Names & Numbers

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118866

9-MONTHS REPORT 2003

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Letter from the Board

DEAR SHAREHOLDERS, with the conclusion of Q3 2003, we are pleased to inform you of the sustained positive development of telegate AG's business figures. At EUR 4,1 million, the company again reported a considerably increased net profit in the last quarter. At the same time, the positive turnaround in sales revenues initiated in Q2 2003 was continued. Growth is being stimulated both by the Germany/Austria business segment and by European expansion.

Despite the sustained difficult general economic situation in the core market Germany and the expected tough competition in new markets such as the UK, the continuing positive development of business confirms the basis of our business model and is a clear signal to continue to pursue the course adopted consistently. Profitability and growth are the key variables by which telegate AG will continue to be guided in the future.

One success with major implications for telegate AG is the decision made by the German antitrust agency in September 2003 in the data cost proceedings against Deutsche Telekom. After years of complaints submitted to the regulatory authority for telecommunications and the post and the German antitrust agency by telegate AG, the former monopolist was finally proven to have abused its dominant market position. Consequently, Deutsche Telekom is obliged to reduce the noticeably inflated costs for the provision of subscriber data by 45% with retrospective effect from 1 January 2003.

This decision grants telegate a significant cost saving, which will have a positive effect on earnings by some EUR 2.5 million in the 2003 financial year. The German antitrust agency has thus completed its examination procedure in favour of telegate AG. However, the company is critical of the newly adjusted data costs in Germany, stating that they are still far too high based on a European comparison.

In the course of progressive deregulation of the telecommunications and directory information markets in Europe and the associated expansion opportunities for telegate AG, uniform and comparable standards play a crucial role. For this reason, telegate AG will continue to examine and exhaust all legal avenues to fight for a Europe-wide, binding business basis.

We thank you for the confidence you have shown to date and hope that you will continue to participate actively in the corporate development at telegate AG. telegate is your company – and telegate remains a success story!

The Board of Management

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Keyfigures – 9-Months Report

KEY FIGURES

TEUR	Sept. 30, 2003	Sept. 30, 2002
Revenues	97,797	88,430
EBITDA	15,234	5,582
Operating profit/loss (EBIT)	7,852	– 4,359
Net income/loss	5,133	– 9,636
Earnings DVFA/SG (in EUR)	0.25	– 0.76
Shareholders' equity	12,669	– 517
Total liabilities	45,865	90,921
Equity ratio	21.6%	n/a
Call volume (in 000s)	83,278	92,902
Employees (headcount)	2,877	2,723

Management report Telegate group – 9-Months Report

The positive development of the sales revenues and earnings of the telegate Group from the first two quarters also continued in Q3. Sales revenues and earnings were again noticeably increased, both in comparison with the previous quarter and the previous year.

EARNINGS DEVELOPMENT The telegate Group increased earnings before interest, taxes and depreciation (EBITDA) in the first three quarters of 2003 significantly from € 5.6 million in 2002 to € 15.2 million at present. The operating result rose strongly owing to declining depreciation and stood at € 7.9 million in the reporting period (previous year: € –4.4 million). The net income for the period at Group level amounted to € 5.1 million (previous year: loss for the period of € –9.6 million).

Earnings in Q3 also increased compared with those of Q2. The EBITDA in this period was € 7.3 million compared with € 5.1 million in the previous quarter of 2003, the operating result stood at € 4.3 million (previous quarter: € 2.8 million) and the net income for the period amounted to € 4.1 million (previous quarter: € 1.4 million). This considerably healthy development is the result of both the positive sales revenues trend and the sustained optimisation of manufacturing, personnel and administrative costs.

DEVELOPMENT OF SALES REVENUES Sales revenues stood at € 97.8 million in the first three quarters of this year, exceeding the sales level of the previous year of € 88.4 million by some 11%. Sales revenues were increased in both Germany and in the International segment.

In comparison with the previous quarter, sales revenues rose significantly in Q3 by 31% to € 37.0 million, which corresponds to a 4% increase in calls.

BALANCE SHEET STRUCTURE AND EQUITY The balance sheet structure of the telegate Group was further strengthened considerably in the first nine months. Equity increased noticeably in accordance with the net income for the period from € 6.5 million as of 31 December 2002 to € 12.7 million as of 30 September 2003, which corresponds to an equity ratio of 21.6%. The free cash flow of the telegate Group (operating cash flow minus investments) also developed positively. In the first nine months of this year, a positive operating cash flow of € 15.9 was generated, and € 1.8 million was spent on investments (excluding subsidies and asset disposals). As a result, net financial liabilities were reduced significantly in the first three quarters of 2003 by € 16.0 million to a current figure of € 8.4 million.

With goodwill completely written down, very low and completely covered pension liabilities and all share options being posted in the statement of earnings, the telegate Group is pursuing a conservative accounting policy, supported by the high free cash flow.

INFORMATION & CALL CENTRE SERVICES (ICS) SEGMENT GERMANY/AUSTRIA Telegate also successfully maintained its position in a still very difficult market environment in the first nine months of the year. Sales revenues in this segment were increased by 10% year-on-year in the first three quarters.

Increased sales revenues, combined with continuing rigorous cost management resulted in significantly higher earnings in the Germany/Austria segment: earnings before interest, taxes and depreciation (EBITDA) thus improved in the first three quarters of 2003 to € 25.5 million (previous year: € 15.3 million). Similarly, earnings before interest and taxes improved from € 10.2 million in the previous year to € 20.9 million in the first three quarters of 2003. However, it must be taken into account that restructuring expenditure of € 2.0 million was included in the previous year's earnings.

The expected contributions resulting from the positive decision of the German antitrust agency to reduce data costs are not yet included in the earnings presented for the reporting period. The company estimates a cost reduction of some € 2.5 million in the 2003 financial year as a result of this pioneering decision.

INFORMATION & CALL CENTRE SERVICES (ICS) SEGMENT INTERNATIONAL Telegate is in the process of establishing itself as the leading European directory information portal. In Q3 of this year, the company took a further, crucial step forward. As of 24 August 2003, the "192" service of the monopolist British Telecom was discontinued. In addition, the development in the only recently deregulated Spanish market continues to be very positive. The economic significance of the European subsidiaries of the telegate Group has grown considerably. The contribution of the European subsidiaries to the total sales revenues of the telegate Group increased from 5% in 2002 to 13% in the reporting period. telegate Italia continued its growth course of recent quarters in Q3 2003. The outsourcing contract with Telecom Italia Mobile was extended at an early stage until the end of 2004. In addition, there are increasingly clearer indications of an imminent deregulation of the Italian directory information market in 2004.

In the Spanish market, telegate launched its own advertising campaigns for the 11 8 11 Nueva Information Telefonica service for the first time at the beginning of September after the end of the random messaging system (4 August 2003) in order to further consolidate and extend the no. 2 position achieved behind the Telefonica Group (Telefonica & TPI).

The development of the British telegate subsidiary 11 88 66 Ltd. in the British directory information market following the discontinuation of the previous directory information number "192" was more difficult than in Spain, owing to the significantly more intensive competitive environment and the reduced effect of the random messaging system. Owing to the high advertising pressure from other competitors, 11 88 66 Ltd. refrained from marketing measures before the discontinuation of "192". The advertising campaign began at the start of Q4.

Operating business on the US market was discontinued with the sale of the customer base at the end of September. The activities of telegate Inc. in the USA are now restricted to the winding up of the company.

Against the background of the non-recurring closure costs in the USA as well as the simultaneous launch on the Spanish and UK markets and the associated costs, the development of earnings before interest and taxes (EBIT) of the International segment is even more remarkable. In total, the segment generated EBIT of € –7.0 million in the first three quarters of 2003 (previous year: € –8.9 million).

COSTS OF CENTRAL FUNCTIONS The costs of the central functions in the telegate Group are not directly allocated to an operative business segment. For this reason, they are reported separately. In the first three quarters, the costs of the central functions (equivalent to EBIT) amounted to € 6.0 million. During the last 12 to 18 months, the focus has been primarily on reducing costs and increasing efficiency. Now, supporting the development in Europe is becoming increasingly important.

INVESTMENTS The total volume of investment activity in the first three quarters of € 1.8 million net was mainly influenced by business development in Spain and the UK. Alongside maintenance investments in Germany, investments were made primarily in the development of existing call centre technology and the IT infrastructure in these two countries.

ACQUISITIONS There were no new acquisitions in the first three quarters of 2003. The participations arsmovendi.com AG, mobilSafe AG, Kim Travel Consulting AG and travelgate business GmbH remain in liquidation. Datagate GmbH was merged with telegate Anklam GmbH with effect from 31 July 2003. At the same time, the name of the business Anklam GmbH was changed to Datagate GmbH. This transaction had no effect on the consolidated earnings.

RESEARCH AND DEVELOPMENT As a service provider, telegate does not carry out any fundamental research and development in the normal sense of the term. We support the human factor – by means of intensive and demanding training and ongoing instruction. Friendliness, speed, competency and an intense orientation to service and problem solving are the success factors of our call centre staff. The personal touch, which surveys have confirmed is very important to the majority of customers, represents a key USP of our directory information services compared with those of our competitors. Owing to the development of international business, the telegate Group is attaching increasing importance to the exchange of experience at management level.

EMPLOYEES As of 30 September 2003, the telegate Group employed 2,877 staff (headcount). This corresponds to 154 more employees compared with 30 September 2002. Whilst the number of employees has greatly increased in an annual comparison, primarily in the rest of Europe, it has fallen in Germany and the USA.

SECURITY HOLDINGS OF MEMBERS OF THE CORPORATE BODIES AT TELEGATE AG AS OF 30 SEPTEMBER 2003

	Number of shares	Number of options
Board of Management		
Dr. Klaus Harisch	901,934	0
Dr. Andreas Albath	0	0
Dr. Paolo Gonano	0	0
Supervisory Board		
Herbert Brenke	0	0
Dr. Joachim Dreyer	69	0
Otmar Dürotin	0	0
Fabrizio Grassi	0	0
Dr. Martin Hartl	0	0
Uwe Heddendorp	0	0
Jürgen Heinath	20	1,830
Ina Krech	10	0
Katrin Küther	0	0
Birgit Labs	0	0
Angelo Novati	0	0
Ilona Rosenberg	0	0

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Consolidated Statements of Operations

(US-GAAP)

in TEUR except per share data	**Quarterly Report** (unaudited) **1.7.–30.09.2003** TEUR	**1.7.–30.09.2002** TEUR	**9-Months Report** (unaudited) **1.1.–30.09.2003** TEUR	**1.1.–30.09.2002** TEUR
Revenues	36,960	28,261	97,797	88,430
Costs of revenues	–17,739	–14,735	–49,385	–49,123
Gross profit	**19,221**	**13,526**	**48,412**	**39,307**
Advertising costs	–4,158	–3,056	–12,137	–9,689
Personnel costs	–3,310	–3,894	–9,837	–12,185
Depreciation and amortization	–2,928	–3,245	–7,382	–9,941
Other administrative expenses	–4,483	–5,074	–11,204	–11,581
Total operating costs	**–14,879**	**–15,269**	**–40,560**	**–43,666**
Operating income (loss)	**4,342**	**–1,743**	**7,852**	**–4,359**
Interest income	139	43	220	127
Interest expense	–131	–659	–614	–3,278
Loss (income) out of currency translation	–37	27	–448	–2,459
Other loss (income)	–151	–468	–1,652	453
Other loss, net	**–180**	**–1,057**	**–2,494**	**–5,157**
Income (loss) before tax	4,162	–2,800	5,358	–9,516
Income tax	–105	–120	–225	–120
Net income (loss)	**4,057**	**–2,920**	**5,133**	**–9,636**
Shares used in computing basic and diluted net income (loss) per share (in EUR)	0.20	–0.23	0.25	–0.76

See accompanying notes to the consolidated financial statements as of September 30, 2003

Consolidated Balance Sheets

(US-GAAP)

	Sept. 30, 2003	Sept. 30, 2002	Dec. 31, 2002
	TEUR	**TEUR**	**TEUR**
ASSETS			
Current assets			
Cash and cash equivalents	5,875	3,926	3,416
Restricted cash	319	656	319
Short term securities	281	–	–
Trade accounts receivable net of allowance of TEUR 626 as of September 30, 2003 and TEUR 288 of December 31, 2002	27,225	23,220	22,421
Prepaid expenses and other current assets	4,014	2,216	807
Total current assets	**37,714**	**30,018**	**26,963**
Non-current assets			
Investments	4	1,788	1,673
Goodwill, net	–	20,638	3
Intangible assets, net	1,440	2,898	1,574
Property and equipment, net	19,355	33,006	25,754
Financial instruments > 1 year	–	1,815	4,146
Other non-current assets	21	241	95
Total non-current assets	**20,820**	**60,386**	**33,245**
Total assets	**58,534**	**90,404**	**60,208**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Trade accounts payable	6,928	7,328	8,221
Accrued expenses and other current liabilities	23,387	17,158	16,199
Notes payable	–	17,500	12,000
Current portion of capital lease obligation	145	371	369
Turnover tax burden	755	833	818
Loans due to shareholders	14,258	–	–
Total current liabilities	**45,473**	**43,190**	**37,607**
Accrued pension liability	190	188	168
Loans due to shareholders	–	47,266	15,772
Other non-current liabilities	202	277	183
Total liabilities	**45,865**	**90,921**	**53,730**
Shareholders' equity			
Common stock, 20,954,355 (par value of 1 EUR per share) issued and outstanding (2002: 20,944,355)	20,954	12,730	20,944
Additional paid in capital	84,679	63,505	85,288
Accumulated deficit	–101,371	–78,860	–106,504
Accumulated other comprehensive income	8,407	2,108	6,750
Total shareholders' equity	**12,669**	**–517**	**6,478**
Total liabilities and shareholders' equity	**58,534**	**90,404**	**60,208**

See accompanying notes to the consolidated financial statements as of September 30, 2003

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Consolidated Statements of Cash Flows

(US-GAAP)

	Sept. 30, 2003	Sept. 30, 2002
	TEUR	TEUR
Cash flows from operating activities:		
Net income (loss)	5,133	–9,636
Adjustments to reconcile net income (loss) to the net cash provided by (used in) operating activities:		
Depreciation and amortization	7,382	9,941
Loss on disposal of property and equipment	183	874
Loss on foreign currency translation	448	2,459
Write-downs of financial assets, net	1,283	–
Provisions for losses on accounts receivable	343	853
Pension expenses, net	22	33
Changes in operating assets and liabilities:		
Trade receivable	–5,035	–3,688
Prepaid expenses and other assets	784	–1,175
Trade payables	–1,267	431
Turnover tax burden	–157	–481
Accrued expenses and other liabilities	6,822	–5,548
Cash provided by (used in) operating activities	**15,941**	**–5,937**
Cash flows from investing activities:		
Capital expenditures	–1,995	–3,351
Capitalized intangible assets	–468	–1,109
Sale of subsidiaries	–	736
Proceeds from the sale of property and equipment	619	2,120
Withdrawal of restricted cash accounts, net	–	142
Cash used in investing activities	**–1,844**	**–1,462**
Cash flows from financing activities:		
Proceeds from issuance of stock	37	–
Proceeds from government grants	584	1,022
Proceeds from bank loans	1,000	7.732
Proceeds from shareholder loans	9,200	20,901
Repayment of shareholder loans	–9,200	–
Repayment of bank loans	–13,000	–19,720
Repayment of capital lease obligation	–224	–210
Cash used in (provided by) financing activities	**–11,603**	**9,725**
Effects of exchange rates on cash	**–35**	**84**
Increase in cash and cash equivalents	**2,459**	**2,410**
Cash and cash equivalents, beginning of the year	3,416	1,516
Cash and cash equivalents, end of the reporting period	**5,875**	**3,926**

See accompanying notes to the consolidated financial statements as of September 30, 2003

Consolidated Statements of Shareholders' Equity

(US-GAAP)

	Shares of common stock	Common stock	Additional Paid in Capital	Accumulated deficit	Accum. other comprehensive expense	Total
	[in 000s]	**TEUR**	**TEUR**	**TEUR**	**TEUR**	**TEUR**
Balance at December 31, 2001	**12,730**	**12,730**	**63,505**	**–69,224**	**–611**	**6,400**
Net loss, total	–	–	–	–37,280	–	–37,280
Currency translation adjustment	–	–	–	–	7,361	7,361
Comprehensive loss						**–29,919**
Issuance of common stock	**8,214**	8,214	22,097	–	–	30,311
Costs for issuance of common stock	–	–	–314	–	–	–314
Balance at December 31, 2002	**20,944**	**20,944**	**85,288**	**–106,504**	**6,750**	**6,478**
Net income, total	–	–	–	5,133	–	5,133
Currency translation adjustment	–	–	–	–	1,657	1,657
Comprehensive income						**6,790**
Issuance of common stock	**10**	10	27	–	–	37
Costs for issuance of common stock	–	–	–812	–	–	–812
Stock option plan	–	–	176	–	–	176
Balance at September 30, 2003	**20,954**	**20,954**	**84,679**	**–101,371**	**8,407**	**12,669**

See accompanying notes to the consolidated financial statements as of September 30, 2003

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Segment Report
(US-GAAP)

The Company operates in two segments, each of which are strategic business that are managed separately. The Company views it's business in two segments which are primarily determined by their geographic region and due to similar regulatory enviroments of information services in each region

Management's dominant measurements are consistent with the Company's consolidated financial statements and, accordingly, are reported on the same basis herein Management evaluates the performance of its segments and allocates resources to them primarily based on operating profit (loss) and free cash flow. Intersegment sales are generally accounted for at amounts comparable to sales to unaffiliated customers, and are eliminated in consolidation.

	ICS Germany / Austria	ICS Europe	Totals
	TEUR	**TEUR**	**TEUR**
September 30, 2003			
Revenues from external customers and intersegment sales	83,961	13,834	97,795
Intersegment revenues	–	–	–
Total consolidated revenues	**83,961**	**13,834**	**97,795**
Depreciation and amortization	4,598	2,366	6,964
Operating income (loss)	20,894	–7,025	13,869
EBITDA	25,492	–4,659	20,833
September 30, 2002			
Revenues from external customers and intersegment sales	76,589	11,728	88,317
Intersegment revenues	–	–	–
Total consolidated revenues	**76,589**	**11,728**	**88,317**
Depreciation and amortization	5,096	4,115	9,211
Operating income (loss)	10,217	–8,912	1,305
EBITDA	15,313	–4,797	10,516

With respect to depreciation and amortization, the difference between the segment totals and the consolidated totals relates to assets maintained at the Corporate headquarters.

	Sept. 30, 2003	Sept. 30, 2002
	TEUR	**TEUR**
Total operating income from segments	13,869	1,305
Unallocated amounts (other corporate items)	–6,017	–5,664
Consolidated totals	**7,852**	**–4,359**

Notes to the Consolidated Financial Statements 9-Months Report 2003 (US-GAAP)

(unaudited)

1 BASIS OF PRESENTATION telegate AG, Planegg-Martinsried Deutschland, and its subsidiaries (the "Company") provide operator and directory assistance services for private customers in Germany and abroad and for corporate customers of various German telephone companies. On the basis of outsourcing agreements, these services are also rendered for other telephone companies in Germany, Europe and in the USA.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, all amounts and disclosures of prior reporting periods, in which discontinued operations had been disclosed separately, have been restated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SEGMENT INFORMATION The Company applies Statement of Financial Accounting Standards No. 131 "Disclosures about Segments of an Enterprise and Related Information" (SFAS No. 131). This statement establishes standards for the reporting of information about operating segments in annual and interim financial statements and requires restatements of prior year information. Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker(s) in deciding how to allocate resources and in assessing performance.

ISSUANCE COSTS FOR CAPITAL INCREASES

Under German GAAP, the issuance costs for capital increases are recorded as extraordinary expenses. According to US-GAAP, the issuance costs for capital increases reduce the additional paid in capital.

3 CHANGES IN THE CONSOLIDATED GROUP As of July 31, 2003 Datagate GmbH has been merged into telegate Anklam GmbH. Simultaneously the business name of telegate Anklam GmbH has been changed into Datagate GmbH. This transaction had no effect on the telegate's group result.

The liquidation of telegate International B.V. has already been finalized in the 2nd quarter 2003.

At balance sheet date all following subsidiaries are still in the process of liquidation:
- MobilSafe AG
- Kimtravel Consulting AG
- Travelgate business GmbH
- Arsmovendi.com AG

4 DERIVATE FINANCIAL INSTRUMENTS In April 2001, the Company initiated a foreign exchange hedging program designed to mitigate the potential for future adverse impact on financing transactions due to changes in foreign exchange rates. The program uses forward foreign exchange contracts as the vehicle for hedging significant intercompany balances. The Company does not hold or issue derivative financial instruments for trading purposes.

Gains and losses on the settled contracts are included in "Loss (income) from foreign currency translation" and are recognized in the current period, consistent with the period in which the gain or loss of the underlying transaction is recognized. To the extent that these contracts are not considered to be perfectly effective in offsetting the change in the value of the intercompany balances being hedged, any changes in fair value relating to the ineffective portion of these contracts would be immediately recognized in "Loss (income) from foreign currency translation".

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Derivative financial instruments outstanding to sell at September 30, 2003 are presented in the following table.

	Nominal value		Fair value	
	09/30/03	06/30/03	09/30/03	06/30/03
	TGBP	TGBP	TEUR	TEUR
Forward currency contracts	**8,250**	**5,550**	**(41)**	**(25)**

The nominal value represents the aggregate gross amount of all purchases and sales agreed upon between the parties and, therefore, is not a direct measure of the Company's exposure through its use of derivates. Opportunities and risks are reflected by the fair value which corresponds to the estimated amount that would have been received or paid if the derivative financial instrument had been settled at fiscal year end.

The Company recorded in the third quarter 2003 loss out of currency translation from these settled contracts and underlying foreign currency exposures of approximately TEUR 41. The fair value of these forward foreign exchange contracts have been recorded within "prepaid expenses and other current assets" (TEUR 49) and "accrued expenses and other current liabilities" (TEUR 90) respectively. The forward currency contracts have a maturity between 5 and 11 months and are due in January 2004.

5 OTHER LOSSES AND INCOME Other losses and income amounting to TEUR –1,652. This item mainly consists of the impairment loss (TEUR –1,283) of the shares of LSSI Corp., an American telecommunication company.

6 RELATED PARTY INFORMATION As of July 31, 2003 Telecom Italia S.p.A. sold its shares (61,1%) in Seat Pagine Gialle S.p.A. (Seat P.G.), the former parent company of telegate, to Silver S.p.A. (Silver), a 100-% subsidiary of Spyglass S.p.A. (Spyglass), which is held by an international consortium of investors (BC Partners Ltd., CVC Partners Ltd., Investitori Associati S.p.A. and Permira). It is planned to merge Seat P.G. into Silver and, effective immediately thereafter, Silver into Spyglass. This transaction is to be completed in December 2003. The company, arising from this transaction, will be named Seat Pagine Gialle S.p.A.

The internet division of Seat P.G. remained within the Telecom Italia group, and, along with channel La7 and MTV Italia, formed Telecom Italia Media.

The telegate AG does not anticipate that this transaction will have an impact on the business development of the telegate group.

Impression

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