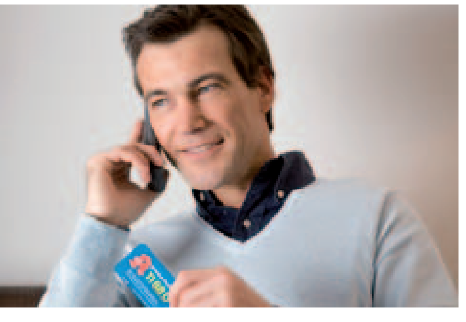
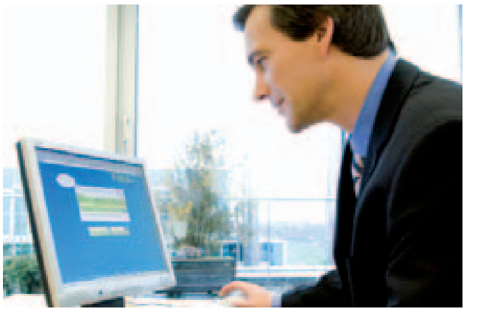
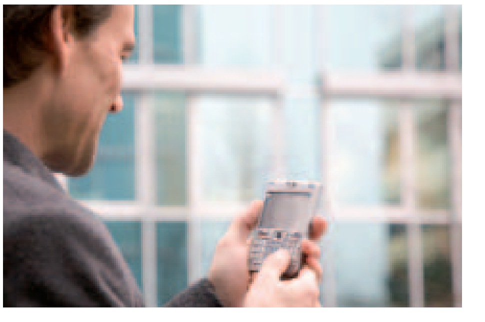
telegate

2006 Annual Report

Successful in Competition





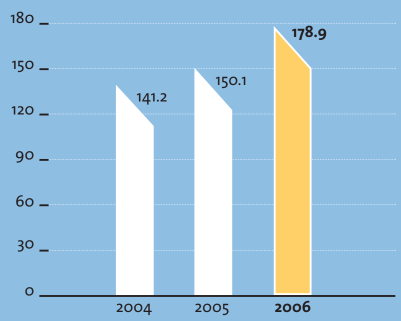


Results telegate Group

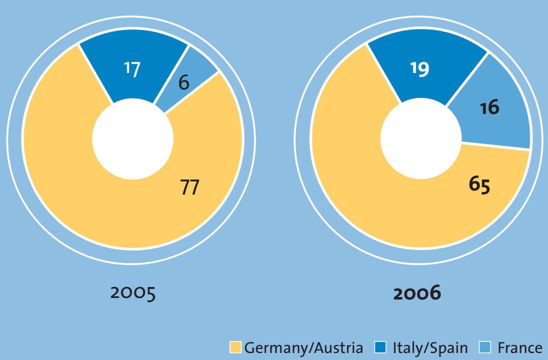
in m Euro	**2006**	2005	Variation absolut	Variation in percent
Revenues and profit				
Revenues	178.9	150.1	28.8	19.2
EBITDA [1]	17.0	37.9	-20.9	-55.1
Operating profit (EBIT)	10.3	31.2	-20.9	-67.0
Net income	6.0	27.1	-21.1	-77.9
Revenue per segment				
Germany/Austria	115.6	115.2	0.4	0.3
Italy/Spain	34.6	25.8	8.8	34.1
France	28.7	9.1	19.6	215.4
Revenue contribution international Segments (in percent)	35.4	23.3	-	-
Balance Sheet				
Balanace sheet total	125.8	138.9	-13.1	-9.4
Cash and cash equivalents	18.7	51.4	-32.7	-63.6
Equity	62.5	69.7	-7.2	-10.3
Equity ratio (in percent)	49.7	50.2	-	-
Cash flows				
Cash flows from operating activities	-6.4	29.6	-36.0	-121.6
Cash flows from investing activities	-13.7	-13.1	-0.6	4.6
Free cash flow [2]	-20.1	16.5	-36.6	-221.8
KPI telegate share				
Earnings per share (in Euro)	0.29	1.29	-1.0	-77.5
Share price at the end of the year (in Euro) [3]	17.94	17.36	0.58	3.3
Market capitalisation at the end of the year	376.5	364.3	12.2	3.3
Dividend (proposal)	13.6	13.6	-	-
Dividend per share (in Euro)	0.65	0.65	-	-
Dividend yield (in percent) [4]	3.6	3.7	-	-
Employees				
Number of employees [5]	3,136	2,582	554	21.5

[1] The EBITDA is defined as earnings before depreciation, interest and taxes within telegate group.
[2] incl. M&A activities
[3] XETRA closing prices
[4] 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.
[5] Headcount as of December, 31

Revenues on group level in m Euro



Revenue contribution per segment in %



Milestones telegate 2006

February
- telegate presents itself at the trade fair Call Center World in Berlin 2006 – climbs into Top-10 ranking of German Call Center service providers

March
- Strategic cooperation with AOL Deutschland, Hamburger Abendblatt and Skype boost “Local Search” section of the Internet directory assistance platform 11880.com
- Corporate Social Responsibility program “telegate helps!” kicks off on the tenth anniversary of company foundation - 12 social projects throughout Germany are supported

April
- telegate opens fiscal year 2006 with a sales up of 40 percent
- Following deactivation of the former monopoly numbers, the French directory assistance market is finally opened for competition – telegate enters the race with the “118 000” number

May
- telegate pays out dividend to shareholders for the first time – shareholders’ meeting decides to pay 0.65 Euro per share
- Dr Arnold R. Bahlmann and Jürgen von Kuczkowski are appointed to Supervisory Board

June
- telegate takes over classic directory assistance business of SNT Deutschland – partnership with mobile phone operator O2 Germany strengthens market position of the “11 88 0” in Germany

August
- Half year figures for 2006 confirm unabated growth dynamism – ongoing positive performance of sales
- New professional training course for call center industry: telegate trains 30 service professionals in dialog marketing

September
- telegate establishes company-own health insurance fund “BKK 11 88 0” in Germany

October
- telegate sells Swiss subsidiary 1818 Auskunft AG
- telegate celebrates ten-year anniversary with representatives from politics, business and the telecommunication industry

November
- Nine month figures for 2006 underline positive business performance – unabated growth dynamism, earnings forecast for second half of year confirmed

Content

About us

Group Mangement Report

Consolidated Financial Statements

Dear shareholders,

while 2006 closes as another eminently eventfully fiscal year for telegate, this tenth year since the company's foundation was strongly characterized by competition. Unlike 1996, over the last year telegate had to prove its worth against numerous challengers not only in Germany but also on the international level. It is therefore with an element of pride that we note: We have stood our ground in the competition!

All of this was based on a solid corporate strategy that essentially rests on the two pillars of extending the product portfolio for private and business customers as well as growing by expanding in foreign markets. On both fronts, telegate made strong progress over the last year. The development of the foreign business saw sales increase by around 80 percent. They now account for above 35 percent of total sales and make an essential contribution toward the company's top-line positive developement. Although start-up investments for the built-up of business in France burdened profitability of the first year, the tripling of sales against last year clearly indicates the potential this market segment holds. In Italy and Spain telegate also recorded continued growth in 2006. Here sales rose by more than a third and operative earnings more than doubled.

On the domestic side of business, telegate also made significant progress over the last fiscal year. The company further strengthened its core business of classic directory assistance through strategic cooperations and acquisitions. Despite harsher competition from new directory service providers, the company still succeeded in expanding its market share to approximately 37 percent. Key success factor was the product portfolio's principal focus on consumer demands as well as strengthening the "11 88 0" brand. Not least because of these, did the new service providers fail in establishing themselves in the Germany directory assistance market. Maintaining the momentum of the last few year, the company will consistently pursue the expansion of service-oriented comfort and multi-channel services also in the future.

Ten years of telegate equals ten years of innovation in the directory assistance market. Technological developments and shifting consumer behavior have moulded the companies history over the years. telegate has always led the way in detecting trends and reacted swiftly to them by providing corresponding new product offers, taking over the role of leading innovator along the way. Consequently the company is seen today as one of the experts in the market for information services. Its core competence lies in aggregating and providing swift and user-friendly directory assistance data for all modern communication channels such as telephone, Internet and mobile devices. Fast, comprehensive and correct information constitutes not only the value added for the end customer but also the basis and value added for our business customers. They have come to increasingly appreciate the offer of specific and targeted advertisement opportunities, which for telegate spell out as an additional source of revenue. Directory assistance is a business that connects!

Ten years of telegate also means ten years of creative, committed and customer-oriented employees. Without their willingness to perform and their personal commitment telegate's success story could not have been written. Today well over 3,000 employees all over Europe put the business strategy into practice. In Germany 30 young employees will be trained for the first time in the German Trade and Industry Chamber certified, two-year professional training course for service personnel in dialog marketing. Following the substantial increase in personnel the year before, new members of staff were taken on board once more in 2006. Thanks to the significant growth of the company, a total of 500 new jobs were created throughout Europe.

Ralf Grüßhaber
Member of the
Management Board

Dr Paolo Gonano
Member of the
Management Board

Dr Andreas Albath
Chairman of the
Management Board

In the jubilee year 2006, the corporate social responsibility program "telegate helps!" gave a telling testimony of the entrepreneurial and social responsibility for the location Germany. Twelve socially committed institutions received support at the seven company sites in Germany. Alongside financial donations, some 100 telegate employees worked well over 500 hours of unpaid community work to assist with the realization of help projects. In so doing, they took a stand and moved a lot in direct home environment of our employees, as none of the supported projects could have been realized without the subsidies from telegate and its employees, because neither state nor communal help would have been available in the foreseeable future.

The strategic re-orientation of the company and the sustained improvement of the products offered – made possible through innovation and excellently trained employees across all sectors – create added value. This is also to the benefit of our shareholders. The trust they placed in management was amply demonstrated this year. They supported the business strategy, even though its realization had led to significantly lower earnings during the year, which were nonetheless in line with plan. The company's management in turn paid this back with reliability. The substantial improvement in earnings announced for the second half year was achieved. The EBITDA of 21.5 million Euro generated over this period, meant that the forecasted figure could even be slightly surpassed. The company also shows to be reliable by maintaining continuity of a dividend. As in the year before, the Management and Supervisory Board will propose to the shareholders' meeting May in 2007, to pay out a dividend of 0.65 Euro per share. This is another sign of our optimistic outlook for the future.

For fiscal year 2007, telegate once again set itself ambitious targets. The growth and further development of the operative business across all sectors shall see the company take a quantum leap in the current fiscal year as far as earnings are concerned. These are set to expand to a level of around 50 million Euro. In an ever changing environment, telegate is excellently positioned for the future. Together with our employees we will continue to do our utmost to achieve our ambitious targets.

Best regards

Dr Andreas Albath | Dr Paolo Gonano | Ralf Grüßhaber

Report of the Supervisory Board

Fiscal year 2006 was a year of challenges for telegate AG, which was characterized both by the expansion into Europe as well as of the strategic extension of business. Substantial progress was made on these fronts even if it meant accepting that the financial key figures were weaker compared to the previous year. In attendance of its legal duties of consulting and monitoring, the Supervisory Board intensively assisted the Management Board in its management of business.

Supervisory board activity in fiscal year 2006. In fiscal year 2006, the Supervisory Board attended to the duties incumbent on it by law and the Articles of Association. It regularly provided consulting assistance to the Management Board and monitored the management of the company. The Management Board reported to the Supervisory Board in writing and even more often verbally. As these reports were provided at regular intervals, or at least on a monthly basis, the Supervisory Board was always kept informed on business activities within telegate Group, as well as on key financial figures, essential questions of corporate management, and the risk status. Any deviation in business progress from the approved plans were presented, explained in detail, and discussed with the Supervisory Board alongside other important business issues. Measures to strengthen the competitiveness and positioning of telegate AG in foreign markets, especially in France, were further focal points. Strategic projects were thoroughly discussed and coordinated with the Management Board.

Organization of the supervisory board's work. Pursuant to Sec. 27 (3) of the German Co-Determination Act, MitBestG, the Supervisory Board has set up a Human Resources Committee. In accordance with the by-laws of the Supervisory Board it has also established an Investment Committee and an Audit Committee. All of these committees have been in existence over the past fiscal years. Regular reporting by the committee's chairperson ensures information is exchanged between the committees and the plenary session.

Meetings and participation. The Supervisory Board convened five times during fiscal year 2006. The Human Resources Committee convened once for a regular meeting in fiscal year 2006 and furthermore made one written resolution. The Investment Committee met four times and the Audit Committee twice for regular meetings in the period under review.

Due to illness, the Supervisory Board member Daniela Lübbert was only able to attend two meetings of the Supervisory Board in fiscal year 2006. There were not other events requiring reporting as far as the frequency of attendance by Supervisory Board members to these meetings are concerned.

Composition and personnel of the supervisory board. Pursuant to Sec. 4 of the Articles of Association, and in connection with the German Co-Determination Act in its version of 1976, the Supervisory Board comprises twelve members. These members were elected in 2006 by the shareholders' meeting in accordance with the company's Articles of Association and/or by the workforce of telegate AG in accordance with the Co-Determination Act.

Corporate governance. In fiscal year 2006. The Supervisory Board once again dealt with and intensively addressed the suggestions and recommendations of the German Corporate Governance Code and their implementation with telegate. Following careful consultation and taking especial account of the circumstances and requirements of the company, exceptions to the Code were decided upon.

Audit of the annual and group financial statements 2006. The Annual Financial Statement prepared in accordance with (German) Commercial Code, the Management Report, as well as the Group's Annual Financial Statement according to IAS/IFRS, including the Management Report of telegate AG for the fiscal year 2006, as well as the company's accounting, were audited by the auditor, Ernst & Young AG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Munich. The auditor made no objections and issued his unqualified certificate for both the Annual Financial Statement as well as the Group's Annual Financial Statement.

The Annual Financial Statement prepared in accordance with (German) Commercial Code, including the Management Report, the Group's Annual Financial Statement according to IAS/IFRS, including the Management Report and the auditor's report, were extensively discussed with the auditors in the Audit

Herbert Brenke
Chairman of the Supervisory Board

Committee and forwarded in due time to the members of the Supervisory Board. The auditor also attended the final consultations on the Annual Financial Statements during the Supervisory Board meeting on March 7, 2007. The auditor gave a report on the actions of the audit and provided further explanatory information during the discussions.

The Supervisory Board examined the Annual Financial Statement of telegate AG and the management report. It took note of and approved the findings of the auditor. It approves the management report presented by Management Board, and the 2006 Annual Financial Statement of telegate AG, which is thereby established.

The Supervisory Board also examined the Group's Annual Financial Statement of telegate AG prepared in accordance with IAS/IFRS and the management report. It took note of and approved the findings of the auditor. It approves the management report presented by Management Board, and the 2006 consolidated Annual Financial Statement of telegate AG.

Ernst & Young AG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, also audited the report prepared by the Management Board pursuant to Sec. 312 (German) Stock Corporation Act regarding the relations to the associated companies ("Dependency Report"). The Dependency Report received the following unqualified certificate:

"In accordance with our duty to audit and assess, we herewith certify, that
1. the statements made in the report are correct,
2. and that the services rendered by the company for the legal transactions listed in the report were not unduly high."

The Dependency Report was made available to the Supervisory Board members for examination. The auditor was present when the report was discussed by the Supervisory Board. The auditor reported actions of the audit and provided information. The Supervisory Board deemed the report to be in order. The Supervisory Board approved the auditor's findings of the audit and, following the final result of its review, made no objections to the Management Board's concluding declaration in the report.

The company's management and employees of telegate Group cooperated responsibly and target-focused in 2006. The Supervisory Board wishes to express its special gratitude to the Management Board and all employees for their work, which contributed to a another successful fiscal year.

Planegg-Martinsried, in March 2007

Herbert Brenke
Chairman of the Supervisory Board

Investor Relations

Capital Markets

Although the mood in the capital markets improved as a whole in fiscal year 2006, especially the small and mid-cap shares recorded great volatility during the course of the year. Nonetheless, share prices in general performed positively in the period under review. This was above all the result of the continuing high liquidity on the capital markets, further improvements in earnings generated by the corporations, the general economic upturn in Europe and the stable business climate in the USA. The steep rise in oil prices, on the other hand, dampened the mood on the floors of the exchanges.

Performance of telegate Share on the Stock Exchanges in 2006

After telegate share's performance had outstripped the relevant indices (TecDAX and Prime All Share Performance Index) in the years 2003 to 2005, telegate was unable to sustain this trend in the last fiscal year. In all, the share closed the last fiscal year with a plus of 3.3 percent. In comparison, the TecDAX index grew by 25.5 percent in the period under review, while the Prime All Share Performance Index rose by 23.1 percent.

telegate share in comparison with Prime All Share and TecDAX

At the beginning of the fiscal year 2006 telegate share climbed strongly and reached it's year high at 21.17 Euro on February 9, 2006. The general downward trend that took a hold in particular of small and mid-cap papers in May 2006, also affected telegate's share. The price was furthermore affected by the short-term decline in profitability that followed in the wake of the market entry in France and the irritations caused by the Bertelsmann subsidiary Arvato entering the market. In the period between mid-May to mid-September the share stayed on an average price level of 15 Euro. It was also in this negative market environment that telegate shares dropped to their year low at 13.57 Euro on June 14, 2006. In order to counter the declining price development of the share, telegate made extra efforts to keep in close touch with financial market participants throughout fiscal year 2006. Thus, the telegate management presented the current business performance and strategy of the company at great length during road-shows at home and abroad and also in meetings with analysts.

Key Data per telegate share

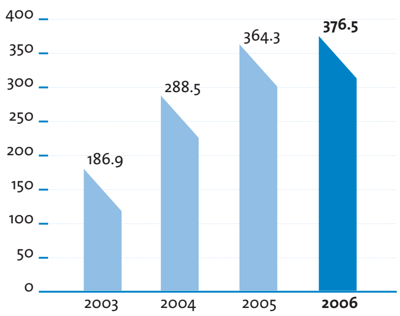
		2003	2004	2005	2006
Number of shares	Qty.	20,954,355	20,980,835	20,987,045	20,987,045
Capital stock	euro	20,954,355	20,980,835	20,987,045	20,987,045
Closing price at year end*	euro	8.92	13.75	17.36	17.94
Highest share price*	euro	10.70	13.99	18.99	21.17
Lowest share price*	euro	2.50	8.56	13.06	13.57
Market capitalisation (end of year)*	m euro	186.9	288.5	364.3	376.5
Earnings per share	euro	1.30	1.30	1.29	0.29
Dividend per share	euro	-	-	0.65	0.65
Dividend yield	%	-	-	3.7	3.6

* XETRA Closing prices

Investors' confidence in telegate share was strengthened especially by the active communication of the company's financial targets: 20 million Euro EBITDA for the second half of 2006 and 50 million Euro EBITDA for 2007. Particularly noteworthy is the fact that during this period all analysts maintained their rating, from outperform to buy. The analysts' average target price for telegate share remained at 20 Euro.

As a result of the active communication with the financial markets, telegate share clearly rebound as of mid-September and settled on an average price range of 18 Euro for the remaining fiscal year. The positive mood in the financial markets was confirmed early November by the publication of the 9-month figures that gave a further boost. Accordingly nearly all analysts upgraded their target price for telegate share to around 22 Euro.

Market capitalisation telegate share in m Euro*



* XETRA Closing price

Shareholder Structure

The number of shares issued by telegate AG amounts to 20,987,045. Of these, 78.3 percent are directly and indirectly held by the majority shareholder SEAT Pagine Gialle S.p.A. The remaining 21.7 percent of shares are free float, the bulk of which are held by institutional investors.

Dividend

The Management Board and Supervisory Board intend proposing to the shareholders' meeting to be held on May 9, 2007, that the same dividend payment as last year of 13.6 million Euro shall also be made for fiscal year 2006. This equals a dividend of 0.65 Euro per share and/or a dividend yield of 3.6 percent on the share's closing price as of the year's end (last year: 3.7 percent). The company herewith underlines its long-term earning capacity, the objective of keeping up dividend continuity as well as its positive outlook for the current fiscal year 2007.

Investor Relations Activities

In fiscal year 2006, telegate maintained a continuous dialog with institutional and private investors and analysts with the objective of still better meeting the increasing information requirements by the financial market participants. In the year under review, the management presented the annual and quarterly results as well as the company strategy of telegate Group on numerous road-shows in Germany and abroad. Management also attended key investor conferences such as Cheuvreux's European Small and Mid Cap conference, the German Corporate Conference held by Deutsche Bank or HVB's German Investment conference. Further to these, management also introduced itself for the first time at a road-show to Scandinavian investors. Analyst conference calls are another fundamental element of telegate's communication with the financial markets. These conference calls are open for anyone to follow on the Internet.

The last fiscal year also saw the complete overhaul of the investor relations website. This was done particularly in view of meeting the increased information requirements of the financial market participants and to improve user-friendliness. Thus, the revamped website offers so-called "Investor Kits", which make the essential and latest documents on current company performance and strategy of the telegate Group available for download.

Corporate Governance Report 2006

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 2006

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 2006 under www.telegate.com, in the section "Investor Relations".

The recommendations of the "Government Commission German Corporate Governance Codex", in their edition of June 12, 2006, are and will be complied with by telegate subject to the following five justified exceptions:

The D&O insurance policy taken out by telegate for the Management Board and the Supervisory Board does not provide for a deductible (Item 3.8.)
telegate remains of the opinion that providing for a deductible is not an effective way to improve the sense of responsibility that the members of the Management Board and the Supervisory Board of telegate AG apply to the tasks and functions assigned to them. The approach taken by telegate complies with international standards, as well as the practice of the majority shareholder, SEAT Pagine Gialle, which has taken out D&O insurance policies with no deductible for all organs members of the companies in which it holds a majority share.

An age limit for Management Board and Supervisory Board members has not been defined (Item 5.1.2/5.4.1.).
telegate continues to uphold 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.

The office of chairing committees and success-oriented remuneration are not considered in the definition of the Supervisory Board remuneration. Remuneration is not reported on an individual basis (Item 5.4.7)
In addition to a fixed remuneration, the Code recommends success-oriented remuneration for Supervisory Board members. In our opinion, telegate should not create a success-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. In addition, the Code recommends reporting the remuneration paid to the Supervisory Board members on an individual basis. In the following remuneration report, telegate lists the total remuneration for the full Supervisory Board and the work undertaken as committee activity in one sum. Remuneration is not reported on an individual basis, as we believe that this is of no relevance for the capital markets.

The interim report for the half year 2006 was not made publicly available within 45 days after the end of the reporting period (Item 7.1.2).
The consolidated financial statements as well as the interim reports of telegate are integral part of the consolidated reports of SEAT Pagine Gialle S.p.A., the exchange-listed majority shareholder. The half-year report of the majority shareholder contained information relevant to the capital markets, which had to be published as Ad-Hoc bulletin. Accordingly, telegate decided to publish its interim report as close as possible to the majority shareholder's half-year report, which was not within 45 days after the end of the reporting period.

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

Cooperation between Management and Supervisory Board

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

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

Shareholders and Shareholders' Meeting

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

Active, open and transparent Communication

In order to guarantee maximum transparency, the claim of telegate's business communication is to provide all stakeholders with the same information at the same time. To this end, telegate makes available detailed documentation and information 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. The following reports were issued by telegate in the period under review:

June 14, 2006, Dr. Andreas Albath, CEO, purchase, Xetra, price 13.60 Euro, number of shares 1,000, volume of transaction: 13,600 Euro, ISIN DE0005118806.

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

Responsible Opportunity and Risk Management

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

Annual Audit

Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft once again acted as auditor for fiscal year 2006. It was agreed that the chairman of the audit committee was 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 were immediately corrected. Furthermore, the auditor was 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. The Committee is also responsible for defining the details of the Management Board's remuneration.

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 pegged to the income schedule that is defined by the Human Resource Committee. This schedule takes account of the current situation and the planning/targets of the telegate Group. 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 as well as earnings targets from the annual budget plan, which is subject to approval by the Supervisory Board, serve as benchmark figures. 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 57 percent of said cash remuneration.

Remuneration in 2006

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

In fiscal year 2006 the Management Board remuneration per IAS/IFRS came to 1,274,000 Euro (prior year 1,200,000 Euro).

Of this 450,000 Euro (prior year 405,000 Euro) was for salaries and 393,000 Euro for bonuses (prior year 503,000 Euro). The value of benefits in kind totaled 37,000 Euro (prior year 26,000 Euro).

140,000 stock options from the second tranche of the stock option program 2005 were granted to the Management Board in the last fiscal year. In 2005 some 105,000 stock options had been granted from the first tranche. The value at the time of award was 319,000 Euro per IAS/IFRS (prior year 196,000 Euro). The Notes to the Group's annual financial statement provide further details under the section "Share based payments".

The Management Board members received pension benefits totaling 74,000 Euro per IAS/IFRS. 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". No undertaking has been made toward any Management Board member for additional benefits in case of termination of employment.

Management board remuneration in Euro

	2006 (IAS / IFRS)	2005 (IAS / IFRS)	2006 (HGB)	2005 (HGB)
Fixed salary	450,000.00	405,000.00	450,000.00	405,000.00
Bonus	392,898.00	502,578.25	392,898.00	502,578.25
Benefits in kind	37,290.35	25,816.40	37,290.35	25,816.40
Pension Benefits	74,330.00	70,456.00	0	0
Total without stock options	**954,518.35**	**1,003,850.65**	**880,188.35**	**933,394.65**
Stock options	319,200.00 *	196,350.00**	319,200.00*	196,350.00**
Total including stock options	**1,273,718.35**	**1,200,200.65**	**1,199,388.35**	**1,129,744.65**

* 140,000 stock options
** 105,000 stock options

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 membership on Management or Supervisory Boards were not and are not reimbursed.

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

Supervisory Board Remuneration

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

In addition to the refund of expenses, each member of the Supervisory Board receives a fixed annual salary of 10,000 Euro. The remuneration is due for payment after the shareholders' meeting has formally ratified the Supervisory Board's actions 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 flat-rate of 1,000 Euro. 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 2006, the total remuneration for the Supervisory Board came to 137,000 Euro (prior year 147,000 Euro).

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 member in the year under review.

The strategy begins to pay off: From Start-Up to informa
service provider for Europe

tion

The success story of telegate AG was launched with the liberalization of the telecommunication market ten years ago. As a start-up the company had focused on the market segment of telephone directory assistance. Ever since, it has managed to stand its ground against all competitors in Germany with its "11880" assistance number. For those familiar with the industry telegate is a true child of competition. After all there are only very few companies in the country who achieved a similar feat: that is, to break a monopoly of Deutsche Telekom. The young company has developed and moved on. As information service provider with European-wide operations, telegate offers far more to its customers today: directory assistance, information and innovative advertisement offers span across all media, in Germany, Austria, Spain, Italy and France. Not only consumers receive the required information, but also business customers can now reap the benefits of offers with added value.

Despite the difficult regulatory environment, telegate successfully staked its claim in the competitive environment of the last decade. For a long time the substantially overpriced costs charged by Deutsche Telekom for the provision of the subscriber data ranked as one of the highest hurdles. Deutsche Telekom was then obliged to make this data available to all market participants. However, the admissible amount of fees to be charged for this was decided upon by the regulatory authorities only much later. Ever since liberalization, telegate has been fighting for fair data costs. In the summer of 2005, nine years after market opening, the German Federal Network Agency finally lowered these data costs significantly. Currently telegate is still embroiled in a number of legal disputes to reclaim the overcharged fees it had paid.

Following the drastic cut in data costs, new competitors with different business models entered the directory assistance market in 2006. telegate reacted promptly, though, and developed new growth fields for itself, among other things, by extending its business into the Internet. The integration of technological trends and the introduction of product innovations have always been a key premise for the company. By quickly adapting to market requirements and changed consumer behavior, telegate and its products always manage to keep one step ahead of its competitors and thus secure the company's business success.

The business of directory assistance has undergone major changes over the last ten years. Alongside the telephone, media such as the Internet and mobile applications offer a completely new range of possibilities. With it, customer behavior has also shifted. Consumers take decisions according to the situation they are in, no matter whether they call the directory assistance, search for information from the Internet or poll information via Blackberry while traveling. Linking the different media channels and information services together is the order of the day, and telegate is realizing this as part of its multi-channel strategy. The company delivers the information required in premium quality and under the umbrella of the one "11 88 0" brand, using the modern information channels of the telephone, Internet and mobile applications. Today's end customer requires far more information than merely the classical telephone number or address. telegate knew how to react to this, and now offers directory assistance for a wide range of key topics, from opening hours of public authorities, pharmacies' emergency services through to the location of the next cash dispenser - all under the heading of "Customized information". The key to success is to provide the customer with comprehensive, fast and correct information that can be accessed via the respective media of usage.

Wherever the customer's value added comes first, telegate is right there – and this holds true for end customers and business customers alike. They benefit from the company's core competence of aggregating information and making it available in a customer-oriented way. Last year telegate also defined the benchmark in the B-to-B sector with its multi-channel approach. The company offers business customers an ideal market place to present themselves and establish customer contacts. Any commercial enterprise can augment its basic entry with valuable further information easily and cost-efficient, and be thereby present on all channels of the "11 88 0". Much like a classified advertisement in the regular yellow pages, the entrepreneur can forward detailed information to the consumer. This constitutes a classic win-win situation that benefits all. As the mediator, telegate provides the marketing platform in the modern media of directory assistance and thus brings together supply and demand. With its extended business model the company has once again become innovation leader, this time in the yellow pages market. This being a market currently undergoing major changes, the company is developing lucrative new sources for revenues.

"Local search" via Internet is a key trend in this context. Even though information from around the world can be accessed at a mouse-click on the Internet, a third of all search requests relate to the local vicinity, with a trend on the up. The "local search" market segment is therefore considered one of the hottest growth potentials for business on the Internet. In its role as directory assistance expert telegate aims to hold a pivotal role here in future.

The company's strategy is paying off. Over the last few years telegate has matured into a successful modern information service provider. It will continue to provide information with added value for the customer and exploit synergies by linking the different media channels. Such trends as map-based Internet searches or the addition of animated images to online entries are but two examples that demonstrate how the merger of speech and image will change the directory assistance media in future. To further this end, customer-oriented offers must be developed so that the company can hold its own in the competition. telegate is well equipped to face that challenge.

The company's growth potential: Innovative products and new markets

telegate exploits growth potentials and successfully stands its ground in the competition by transferring its flourishing business model abroad as well as further developing existing products and launching product innovations. As part of the multi-channel strategy, the company focuses on a targeted extension into new media forms as well as reinforcing the classic voice directory assistance. The company will press on with the consistent expansion of its classic voice directory assistance. This will also extend to the European markets, once they have attained appropriate market maturity.

telegate has been in the directory assistance business for ten years and there is hardly another company that knows this line of business better. Its core product of directory assistance has seen a steady expansion ever since the company's foundation. Despite the harsher competition the company managed to increase its share in the German home market to about 37 percent, making it the only serious contender to Deutsche Telekom in the directory assistance sector. Acquisitions such as the take-over of the directory assistance business of SNT Deutschland and the partnership with O2 Germany that was concluded as part of this deal, as well as the continued extension of the service portfolio, have contributed toward this success. Profitable growth was also recorded by telegate's classic business lines in Italy and Spain. The aim is to use the company's strong brands to maintain the position as leading European directory assistance provider.

For years already, telegate consistently seizes the opportunities as they arise during the liberalization of the European markets. Starting out with the German market, which was the first to be opened for competition, countries such as Spain in 2004, Italy and 2005 and France as late as 2006 followed suit. In each country, the initial phase of market opening saw numerous competitors crowd the field of this lucrative market segment. As a first step all providers scrambled to build-up strong brands and raise their own brand's awareness with consumers. While the markets in Germany, Spain and Italy are now considered more or less as consolidated, with telegate in each one positioned as one of the most successful challengers to the former monopolist, the French market is still undergoing shifts and movements.

In Italy, telegate entered the market together with its main shareholder Seat Pagine Gialle. Today they provide directory assistance to around 40 percent of the market. telegate's starting position in Spain is also very good these days. As the leading independent directory assistance provider, the company is firmly established with it strong '11811' brand and in future will focus on the multi-channel expansion of its range of services. Ever since the liberalization of the French market in 2006, four key players are still competing for shares of the directory assistance market. In this extremely competitive environment telegate is busily strengthening its own position. With its reliable partners and the mobile phone carriers SFR and Bouygues Telecom the company enjoys a strong position in this market. The premium quality approach is underlined by innovative supplementary services that offer added value to the consumer, as the 'map & route' service, for example. On request, callers can receive the required data, such as the address of a hotel, directly from the '118 000' number to their cell-phone or Blackberry. They can then call up a vicinity map via WAP-link, forward this or search for further 'points of interest' in the area.

Parallel to the expansion in foreign markets, the extension of the product portfolio for consumers and business customers play another central role. Interesting growth potentials for the future can be found here, which are not limited to supplementary services in the telephone directory assistance alone. At stake is the transfer of all information services to alternative media channels. The products for the entire telegate Group are generally developed in Germany. This includes such products as the award-winning Internet platform, the swift and uncomplicated application for mobile users as well as directory assistance via SMS, all of which have set market standards over the last two years. telegate is the only provider in Germany to work with and stake its operation on this multi-channel strategy. The consumer receives the information over all modern communication channels, but always under the heading of the one '11890'-brand. Thus, the Internet directory assistance platform 11880.com provides a wide range of practical functions, which assist customers in quickly finding the information relevant to them in an every-day setting. But also the directory assistance via SMS or mobile device helps customers to get the right information.

The transfer of information across different media channels does not only benefit the consumer, but also offers interesting opportunities for business customers. The classic yellow-pages business with classified advertisements placed by commercial enterprises will increasingly migrate to new media. telegate has identified this as a field for potential growth. The company offers commercial enterprises and business clients the means to optimize their customer contacts through innovative advertisement packages. Adding their directory entry on the 11880.com Internet platform with images, detailed further information or links to their own company website for example, allows the business client to individually enhance his own entry and thus better address and cater to their customer base. This supplementary information will not be confined to the Internet, however, but is also integrated into the data base for directory assistance via telephone and SMS. Another advantage of such a modern advertising tool is the ability to update and modify these entries on a day-to-day basis.

Since March of this year, the innovation leader telegate demonstrates what the future of the Internet-based local search could look like with its pilot scheme for the city of Munich. The entire inner city is available for virtual exploration via mouse-click. After entering a specific starting point, sites can be visited and entire streets and areas are available for viewing from the perspective of a pedestrian. telegate will continue to focus on user-friendly products that offer added value to the customer and simultaneously represent a promising growth potential.

Qualified employees: A key component for business success

telegate sets new standards as information service provider by offering sophisticated products and innovative technologies. The company's success depends to a large degree on well over 3,000 employees. Their willingness to perform, commitment and strong customer focus contribute toward the growth of the company. Over the course of the preceding year telegate continually promoted and fostered its workforce and created new jobs for around 500 qualified professionals.

The speed of telegate's development has been breath-taking. Alongside the directory assistance provided via telephone, such technologies as the Internet and mobile phones offer new access routes to a whole host of different information. The directory assistance model is undergoing changes, as customers request information to be provided on many media channels, depending on and appropriate to their respective situation. The demands made on the employees in the call centers have changed accordingly. Their job description has been substantially rewritten over the last few years. Replacing the switchboard operator, sales assistants and dialog-marketing employees are sought, capable of providing qualified information and competent consultation. Today's caller does not only contact the "11 88 0" if he requires a telephone number, but also in need for information on a hotel, the next cash dispenser or in search of an answer to general knowledge question. The extended business with commercial customers also poses new challenges. The call center employee has to act as consultant, able to inform the customer on different marketing products containing added value. To meet all customer requests, telegate permanently trains its employees. Regular training sessions, for new products, for example, guarantee that the employees are always up to date and optimally enhance their own skills. This ensures everyone is working hand in hand for even better products and greater company success. Further to this, telegate recruits new employees in all its business lines. A competent telesales team was assembled for example especially for consulting business customers.

Training of junior staff plays an important role at telegate. The company has been active for years in lobbying for an independent vocational occupation profile for the industry to safeguard the high qualification requirements. These efforts have paid off. Since August 2006 training is conducted Germany-wide. telegate itself recruited 30 trainees as service professionals for dialog marketing at its call center locations in Mecklenburg-Vorpommern and Brandenburg and is thereby once again taking over its role as trailblazer. Alongside in-house training of professionals, telegate also offers important professional perspectives for young people in the new federal states of Germany.

For optimal utilization of growth potentials, experts are sought at home and abroad to press on with innovative developments for products and technology. telegate has built up resources in preparation for the future and to exploit the synergies between modern technology and customer-oriented products. Thus, already today a competent team of product developers, technicians, sales employees and strategic thinkers is continuously working at developing marketing products for business customers across all directory assistance channels of the “11 88 0”-brand. An increasingly important role is played by the transfer of international know-how and the exchange of information. telegate’s “operational excellence” program promotes and pushes the cooperation between its European subsidiaries. The objective is for employees to learn from each other, increase the products’ quality and improve operative processes. The European subsidiaries in Spain and Italy are benefiting from a cross-border exchange of experiences and have already successfully implemented the first measures.

Besides promoting and further training its own employees, telegate is also actively campaigning for a better image of the call center industry. This is the only way to convince potential employees as well as the general public that the call center profession has moved on and developed further. It is a demanding profession with future potential. As member of important industry association, telegate supports upgrading the profession. Together with the telemarketing initiative Mecklenburg-Vorpommern and other enterprises, telegate is actively seeking to promote and propel the industry forward. This includes, among other things, public education work as well as events such as open days or cooperating in associations and committees. As a founding member of the nationwide ‘KiD Kundendialog in Deutschland e.V’. association, telegate works in the political, media and public sphere at raising the awareness for and explaining the significance of dialog marketing. Linking together interest groups and by active networking are vital in overcoming prejudices and improving the public perception of the industry over the long-term. This alone will guarantee that also in future qualified employees can be won over for the profession and that customer interests are optimally serviced.

Qualified professional employees are the most important capital of the company, as only competent and motivated employees contribute toward offering customers premium quality and standing one’s ground in the competition. It remains telegate’s top priority to have the best employees at the right time in the right position.

Group Management Report

Group Management Report

Fiscal Year 2006: Overview

2006 proved to be the year of competition for telegate. The company invested and thereby created the foundations for further growth. The extension of the business model and the expansion into other European countries continued unaltered. As a result, sales were up by 19.2 percent in fiscal year 2006. In line with plan, the implementation of this business strategy, nonetheless, also resulted in a short-term drop of profitability and declining liquid assets in 2006. While earnings before interest, taxes, depreciation and amortization (EBITDA) for the first half year had been in the red by -4.5 million Euro, EBITDA for the third quarter of 2006 picked up as announced totaling +21.5 million Euro. With all segments of telegate Group contributing toward the sales and earnings improvement in the second half of 2006, this is ample evidence of the successful strategy.

Economic Environment

Overall economic conditions
The directory assistance business is largely independent of economic cycles. Instead, this market segment for alternative information providers is influenced much more by the legal conditions and the decisions taken by regulatory authorities. The following provides an overview on the development of general conditions in the markets relevant for telegate.

Market development
Germany/Austria
The German directory assistance market is undergoing change. The substitution by the Internet means that market for classic directory assistance, both in the telephone as well as the print sector, has been slightly shrinking over the last few years. The market for enhanced information to be provided via the telephone directory assistance, such as "Where is the next 'point of interest?'" or "What are the opening hours of a public institution?" has been growing on the other hand. In order to adapt to these changed consumer habits, telegate is continuously expanding the so-called "Comfort Services" sector. Thus, new services were developed that provide information on the next ATM, WLAN hotspot or emergency services. The "One Brand – All Media"-strategy is telegate's reaction to aforementioned changed usage patterns by consumers. At the end of 2005, therefore the entire directory service was expanded to new media channels such as the Internet or mobile end-devices. By consistently focusing its product portfolio on the end-consumers' premium demands, telegate was able to stand its ground in a market environment showing tendencies of shrinking. Strengthening the company-owned brand business "11 88 0", continuously expanding the outsourcing- and partner network and above all acquiring the SNT directory assistance* operations allowed telegate to extend its market share significantly to now 37 percent. This achievement is all the more remarkable given the fact that new competitors entered the German directory assistance market.

At the start of 2006, the Bertelsmann subsidiary Arvato tried to establish itself on the German directory assistance market, which was countered with a targeted marketing strategy by telegate. This meant that the brand recognition of the "11 88 0" number was successfully expanded and as a result, the market position sustainably maintained. As a consequence, Arvato has so far not been able to gain any relevant position in the German directory assistance market.

**For further information refer to the section "Segment report Germany/Austria".*

Initiated by the path-breaking decision of the European Court of Justice the last fiscal years have seen significant improvements in the market conditions for alternative directory service providers. Following in this wake the decision by the German Bundesnetzagentur (Federal Network Agency for Electricity, Gas, Telecommunication, Post and Railway) on August 17, 2005 meant that total costs for subscriber data were slashed from an annual total of 49 million Euro to 770,000 Euro. This decision has now been fully confirmed by a first instance ruling of the (German) Administrative Court of Cologne on December 13, 2006.

Italy
In the wake of the former monopoly number's (12) deactivation in December 2005, the Italian directory assistance market is already in an advanced stage of consolidation. A situation amply demonstrated by the acquisition of the former No. 3 on the Italian directory assistance market, TPI Italia, through telegate's majority shareholder Seat Pagine Gialle S.p.A.*. Similar consolidation processes had been evident in other European markets before, as in the case of telegate's take-over of Conduit Spain or InfoNXX's acquisition of Conduit in Great Britain.

Not taking into account this transaction, the Seat Group today holds an estimated market share of around 40 percent.

Legal conditions in Italy have changed especially where labor laws are concerned. The prohibition of using the flexible so-called "Project work contracts" for inbound call center activities, meant increasing production costs for the entire Italian call center industry, including telegate.

Spain
As part of the consolidation of the Spanish directory assistance market, telegate took over the operating activities of Conduit Spain in fiscal year 2005. With liberalization introduced in 2003, the Spanish directory assistance market has meanwhile fairly established structures. In this stable environment the Spanish subsidiaries are holding a market share of around 15 percent.

Free competition, though, is hampered by the Spanish regulatory authority's decree to impose Telefónica S.A. the universal service. And although the Spanish regulators have abolished price fixing for this universal service, only Telefónica S.A. can offer the service. The basic service therefore holds its 20 percent market share with a price that is substantially below market level.

France
Liberalization in France was a two-stage process. In a first step, the 118 trunk lane was released on November 2, 2005. Following a five month transition phase, during which the monopoly numbers and the new directory assistance numbers were switched in parallel, the incumbent directory assistance numbers of the fixed network and mobile network providers were finally switched off on April 3, 2006.

The competitive environment in France proved to be as intensive as expected. In the year under review, all competitors taken together spent well over 130 million Euro net for media expenses. In addition, the market shrank stronger than expected after liberalization.

Four relevant providers (InfoNXX, France Télécom, telegate and PagesJaunes) have established themselves on the French directory assistance market, which together hold 90 percent of total market volume. telegate managed well to stand its ground in this intensive competition and consolidated its position as No. 3 in the French directory assistance market, among other things, by a host of product innovations such as map&route as well as the continuous expansion of its partnerships with mobile network carriers SFR and Bouygues Telecom. We are convinced that we are well positioned for the phase to be expected next, which will see the shift from mere number penetration to communication of added values for the consumers.

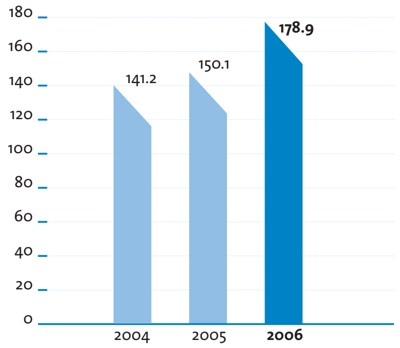
**The transaction is still subject to the approval by the Italian anti-trust authority.*

Financial Situation

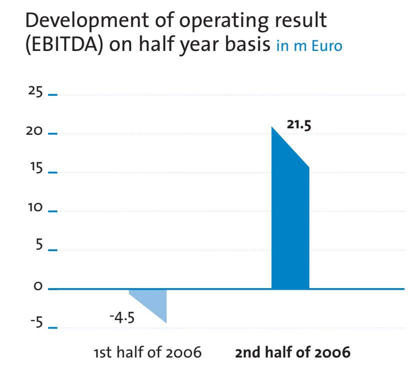
Business and earnings development

Consolidated revenue for telegate Group rose by 19.2 percent in fiscal year 2006 to 178.9 million Euro (previous year: 150.1 million Euro). Main growth drivers for this positive sales performance were the European countries outside Germany. Given the gratifying revenue increase by the segment Italy/Spain, as well as the market liberalization in France, the international business sectors (Italy/Spain and France) recorded substantial growth dynamism as had been expected. All foreign business sectors taken together contributed 35.4 percent in total revenues for the Group. This is a marked improvement against the previous year, in which their share in sales had been at 23.3 percent.

Consolidated revenues in m Euro



Due to its entry into the French directory assistance market, telegate Group was in the midst of an investment phase in 2006. This was particularly evident in the advertisement costs, the bulk of which were made for the build-up of the brand for the French directory assistance number. As a consequence, profitability on a Group's level fell in line with plan. While earnings before interest, taxes, depreciation and amortization (EBITDA) recorded for the first time since fiscal year 2001 a negative half year result at -4.5 million Euro, EBITDA for the second half was, as announced, in the plus at +21.5 million Euro. This significant improvement in earnings was caused first of all by substantially lower marketing expenses as well as the consolidation of the SNT directory assistance business. Cost optimizations across all sectors, the reduction of overcapacities in the French segment as well as a one-time effect from the deconsolidation of the Swiss subsidiary all contributed positively to this development of earnings. In all, telegate Group generated an EBITDA of 17.0 million Euro in fiscal year 2006 (previous year: 37.9 million Euro), with a consolidated annual net income after taxes of 6.0 million Euro (previous year: 27.1 million Euro).

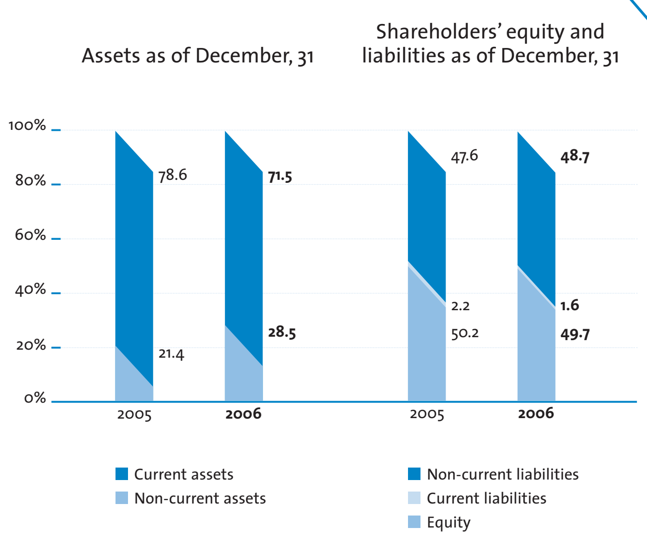


Financial and assets position

Balance Sheet

Despite cash flow for the last fiscal year being negative and the slightly decreasing equity ratio, the telegate Group is still endowed with an extremely solid balance sheet structure. This is evident, above all, in the positive net financial position and an equity ratio of 49.7 percent.

As of reporting date, the balance sheet total of telegate Group amounted to 125.8 million Euro and was thus 13.1 million Euro less than on December 31, 2005 (December 31, 2005: 138.9 million Euro). The decline on the asset side is essentially the result of two contrary effects. For one thing, liquid assets fell as a consequence of the dividend payment, the acquisition of the SNT directory assistance business and the expansion of the French directory assistance. On the other hand, the augmented volume of sales led to an increase of trade accounts receivables, while intangible assets rose through the initial consolidation of the SNT directory assistance business. The decline on the liabilities and shareholders' equity side of the balance sheet is also the result of contrary movements. Thus, while trade accounts payable rose in line with increased business expenses, the Group's equity fell slightly because of the dividend payment. Per reporting date, telegate's equity ratio stands at 49.7 percent (December 31, 2005: 50.2 percent).



Capital structure
The number of shares issued by telegate AG amounts to 20,987,045 (no-par shares). Of these, 78.3 percent are directly and indirectly held by the majority shareholder SEAT Pagine Gialle S.p.A. The remaining 21.7 percent of shares are free float, the bulk of which are held by institutional investors.

As of December 31, 2006, telegate AG had overdraft credit lines of 2.0 million Euro (previous year: 2.0 million Euro) none of which were drawn.

Cash flow and financing
Due to the expansion of the French directory assistance business, operating cash flow (outflow and inflow of funds from going concern) fell in line with plan and amounted to -6.4 million Euro (previous year: 29.6 million Euro). While in the first six months of fiscal year, cash flow from going concern was outgoing at a total of -9.9 million Euro, the second half year generated incoming cash flow totaling 3.5 million Euro. This improvement in the cash flow situation was the result of a markedly higher profitability during the second half of 2006.

As a consequence of a higher capital expenditure volume (mainly for the acquisition of the SNT directory assistance business) and the lower operating cash flow, free cash flow came to -20.1 million Euro (previous year: 16.5 million Euro).

Due to the dividend payment of 13.6 million Euro, the cash flow from financing activities shows an outflow of funds of -12.6 million Euro for the fiscal year 2006, while the same period of last year had recorded a plus of +1.1 million Euro from the income of interest on liquid assets.

Investments
The volume of investments in the year under review totaled 13.7 million Euro (previous year: 13.1 million Euro). Capital expenditures in fixed assets and intangible assets fell in line with plan and came to 6.9 million Euro, after 9.7 million Euro in the year before. Investments were made mainly in the infrastructure for the French directory assistance, modernization of the call center technology in Germany as well as in replacement and maintenance investments. A further 10.1 million Euro were needed for the acquisition of the SNT directory assistance business, while the sale of the Swiss subsidiary company 1818 Auskunft AG generated an income of 3.3 million Euro.

Segment report
Because of the growth of the French business activities, telegate changed the structure within the segment reporting in compliance with IFRS accounting standards. Business activities are now divided into three segments: Germany/Austria, Italy/Spain and France.

Germany/Austria
Two ongoing issues kept affecting the development of the segment Germany/Austria in the year under review. This was on the one hand the product portfolio's consistent focus on a premium claim and on the other hand the anchoring of telegate as leading partner for business customers. This multi-channel strategy is telegate's reaction to the changed usage patterns of consumers. Thus, already in fiscal year 2005, the entire directory service was expanded to new media channels such as the Internet or mobile end-devices. telegate's directory assistance business was further strengthened by customized and innovative services in the end-customer sector as well as the ongoing expansion of the business customer sector (e.g. enlargement of the partner network). On this background, the outsourcing business with Vodafone Deutschland and the acquisition of the SNT directory assistance business in June 2006 are of particular significance.

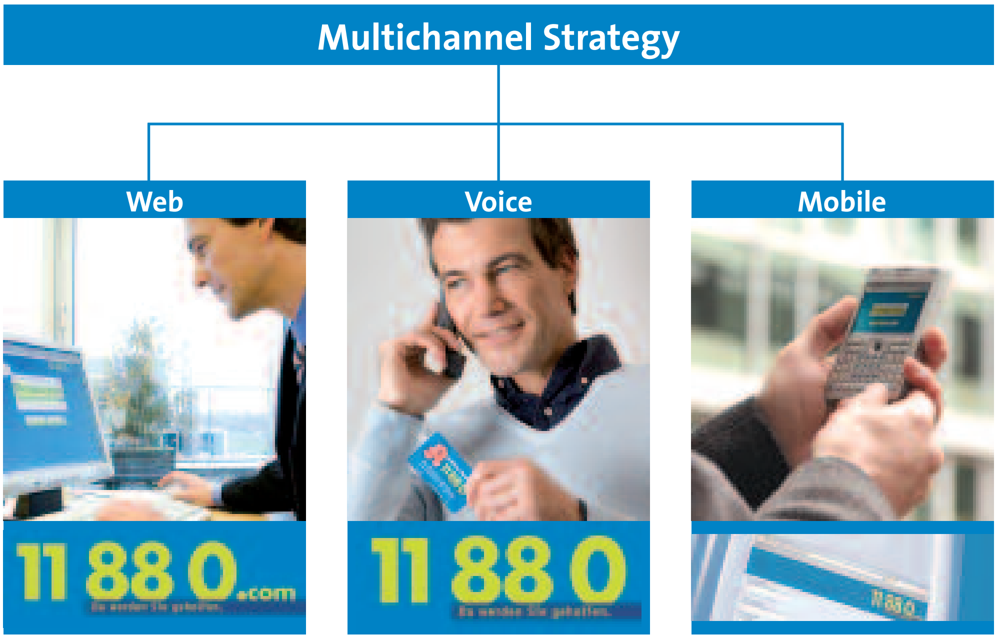
Besides the three numbers, the acquisition of the SNT directory assistance also meant that all related business customer contracts were being transferred. A central element of this acquisition is the long-term partnership with Germany's third largest mobile network provider O2. By strengthening the company-owned brand business "11 88 0" and continuously expanding the outsourcing- and partner network, telegate succeeded in the year under review to expand its market share substantially to now 37 percent. This achievement is all the more remarkable given the fact that numerous new competitors had entered the German directory assistance market.

We take the Internet platform 11880.com to be a meaningful and strategically obligatory connection of our directory assistance services for business as well as end customers. For one thing, new sources for sales shall be obtained by marketing the advertisement entries to business customers and the related advertisement presence on all "11 88 0" media channels (Internet, telephone and mobile end-devices). On the other hand, the end customer benefits from the broader and better data quality of the directory assistance database so that the service portfolio can be made even more consumer-oriented in the future. With a view toward further improving the benefits for the consumer and business customer alike, telegate concluded two strategically important partnerships for the Internet platform 11880.com with AOL Deutschland and Skype Deutschland in March 2006. As part of these partnerships, telegate occupies key future areas, such as the local search or Internet telephone (VoIP).

Besides marketing the directory assistance platforms for the business customer sector the expansion of the business sector call center services continued unabated. For these, telegate concluded a strategic partnership with the Dr. Jung Gruppe (DJG) in the year under review and consistently expanded the competence for premium call center services for the pharmaceutical industry.

The revenues generated by the segment Germany/Austria demonstrate the successes of the aforementioned business sector strategy. Thus, the segment's revenues slightly increased in an otherwise slightly shrinking directory assistance market, climbing from 115.2 million Euro to 115.6 million Euro in the period under review.

At the start of 2006, the Bertelsmann subsidiary Arvato tried to establish itself on the German directory assistance market. telegate reacted to this market entry with a targeted marketing strategy, which temporarily led to higher expenses. Primarily as a consequence of higher marketing expenses, the earnings before interest, taxes, depreciation and amortization (EBITDA) for the segment Germany/Austria failed to reach previous year's level, totaling 42.0 million Euro (previous year: 45.0 million Euro). As in the previous year, the result was positively affected by one-time effects, among others, from the de-consolidation of the Swiss subsidiary.



Italy/Spain

The economic development in Italy and Spain over the last fiscal year was very gratifying. Both revenues and operative earnings (EBITDA) were significantly up in the year under review. As a whole, the segment Italy/Spain generated sales of 34.6 million Euro, which constitutes a 34.1 percent increase on last year (previous year: 25.8 million Euro). Profitability (EBITDA) in fiscal year 2006 nearly doubled against last year and reached 4.6 million Euro (previous year: 2.1 million Euro). The profit is burdened by a one-time effect that was caused by the amendment of labor laws in Italy.

The positive financial performance proves that the shared market entry of telegate Italia S.r.L and telegate AG's majority shareholder, Seat Pagine Gialle S.p.A., was exceedingly successful in fiscal year 2006. Discounting the take-over of TPI – the No. 3 on the Italian directory assistance market – the Seat Group now holds a market share of almost 40 percent and thus holds top spot in Italy*. In all, the Italian directory assistance market is now in the hands of two relevant providers (Seat Pagine Gialle S.p.A. and Telecom Italia S.p.A). The outsourcing contract with Telecom Italia Mobile S.p.A. (TIM) that had expired at the end of 2005 was more than compensated by the new 1240 directory assistance of Seat Pagine Gialle S.p.A., both in sales as well as earnings.

The figures, on the other hand, reflect the positive development in Spain. In the year under review, the Spanish subsidiary recorded a significant sales plus and made its first positive contribution toward Group earnings in line with plan.

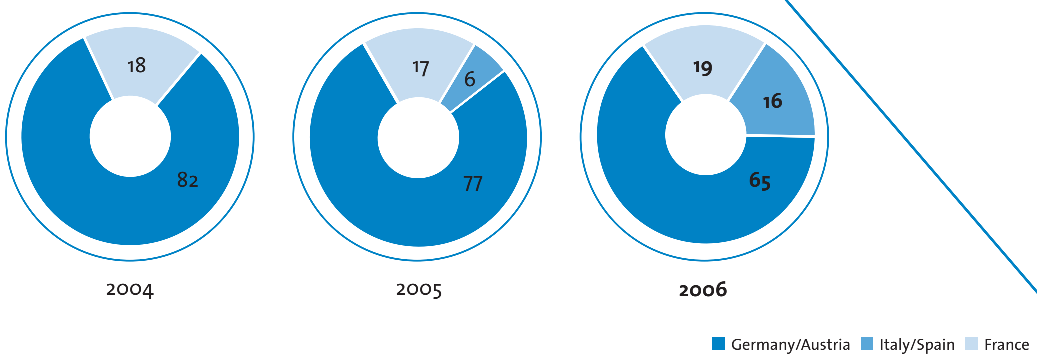
** The transaction is still subject to the approval by the Italian anti-trust authority*

France

The segment France generated sales on 28.7 million Euro in fiscal year 2006 (previous year: 9.1 million Euro). This figure included sales of 9.7 million Euro made with SFR and Bouygues Telecom, for whom telegate handled the entire volume of directory assistance until April 3, 2006 as outsourcing partner. In the year under review the segment France had earnings before interest, taxes, depreciation and amortization (EBITDA) of -29.6 million Euro (previous year: -9.2 million Euro). This clearly negative operating result is primarily caused by advertising expenses made for building up the brand 118 000. Further to these, operating earnings were also burdened by one-time temporary over-capacities, caused by the French market's shrinkage in the second and third quarter being more severe than anticipated.

The reduction of marketing expenses for the industry segment directory assistance providers that had been discernible at the beginning of May continued throughout the second half of the year, even though no constant trend can be deducted from today's perspective. As a consequence of significantly lowered marketing expenses and the optimization of the infrastructure, the operating earnings (EBITDA) of the French segment improved markedly in the second half of 2006. While the first six months had gained a negative result of -23.0 million Euro, EBITDA for the second half year merely was -6.6 million Euro in the red.

Revenue contributions by segment in %



Acquisitions & Disinvestments

As of June 22, 2006, telegate Group took over the directory assistance business of SNT Deutschland AG (now called "telegate Auskunftsdienste GmbH"). This acquisition means that telegate took over the directory assistance numbers "11881", "11882" and "11889" together with the commercial partner contracts connected to these numbers. Central element of this acquisition is the long-term partnership with O2, Germany's third largest mobile network provider, whose network is exclusively marketing the directory assistance number "11881".

Effective October 6, 2006 telegate AG sold the 100-percent subsidiary 1818 Auskunft AG to the US-American InfoNXX Group. Through this sale the company was able to convert the Swiss organization into capital prior to the actual liberalization of the market on January 1, 2007. It was sold without the need to shoulder start-up investments or the risks of a market entry. Given the expected intensity of the competitive environment as well as the small size of the market, these risks were considered as substantial by the company. Thus, telegate Group continues to focus on its already active core markets in Germany/Austria, France, Italy and Spain and increasingly utilizes the growth potential arising out of the expansion of its business model.

Research & Development

Being a service provider, telegate does not engage in basic research and development, in their original sense.

Employees

The personal commitment and high willingness to take over responsibility, shown by the around 3,200 employees shape the image of the Group for customers and business partners alike. In their respective fields of duty they contribute toward the success of telegate Group. The personnel strategy of the telegate Group is therefore an essential component of the corporate strategy. The goal of telegate's personnel strategy is to have employees with the required qualifications in the right positions at the right time, so that all, the corporation, employees and customers benefit to the same degree. To achieve this, the company in Germany, for example, offers through its telegate Akademie GmbH customized and specific further training and qualification measures for the professional development of the employees.

In fiscal year 2006, telegate focused on the implementation of the corporate strategy, which aimed at utilizing the potentials offered by the core business of directory assistance and the European expansion. This was also reflected in telegate's personnel policy in the year under review: The number of employees in telegate Group increased from 2,582 on last year's closing date, to 3,136 employees (headcount) as of December 31, 2006, which is an increase of 21.5 percent. In addition, telegate Group had 360 temporary employees on its books, in order to increase the speed and flexibility of the company's growth.

telegate increased the number of trainees in Germany significantly in fiscal year 2006. With the introduction of the German trade and industry Chamber certified, two-year professional training course for service personnel in dialog marketing, telegate can now train employees for the first time for the call center sector. As the biggest call center operator in the federal state of Mecklenburg-Vorpommern, employing a total of 1,500 members of staff* , the company made a crucial contribution toward introducing a separate professional profile for the industry and was instrumental in pushing it through with legislators and ministers. As of December 31, 2006, telegate Group employed a total of 36 trainees and thereby takes over its responsibility as local employer.

Remuneration System

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

Being a basic remuneration element that is independent on the annual performance, the fixum is paid out as monthly salary. It is pegged to the income schedule that is defined by the Personnel Committee. This schedule takes account of the current situation and the planning/targets of telegate Group. The benefits in kind essentially comprise the value recognized by taxation guidelines for the usage of a company car. The taxes due are paid by the individual Management Board member.

**Not including the temporary workers*

Profit-sharing constitutes one element of the performance-related remuneration. This is contingent on achieving key targets that are most important for increasing the company's enterprise value. Both, sales as well as earnings targets in annual plan, to be approved by the Supervisory Board, serve as benchmark figures. This remuneration component, which is to serve as an incentive for the Board of Management's successful work, constitutes an important element in the total cash remuneration and can have a share of up to 57 percent.

For further details please refer to Item 43 "Information on the Company Bodies of telegate AG" in the Notes.

Opportunity and Risk Management

General explanation

As internationally operating telecommunication service provider, telegate obviously faces corporate and sector-specific opportunities and risks. The Group's risk policy is geared to a systematic and continuous increase of the company's enterprise value and the attainment of the mid-term financial targets. The name and reputation of telegate Group play an outstanding role for the Group.

The risk and opportunity management is therefore a fundamental component of all business processes and decisions of telegate Group. For this reason, the Management Board of telegate AG has summarized the essential elements of the opportunity and risk management system in guidelines. These apply to all companies within the corporate Group. Likewise, monitoring and control systems have been implemented to measure, evaluate and control the development of the businesses and the associated risks and opportunities. Opportunity and risk management is a primary task for the heads of all business units, as well as for the process and project managers. They in turn have to ensure integrating the employees in the opportunity and risk management process as defined by telegate's Management Board.

The opportunity and risk management of telegate Group is anchored into the strategy development and feeds into all other planning processes. For example, during the annual planning sessions all business activities are investigated and evaluated for their opportunities and risks. From these, in turn, targets (especially sales and earning objectives) are derived, the fulfillment of which is monitored throughout the year with the group-wide controlling and reporting system. This way, deviations between the actual and the planned business development can be identified and analyzed on a monthly basis. This procedure facilitates the prompt detection of success risks and implementation of measures for handling and/or countering them. As part of telegate Group's continuous planning during the year, risks and opportunities are additionally identified and evaluated on a quarterly basis. The Management Board of telegate AG receives quarterly information on significant risks and opportunities from business operations, the countermeasures taken, as well as their effects on earnings. Besides the regular reporting system described above, an internal ad-hoc reporting covers the unexpected occurrence of risks.

The opportunity and risk management system of telegate Group is regularly audited for efficiency and expediency. Where potential improvements are identified, these are reported to the Management Board and implemented.

Opportunities and risks of telegate group

Regulation of the telecommunication industry

The business activities of the telegate Group are highly dependent on legal conditions, decisions by legislators and regulatory authorities. This includes, for instance, the issuance of licenses, assignment of directory assistance numbers, access to subscriber data, etc. Regulatory stipulations determine for instance which directory assistance services are provided by telegate, or how directory assistance numbers are assigned. This means, for example, that infringement of the rules for assignment of directory assistance numbers can result in a warning by the regulatory authority, or, as a final consequence, cessation of a telephone number. The latter would significantly impair the economic existence of the corporation. At the same time, further development of the legal framework and decisions by regulatory authorities and legislators also provide new growth opportunities for telegate. Thus, not all EU countries have fully implemented the telecommunications guidelines of the European Union yet. They provide for the liberalization of all telecommunications services and with it also the directory assistance markets. In addition, these guidelines (partially in conjunction with general competition law) regulate fair access to connection services (e.g. routing and transit of telecommunication connections), billing services and subscriber data. These stipulations have also not yet been completely implemented in full by all countries. As a consequence, some partially liberalized markets still offer opportunities for telegate.

Ex-monopolists, such as Deutsche Telekom AG, are key suppliers of advance services for telegate, which in turn leads to certain economic dependencies. The essential elements of this service relationship, however, are subject to regulatory and competition monitoring, which relativizes the risk. Nonetheless, the cases brought by telegate AG against internet information provided by Deutsche Telekom AG free of charge to the end consumer, which seek to take account of the "chargeable costs for the provision of subscriber data (so-called data costs)", demonstrate that the transformation toward a fair competitive environment will be a slow process. The associated risk is that the regulatory authorities in charge will not act. The entry into new markets therefore carries regulatory and competitive risks that can impair the country-specific success of our business model as alternative directory assistance provider. Above outlined conditions can be positively influenced for telegate through the intensive and cooperative work on liberalization conditions or on the general legal environment as well as by thorough observation of relevant markets.

Legal disputes

telegate is involved in a number of legal disputes and other disputes with competitors and other parties. This includes, on the one hand, passive disputes (e.g., repayment of data costs to Deutsche Telekom AG, disputes about the possible obligation to announce pricing for services offered). It also extends to active disputes, among others, with Deutsche Telekom AG regarding the demand for repayment of subscriber costs paid by telegate and associated companies in the years 1997 through 2004, as well as a suit filed for compensation for additional damages sustained by the problems with the data costs. The outcome of these disputes, in which claims are made against telegate or telegate against third parties, cannot be predicted. The rulings by the Higher Regional Court of Düsseldorf on November 15, 2006, the Regional Court of Cologne on August 31, 2005, and the Administrative Court of Cologne on December 13, 2006 all confirmed telegate's longstanding legal position that Deutsche Telekom AG had charged excessive prices for subscriber data.

Grants from public funds
In the past telegate AG has received and is expected to receive also in future, public development funds for the promotion of investment in the New Federal German states. The public funds granted, were and remain linked to conditions and/or obligations, such as creating and maintaining of jobs, the fulfillment of which must be ensured. If the required conditions or obligations are not met and/or upheld, this could lead to forced repayment of the public funds. Given telegate's long-term objective of maintaining operations at its locations in Mecklenburg-Vorpommern and the fact that the number of employees increased in 2006, the likeliness of this risk occurring is relatively low.

Other opportunities and risks
As a corporation telegate AG faces various financial risks. Controlling and minimizing financial risks with a view toward creating a stable planning basis is therefore a central objective of the telegate AG. For further details please refer to item 37 "Financial risks" in the Notes.

The loss of qualified technical and management employees is a risk telegate faces as do any other companies. Personnel development programs and other personnel measures limit telegate's risk of losing know-how.

Unauthorized access to data or data abuse can considerably disrupt operations. Protection against this is provided through telegate's internal guidelines that define binding rules on access to information and handling of information by the employees. In addition, telegate deploys technical measures such as firewall systems, virus scanners and redundant IT systems. Data that are important for business operations are simultaneously duplicated by a backup program. As far as information technology risks are concerned, the entire backup system is constantly adjusted to operations and technological requirements.

Improbable risks that cannot be completely excluded are environmental risks, such as fire or water damage to telegate's operating facilities. These could severely curtail business operations. As part of the international insurance management, telegate has taken out extensive insurance cover for plants and properties and business interruption insurance.

Forecast Report

Business strategy
The strategic focus of telegate rests on two pillars: besides keeping a keen eye on the growth perspectives in the other European countries, the company seeks to utilize the potentials of the core business by expanding its business model. The key premise for all of telegate's strategic decisions is to increase the mid- and long-term enterprise value of the company.

The focus for the segment Germany/Austria in the current fiscal year is to continue and to consistently implement the business strategy as outlined in the Segment Report section. The assumption for the current fiscal year 2007 is that the implementation of the strategy for the business domain will lead to a continued positive performance, which shall compensate in the mid-term the still slightly declining directory assistance business. Assuming stable market conditions and an increase of marketing efficiency, we expect that the extremely profitable earnings situation of the segment, to be maintained over the coming two fiscal years.

As part of its expansion into the other European countries, telegate will initially focus on the directory assistance markets in Italy, Spain and France. Notwithstanding these, telegate is keeping an eye on developments in the other European telecommunication markets. As far as the impending liberalizations are concerned, these could turn out to become further expansion opportunities for telegate in the mid-term.

For the segment Italy/Spain the expectations for the upcoming two fiscal years are to see an improvement in the earnings situation, provided the market conditions remain virtually unchanged. Compared with 2006 the earnings situation in the French segment will improve markedly over the coming two fiscal years, given the expected signification reduction of start-up costs that were incurred for the build-up of the French directory assistance service (especially marketing expenses).

On a Group level we are therefore affirming the financial target we already communicated. The company plans to generate operative earnings (EBITDA) of around 50 million Euro in fiscal year 2007. Provided the market environment of telegate will not become subject to major changes, we expect to see a stable development of earnings for 2008.

Financial strategy

The telegate Group pursues a conservative financial strategy that seeks to provide long-term security for liquidity, whilst also offering shareholders an adequate participation in company profit. The financial strategy therefore essentially supports implementation of the business strategy and allows growth potentials to be utilized within the Group. It is at the same time subject to the requirement that the Group's financing remain flexible enough so that also short-term opportunities can be seized and realized.

Other Information

Change of control

There were no compensation agreements by and between telegate AG with members of the Board of Management and/or employees regarding the possibility of a take-over offer (Change of Control) in the period under review.

Appointment and dismissal of board of management members

The Management Board of telegate AG comprises at least two members. Appointment of substitute members to the Management Board is permitted. The Supervisory Board defines the number of Management Board members, appoints and dismisses the regular as well as the substitute Management Board members and appoints the Chairperson of the Management Board.

Amendments to the articles of association

In accordance with German Stock Corporation Act, amendments to the Articles of Association are made by resolution of the shareholders' meeting (Sec. 179 AktG). By resolution of the shareholders' meeting on May 12, 2005, renewed on May 15, 2006, that was forwarded to the Supervisory Board the Articles of Incorporation were updated in view of the amount of capital stock that can be increased through the exercise of stock options. Furthermore, the Supervisory Board shall be authorized to decide on amendments to the Articles of Association that affect only the wording.

Resolutions by the shareholders' meeting are agreed by a simple majority of the votes cast unless otherwise specified by mandatory statutory provisions. If these provisions require a majority of the capital stock, the vote shall be determined on the basis of a simple majority of the capital unless otherwise specified in mandatory statutory provisions.

Issue of new shares and redemption of shares

The Board of Management is not entitled to redeem own shares.

The Supervisory Board is entitled to issue a stock options plan for telegate AG and to grant stock options (subscription rights) to owners of subscription rights up to 1,000,000 no-par shares of telegate AG. As far as this affects members of the Board of Management, the Supervisory Board shall be authorized accordingly. For each fiscal year a maximum of 400,000 subscription rights may be issued. Definition of the exact number of subscription rights to be issued to all owners of subscription rights shall be subject to approval by the Supervisory Board.

Appropriation of profit

In accordance with the Articles of Incorporation, the Board of Management and the Supervisory Board are entitled during their approval the Annual Financial Statements to allocate parts of or the entire annual profit to the other earnings reserves. The allocation of more than 50 percent of annual profit is only allowed provided that the other earnings reserve does not exceed the half of share capital after allocation.

Supplementary Report

The Administrative Court of Cologne recognized costs for the so-called offline transmission of subscriber data at an annual volume of 770,000 Euro (Court reference number "VG Köln, 21 K 5175/05"). In its written statement on the ruling of January 11, 2007 the Administrative Court thus confirms the regulatory decision of 2005 by the German Bundesnetzagentur (Federal Network Agency for Electricity, Gas, Telecommunication, Post and Railway) (see also telegate's Ad-Hoc release of August 17, 2005 – "Subscriber data costs significantly lower".

The former monopolist had filed a lawsuit against the significant reduction of fees charged for relinquishing subscriber data from a previous annual of 49 million Euro to the present total of significantly less than 1 million. For telegate this decision means annual cost savings of nearly 2 million Euro since August 2005. The Administrative Court provides a detailed statement on the reasons for its judgment confirming telegate AG's legal opinion in nearly every aspect as far as data costs are concerned. Thus, it is confirmed that market participants may only be charged with the net costs for the provision of subscriber data. Confirmation is also given that the fees previously charged were improper, as expenses had been apportioned not exclusively for so-called costs for provision so far.

The Court also states clearly that all data, i.e. also data from alternative telecommunication providers, which are forwarded in bundles, are subject to the remuneration rules. This ruling will not have any direct bearing on telegate's reclamation complaint against Deutsche Telekom that is currently pending at Düsseldorf. Nonetheless, this ruling for the first time provides confirmation by an Administrative Court of telegate's legal opinion, which itself is based on a verdict by the European Court of Justice, that Deutsche Telekom had acted improperly.

Planegg-Martinsried, January, 31 2007
Management Board

Consolidated Financial Statements

Consolidated Balance Sheet (IFRS)

Assets in TEUR	Notes	December 31, 2006	December 31, 2005
Current assets			
Cash and cash equivalents	13	18,653	51,356
Trade accounts receivable	14	62,407	52,231
Prepaid expenses and other current assets	15	8,870	5,538
Total current assets		**89,930**	**109,125**
Non-current assets			
Goodwill	16	2,829	2,574
Intangible assets	18	11,991	4,834
Property and equipment	19	13,213	13,498
Available-for-sale securities	20	38	42
Deferred tax asset		37	18
	21	7,742	8,759
Total non-current assets		**35,850**	**29,725**
Total assets		**125,780**	**138,850**

Liabilities and shareholders' equity in TEUR	Notes	December 31, 2006	December 31, 2005
Current liabilities			
Trade accounts payable	22	29,471	27,734
Accrued liabilities	23	20,775	24,111
Provisions	24	8,557	12,498
Other current liabilities	25	2,423	1,761
Total current liabilities		**61,226**	**66,104**
Non-current liabilities			
Provisions	24	562	2,423
Defined benefit liability	26	40	23
Other non-current liabilities	27	594	408
Deferred tax liability	21	818	225
Total non-current liabilities		**2,014**	**3,079**
Total liabilities		**63,240**	**69,183**
Shareholders' equity			
Share capital	28	20,987	20,987
Additional paid in capital	28	27,944	27,411
Other revenue reserves	28	21,256	10,400
Net earnings		-7,647	10,869
Total shareholders' equity		**62,540**	**69,667**
Total liabilities and shareholders' equity		**125,780**	**138,850**

See accompanying notes to the Consolidated Financial Statements.

Consolidated Income Statement (IFRS)

in TEUR	Notes	Quarterly Report (unaudited) 01.10. – 31.12 2006	01.10. – 31.12. 2005	12-Month Report 01.01. – 31.12. 2006	01.01. – 31.12. 2005
Revenues	5	45,116	44,330	178,905	150,070
Cost of revenues	6	-18,430	-18,081	-85,589	-57,998
Gross profit (excl. depreciation and amortization)		**26,686**	**26,249**	**93,316**	**92,072**
Advertising costs	7	-11,359	-11,806	-53,301	-28,221
Personnel costs (only administration and marketing)	8	-4,410	-4,226	-16,825	-14,368
Depreciation and amortization	18/19	-1,515	-2,342	-6,718	-6,718
Other administrative expenses	9	-1,739	-3,627	-9,286	-11,555
Other operating income/expense	10	3,103	6	3,096	-27
Total operating costs		**-15,920**	**-21,995**	**-83,034**	**-60,889**
Operating income		**10,766**	**4,254**	**10,282**	**31,183**
Interest income/expense		185	381	1,037	1,357
Income/loss from financial assets and marketable securities		0	19	-113	94
Gain/loss on foreign currency translation		-4	0	-13	4
Financial income/expense	11	**181**	**400**	**911**	**1,455**
Income before income tax		**10,947**	**4,654**	**11,193**	**32,638**
Current income tax – charge		666	-437	-3,601	-5,602
Current income tax – deferred		-1,610	82	-1,610	82
Income/expense from income tax	12	**-944**	**-355**	**-5,211**	**-5,520**
Net income		**10,003**	**4,299**	**5,982**	**27,118**
Basic and dilutive earnings per share in Euro	13	**0.48**	**0.20**	**0.29**	**1.29**

See accompanying notes to the Consolidated Financial Statements.

Consoldidated Statements of Shareholders' Equity (IFRS)

in TEUR	Share capital	Additional paid-in capital	Other revenue reserves	Accum. other comprehensive income (loss)	Total equity
Balance at January 1, 2005	**20,981**	**27,215**	**0**	**-5,849**	**42,347**
Comprehensive income	0	0	0	27,118	27,118
Allocation to other revenue reserves	0	0	10,400	-10,400	0
Stock option plan	0	184	0	0	184
Issuance of common stock	6	12	0	0	18
Balance at December 31, 2005	**20,987**	**27,411**	**10,400**	**10,869**	**69,667**
Comprehensive income	0	0	0	5,982	5,982
Allocation to other revenue reserves	0	0	10,856	-10,856	0
Dividends for 2005	0	0	0	-13,642	-13,642
Stock option plan	0	533	0	0	533
Balance at December 31, 2006	**20,987**	**27,944**	**21,256**	**-7,647**	**62,540**

See accompanying notes to the Consolidated Financial Statements.

Consolidated Statement of Cash Flows (IFRS)

in TEUR	Notes	01.01. – 31.12.2006	01.01. – 31.12.2005
Cash flows from operating activities			
Income before income tax		11,193	32,638
Adjustments for:			
Depreciation and amortization	18/19	6,718	6,718
Gain/loss on disposal of property and equipment		-3	31
Gain/loss from goverment grants		-31	-28
Interest income/expense	11	-1,037	-1,357
Income/loss on foreign currency translation		14	-4
Valuation allowance for trade accounts receivable		655	-95
Gain due to changes in consolidated group		-3,098	0
Other non-cash expenses		869	184
Changes in non-current provisions		-1,845	-1,248
Changes in deferred tax		0	0
Operating profit before changes in operating assets and liabilities		*13,435*	*36,839*
Changes in operating assets and liabilities:			
Trade accounts receivable		-9,695	-11,375
Prepaid expenses and other assets		-1,648	732
Trade accounts payable		2,489	9,639
Current provisions		-3,941	-5,130
Accrued expenses and other liabilities		-1,742	4,972
Income taxes paid		-5,277	-6,055
Cash used in/provided by operating activities		**-6,379**	**29,622**

in TEUR	Notes	01.01. – 31.12.2006	01.01. – 31.12.2005
Cash flows from investing activities			
Capitalized intangible assets		-1,665	-1,150
Purchase of property and equipment		-5,498	-8,528
Proceeds from the sale of property and equipment		201	16
Cash paid due to changes in consolidated group less cash sold	3	-10,056	-3,457
Cash received due to changes in consolidated group less cash purchased	3	3,288	0
Cash used in investing activities		**-13,730**	**-13,119**
Cash flows from financing activities			
Proceeds from issue of share capital		0	18
Proceeds from government grants		30	50
Dividends paid	29	-13,642	0
Cash paid of restricted cash accounts		-3	-4
Interest received		1,062	1,008
Interest paid		-41	0
Cash used in/provided by financing activities		**-12,594**	**1,072**
Increase in cash and cash equivalents		**-32,703**	**17,575**
Cash and cash equivalents at beginning of reporting period	13	51,356	33,781
Cash and cash equivalents at end of reporting period	**13**	**18,653**	**51,356**

See accompanying notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements 2006

General Accounting Principles

1. Basis of Presentation

The telegate-Group's core operating activities comprises the provision of directory enquiries and call completion services. In addition the Company is marketing its own call centre competency and is offering a broad spectrum of services for partners from many industries in domestic and foreign countries.

The Consolidated Financial Statements of telegate AG and the subsidiaries consolidated in the Financial Statement have been prepared as of December 31, 2006, in compliance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB).

All International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) as well as the interpretations of the International Financial Reporting Interpretations Committee (IFRIC–formerly SIC) that were mandatory applicable per balance sheet date were complied with.

The Consolidated Financial Statements were supplemented with specific information and the Consolidated Management Analysis and Discussions in accordance with Article 4 of the (EC) Directive No. 1606/2002 of the European Parliament and European Council of July 19, 2002, in conjunction with Article 315a of the German Commercial Code ("HGB").

The Consolidated Financial Statements of telegate (the Group/telegate Group/the Company) are expressed in Euro. All values are rounded to the nearest thousand (TEUR) except when otherwise indicated.

The Consolidated Annual Financial Statements and the Management Report prepared per December 31, 2006, are submitted to the operator of the Electronic Federal Gazette ("Betreiber des elektronischen Bundesanzeiger") and published in the Federal Gazette electronically ("eBAnz").

2. Summary of Significant Accounting Policies

The following provides an explanation of the principal accounting and valuation methods used in the preparation of the Consolidated Financial Statements.

Companies included in the consolidation
In compliance with IAS 27 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries", telegate AG is preparing its Consolidated Financial Statements by including all subsidiaries, that are controlled by telegate AG (IAS 27.13). The separate financial statements of the companies included in the Consolidated Financial Statements were prepared according to uniform accounting policies in accordance with IFRS as of the balance sheet date of the Consolidated Financial Statements (December 31, 2006).

The following overview shows all companies included in the Consolidated Financial Statements of telegate as of December 31, 2006:

Name	Registered office	Share Holding	Common stock as of Dec. 31, 2006 TEUR	Additional paid-in capital Dec. 31, 2006 TEUR
Datagate GmbH *	Martinsried, Municipal Planegg	100%	60.00	16.13
11880.com GmbH **	Martinsried, Municipal Planegg	100%	25.00	0.00
mobilSafe AG **	Martinsried, Municipal Planegg	100%	150.00	1,739.50
telegate Akademie GmbH	Rostock	100%	25.00	0,00
telegate Auskunfts-dienste GmbH	Martinsried, Municipal Planegg	100%	25.00	10,000.00
Telegate Italia S.r.L.	Torino, Italy	100%	129.00	1,000.00
11811 Nueva Informacion Telefonica S.A.U.	Madrid, Spain	100%	222.00	7,769.00
Uno Uno Ocho Cinco Cero Guías, S.L.	Madrid, Spain	100%	3.10	0.00
telegate France SARL ***	Paris, France	100%	0.00	0.00
LE 118 000 SAS **	Paris, France	100%	87.00	40.50
11 88 0 telegate GmbH	Wien, Austria	100%	35.00	0.00

* With decision taken on October 26, 2006, telegate AG, as shareholder of datagate GmbH, agreed to exempt the company from its duty to prepare its annual financial statement for the fiscal year 2006. Exemption was granted pursuant to Article 264 III No. 1 of the German Commercial Code ("HGB").

** The shares in these subsidiaries are held indirectly.

*** Common stock is 1 EUR.

Compared to December 31, 2005, the scope of consolidation changed in 2006 as follows:
- First-consolidation of telegate Auskunftsdienste GmbH – as of June 22, 2006
- De-consolidation of 1818 Auskunft AG – as of October 6, 2006
  please refer to note 3 "Changes in the scope of consolidation".

There are no minority interests at balance sheet date.

Principles of consolidation

telegate AG applies IFRS 3 "Business Combinations" and is using the purchase method accordingly to consolidate its group companies. Any assets and liabilities acquired hereby are recognized at their fair value. Any positive difference remaining after proportional disclosure of undisclosed reserves is recognized as goodwill. Negative differences are recognized as expenses of the period of the acquisition.

The results of the subsidiaries, that have been acquired or disposed of during the period, are considered and shown in the Consolidated Income Statement, subject to their contribution to the group.

All significant receivables and payables, inter-company transactions and accounts, revenues and inter-company results between subsidiary companies have been eliminated in the consolidation (IAS 27.24).

Segment reporting

The disclosure of the segments of telegate-group are in accordance to IAS 14 "Segment reporting".

Consolidated statements of cashflows

Cash-flow statements are presented in accordance with IAS 7 "Cash-flow statements". The Company opted to present the cash-flows from operating activities using the indirect method (IAS 7.18), whereas for cash-flows from investing-/ financing activities the direct method is to apply obligatory (IAS 7.21).

Revenue recognition

Revenues are measured at the fair value of the consideration received or receivable. Revenues are generated through the ordinary operation of a company as gross inflow of economic benefits, which will increase the net assets of the respective fiscal year (IAS 18.7 in connection with no. 74 of IFRS´s framework). Discounts, value-added taxes and other taxes related with sales are to be deducted.

The telegate Group recognizes its revenues in the Income Statement, as far as services were provided. Revenues from directory assistance services are recognized based on the number and duration of calls received from end customers at the date of service provision. Revenues generated under service agreements with telecommunication providers are recognized based on the number and duration of calls received from end customers via the company of the respective telecommunication provider.

When the outcome of a transaction involving the rendering of services (IAS 18.20) can be estimated reliably, revenue associated with the transaction should be recognised by reference to the stage of completion of the transaction at the balance sheet date. The outcome of a transaction can be estimated reliably when all of the following four conditions are fulfilled:

- the amount of revenues can be reliably measured;
- it is probable that the economic benefits association with the transaction will flow to the enterprise;
- the level of completion of the transaction can be measured reliably on balance sheet date; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Amounts that do not result in an increase of equity, will not be recognized as revenue according to IAS 18.8. Based on this regulation, revenues generated from business transactions, in which the Company acts as an agent, are to be shown using the net-method. When acting as principal, gross revenues are to be recognized instead.

Recognition of interest revenues

Interest revenues are calculated on the basis of the principal investment due and the interest rate agreed with the transaction partner. Interest revenues are subject to accrual accounting.

Foreign currency translation

Foreign-exchange transactions within the telegate Group as well as the conversion of financial statements of affiliated group companies originally prepared in foreign currencies are recognized in compliance with IAS 21 "The Effects of Changes in Foreign-exchange Rates".

Transactions in foreign currencies are initially recognized with the exchange rate on the day of transaction. Monetary assets and debts denoted in foreign currency shall be translated into Euro with the exchange rate on the day of the respective balance sheet date (rate on balance sheet date) according to IAS 21.23a. The resulting exchange rate differences shall be recognized in the Income Statement. Non-monetary assets and debts measured at fair value in foreign currency shall be translated according to IAS 21.23c into Euro, using the exchange rate at the date when the fair value was determined. Any resulting differences will be directly recognized in equity.

The assets and debts of the Group's foreign subsidiaries are translated during consolidation using the exchange rate as of balance sheet date. Revenues and expenses are translated using the average exchange rate of the respective reporting period, except in case of significant fluctuations of the exchange rates. The exchange rate differences resulting from the translation are classified as equity and recognized directly in the item "Accumulated other comprehensive income (loss)". The accumulated exchange rate differences are recognized in the Income Statement at the time the consolidated company leaves the Group.

Goodwill arising out of the acquisition of a foreign subsidiary and any fair value adjustment will be treated as assets and liabilities of this subsidiary according to IAS 21.47. They will be translated into the consolidated reporting currency, using the foreign-exchange rate as of balance sheet date.

Advertising costs

According to IAS 38.69c, advertising and marketing costs are charged as expenditure in the period, in which the service was provided. Production costs for advertisement spots are generally paid in advance. For the settlement of these costs, the expenses are apportioned on an accrual basis and will be recognized in the period when the costs were actually incurred.

Post-employment benefit plans

Post-employment benefit plans of the telegate Group are recognized in accordance with IAS 19 "Employee Benefits" and depend on their subsequent classification as defined contribution or defined benefit plans.

Defined benefit plans are actuarially valuated per balance sheet date of the annual financial statement. The defined benefit obligation to be recognized is determined according to the projected unit credit method under IAS 19.64 ff. This method takes into account of demographic assumptions (e.g. rate of fluctuation) and financial assumptions (such as discount rate, salary increase rate and post-retirement pension increase). Actuarial gains and losses are recognized in the Consolidated Income Statement by the average remaining employment period of the beneficiary, if they exceed 10% of the higher amount arising out of the defined benefit obligation and the fair value of the plan assets.

Unrecognized past service costs are immediately recognized in the Consolidated Income Statement to the extent to which these services are already vested. Otherwise they are attributed on a straight-line basis over the average period until vesting of the changed services.

The current service costs are recognized in the personnel expenses, the interest share in the financial expenses.

The balance is determined according to IAS 19.54 from the present value of the defined benefit obligation and fair value of plan assets at the balance sheet date, adjusted by the past service costs and actuarial gains and losses not yet recognized in the Consolidated Income Statement. Depending on its positive or negative value this balance is recognized in the Consolidated Balance Sheets either as "Defined benefit liability" or in the item "Other current assets".

The contribution payments under the ***defined contribution*** **plans** are recognized as expense in the period when they fall due.

Share-based payments

telegate AG grants members of the Board of Management, members of the management of associated companies as well as other employees of the telegate Group equity-settled share-based payments (stock options), which are recognized in accordance with IFRS 2 "Share-based Payments".

These stock options are measured at the fair value on the grant date, which is determined using the Black-Scholes option-pricing model. The fair value of the stock options determined on the grant date is recognized on a straight-line basis during the vesting period and is recognized in the Consolidated Income Statement as expense with the corresponding cross-entry in equity ("Additional paid-in capital"). This is based on the Group-internal estimate of the number of expected stock options due for exercise. The estimate is checked and corrected every quarter, in case information would suggest that the number of expected stock options due for exercise deviates from the present estimate. The necessary adjustment entries are recognized in full in the Consolidated Income Statement for the period in which the estimate was adjusted.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (see note 13).

Cash and cash equivalents
In accordance with IAS 7 "Cash Flow Statements", telegate Group considers all immediately available credit with banks, cash and short-term money deposits with a remaining term of less than three months – counted from the time of acquisition – as cash or cash equivalent. Deposits with a term of up to three months are counted as cash equivalents, if the risk of a value fluctuation is negligible or if a contractual agreement provides for termination at any time.

Financial instruments
Financial assets and financial liabilities are recognized in the balance sheet as of that date at which the respective Group company became a party to the contractual provisions of the financial instrument (IAS 39.14).

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

At balance sheet date, the fair value of all of the Group's financial instruments that are carried in the Consolidated Financial Statements equal their carrying amount.

According to IAS 32 A4 "Financial Instruments: Disclosure and Presentation", ***trade accounts receivable*** are allocated to those financial assets, that represent a contractual right for the receipt of cash funds at a future date. Trade accounts receivable are recognized at the acquisition costs less impairment, applying the method of effective interest. Gains and losses are recognised in income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Securities are measured according to IAS 39.43 as of date of their acquisition at the fair value and including their transaction costs. Securities are either allocated to the trading securities or as available-for-sale and are measured at their fair value over the subsequent periods. In case securities are held as trading securities, the profits and losses resulting from changes of their fair value are recognized directly in the Income Statement. Profits and losses resulting from changes of the fair value of securities available-for-sale are recognized directly in equity until such time that the security is sold or a value depreciation is recorded. At this point, the accumulated profits and losses that were previously recognized in equity, will then be recognized in the Income Statement of the period.

According to IAS 32 A4 “Financial Instruments: Disclosure and Presentation“, ***trade accounts payable*** are allocated to those financial assets, that represent a contractual liability to pay cash funds at a future date. Trade accounts payable are recognized at their redemption amount.

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised lost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Available-for-sale financial investments
If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available for sale are not recognised in the income statement.

Reversals of impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

Derecognition of financial assets and liabilities

Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through- arrangement"; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.

Goodwill

According to IFRS 3.51 to IFRS 3.55, goodwill arising during consolidation represents the excess of the acquisition costs of a business purchase over the Group's share in the fair value of the identifiable assets and debts of a subsidiary at the time of acquisition.

Goodwill is recognized as an asset and is subjected to an impairment test as defined in IAS 36 at least once every year. Impairment losses relating to Goodwill cannot be reversed in future periods.

Internally generated intangible assets

Intangible Assets are measured in accordance with the regulations defined in IAS 38 “Intangible Assets”. All of the following conditions must be fulfilled for capitalization:

- the generated asset can be identified (e.g. software and new procedures);
- it is probable that the generated asset will bring future economic benefits; and
- the development costs of the asset can be reliably measured.

Further to this, development costs for web sites are capitalized as intangible assets if the preconditions under SIC-32 (8) in conjunction with IAS 38.57 are additionally fulfilled.

Internally generated intangible assets are amortized on a straight-line basis of the entire useful life of the asset.

Acquired intangible assets

Acquired intangible assets are capitalized on acquisition by their costs in accordance with IAS 38.24. Pursuant to IAS 38.27 to IAS 38.30 this comprises all costs required in order to bring the asset in the condition necessary for it to be capable of operating in the manner intended by management. Grants by Third Parties decrease the costs of acquisition according to the definition of IAS 20.24, in connection with IAS 20.27. Amortization of an intangible asset with a finite useful life shall be allocated on a straight-line basis over the entire ordinary useful life according to IAS 38.97 and IAS 38.98. Pursuant to IAS 38.104, the amortization period and the amortization method for an intangible asset with a finite useful life shall be reviewed at the end of each financial year, and modified if required.

Intangible assets with indefinite useful lives are tested for impairment annually (IAS 38.108). Such intangibles are not amortized (IAS 38.107). The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

Property and equipment

Property and equipment is defined in IAS 16 “Property, Plant and Equipment”. According to IAS 16.15 the qualifying asset should be measured at its cost. All directly attributable costs of bringing the asset to working condition for its intended use are a component of the costs (IAS 16.16b). Subsequent to initial recognition as an asset, an item of property or equipment should be carried at its cost less any accumulated depreciation and any accumulated impairment losses (IAS 16.30).

Primarily, assets (excl. construction in progress), are being depreciated using the straight line method over the estimated useful life of the asset. Impairment losses are being considered. In compliance with IAS 16.51, remaining book value and depreciation method should be reviewed periodically and, if necessary, be adjusted accordingly.

Subsidies granted by public authorities are treated as reductions in acquisition costs (IAS 20.24 in connection with IAS 20.27). Maintenance and repairs as well as interest cost for outside capital are not capitalized but charged to expense as incurred.

In compliance with IAS 16.16c, the Company is capitalizing site restoration obligations when they arise. Under IAS 37 “Provisions, contingent liabilities and contingent assets”, a provision for the same amount is to be recognized at the same time. The depreciation charged on the asset is allocated as an expense to the periods of use.

Impairment of non-financial assets

The recoverability of the carrying amount of intangible assets and property and equipment is tested regularly for impairment in accordance with IAS 36 “Impairment of Assets” on the basis of cash generating units. An impairment loss is recognised when the recoverable amount (defined as the higher of the asset’s net selling price and its value in use) is lower than the carrying amount. In case the recoverable amount of the individual asset cannot be estimated, the recoverable amount is determined for the cash-generating unit to which the asset belong, according to IAS 36.22.

Impairment tests are conducted every year for those intangible assets with an infinite useful life. This shall be done even if there is an indication for impairment. The recoverable amount is the higher value from the fair value less costs to sell the asset and its value in use. To determine the value in use, the estimated future cash flows are discounted to their cash value by the currently marketable pre-tax interest rate, which takes account of those specific risks of the asset that are not accounted for in the cash flows. If the estimated recoverable amount of an asset (or a cash-generating unit) falls below the carrying value, the carrying value of the asset (or a cash-generating unit) is reduced to the recoverable amount. The expenses incurred for the impairment are immediately recognized in the Income Statement according to IAS 36.60.

If the impairment loss recognised for an asset in prior years no longer exists, the impairment loss has to be reversed. The now increased carrying amount of the asset should not exceed the carrying amount that would have been determined (net of amortisation or depreciation) for the asset in prior years (IAS 36.114 in connection with IAS 36.117).

Government grants

According to IAS 20 “Accounting for government grants and disclosure of government assistance” government grants are not recognized unless there is reasonable assurance that the Company will comply with the conditions attaching to them and that the Company actually receives the grants. IAS 20 makes a distinction between grants related to expenses and grants related to investments. Grants for expenses are defined as grants related to income. They are recognized in the Income Statement for the period, in which the corresponding expenses were incurred. In accordance with IAS 20.26 investment grants can either be entered as deferred income on the liabilities side of the balance sheet, in which case it is dissolved over its useful life, or they deduct the carrying value of the acquired asset in accordance with IAS 20.27.

The Company opted to treat government investment grants as a reduction of acquisition costs (IAS 20.27).

The Company received investment grants from the Wirtschaftsministerium Mecklenburg-Vorpommern, from the Ministerium für Wirtschaft in Brandenburg, as well as from funds of the “Gemeinschaftsaufgabe Verbesserung der regionalen Wirtschaftsstruktur”, and in connection with funds of the “Europäischen Fonds für regionale Entwicklung”. Grants had been given for the set-up and the extension of call centre. The governmental authorities have the right to audit the use of payments received by the Company.

Provisions

In accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”, provisions are recognized, when telegate has a present obligation to a third party as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. All non-current provisions are recognized at the settlement amount that is discounted as of the balance sheet date. To determine the settlement amount, the individual most likely outcome may be the best estimate of the liability. The used discount rate reflects the current market assessments. The settlement value also includes the cost of increases taken into account as of the balances sheet date. Provisions are carried at settlement amounts and are not set off against reimbursement claims.

Provisions for restructuring expenses are recognized according to IAS 37.72, if the Group has prepared a detailed and formal restructuring plan, which has been communicated to the parties affected thereof.

Site restoration obligations are capitalized when they arise and a provision for the same amount is established at the same time. The depreciation charged on the asset and the addition of unaccrued interest applied to the provision are both allocated as an expense to the periods of use.

Accrued liabilities

Accrued liabilities are defined in IAS 37.11 and refer to liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier. They differ from trade payables which are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier. The amount shown in the balance sheet mainly refers to invoices of suppliers not yet received and liabilities against own employees.

Leases

The determination of whether an arrangement is or contains a lease is – accordingly to IFRIC 4 – based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease, if one of the criteria of IFRIC 4.10 applies.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if low at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged reflected in the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term.

Income taxes

According to IAS 12.5, tax expense (tax income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current tax and deferred.

The current tax expense is determined on the basis of the taxes payable for a fiscal year. Taxable profit is distinguished from the annual profit shown in the Income Statement, because it excludes expenses and income, which will never or in later years become liable to taxation and/or can be tax-deducted. The Group's liabilities for current tax expenses is determined on the basis of currently valid tax rates and/or those tax rates set to become valid per balance sheet date.

Deferred taxes are expected tax expenses and/or income derived from the differences between the carrying value of assets and the liabilities listed in the annual financial statement and the valuation used for the determination of the taxable profit. According to IAS 12 deferred taxes are measured in the balance sheet by the temporary concept. This balance sheet oriented concept considers the differences in assets and liabilities between the IFRS-statement and tax accounting. These differences are defined and temporary differences. According to IAS 12.5 they are defined as differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Generally the company will report deferred tax liabilities for all taxable temporary differences and deferred tax assets to the extent that it is probable, that taxable profits will be available, for which these tax-deductible temporary differences can be used.

According to IAS 12.34, deferred taxes for losses carried forward have to be recognized to the extent of probability that a taxable profit will be available in the future, which can be offset by the deferred tax losses that were not yet utilized. According to IAS 12.56 the recoverability of the carrying amount of capitalized deferred taxes is reviewed every balance sheet date.

Deferred taxes are determined on the basis of expected tax rates, which were valid at the time the liability was paid or were valid at the time the asset was recovered. They are generally recognized in the Income Statement, except for those items, that are charged directly in equity. Deferred taxes are determined according to the tax legislation of the countries, in which the Group holds operations.

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 that have been classified for sale will be recognized by the lower value arising out of the difference between carrying amount and fair value, minus costs for sale. Non-current assets being classified as held for sale are not depreciated/amortised (IAS 5.25). Impairment losses are to be recognized to the extent that the carrying amount of the asset exceeds the fair value reduced by the probable costs of sale. The fair value shall be based on an estimate of the recoverable proceeds from the sale. Operating results and adjustments in the valuation of assets, which were specified for sale, are to be shown as part of the results from business operations.

Discontinued operations are recognized separately, as soon as a business that can be distinguished as a separate entity, and which represents a separate major line of business or geographical area of operations, or which is a subsidiary acquired exclusively with a view to resale is up for sale and management has initiated an official sale procedure (IFRS 5.32). Discontinued operations are measured by their market prices minus the costs for their sale still to be incurred.

According to IFRS 5.33a the result of the discontinued operations are presented in the Income Statement separately.

Earnings per share

Earnings per share are calculated in accordance to IAS 33 "Earnings per Share".

According to IAS 33.10 the undiluted earnings per share are to be determined by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period.

For the purpose of calculating diluted earnings per share, the net profit attributable to ordinary shareholders and the weighted average number of shares outstanding should be in accordance to IAS 33.1 adjusted for the effects of all dilutive potential ordinary shares (the possibility of conversion into ordinary shares exists, though this has not yet happened).

The telegate Group has such potential ordinary shares with diluted effects due to stock options, which will only be included in the calculation, if the respective conditions for exercise of the options have been fulfilled at balance sheet date.

The diluting effect of the stock options will only and exclusively be determined, if the conversion of the stock options into ordinary shares will not have an effect contrary to dilution.

In-payments for sold companies (earn-out)

Contracts to sell companies possibly include a variable component as part of the selling price, e.g. earn-out.

Any entitlement due to the earn-out clause is added to the selling price of the company sold, when the inflow of economic benefits is virtually certain. When the inflow of economic benefit is only probable, no asset will be recognized; instead the company discloses a brief description of this contingent asset in the notes (IAS 37.34).

Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. The amount due is reviewed at each closing by applying the earn-out formula to the latest available financial data. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs (IAS 37.35).

Accumulated other comprehensive income (loss)

The accumulated other comprehensive income (loss) refers to revenues, expenses, gains and losses that refer to the comprehensive income, but is excluded from net income. According to IAS 1.99, unrealized gains from the fair-market valuation of securities or specified foreign currency translation can be recognized in this position.

Estimation uncertainty and judgements

To determine carrying amounts of specific assets and liabilities as of balance sheet date, estimates have to be made of the effects such. In the process of assessing the carrying amount of certain assets and liabilities at balance sheet date, the Company had to make estimates on the effects unspecified future events may have. According to IAS 1.116 the Company has to specify the key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

Cooperation contract

During the initial consolidation of "telegate Auskunftsdienste GmbH" the purchase price allocation identified a cooperation contract as intangible asset that was recognized as fair value amounting to 7,414 TEUR. According to the management's assessment, the useful life was defined with a term of 7 years. Determination of this depreciation period was based on an estimate of probable future cash flows resulting from this cooperation contract less a discount rate used for the determination of the cash value of this cash flow. As of December 31, 2006, the carrying amount of this intangible asset was 6,796 TEUR.

Deferred taxes on taxables losses carried forward

Pursuant to IAS 12.34, telegate also recognizes deferred taxes on losses carried forward not yet used. These are to be considered to the extent of probability that a taxable profit will be available in the future, which can be offset by the deferred tax losses that were not yet utilized. Management bases its assessment of the probability on the criteria outlined in IAS 12.36. Every estimate directed into the future, will by its nature contain a certain degree of uncertainty, that may result in an adjustment of carrying amounts. The carrying amount of all deferred taxes on taxable losses carried forward was 15,131 TEUR (2005: 15,043 TEUR).

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the 'value in use' of the cash-generating units to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at December 31, 2006 was 2,829 TEUR (2005: 2,574 TEUR). Further details are given in note 17.

Provisions for legal disputes

Setting up provisions, the Company is using its own area of discretion. The assessment of risks for legal disputes, especially regarding litigations referring to data costs, is supported by external expertises.

3. Changes in the Scope of Consolidation

In accordance with the regulations of IFRS 3 “Business Combinations”, newly acquired subsidiaries are consolidated using the purchase method.

In accordance with IFRS 3.51, goodwill arising from a business combination is initially recognised as the excess of the cost of the business combination over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

In accordance with IFRS 3.36, the cost of the equity holding at the date of acquisition is to be allocated by recognising the identifiable assets and liabilities acquired at their fair values (purchase price allocation).

Subsequent to initial recognition, goodwill is recognised at cost less cumulative impairment losses (IFRS 3.54). Goodwill arising from business combinations is not amortised: instead, goodwill is tested for impairment at least annually, or more frequently if events or changes in circumstances indicate that it might be impaired (IFRS 3.55 in connection with IAS 36.80 ff).

In the reporting periods 2005 and 2006, the scope of consolidation changed as follows:

LE 118 000 SAS (in the past: Scoot France SARL)
Effective from July 22, 2005, the telegate Group acquired the French information service provider Scoot France SARL as a result of the acquisition of 100% of the ordinary shares carrying voting rights in Scoot France SARL by telegate France SARL. As a pioneering alternative provider, Scoot France has been active in the French market since 2001 and also owns the rights to the “118 000” information number. On September 19, 2005, the company name was changed to “LE 118 000 SAS”.

Uno Uno Ocho Cinco Cero Guías, S.L. (in the past: Febrezomo S.L.)
Effective from July 1, 2005, the telegate Group acquired the business operations of Conduit Spain. To effect the take-over, the business operations were incorporated into a subsidiaries (Febrezomo S.L.), in which telegate acquired 100% of the shares carrying voting rights. On October 5, 2005, the company name was changed from “Febrezomo S.L.” to “Uno Uno Ocho Cinco Cero Guías, S.L.”. First consolidation was on July 31, 2005.

telegate Auskunftsdienste GmbH (in the past: Blitz 05-624 GmbH)
Effective June 22, 2006, the telegate Group acquired 100% of the ordinary shares of the company Blitz 05-624 GmbH, which owns the rights to the “11881”, “11882” und “11889” information service numbers. This transaction was recognised using the purchase method.

All identifiable assets and liabilities have been acquired at their carrying amount.

The total cost of the combination was 10,080 TEUR and comprised all costs directly attributable to the combination, including incidental acquisition expenses amounting to 80 TEUR (mainly legal and consulting fees).

The fair value of the identifiable assets and liabilities of the acquired companies as at the date of acquisition were:

	in TEUR
Cash and cash equivalents	24
Trade accounts receivables	1,172
Total current assets	**1,196**
Total non-current assets	**8,468**
Total assets	**9,664**
Fair value of net assets	**9,664**
Goodwill arising from acquisitions	416
Total cost of business combinations	**10,080**
Cash outflow on acquisitions:	
Net cash acquired with the subsidiaries	24
Cash paid	-10,080
Net cash outflow	**-10,056**
Settlement of net-cash-proceeds	1,172
Net cash outflow, adjusted	**-8,884**

All assets and liabilities had been acquired at carrying amount, which correspond with fair value as of the date of acquisition.

The acquisition was depending on the occurrence of deferred conditions. For the time period between the date of signature and the date of the occurrence, revenues were generated. Based on contractual agreement, telegate was entitled to the net-cash-proceeds from these transactions, which subsequently had been set-off against the purchase price.

In total, Blitz 05-624 GmbH has contributed a profit of 359 TEUR to the results of the telegate Group since its acquisition date.

The company "Blitz 05-624 GmbH" was founded on November 30, 2005, relating costs amount to 1 TEUR. As the company started its operating business on the day of the first consolidation, a theoretical business combination as of January 1, 2006 would have had no impact neither on revenue nor on net income of the Group.

On July 3, 2006, the company name "Blitz 05-624 GmbH" was changed into "telegate Auskunftsdienste GmbH".

1818 Auskunft AG (in the past: Xentel AG)

Effective from October 1, 2005, the telegate Group acquired 100% of the ordinary shares carrying voting rights of the Swiss company Xentel AG, which owns the rights to the "1818" information service number. On October 7, 2005, the company changed its name to "1818 Auskunft AG".

On October 6, 2006, telegate AG sold its wholly-owned Swiss subsidiary 1818 Auskunft AG to the US-based InfoNXX-Group. The selling price was 3,295 TEUR and had been fully discharged by means of cash and cash equivalents. With the sale of the subsidiary, cash (7 TEUR), other assets (227 TEUR) and other liabilities (41 TEUR) had been disposed of.

In addition, an earn-out-clause was agreed to, which entitles telegate for a future receivable of up to 1,250 TEUR as an additional purchase price, if certain conditions are met. Both companies agreed to keep additional terms of the acquisition confidential. Accordingly, the company was deconsolidated as of October 6, 2006.

4. Changes in Accounting Policies

The accounting policies adopted are consistent with those of previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial statements of the group. They did however give rise to additional disclosures.

- IAS 19 Amendment – Employee Benefits
- IAS 21 Amendment – The Effects of Changes in Foreign Exchange Rates
- IAS 39 Amendments – Financial Instruments: Recognition and Measurement
- IFRIC 4 Determining whether an Arrangement contains a Lease
- IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The Group has also early adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these standards and interpretations did not have any effect on the financial position of the company. They did however give rise to additional disclosures.

- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of Embedded Derivatives

The principal effects of these changes are as follows:

IAS 19 Employee benefits
As of January 1, 2006, the Group adopted the amendments to IAS 19. As a result, additional disclosures are made providing information about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost. This change has resulted in additional disclosures being included for the years ending December 31, 2006 and December 31, 2005 but has not had a recognition or measurement impact, as the Group chose not to apply the new option offered to recognize actuarial gains and losses outside the income statement.

IAS 21 The effects of changes in foreign exchange rates
As of January 1, 2006, the Group adopted the amendments to IAS 21. As a result, all exchange differences arising from a monetary item that forms the Group's net investment in a foreign operation are recognized in a separate component of equity in the Consolidated Financial Statements regardless of the currency in which the monetary item is denominated. This change has had no impact as at December 31, 2006 and December 31, 2005.

IAS 39 Financial instruments: recognition and measurement
Amendment for financial guarantee contracts (issued August 2005) – amended the scope of IAS 39 to require financial guarantee contracts that are not to be re-measured at the higher of the amount determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognized less, when appropriate, cumulative amortisation recognized in accordance with IAS 18 "Revenue". This amendment did not have an effect on the Consolidated Financial Statements.

Amendment for hedges of forecast intragroup transactions (issued April 2005) – amended IAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transactions to qualify as the hedged item in cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated financial statement. As the Group currently has no such transactions, the amendment did not have an effect on the Consolidated Financial Statements.

Amendment for the fair value option (issued June 2005) – amended IAS 39 to restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, hence the amendment did not have an effect on the Consolidated Financial Statements.

IFRIC 4 Determining whether an arrangement contains a Lease
The Group adopted IFRIC Interpretation 4 as of January 1, 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This change in accounting policy has not had an impact on the Group as at December 31, 2006 or December 31, 2005.

IFRIC 5 Rights to interests from decommissioning, restoration and environmental rehabilitation funds
The Group adopted IFRIC Interpretation 5 as of January 1, 2006, which establishes the accounting treatment for funds established to help finance decommissioning for a companies assets. As the entity does not currently operate in a country where such funds exist, this interpretation has had no impact on the Consolidated Financial Statements.

IFRIC 6 Liabilities arising from participating in a specific market – waste electrical and electronic equipment
The Group adopted IFRIC Interpretation 6 as of January 1, 2006, which establishes the recognition date for liabilities arising from the EU Directive relating to the disposal of Waste Electrical and Electronic Equipment. Adoption for financial years ending on December 31, 2005 is recommended. The Company adopted IFRIC 6 with no impact on the financial statements of the telegate group.

IFRIC 8 Scope of IFRS 2
The Group early adopted IFRIC Interpretation 8 as of January 1, 2006, which requires IFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee share scheme, the interpretation had no impact on the Consolidated Financial Statements of the Group.

IFRIC 9 Reassessment of embedded derivatives
The Group early adopted IFRIC Interpretation 9 as of January 1, 2006, which clarifies that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. IFRIC 9 becomes effective for annual periods beginning on or after June 1, 2006, with early application encouraged. The Company early adopted IFRIC 9 with no impact on the Consolidated Financial Statements of the telegate group.

The following new and amended IFRS and IFRIC interpretations could have been adopted early to be applied for the financial statements as of December 31, 2006. The Group did not opt for early adoption. Effects of these standards and interpretation are still being evaluated. The Group anticipates that adoption of these standards and interpretation will have no impact on the Group's Financial Statements when implemented in 2007. They will however give rise to additional disclosures.

IAS 1 Presentation of financial statements

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.

IFRS 7 Financial instruments: disclosures

This standard requires disclosures that enable users to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

IFRS 8 Operating segments

This standard requires operating segments to be identified on the basis of internal reports about components of the entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The entity should disclose information to enable users of its financial statements to evaluate the nature and financial effects of the types of business activities in which it engages and the economic environments in which it operates. IFRS 8 has to be applied for financial years beginning on or after January 1, 2009.

IFRIC 10 Interim financial reporting and impairment

The Interpretation concludes that where an entity has recognised an impairment loss in an interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost, that impairment should not be reversed in subsequent interim financial statements nor in annual financial statements.

IFRIC 11 Group and treasury share transactions

The Interpretation clarifies the application of IFRS 2 Share-based Payment to certain share-based payment arrangements involving the entity's own equity instruments and to arrangements involving equity instruments of the entity's parent.

Notes to the Consolidated Income Statement

The Company is presenting its Consolidated Income Statement using the cost of sales format, including additional lines and information. To view the Consolidated Income Statement in the conventional format, please refer to note 40 for the reconciliations.

5. Revenues

telegate AG and the subsidiaries included in the Consolidated Financial Statements provide directory assistance and operator services for private and business customers in Germany and abroad. These services are also rendered for other telephone companies in Germany and in other European countries under outsourcing agreements.

In 2006, consolidated revenues totalled 178,905 TEUR (2005: 150,070 TEUR).

6. Cost of Revenues

Cost of revenues are presented in the following table (depreciation and amortisation are not classified as cost of revenues).

in TEUR	2006	2005
Personnel costs of operator and team leader	38,163	32,250
Third party services	23,515	7,968
Variable and fixed line costs	7,833	8,042
Room rent, other room and maintenance costs	5,966	5,529
Collection and billing costs	5,094	2,528
Other variable and fixed COGS	3,981	2,873
Variable and fixed data costs	1,037	-1,192
Total	**85,589**	**57,998**

Due to ongoing favourable developments in the Company's legal disputes, provisions for data costs had partly been reversed resulting in a total income in the line "variable ad fixed data costs". Third party services increased by 15,547 TEUR, mainly due to the increasing engagement into the French business.

7. Advertising Costs

The amounts reported under this item predominantly relate to television-, print- and radio advertising campaigns, external advertising agency consultants and promotional events. In principle, advertising and marketing costs are recognised as an expense in the period in which the service is provided. In settling the production costs for adverts, for which advance payments are generally used, the expenses are recorded in the period to which they relate in accordance with the accrual principle.

8. Total Personnel Costs

The following overview shows personnel costs for years ending December 31, 2006 and 2005 respectively.

in TEUR	2006	2005
Wages and salaries	46,129	39,406
Social security contributions	6,961	5,985
Expenses for share-based payments	533	184
Post-employment benefit costs	92	88
Other	1,273	955
Total	**54,988**	**46,618**
of which reported in costs of revenues	*38,163*	*32,250*
of which reported in personnel costs (only administration and marketing)	*16,825*	*14,368*

9. Other Administrative Expenses

Other administrative expenses primarily consist of the following items:

in TEUR	2006	2005
Legal and consultancy costs	2,968	4,909
Travel costs	1,490	1,303
Bad debts	950	3,379
Room rent and other room-related costs	54	133
Other	3,824	1,831
Total	**9,286**	**11,555**

Room rent and other room-related costs also contain reversal of provisions for room rent (1,109 TEUR; 2005: 892 TEUR). Furthermore subleased office- and callcenter facilities generated rent income amounting to 475 TEUR (2005: 214 TEUR). The effect of the before mentioned transactions was an overall reduction of room-related costs to 54 TEUR (2005: 133 TEUR). The position "other" comprises primarily expenses for provisions for legal disputes, insurance, maintenance and communication costs.

10. Other Operating Income/Expense

This position mainly consists of other income generated by the sale of the Swiss 1818 Auskunft AG (3,098 TEUR), which had been de-consolidated on October 6, 2006. For more information, please refer to note 3.

11. Financial Income (Expense)

Interest income (expense)

in TEUR	2006	2005
Interest income from fixed term deposits	845	1,336
Interest income from bank deposits	253	55
Other interest and similar income	9	6
Interest and similar income	**1,107**	**1,397**
Interest expense	-22	-19
Other interest and similar expense	-48	-21
Interest and similar expense	**-70**	**-40**
Interest income (expense)	**1,037**	**1,357**

In 2006, generated interest income of 845 TEUR resulted predominantly from fixed-term deposits with a related party (842 TEUR). In 2005, 1,333 TEUR of interest income was referring to that related party.

Income (loss) from financial assets and marketable securities

in TEUR	2006	2005
Gain on disposal of marketable securities	25	94
Loss on disposal of marketable securities	-138	0
Income (loss) from financial assets and marketable securities	**-113**	**94**

Gain (loss) on foreign currency translation

in TEUR	2006	2005
Gain on foreign currency translation	4	6
Loss on foreign currency translation	-17	-2
Gain (loss) on foreign currency translation	**-13**	**4**

12. Income Tax

Taxes on income in Germany comprise corporation tax, trade tax and the solidarity surcharge.

in TEUR	2006	2005
Current income taxes	**3,601**	**5,602**
of which:		
- Domestic (Germany)	2,073	4,581
- Abroad	1,528	1,021
Deferred taxes	**1,610**	**-82**
Income tax in the Consolidated Income Statement	**5,211**	**5,520**

The following tax reconciliation shows why the tax expense actually reported for the current year differs from the expected tax expense that results when earnings before taxes are multiplied by the overall tax rate of 37.89% applicable for the 2006 financial year (2005: 37.84%):

in TEUR	2006	2005
Net income before income tax	**11,193**	**32,638**
Applicable overall tax rate	**37.89%**	**37.84%**
Expected tax expense – in accordance with methodology shown	**-4,241**	**-12,350**
Increase/reduction of income tax as a result of:		
Tax effect from temporary differences and tax loss carryforwards for which no deferred tax assets had been considered up to now	4,472	6,450
Tax effect from deferred differences on assets and tax loss carryforwards for which in the present period no deferred tax asset has been considered	-4,997	-2,905
Write-up in value of deferred tax assets	2,029	3,673
Differences in income tax rates	-362	-222
Actual income taxes relating to other periods	0	-194
Tax effect of (permanent) non-deductible expenses for tax matters	-1,118	-134
Tax effect of (permanent) tax free income	1,160	28
Other differences	13	134
Effects from tax audit	-2,167	0
Income tax – as shown in the income statement	**-5,211**	**-5,520**

As at December 31, 2006, the Company reported deferred tax assets of 7,742 TEUR. The tax asset of December 31, 2004 was 8,759 TEUR. Deferred tax liabilities increased by 593 TEUR from 225 TEUR (in 2005) to 818 TEUR in 2006. Please refer to note 22 “Deferred tax assets and liabilities” for further information.

13. Earnings Per Share

Basic and diluted earnings per share for the years ended December 31, 2006 and 2005 respectively were calculated as follows:

Year ended December 31,	2006	2005
Numerator (in TEUR):		
Net income	5,982	27,118
Denominator (in shares):		
Weighted average number of ordinary shares outstanding – basic	20,987,045	20,986,126
Dilutive effect of stock options	0	12,419
Weighted average number of ordinary shares outstanding – diluted	20,987,045	20,998,545
Basic and diluted earnings per share (in EUR):	**0.29**	**1.29**

No transactions of ordinary shares or potential shares took place in the period between the balance sheet date and the preparation of the Consolidated Financial Statements.

Notes to the Consolidated Balance Sheet

14. Cash and Cash Equivalents

Cash and cash equivalents at the balance sheet date are reported at fair value and are made up as follows:

As of December 31,	2006	2005
Cash at banks and in hand	1,643	9,346
Short-term deposits	17,000	42,000
Securities	10	10
Total	**18,653**	**51,356**

Bank balances at the balance sheet were held at renowned German banks that have been awarded the highest ratings from international rating agencies. Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rate. Short-term deposits relate to money deposits held by a related company with fixed maturity dates of up to three months. Due to the possibility of contractually-based cancellation at any time and only insignificant risk of changes in value, these are reported under cash equivalents.

The fair value of cash and short-term deposits is 18,653 TEUR (2005: 51,356 TEUR) and equals the carrying amount.

Cash and cash equivalents decrease by 32,703 TEUR in the reporting period (2005: increase by 17,575 TEUR). This was mainly due to the ongoing expansion of the French directory assistance, capital expenditures in property, plants and equipments and intangible assets to modernize call center equipment, the payment of a dividend and the acquisition of telegate Auskunftsdienste GmbH.

As at December 31, 2006, the Company had unused overdraft facilities with banks of 2,000 TEUR available (2005: 2,000 TEUR).

15. Trade Accounts Receivables

The amounts recognised in the balance sheet are amounts after valuation adjustments, which was charged to cover potential default risks. Gross trade receivables reported at the balance sheet date amounted to 63,387 TEUR (2005: 52,556 TEUR). The valuation allowance was 980 TEUR (2005: 325 TEUR).

Trade receivables are non-interest bearing and are generally on 10 to 90 days' terms.

16. Prepaid Expenses and Other Current Assets

Other current assets are composed of the following items:

As of December 31,	2006	2005
Credit notes to be received for Media discounts	2,107	0
Receivables from tax authorities	2,028	33
Grants receivables	1,334	0
Receivables from factoring	1,023	1,101
Prepaid expenses	877	2,100
Receivables from majority shareholder	76	1,367
Restricted cash	86	87
Other current assets	1,339	850
Total	**8,870**	**5,538**

Receivables from tax authorities mainly consists in 2006 of prepaid VAT (1,090 TEUR; 2005: 33 TEUR) and income tax (920 TEUR; 2005: 0 TEUR). In 2006, grants, that have been given to the company, were – in accordance with IAS 20.27 – used as a reduction of acquisition costs of tangible and intangible assets (see note 19 and 20). Prepaid expenses predominantly relate to advance payments in connection with promotional campaigns. Restricted cash exclusively consists rent deposits.

17. Goodwill

in TEUR	Goodwill
Acquisition cost	
As of January 1, 2005	**1,250**
Additions	2,575
Exchange rate differences	-1
As of December 31, 2005	**3,824**
Additions	416
Exchange rate differences	-4
Disposal	-157
As of December 31, 2006	**4,079**

in TEUR	Goodwill
Accumulated impairment	
As of January 1, 2005	**1,250**
Exchange rate differences	0
As of December 31, 2005	**1,250**
Exchange rate differences	0
As of December 31, 2006	**1,250**
Net carrying amount at December 31, 2005	**2,574**
Net carrying amount at December 31, 2006	**2,829**

The addition of goodwill amounting to 416 TEUR refers to the first-consolidation of "telegate Auskunftsdienste GmbH", that was acquired on June 22, 2006. The addition in 2005 refers to "LE 118 000 SAS" (2,413 TEUR) and "1818 Auskunft AG" (161 TEUR). The latter had been sold as of October 6, 2006 (for more details please refer to note 3 "Changes in the scope of consolidation") and note 17 "Impairment testing of goodwill and intangibles with indefinite lives".

18. Impairment testing of Goodwill and Intangibles with indefinite Lives

Goodwill acquired through business combinations been allocated to two individual cash-generating units, which are reportable segments, for impairment testing as follows:

cash-generating unit – segment France
The recoverable amount of the "Segment France" unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a four-year period. The discount rate applied to cash flow projections is 13.9% before tax.

cash-generating unit - telegate Auskunftsdienste GmbH
The recoverable amount of the "telegate Auskunftsdienste GmbH" unit is also determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a three-year period. The discount rate applied to the cash flow projections is 10.4% before tax.

Carrying amount of goodwill, patents and licences allocated to each of the cash-generating units:

As of December 31, in TEUR	2006	2005
LE 118 000 SAS	2,413	2,413
telegate Auskunftsdienste GmbH	416	0
1818 Auskunft AG	0	161
Total	**2,829**	**2,574**

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill.

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is average gross margins achieved in comparable markets and are known from prior periods for expected efficiency improvements.

Bond rates – The yield on a ten-year government bond rate at the beginning of the budgeted year is utilised.

19. Intangible Assets

Acquisition cost

in TEUR	Software	Licences	Internally developed database	Other intangible assets	Advance payments	Total
As of January 1, 2005	**7,068**	**3,048**	**2,073**	**0**	**960**	**13,149**
Additions	318	316	0	558	402	1,594
Acquisition of subsidiaries	68	0	0	1,684	0	1,752
Disposals	-28	0	0	0	0	-28
Transfers	266	750	0	0	-850	166
As of December 31, 2005	**7,692**	**4,114**	**2,073**	**2,242**	**512**	**16,633**
Additions	505	187	0	221	337	1,250
Acquisition of subsidiaries		8,468	0	0	0	8,468
Disposals	-12	0	0	0	0	-12
Transfers	118	0	0	0	-118	0
As of December 31, 2006	**8,303**	**12,769**	**2,073**	**2,463**	**731**	**26,339**

Accumulated amortization and impairment

in TEUR	Software	Licences	Internally developed database	Other intangible assets	Advance payments	Total
As of January 1, 2005	**5,345**	**2,804**	**1,923**	**0**	**0**	**10,072**
Additions	1,085	197	150	276	0	1,708
Acquisition of subsidiaries	46	0	0	1	0	47
Disposals	-28	0	0	0	0	-28
As of December 31, 2005	**6,448**	**3,001**	**2,073**	**277**	**0**	**11,799**
Additions	888	1,076	0	597	0	2,561
Disposals	-12	0	0	0	0	-12
As of December 31, 2006	**7,324**	**4,077**	**2,073**	**874**	**0**	**14,348**
Net carrying amount at December 31, 2005	**1,244**	**1,113**	**0**	**1,965**	**512**	**4,834**
Net carrying amount at December 31, 2006	**979**	**8,692**	**0**	**1,589**	**731**	**11,991**

The useful lives of intangible assets are as follows:

Software	3 – 7 years
Licences	3 – 8 years
Internally developed database	3 years
Other intangible assets	3 years

Amortisation is charged on a straight-line basis over the useful life of the assets. There were no changes in useful lives compared to the previous year.

In accordance with IAS 38.52 to 38.67, the Company capitalized internal development costs for the Company's core database as an intangible asset **(internally developed database)** up to and including December 31, 2002. The majority of these costs comprise internal and external programming costs. The amortisation period for the capitalised database was established as three years. In the reporting year, amortisation totalled 0 TEUR (2005: 150 TEUR).
On November 30, 2005, the database was fully amortised.

Other intangible assets include an internal company website, which was capitalised in accordance with IAS 38 and taking into account SIC-32 7. The website was subsequently valued at cost in accordance with IAS 38.74, as there is no open market for websites. The normal operating useful life was established as three years. Subsequent expenses incurred in improving the internal website are immediately expensed in the income statement (IAS 38.20). Other intangible assets also include the customer base of a subsidiary acquired in 2005 (see here note 3 "Changes in the scope of consolidation"). Amortisation is charged on a straight-line basis over the useful life of the asset, which was established as four years.

The cost of fully amortised intangible assets still in use at the balance sheet date was 9,949 TEUR (2005: 7,449 TEUR).

As at December 31, 2006, the telegate Group had outstanding obligations of 244 TEUR (2005: 272 TEUR) relating to orders for intangible assets expected to be due for payment in the 2007 financial year.

In 2006, the company was given investment grants amounting to 146 TEUR, which – in accordance to IAS 20.27 – had been used to reduce the carrying amount of the assets.

20. Property and Equipment

Acquisition cost

in TEUR	Tech. equipment & machinery	Other equipments, fixtures & fittings	Advanced payments	Total
As of January 1, 2005	**35,451**	**5,625**	**179**	**41,255**
Additions	8,565	1,215	167	9,947
Acquisition of subsidiaries	4	0	0	4
Disposals	-1,506	-316	0	-1,822
Transfers	122	-73	-214	-165
As of December 31, 2005	**42,636**	**6,451**	**132**	**49,219**
Additions	3,590	357	124	4,071
Disposals	-2,847	-437	0	-3,284
Transfers	131	0	-131	0
As of December 31, 2006	**43,510**	**6,371**	**125**	**50,006**

Accumulated depreciation

in TEUR	Tech. equipment & machinery	Other equipments, fixtures & fittings	Advanced payments	Total
As of January 1, 2005	**29,100**	**3,384**	**0**	**32,484**
Additions	3,592	785	0	4,377
Impairment	462	171	0	633
Acquisition of subsidiaries	1	0	0	1
Disposals	-1,484	-291	0	-1,775
Transfers	100	-99	0	1
As of December 31, 2005	**31,771**	**3,950**	**0**	**35,721**
Additions	3,406	751	0	4,157
Disposals	-2,699	-386	0	-3,085
As of December 31, 2006	**32,478**	**4,315**	**0**	**36,793**
Net carrying amount at December 31, 2005	**10,865**	**2,501**	**132**	**13,498**
Net carrying amount at December 31, 2006	**11,032**	**2,056**	**125**	**13,213**

The useful lives of property and equipment are as follows:

Technical equipment and machinery	3 – 9 years
Other equipment, fixtures and fittings	3 – 10 years

Depreciation is charged on a straight-line basis over the useful life of the assets. There were no changes in useful lives compared to the previous year.

The cost of fully amortised property and equipment still in use at the balance sheet date was 19,148 TEUR (2005: 15,739 TEUR).

As at December 31, 2006, the telegate Group had outstanding obligations of 296 TEUR (2005: 1,395 TEUR) relating to orders for property and equipment expected to be due for payment in the 2007.

In line with IAS 34.4, system software is recognised as property and equipment, as this represents an integral part of the hardware.

In 2006, the company was given investment grants amounting to 1,194 TEUR, which - in accordance to IAS 20.27 – had been used to reduce the carrying amount of the assets.

21. Available-for-sale Securities

in TEUR	Available-for-sale securities
Acquisition cost	
As of January 1, 2005	**1,287**
Disposals	-2
Exchange rate differences	198
As of December 31, 2005	**1,483**
Disposals	0
Exchange rate differences	-4
As of December 31, 2006	**1,479**
Accumulated impairment	
As of January 1, 2005	**1,248**
Exchange rate differences	193
As of December 31, 2005	**1,441**
Exchange rate differences	0
As of December 31, 2006	**1,441**
Net carrying amount at December 31, 2005	**42**
Net carrying amount at December 31, 2006	**38**

These relate to preference shares held by a US subsidiary for investment purposes. These instruments were acquired as part of a business acquisition in 2000. As the shares are not traded on a regulated market, the shares are valued using indicators that are suitable for identifying possible permanent impairment, which is written down accordingly. Gains or losses – with the exemption due to currency translation – are being recognized as a separate component of equity until the financial asset is derecognized or until the financial asset is determined to be impaired at which time the accumulative gain or loss previously reported in equity is included in the Income Statement. Foreign exchange gains or losses are directly recognized in income (IAS 39.55b).

22. Deferred Tax Assets and Liabilities

Taxes on income in Germany comprise corporation tax, trade tax and the solidarity surcharge. An effective corporation tax rate of 21.09% plus an effective trade tax rate of 15.64% plus an effective solidarity surcharge of 1.16% was used to calculate deferred taxes. The effective tax rate is based on the uniform tax rate for both distributed and undistributed profits of 25.00%, a solidarity surcharge of 5.50% and the deductibility of trade tax at an average assessment rate of 371%.

Deferred tax assets and liabilities arise as a result of temporary differences between the value of assets and liabilities in the IFRS balance sheet and in the tax base, and are calculated using the tax rates of the years in which the differences are expected to reverse. Deferred taxes are made up as follows:

As of December 31, in TEUR	2006	2005
Deferred tax asset, gross:		
Tax loss carryforwards	15,131	15,043
Intangible assets	0	13
Property and equipment	41	45
Other current assets	14	16
Provisions	1,867	2,989
Less: Valuation allowance	-9,311	-9,347
Deferred tax asset, net	**7,742**	**8,759**
Less: Deferred tax liability:		
Property and equipment	-80	-143
Intangible assets	-449	0
Other current assets	-266	-18
Provisions	-23	-64
Deferred tax liabilities	**-818**	**-225**
Net deferred tax asset	**6,924**	**8,534**

As at December 31, 2006, the Company's cumulative tax loss carryforwards amounted to aproximately EUR 57 million (2005: EUR 44 million), of which an amount of EUR 30 million relates to German Group companies (2005: EUR 29 million), and a further EUR 27 million to other European Group companies (2005: EUR 15 million).

Taxable losses, not been considered for deferred taxes based on insufficient future usability, amount to 29,143 TEUR (2005: 25,221 TEUR).

Under current German fiscal legislation, tax loss carryforwards incurred in Germany can be carried forward and be set off against future gains indefinitely, considering the minimum taxation and several other fiscal regulations. Limitations in the use of loss carryforwards for foreign subsidiaries, based on certain country-specific regulations, had been taken into account.

23. Trade Accounts Payable

Trade accounts payables include outstanding liabilities relating to the provision of goods and services and current expenses. The average actual payment period is between 14 and 60 days (14 days in Germany). The Company's management believes that there is no significant difference between the carrying amount of the fair value of trade payables. Trade payables are recognised at their repayment amount.

24. Accrued Liabilities

For the years ending December 31, 2006 and 2005 respectively, accrued liabilities comprise the following items:

As of December 31, in TEUR	2006	2005
Outstanding invoices	13,219	13,886
Employee-related liabilities	6,211	6,016
Current income taxes	1,038	3,489
Others	307	720
Total	**20,775**	**24,111**

In accordance with IAS 37.11, accrued liabilities include the amounts owed for goods or services that have been received or supplied yet to be paid, invoiced or formally agreed with the supplier. These differ from trade payables, as the latter have been invoiced by the supplier or have been formally agreed. The Company recognises liabilities resulting from invoices not yet received from suppliers and liabilities to employees under this item. Accrued liabilities for income taxes refers to tax liabilities of our Italian subsidiary versus Italian tax authorities. As our subsidiary formed a tax group for income taxes with the Seat-Group, one part (867 TEUR) is classified as IC-liability versus Seat.

25. Provisions

The movements of the provisions are shown in the following table:

Provisions for (in TEUR)	*contractual risks current*	*anticipated losses current*	*employee related current*	**sub-- total current**	**anticipated losses non-current**	**Total**
As of January 1, 2006	**8,107**	**3,506**	**885**	**12,498**	**2,423**	**14,921**
reversal	-4,694	0	-177	-4,871	-1,108	-5,979
consumption	-1,108	-6	-217	-1,331	-782	-2,113
addition	2,255	6	0	2,261	29	2,290
As of December 31, 2006	**4,560**	**3,506**	**491**	**8,557**	**562**	**9,119**

At balance sheet date, the Company identified all known risks for valuation. All risks had been recognized as provisions to the extent, that the conditions of IAS 37.14 had been met. The most significant risks/provision are described in the following:

Provisions for restructuring had been set-up in prior years, when the Company had merged and closed some of its call centre facilities in Germany and the US. As of December 31, 2006, the remaining part of this provision amounts to 426 TEUR (in 2005: 1,839 TEUR). For further information on the Company's restructuring, please see note 32 "Restructuring". This provision for restructuring is not presented separately, but is included in the above shown summary of provisions. One part refers to accrued rent- and room costs and is shown within the non-current provision for anticipated losses (420 TEUR; in 2005: 1,545 TEUR). The current part mainly refers to termination benefits of former call centre operators and is shown within the current provision for employee-related items.

At the balance sheet date, the Company was involved in various legal disputes, as both plaintiff and defendant. The Company's legal advisers are assessing the risks relating to legal actions in which the Company is defendant. When an outflow of resources resulting from such actions was more likely than not, provisions had been set-up (IAS 37.23). Depending on the nature of the risk, provisions for contractual risks or for anticipated losses had been set-up. Provisions, initially set-up for legal disputes relating to data costs, had partly been reversed in 2006 (and 2005).

Risks, being identified as contingent liabilities, have not been recognized in the balance sheet (IAS 37.27). Instead – according to IAS 37.86 – a brief description of the nature and an estimate of the financial effect of the contingency, is disclosed within the note 35 "Contingent liabilities and contingent asset".

26. Other Current Liabilities

The amount of 2,423 TEUR (2005: 1,761 TEUR reported at the balance sheet date predominantly consists of a VAT-liability versus tax authorities (1,035 TEUR) and deferred income 0 TEUR (2005: 832 TEUR) and relates to income due to the Company that has been deferred and is released on a pro rata basis over the term of the underlying contracts. Other current liabilities are recognised at repayment amount.

27. Post-employment Benefit Plans

telegate AG operates defined benefit and contribution plans for employee company post-employment benefit plans.

Defined benefit plans

telegate AG has been making individual commitments for company pension benefits (old age pensions, disability pensions and surviving dependents pensions) for the members of the Management Board since December 31, 1998. The benefit amount of the defined benefit pension plans is primarily based on the length of employment and the basic salary of the individual Management Board members.

In order to secure the individual pension plan benefits, reinsurance policies are taken out and the policy benefits are pledged to the plan beneficiaries. Those pledged reinsurance policies are recognised as plan assets, as these constitute qualifying insurance policies in the sense of IAS 19.7.

An actuarial valuation of the plan assets and the present value of the defined benefit obligation is performed as at December 31 of the financial year based on the following actuarial assumptions:

in %	2006	2005
Discount rate	4.50	4.25
Expected return rate on plan assets	4.50	4.25
Post retirement pension increase	2.00	2.00
Expected salary increase rate	0.00	0.00

The Company recognised the following income and expenses in the Consolidated Income Statement in respect of these defined benefit plans:

in TEUR	2006	2005
Current service cost	-58	-36
Interest cost	-10	-6
Expected return on plan assets	9	6
Amortization of actuarial loss	-1	0
Past service cost	-14	-34
Total	**-74**	**-70**

Interest costs on benefit obligation and expected return on plan assets are recognised as financial expense and income respectively (2006: -1 TEUR; 2005: 0 TEUR). All other expenses and income relating to defined benefit pension plans are contained in personnel costs (2006: -74 TEUR; 2005: -70 TEUR).

The actual return on plan assets amounts to 9 TEUR (2005: 6 TEUR).

For 2007, the Company expects to have service- and interest costs amounting to 82 TEUR; expected return on plan assets not included.

The amount of defined benefit liability recognized in the balance sheet is calculated as follows:

As of December31, in TEUR	2006	2005
Defined benefit obligation	336	241
Fair value of plan assets	-234	-168
Net obligation	**102**	**73**
Actuarial loss not yet recognized	-62	-50
Defined benefit liability	**40**	**23**

The present value of the defined benefit obligation is calculated in line with 19.64 according to the projected unit credit method, and has developed as follows:

in TEUR	2006	2005
As of January 1,	**241**	**115**
Current service cost	58	36
Interest cost	10	6
Actuarial losses	13	50
Past service cost	14	34
As of December 31,	**336**	**241**

The actuarial losses of 13 TEUR, which increased the present value of the defined benefit obligations for the actual year, primarily result from the adjusted discount rate used in the actuarial calculation (by +0.25% to 4.5%)

Changes in the fair value of the plan assets are presented below:

in TEUR	2006	2005
As of January 1,	**168**	**104**
Expected return on plan assets	9	6
Employer's contributions	57	58
As of December 31,	**234**	**168**

The following table shows the development of the figures for the surplus or deficit of the plan for the current and the four previous reporting periods:

in TEUR	2006	2005	2004	2003	2002
Defined benefit obligation	336	241	115	202	168
Fair value of plan assets	-234	-168	-104	-178	-143
Plan surplus/deficit	**102**	**73**	**11**	**24**	**25**

Defined contribution plans

The Company has been contributing to the employee-financed company pension scheme since September 2004. The contribution amount is based on the actual contributions made by the employees. Ongoing contribution payments are expensed in the period in which they are incurred. In 2006, the total expense for the defined contribution plans amounted to 19 TEUR (2005: 17 TEUR).

28. Other non-current Liabilities

This item reflects the Company's obligation to its Italian employees, who have a right to severance pay at the end of the working relationship under Italian law. The obligation reported at the balance sheet date amounted to 594 TEUR (2005: 408 TEUR)..

29. Shareholders' Equity

Share capital
As at December 31, 2006, the Company had a total of 20,987,045 issued no-par shares in circulation (2005: 20,987,045).

Owners of ordinary shares are entitled to one vote per share on all matters submitted to the shareholders for resolution. The ordinary shares are not redeemable and have no vested conversion rights. Dividends may only be resolved and paid from the inappropriate surplus available for distribution based on the statutory annual financial statements.

At the Annual General Meeting held on January 10, 2001, the Management Board was authorised, with the approval of the Supervisory Board, to increase the subscribed capital by the issue of new shares against cash and/or contributions in kind on one or several occasions until January 9, 2006 (authorised capital). The total nominal amount of the increases may not exceed 6,365 TEUR. The Management Board did not make use of this authorization.

Conditional capital
Pursuant to the resolution of the Annual General Meeting held on May 12, 2005, the subscribed capital was contingently increased by 1,000,000 EUR (conditional capital). The conditional capital of up to 36,000 EUR resolved the previous year was reduced by 26,480 EUR in the 2004 financial year and 6,210 EUR in the 2005 financial year as a result of the issue of subscription rights as part of the share option program. The remaining balance was 3,310 EUR. Accordingly the subscribed capital was increased by 32,690 EUR, which corresponds to 32,690 no-par shares. With the resolution of the Annual General Meeting held on May 12, 2005, the conditional capital 2004 was completely absorbed by the conditional capital 2005. As of December 31, 2006, the conditional capital of telegate totals 1,000 TEUR.

The conditional capital increase exclusively serves the issue of bearer shares with an entitlement to share in profits. The conditional capital increase is only implemented to the extent that the owner of the subscription rights from telegate AG share option schemes makes use of the right to subscribe to shares and to the extent that telegate AG has not granted any treasury shares for the fulfilment of the subscription rights or fulfils its obligation to the shareholders entitled to subscribe in any other way. For details on the share option scheme, see note 33 "Share-based payment"

Additional paid-in capital
As at December 31, 2006, capital reserves amounted to 27,944 TEUR (2005: 27,411 TEUR). These have increased by 533 TEUR compared to as at December 31, 2005. This change was wholly due to the recognition of staff costs for share-based payment transactions (see note 33 "Share-based payment").

Other revenue reserves
At balance sheet date, other revenue reserves amount to 21,256 TEUR (2005: 10,400 TEUR). This position increased by 5,168 TEUR due to the resolution of the Annual General Meeting, held on May 15, 2006, and by 5,688 TEUR due to the proposal on the appropriation of net income by the Managing Board from January 29, 2007.

All equity items are valued at their nominal value.

30. Dividends paid and proposed

The Annual General Meeting held on May 15, 2006, resolved to pay equity dividends on ordinary shares for the very first time. For 2005, the dividends amounted to 0.65 EUR per share. On May 16, 2006, a total amount of 13,641,579.25 EUR had been paid to telegate's shareholders.

Other Notes and Information

31. Segment reporting

The disclosure of the segments of telegate Group are in accordance to IAS 14 "Segment reporting".

The Company operates in three segments, all of which are strategic businesses and are managed separately. The Company currently views its business as being in three segments, primarily determined by geographic region.

The segments and a description of their businesses are as follows: Segment Germany/Austria includes information services and related outsourcing activities to the German, the Austrian and – until disposal on October 6, 2006 – the Swiss market. Segment Italy/Spain includes subsidiaries formed or acquired in an attempt to expand information services in Italian or Spanish markets.

Due to the increasing business activities in France, it was necessary to aggregate all relating activities into a new segment. Consequently - compared to 2005 - the previously presented segment International had been split into segment Italy/Spain and segment France. Previous year figures had been reclassified accordingly.

All services rendered by the HQ-departments for the segment Italy/Spain and segment France are being processed at arm's length principle.

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 income and free cash flow. Inter-segment sales are generally accounted for at amounts comparable to sales to third party customers and are eliminated in consolidation.

As of December 31, 2006	Germany/ Austria	Italy/ Spain	France	Total
Revenues				
Total segment revenues	116,048	34,619	28,726	179,393
Inter-segment revenues	488	0	0	488
External revenues	115,560	34,619	28,726	178,905
Results				
Operating income (loss)	37,707	2,737	-30,162	10,282
Financial income (loss)	2,344	-342	-1,091	911
Net income (loss) before income tax	40,051	2,395	-31,253	11,193
Income tax	-3,683	-1,479	-49	-5,211
Net income (loss)	36,368	916	-31,302	5,982
Assets and liabilities				
Segment assets	73,531	39,116	13,133	125,780
Segment liabilities	26,358	29,848	7,034	63,240
Other segment information				
Capital expenditures:				
- Property and equipment	695	1,132	2,244	4,071
- Intangible assets	957	122	171	1,250
Depreciation on property and equipment	2,345	1,283	529	4,157
Amortization on intangible assets	1,919	566	76	2,561

As of December 31, 2005	Germany/ Austria	Italy/ Spain	France	Total
Revenues				
Total segment revenues	115,334	25,768	9,134	150,236
Inter-segment revenues	166	0	0	166
External revenues	115,168	25,768	9,134	150,070
Results				
Operating income (loss)	40,094	430	-9,341	31,183
Financial income (loss)	1,744	-180	-109	1,455
Net income (loss) before income tax	41,838	250	-9,450	32,638
Income tax	-4,502	-1,013	-5	-5,520
Net income (loss)	37,336	-763	-9,455	27,118
Assets and liabilities				
Segment assets	91,532	34,923	12,395	138,850
Segment liabilities	35,826	24,521	8,836	69,183
Other segment information				
Capital expenditures:				
- Property and equipment	7,213	1,651	1,083	9,947
- Intangible assets	1,142	255	197	1,594
Depreciation on property and equipment	3,565	1,389	56	5,010
Amortization on intangible assets	1,342	330	36	1,708

32. Restructuring

In order to improve the efficiency of the Group, various measures had been implemented in prior periods. The main focus was to optimize the cost structure. Therefore existing call centres had been merged and closed between 2002 and 2004. This restructuring had been successfully completed in 2004. Minor expenses are being expected to occur but are considered by existing provisions.

The effect of the restructuring plans resulted in the reporting period into an income of 911 TEUR (2005: 1,071 TEUR), mainly due to the reversal of provisions set up in previous years. The position consists of the following items:

	2006	2005
Room rent and other room-related costs	-826	-839
Personnel costs	-85	-245
Others	0	13
Total	**-911**	**-1,071**

The position "room-rent and other room-related costs" also includes the reversal (= income) of provisions for call centres amounting to 855 TEUR (2005: 892 TEUR). In addition, the provision for termination benefits, that had been set up for former operators, had been reversed in total by 85 TEUR (2005: 109 TEUR). The total income/expense from the Company's restructuring is not shown separately but within each respective line of costs. Income is reducing the expense of the reporting period.

33. Share-based Payments

The ordinary Annual General Meeting of telegate AG held on May 12, 2005 resolved the introduction of a new stock option scheme that provides for the granting of stock options for up to 1,000,000 telegate AG shares. A maximum of 300,000 stock options may be issued per year. Those are granted to members of the telegate AG Management Board, members of management of companies that are associated companies in the sense of Sections 15ff. of the German Corporation Act (AktG), and employees of telegate AG and companies associated with telegate AG in the sense of Sections 15ff. of the German Corporation Act (AktG). The granted stock options are not transferable.

Each option entitles the holder to acquire one share in telegate AG at the exercise price. There are no cash settlement alternatives. The exercise price per share is equal to the average closing share price of the telegate AG in Xetra trading on the German Stock Exchange during the ten trading days immediately preceding the date of grant of stock options. The stock options may only be exercised if one of the following performance targets have been achieved during the duration of an exercise period:

- The market price of the telegate share outperforms the Prime All Share Index of the German Stock Exchange in the period between the granting and exercise of the option (outperformance);
- The share price of the telegate AG share increases by an average of more than 7% p.a. in the period between the granting and exercising of the option.

The vesting period is two years from the date of grant. Once the vesting period has expired, the stock options can be partially or fully exercised until the expiry of five years from the time of the allocation of the rights. The stock options must be exercised by September 30, 2010 in all cases. If the stock options are not exercised by this date, those expire, regardless of the time they were granted.

With the decree of the Annual General Meeting on May 15, 2006, the new stock option scheme had been altered as follows:

- A maximum of 400,000 options - instead of the previous maximum of 300,000 options – may be issued in each fiscal year. Determination of the number of options to be granted to all option holders per calendar year requires the agreement of the Oversight Board.

Accordingly, 400,000 options had been granted on May 31, 2006.

Stock options granted in July 2005 (tranche July 2005) do no represent an individual tranche. They are relating to tranche May 2005, but were subsequently granted. Accordingly, the fair value changed. In the following, for simplification purposes, the subsequent grant is shown as an individual tranche (tranche July 2005).

In the 2006 financial year, total expense relating to share-based payment plans amounted to 533 TEUR (2005: 184 TEUR) and refers to the tranches as follows: Tranche May 2005 (227 TEUR), Tranche July 2005 (8 TEUR) and Tranche May 2006 (298 TEUR).

These share-based payments granted to members of the Board of Management, members of the management of associated companies as well as other employees of the telegate Group are recognized in accordance with IFRS 2 "Share-based Payments" in compliance with IFRIC 8 "Scope of IFRS 2".

	Number of stock options	Weighted average-exercise price (EUR)
Outstanding at January 1, 2005	**6,210**	**2.73**
Granted during 2005	300,000	14.35
Forfeited during 2005	-4,000	14.28
Exercised during 2005	-6,210	2.73
Outstanding at December 31, 2005	**296,000**	**14.35**
Granted during 2006	400,000	16.09
Forfeited during 2006	-35,500	14.69
Outstanding at December 31, 2006	**660,500**	**15.38**

All of the outstanding stock options at December 31, 2006 and December 31, 2005 were still within the vesting period at the relevant balance sheet dates and could therefore not be exercised. The average weighted share price at the exercise date for stock options exercised during the 2005 financial year was 14.10 EUR.

Exercise price (in EUR)	Number of stock options	Weighted average remaining contractual life (Years)
14.28 (tranche May 2005)	261.500	0.4
17.22 (tranche July 2005)	7.000	0.6
16.09 (tranche May 2006)	392.000	1.4

The Group used the Black Scholes option-pricing model to value the stock options granted in 2006 and in 2005.

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

	tranche May 2005	tranche July 2005	tranche May 2006
Valuation date	31.05.2005	29.07.2005	31.05.2006
Fair value of stock options (EUR)	1.87	2.23	2.28

The following parameters were used in the Black Scholes option valuation model:

	tranche May 2005	tranche July 2005	tranche May 2006
Average share price (EUR)	14.28	17.22	16.09
Exercise price (EUR)	14.28	17.22	16.09
Expected volatility (%)	23.8	22.6	27.2
Risk-free interest rate (%)	2.2	2.2	3.3
Expected dividends (%)	2.5	2.1	4.0
Expected life (years)	2.25	2.25	2.25

The expected volatility for tranche May 2006 was determined by the average historic volatility of the market price of telegate shares during the 150 stock market trading days preceding the valuation date.

Management estimated the expected life of the stock options, considering the contractual life and special features of employee stock options, including non-transferability and the exercise restrictions.

34. Commitments and Contingencies

Future minimum expenses from non-cancellable contracts with an original term of one year or more are as follows:

Future obligations from marketing- and data processing services

Year ended December, 31	TEUR
2007	4,006
2008	367
2009	91
2010	22
2011	21
Thereafter	0

Future obligations from operating leasing contracts

Year ended December, 31	TEUR
2007	4,331
2008	1,666
2009	304
2010	103
2011	17
Thereafter	17

Future entitlements from operating leasing contracts

Future minimum rental income under non-cancellable operating leases as at December 31, 2006 are as follows:

Year ended December, 31	TEUR
2007	407
2008	102
Thereafter	0

35. Contingent Liabilities and contingent Assets

If the possibility of an outflow of resources embodying economic benefits is probable, provision should be made in the financial statements to cover the risk to which the enterprise would be exposed should the risk materialise. If an outflow is possible yet unlikely in the sense of IAS 37.86, the financial effects should instead be reported as a contingent liability.

Inversely to contingent liabilities, a contingent asset must not be recognized in the balance sheet (IAS 37.31), but has to be disclosed as far as the inflow of economic benefits is regarded as possible (IAS 37.89). Contingent assets are not recognised in financial statements since this may result in the recognition of income that may never be realised. However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate (IAS 37.33).

Legal disputes

At the balance sheet date, the Company was involved in various legal disputes, as both plaintiff and defendant.

Following a detailed examination, the Company's legal advisers assessed the risks relating to legal actions in which the Company was defendant and any outflows of resources that could result from such actions as not likely. Consequently, no provisions or contingent liabilities were established in respect of the above.

telegate is also involved in legal actions as plaintiff. In a legal dispute with a supplier, the Company was awarded reimbursement of data costs of 4.3 million EUR excluding interest. The judgement however was overturned by the Federal Court of Justice and been referred back to the Regional Appeal Court in Düsseldorf. Regarding the future development of this dispute, telegate's legal advisers assess the likelihood of success as favourably.

Furthermore both telegate AG and its subsidiary Datagate GmbH filed lawsuits for repayment of excessively invoiced subscriber data costs from 1997 to 2004. In August, the companies were granted in first instance 60.6 million EUR by the Regional Court of Cologne. Although the judgements are final pending and both parties lodged an appeal, telegate and Datagate are assessing the likelihood of success as favourably.

Tax risk

Due to recent tax audits for all significant group companies, tax risks for fiscal years until 2003 (in Germany: until 2004) are not expected. For fiscal years not yet audited the possibility of tax risks but also of tax chances cannot be eliminated.

Disposal of subsidiaries

On October 6, 2006, telegate AG sold its wholly-owned Swiss subsidiary 1818 Auskunft AG to the US-based InfoNXX-Group. The purchase price was 3,295 TEUR. In addition, an earn-out-clause was agreed to, which entitles telegate for a future receivable of up to 1,250 TEUR as an additional purchase price, if certain conditions are met.

Guarantees

As at December 31, 2006, the Company had placed guarantees of 561 EUR (2005: 882 EUR), in particular to secure rent obligations entered into by individual branches and subsidiaries against third parties.

36. Number of Employees

The number of employees excluding Management, trainees and persons in maternity leave for 2006 is as follows:

	As of December 31, 2006		Annual average	
2006	absolute	full-time employees	absolute	full-time employees
telegate Group				
Total	3,136	2,093	2,972	2,032
of which operators	*2,875*	*1,837*	*2,727*	*1,791*

	As of December 31, 2005		Annual average	
2005	absolute	full-time employees	absolute	full-time employees
telegate Group				
Total	2,582	1,795	2,389	1,656
of which operators	*2,359*	*1,575*	*2,187*	*1,455*

37. Auditor's Fees

The expenses included in the Consolidated Income Statement in respect of fees paid to the Company auditors (Ernst & Young AG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Munich) in the 2006 financial year are made up as follows:

in TEUR	2006
Year end audit	125
Other certification or assessment services	17
Total	**142**

38. Financial Risks

The Group's significant financial assets include cash and cash equivalents. The primary purpose of these assets is to provide funds for the Group. The Group also has access to a series of other financial assets including trade and other receivables that arise directly from operating activities. Overall, these represent the maximum exposure of the Group as a result of the risk of default in relation to the financial assets.

Risk of default

The Group's default risk primarily relates to trade receivables. The amounts recognised in the balance sheet are stated net of valuation adjustments made for receivables that Group management regards as non-recoverable on the basis of past experiences and the current economic environment.

The Company conducts business with a large number of customers. The majority of the Company's revenues from business with end customers in Germany (2006: 64%; 2005: 68%) are billed by Deutsche Telekom AG ("DTAG").

As of December 31, 2006, receivables due from DTAG under this factoring agreement amounted to 50% (2005: 68%). DTAG is also a very important advance service supplier for telegate AG. telegate AG has also leased a part of the domestic line network from DTAG. The Company receives a high percentage of the calls and some of the customer data required for directory services via the DTAG network. The Company's operations could be adversely affected should DTAG no longer meet its obligations under the agreement. However, in light of DTAG's sound financial basis, the obligations under the deregulation of the telecommunications market and the emergency concepts available, such a development currently appears unlikely. The Company directly invoices its international outsourcing customers.

Liquidity risk

Financial assets that could potentially result in a concentration of the Company's liquidity risk primarily consist of cash and cash equivalents. The Company's cash and cash equivalents are denoted exclusively in euros. The Company constantly monitors its commitments at financial institutions as well as the credit-worthiness of the financial institutions who act as contracting partners for the Company's financial instruments, and believes there to be no risk of non-fulfillment in such cases.

Some of the cash equivalents are also invested as fixed-term deposits with maturities of up to three months with a related company (see note 39). The risk of default is monitored using suitable indicators. The Company believes there to be no risk of related companies failing to fulfil their duties as contracting partners.

Interest rate change risk

The Group's exposure to interest rate change risks is primarily the result of the investment of cash equivalents as fixed-term deposits with fixed interest rates. A change in the general interest rate level can result in a higher or lower interest income of the fixed-term deposits with fixed interest rates compared to the general interest rate level. Due to the possibility of contractually-based cancellation at any time, the Company currently regards the risk of interest rate changes as insignificant.

Currency risk

The Company's main business transactions concluded within Europe are settled in euros. A small part of the procurement procedures are concluded in other currencies (in particular in US Dollars, Swiss Francs and Norwegian Kroner). As the amounts involved are essentially non-material in nature, these transactions are not subject to currency risk.

Fair value of financial instruments

Due to their short maturities, there is no significant difference between the carrying amount and fair value of financial assets (including cash and cash equivalents), receivables or liabilities. The fair value of marketable securities is determined in accordance the listed market prices of the securities.

39. Related Party disclosures

Business transactions concluded between the Company and subsidiaries that are considered to be related companies are eliminated on consolidation and are not disclosed in these notes.

Related companies include telegate Holding GmbH (Planegg), which holds a majority stake (61.85%) in telegate AG. All shares in telegate Holding are ultimately held by Seat Pagine Gialle S.p.A. (Milan/Torino). Seat has a direct holding of 16.43% in telegate AG, and – through the arrangement outlined above – an indirect holding of 61.85%.

The ultimate parent company is Seat Pagine Gialle S.p.A. (Milan/Torino).

Conditions of related party transactions

Services are rendered or received at standard market conditions. Outstanding receivables and liabilities at the reporting date are not hedged and are non-interest-bearing. No valuation adjustments were made for receivables from related companies in either the financial year under review or in the previous year. Financial assets bear interest at normal market rates. Interest income is reported in the period to which it relates in accordance with the accrual principle.

Transactions with related companies

Services rendered or received:

In 2006, telegate Italia, a wholly owned subsidiary of telegate AG, generated income of EUR 17.4 million from services rendered to the Seat Group (2005: EUR 7.4 million). Corresponding expenses in the same period amounted to EUR 0 million (2005: EUR 0.1 million). At the balance sheet date, telegate Italia reported receivables due to Seat of EUR 7.5 million (2005: EUR 6.1 million), and liabilities due from Seat of EUR 21.2 million (2005: EUR 17.9 million). In addition, there is an accrued liability amounting to EUR 0.9 million (2005: EUR 0.6 million), which reflects a tax liability initially versus Italian tax authorities. However, as telegate Italia formed a tax group for income taxes with the Seat, this liability is now versus Seat S.p.A.

Fixed-term deposits

telegate AG has invested fixed-term deposits at Seat Pagine Gialle S.p.A since February 2004. At the reporting date, a total of EUR 17.0 million (2005: EUR 42.0 million) was invested at Seat's. In 2006, the interest income from this investment amounted to EUR 0.8 million (2005: EUR 1.3 million). As at the balance sheet date, EUR 0.1 million (2005: EUR 0.2 million) of this amount was deferred and reported as a receivable. A framework loan agreement with Seat for EUR 20.0 million expired on January 31, 2006.

Transactions with related persons

Two members of the Supervisory Board of telegate AG are employees of Seat Pagine Gialle. As at December 31, 2006, Supervisory Board remuneration of 15 TEUR (2005: 23 TEUR) was due to these individuals, and an accrual was recognized for this amount in the financial statements.

Remuneration of individuals in key management positions

This information is disclosed in note 43 "Information on corporate bodies of telegate AG".

40. Presenting the Consolidated Income Statement in the conventional Cost of Sales Format

IAS 1.88 permits a company to prepare its income statement in accordance with the nature of expense method or the cost of sales method. telegate has opted to apply the cost of sales method. The Company's method of presentation fulfills the minimum classification scheme as prescribed by IAS 1.81 and 1.82. Additional items can also be included in the classification to the extent these are required in order to shed further light on the enterprise's financial position (IAS 1.83).

External balance sheet readers arguably prefer presentation using the conventional costs of sales method. In order to cater for the needs of this group, the extended presentation used in the Consolidated Income Statement has been reconciled to the classification principles adopted in the conventional cost of sales method.

Year ended December 31, 2006	Extended cost of sales method	Reclasses	Cost of sales method (IAS 1.92)
Revenues	178,905	-	178,905
Cost of revenues	-85,589	-6,237	-91,826
Gross profit (excl. depreciation and amortization)	**93,316**	**-6,237**	**87,079**
Advertising costs	-53,301	-1,245	-54,546
Personnel costs (only administration and marketing)	-16,825	16,825	0
Depreciation and amortization	-6,718	6,718	0
Other administrative expenses	-9,286	-16,061	-25,347
Other operating income (expense)	3,096	-	3,096
Total operating costs	**-83,034**	**6,237**	**-76,797**
Operating income	**10,282**	**0**	**10,282**
Interest income (expense)	1,037	-	1,037
Income (loss) from financial assets and marketable securities	-113	-	-113
Gain (loss) on foreign currency translation	-13	-	-13
Financial income (expense)	**911**	**0**	**911**
Income before income tax	**11,193**	**0**	**11,193**
Income tax	5,211	-	-5,211
Net income	**5,982**	**0**	**5,982**

The following reclassifications were made as at December 31, 2006 in order to present the figures in accordance with the conventional cost of sales method.

1. Reclassification of amortisation of financial investments and intangible assets, which had previously been reported separately, and which are now reported under cost of sales (6,237 TEUR) or general administrative costs (481 TEUR).
2. Allocation of staff costs between general administrative costs (15,580 TEUR) and selling costs (1,245 TEUR).

Year ended December 31, 2005	Extended cost of sales method	Reclasses	Cost of sales method (IAS 1.92)
Revenues	150,070	-	150,070
Cost of revenues	-57,998	-6,019	-64,017
Gross profit (excl. depreciation and amortization)	**92,072**	**-6,019**	**86,053**
Advertising costs	-28,221	-996	-29,217
Personnel costs (only administration and marketing)	-14,368	14,368	0
Depreciation and amortization	-6,718	6,718	0
Other administrative expenses	-11,555	-14,071	-25,626
Other operating income (expense)	-27	-	-27
Total operating costs	**-60,889**	**6,019**	**-54,870**
Operating income	**31,183**	**0**	**31,183**
Interest income (expense)	1,357	-	1,357
Income (loss) from financial assets and marketable securities	94	-	94
Gain (loss) on foreign currency translation	4	-	4
Financial income (expense)	**1,455**	**0**	**1,455**
Income before income tax	**32,638**	**0**	**32,638**
Income tax	-5,520	-	-5,520
Net income	**27,118**	**0**	**27,118**

The following reclassifications were made as at December 31, 2005 in order to present the figures in accordance with the conventional cost of sales method.

1. Reclassification of amortisation of financial investments and intangible assets, which had previously been reported separately, and which are now reported under cost of sales (6,019 TEUR) or general administrative costs (699 TEUR).
2. Allocation of staff costs between general administrative costs (13,372 TEUR) and selling costs (996 TEUR).

41. Disclosure Requirements based on the German Commercial Code (HGB)

Based on Article 4 of the (EC) Directive No. 1606/2002 of the European Parliament and European Council of July 19, 2002, in conjunction with Article 315a of the German Commercial Code (HGB), the Company is obliged to provide the following supplementary information in the Notes to its Consolidated Financial Statements:

Article 313 (2) no. 1 HGB: The name and registered office of the companies included in the Consolidated Financial Statements as well as the share of the equity of subsidiaries that belongs to the parent company and the subsidiaries included in the Consolidated Financial Statements. See here note 2 “Companies included in the Consolidation”.

Article 314 (1) no. 4 HGB: The average number of employees in the companies included in the Consolidated Financial Statements during the financial year, subdivided by group and the staff costs arising in the financial year. See here note 36 “Number of Employees” and note 8 “Total Personnel Costs”

Article 314 (1) no. 6 HGB: In respect of members of the Managing Bodies, a Supervisory Board, an Advisory Board or a similar institution of the parent company, in each case the total emoluments paid to each group of individuals for their duties performed for the parent company and for the subsidiary companies during the financial year. In addition to the emoluments relating to the financial year, further emoluments are to be disclosed if these were made in the financial year but have not yet been disclosed in any of the Group financial statements. See here note 43 “Information on the Company Bodies of telegate AG”

Article 314 (1) no. 8 HGB: In respect of each listed company included in the Consolidated Financial Statements, confirmation that the declaration prescribed under Article 161 of the Stock Corporation Act has been issued and made available to the shareholders. See here note 44 “Corporate Governance Code”.

Article 314 (1) no. 9 HGB: If the company concerned is a parent company listed on an organised market in the sense of Section 2 (5) of the Securities Trading Act, the fee paid to the auditors of the Consolidated Financial Statements in the financial year in the sense of Article 319 (1) sentences 1 and 2, for

- Audit of the financial statements,
- Other certification and assessment services,
- Tax consultancy services,
- Other services rendered for the parent company or subsidiaries.

Please refer to note 37 “Auditor’s Fees”.

42. Events after the Balance Sheet Date

On January 31, 2007, the Consolidated Financial Statements of telegate for the year ending December 31, 2006, were approved and authorised by the Managing Board for disclosure.

43. Information on the Company Bodies of telegate AG

Supervisory Board of telegate AG

		Other Assignments*
Herbert Brenke	Chairman of Supervisory Board (since January 1, 1999) Management consultant, Essen	• SHS Informationssysteme AG, Munich, Supervisory Board • QSC AG, Cologne, Deputy Chairman of Supervisory Board • BROADNET AG, Hamburg, Deputy Chairman of Supervisory Board • ASKK Holding AG, Hamburg, Chairman of Supervisory Board • Küttner GmbH & Co. KG, Essen, Member of Advisory Board
Ilona Rosenberg	Deputy Chairwoman of Supervisory Board (since May 15, 2006), since January 30, 2001, Supervisory Board, Employee, Rostock	--
Dr. Arnold R. Bahlmann	Since May 15, 2006, Entrepreneur, Munich	• Permira, Frankfurt/Main, Member of Industrial Advisory Board • Business Gateway AG, Starnberg, Supervisory Board • Debitel AG, Stuttgart, Supervisory Board • TVN Group, Warsaw, Poland, Supervisory Board • Source Media Inc., New York, USA, Supervisory Board • SBS Broadcasting Inc., Amsterdam, The Netherlands, Supervisory Board • Senator Entertainment AG, Berlin, Supervisory Board
Jürgen Heinath	Since January 30, 2001, Director Call Center, Neubrandenburg	• Interact Tele Service AG, Neubrandenburg, Supervisory Board • Telemarketing Initiative M-V e. V., Schwerin, Chairman of Advisory Board
Anett Kaczorak	Since May 15, 2006, Chairwoman of Works council, Employee, Neubrandenburg	--
Jürgen von Kuczkowski	Since May 15, 2006, Merchandiser, Gauting	• Swisscom Mobile, Könitz, Switzerland, Advisory Board • ARCOR AG & Co. KG, Eschborn, Chairman of Supervisory Board • LHS AG, Frankfurt, Supervisory Board • Vodafone Deutschland GmbH, Düsseldorf, Chairman of Supervisory Board

Birgit Labs	Since February 20, 2001, Deputy Chairwoman of Supervisory Board (until May 15, 2006), Employee, Neubrandenburg	--
Stanislas Laurent	Since March 15, 2005, CEO, Photoways Group, London, UK	--
Silke Lichner	Since May 15, 2006, datagate GmbH, Deputy Chairwoman of Works council,Employee, Neubrandenburg	--
Daniela Lübbert	Since November 6, 2003, Deputy Chairwoman of Works council, Employee, Schwedt	--
Luca Majocchi	Since November 4, 2003, CEO, Seat Pagine Gialle S.p.A., Torino, Italy	• TDL Infomedia Ltd., Farnborough (Hampshire), UK, Chairman • Thomson Directories Ltd., Farnborough(Hampshire), UK, Chairman • Seat Corporate University S.c.a.r.l., Torino, Italy, Chairman • Eniro AB, Stockholm, Sweden, Member of the Board
Maurizia Squinzi	Since March 11, 2004, CFO, Seat Pagine Gialle S.p.A., Torino, Italy	• TDL Infomedia Ltd., Farnborough(Hampshire), Großbritannien, Director • Thomson Directories Ltd., Farnborough(Hampshire), Großbritannien, Chairman • Cipi S.p.A., Mailand, Italien, Vice-Chairman
Dr. Joachim Dreyer	Until May 15, 2006, Dipl.-Physiker, Heiligenberg	• Deutsche Anlagen AG, Göttingen, Member of Advisory Board • EnBW AG, Stuttgart, Member of Advisory Board • Wapme Systems AG, Düsseldorf, Supervisory Board
Otmar Dürotin	Until May 15, 2006, Labor union clerk, ver.di., Dortmund	--
Dr. Martin Hartl	Until May 15, 2006, Lawyer,	--
Frau Katrin Küther	Rome, Italy Until May 15, 2006, Works council, Employee, Stralsund	--

* On international level, an exact separation between Supervisory- and Managing Board, compared to German regulations, is difficult. For that, disclosure is provided for assignments and mandates which have both Supervisory and Managing functions.

According to the declaration of the Managing Board dated June 27, 2000, the Supervisory Board of telegate is constituted in compliance to the regulations of Articles 96 I, 101 I Companies Act in connection with Articles 1 I, 5 I and 7 I Co-Determination Act 1976. From 2001 on, the Supervisory Board consists of 12 members of whom 6 are elected by the General Meeting and 6 are elected by the employees of the company.

Managing board of telegate AG

		(Supervisory Board) Assignments*
Dr. Andreas Albath	Chairman of the Management Board, Lawyer, Martinsried/Munich, responsible for areas Germany/ Austria, Marketing Strategy, Legal, Regulation, Human Resources and Corporate Communication	• IBV-Leasing-Fonds 1, Nuremberg, Chairman of the Board of Governors • Interactive AG, Bochum, Supervisory Board • mobilSafe AG, Martinsried, Supervisory Board • Telegate Inc. i.L., City of Wilmington, USA, Director
Dr. Paolo Gonano	Member of the Management Board, Master of Business Administration, Torino, responsible for international areas	• Telegate Italia S.r.L., Turin, Italien, Director • 11811 Nueva Información Telefónica S.A.U., Madrid, Spain, Director • Telegate France SARL, Paris, France, Director • Le 118 000 SAS, Paris, France, Supervisory Board
Ralf Grüßhaber	Vorstandsmitglied, Member of the Management Board, Dipl.-Betriebswirt (FH), Martinsried/Munich, responsible for areas Finance, Purchase and Technical and Call Center Strategy	• Telegate Italia S.r.L., Turin, Italy, Director • Telegate France SARL, Paris, France, Director • Le 118 000 SAS, Paris, France, Supervisory Board • Telegate Inc. i.L., City of Wilmington, USA, Director • Uno Uno Ocho Cinco Cero Guías S.L., Madrid, Spain, Director

* On international level, an exact separation between Supervisory- and Managing Board, compared to German regulations, is difficult. For that, disclosure is provided for assignments and mandates which have both Supervisory and Managing functions.

Performance-related remuneration for the management board

The Personnel Committee of the Supervisory Board assesses and regularly examines the structure of the remuneration system for the Management Board. It is also responsible for establishing the individual remuneration paid to members of the Management Board.

The remuneration model for the Management Board should make it possible to attract highly qualified management members in open market competition. Criteria to be used to establish remuneration levels in particular include the tasks performed by individual members of the Management Board, the personal performance of the Management Board member, the performance of the Management Board as a whole, as well as the financial situation, success and the future prospects of the Company in the context of its operating environment.

General remarks on the remuneration system

The remuneration system for the members of the Management Board contains performance-related and non-performance-related components. The non-performance-related elements consist of fixed remuneration and benefits in kind, while the performance-related components are divided into profit-sharing entitlements and a component designed to provide long-term incentives. The members of the Management Board also receive pension benefits.

The fixed remuneration is paid as a monthly salary as part of the basic non-performance-related annual remuneration and is based on an income plan that is established by the Personnel Committee. This takes into account the current situation and the plans/targets of the telegate Group. The benefits in kind primarily consist of the attributable value of the tax benefit relating to of the use of private vehicles. The tax payable on these benefits is paid by the individual Management Board members.

No loans or advances were granted to members of the Management Board in the reporting year.

Part of the performance-related remuneration takes the form of profit-sharing entitlements. These are linked to the achievement of the most important target figures required to increase the enterprise value. Both sales and earnings targets established in the annual budget approved by the Supervisory Board are used as target figures. This share of this component of the remuneration, which is intended to provide a long-term incentive for work performed by the Management Board, is therefore very high and can contribute up to 57% of the total cash remuneration.

Remuneration in 2006

In 2006, remuneration paid to the Management Board totalled 1,274 TEUR (2005: 1,200 TEUR).

Of this amount, 450 TEUR (2005: 405 TEUR) are related to the fixed remuneration and 393 TEUR (2005: 503 TEUR) are related to the bonus. The total value of the benefits in kind was 37 TEUR (2005: 26 TEUR).

In 2006, the Management Board was granted 140,000 share options from the second tranche of the 2005 share option scheme (2005; first tranche; 105,000 share options). The value at the time of granting was 319 TEUR (2005: 196 TEUR). For more details, please refer to note 33 “Share-based payment”.

The members of the Management Board received pension benefits of 74 TEUR (2005: 70 TEUR). These are predominantly determined based on the length of service and remuneration of the individual Management Board members. The pension benefit is not linked to the variable remuneration components (see here also note 27 “Post employment benefit plans”). No Management Board member is entitled to further payments in the event of the cessation of his activities.

in Euro	2006	2005
Fixed salary	450,000.00	405,000.00
Bonus	392,898.00	502,578.25
Benefits in kind	37,290.35	25,816.40
Pension benefits	74,330.00	70,456.00
Total excl. stock options	**954,518.35**	**1,003,850.65**
Stock options	319,200.00	196,350.00
Total incl. stock options	**1,273,718.35***	**1,200,200.65****

* 140.000 Share options
**105.000 Share options

No Management Board member received payments in the past financial year or corresponding benefits from a third party in respect of his activities as a Management Board member. No remuneration was or will be paid in respect of Intra-Group Management Board or Supervisory Board mandates.

No remuneration components exist other than the described cash remuneration and benefits.

Supervisory board compensation regulated in charter

The compensation of the Supervisory Board was modified in the General Meeting on May 12, 2005, and is regulated in § 4.6 of the charter. It is based on the duties and responsibilities of the members of the Supervisory Board.

Each member of the Supervisory Board receives, in addition to reimbursement of expense, a fixed annual salary in the amount of 10 TEUR. This compensation is payable after the General Meeting that determines the release of the Supervisory Board for the concluded year. For the chairman, the salary is doubled; for the vice chairman, it is increased by a factor of 1.5. Supervisory Board members that were part of the Supervisory Board for only part of the year receive a lower salary proportional to time. If a member did not participate in at least 75% of the meetings of the Supervisory Board in an year, then the salary is reduced by 50%.

In addition to the base salary, membership on a committee of the Supervisory Board is compensated with an annual fixed amount of 1 TEUR. A requirement is that the committee met during the year, and that the member actually took part in at least one meeting of the committee.

Compensation for the Supervisory Board for the year 2006 was 137 TEUR (2005: 147 TEUR.)

No member of the Supervisory Board received additional compensation or advantages for personal efforts, particularly for consulting or agency services. Loans or advances were not provided to Supervisory Board members in the reporting year.

44. Corporate Governance Code

MUTUAL DECLARATION OF COMPLIANCE
by the Managing Board and Supervisory Board of telegate AG in accordance with § 161 of the Stock Corporation Act relating to the German Corporate Governance Code

On February 26, 2002, the “Regierungskommission Deutscher Corporate Governance Kodex” adopted the German Corporate Governance Code, which was amended several times afterwards. The current version is dated June 12, 2006. It sets out the main statutory regulations for the management and supervision of German listed companies (corporate governance) and contains internationally and nationally accepted standards for good and responsible governance.

In December 2006, in accordance with Section 161 Corporation Act, the Managing Board and Supervisory Board mutually released their declaration on the recommendations of the Government Commission’s German Corporate Governance Code. The exact wording is provided on the Company’s website www.telegate.com.

Planegg-Martinsried, January 31, 2007
The Management Board

Audit Opinion

We have audited the consolidated financial statements and the group management report prepared by telegate AG, Planegg/Martinsried, comprising the balance sheet, cash flow statement, segment reporting, statement of changes in group equity and notes to the consolidated financial statements, for the fiscal year from January 1 to December 31, 2006. 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 the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the entities to be included in consolidation, the determination of the 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 IFRS as adopted by the EU, 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 5, 2007

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Müller	Ruschmeier
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

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HRB 114518
UST-ID-Nr.:
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telegate on the Web

More information on telegate AG and telegate Group can be found on our website www.telegate.com. Information about single brands and subsidiaries respectively are available at:
www.telegate.de
www.telegate.at
www.telegate.it
www.telegate.es
www.telegate.fr

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

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

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

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Auditor

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft
Munich

Forward-looking Statements

This document contains forward-looking statements that reflect 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 uncer-tainties 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.

Glossar

AGCOM
Autorità per la Garnzie nelle comunicazioni – Authority that regulates the Italian telecommunications market

AktG
Aktiengesetz – German Stock Corporation Act

ARCEP
L' Autorité de Régulation des Communications Electroniques et des Postes (Formerly: ART -Autorité de régulation des télécommunications) – Authority that regulates the French telecommunications market

Bundesnetzagentur (Federal Network Agency)
Bundesnetzagentur für Elektrizität, Gas, Telekommunikation, Post und Eisenbahnen (Federal Network Agency for Electricity, Gas, Telecommunications, Postal Services, and Railways) – Authority that regulates the corresponding markets in Germany – (Formerly: RegTP; Regulierungsbehörde für Telekommunikation und Post (Regulatory Authority for Telecommunications and Postal Services))

Call centre services
Call centre services are very diverse and range from directory assistance and information services over intelligent sales force supervision and customer service all the way to telesales

Cash flow
Financial income of a company, that is, the net gain in liquid assets, normally within a fiscal year

CMT
Comisíon del Mercado de Telecomunicaciones – Authority that regulates the telecommunications market in Spain

COGS
Cost Of Goods Sold –
Describes the direct expenses incurred in producing a particular good for sale, including the actual cost of materials that comprise the good, and direct labor expense in putting the good in salable condition.

Corporate governance codex
Essential government regulations for the management and control of German listed companies

Dividend yield
The dividend yield is defined as the dividend per share divided by a determined period-end exchange rate.

DTAG
Deutsche Telekom AG – Former German monopolist

EBIT
Earnings before interest and taxes

EBITDA
Earnings before interest, taxes, depreciation, and amortization

EUGH
European Court of Justice

FASB
Financial Accounting Standards Board – independent organization, which develops the US-American standards for balance sheet reporting, evaluation and disclosure

France Télécom
France Telecom – Former French Monopolist

HGB
Handelsgesetzbuch (German Commercial Code)

IAS
International Accounting Standards – International accounting standards developed and published by the IASC

IASB
International Accounting Standards Board

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

IFRS
International Financial Reporting Standards – International financial reporting standards developed and published by the IASB

Recapitalization
Increase in the company's equity: For corporations – increase of registered capital by issuing new shares

Market capitalization
The market capitalization – also known as stock exchange capitalization or market value – of a corporation is calculated by multiplying the company’s share price by the number of shares issued and outstanding

Outsourcing
Delegating functions or subtasks to external companies or service providers

Outsourcing partner
Company that provides directory assistance services for telegate under an outsourcing agreement (e.g. E-Plus, Arcor, and ventelo)

Private equity
Private equity – Capital provided to an unlisted company for the medium to long term

Telephone number range
Range of telephone numbers for which a certain number sequence is prescribed. For example, all directory assistance telephone numbers in Germany begin with the number sequence 118. In its assignment rules for directory assistance, the Bundesnetzagentur (Federal Network Agency) says: “Directory assistance telephone numbers are structured as follows: Directory assistance identification number 118, provider ID = XY [...] Directory assistance numbers are always five digits in length.”

Reverse telephone directory
With a reverse telephone directory, the name and address belonging to a particular telephone number can be found

SPG
Seat Pagine Gialle

TKK
Telekom-Kontrol-Kommission – Austrian regulatory authority

UMTS
Universal Mobile Telecommunications System – A mobile radio telephone standard of the European Special Mobile Group, which permits broadband data transmission rates with transmission speeds of up to two megabits

Telecom Italia
Former Italian monopolist

Telefónica
Former Spanish monopolist

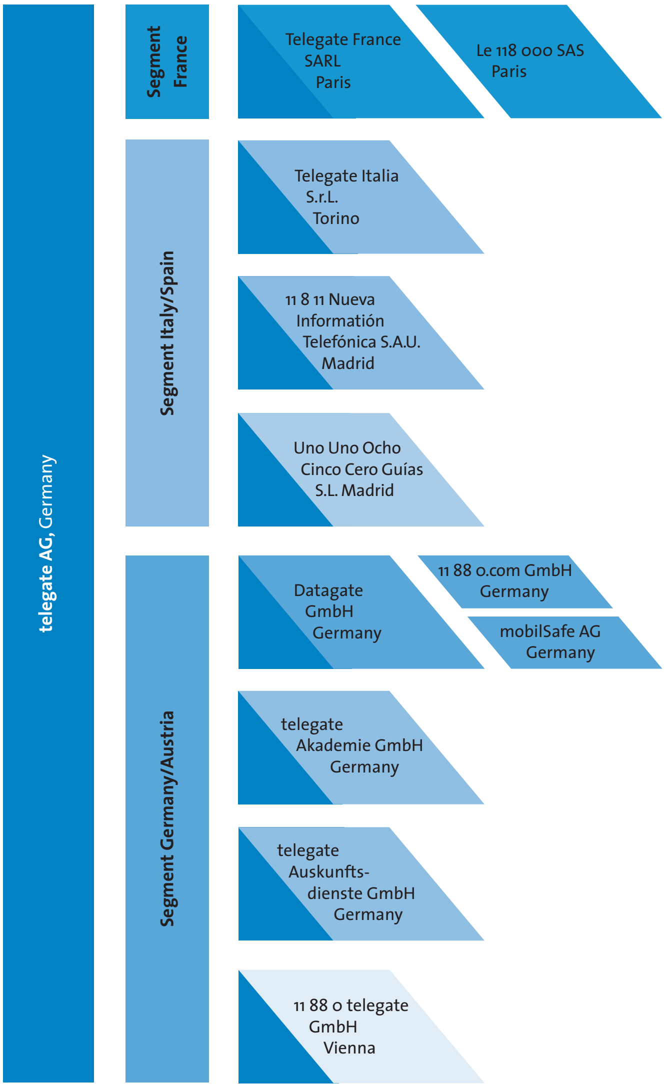
Venture capital
Venture capital; normally private equity capital commonly used by young companies or companies in their founding phase

WAP
Wireless Application Protocol – Standard for the display of text and graphics on mobile telephones

W-LAN
Wireless LAN – A wireless local radio network used to provide for network access for portable computers and other mobile devices

WpHG
Wertpapierhandelsgesetz (Securities Trade Act)

Corporate Structure telegate AG



Financial Calendar 2007

March 8, 2007	• **Publication of Corporate Annual Report** (Financial press conference and telephone conference call)
May 3, 2007	• **3-Month Report 2007**
May 9, 2007	• **General Shareholders Meeting**
August 29, 2007	• **6-Month Report 2007**
November 7, 2007	• **9-Month Report 2007**

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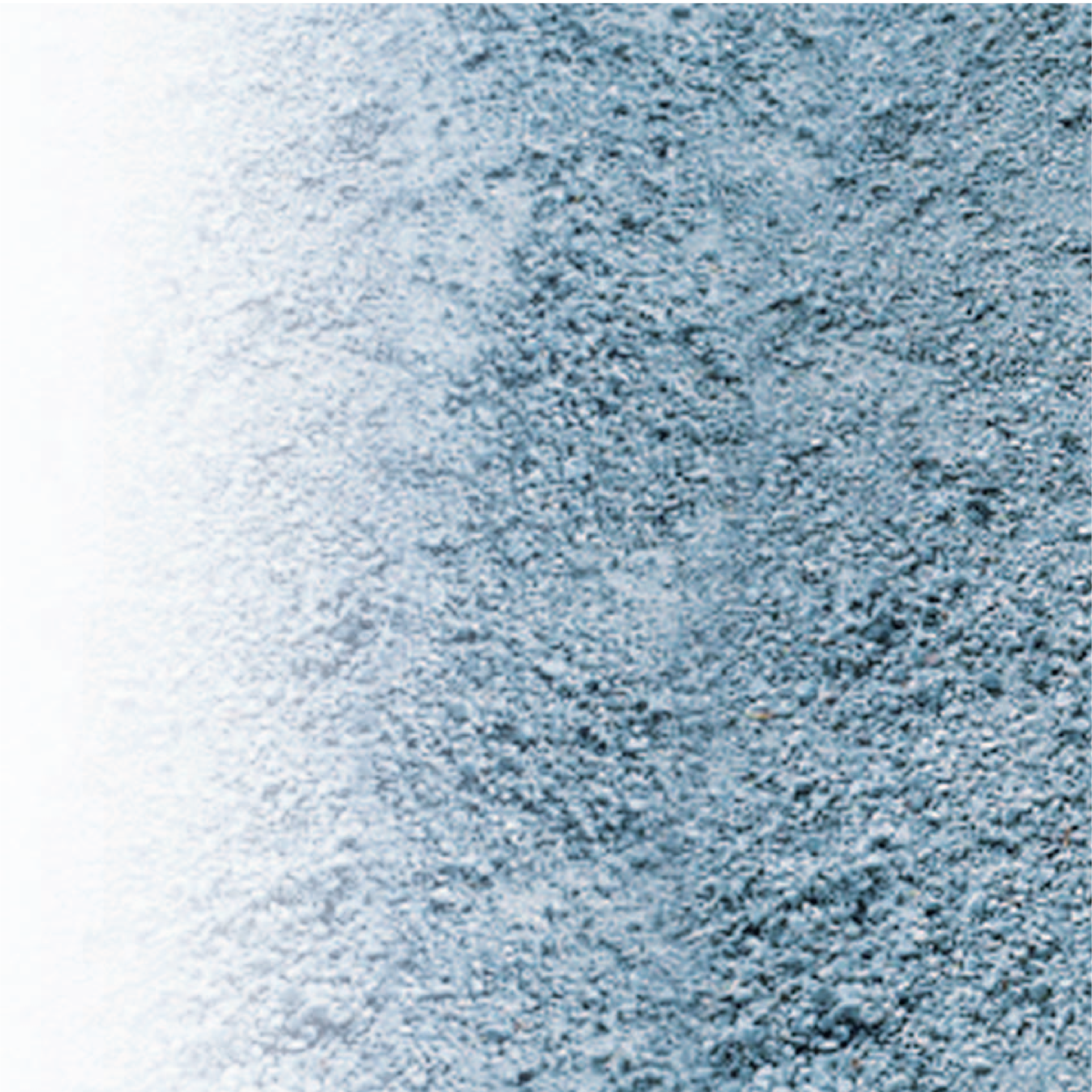

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