



TIPTTEL 2003

Annual Report of group and AG

**tipttel**

## TIPTEL at a glance

### Short portrait

TIPTEL AG, located at Ratingen near Düsseldorf, is a Europe-wide active manufacturer of telecommunication systems. Innovative terminal devices for internet, voice and data communication based on conventional telephone, cordless and network technologies are sold successfully in Europe through a professional sales partner network. Founded in 1973, with today 272 employees in the group TIPTEL develops, produces and markets high quality telephones, answering machines, call manager and voicemail systems, telecommunication systems as well as DECT-telephones especially adapted to the requirements of small and medium-sized enterprises. The company is listed in the quality segment "Prime Standard" of the Frankfurt stock exchange

<b>Course of business</b>	<b>2003 KEUR</b>	<b>2002 KEUR</b>	<b>2001 KEUR</b>
<b>Turnover</b>	<b>34,190</b>	<b>36,379</b>	<b>36,117</b>
thereof:			
Domestic	19,449	21,421	22,964
Foreign	14,741	14,958	13,153
<b>Turnover according to business sectors</b>	<b>34,190</b>	<b>36,379</b>	<b>36,117</b>
thereof:			
ISDN	8,651	8,879	7,481
DECT	4,543	4,707	2,683
Analog	14,483	16,440	16,867
Security technology	121	248	597
Make-to-order-production	4,211	4,367	6,067
Other	2,181	1,738	2,422
<b>Earnings before interest, taxes, depreciation and amortisation (EBITDA)</b>	<b>515</b>	<b>-458</b>	<b>-3,774</b>
<b>Earnings before interest and taxes (EBIT)</b>	<b>-785</b>	<b>-2,385</b>	<b>-6,213</b>
<b>Annual profit / loss</b>	<b>-1,170</b>	<b>-2,715</b>	<b>11,367</b>
<b>Turnover profitability (on EBIT-Basis)</b>	<b>-2,3 %</b>	<b>-6,6 %</b>	<b>-17,2 %</b>
<b>Cash Flow</b>	<b>239</b>	<b>-591</b>	<b>-3,356</b>
<b>Balance sheet total</b>	<b>20,156</b>	<b>25,008</b>	<b>28,883</b>
<b>Share capital ratio</b>	<b>8,7 %</b>	<b>14,0 %</b>	<b>19,3 %</b>
<b>Investment</b>	<b>283</b>	<b>317</b>	<b>733</b>
<b>Number of employees (Average)</b>	<b>279</b>	<b>284</b>	<b>318</b>
thereof			
Domestic	234	238	270
Foreign	45	46	48
<b>Earnings per share (in EUR)</b>	<b>-0.22</b>	<b>-0.52</b>	<b>2.18</b>
<b>Cash Flow per share (in EUR)</b>	<b>+0.04</b>	<b>-0.05</b>	<b>-0.37</b>

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# Joint management report of TIPTEL Group and TIPTEL AG

The joint management report for the business year from 1 January to 31 December covers the TIPTEL Group and the stock corporation TIPTEL AG. Where separate presentations of the positions at group level and at stock corporation level are deemed necessary, these are to be found in relevant sub-sections marked accordingly.



# Course of business

## 1 Development of the economy as a whole and of the industry

### **Development of the economy as a whole**

The course of business at TIPTEL AG, as one of the manufacturers of telecommunications systems active throughout Europe, is also impacted to a decisive degree by the overall state of the economy – and in particular that of the core German market and of the European economic area. Following the economic weakness at the beginning of the 2003 business year, the global economy recovered in the subsequent months. With the swift official conclusion of the war in Iraq in May 2003, it was hoped that the global economy would see rapid growth. According to provisional figures from the Kiel Institute for World Economics the global economy saw growth of 3.4 per cent in 2003.

Despite the positive prevailing mood, the first positive signals for a sustainable economic recovery were not seen within the EU until the third quarter of 2003. In particular within the core German market relevant to TIPTEL the economic output declined in 2003 for the first time in ten years. The gross domestic product (GDP) decreased by 0.1 per cent according to provisional figures released by Germany's Statistics Bureau. Thus Germany has now fallen below the EU average. Since mid-2003 there have, however, been the first signs of an economic recovery in Germany. After production in the economy as a whole had declined in the first six months of the year due to the unfavourable framework conditions, in the third and fourth quarters of 2003 the German economy was again able to pick up slightly. This economic growth was borne along by exports, which, despite the strength of the Euro, profited noticeably from the recovery in the global economy. German exports as a whole saw only a moderate increase of 1.1 per cent in 2003. In Germany, on the other hand, there were scarcely any growth stimuli to be seen. Private consumption continued to be reserved at –0.2 per cent. The unfavourable situation on the labour market and the uncertainty over future burdens for private incomes contributed greatly to this decline in private consumption.

On the basis of current economic data, business institutes and specialists expect to see a permanent recovery in the global economy in 2004. Within Germany itself TIPTEL is also hoping for a clear recovery in the economy following three years of stagnation in the gross domestic product. A number of factors, such as the further economic development in the USA, the development

## Selected economic indicators

Changes in real terms compared to previous year in per cent

Countries	GDP		Investments		Private consumption		Labour costs in real terms	
	2004	2005	2004	2005	2004	2005	2004	2005
Belgium	1.8	2.3	2.0	3.6	1.6	2.2	0.6	0.3
Denmark	2.0	2.3	2.9	4.6	2.9	2.6	0.1	-0.2
Germany	1.6	1.8	2.8	2.1	1.1	1.4	-1.3	0.1
Greece	4.2	3.4	7.1	3.5	3.0	3.0	-0.7	-0.9
Spain	2.9	3.3	3.9	4.5	3.2	3.4	-0.6	-0.8
France	1.7	2.3	1.4	3.3	1.5	2.0	-0.9	-0.5
Ireland	3.7	4.9	2.5	3.0	2.8	3.8	-1.0	-1.5
Italy	1.5	1.9	2.0	2.9	1.9	2.0	-0.5	-0.6
Luxembourg	1.9	2.8	1.0	3.2	1.8	2.0	-1.6	1.9
Netherlands	0.6	2.0	0.5	2.3	0.1	1.4	-1.6	1.5
Austria	1.9	2.5	2.5	3.8	1.8	2.2	0.1	-0.1
Portugal	1.0	2.0	1.0	5.2	0.8	0.9	-1.2	-1.4
Finland	2.5	2.7	0.5	2.3	2.5	2.6	-0.1	-0.8
Sweden	2.2	2.6	2.2	4.9	2.3	2.3	0.5	-0.6
U. K.	2.8	2.9	4.8	4.8	2.2	2.3	0.1	-0.1
<b>EU15</b>	<b>2.0</b>	<b>2.4</b>	<b>2.7</b>	<b>3.4</b>	<b>1.8</b>	<b>2.1</b>	<b>0.7</b>	<b>-0.4</b>
<b>Eurozone</b>	<b>1.8</b>	<b>2.3</b>	<b>2.4</b>	<b>3.0</b>	<b>1.6</b>	<b>2.0</b>	<b>1.0</b>	<b>-0.5</b>
Cyprus	3.4	4.2	7.4	7.7	3.3	3.6	n.v.	n.v.
Czech Republic	2.6	3.3	2.7	3.2	3.3	4.2	0.9	0.4
Estonia	5.6	5.1	5.0	4.0	5.0	3.5	1.4	-1.8
Hungary	3.2	3.4	6.8	7.3	4.0	4.6	1.8	-2.2
Latvia	5.2	5.7	9.5	9.5	5.0	5.0	0.1	-0.7
Lithuania	5.7	6.0	8.5	8.7	4.7	4.6	2.7	-2.8
Malta	2.7	2.9	2.4	3.9	1.0	1.2	0.1	-0.3
Poland	4.2	4.8	9.0	11.5	3.3	3.7	1.8	-0.7
Slovakia	4.1	4.3	5.0	5.4	2.6	3.2	0.1	-0.2
Slovenia	3.1	3.7	5.5	7.0	3.0	3.0	1.2	-1.5
<b>10 accession countries</b>	<b>3.8</b>	<b>4.2</b>	<b>6.6</b>	<b>7.8</b>	<b>3.5</b>	<b>3.9</b>	<b>1.2</b>	<b>-0.9</b>

Source: EU commission (prognoses)/Handelsblatt, 03.12.2003



of the exchange rate for the Euro and the financial impact of political measures in Germany, may have an as yet unforeseen impact on the economy as a whole in 2004. The current prognoses for the German gross domestic product in 2004 are within a bandwidth of +1.4 per cent to +1.8 per cent (change in real terms over the previous year as a percentage).

The economic development in the Eurozone (EU 15) is likely to be positively impacted by the EU enlargement on 1 May 2004. With the addition of 10 new member states the EU's population will grow in size from 380 million to 455 million. Thus, not only is the development of new sales markets eased, but also that of interesting new production sites for small and medium-sized companies.

The Dollar-Euro exchange rate is likely to be between US\$ 1.15 and US\$ 1.25 at the end of 2004. According to a survey by the newspaper Handelsblatt, analysts have forecasted an average exchange rate of US\$ 1.24 for the end of the year. By way of comparison:

<b>30.12 close of trading</b>		
	<b>2003</b>	<b>2002</b>
<b>1.00 Euro / Dollar (ECB)</b>	<b>1.2496</b>	<b>1.0422</b>

The EU Commission has forecasted the following development of specific economic indicators for 2004 to 2005:

*(Changes in real terms over the previous year as a percentage)*

	<b>GDP</b>		<b>Investment</b>		<b>Private consumption</b>		<b>Unit labour costs in real terms</b>	
	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>
EU 15	2.0	2.4	2.7	3.4	1.8	2.1	-0.7	-0.4
Eurozone	1.8	2.3	2.4	3.0	1.6	2.0	-1.0	-0.5
10 accession countries	3.8	4.2	6.6	7.8	3.5	3.9	-1.2	-0.9

## Population

	Population absolute	Share of population in the EU	Weighting of votes Council of Ministers acc to the Nice rule, in per cent
	in million	in per cent	
Belgium	10.3	2.3 %	3.5 %
Denmark	5.3	1.2 %	2.0 %
Germany	82.4	18.2 %	8.4 %
<b>Estonia</b>	<b>1.4</b>	<b>0.3 %</b>	<b>1.2 %</b>
Finland	5.2	1.1 %	2.0 %
France	59.0	13.0 %	8.4 %
Greece	10.6	2.3 %	3.5 %
U. K.	59.9	13.2 %	8.4 %
Ireland	3.8	0.8 %	2.0 %
Italy	57.8	12.8 %	8.4 %
<b>Latvia</b>	<b>2.4</b>	<b>0.5 %</b>	<b>1.2 %</b>
<b>Lithuania</b>	<b>3.5</b>	<b>0.8 %</b>	<b>2.0 %</b>
Luxembourg	0.4	0.1 %	1.2 %
<b>Malta</b>	<b>0.4</b>	<b>0.1 %</b>	<b>0.8 %</b>
Netherlands	16.0	3.5 %	3.8 %
Austria	8.1	1.8 %	2.9 %
<b>Poland</b>	<b>38.2</b>	<b>8.4 %</b>	<b>7.8 %</b>
Portugal	10.3	2.3 %	3.5 %
Sweden	8.9	2.0 %	2.9 %
<b>Slovakia</b>	<b>5.4</b>	<b>1.2 %</b>	<b>2.0 %</b>
<b>Slovenia</b>	<b>2.0</b>	<b>0.4 %</b>	<b>1.2 %</b>
Spain	40.1	8.9 %	7.8 %
<b>Czech Republic</b>	<b>10.2</b>	<b>2.3 %</b>	<b>3.5 %</b>
<b>Hungary</b>	<b>10.2</b>	<b>2.3 %</b>	<b>3.5 %</b>
<b>Cyprus</b>	<b>0.8</b>	<b>0.2 %</b>	<b>1.2 %</b>

Source: Handelsblatt. 30./31.12.2003

### **Development of the industry**

The restrained economic development at the beginning of 2003 was also felt by the information technology and telecommunications industries in Germany. The two industries stagnated in 2003, and this came on top of a negative growth rate of –2.7 per cent for 2002. For the current 2004 business year the sector expects growth of approx. 2.0 per cent.

TIPTEL is represented in the telecoms market segments telephone systems, corded and cordless telephones, as well as voice recording systems (call managers, voice-mail systems, answering machines). In Germany these segments declined by an average of 7.2 per cent in 2003. In the estimation of EITO (European Information Technology Observatory), a downturn of approx. 3.9 per cent is also expected for 2004. The telephone system segment alone is expected to see a positive growth rate of approx. 1 per cent.

Within the EU the market segments relevant to TIPTEL are set to see a slightly positive development on average (+0.1 per cent).

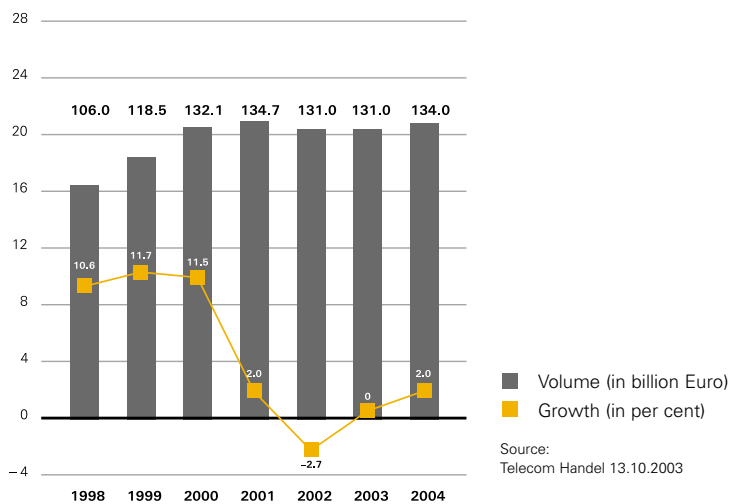
TIPTEL's products are marketed throughout Europe. To this end TIPTEL has sales and service companies in Austria, the Netherlands, France, Belgium and Switzerland. As in the previous year it is to be assumed that the telecoms market segment will develop differently from country to country in 2004.

In this respect it is to be noted that even in the telecoms market segments stated here, only certain niches are addressed by the TIPTEL product range. TIPTEL's core target groups are small and medium-sized enterprises (SME), as well as small offices and home offices (SoHo). The market figures quoted above also include the data for other user groups, such as private households and companies of other sizes.

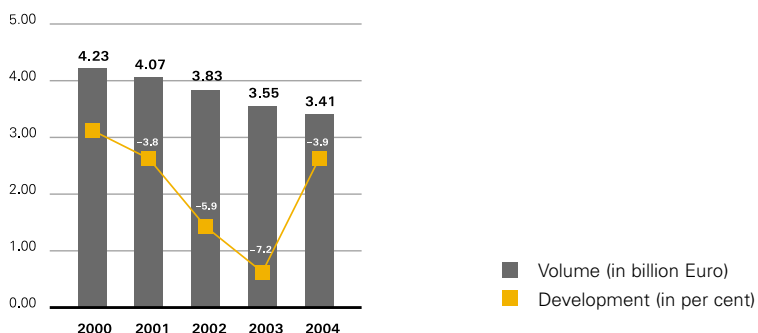
In the estimation of BITKOM, it is to be expected that the group of commercial telecoms users relevant to TIPTEL will begin investing in telecommunications and IT equipment to a greater degree in 2004. In the opinion of the management DSL, WLAN and VoIP technologies will be the driving forces behind growth on the telecoms market in 2004.

## Development of industry sector

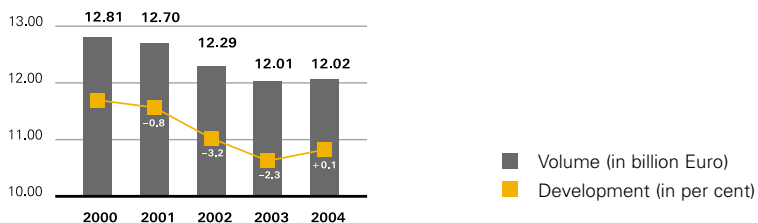
### Development of the German ICT market 1998 to 2003



### Development of the CT market segments in Germany



### Development of the CT market segments in the EU



Source:  
EITO – European Information  
Technology Observatory 2003

## 2 Development of sales revenues

In its core business areas TIPTEL is positioned as a specialist for innovative telecommunications solutions in the field of terminal equipment, as well as computer- and internet-aided voice and data communication. Through the business divisions ISDN, Analogue and DECT, the company develops, produces and markets closed, user-related system solutions on the market for small and medium-sized companies (SoHo and SME). In addition TIPTEL is positioned in the business divisions security technology and made-to-order production.

### **TIPTEL Group**

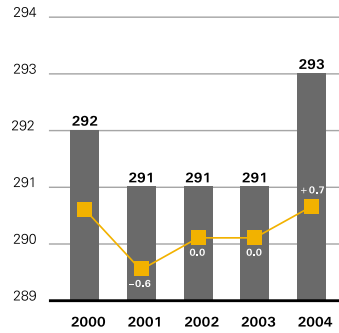
The total consolidated sales in 2003 were KEUR 34,190. Thus the group posted a downturn of KEUR 2,189 in sales over the previous year (-6.0 per cent). In particular the unexpected downturn in market demand (see explanation for TIPTEL AG) is reflected in the development of sales in virtually all the business divisions.

In the ISDN business division the group posted a decline of 2.6 per cent to KEUR 8,651. In the DECT business division the group attained sales of KEUR 4,543, a figure KEUR 164 lower than that seen in the previous year (-3.5 per cent). In 2002 TIPTEL had been able to post a rise of over 75 per cent in sales for this division (KEUR 4,707). With a view to the DECT business volume in 2001 (KEUR 2,682) the slightly weaker development in 2003 is of no major significance.

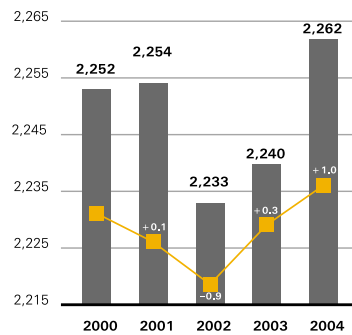
The Analogue business division made a considerable contribution of KEUR -1,957 (-11.9 per cent) to the downturn in consolidated sales. This decline in sales was also driven by the weak market demand in Germany. At Deutsche Fernsprecher GmbH in Marburg the fall in sales for the Analogue division in Germany was KEUR -767. At the stock corporation in Ratingen the consumer and professional analogue area accounted for the largest share of the low sales volume (KEUR -746, which corresponds to -13.4 per cent). In total, the above changes at Deutsche Fernsprecher GmbH and TIPTEL AG accounted for nearly 80 per cent of the decline in sales in the Analogue division of the TIPTEL Group in 2003.

## Development of industry sector

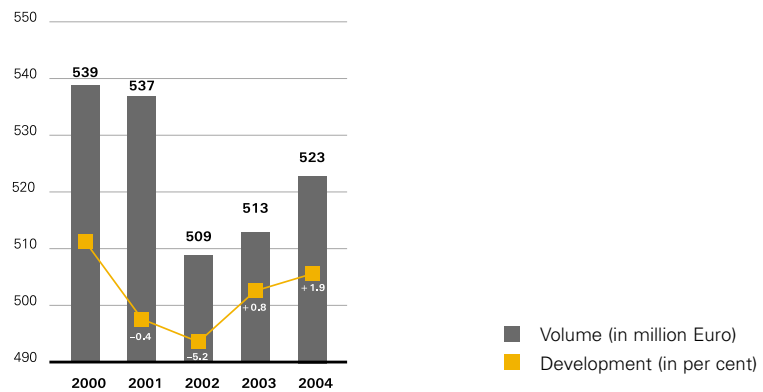
### Development of the CT market segments in Belgium



### Development of the CT market segments in France



### Development of the CT market segments in the Netherlands



■ Volume (in million Euro)  
 ■ Development (in per cent)

Source:  
 EITO – European Information  
 Technology Observatory 2003

In the two business divisions security technology and made-to-order production, the group attained total revenues of KEUR 4,332 (6.1 per cent less than in the previous year).

In the comparative appraisal of the development of pan-group sales at the TIPTEL country groups, it appears, above all, that the business impaired by the negative development in Germany had a negative impact on the consolidated sales in 2003.

	<b>2003</b> in KEUR	<b>2002</b> in KEUR
Germany	19,449	21,421
Benelux	8,424	7,151
Rest of Europe	6,317	7,807
<b>Total</b>	<b>34,190</b>	<b>36,379</b>

TIPTEL saw a pleasingly positive development outside of Germany. Thus the Benelux countries saw a rise of 17.8 per cent over the previous year. In the other countries ("Rest of Europe"), sales in the comparative period declined by 19.1 per cent. The companies in the Netherlands, Belgium and France played a sustained role in this positive sales development.

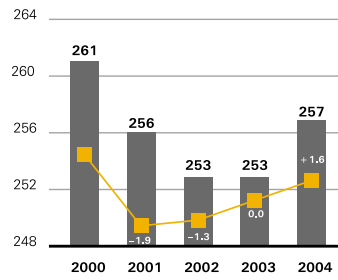
#### **TIPTEL AG annual financial statements**

The development of the market and the industry also shaped the course of business at stock corporation level. For the whole of the 2003 business year the stock corporation posted total sales revenues of KEUR 19,162. Thus the sales revenues in 2003 were KEUR 441 (-2.2 per cent) lower than in the previous year, 2002. With a view to the key area of telecommunications (excluding made-to-order production and security technology), the decline in sales was KEUR 285 which corresponds to a decrease of 1.9 per cent.

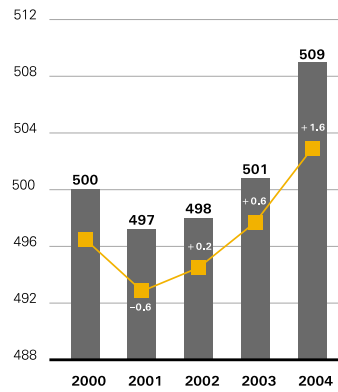
If the business development of the stock corporation is compared to the market development in the telecommunications segment relevant to TIPTEL, the company was able to assert itself in the face of a downturn of 7.2 per cent for the market as a whole. Originally it had been assumed that the industry would see a positive market development.

## Development of industry sector

### Development of the CT market segments in Austria



### Development of the CT market segments in Switzerland



■ Volume (in million Euro)  
■ Development (in per cent)

Source: EITO – European Information Technology Observatory 2003



Particular impact on the total sales of TIPTEL AG came about through the transfer to Ratingen of stocks to the value of KEUR 408 from the TIPTEL sales and service companies in Belgium, Switzerland and Austria. This transfer is one of the measures which featured in the concentration of TIPTEL's pan-European logistics activities on its headquarters in Ratingen. To this end the companies were given a credit note, which reduced the sales revenues of TIPTEL AG accordingly. Without this credit note the sales revenues of TIPTEL AG would have been at about the same level seen in the previous year.

The export quota increased from 39.3 per cent in 2002 to 41.0 per cent in 2003.

The orders on hand as of 31st December 2003 were KEUR 1,869 (2002: KEUR 1,531).

### 3 Production

#### **TIPTEL Group**

Within the TIPTEL Group production takes place at TIPTEL AG in Ratingen and at Deutsche Fernsprecher GmbH in Marburg with a total of 124 employees (2002: 124 employees). The manufacturing costs did not see an above-average rise in 2003, but were essentially geared to the general development of prices (e.g. increase in collectively-agreed wage scales).

#### **TIPTEL AG annual financial statements**

As in prior years the four high-speed placement systems, as well as radial and axial machines, were primarily used in two shifts in 2003. Thus the capacity utilisation of the production lines is high.

An annual average of 85 staff were employed in production in 2003 (2002: 88); this figure is thus 3.4 per cent lower than in the previous year.

On the whole the production costs have risen slightly. The absolute manufacturing costs (including the manufacturing overheads) saw a moderate rise over the same period of the previous year.

Although it was possible to reduce the materials overheads by a further 8.0 per cent, the materials overheads quota rose to 3.9 per cent over the previous year (3.4 per cent). The reason for this lies in the fact that the absolute costs of direct materials were lower than the corresponding figure for the previous year due to the further decrease in cost prices and the development of sales.

#### 4 Procurement

After the stock of finished goods and work in process, as well as raw materials, consumables and supplies, at TIPTEL AG had been reduced by 27.8 per cent in 2002, it was possible to lower the inventories by a further 7.0 per cent in 2003. In this respect it has to be taken into consideration that with the transfer to Ratingen of the stocks for the sales and service companies from Belgium, Switzerland and Austria, there was an increase of approx. KEUR 408 in the inventories at Ratingen. Otherwise the reduction in the inventories at TIPTEL AG in Ratingen would have been even higher. Within the group, the inventories have thus been reduced by KEUR 1,279 from KEUR 8,989 to KEUR 7,710 (-14.2 per cent).

For 2004 TIPTEL does not expect to see longer delivery periods for components.

In the case of semiconductors the industry assumes that sales will increase by nearly 20 per cent in 2004, with an average capacity utilisation of 85 per cent in 2003. Nevertheless, on the basis of current negotiations with the suppliers of semiconductors and standard elements, TIPTEL assumes that even more favourable prices can be achieved in 2004. In the case of electronic components in 2004 the company expects that it can defy the price increases which have been on the horizon for some time, and does not therefore see any major change with imported parts in the dependence on the development of the Dollar/Euro exchange rate.

## 5 Investment

The investment in intangible fixed assets and fixed assets at group level in 2003 amounted to KEUR 283 (2002: KEUR 317), and at TIPTTEL AG to KEUR 179 (2002: KEUR 186). The main bulk of the investment was in the development of TIPTTEL products (see "Research & Development") and to a relatively small extent in replacement investment.

## 6 Financing measures

The necessary borrowed funds for the financing of the business volume were available as long-, medium- and short-term borrowings.

The short-term borrowings are short-term operating credits which are issued for a limited period of time and which may be amended to the respective business development. Such an amendment may, depending upon the course of business, be conducted by the financing credit institute independently of the company (positively or negatively).

## 7 Personnel and social sector

### **TIPTTEL Group**

At the end of 2003 the TIPTTEL Group employed 272 staff (31st December 2002: 277). The classic differentiation between workers and employees exists exclusively at the companies in Germany (TIPTTEL AG, Deutsche Fernsprecher GmbH). In total the number of workers on an annual average was 118 persons and is thus identical to the figure seen in the previous year. The number of staff classified as employees declined by 5 employees to 161 persons (-3.1 per cent).

#### Employees TIPTEL Group

	Annual average	End of year
2001	318	301
2002	284	277
2003	279	272

#### Number of employees by company (balance sheet date)

	2003	2002
TIPTEL AG, Ratingen	160	163
Deutsche Fernsprecher GmbH, Marburg	70	70
Tiptel B.V., Netherlands	20	21
Tiptel NV/SA, Belgium	4	4
Tiptel s.a.r.l., France	8	7
Tiptel GmbH, Austria	5	6
Tiptel AG, Switzerland	5	6
<b>Total</b>	<b>272</b>	<b>277</b>

No major changes are planned for the 2004 business year.

#### TIPTEL AG annual financial statements

The essential personnel changes within the framework of rationalisation measures in the group and the stock corporation were conducted in the years 2001 and 2002. Accordingly the development in 2003 was as follows:

#### Employees TIPTEL Group

	Annual average	End of year
2001	199	179
2002	166	163
2003	162	160

In comparison to the end of 2002 the number of employees decreased slightly in 2003 by a further three employees (1.8 per cent). The administration and production areas were affected by these developments.

This slight decrease in the number of employees is also reflected in the absolute personnel expenses of KEUR 6,702 (-0.8 per cent).

The distribution of the employees to the individual areas of the company is reflected in the following table:

**Employees in the individual areas of the company**

	<b>2003</b>	<b>2002</b>	<b>Change</b>
Sales	32	32	0
Research & Development	21	21	0
Production	85	86	-1
Administration	22	24	-2
<b>Total</b>	<b>160</b>	<b>163</b>	<b>-3</b>

In 2003 there was no reduction in the number of employees actively working in product development, i.e. TIPTEL continues to invest in its employees in this sector, and thus in the future of the company.

The planned launch of an in-company suggestion system in 2003 was postponed until 2004.

## 8 Other important events

At the end of the first half of 2003 TIPTEL reached a settlement in the legal dispute over the termination of the leasing agreement for the real estate in Kiel. Within the framework of the insolvency proceedings for Hagenuk GmbH (Kiel) in 1999 TIPTEL AG was obliged to enter into a rental income guarantee for the payment of the leasing instalments for the real estate in Kiel. Despite the termination of the leasing agreement in June 2001 there were time-consuming and costly negotiations which were finally concluded with a settlement. As a consequence, the leasing agreement will not lead to any further charges on the future development of results for the TIPTEL Group.

# Business situation

## 1 Net worth and capital structure

### **TIPTEL Group**

The net worth, financial position and earnings of the group changed considerably compared to the 2002 business year. The following changes contributed considerably to this:

- Consistent reduction in inventories
- Settlement regarding the real estate in Kiel
- Improvement in the operating business result

The inventories of the TIPTEL Group were reduced by KEUR 1,278 to KEUR 7,711 which corresponds to a decrease of 14.2 per cent. Thus since the balance sheet date 31st December 2001 the inventories have been lowered by over three million Euros in the past two years. Thus the cash flow of the company has considerably improved (see cash flow statement).

The agreement with a legal settlement regarding the real estate in Kiel had virtually the same impact on the situation at group level as it did at stock corporation level (see below). The only impact from the settlement that differed at group level concerns the economic allocation of the storage shelves in Kiel. At group level the agreement led to the disposal of the capitalised storage shelves with a sum of KEUR 1,170 and of the leasing obligation of KEUR 1,172 on the liabilities side.

### **TIPTEL AG annual financial statements**

The net worth, financial position and earnings of the stock corporation in the 2003 business year were essentially shaped by the following changes:

#### **Reduction in the inventories**

In the past business year it was possible to further reduce the inventories, by KEUR 289 to KEUR 3,810. The reduction in the inventories could have been KEUR 408 higher. Goods from the sales companies in Austria, Belgium and Switzerland were transported to Ratingen so as to centralise logistics support. Otherwise the stocks would have been reduced by a further KEUR 690 (approx. –17 per cent). The management sees this as further confirmation of the endeavours in place since 2002 to consistently increase the profitability of the company. Excellent examples of the measures realised to this end are the optimisation of the order cycles and the improvements in the planning process. TIPTEL now guarantees an optimised stocks structure without in any way compromising its ability to deliver.

#### **Settlement regarding the real estate in Kiel**

As a consequence of the settlement regarding the real estate in Kiel the stock corporation was able to reverse provisions of KEUR 289.

On the whole the balance-sheet total decreased by KEUR 2,623 with the effect that the equity ratio improved by 1.1 percentage points, from 51.6 per cent as of 31st December 2002 to 52.7 per cent as of 31st December 2003.

## Asset and capital structure of TIPTEL AG

	31.12.2003		31.12.2002		Changes KEUR
	KEUR	%	KEUR	%	
<b>Assets</b>					
<b>Fixed assets</b>					
Intangible assets	383	2.0	514	2.3	-131
Tangible assets	2,333	12.0	2,770	12.5	-437
Investments	5,264	27.1	5,379	24.4	-115
	<b>7,980</b>	<b>41.1</b>	<b>8,663</b>	<b>39.2</b>	<b>-683</b>
<b>Current assets</b>					
Inventories	3,810	19.6	4,099	18,6	-289
Accounts receivable	1,195	6.1	2,035	9.2	-840
Accounts receivable from affiliated companies	5,801	29.8	6,061	27.5	-260
Other assets	87	0.4	892	4.0	-805
Liquid funds	569	2.9	294	1.3	+ 275
	<b>11,462</b>	<b>58.8</b>	<b>13,381</b>	<b>60.6</b>	<b>-1,919</b>
<b>Deferred expenses and accrued income</b>	<b>9</b>	<b>0.1</b>	<b>30</b>	<b>0.2</b>	<b>-21</b>
<b>Overall assets</b>	<b>19,451</b>	<b>100.0</b>	<b>22,074</b>	<b>100.0</b>	<b>-2,623</b>
<b>Liabilities</b>					
<b>Shareholders equity and similar to shareholders equity values</b>					
Subscribed capital	13,347	68.6	13,347	60.5	0
Capital reserve	540	2.8	540	2.4	0
Revenue reserves	81	0.4	81	0.4	0
Balance sheet loss	-3,708	-19.1	-2,584	-11.7	-1,124
	<b>10,260</b>	<b>52.7</b>	<b>11,384</b>	<b>51.6</b>	<b>-1,124</b>
<b>Long-term borrowed capital</b>					
Liabilities due to banks	998	5.1	1,331	6.0	-333
	<b>998</b>	<b>5.1</b>	<b>1,331</b>	<b>6.0</b>	<b>-333</b>
<b>Medium-term borrowed capital</b>					
Liabilities due to banks	1,331	6.8	1,331	6.0	0
Liabilities due to affiliated companies	23	0.1	109	0.5	-86
Other liabilities	154	0.8	256	1.2	-102
	<b>1,508</b>	<b>7.7</b>	<b>1,696</b>	<b>7.7</b>	<b>-188</b>
<b>Short-term borrowed capital</b>					
Provision for taxation	556	2.9	562	2.5	-6
Other provisions	1,545	8.0	2,243	10.2	-698
Liabilities due to banks	1,803	9.3	1,307	5.9	+496
Accounts payable	2,051	10.6	2,580	11.7	-529
Liabilities due to affiliated companies	3	0.0	2	0.0	+1
Other liabilities	719	3.7	951	4.3	-232
	<b>6,677</b>	<b>34.5</b>	<b>7,645</b>	<b>34.6</b>	<b>-968</b>
<b>Overall borrowed funds</b>	<b>9,183</b>	<b>47.3</b>	<b>10,672</b>	<b>48.3</b>	<b>-1,489</b>
<b>Deferred income and accrued expenses</b>	<b>8</b>	<b>0.0</b>	<b>18</b>	<b>0.1</b>	<b>-10</b>
<b>Total capital</b>	<b>19,451</b>	<b>100.0</b>	<b>22,074</b>	<b>100.0</b>	<b>-2,623</b>



## 2 Financial situation

### **TIPTEL Group**

The cash and cash equivalents of the group as of 31st December 2003 were KEUR 1,164, and had changed compared to the balance sheet date for the previous year by 22 per cent. Above all the cash flow from operating activities saw a pleasing development in 2003. Here the group was able to post an influx of KEUR 239 as of 31st December 2003. As the liquidity outflow for this item in 2002 was KEUR 591, TIPTEL has thus posted a positive cash flow for 2003. This was primarily a result of the improvement of KEUR 1,278 (-14 per cent) with the reduction in the consolidated inventories.

The cash flow statement illustrates the development of the group's financing.  
(Page 41)

### **TIPTEL AG annual financial statements**

The liquid funds of the cash and cash equivalents of the stock corporation increased as of the balance sheet date 31st December from KEUR 294 (2002) to KEUR 569 (2003).

The liabilities due to banks saw a slight increase of KEUR 163 to KEUR 4,132. Besides a working capital credit from Sparkasse Ratingen, this balance-sheet item includes a long-term loan of KEUR 2,662 from Investitionsbank Schleswig-Holstein. This loan is scheduled to be repaid by 2011, with re-payments starting in 2004. Interest payments have already been made since 30th June 2003.

The cash and cash equivalents at the end of the period increased by KEUR 290 to KEUR 541 (2002: KEUR 251). The cash flow from current activities improved by KEUR 797 from KEUR -383 (31st December 2002) to KEUR 414.

By attaining a positive cash flow at stock corporation level and at group level TIPTEL also saw a turnaround in the financial situation of the company in 2003. The ongoing negative trend in the company's cash flow has therefore been halted.

Further details are to be found in the following cash flow statement for TIPTEL AG.

## Cash flow statement of TIPTEL AG

	01.01. – 31.12.2003		01.01. – 31.12.2002	
	KEUR		KEUR	
<b>1 Earnings prior to tax on profits and to financial result</b>	./.	<b>1,228</b>	+	<b>272</b>
2 Paid (-) / received (+) taxes on profits	+	7	./.	0
3 Interest received	+	39	+	47
4 Interest paid	./.	486	./.	166
5 Dividends received	+	86	+	100
6 Result of the period	./.	1,582	+	253
7 Depreciation (+) / write-ups (-) on – intangible and tangible assets (balance)	+	732	+	1,112
– financial assets	./.	0	./.	2,486
8 Increase (+) / decrease (-) in provisions	./.	704	./.	585
9 Other expenses (+) and income (-) not affecting cash flows	./.	11	+	120
10 Profit (-) / loss (+) from disposal of fixed assets	./.	11	./.	21
11 Increase (-) / decrease (+) in inventories, receivables from goods and services and other assets (without investing activities)	+	2,397	+	1,985
12 Increase (+) / decrease (-) in accounts payable from and goods and services other liabilities (without financing and investing activities)	./.	407	./.	761
<b>13 Cash flow from operating activities</b>	+	<b>414</b>	./.	<b>383</b>
14 Inflow from tangible asset disposals	+	11	+	48
15 Outflow for investments in tangible assets	./.	75	./.	105
16 Outflow for investments in intangible assets	./.	104	./.	81
17 Inflow from financial asset disposals	+	115	+	332
<b>18 Cash flow from investing activities</b>	./.	<b>53</b>	+	<b>194</b>
19 Inflow from issuing loans and increase in borrowings	./.	0	+	186
20 Outflow for repayments on borrowings	./.	86	./.	381
<b>21 Cash flow from financing activities</b>	./.	<b>86</b>	./.	<b>195</b>
22 Changes in cash and cash equivalents affecting cash flow	+	275	./.	384
23 Increase (-) / decrease (+) of pledged funds	+	15	./.	0
24 Cash and cash equivalents at beginning of period	+	251	+	635
<b>25 Cash and cash equivalents at end of period thereof:</b>	+	<b>541</b>	+	<b>251</b>
26 liquid funds	+	569	+	294
27 pledged funds	./.	28	./.	43
<b>28 Cash and cash equivalents at end of period</b>	+	<b>541</b>	+	<b>251</b>

### 3 Earnings

#### **TIPTEL Group**

In the 2003 business year the consolidated loss for the year decreased to KEUR –1,170 following on from a loss of KEUR –2,715 in the previous year. With an improvement in the annual result of KEUR 1,545 the development of results shows the continuity on the path to a turnaround at the TIPTEL Group. The following comparison of the development of the operating result (EBIT) in the past three years illustrates this development.

#### **EBIT development over course of time**

	<b>EBIT in KEUR</b>
2001	–6,213
2002	–2,385
2003	–785

In a comparison with the operating result (EBIT) in 2002, the EBIT in 2003 improved by KEUR 1,600. In a two-year comparison from 2001 to 2003 the earnings (EBIT) improved by nearly 5.4 million Euros.

If the downturn of KEUR 2,189 in sales revenues in 2003 is included in the analysis of the earnings situation, it is seen that the major impact on the result is an increase of 6.1 percentage points (KEUR +1,015) in the gross profit.

In the costs sector (personnel expenses, other operating expenses and depreciation) TIPTEL has succeeded in maintaining the costs at a relatively constant and low level in 2003 following the extensive cost reductions in previous years. Thus further increases in the gross profit will in future be reflected in a results-oriented increase in the sales revenues (see also "Probable Development").

The earnings before interest, taxes, depreciation and amortisation (EBITDA) rose from KEUR –495 to KEUR +515 (+KEUR 974). With a figure of KEUR 515 the TIPTEL Group has posted a positive EBITDA for the first time since the 2001 business year.

#### EBITDA development over course of time

	EBITDA in KEUR
2001	-3,774
2002	-458
2003	+515

#### TIPTEL AG annual financial statements

The net loss at the stock corporation in the past 2003 business year was KEUR -1,124 after a profit of KEUR 106 had been posted for 2002.

Without taking into account extraordinary income in the years 2003 and 2002, a comparative view of the earnings situation shows a different picture: In 2003 extraordinary income of KEUR +289 (reversal of the provision for the real estate in Kiel) and in 2002 of KEUR +2,486 (write-up shareholding) was posted with an effect on earnings.

Eliminating the above extraordinary income there is an arithmetical loss of KEUR 1,413 for 2003. In comparison to the respective adjusted loss of KEUR 2,380 in 2002, the net result last year improved by KEUR 967.

The gross profit margin, including the change in inventories, increased by nearly 3.3 per centage points. In absolute terms the gross profit increased by KEUR 458 (+5.9 per cent) to KEUR 8,147 (2002: KEUR 7,689).

As a consequence of the consistent cost reductions in recent years the stock corporation was able to save a further KEUR 481 in 2003 in the areas of personnel costs, other operating expenses and depreciation. With these cost types the company has reached a very low level in the meantime.

In the year under review the DVFA/SG earnings per share was EUR -0.27 (2002: EUR -0.46). The annual result per share was EUR -0.22 (2002: EUR +0.02).

## Earnings situation of TIPTEL AG

	01.01. – 31.12.2003		01.01. – 31.12.2002		Veränderung
	KEUR	%	KEUR	%	KEUR
Sales revenues	19,162	98.8	19,603	105.5	-441
Change in inventories	241	1.2	-1,024	-5.5	+1,265
<b>Operating efficiency</b>	<b>19,403</b>	<b>100.0</b>	<b>18,579</b>	<b>100.0</b>	<b>+ 824</b>
Expenses for raw materials and Consumables	-11,256	-58.0	-10,890	-58.6	-366
Material expenses	-11,256	-58.0	-10,890	-58.6	-366
<b>Gross earnings</b>	<b>8,147</b>	<b>42.0</b>	<b>7,689</b>	<b>41.4</b>	<b>+ 458</b>
<b>Other operational income</b>	<b>974</b>	<b>5.0</b>	<b>1,216</b>	<b>6.5</b>	<b>-242</b>
Personnel expenses	-6,702	-34.5	-6,755	-36.4	+53
Depreciations of intangible and fixed assets	-732	-3.8	-1,112	-6.0	+380
Other operational expenses including other taxes (without tax on profits)	-3,204	-16.5	-3,252	-17.5	+48
<b>Operational expenses</b>	<b>-10,638</b>	<b>-54.8</b>	<b>-11,119</b>	<b>-59.8</b>	<b>+ 481</b>
<b>Operating result</b>	<b>-1,517</b>	<b>-7.8</b>	<b>-2,214</b>	<b>-11.9</b>	<b>+ 697</b>
Earnings from interest and shareholdings	439	2.3	147	0.8	+292
Interest expenses and depreciations on financial assets	-335	-1.7	-313	-1.7	-22
<b>Financial result</b>	<b>104</b>	<b>0.5</b>	<b>-166</b>	<b>-0.9</b>	<b>+ 270</b>
Extraordinary income	289	1.5	2,486	13.4	-2,197
<b>Extraordinary result</b>	<b>289</b>	<b>1.5</b>	<b>2,486</b>	<b>13.4</b>	<b>-2,197</b>
<b>Earnings before tax</b>	<b>-1,124</b>	<b>-5.8</b>	<b>106</b>	<b>0.6</b>	<b>-1,230</b>
<b>Net loss / profit</b>	<b>-1,124</b>	<b>-5.8</b>	<b>106</b>	<b>0.6</b>	<b>-1,230</b>
Loss / profit carried forward	-2,584	-13.3	-2,690	-14.5	106
<b>Accumulated loss / profit</b>	<b>-3,708</b>	<b>-19.1</b>	<b>-2,584</b>	<b>-13.9</b>	<b>-1,124</b>

## 4 Shares held by directors

As of the balance sheet date the following shares were held by member of the executive bodies:

<b>Board of Management</b>	<b>31.12.2003</b>	<b>31.12.2002</b>
Werner Materna	300 shares	300 shares

### **Supervisory Board**

Erhard Schäfer	2,610,489 shares	2,610,489 shares
Rudolf Breiden	10 shares	10 shares
Ulrike Theiner	101 shares	51 shares

The other members of the executive bodies did not hold any shares in TIPTEL as of the above balance sheet dates. Subscription rights have not been granted to members of the executive bodies or to any other employees.

## Other details

### 1 Relationships to affiliated companies

In a dependency report on relationships to affiliated companies submitted to the Supervisory Board the Board of Management of TIPTEL AG has declared the following in accordance with § 312 Section 3 German Stock Corporation Act: "The Board of Management of TIPTEL AG hereby declares that this report includes all the known transactions which require reporting, and that the company, in line with the circumstances known to the Board of Management at the point in time the reported transactions were performed, received a suitable counter-service for each transaction. No measures which require reporting have been taken or omitted in the business year."

### 2 Research & Development

As already announced in the 2002 Annual Report, in 2003 TIPTEL continued to focus its activities in the field of research and development on the integration of telecommunications and network solutions. As scheduled TIPTEL brought the pbx system tiptel 3022 office, which unites the classical telecommunications functions and all the important components of a corporate network, onto the market at the end of August 2003.

Thus for the first time ever, TIPTEL presented a complete solution which meets all the telephony needs, as well as all the network requirements, of a company with up to 14 telecommunications terminal devices and as many as 100 wired or wireless connected workstations.

Thus the customer no longer has the time-consuming and annoying task of putting together and mounting individual components such as DSL and/or ISDN routers with firewalls, WLAN access point or a network switch.

It was no surprise, therefore, that shortly after its market launch this ISDN and network system received positive write-ups in magazines such as FACTS and MacUp. Here a further highlight of the system was underlined: The possibility for configuration from any PC within the corporate network (wireless or wired),

as well as the possibility for remote configuration not only by telephone but also from any location worldwide over the Internet. Furthermore, a further plus point that was emphasized was the complete independence of the PC's operating system: Be it Microsoft Windows, Apple Macintosh, Linux, ... – thanks to the integrated web server the customer does not require any PC software, with the effect that no installation is required on the PC. The PC merely requires a standard web browser such as the basic version included with every operating system.

A further plus point in the design and development implementation of this system was the decision to develop this system in full at TIPTEL and exclusively with the company's own personnel. This allowed the entire process, from development through to marketing, to be controlled and monitored from one source. Thus TIPTEL attained two objectives at the same time: On the one hand it was possible to expand the necessary network know-how, and on the other, it was possible to demonstrate the innovative strength of TIPTEL with the launch of this product, which fulfils the highest demands in terms of functionality and quality. As early as December 2003 TIPTEL was able to follow this up, presenting further features on the market – and in particular the second series release of tiptel 3022 office, expanded to include the function "system telephony".

For 2004 TIPTEL is planning the modular expansion of the system to have a larger number of extensions, as well as the implementation of various additional functions in the field of voice communication and network technology. A rack version of the tiptel 3022 office is already planned for April 2004; this will allow the system to be fully integrated into existing network infrastructures. Likewise, at the beginning of the second quarter of 2004 there will also be additional smaller, and more cost-favourable, versions of this product family.

In the area of **analogue pbx systems** a new generation was launched as a successor to the highly successful tiptel 1/8 fax clip and tiptel 2/8 clip in mid-2003; this new generation comes with one and two exchange lines respectively and connectivity for eight terminal devices. The products will be coming on to the market as early as the first quarter of 2004, thus taking into account the



growing demand for new analogue systems, and above all in the rest of Europe. Two renowned telecommunications service providers have already subjected this new generation of pbx systems to intensive testing.

In the **voice recording systems** sector a new development was launched in the first quarter of 2003. This is a new family of analogue upper segment and upper mid-segment voice mail systems for demanding customers. While the new top device tiptel 570 will supersede the tiptel 550 in mid-2004, the successors to the tiptel 340 and tiptel 345 will come from this family.

On an annual average 34 staff were employed in research and development within the TIPTEL Group (2002: 32). Spending in this area amounted to KEUR 2,573 in 2003 (2002: KEUR 2,588).

In the field of research and development the stock corporation employed 21 staff on an annual average (2002: 21). Spending in this area amounted to KEUR 1,845 in 2003 (2002: KEUR 1,900). This corresponds to around 9.6 per cent of the net sales in 2003, compared to a figure of 9.4 per cent in the previous year.

### 3 Essential risks of future development

In connection with the construction of a building in Kiel there are still a number of legal disputes for which the company has formed what it considers to be suitable provisions, yet which could still lead to a burden in terms of liquidity.

A further provision (tax provision) concerns possible turnover tax claims in connection with the former single-entity relationship in terms of turnover tax with Hagenuk GmbH (now in liquidation).

These sets of circumstances, as well as the ever improving yet still unsatisfactory development of results (loss situation in the operating sector), mean that as in previous years the liquidity situation is a tense one.

## 4 Probable development

In the 2002 management report the estimation for the further development of the group and the stock corporation was based on the assumption that the telecommunications market would see a recovery in 2003. This estimation, which was also based on official market prognoses, unfortunately proved to be unfounded.

In contrast to expectations at the beginning of the year, the telecommunications market experienced a major downturn in 2003, and according to EITO saw a decline of 7.2 per cent in Germany and of 2.3 per cent in the EU. The downward trend in the industry and the lack of investment on the part of consumers in the face of a generally weak economy had a corresponding effect on results at TIPTEL AG in 2003.

Unperturbed by the weak development of the market, TIPTEL positioned itself well on the market on the product side with numerous forward-looking developments in 2003. The expanded product range in the telephone systems sector will be continued in 2004 and marketed accordingly. Against this background the management expects a more positive business development for the company within a friendly market environment (see "Development of the industry").

In its planning for 2004 the Board of Management assumes that it can attain a positive result before interest and taxes (EBIT) for 2004 with a continuation of the consistent cost management program. It expects that with the improved profitability, as well as TIPTEL's strong positioning, the expected turnaround in terms of earnings will be achieved in 2004.

Considering the development of the company as a ratio of the sales and earnings situations, there has been a consistent improvement in the position in the past three years:

Percentage ratio of consolidated sales to operating result (EBIT):

2001 -17.2 per cent

2002 -6.6 per cent

2003 -2.3 per cent

Accordingly, the management has set itself the target of attaining an operating result (EBIT) of approx. 1 per cent of the sales for both the group and the stock corporation for 2004.

## 5 Reporting to § 289 Section 2 HGB

There were no other events of special significance after the end of the business year.

Consolidated financial statements 2003  
of TIPTEL AG on IFRS basis



Precise products result of innovative ideas

## Consolidated Balance Sheet as of 31st December, 2003

	Notes Number	As of 31.12.2003 KEUR	As of 31.12.2002 KEUR
<b>Assets</b>			
<b>A Fixed assets</b>			
I. Intangible assets	6.1	403	542
II. Tangible assets	6.2	2,702	4,772
III. According to equity accounting investments	6.3	6	6
IV. Investments	6.3	1,789	1,827
		<b>4,900</b>	<b>7,147</b>
<b>B Current assets</b>			
I. Inventories	6.4	7,711	8,989
II. Accounts receivable and other assets	6.5	4,251	5,888
III. Cash and cash equivalents	6.6	1,164	954
		<b>13,126</b>	<b>15,831</b>
<b>C Deferred tax receivables</b>	6.7	<b>2,072</b>	<b>1,960</b>
<b>D Deferred expenses and accrued income</b>		<b>58</b>	<b>70</b>
		<b>20,156</b>	<b>25,008</b>
<b>Liabilities</b>			
<b>A Shareholders' equity</b>			
I. Subscribed capital		13,347	13,347
II. Capital reserve		540	540
III. Revenue reserves		-8,434	-7,793
IV. Amount of balance sheet profit (+) / loss (-)		-3,708	-2,584
	6.8	<b>1,745</b>	<b>3,510</b>
<b>B Provisions</b>			
I. Provisions for pensions		3,198	3,168
II. Provisions for income taxes		20	64
III. Other provisions and accruals		2,648	3,688
	6.9	<b>5,866</b>	<b>6,920</b>
<b>C Liabilities</b>			
I. Long-term liabilities		2,804	3,172
II. Trade accounts payable		2,966	3,421
III. Other liabilities	6.10	4,619	5,540
		<b>10,389</b>	<b>12,133</b>
<b>D Deferred tax liabilities</b>		<b>211</b>	<b>327</b>
<b>E Deferred expenses and accrued income</b>	6.11	<b>1,945</b>	<b>2,118</b>
		<b>20,156</b>	<b>25,008</b>

## Consolidated profit and loss account for the period from 1st January to 31st December, 2003

Notes Number	01.01. – 31.12.2003 KEUR	01.01. – 31.12.2002 KEUR
<b>1. Sales revenues</b>	+ 34,190	+ 36,379
2. Changes in inventories and work performed by the enterprise and capitalis	+ 40	./ 568
3. Other operating income	+ 1,500	+ 830
4. Cost of materials	./ 18,072	./ 19,998
5. Personnel expenses 7.12	./ 11,898	./ 11,986
6. Depreciation of intangible assets and tangible assets 7.13	./ 1,300	./ 1,927
7. Other operating expenses	./ 5,296	./ 5,170
<b>8. Profit from operating activities</b>	<b>./ 836</b>	<b>./ 2,440</b>
9. Income from equity investments	–	–
10. Income from other investments 7.14	+ 51	+ 55
11. Net interest 7.15	./ 445	./ 497
<b>12. Financial result</b>	<b>./ 394</b>	<b>./ 442</b>
<b>13. Result from ordinary activities</b>	<b>./ 1,230</b>	<b>./ 2,882</b>
14. Extraordinary result 7.16	0	+ 68
15. Other taxes	./ 86	./ 73
<b>16. Result prior to tax on profits</b>	<b>./ 1,316</b>	<b>./ 2,887</b>
17. Income taxes 7.17	+ 146	+ 172
<b>18. Result of the group</b>	<b>./ 1,170</b>	<b>./ 2,715</b>
19. Profit/loss carried forward	./ 2,584	./ 2,690
20. Changes of reserves	+ 46	+ 2,821
<b>21. Amount of balance sheet profit / loss</b>	<b>./ 3,708</b>	<b>./ 2,584</b>
<b>Earnings per share</b>	<b>./ 0,22</b>	<b>./ 0,52</b>

## Development of the group's fixed assets in the 2003 business year

### Historical initial and production costs

	As of 01.01.2003	Currency translation/ Others	Additions	Disposals	As of 31.12.2003
	KEUR	KEUR	KEUR	KEUR	KEUR
<b>Fixed assets</b>					
<b>I. Intangible assets</b>					
1. Concessions, industrial property rights and similar rights and values, as well as licenses thereto	3,338	0	108	0	3,446
2. Goodwill	275	0	0	0	275
3. Paid deposits	16	0	0	-16	0
<b>Total intangible assets</b>	<b>3,629</b>	<b>0</b>	<b>108</b>	<b>-16</b>	<b>3,721</b>
<b>II. Tangible assets</b>					
1. Land and leasehold rights and buildings, including buildings on third-party land	1,969	0	0	0	1,969
2. Plant and machinery	8,920	0	0	-1,439	7,481
3. Other fixtures and fittings, tools and equipment	11,115	-9	100	-150	11,056
4. Payments on account and tangible assets in course of construction	0	0	75	0	75
<b>Total tangible assets</b>	<b>22,004</b>	<b>-9</b>	<b>175</b>	<b>-1,589</b>	<b>20,581</b>
<b>III. Financial assets</b>					
1. Shares in affiliated companies	71	0	0	0	71
2. Loans to affiliated companies	153	0	0	0	153
3. Other share holdings	16	0	0	-10	6
4. Security investments	1,542	0	774	-697	1,619
5. Other loans	259	0	0	-115	144
<b>Total financial assets</b>	<b>2,041</b>	<b>0</b>	<b>774</b>	<b>-822</b>	<b>1,993</b>
<b>Total fixed assets</b>	<b>27,674</b>	<b>-9</b>	<b>1,057</b>	<b>-2,427</b>	<b>26,295</b>

**Depreciation**
**Book value**

As of 01.01.2003	Currency translation/ others	Additions	Disposals	As of 31.12.2003	As of 31.12.2003	As of 31.12.2002
KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
2,815	0	229	0	3,044	402	523
272	0	2	0	274	1	3
0	0	0	0	0	0	16
<b>3,087</b>	<b>0</b>	<b>231</b>	<b>0</b>	<b>3,318</b>	<b>403</b>	<b>542</b>
254	0	74	0	328	1,641	1,715
7,041	0	409	-266	7,184	297	1,879
9,937	-8	581	-143	10,367	689	1,178
0	0	0	0	0	75	0
<b>17,232</b>	<b>-8</b>	<b>1,064</b>	<b>-409</b>	<b>17,879</b>	<b>2,702</b>	<b>4,772</b>
45	0	0	0	45	26	26
153	0	0	0	153	0	0
10	0	0	-10	0	6	6
0	0	0	0	0	1,619	1,542
0	0	0	0	0	144	259
<b>208</b>	<b>0</b>	<b>0</b>	<b>-10</b>	<b>198</b>	<b>1,795</b>	<b>1,833</b>
<b>20,527</b>	<b>-8</b>	<b>1,295</b>	<b>-419</b>	<b>21,395</b>	<b>4,900</b>	<b>7,147</b>



## Schedule of TIPTEL-Group equity capital for the business year 2003

	Subscribed capital	Capital reserve	Revenue reserves	Amount of balance sheet profit / loss	Total
	KEUR	KEUR	KEUR	KEUR	KEUR
<b>As of 31.12.2001</b>	<b>13,347</b>	<b>540</b>	<b>-5,621</b>	<b>-2,690</b>	<b>5,576</b>
Transfers			-2,821	2,821	0
Net loss for the period				-2,715	-2,715
Other neutral changes			649		649
Correction to IAS 8			-654		-654
<b>As of 31.12.2002 (adjusted)</b>	<b>13,347</b>	<b>540</b>	<b>-8,447</b>	<b>-2,584</b>	<b>2,856</b>
Transfers			-46	46	0
Net loss for the period				-1,170	-1,170
Other neutral changes			59		59
<b>As of 31.12.2003</b>	<b>13,347</b>	<b>540</b>	<b>-8,434</b>	<b>-3,708</b>	<b>1,745</b>

## Cash flow statement for consolidated management report for the business year 2003

	01.01. – 31.12.2003	01.01. – 31.12.2002
	KEUR	KEUR
<b>1. Group net loss (-) for the year prior to tax on profits and extraordinary items</b>	./.	<b>2,895</b>
2. Depreciation (+) / write-ups (-) on fixed assets	+ 1,295	+ 1,848
3. Interest expenses	+ 457	+ 497
4. Increase (+) / decrease (-) in provisions	./.	442
5. Other expenses (+) / income (-) not affecting cash flows	+ 2	+ 829
6. Profit (-) / loss (+) from disposal of fixed assets	./.	89
7. Outflow for interest	./.	235
8. Outflow for tax on profits	./.	35
9. Increase (-) / decrease (+) in inventories, receivables and other assets.	+ 2,367	+ 1,248
10. Increase (+) / decrease (-) in accounts payable from goods and services and other liabilities (without financing and investing activities)	./.	1,317
<b>11. Cash flows from operating activities</b>	<b>+ 239</b>	<b>./.</b>
12. Inflow (+) from tangible asset disposals	+ 21	+ 67
13. Inflow from extraordinary items (building Belgium)	0	+ 587
14. Outflow (-) for investments in tangible assets	./.	229
15. Inflow (+) from intangible asset disposals	+ 16	0
16. Outflow (-) for investments in intangible assets	./.	88
17. Inflow (+) from financial asset disposals	+ 838	+ 644
18. Outflow (-) for investments in financial assets	./.	381
19. Inflow (+) from interest received	+ 12	+ 58
20. Changes of fixed assets due to currency translation	0	./.
<b>21. Cash flows from investing activities</b>	<b>./.</b>	<b>+ 657</b>
22. Inflow (+) from increase in borrowings	+ 176	+ 186
23. Outflow (-) for repayments on borrowings	./.	522
<b>24. Cash flows from financing activities</b>	<b>+ 141</b>	<b>./.</b>
<b>25. Changes in cash and cash equivalents affecting cash-flow</b>	<b>+ 210</b>	<b>./.</b>
26. Cash and cash equivalents at beginning of period	954	+ 1,224
<b>27. Cash and cash equivalents at end of period</b>	<b>1,164</b>	<b>+ 954</b>
– thereof liquid assets	1,129	887
– thereof pledged assets	35	67

# Consolidated notes for the 2003 business year

## 1 Fundamentals

The consolidated financial statements of TIPTEL AG and its subsidiaries have been prepared to International Financial Reporting Standards (IFRS), taking into account the interpretations of the Standing Interpretations Committee (SIC). The standards which had come into effect as of the balance sheet date 31st December 2003 have been taken into account. All the listed standards had already been used in the previous year.

The prerequisites of § 292 a HGB (German Commercial Code) for exemption from the obligation to prepare consolidated financial statements to German commercial law are fulfilled. The evaluation of these prerequisites is based on the German Accounting Standard No. 1 (DRS 1) published by the German Standardisation Council.

## 2 Accounting and valuation methods

These consolidated financial statements include the following accounting and valuation methods:

### **Intangible fixed assets**

Purchased intangible fixed assets are capitalised at acquisition costs and subject to scheduled depreciation using the straight-line method over a useful life of three to five years.

The manufacturing costs include all the costs directly attributable to the manufacturing process as well as suitable portions of the manufacturing overheads. Financing costs are not capitalised.

Goodwill from consolidation is subject to scheduled depreciation over its probable useful life, i.e. over a period of five years. The probable useful life reflects the expectations regarding the utilisation of the market position gained through the acquisition of the company and the added-value potential of the company.

### **Fixed assets**

Material assets which are used in the business operation for longer than one year are stated at their acquisition or manufacturing costs minus scheduled straight-line depreciation. The manufacturing costs cover all the costs directly attributable to the manufacturing process. Financing costs are not stated. The useful lives reflect the expected useful lives within the group. Depreciation exclusively based on fiscal regulations is not applied.

A useful life of 25 years is applied to buildings. A useful life of four to ten years is applied to technical plant and machinery. Tools and equipment are depreciated over four to ten years with normal use.

The capitalisation of the assets and the accrual of the residual liability with financing leasing agreements are based on the allocation criteria of IAS 17. The leasing assets (storage shelves in Kiel) were disposed of in 2003 due to the settlement of composition proceedings.

The capitalisation of the assets and the accrual of the residual liability with financing leasing agreements are based on the allocation criteria of IAS 17. The leasing assets (storage shelves in Kiel) were disposed of in 2003 due to the settlement of composition proceedings.

### **Financial assets**

Financial assets are capitalised at their acquisition costs. The acquisition costs of long-term loans with low or no interest rates correspond to the cash value at the point in time they were issued. Marketable, listed shares are stated at the fair market value. Other financial assets were depreciated to a lower value at balance sheet date insofar as the decrease in value is likely to be of duration.

### **Inventories**

The inventories comprise raw materials and supplies, purchased goods, as well as payments on account. These are valued at acquisition costs determined on the basis of average prices or at the manufacturing prices. The manufacturing prices cover all the costs directly attributable to the manufacturing process as well as suitable portions of the manufacturing-related overheads. Financing costs are not taken into consideration. The evaluation as of the balance sheet date is at average acquisition/manufacturing costs or at net marketable values. Valuation mark-downs are determined within the framework of a service life analysis.

**Accounts receivable and other assets**

Accounts receivable and liabilities in foreign currencies are converted using the exchange rate on the balance sheet date. Any resulting changes in values are treated as affecting earnings.

**Deferred taxes**

The statement of deferred taxes on the balance sheet is performed using the balance sheet-oriented liability method.

**Pension provisions**

The valuation of the pension provisions is based on the Projected Unit Credit Method taking into account future salary developments in accordance with IAS 19.

**Realisation of earnings and expenses**

Sales revenues and other operating income are realised upon the provision of the service or the transfer of risk to the customer. Operating expenses affect earnings when the service is utilised or at the point in time these expenses are caused. Interest income and expenses are recorded in accordance with the accruals concept. Dividends were in part received at the point in time they were paid out.

### 3 Currency translation

For the purposes of translating sums in foreign currencies into Euro in the course of the year the respective transaction rates are used. At the end of the year the outstanding balances in foreign currencies are translated using the mean exchange rate and any currency differences recorded as affected earnings.

The annual financial statements of the foreign group companies are translated into Euro in line with the concept of the functional currency. Their functional currency is the respective national currency. Assets and debts are thus translated using the average exchange rates on the balance sheet date, the profit and loss accounts using the annual average exchange rates. Translation differences have been recorded as not affecting results. Differences from the currency translation of sums carried over from prior years of KEUR 59 have been recorded in the shareholders' equity as having no impact on results.

## 4 Consolidation methods

All the essential subsidiaries which are under control of TIPTEL AG are included in the consolidated financial statements. Associated companies are valued using the equity method insofar as the group holds 20 to 50 per cent of the shares and exercises considerable influence over the subsidiary. Other shareholdings are stated at the acquisition costs. A list of all the subsidiaries and companies with which the company is linked by virtue of participations, is to be found in the notes to the annual financial statements of TIPTEL AG.

In the event of the initial consolidation of subsidiaries the acquisition values of the shareholdings are contrasted with the group's share in the revaluated amount of the respective company's equity.

Any remaining difference on the assets side from the capital consolidation is capitalised as goodwill and depreciated using the straight-line method over its probable useful life.

The acquisition costs of shareholdings included using the equity method are increased or decreased each year by the change in the shareholders' equity of the associated company attributable to the TIPTEL Group. For the allocation and continuation of a difference in the shareholding valuation arising from the acquisition costs of the shareholding and the pro rata equity capital of the company, the relevant principles for full consolidation are applied.

The impact of intra-Group business transactions is eliminated. Assets and liabilities between the consolidated companies are offset against one another, inter-company profits and losses in the assets and inventories are eliminated, intra-Group earnings offset against the corresponding expenses. The necessary tax deferral is preformed for temporary differences from the consolidation to IAS 12.

## 5 Reporting entity

An overview of the companies included in the consolidated financial statements is provided in the following list:

### Reporting entity by 31.12.2003

Name	Equity capital in national currency as of 31.12.2002	Group share in %	Earnings after taxes in 2003 in national currency
TIPTEL AG, Ratingen	KEUR 10,261	100	KEUR -1,124
Deutsche Fernsprecher GmbH, Marburg	KEUR 418	100	KEUR 97
Tiptel b.v., (NL)	KEUR 642	100	KEUR 255
Tiptel NV/SA, (B)	KEUR -1,620	100	KEUR 1
Tiptel s.a.r.l., (F)	KEUR 14	100	KEUR 34
Tiptel GmbH, (A)	KEUR -486	100	KEUR -137
Tiptel AG, (CH)	KSFR -1,590	100	KSFR -344

Furthermore one of the companies is valued at equity in the consolidated financial statements.

Name	Shareholders' equity KEUR 31 Dec. 2003	Consolidated share in per cent	Annual result after taxes 2003 in KEUR
Telescout b.v., Almere	13	49	0,2

## 6 Comments on the consolidated balance sheet

### 1 Intangible fixed assets

	31.12.2003 KEUR	31.12.2002 KEUR
Concessions, industrial property rights and similar rights and values as well as licences	402	523
Goodwill	1	3
Paid deposits	0	16
	<b>403</b>	<b>542</b>

The depreciation of all intangible fixed assets including the goodwill is shown within the consolidated profit and loss account under the item "depreciation".

### 2 Tangible assets

	31.12.2003 KEUR	31.12.2002 KEUR
Land and leasehold rights and buildings including buildings on third-party land	1,641	1,715
Technical equipment and machines	297	1.879
Other fixtures and fittings, tools and equipment	689	1,178
Payments on account and tangible assets in course of construction	75	0
	<b>2,702</b>	<b>4,772</b>

As in the previous year there is a mortgage of KEUR 590 on the land in the Netherlands.

### Financing leasing

The economic ownership of leasing objects is attributed to the lessee under IAS 17 if the lessee bears all the essential risks and opportunities associated with the leased object. Insofar as economic ownership is attributable to the TIP-TEL Group, capitalisation takes place at the point in time the agreement is concluded at the cash value of the leasing instalments plus any possible ancillary costs borne by the lessee.



The only leasing object which has been capitalised by the TIPTEL Group are the storage shelves in Kiel. The agreement on the financing leasing was prematurely terminated in the 2003 business year, with the effect that no financing leasing is posted within the group as of the balance sheet date.

### 3 Financial assets

	<b>31.12.2003</b>	<b>31.12.2002</b>
	<b>KEUR</b>	<b>KEUR</b>
Other sharesholding in affiliated companies	26	26
According to equity accounting investments	6	6
Security investments	1,619	1,542
Other loans	144	259
	<b>1,795</b>	<b>1,833</b>

The securities held as assets are pledged partly so as to secure claims from pension commitments. These are primarily fixed-interest bonds. Positive cash-flows from these in the 2003 business year were KEUR 51 (2002: KEUR 54).

The other loans concern a loan to PAPP electronic GmbH & Co. KG, Hechingen. The loan is to be repaid by 31st December 2004. As in the previous year quarterly re-payments of KEUR 29 are received; these re-payments affect cash-flows. The loan is not secured with any securities.

The figure stated for the financial assets corresponds to the lower of market or value.

#### **Current assets**

The current assets comprise inventories, accounts receivable, other assets, and cash on hand.

#### 4 Inventories

	31.12.2003	31.12.2003
	KEUR	KEUR
Raw materials and consumables	4,691	5,285
Work in progress	900	1,216
Finished goods and trading stock	2,108	2,467
Advance payments	12	21
	<b>7,711</b>	<b>8,989</b>

A devaluation of the inventories to the net residual value was not necessary in the past business year.

#### Accounts receivable

Short-term accounts receivable are stated at their acquisition costs. If there is any doubt surrounding the recoverability of the receivable, the accounts receivable are stated at the lower recoverable sum. Accounts receivable in foreign currencies are valued at the average exchange rate on the balance sheet date.

#### 5 Accounts receivables and other assets

	31.12.2003	31.12.2002
	KEUR	KEUR
Trade accounts receivable	4,017	4,719
Accounts due from other group companies	0	93
Other assets	234	1,076
	<b>4,251</b>	<b>5,888</b>

#### Thereof with a remaining time over one year

Trade accounts receivable	1	0
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#### 6 Cash and cash equivalents at banks

	31.12.2003	31.12.2002
	KEUR	KEUR
Cash assets and cash equivalents	1,164	954

The sum of KEUR 7 (2002: KEUR 23) receivable from UBS, Basel, has been pledged.

Fixed-term accounts of KEUR 28 (2002: KEUR 43) are frozen in connection with bonds and sureties. TIPTEL does not have any rights of disposal without the prior consent of Deutsche Bank.

#### **Deferred tax assets**

Deferred taxes are formed in accordance with IAS 12 for differences in valuation between the tax balance sheets of the individual companies and the consolidated financial statements. Tax loss carryforwards which can probably be utilised in the future are capitalised to the amount of the deferred tax claim. The rates of taxation for deferred taxes within the group are 40.46 per cent for Germany, 34.0 per cent for France, and 40.17 per cent for Belgium.

In the estimation of the Board of Management there are currently corporation tax loss carryforwards of KEUR 38,816 (2002: KEUR 38,487) as well as trade earnings tax loss carryforwards of KEUR 43,093 (2002: KEUR 42,433) which cannot be utilized.

#### **7 Deferred tax assets**

	<b>31.12.2003</b>	<b>31.12.2002</b>
	<b>KEUR</b>	<b>KEUR</b>
Deferred taxes	2,067	1,960
Corporate tax / trade income tax	5	0
	<b>2,072</b>	<b>1,960</b>

#### **8 Shareholders' equity**

##### Capital stock

Since the shareholders' meeting on 19 June 2001 the capital stock of the company has amounted to EUR 13,347,202.98 and is divided into 5,220,972 ordinary shares without the setting of a nominal value (common stock shares). The arithmetical nominal value of each common stock share is EUR 2.56.

#### Authorised capital

Furthermore, the shareholders' meeting on 19 June 2001 authorised the Board of Management to conduct the following capital increases:

- Authorised capital of KEUR 5,000 with a fundamental subscription right on the part of the shareholders (Authorised Capital I).
  
- Authorised capital of KEUR 1,300 with exclusion of subscription rights insofar as the issuing price of the new shares does not essentially fall below that of the shares of the same structure already listed at the point in time of the establishment of the issuing price (Authorised Capital II).

The authorisations are limited until 1 June 2006.

#### **Pension provisions**

The valuation of the pension provisions is based on the projected unit credit method laid down in IAS 19 for performance-oriented pension plans.

The indirect and direct pension commitments by the company are to be regarded as a defined benefit plan as laid down in IAS 19.7 and valued with the aid of the projected unit credit method (IAS 19.64).

Realistic assumptions have been used for the actuarial interest rate and for future salary increases in the case of salary-dependent pension commitments for future adjustments to pensions (IAS 19.73). The interest portion included in the pension expenses is stated in the personnel expenses.

#### **Details of performance-oriented plans**

Contractual basis for the pension commitment:

At Deutsche Fernsprecher GmbH, Marburg, there are direct pension commitments based on individual commitments and a general regulation. Furthermore, through the company's benevolent fund there are indirect pension obligations on the basis of the payment plan from 1st April 1987. The following modalities apply to the valuation of the pension obligations:

Individual commitments and general commitments:

Old-age pensions are paid when a beneficiary has reached the age of 65 or if a retirement allowance is taken from the statutory pension insurance or if early retirement is taken. Moreover there are agreements on invalidity and widows' pensions. In the case of female pension recipients there is no commitment for a widower's pension.

Pension plans:

Since 1st January 1983 no commitments have been made to new staff.

Upon reaching the age of 65 or in the event of prior invalidity the payment of a monthly pension is foreseen.

As of 31st December 2003 there was a change in the number of future claimants and pensioners.

Cash value of liabilities (DBO)	4,284 KEUR
Fair time value of plan assets	-1,205 KEUR
	<b>3,079 KEUR</b>
Actuarial profits not included	119 KEUR
Passivated pension provisions	3,198 KEUR
<b>Change in net debt</b>	
Status 01.01.	3,168 KEUR
Expenses according to profit and loss account	201 KEUR
Pension payements	-171 KEUR
Status 31.12.	3,198 KEUR
<b>Plan assets</b>	
Earnings of plan assets	71 KEUR
Actuarial profits of plan assets	0 KEUR
Effective earnings of plan assets	71 KEUR
Fair market value	1,205 KEUR
<b>Expenses according to profit and loss account</b>	
Current service costs	21 KEUR
Interest expenses	251 KEUR
Expected earnings of plan assets	-71 KEUR
Actuarial profits and losses	0 KEUR
	<b>201 KEUR</b>

**Applied actuarial assumptions at balance sheet date:**

Biometrial accounting principles:

"Richttafel" (guidance board) 1998 of Klaus Heubeck:

Assumed interest rate:	6.0 per cent p.a.
Wages' and salaries' increase:	3.0 per cent p.a.
Pension increases:	2.0 per cent p.a.
Fluctuation:	2.0 per cent global

**9 Development of the provisions in the 2003 business year**

	Status 01.01.2003	Consumption	Dissolution	Additions	Status 31.12.2003
	KEUR	KEUR	KEUR	KEUR	KEUR
1. Provisions for pensions and similar obligations	3,168	171	0	201	3,198
2. Provisions for tax on profits	64	44	0	0	20
3. Other provisions					
– Obligation for lease taking over real estate Kiell	1,653	477	540	15	651
– Personnel sector	674	374	14	379	665
– Sales sector	553	114	92	176	523
– Taxes / expenses	636	21	0	45	660
– Others	172	135	32	144	149
<b>Total amount</b>	<b>6,920</b>	<b>1,336</b>	<b>678</b>	<b>960</b>	<b>5,866</b>

Of the provisions for pensions and similar obligations a sum of KEUR 269 (2002: KEUR 267) is likely to be due in the successive business year. The provisions for personnel primarily include vacation entitlements of KEUR 323 (2002: KEUR 345). A provision for the sales area essentially comprises a sum of KEUR 194 (2002: KEUR 263) for guarantee obligations.

The provision for taxes/levies concerns possible value-added tax claims in connection with Hagenuk GmbH, which is in the midst of insolvency proceedings. The provisions for income tax and the other provisions are exclusively short-term provisions.

## Liabilities

Liabilities from financing leasing agreements are stated at the cash value of the leasing instalments at the point in time the agreement is concluded; other liabilities are stated at the repayment sum. Liabilities in foreign currencies are valued at the average exchange rate on the balance sheet date. The figures stated for financial liabilities correspond to the lower of market or value.

### 10 Other liabilities

	Status 31.12.2003 KEUR	Thereof remaining time:			Status 31.12.2002 KEUR
		up to 1 year KEUR	up to 5 years KEUR	over 5 years KEUR	
Leasing liabilities	0	0	0	0	1,205
Liabilities due to banks	1,951	1,951	0	0	1,442
Accounts due to other group companies	24	1	23	0	23
Other liabilities	2,644	1,409	640	595	2,870
Total amount	<b>4,619</b>	<b>3,361</b>	<b>663</b>	<b>595</b>	<b>5,540</b>

### 11 Deferred income

	31.12.2003 KEUR	31.12.2002 KEUR
Accounting profits due to sales of the real estate Halskestraße, Ratingen	1,936	2,100
Other deferred expenses and accrued income	9	18
	<b>1,945</b>	<b>2,118</b>

## 7 Comments of the consolidated profit and loss account

### 12 Personnel expenses

	<b>2003</b>	<b>2002</b>
	<b>KEUR</b>	<b>KEUR</b>
Wages and salaries	9,672	9,827
Social payments and expenses for old-age pensions and benefit	2,226	2,159
	<b>11,898</b>	<b>11,986</b>
thereof old-age pensions	227	234

### 13 Depreciation

	<b>2003</b>	<b>2002</b>
	<b>KEUR</b>	<b>KEUR</b>
On intangible assets of fixed assets and tangible assets	1,295	1,874
On current assets	5	53
	<b>1,300</b>	<b>1,927</b>

### 14 Interest result

	<b>2003</b>	<b>2002</b>
	<b>KEUR</b>	<b>KEUR</b>
Earnings from securities of fixed assets	51	55

### 15 Remaining investment income

	<b>2003</b>	<b>2002</b>
	<b>KEUR</b>	<b>KEUR</b>
Other interest and similar earnings	12	22
Interest and similar expenses	-457	-519
	<b>-445</b>	<b>-497</b>



## 16 Extraordinary result

	2003 KEUR	2002 KEUR
<b>thereof:</b>		
<b>Extraordinary earnings</b>		
Earnings due to the sales of the real estate in Zaventem, Belgium	0	85
<b>thereof:</b>		
<b>Extraordinary expenses</b>		
Expenses due to the sales of the real estate in Zaventem, Belgium	0	18
	<b>0</b>	<b>67</b>

## 17 Taxes on income

	2003 KEUR	2002 KEUR
Deferred taxes	283	318
Corporate tax / trade income tax	-137	-146
	<b>146</b>	<b>172</b>

The following table shows a transitional offsetting and reconciliation statement from the expected to the actual tax expenses. In order to determine the expected tax expenses the result before taxes on income is multiplied using a rate of taxation of 40.46 per cent (2002: 39.15 per cent). This comprises corporation tax of 26.5 per cent (2002: 25 per cent), trade earnings tax of 17.36 per cent, and a solidarity surcharge of 5.5 per cent.

### 17 Expected tax expenses in 2003

	2003 KEUR	2003 KEUR
	Assessment basis	Tax earnings
<b>Expected earnings from tax on profits</b>	<b>-1,316</b>	<b>-533</b>
Decrease of assessment basis due to the increase of unused tax carry-forwards	682	276
Deferred taxes depreciation (not allowed for tax reasons) of inventories	-	133
Differences from foreign tax rates	-	-22
<b>Disclosed tax earnings</b>		<b>-146</b>

### 17 Expected tax expenses in 2002

	2002 KEUR	2002 KEUR
	Assessment basis	Tax earnings
<b>Expected expenses from tax on profits</b>	<b>-2,715</b>	<b>-1,063</b>
Decrease of assessment basis due to the increase of unused tax carry-forwards	2,552	999
Deferred taxes depreciation (not allowed for tax reasons) of inventories	-	-128
Differences from foreign tax rates	-	20
<b>Ausgewiesener Steuerertrag</b>		<b>-172</b>

The spending in the field of research and development posted as expenditures totalled KEUR 2,582 (2002: KEUR 2,588) in 2003. This corresponds to approx. 7.5 per cent (2002: 7.2 per cent) of the net sales.

### Earnings per share

	2003	2002
Earnings per share in EUR	-0.22	-0.52
Group result in EUR	-1,170,22.03	-2,715,009.84
Weight average of number of shares	5,220,972	5,220,972

The earnings per share are determined as a ratio of the consolidated result and the weighted average number of shares in the course of the business year. As of 31st December 2003 and as of 31st December 2002 there were no outstanding shares which could have diluted the result.

## 8 Declaration on the Corporate Governance Codex in accordance with § 161 AktG:

The Board of Management and Supervisory Board of TIPTEL AG declare that the recommendations of the "Government Commission German Corporate Governance Codex" as published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette have been met, and that some recommendations have not been or will not be applied.

This declaration has been accessible on a permanent basis to the shareholders on the homepage of TIPTEL AG under the Internet address [www.tiptel.de](http://www.tiptel.de) since December 2002 and is renewed each year. The last change was published on 30 January 2004.

## 9 Segment reporting

### Primary Segment 2003 (Geographical Segment)

	Germany	Benelux	Rest of Europe	Inter-segment transfer	Eliminations	Total
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
<b>Earnings</b>						
Sales revenue with third parties	19,449	8,424	6,317	0		34,190
Inter-segment revenue	6,866	281	66	+7,213		0
<b>Total revenue</b>	<b>26,315</b>	<b>8,705</b>	<b>6,383</b>	<b>-7,213</b>		<b>34,190</b>
Expenses of appreciation of financial assets						-
<b>Segment result from ordinary activity</b>	<b>-1,005</b>	<b>402</b>	<b>-361</b>		<b>-266</b>	<b>-1,230</b>
Tax on profits						+146
Other taxes						-86
<b>Result for the period</b>						<b>-1,170</b>
<b>Other information</b>						
Segment assets	22,798	2,812	2,400		-9,922	18,088
Segment debts	15,708	3,807	3,898		-5,154	18,259
Purchase costs for fixed assets	166	3	6			175
Purchase costs for intangible assets	108					108
Depreciation/amortisation	1,179	88	93		-60	1,300

### Secondary Segment 2003 (sales by business divisions)

	ISDN	DECT	Analog	Other	Security- technology	Made-to- order pro- duction	Total
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
<b>Earnings</b>							
Sales revenue with third parties	8,651	4,543	14,483	2,181	121	4,211	34,190
Inter-segment revenue							
<b>Total revenue</b>	<b>8,651</b>	<b>4,543</b>	<b>14,483</b>	<b>2,181</b>	<b>121</b>	<b>4,211</b>	<b>34,190</b>
Expenses of appreciation of financial assets							-
<b>Segment result from ordinary activity</b>	<b>-965</b>	<b>646</b>	<b>-1,490</b>	<b>163</b>	<b>1</b>	<b>415</b>	<b>-1,230</b>
Tax on profits							+146
Other taxes							-86
<b>Result for the period</b>							<b>-1,170</b>
<b>Other information</b>							
Segment assets	4,576	2,404	7,662	1,154	64	2,228	18,088
Segment debts	4,619	2,427	7,735	1,165	64	2,249	18,259
Purchase costs for fixed assets	44	23	74	11	1	22	175
Purchase costs for intangible assets	27	14	46	8	0	13	108
Depreciation/amortisation	496	38	551	71	0	144	1,300

**Primary reporting format 2002 (geographical segment)<sup>1)</sup>**

	<b>Germany</b>	<b>Benelux</b>	<b>Rest of Europe</b>	<b>Inter-segment transfer</b>	<b>Eliminations</b>	<b>Total</b>
	<b>KEUR</b>	<b>KEUR</b>	<b>KEUR</b>	<b>KEUR</b>	<b>KEUR</b>	<b>KEUR</b>
<b>Earnings</b>						
Sales revenue with third parties	1,421	7,151	7,807	0		36,379
Inter-segment revenue	5,260	243	355	+5,858		0
<b>Total revenue</b>	<b>26,681</b>	<b>7,394</b>	<b>8,162</b>	<b>-5,858</b>		<b>36,379</b>
Expenses of appreciation of financial assets	26					26
Expenses from investments accounted for under the equity method						-
<b>Segment result from ordinary activity</b>	<b>-2,526</b>	<b>-70</b>	<b>-505</b>		<b>219</b>	<b>-2,882</b>
Extraordinary result		+67				+67
Tax on profits						+173
Other taxes						-73
<b>Result for the period</b>						<b>-2,715</b>
<b>Other information</b>						
Segment assets	23,492	2,524	3,868		-6,843	23,041
Segment debts	17,966	3,334	4,939		-5,123	21,116
Purchase costs for fixed assets	131	78	20			229
Purchase costs for intangible assets	83	3	2			88
Depreciation/amortisation	1,546	142	239			1,927

<sup>1)</sup> For comparing the primary segment 2002 the segments Germany and rest of Europe were adapted to the presentation for the business year 2003.

**Secondary reporting format 2002 (sales by business divisions)**

	ISDN	DECT	Analog	Other	Security technology	Made-to order-pro- duction	Total
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
<b>Earnings</b>							
Sales revenue with third parties	8,879	4,707	16,440	1,738	248	4,367	36,379
Inter-segment revenue							
<b>Total revenue</b>	<b>8,879</b>	<b>4,707</b>	<b>16,440</b>	<b>1,738</b>	<b>248</b>	<b>4,367</b>	<b>36,379</b>
Expenses of appreciation of financial assets							-
<b>Segment result from ordinary activity</b>	<b>-1,398</b>	<b>237</b>	<b>-2,127</b>	<b>81</b>	<b>-7</b>	<b>332</b>	<b>-2,882</b>
Extraordinary result							+67
Tax on profits							+173
Other taxes							-73
<b>Result for the period</b>							<b>-2,715</b>
<b>Other information</b>							
Segment assets	5,623	2,981	10,413	1,101	157	2,766	23,041
Segment debts	5,154	2,732	9,542	1,009	144	2,535	21,116
Purchase costs for fixed assets	56	30	104	11	2	26	229
Purchase costs for intangible assets	21	11	40	4	1	11	88
Depreciation/amortisation	627	72	899	93	10	226	1,927

## 10 Other details

### Contingencies

There are no contingencies as defined in § 251 HGB.

### Other obligations

For the office and production building rented since 6 November 2000 at Halskestrasse 1, Ratingen, annual rent of KEUR 1,023 is payable plus the valid rate of VAT (2002: KEUR 1,023). The rental contract has an irredeemable period of validity of 15 years. The minimum rental payments amount to KEUR 1,023 up to one year; KEUR 4,090 between one and five years and KEUR 7,158 over five years.

### Employees

Within the group the following staff were employed (per capita):

#### Employees TIPTEL Group

	Annual average	End of year
2001	318	301
2002	284	274
2003	279	272

## 11 Executive bodies of the company

### Board of Management

WERNER MATERNA

Dipl.-Betriebswirt, Ratingen

### Supervisory Board

ERHARD SCHÄFER

Entrepreneur, Ratingen (Chairman)

RUDOLF BREIDEN

Dipl.-Ing., Düsseldorf (Deputy Chairman)

RAMONA SALECKER-SCHÄFER

Commercial Clerk, Ratingen



CHRISTIAN PEREIRA

Dipl.-Ing., Dipl.-Inf.wiss., General Manager of dtms Solutions GmbH

ULRIKE THEINER

Dispatch worker, Employees' representative, Ratingen

INGO LINDT

Wholesale and foreign trade clerk, Employees' representative, Ratingen

In addition to his activity on the Board of Management Mr. Materna is also a member of the Administrative Board of Tiptel NV/SA, Zaventem (Belgium), Mr. Rudolf Breiden is also a member of the Supervisory Board of UNITRONIC AG, Düsseldorf, and of Diltronic S.A., France. The other active members of the Supervisory Board confirm that they are not members of any other supervisory bodies or Supervisory Boards. The members of the Supervisory Board have been elected until the completion of the annual general meeting which adopts a resolution on discharge for the 2005 business year. A total of 4 Supervisory Board meetings were held in the 2003 business year. Mrs. Salecker-Schäfer, Mrs. Theiner and Mr. Breiden each failed to participate at one meeting.

#### **Supervisory Board and Board of Management remuneration**

The remuneration for the Supervisory Board of TIPTEL AG in the year under review amounted to KEUR 30 (2002: KEUR 30). In the business year 2003 the Chairman received KEUR 8, the Deputy Chairman KEUR 6. The other Supervisory Board members received each KEUR 4 for their Supervisory Board activities. These remunerations are fixed remunerations each. The total remuneration of the Board of Management of TIPTEL AG in 2003 amounted to KEUR 183 (2002: KEUR 311) and consisted as well of fixed remunerations only.

Ratingen, 5th March, 2004

TIPTEL AG

The Board of Management  
Werner Materna

## 12 Independent auditor's opinion

We have audited the consolidated financial statements of TIPTEL AG comprising the balance sheet, profit and loss account, statement of changes in equity, cash flow statement and the notes to the financial statements for the financial year from 1st January to 31st December 2003. The preparation and contents of the consolidated financial statements are the responsibility of the legal representatives of the company. It is our responsibility, on the basis of our audit, to express an opinion on the consolidated financial statements of whether they comply with the International Financial Reporting Standards (IFRS).

We conducted our group audit in accordance with German auditing standards and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. Performing an audit includes examining, on a random test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. It also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion based on the result of our audit, the consolidated financial statements give a true and fair view of the net assets and financial position of the group, the consolidated results of its operations and its cash flows for the year in accordance with the International Financial Reporting Standards (IFRS).

Our audit which also covered the management report prepared by TIPTEL's management for the financial year from 1st January to 31st December 2003 has not led to any reservations. In our opinion, the management report together with the other details of the consolidated financial statements provides a fair understanding of the group's position and suitably presents the risks of future development.

Without qualifying this evaluation, we would refer to the comments by the Board of Management in the consolidated management report. The section "other details" of the consolidated management report refers to further possible risks which could endanger the liquidity position and thereby the future development of the group.

We also confirm that the consolidated financial statements and the management report **TIPTEL AG, Ratingen** for the business year from 1st January until 31st December 2003 meet the requirements for the company to be exempted from the obligation to prepare consolidated financial statements and a management report for the group under German law.

Düsseldorf, 5th March 2004

Warth & Klein GmbH  
Wirtschaftsprüfungsgesellschaft

Dipl.-Kfm. Hans-Hermann Nothofer  
Wirtschaftsprüfer

Dr. Thomas Senger  
Wirtschaftsprüfer

Individual financial statements 2003 of TIPTEL AG  
acc. to HGB (German Commercial Code)



## Balance sheet of TIPTEL AG as of 31st December 2003

	Notes Number	As of 31.12.2003 KEUR	As of 31.12.2002 KEUR
<b>Assets</b>			
<b>A Fixed assets</b>			
I. Intangible assets		383	514
II. Tangible assets		2,333	2,770
III. Financial assets	3.1	5,264	5,379
		<b>7,980</b>	<b>8,663</b>
<b>B Current assets</b>			
I. Inventories	3.2	3,810	4,100
II. Receivables and other assets	3.3	7,083	8,987
III. Cash on hand and in banking accounts		569	294
		<b>11,462</b>	<b>13,381</b>
<b>C Deferred expenses and accrued income</b>			
		<b>9</b>	<b>30</b>
		<b>19,451</b>	<b>22,074</b>
<b>Liabilities</b>			
<b>A Shareholders equity</b>			
I. Subscribed capital		13,347	13,347
II. Capital reserve		540	540
III. Revenue reserves		81	81
IV. Balance-sheet profit/loss		-3,708	-2,584
	3.4	<b>10,260</b>	<b>11,384</b>
<b>B Provisions</b>			
	3.5	<b>2,101</b>	<b>2,806</b>
<b>C Liabilities</b>			
	3.6	<b>7,082</b>	<b>7,866</b>
<b>D Deferred expenses and accrued income</b>			
		<b>8</b>	<b>18</b>
		<b>19,451</b>	<b>22,074</b>

## Profit and loss account of TIPTEL AG for the period of 1st January to 31st December 2003

	Notes Number	01.01. – 31.12.2003  KEUR	Comparable previous years figure KEUR
<b>1. Sales revenues</b>	4.1	+ 19,162	+ 19,603
2. Change in stock of finished goods and work in progress		+ 241	./ 1,024
3. Other operating income	4.2	+ 974	+ 1,216
4. Cost of materials Cost of raw materials, consumables and of purchased merchandise		./ 11,257	./ 10,890
5. Personnel expenses a) Wages and salaries b) Social security, pensions and other benefit costs – thereof for pensions: KEUR 30 (previous year KEUR 30)		./ 5,589	./ 5,694
		./ 1,113	./ 1,061
6. Depreciation of intangible assets and tangible assets		./ 732	./ 1,112
7. Other operating expenses	4.3	./ 3,166	./ 3,220
8. Income from investments –thereof from associated companies: KEUR 400 (previous year KEUR 100)		+ 400	+ 100
9. Other interest and similar income – thereof from associated companies: KEUR 29 (previous year KEUR 28)		+ 39	+ 47
10. Amortisation of financial assets – davon an verbundene Unternehmen: KEUR 23 (previous year KEUR 9)		./ 334	./ 313
<b>11. Ergebnis der gewöhnlichen Geschäftstätigkeit</b>		./ 1,375	./ 2,348
12. Extraordinary expenses	4.4	+ 289	+ 2,486
<b>13. Extraordinary result</b>		+ 289	+ 2,486
14. Taxes on income		+ 0	./ 0
15. Other taxes		./ 38	./ 32
<b>16. Net profit /loss for the year</b>		./ 1,124	+ 106
17. Loss carried forward		./ 2,584	./ 2,690
<b>18. Balance-sheet profit/loss</b>		./ 3,708	./ 2,584

## Development of the fixed assets of TIPTEL AG in the business year 2003

### Historical initial and production costs

	As of 01.01.2003	Additions	Disposals	As of 31.12.2003
	KEUR	KEUR	KEUR	KEUR
<b>Fixed assets</b>				
<b>I. Intangible assets</b>				
1. Concessions, industrial property rights and similar licenses thereto	2,778	104	0	2,882
2. Goodwill	262	0	0	262
3. Paid deposits	16	0	16	0
<b>Total intangible assets</b>	<b>3,056</b>	<b>104</b>	<b>16</b>	<b>3,144</b>
<b>II. Tangible assets</b>				
1. Land and leasehold rights and buildings, including buildings on third-party land	2,290	0	0	2,290
2. Plant and machinery	6,745	0	0	6,745
3. Other fixtures and fittings, tools and equipment	5,833	75	48	5,860
<b>Total tangible assets</b>	<b>14,868</b>	<b>75</b>	<b>48</b>	<b>14,895</b>
<b>III. Financial assets</b>				
1. Shares in affiliated companies	13,572	0	0	13,572
2. Loans to affiliated companies	725	0	0	725
3. Shareholdings	9	0	9	0
4. Other loans	259	0	115	144
<b>Total financial assets</b>	<b>14,565</b>	<b>0</b>	<b>124</b>	<b>14,441</b>
<b>Total fixed assets</b>	<b>32,489</b>	<b>179</b>	<b>188</b>	<b>32,480</b>

**Depreciation**

**Book value**

As of 01.01.2003 KEUR	Additions KEUR	Disposals KEUR	As of 31.12.2003 KEUR	As of 31.12.2003 KEUR	As of 31.12.2002 KEUR
2,280	219	0	2,499	383	498
262	0	0	262	0	0
0	0	0	0	0	16
<b>2,542</b>	<b>219</b>	<b>0</b>	<b>2,761</b>	<b>383</b>	<b>514</b>
280	91	0	371	1,919	2,010
6,448	180	0	6,628	117	297
5,369	242	48	5,563	297	464
<b>12,097</b>	<b>513</b>	<b>48</b>	<b>12,562</b>	<b>2,333</b>	<b>2,771</b>
9,024	0	0	9,024	4,548	4,548
153	0	0	153	572	572
9	0	9	0	0	0
0	0	0	0	144	259
<b>9,186</b>	<b>0</b>	<b>9</b>	<b>9,177</b>	<b>5,264</b>	<b>5,379</b>
<b>23,825</b>	<b>732</b>	<b>57</b>	<b>24,500</b>	<b>7,980</b>	<b>8,664</b>



# General comments on the annual financial statements for the course of business 2003

## 1 Legal stipulations

The annual financial statements of TIPTEL AG were prepared in accordance with the stipulations of § 264 et seq. German Commercial Code (HGB). The profit and loss account was prepared using the expenditure type of presentation in accordance with § 275, Section 2 HGB. The balance sheet for TIPTEL AG is based on the audited annual financial statements of TIPTEL AG as of 31st December 2002; these annual financial statements bear an unqualified audit opinion and supplement.

In order to make the presentation clearer, comments on the balance sheet and on the profit and loss account are shown separately in sections 3 and 4 of the notes to the financial statements.

## 2 Accounting and valuation principles

### **Intangible fixed assets**

Intangible fixed assets are valued at acquisition cost minus scheduled depreciation.

### **Tangible fixed assets**

Tangible fixed assets are valued at acquisition and manufacturing cost minus scheduled depreciation in accordance with the straight-line method to the highest permissible sums, whereby use is made of fiscal simplification rules.

Low-value assets are written down in full in the year of acquisition.

### **Shares in affiliated companies and shareholdings**

Shares in affiliated companies and shareholdings are valued at the original acquisition costs. Comments on the shareholdings are to be found under "Financial Assets". The extraordinary depreciation performed in prior years was in part regained in 2001 and 2002 through write-ups in accordance with § 280 (1) HGB. In the past business year there were no changes to the shares held in affiliated companies.

### **Inventories**

Inventories are valued at acquisition or manufacturing costs respectively at the lower of cost or market. Administrative costs have been ignored.

### **Accounts receivable**

Accounts receivable take into consideration discernible individual risks through valuation adjustments. The general bad-debt risk for accounts receivable from goods and services is also taken into consideration through the formation of a general bad-debt charge of 3 per cent of the net outstanding accounts receivable.

### **Provisions**

Provisions are calculated such that all known risks are taken into consideration to an adequate degree.

### **Liabilities**

Liabilities are stated at the repayment sum.

The valuation of liabilities in foreign currencies and the expenses thereon is based on the applicable exchange rate on the date of accrual unless a higher exchange rate on the balance sheet date requires a higher valuation of the liability.

## **3 Comments on the balance sheet**

With regard to the development of the assets we would refer to the fixed-asset movement schedule.

### **1 Financial assets**

On 30 June 2003 TIPTEL AG withdrew as the limited partner from TOTUS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Kiel KG.

The item "other loans" includes a loan of KEUR 144 which was granted to PAPP electronic GmbH & Co. KG.

## 2 Inventories

	31.12.2003	31.12.2002
	KEUR	KEUR
Raw materials and supplies	2,550	3,238
Work in progress	299	305
Finished goods and goods for resale	617	370
Goods	344	186
	<b>3,810</b>	<b>4,099</b>

Raw materials and supplies are valued at their average acquisition costs taking into account § 253 Section 3 HGB. Devaluations are performed within the framework of a service life analysis. Work in progress and finished goods have been valued at the individual material costs and manufacturing costs per piece plus a surcharge for manufacturing and overhead costs.

## 3 Accounts receivable and other assets

	31.12.2003	31.12.2002
	KEUR	KEUR
Debtors (amounts owed for goods delivered and services rendered)	1,195	2,035
Amounts owed from affiliated companies	5,801	5,968
Amounts owed by companies in which the company has a participating interest	0	93
Other current assets	87	891
	<b>7,083</b>	<b>8,987</b>

Accounts receivable from affiliated companies are based on supplies and services, short-term loans and interest receivable for 2003.

The accounts receivable from undertakings with which the company is linked by virtue of participating interests were written off due to the settlement regarding the real estate in Kiel.

The other assets essentially comprise the residual purchase price obligation from the sale of the shares in PAPP electronic GmbH & Co. KG (KEUR 80).

The residual terms of the accounts receivable and other assets amount to less than one year.

#### 4 Shareholders' equity

##### Capital stock

Since the shareholders' meeting on 19 June 2001 the capital stock of the company has amounted to KEUR 13,347 and is divided into 5,220,972 ordinary shares without the setting of a nominal value (common stock shares). The arithmetical nominal value of each common stock share is EUR 2.56.

##### Authorised capital

Furthermore, the shareholders' meeting on 19 June 2001 authorised the Board of Management to conduct the following capital increases:

- Authorised capital of KEUR 5,000 with a fundamental subscription right on the part of the shareholders (Authorised Capital I).
- Authorised capital of KEUR 1,300 with exclusion of subscription rights insofar as the issuing price of the new shares does not essentially fall below that of the shares of the same structure already listed at the point in time of the establishment of the issuing price (Authorised Capital II).

The authorisations are limited until 1st June 2006. The resolutions were entered on the Commercial Register on 26 September 2002.

Further details are to be found in the equity capital schedule below.

##### Equity capital schedule

	As of 01.01.2003 KEUR	Additions KEUR	As of 31.12.2003 KEUR
<b>Shareholders' equity</b>			
I. Subscribed capital	13,347	0	13,347
II. Capital reserve	540	0	540
III. Revenue reserves			
Statutory reserves	81	0	81
IV. Balance-sheet loss			
– Loss carried forward	–2,584		–2,584
– Net loss for the year		–1,124	–1,124
<b>Shareholders' equity</b>	<b>11,384</b>	<b>–1,124</b>	<b>10,260</b>

Subscription rights to employees or to members of the Board of Management according to § 106 (1) 5 AktG (joint stock corporation act) have not been granted.

## 5 Provisions

	31.12.2003	31.12.2002
	KEUR	KEUR
Provisions for taxation	556	562
<b>Other provisions</b>		
Provisions for guarantees	112	139
Personnel and holiday provisions	287	310
Other risks	1,146	1,794
	<b>1,545</b>	<b>2,243</b>
	<b>2,101</b>	<b>2,805</b>

The tax provision concerns the turnover tax reimbursement claim for 1999 in connection with the company Hagenuk GmbH, which is involved in insolvency proceedings.

The value of the provisions for guarantees has been determined on the basis of the repairs conducted in 2003 and on the respective expenses at the cost centre.

The other provisions take into account the costs for the preparation, auditing and publication of the annual financial statements, as well as outstanding costs for insurances, incoming invoices and bonuses. The risks from litigation with tradesmen in connection with the real estate in Kiel have been taken into consideration with a sum of KEUR 515.

As a result of the settlement regarding the real estate in Kiel KEUR 477 from the provision was utilized. KEUR 289 of the provision was reversed (see "Extraordinary income").

## 6 Liabilities

	31.12.2003	31.12.2002
	KEUR	KEUR
Liabilities due to banks	4,133	3,969
Account payable	2,051	2,580
Liabilities due to affiliated companies	26	111
Other liabilities	872	1,206
	<b>7,082</b>	<b>7,866</b>
<b>Thereof from taxes:</b>	<b>271</b>	<b>209</b>
<b>Thereof from social security:</b>	<b>209</b>	<b>190</b>
<b>Thereof with a residual term of less than one year:</b>	<b>4,576</b>	<b>4,840</b>
<b>Thereof with a residual term of more than five years:</b>	<b>998</b>	<b>1,331</b>

Of the liabilities due to banks a sum of KEUR 1,803 has a residual term of less than one year. The liability due to Sparkasse Ratingen is secured by a registered land charge on the land in Marburg. Of the liabilities due to banks a sum of KEUR 998 has a residual term of more than five years. This is a re-payment obligation relating to the investment subsidy for the real estate in Kiel to the amount of KEUR 2,662 plus accrued interest of KEUR 330, which was paid as agreed on 5 January 2004. The loan is to be repaid from 30 June 2004 onwards. Laid down are two annual re-payment instalments each of KEUR 333 plus accrued interest. Higher re-payment sums are possible. The loan bears interest of 3 per cent above the ECB basic interest rate.

The trade accounts payable to INTEC GmbH, Lüdenscheid, are secured by a blanket assignment of accounts receivable.

The trade accounts payable have been evidenced using balance lists as of 31 December 2003.

## 4 Comments on the profit and loss account

### 1 Sales revenues

The sales revenues in the 2003 business year had the following structure:

#### According to specific geographic markets:

	<b>2003</b>	<b>2002</b>
	<b>KEUR</b>	<b>KEUR</b>
Domestic	11,305	11,894
Foreign	7,857	7,709
	<b>19,162</b>	<b>19,603</b>

#### According to business sectors:

	<b>2003</b>	<b>2002</b>
	<b>KEUR</b>	<b>KEUR</b>
Own products	13,014	13,841
Contract manufacturing	3,773	3,884
Trade goods	2,375	1,878
	<b>19,162</b>	<b>19,603</b>

### 2 Other operating income

	<b>2003</b>	<b>2002</b>
	<b>KEUR</b>	<b>KEUR</b>
Other income	339	291
Other consolidated income	305	448
Income from reversal of general bad-debt charge	145	306
Reversal of provisions	68	20
Rental income	51	77
Sales to staff	55	53
Income from asset disposals	11	21
	<b>974</b>	<b>1,216</b>

### 3 Other operating expenses

The other operating expenses are comprised as follows:

	<b>2003 KEUR</b>	<b>2002 KEUR</b>
Administrative expenses	1,918	1,960
Selling and marketing expenses	455	610
Operating costs	364	385
Other expenses	293	258
Losses from valuation adjustments on current assets	136	7
	<b>3,166</b>	<b>3,220</b>

### 4 Extraordinary income and extraordinary result

As a result of the settlement regarding the real estate in Kiel it was possible to reverse a sum of KEUR 289 from the provision. In line with the formation of the provision in prior years, the reversal was through the extraordinary result.

## 5 Declaration on the Corporate Governance Codex

The Board of Management and Supervisory Board of TIPTEL AG declare that the recommendations of the "Government Commission German Corporate Governance Codex" as published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette have been met, and that that some recommendations have not been or will not be applied.

This declaration has been accessible on a permanent basis to the shareholders on the homepage of TIPTEL AG under the Internet address [www.tiptel.de](http://www.tiptel.de) since December 2002 and is renewed each year. The last change was published on 30 January 2004.



## 6 Other Information

### Contingencies

Contingencies as defined in § 251 HGB exist at TIPTEL AG as follows:

■ from bonds	KEUR
– in Euro	227
– in BEF 10,079,000	250

These are all contingent liabilities on behalf of affiliated companies.

### Other obligations

For the office and production building rented since 6 November 2000 at Halskestrasse 1, Ratingen, annual rent of KEUR 1,023 is payable plus the valid rate of VAT. In addition there are annual leasing payments of KEUR 41.

### Employees

The following staff were employed on an annual average (per capita):

#### Employees TIPTEL AG

	2003	2002
Wage earners	81	83
Salaried workers	81	83
	<b>162</b>	<b>166</b>

**Shareholdings as of 31 December 2003 in accordance with  
§ 285 No.11 HGB**

<b>Name</b>	<b>Shareholders' equity in local 31.12.2003</b>		<b>Holding in per cent</b>	<b>Result after taxes for 2003 in local currency</b>	
Deutsche Fernsprecher GmbH, Marburg	KEUR	418	100	KEUR	97
Tiptel b.v., (NL)	KEUR	642	100	KEUR	255
Tiptel NV/SA, (B)	KEUR	-1.620	100	KEUR	1
Tiptel s.a.r.l., (F)	KEUR	14	100	KEUR	34
Tiptel GmbH, (A)	KEUR	-486	100	KEUR	-138
Tiptel AG, (CH)	KSFR	-1.590	100	KSFR	-344
Hagenuk Automotive GmbH	KEUR	25	100	KEUR	0

Tiptel Ltd. (UK) is in liquidation. No annual financial statements have been prepared since the bankruptcy proceedings opened on 17 December 1999.

## 7 Executive bodies of the company

### Board of Management

WERNER MATERNA  
Dipl.-Betriebswirt, Ratingen

### Supervisory Board

ERHARD SCHÄFER  
Entrepreneur, Ratingen

RUDOLF BREIDEN  
Dipl.-Ing., Düsseldorf (Deputy Chairman)

RAMONA SALECKER-SCHÄFER  
Commercial Clerk, Ratingen

CHRISTIAN PEREIRA

Dipl.-Ing., Dipl.-Inf.wiss., General Manager, dtms Solutions GmbH

ULRIKE THEINER

Dispatch worker, Ratingen, Employees' representative

INGO LINDT

Wholesale and foreign trade clerk, Ratingen, Employees' representative

In addition to his activity on the Board of Management Mr. Materna is also a member of the Administrative Board of Tiptel NV/SA, Zaventem (Belgium), Mr. Rudolf Breiden is also a member of the Supervisory Board of UNITRONIC AG, Düsseldorf, and of Diltronic S.A., France. The other active members of the Supervisory Board confirm that they are not members of any other supervisory bodies or Supervisory Boards. The members of the Supervisory Board have been elected until the completion of the annual general meeting which adopts a resolution on discharge for the 2005 business year.

#### **Supervisory Board remuneration**

The remuneration for the Supervisory Board of TIPTEL AG in the year under review amounted to KEUR 30 (2002: KEUR 30). For further details regarding the Supervisory Board remuneration refer to page 81 "Consolidated notes".

Ratingen, 18 February 2004

TIPTEL AG

The Board of Management  
Werner Materna

## 8 Independent auditor's opinion

We have audited the annual financial statements of TIPTEL AG and the management report of the company for the business year from 1 January 2003 to 31 December 2003. The accounting and the preparation of the annual financial statements and management report in accordance with German commercial provisions and the supplementary regulations of the articles of association are the responsibility of the legal representatives of the company. It is our responsibility, on the basis of our audit, to express an opinion on the annual financial statements, the accounting and the management report.

We conducted our audit of the annual financial statements in accordance with § 317 German Commercial Code, taking into consideration the principles of generally accepted auditing principles laid down by Institut der Wirtschaftsprüfer (IDW). Accordingly, the audits are to be planned and performed so that any material misstatements and violations which may have a significant impact on the presentation of a true and fair view of the net worth, financial position and earnings conveyed by the annual financial statements in accordance with generally accepted accounting principles and the management report, may be recognised. In determining the scope of the audit, findings on the business activity and on the business and legal environment of the company, as well as possible expected errors, have been taken into consideration. Within the framework of the audit the efficacy of the internal controlling system as well as vouchers for the details in the annual financial statements and management report have primarily been evaluated on the basis of random samples. The audit covers an evaluation of the applied accounting principles, as well as an appraisal of the essential estimates made by the legal representatives and an appraisal of the overall presentation of the annual financial statements and the management report. We believe that our audits provide a reasonable basis for our opinion.

Our audit did not lead to any objections.

In our opinion, the annual financial statements present fairly, in all material respects, a true and fair view of the net worth, financial position, earnings and cash flows of the company. The management report presents an accurate view of the position of the company, and accurately presents the risks from future developments.

Without qualifying this evaluation, we would refer to the comments by the Board of Management in the management report. The "Other information" section refers to the other possible risks which could jeopardise future developments and the liquidity position.

Düsseldorf, 5th March 2004

Warth & Klein GmbH  
Wirtschaftsprüfungsgesellschaft

Dipl.-Kfm. Georg Holschbach  
Wirtschaftsprüfer

Dipl.-Kfm. Hans-Hermann Nothofer  
Wirtschaftsprüfer

**Proposal for the appropriation of profit**

Taking into consideration the balance-sheet loss of KEUR 2,584 from the previous year there is a balance-sheet loss of KEUR 3,708.

The Board of Management and the Supervisory Board propose that the balance-sheet loss for the 2003 business year be carried forward.

Ratingen, 18 February 2004

TIPTEL AG

Management Board  
Werner Materna

# Report of the Supervisory Board





Erhard Schäfer  
Chairman of the Supervisory Board

**Dear shareholders,  
dear friends of the company,**

We have accompanied TIPTEL through a business year with numerous product launches. The company has proven its clear market strength as innovative supplier of telecommunications systems for small and medium-sized enterprises and is on the way to position itself again on the telecommunications market accordingly. At the same time, TIPTEL asserted itself, inspite of a slight turnover decrease on the operative side, vis-a-vis the significantly decreasing market trend in the telecommunications sector.

In the past business year the Supervisory Board has intensively dealt with the business development, the financial situation as well as the strategic orientation of TIPTEL AG. It has regularly consulted with the Management Board upon managing the company and supervised the management. The Management Board has informed the Supervisory Board by detailed reports about the situation, the corporate policy and business matters of major importance. The Supervisory Board has performed its tasks according to law and association articles and has been involved directly in all decisions of fundamental importance. Also apart from meetings of the Supervisory Board, the Chairman of the Supervisory Board has been in regular contacts with the Management Board by personal discussions and telephone calls and was informed about the current business situation.

In four rotational meetings on 26th March, 13th June, 17th September and 26th November the Supervisory Board and Management Board dealt intensively with issues of business development of TIPTEL AG as well as of the domestic and foreign associated companies. At the same time, basic questions of company strategy, especially product strategy, as well as marketing and sales strategies of TIPTEL AG were analysed. Jointly the market and competitors' situation was observed and the positioning of new products as well as the further plannings of the company regarding the innovative product segments WLAN and Internet telephony was discussed. In its meetings, together with the Management Board the Supervisory Board discussed the efforts continued in 2003 for a lasting improvement of profitability and stability of the business.

Also in 2003, the Supervisory Board dealt intensively with the corporate governance principles of TIPTEL AG. The responsible control of TIPTEL AG, focussed on adding value, the close co-operation with the Management Board as well as the encouragement of the employees' and investors' confidence are a special obligation for the Supervisory Board.



At the shareholders' meeting 2003 on 13th June in Duisburg the Supervisory Board was unanimously discharged of its responsibilities and was confirmed. According to the vote of the shareholders' meeting the Supervisory Board placed the order for auditing the financial statements and consolidated financial statements of TIPTEL AG to Warth & Klein GmbH, Wirtschaftsprüfungsgesellschaft, Düsseldorf. The individual financial statement for TIPTEL AG and the consolidated financial statements elaborated by the Management Board as well as the joint management report of TIPTEL Group and TIPTEL AG was audited by involving the accountancy of Warth & Klein GmbH, Wirtschaftsprüfungsgesellschaft, Düsseldorf and certified unlimitedly with additional remark. Subsequently, the Supervisory Board received the auditing documents for appraisal.

The Supervisory Board on its part has audited the individual financial statements, the consolidated financial statements and the joint management report and has discussed it intensively with the Management Board at the Supervisory Board meeting on 24th March 2003. The auditors also participated in this meeting and reported about the fundamental results of the audit. After own auditing of the documents, the Supervisory Board raised no objections and agreed with the auditing report. The financial statements established by the Management Board were approved by the Supervisory Board. At the same time, the financial statements were approved according to § 172 AktG (joint stock corporation act).

By their great dedication the Management Board and employees have contributed substantially to the results of the business year. On behalf of the total Supervisory Board I would like to express my thanks to the Management Board, Mr. Werner Materna, and all employees for their efforts and commitment in the business year 2003 and would like to wish all of them good success for the present business year.

Ratingen, 24th March 2004



Erhard Schäfer  
Chairman of the Supervisory Board

# Corporate Governance Code



Flexible communication by all-in-one solutions

Since foundation of the company the Management Board and the Supervisory Board of TIPTEL AG exert themselves for a responsible management and control of the company with the target to ensure an efficient co-operation among the company's bodies as well as a transparent and trustful communication with investors, customers, employees and the public.

The Management Board directs the company according to the legal regulations and on basis of bye-laws. The Supervisory Board of TIPTEL AG supervises and accompanies the Management Board in its activities. According to the rules of the Corporate Governance Code the principles for the Supervisory Board and the Management Board, the co-operation between both executive bodies, the accounting and the procedure of the shareholders' meeting have continuously been controlled since December 2002. For the first time, in December 2002, TIPTEL AG published a declaration by which the recommendations of the Government Commission for the German Corporate Governance Code were fulfilled to a large extent. In 2003 this declaration was adapted and published on 30th January 2004.

The Management Board and the Supervisory Board of TIPTEL AG approve the suggestions and rules of the German Corporate Governance Code. Last year they have fulfilled and in future they will fulfill its conduct recommendations widely. Divergencies are revealed by the Management Board and the Supervisory Board as follows.

**I. Regarding the following aspects the company has fulfilled further recommendations since issuing the declaration of December 18, 2002:**

- 1. Clause 2.3.1 of the Code states that the Management Board shall not only provide the reports and documents, including the Annual Report, required by law for the General Meeting, and send them to shareholders upon request, but shall also publish them on the company's Internet site together with the agenda.**

This has already been implemented at the occasion of the General Meeting 2003.

- 2. Clause 2.3.3 of the Code requires that the company shall facilitate the personal exercising of shareholders' voting rights. The company shall also assist the shareholders in the use of proxies. The Management Board shall arrange for the appointment of a representative to exercise**

**shareholders' voting rights in accordance with instructions; this representative should also be reachable during the General Meeting.**

The Supervisory Board decided on a corresponding proposal to amend the articles of association on September 17, 2003. These amendments of the articles of association will be presented for decision-making at the General Meeting on June 2, 2004.

- 3. Clause 3.10 of the Code states that the Management Board and Supervisory Board shall report each year on the enterprise's Corporate Governance in the Annual Report. This includes the explanation of possible deviations from the recommendations of this Code. Comments can also be provided on the Code's suggestions.**

A detailed declaration regarding the Corporate Governance Code with corresponding explanations concerning possible deviations has already been issued in the Annual Report 2002. The company will also comment on this in the Annual Report for 2003.

- 4. Clause 7.2.1 of the Code states that the Supervisory Board or, respectively, the Audit Committee shall obtain a statement from the proposed auditor stating whether, and where applicable, which professional, financial and other relationships exist between the auditor and its executive bodies and head auditors on the one hand, and the enterprise and the members of its executive bodies on the other hand, that could call its independence into question. This statement shall include the extent to which other services were performed for the enterprise in the past year, especially in the field of consultancy, or which are contracted for the following year.**

**Furthermore Clause 7.2.1 para 2 of the Code requires that the Supervisory Board shall agree with the auditor that the Chairman of the Supervisory Board will be informed immediately of any grounds for disqualification or impartiality occurring during the audit, unless such grounds are eliminated immediately.**

The above mentioned procedure regarding the auditor's statement as well as concerning the immediate information of the Supervisory Board in case of any grounds for disqualification or impartiality has already been implemented for the Consolidated Financial Statements 2002 and will be implemented further on.

5. **Clause 7.2.3 of the Code states that the Supervisory Board shall arrange for the auditor to report without delay on all facts and events of importance for the tasks of the Supervisory Board which arise during the performance of the audit.**

**Furthermore para 2 of clause 7.2.3 of the Code requires that the Supervisory Board shall arrange for the auditor to inform it and/or note in the Auditor's Report if, during the performance of the audit, the auditor comes across facts which show a misstatement by the Management Board and Supervisory Board on the Code.**

These recommendations have been implemented for the Annual Financial Statements 2002 and will be implemented in future as well. However, this information will not be served to the whole Supervisory Board but only to its Chairman. Due to the size of the Supervisory Board and the company we consider it to be adequate that these tasks remain with the Chairman of the Supervisory Board.

**II. Only regarding the following issues TIPTEL AG deviates from the recommendations of the Government Commission for the German Corporate Governance Code (in effect as of 21st May 2003):**

1. **Clause 2.3.2 of the Code states that the company shall inform all domestic and foreign shareholders, shareholders' associations and financial services providers, who, in the preceding 12 months, have requested such notification, of the convening of the General Meeting together with the convention documents, upon request, also using electronic channels.**

We will, for the first time at the occasion of the General Meeting 2004, inform about the convening of the General Meeting together with the convention documents, upon request, also using electronic channels.

2. **If the company takes out a D&O (directors and officers' liability insurance) policy for the Management Board and Supervisory Board, a suitable deductible shall be agreed in accordance with clause 3.8 para 2 of the Code.**

As in the last year, also in future the D&O policy of TIPTEL AG for the Management Board and the Supervisory Board will not include a deductible respectively insurance coverage for deliberate acting and willful default as well as for consciously neglect of duty.

TIPTEL AG endeavors to attract experienced personalities with entrepreneurial experience for the Supervisory Board. This aim could become difficult if future members of TIPTEL AG's Supervisory Board are threatened by extensive, personal liability risks. This is also relevant as in foreign countries a deductible is largely unusual.

- 3. Clause 4.2.1 of the Code requires that the Management Board shall be comprised of several persons and have a Chairman or Spokesman. Terms of Reference shall regulate the allocation of areas of responsibility and the cooperation in the Management Board.**

According to § 7, para. 1 of TIPTEL AG's articles of association the Management Board consists of one or several persons as in the past. This rule gives us the possibility of deciding flexibly based the particular company's situation whether the Management Board should consist of one or several persons. Thereby, for example, economic factors could be considered better. Furthermore, we see the number of members of the Management Board subject to the size of the company. Therefore, due to the current situation of the company we regard the Management Board with only one person to be adequate at present.

- 4. Clause 4.2.3 of the Code requires variable compensation components with long-term incentive effect and risk elements specified in advance using comparative parameters such as the performance of stock indices or the achievement of predetermined share prices. Changing such performance targets retroactively shall be excluded.**

**All compensation components must be appropriate, both individually and in total. The salient points of the compensation system and the concrete form of a stock options scheme or comparable instruments for components with long-term incentive effect and risk elements shall be published on the company's website in plainly understandable form and be detailed in the annual report. This shall include information on the value of stock options.**

**The Chairman of the Supervisory Board shall outline the salient points of the compensation system and any changes thereto to the General Meeting.**

The compensation of the Management Board consists at present already of fix and variable components. The variable components are subject to annual business performance-related components. It is not planned to introduce a stock option scheme as further variable compensation component for the Management Board. With regard to the size of our company and to the number of shares in freefloat a conflict of interest might occur.

- 5. Clause 4.2.4 of the Code states that the compensation of the members of the Management Board shall be reported in the Notes of the Consolidated Financial Statements subdivided according to fixed, performance-related and long-term incentive components. These figures shall be individualized.**

Starting with the Consolidated Financial Statements 2003 the compensation of the Management Board shall be reported in an individualized form subdivided according to fixed, performance-related and long-term incentive components

- 6. Clause 4.3.4 of the Code requires that all members of the Management Board shall disclose conflicts of interest to the Supervisory Board without delay and inform the other members of the Management Board thereof. All transactions between the enterprise and the members of the Management Board as well as persons they are close to or companies they have a personal association with must comply with standards customary in the sector. Important transactions shall require the approval of the Supervisory Board.**

At the Supervisory Board meeting on March 24, 2004 the § 3 and § 5 of the terms of reference of the Management Board shall be amended in this way that conflicts of interest of the Management Board and essential transactions of the mentioned kind are revealed to the Supervisory Board. A possibly required acceptance has to be granted by the Supervisory Board if necessary.

- 7. Clause 4.3.5 states that members of the Management Board shall take on sideline activities, especially Supervisory Board mandates outside the enterprise, only with the approval of the Supervisory Board.**

At the Supervisory Board meeting on March 24, 2004 the § 5 of the terms of reference of the Management Board shall be amended in this way that conflicts of interest of the Management Board and essential transactions of the mentioned kind are revealed to the Supervisory Board. A possibly required acceptance has to be granted by the Supervisory Board if necessary.

- 8. Clause 5.1.2 of the Code states that together with the Management Board, the Supervisory Board ensures that there is long-term successor planning. The Supervisory Board may delegate preparations for the appointment of members of the Management Board to a committee, which also determines the conditions of the employment contracts including compensation. An age limit for members of the Management Board shall be specified.**

The age of 65 years will be defined as future age limit for members of the Management Board. The regulation that personnel decisions are prepared and subsequently also taken by a personnel committee, is sufficiently fixed in the terms of reference of the Supervisory Board and has proven of value in the past.

- 9. Clause 5.3.2 of the Code states that the Supervisory Board shall set up an Audit Committee which, in particular, handles issues of accounting and risk management, the necessary independence required of the auditor, the issuing of the audit mandate to the auditor, the determination of auditing focal points and the fee agreement.**

Due to the size of the Supervisory Board and the company we regard it still to be adequate that these tasks remain with the Chairman of the Supervisory Board further on.

- 10. Clause 5.4.1 of the Code requires that the international activities of the enterprise, potential conflicts of interest and an age limit to be specified for the members of the Supervisory Board shall be taken into account.**

According to the handling regulated by the corresponding terms of reference of the company concerning the composition of TIPTEL AG's Supervisory Board we as in the past will also refrain from a general fixing of an age limit for the Supervisory Board in future.



**11. Clause 5.4.5 of the Code states that the members of the Supervisory Board shall receive fixed as well as performance-related compensation. Also payments made by the enterprise to the members of the Supervisory Board or advantages extended for services provided individually, in particular, advisory or agency services shall be listed separately in the Notes to the Consolidated Financial Statements.**

It is not planned to introduce a stock option scheme as further variable compensation component for the Supervisory Board. With regard to the size of our company and to the number of shares in freefloat a conflict of interest might occur.

In future, individualized details concerning the compensation of the Supervisory Board will be indicated in the Notes to the Consolidated Financial Statements (for the first time in the Annual Report 2003).

**12. Clause 7.1.2 of the Code states that interim reports shall be publicly accessible within 45 days of the end of the reporting period**

Due to the size of the company and to the available personnel resources we will make the interim reports publicly accessible within 60 days as up to now. However, we will be eager to shorten this period of time for the time being.

**13. Clause 7.1.3 of the Code requires that the Consolidated Financial Statements shall contain information on stock option programmes and similar securities-based incentive systems of the company.**

As soon as stock options schemes exist, we will give detailed information regarding the concrete definition of such schemes in the relevant Consolidated Financial Statements.

Ratingen, January 30, 2004

TIPTEL AG



The Management Board



The Supervisory Board

This declaration and the explanations regarding deviations are published on the company's homepage and can also be requested from the company.

# Shareholder Value



Modern production site in Ratingen

## The Share

After an at first weak beginning of the year at the stock markets the year 2003 showed a significant tendency of recovering during its course. Decisive factor was the termination of the Iraq conflict which resulted in worldwide improved business and economic data in the second half of the year. This provided the basis of a significant stimulation of the stock markets.

In the first half of the year also the TIPTEL share showed first of all a weak stock exchange price. The optimistic business prognosis for the second half of the year communicated by the 6-months- report of TIPTEL as well as the general upward trend at the stock market gave a significant impetus to the TIPTEL share price at the beginning of the third quarter. At the beginning of September the trading volume of TIPTEL shares increased unexpectedly strong and let the share price rise abruptly to the top. Within three days the value doubled and reached the annual peak value of EUR 2.75. After a closing rate of EUR 1.12 in 2003 the share turned into an average price of EUR 1.50 in the first weeks of the new business year.

During the last quarters TIPTEL has worked consequently on an improvement of the company's profitability and stability of the business in order to increase the value of the company in a lasting way. Therefore, the Management Board is optimistic that a stabilisation of the operative business as a consequence of an economic stimulation will reflect in a positive share price development in 2004

## Development of TIPTEL share price



Development of the TIPTEL share price (TIL, Xetra) compared to the development of the Prime Technology Index (CXPX) as well as to the company reports of TIPTEL in 2003.

## Profile and key figures of TIPTEL shares

SE code:	TIL
WKN:	748360
ISIN:	DE0007483604
Admission segment:	Prime Standard
Indices:	Prime-All-Share-Index
Prime Sector:	Technology
Industry Sector:	Communications Technology
Designated Sponsor:	Lang & Schwarz Wertpapierhandel AG
Established:	1973
Admission date:	1st July 1992
Admission to New Market:	1998
Number of shares (31st Dec. 2003)	5,220,792
52 weeks high	EUR 2.75 (9th Sept. 2003)
52 weeks low	EUR 0.51 (26th Feb.2003)
Rate beginning of business year	EUR 0.62
Rate end of business year	EUR 1.12
Market capitalisation/ Stock exchange value at year end *	TEUR 5,847
Earnings per share	EUR -0.22
Cash-flow per share	EUR +0.04
Dividend per share	EUR 0
Share capital	EUR 13,347,202.98

\* referring to the year end closing rate

## Investor Relations

As a member of the Prime Standard of the Frankfurt Stock Exchange – as in the previous years – TIPTEL fulfills the highest transparency requirements of this segment. An open communication towards analysts, investors and the economic press is part hereof. Thus, at the occasion of the annual press conference in April 2003 the Management Board presented the company to journalists and gave an outlook on the further development and the product portfolio of TIPTEL AG. Upon publishing the 9-months-report the management invited to an analysts' conference call in order to inform about further details of the operative business of the first nine months in 2003.

At the occasion of the regular shareholders' meeting in Duisburg on 13th June 2003 the Management Board together with the Supervisory Board used the direct discussion with the shareholders to strengthen the confidence in the company's future and the TIPTEL share. Also in 2004, TIPTEL will concentrate its efforts in investor relations on transparency, up-to-dateness and fair evaluation of the share.

During the business year our homepages [www.tiptel.de](http://www.tiptel.de) will provide regular information to the shareholders. Parallel to current information on products and activities of our company important facts regarding our share, company publications and reports are available in the chapter "Investor Relations". Under "Investor Relations" our current declaration regarding the Corporate Governance Code is to be found. Furthermore, all statements concerning notifiable dealings as well as information about the coming shareholders' meeting in 2004 will be available in future. In addition, for our shareholders and interested parties we have currently enlarged this IR platform by further facts about our share and the company as well as by an always updated price chart of our share.

## Shareholder structure

By 31st December 2003 TIPTEL AG showed the following shareholder structure:

Erhard Schäfer:	51.0 %
Free-float:	49.0 %

## Directors Holdings

Members of the Management Board and the Supervisory Board held the following TIPTEL shares by 31st December 2003:

### Shares

#### Management Board:

Werner Materna 300

#### Supervisory Board:

Erhard Schäfer 2.610.489

Rudolf Breiden 10

Ulrike Theiner 101

## Structure of the executive bodies of TIPTEL AG

### Management

#### Management Board

- Werner Materna (Sole member of Management Board)

#### Middle management

- Doris Droste (Sales Germany)
- Cor Heide (Sales companies in the Netherlands, Belgium, France)
- Werner Scholl (Marketing / Export third parties)
- Rainer F. Eichhorn (Research & Development)
- Hans-Willi Langenkamp (Plant Management)

#### Supervisory Board

- Erhard Schäfer (Chairman)
- Dipl.-Ing. Rudolf Breiden (Deputy Chairman)
- Ramona Salecker-Schäfer
- Dipl.-Ing., Dipl.-Inf. wiss. Christian Pereira
- Ulrike Theiner (Employees' representative)
- Ingo Lindt (Employees' representative)

# Service & Dates 2004

## Financial schedule 2004

22nd April 2004	Annual press conference 2004, Düsseldorf
31st May 2004	1st interim report 2004
2nd June 2004	Shareholders' Meeting 2004, Duisburg
31st August 2004	2nd interim report 2004
25/26th Aug. 2004	Financial Forum / analysts' conference Frankfurt
30th Nov. 2004	3rd interim report 2004

The financial schedule on the homepage **www.tiptel.de** will be updated constantly

## Service

This business report 2003 as well as all further management reports of TIPTEL AG are available in German and English language in the Internet under **www.tiptel.de** and can be downloaded. Our current company's brochure is available for downloading as well. In addition, under **www.haubrok.de/kundenportal/ newsabo** you can register by e-mail to the mailing list for ad-hoc and press information. Thus you will receive the latest news daily via e-mail.



## Contact

### **TIPTEL AG**

(headquarters)

Halskestraße 1

40880 Ratingen

Telefon +49 (0)21 02 / 428 - 0

Telefax +49 (0)21 02 / 428 - 10

E-Mail [info@tiptel.de](mailto:info@tiptel.de)

Internet [www.tiptel.de](http://www.tiptel.de)

### ■ **Investor Relations**

#### **Haubrok Investor Relations**

Julia Lange

Kaistraße 8

40221 Düsseldorf

Telefon (02 11) 30 12 6-0

Telefax (02 11) 30 12 6-172

E-Mail [j.lange@haubrok.de](mailto:j.lange@haubrok.de)

### ■ **Public Relations**

#### **alavia GmbH**

Stefanie Kohlen

Volmerswertherstraße 53

40221 Düsseldorf

Telefon (02 11) 300 65 4-0

Telefax (02 11) 300 65 4-40

E-Mail [stefanie.kohlen@alavia.net](mailto:stefanie.kohlen@alavia.net)

### ■ **Marketing & Service**

#### **TIPTEL AG**

Herr Kleinsteiberg

Telefon (0 21 02) 4 28 - 4 25

Telefax (0 21 02) 4 28 - 4 40

E-Mail [r.kleinsteiberg@tiptel.de](mailto:r.kleinsteiberg@tiptel.de)

## Company addresses

### **Tiptel GmbH**

Tenschertstraße 5  
A - 1230 Wien  
Telefon +43 (1) 6167871  
Telefax +43 (1) 616787122  
E-Mail office@tiptel.at  
Internet www.tiptel.at

### **Tiptel s.a.r.l.**

23, avenue René Duguay-Trouin  
F - 78960 Voisins-le-Bretonneux  
Telefon +33 (1) 39-446330  
Telefax +33 (1) 30-570029  
E-Mail commercial@tiptel.fr  
Internet www.tiptel.fr

### **Tiptel b.v.**

Camerastraat 2  
NL - 1322 BC Almere  
Telefon +31 (36) 5366650  
Telefax +31 (36) 5464157  
E-Mail info@tiptel.nl  
Internet www.tiptel.nl

### **Tiptel AG**

Bahnstrasse 46  
CH - 8105 Regensdorf  
Telefon +41 (1) 8431313  
Telefax +41 (1) 8431323  
E-Mail tiptel@tiptel-online.ch  
Internet www.tiptel-online.ch

### **Tiptel NV/SA**

Leuvensesteenweg 510 bus 4  
B - 1930 Zaventem  
Telefon +32 (2) 714 93.33  
Telefax +32 (2) 714 9334  
E-Mail tiptel@tiptel.be  
Internet www.tiptel.be

## Other companies of the group

### **Deutsche Fernsprecher GmbH**

Temmlerstraße 5  
D - 35039 Marburg  
Telefon 06421-4020  
Telefax 06421-402400  
E-Mail dfg-mk@t-online.de  
Internet www.dfg-quicktcl.de

# Glossary

## **Access point**

The access point is the interface between wireless connected computers and the hard-wired network.

## **Analogue**

Analogue telephones and analogue connections are using the conventional analogue method in contrast to the digital ISDN. Comparison: The analogue sound recording on a tape, the digital sound recording on a CD.

## **Call Manager**

Intelligent answering machines with additional functions such as a central switchboard : "Please dial 1 to be connected to our hotline, please dial 2 to reach our accounting department, ..."

## **CT**

Communications technology

## **DECT**

Digital Enhanced Cordless Telecommunication, an international standard for digital cordless telephony.

## **DSL**

Digital Subscriber Line. There is a difference between ADSL and SDSL. For ADSL the upstream rate is significantly lower than the downstream rate; for SDSL both rates are nearly similar.

## **EBIT**

Earnings before interest and taxes.

## **EBITDA**

Earnings before interest, taxes, depreciation and amortisation.

## **EITO**

European Information Technology Observatory – a European institution for market research in the IT/TC sector.

## **ICT**

Information and communications technology

**ISDN**

Integrated Services Digital Network. Please refer to the point "analogue".

**ISDN-router**

A device used for permitting Internet access to several computers at the same time. There is a difference between DSL-routers (Internet access via DSL) and ISDN-routers (Internet access via ISDN telephone network).

**Firewall**

Mechanism for the protection of the own data against unauthorised access via the Internet.

**Gateway**

Interface for linking different networks – e.g. for linking networks of companies at different locations or for linking different networks within a building (wireless connected computers with wired computers and / or the Internet).

**Home Offices**

Refer also to "SoHo", target group of TIPTEL.

**Network-Switch**

Intelligent interstage network (distributor) for connecting computers, printers, VoIP-telephones or the like to a network. In contrast to a hub (non intelligent interstage network) a switch is adaptive and transfers data e. g. only from computer 1 to computer 2 without charging the complete network by only transmitting data to the place where they are needed.

**Remote configuration**

Possibility of configuring a device (e.g. a PBX) from every place of the world via telephone lines and / or the Internet.

**Router**

Please also refer to "ISDN-router".

**SME**

Small and medium-sized enterprises – target group of TIPTEL

**SoHo**

Small Offices / Home Offices – target group of TIPTEL.

**VoiceMailSystem**

Voice mail recording system as known from mobile telephones with the possibility of installing several mailboxes in one device for different users. Each user has only access to his / her data (e. g. using PIN).

**VoIP**

Voice over IP: telephony via the EDP-network (LAN) or the Internet (WAN).

**WLAN**

Wireless local area network. Radio-based network within a building or area.

# Imprint

## **Conception and text**

TIPTEL AG, Ratingen

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