Telefon: +49 (89) 89 54 - 0, E-Mail: investor.relations@telegate.com

Imprint

Verantwortlich telegate AG, Fraunhoferstraße 12a, 82152 Martinsried
• www.telegate.com

Artwork

Aclewe GmbH Werbeagentur, Marzellenstraße 43b, 50668 Köln
• www.aclewe.de

www.telegate.com

telegate AG • Fraunhoferstraße 12a • 82152 Martinsried