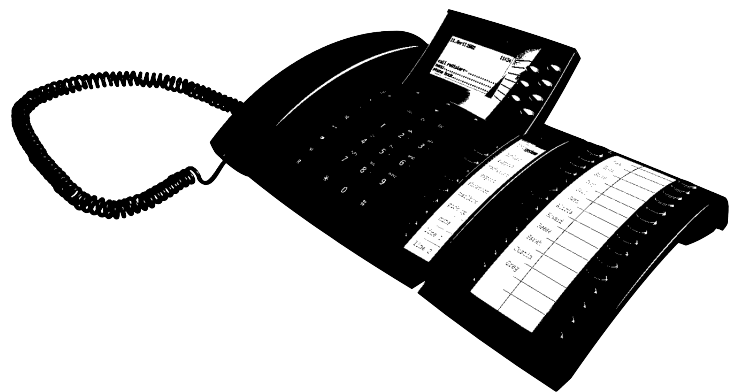
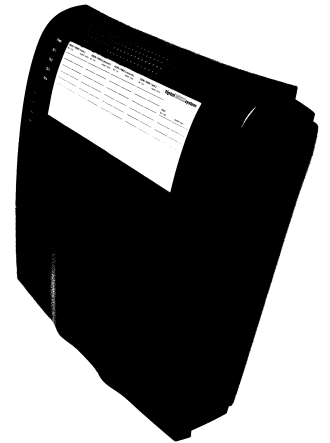




TIPTTEL AG

Annual report 2004 of group and AG



tipttel

TIPTEL at a glance

Short portrait of TIPTEL AG

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 through the sales network in Europe.

Founded in 1973, with today 259 employees in the group, TIPTEL develops, produces and markets high quality telephones, answering machines, call manager and voicemail systems as well as DECT telephones for small and medium-sized enterprises. The company is listed in the quality segment "Prime Standard" of the Frankfurt Stock Exchange.

Course of business	2004	2003	2002	2001
	TEUR	TEUR	TEUR	TEUR
Turnover	32,622	34,190	36,379	36,117
thereof:				
Domestic	16,873	19,449	21,421	22,964
Foreign	15,749	14,741	14,958	13,153
Foreign ratio in per cent	48.3 %	43.1 %	41.1 %	36.4 %
Turnover according to business sectors	32,622	34,190	36,379	36,117
thereof:				
ISDN	8,394	8,651	8,879	7,481
DECT	3,827	4,543	4,707	2,683
Analog	13,983	14,483	16,440	16,867
Security technology	135	121	248	597
Made-to-order production	4,466	4,211	4,367	6,067
Other	1,817	2,181	1,738	2,422
EBITDA	1,157	515	-458	-3,774
EBIT	360	-785	-2,385	-6,213
EBIT margin	1.1 %	-2.3 %	-6.6 %	-17.2 %
Annual profit / loss	-838	-1,170	-2,715	11,367
Cash flow				
- from continuous business activity	1,402	461	-591	-3,357
- from continuous business activity per share	0.27	0.09	-0.11	-0.64
Balance sheet total	18,289	20,156	25,008	28,883
Share capital ratio	4.9 %	8.7 %	14.0 %	19.3 %
Investment	1,434	283	317	733
Number of employees (Average)	263	279	284	318
thereof:				
Domestic	223	234	238	270
Foreign	40	45	46	48
Earnings per share (in €)	- 0.16	-0.22	-0.52	2.18

Content

Report of the Supervisory Board	3
Joint management report for the group and the stock corporation	7
Course of business	8
1 Development of the economy as a whole and of the industry	8
2 Development of sales revenues	11
3 Production	12
4 Procurement	13
5 Investment	13
6 Financing measures	14
7 Personnel and social sector	14
8 Other important event	16
Business situation	17
1 Net worth and capital structure	17
2 Financial situation	20
3 Earnings	22
4 Shares held by directors	26
Other details	27
1 Relationships to affiliated companies	27
2 Research & Development	27
3 Essential risks of future development	29
4 Probable development	31
5 Reporting to § 289 Section 2 HGB	32

Consolidated financial statements 2004 of TIPTEL AG on IFRS basis	33
Consolidated balance sheet	34
Consolidated profit and loss account	35
Development of the group's fixed assets	36
TIPTEL-group equity capital	38
Cash flow statement for consolidated management report	39
Consolidated notes	40
1 Fundamentals	40
2 Accounting and valuation methods	40
3 Currency translation	42
4 Consolidation methods	42
5 Reporting entity	43
6 Comments on the consolidated balance sheet	44
7 Comments of the consolidated profit and loss account	51
8 Declaration on the Corporate Governance Codex in accordance with § 161 AktG	54
9 Segment reporting	55
10 Other details	59
11 Executive bodies of the company	60
12 Independent Auditor's Report	61
Individual financial statements 2004 of TIPTEL AG acc. to HGB	63
Balance sheet	64
Profit and loss account	65
Development of the fixed assets	66
Notes of TIPTEL AG	68
1 Legal stipulations	68
2 Accounting and valuations principles	68
3 Comments on the balance sheet	69
4 Comments on the profit and loss account	73
5 Declaration on the Corporate Governance Codex	74
6 Other information	74
7 Executive bodies of the company	76
8 Independent Auditor's Report	77
Corporate Governance	79
Investor Relations	87
Contact	91
Glossary	94
Impressum	95

Report of the Supervisory Board





Erhard Schäfer
Chairman of the Supervisory Board

Dear shareholders,

Dear Sirs,

In the past business year the company succeeded in improving the earnings situation continuously by a good balance between cost reductions and new product developments. Especially against the background of the still difficult telecommunications market, particularly at medium-sized businesses the plunge in capital expenditure continued, a remarkable success.

The Supervisory Board fulfilled its duties according to law, articles of association and rules of procedure in the 2004 business year. We regularly consulted with the Management Board upon leading the company and supervised the management. The Management Board informed us promptly and extensively in meetings and by written reports. In all decision of fundamental importance for the company the Supervisory Board was directly involved. Also apart from meetings of the Supervisory Board the Chairman of the Supervisory Board was in regular contacts with the Management Board by numerous personal discussions and telephone calls and was informed about the current business development.

In four regular meetings of the Supervisory Board we intensively dealt with the economic development of the group, discussed the strategies and plannings of the company and decided about the resulting necessary measures. The regular main focusses of consulting were the turnover and earnings development as well as the financial situation, the comparison of estimates with results regarding the budget and the process of product development. Moreover, the Supervisory Board dealt with the further development and optimisation of the Corporate Governance and the risk management system of the company. In the second half of the year the new legal regulations of the Shareholder Protection Improvement Act (AnSVG) were another main focus of consulting. All meetings took place in presence of the Management Board. One member of the Supervisory Board missed the meeting in September 2004; otherwise, all members of the Supervisory Board participated in the other meetings in the reporting year.

At the shareholders' meeting on 2 June 2004 the shareholders discharged the Supervisory Board; new elections were not necessary. We placed the order for auditing the individual financial statements and consolidated financial statements of TIPTEL AG with the auditing company Warth & Klein GmbH, Wirtschaftsprüfungsgesellschaft, Düsseldorf, elected by the shareholders' meeting.

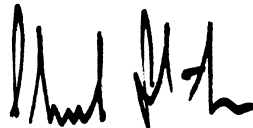
The auditor audited the individual financial statements and the consolidated financial statements as well as the joint management and group management report and certified it unlimitedly with additional remark. Subsequently, the Supervisory Board received the auditing documents for appraisal. The Supervisory Board in its part audited the individual financial statements, the consolidated financial statements as well as the joint management and the group management report and discussed it intensively with the Management Board at the Supervisory Board meeting on 17th March 2005. In the framework of the meeting the auditor reported about the fundamental results of the audit and was available for further questions.

After our intensive auditing of the individual financial statements, the consolidated financial statements as well as the joint management and group management report we had no objections and agreed to the auditing report. The Supervisory Board approved the individual financial statements and consolidated financial statements established by the Management Board. Thus, the individual financial statements of TIPTEL AG were approved. We agree to the suggestion of the Management Board to carry forward the results of the business year to new account. A corresponding proposal for the utilisation of profits will be submitted to the shareholders' meeting on 8th June 2005 for resolution.

According to clause 5.5.2 of the German Corporate Governance Code each member of the Supervisory Board is obliged to inform the Supervisory Board immediately about possible conflicts of interest, also of temporary nature, resulting from other consulting or supervisory functions. I can state that no such conflicts of interest occurred in the reporting period.

In the past year the basis was created for an again successful development of TIPTEL AG. Also on behalf of the entire Supervisory Board I would like to thank all employees and the Management Board for this. Without their engagement and high dedication this would not have been possible.

Ratingen, 17 March 2005

A handwritten signature in black ink, appearing to read 'Erhard Schäfer', written in a cursive style.

Erhard Schäfer
Chairman of the Supervisory Board

Joint management report for the group and the stock corporation

The joint management report for the business year from 1 January to 31 December 2004 covers the TIPTEL Group and the stock corporation TIPTEL Aktiengesellschaft. 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

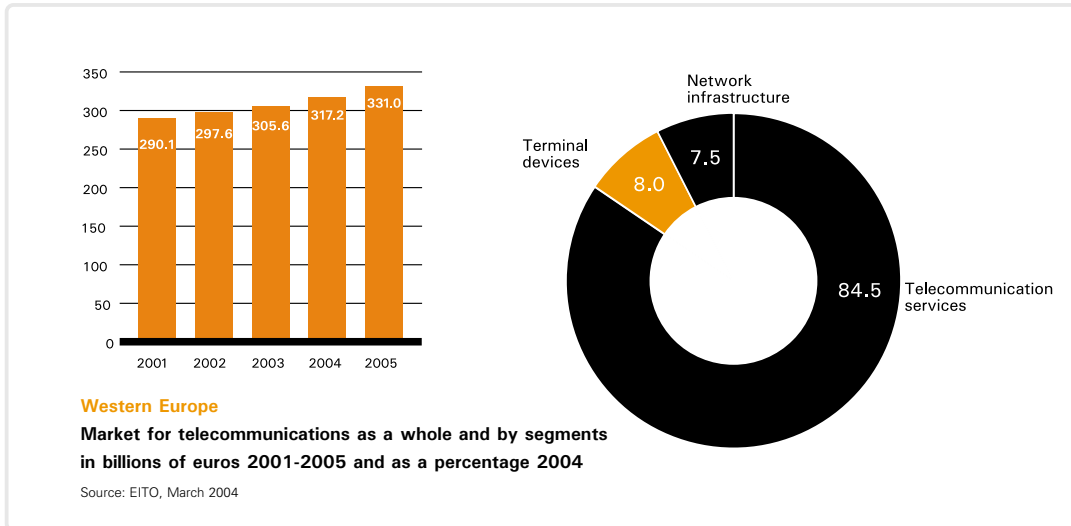
As expected the global economy developed positively in 2004. According to figures from the IfW, the Kiel-based Institute for World Economics, the growth rate was some 5 per cent. Growth was particularly strong in developing and threshold countries, yet the industrialised nations also saw a tangible recovery. Thus Eurostat has calculated a growth rate of 2.0 per cent (previous year: 0.5 per cent) for the countries in the eurozone, and of 2.3 per cent (previous year: 0.9 per cent) for the EU25. Within the eurozone the growth rates varied greatly. The German economy was able to post a moderate growth rate for the past business year. Following a downturn in the gross domestic product (GDP) in the previous year, provisional figures from the German Statistics Agency reveal an upturn of 1.6 per cent. This positive development is essentially due to a strong export sector, which saw a rise of 8.2 per cent. This contrasts with a moderate rise in net wages and salaries, as well as a slight downturn in private spending and gross investment in fixed assets. Although the German economy again posted growth in 2004, it was not able to keep pace with developments in the other countries in the eurozone. Together with Italy, Portugal and the Netherlands, Germany lagged well behind the other countries in terms of its growth rate.

In the course of the year the economy slowed down considerably due to the sharp increase in crude oil prices and the fall in the value of the US dollar. According to provisional figures from the German Statistics Agency the GDP declined by 0.2 per cent in the fourth quarter of 2004 over the same quarter of the previous year; at the same time the growth rate for the third quarter was revised to 0.1 per cent.

Development of the industry

The western European market for telecommunications has posted ongoing growth rates in recent years. In 2004 the market grew by some 3.8 per cent to a volume of 317.2 billion euros. The bulk of this increase, 85 per cent, was accounted for by general telecommunications services, while terminal devices and network infrastructure each accounted for 7.5 per cent of the total market. The market growth is primarily based on rising demand for value-added services and investment in infrastructure by mobile telephony providers.

Within Europe the telecommunications market in Germany is the largest in terms of sales revenues (EUR 65.6 billion), ahead of Great Britain and Italy. In 2004 the western European telecommunications market grew by 3.8 per cent, driven by excellent developments in the mobile telephony sector. This is also reflected in the development in the number of landlines, which has remained constant at some 55 million subscribers, while the number of users of mobile telephone networks has risen dramatically to some 63.5 million since 2001.

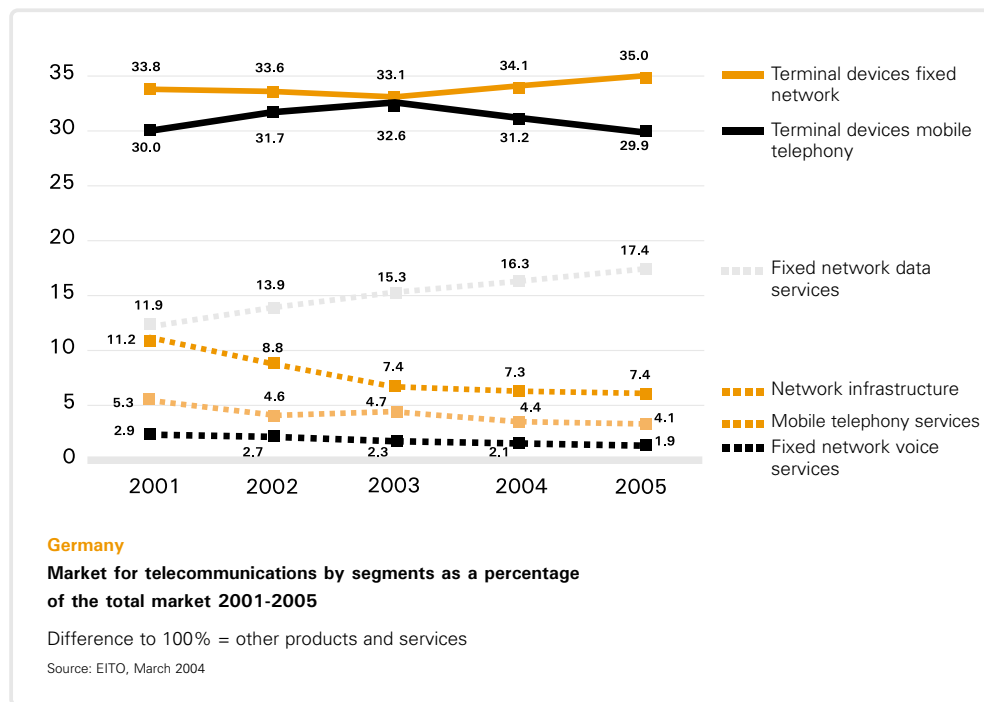


MARKET SEGMENTS GERMANY					Development in %			
	EUR million				2003/ 2002	2004/ 2003	2005/ 2004	2005/ 00
	2000	2003	2004	2005				
Cordless and corded telephones (analog, DECT, ISDN)	1,788	1,474	1,363	1,295	-10.0	-7.5	-5.0	-27.6
Telephone systems (incl. IP telecoms systems)	1,601	1,363	1,376	1,376	-2.5	1.0	0.0	-14.1
Other telecoms equipment (answering machines, fax, video-conference systems)	840	713	677	643	-10.0	-5.0	-5.0	-23.5
Total	4,229	3,550	3,416	3,314	-7.2	-3.8	-3.0	-21.6
IT market	68,088	63,001	63,766	65,647	-1.5	1.2	3.0	-3.6
Telecoms market	61,234	63,233	65,558	67,805	2.4	3.7	3.4	10.7

Source: EITO Almanac 2003 and 2004

TIPTEL is represented in the telecoms market segments PBX systems, corded and cordless telephones, as well as voice storage systems (call managers, voice-mail systems, answering machines). In Germany, the core market of TIPTEL AG, these segments once again saw a negative development. The downturn of 3.8 per cent, however, was lower than that of 7.2 per cent in the previous year. A negative trend was to be observed above all in the cordless and corded telephones segment. There are economic reasons for this development. The moderate increases in net wages and salaries, as well as a slight downturn in private consumer spending and the gross investment in assets, have muted demand. Yet fierce competition from cheap providers, mobile telephony and internet telephony (VoIP) have also contributed to this negative trend. The PBX systems segment has been largely unaffected by this development, and has even been able to post a growth rate around one per cent.

Fundamentally it is to be noted that 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 (SMEs), 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.



2 Development of sales revenues

In its core market TIPTEL is positioned as a specialist for innovative telecommunications solutions in the field of telephone terminal devices, as well as computer- and internet-based voice and data communication. Through its ISDN, Analog and DECT business divisions the company develops, produces and markets closed, user-specific system solutions to the SoHo and SME markets.

Furthermore, special telephones are also developed. These are ergonomic telephones (corded and cordless phone with large keys) as well as telephones for hospitals.

In addition TIPTEL is positioned in the business divisions Security Technology and Made-to-Order production.

TIPTEL Group

The consolidated revenues declined in the year under review by 4.6 per cent to KEUR 32,622. In this respect the developments were pleasing in the core business of telecommunications solutions for small and medium-sized enterprises/small and home offices, which saw revenues increase by 3.4 per cent. The Made-to-Order production division also increased its revenues, by 6.1 per cent to KEUR 4,466, following on from a figure of KEUR 4,211 for this division in the previous year.

The downturn in sales revenues is exclusively attributable to the special telephones product group. At TIPTEL this product group comprises the ergonomic telephones (phones with large keys) and hospital telephones. Due to a change of supplier there was a delay in the market launch of a new DECT product, with the effect that it was only to possible to attain minor sales with this product. In addition, in the case of hospital telephones organisational changes at a key account meant that there was a noticeable purchase reticence.

If the development of sales revenues is viewed on a regional basis, the TIPTEL Group has once again been able to confirm a positive development in Europe. In the Benelux region (+ 6.0 per cent), as well as in the rest of Europe (+ 8.0 per cent), the development was positive. The development of sales in these regions, however, was not able to offset the negative development in Germany (– 13.2 per cent).

TIPTEL AG annual financial statements

In contrast to the general trend on the relevant telecoms market segments sales at TIPTEL AG – excluding Made-to-Order production and inter-company sales – increased by KEUR 126 (1.5 per cent) in 2004. Sales in the Made-to-Order production division increased by 9.0 per cent to KEUR 323. Sales (excl. inter-company) rose over the previous year by 3.7 per cent to KEUR 12,563 (previous year: KEUR 12,114). The inter-company sales in the 2004 financial year were KEUR 7,032 (previous year: KEUR 7,048). The export quota remained virtually constant at 40.0 per cent (2003: 41.0 per cent).

Orders on hand as of 31. December 2004 amounted to KEUR 1,830, following on from KEUR 1,869 in the previous year. This corresponds to a slight downturn of KEUR 39.

3 Production

TIPTEL Group

While the TIPTEL Group merely performs the final assembly production process at the shareholding DFG, Marburg, the entire process – from assembly of printed circuit boards through to final assembly – is performed in Ratingen. In the 2004 financial year DFG transferred the assembly of its printed circuit boards from a third-party supplier in Slovakia to TIPTEL AG in Ratingen.

A total of 123 staff were employed in the production sector (previous year: 124).

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 2004. Thus the capacity utilisation of the production lines is high. If necessary, there is the possibility to operate with a third shift.

An annual average of 84 staff were employed in production in 2004 (previous year: 85); this figure is thus 1.2 per cent lower than in the previous year.

4 Procurement

The general mood in the German economy has changed only marginally over the previous year. Positive accents were set in a number of areas. After initial attempts by a number of semiconductor manufacturers to assert price increases, the market soon returned to normality. The IC market reached its zenith in 2004 as early as the beginning of October. Likewise other areas of the electronics industry did not see any essential increases that would lead to any drawbacks or drastic bottlenecks on the purchasing markets. On the other hand, it was possible to buy up a large number of surplus components on the spot market. There was even a battle for every order in the distribution segment, with the effect that there were price reductions in a number of partial areas.

Merely a number of discontinuations by numerous manufacturers in the wake of the 'lead-free directive' impacted on the otherwise very positive trend. The development of the exchange rate for the dollar (stability) also contributed to the positive development with purchasing prices. Further savings were also attained with an increase in imports, and above all from Asia.

In the 2005 financial year TIPTEL intends to further reduce the group's stock of inventories. It is to be noted that TIPTEL AG took over the bulk of the DFG stocks in the wake of the transfer of DFG printed circuit board assembly to Ratingen. These measures were initiated as of 1 July 2004 and successfully concluded as of 30 September 2004. Thanks to these and other measures the consolidated stocks were lowered over 2003 by KEUR 505 (– 6.5 per cent) to KEUR 7,206.

The expected savings in the areas of warehouse costs and component purchasing, as well as other cost reductions (freight, personnel etc.), have already borne the first fruit and will continue to have a positive impact in the coming months.

TIPTEL continues to find itself in a favourable position. The swift availability of components favours the completion of orders placed at relatively short notice.

Further price reductions are expected with the development of US dollar/euro parity.

5 Investment

The investment in intangible fixed assets and fixed assets at group level in 2004 amounted to KEUR 1,434 (2003: KEUR 283), and at TIPTEL AG to KEUR 292 (2003: KEUR 179). The main bulk of the investment was in the development of TIPTEL products (cf. "Other details", 2. 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 available for some time from a credit institute and since March 2004 in the form of a factoring agreement.

The short-term borrowings are 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

TIPTEL Group

At the end of 2004 the TIPTEL Group employed 259 staff (31.12.2003: 272). This corresponds to a downturn of 13 employees (– 4.8 per cent).

Employees TIPTEL Group		
	Annual average	End of year
2001	318	301
2002	284	277
2003	279	272
2004	263	259

Number of employees by company (cut-off date)		
	2004	2003
TIPTEL AG, Ratingen	156	160
Deutsche Fernsprecher GmbH, Marburg	65	70
Tiptel B.V., Netherlands	19	20
Tiptel NV/SA, Belgium	5	4
Tiptel s.a.r.l., France	9	8
Tiptel GmbH, Austria	3	5
Tiptel AG, Switzerland	2	5
Total	259	272

TIPTEL AG annual financial statements

Given the personnel adjustments in previous years, no further major measures are necessary. Accordingly the development in 2004 was as follows:

Employees TIPTEL AG		
	Annual average	End of year
2001	199	179
2002	166	163
2003	162	160
2004	156	156

In comparison to the annual average for 2003 the number of employees decreased slightly by a further six employees (- 3.6 per cent). The administration area was primarily affected by this development.

The distribution of the employees to the individual areas of the company is reflected in the following table (annual average):

Employees individual areas of the company			
	2004	2003	Change
Sales	33	32	+1
Research & Development	20	21	-1
Production	84	85	-1
Administration	19	24	-5
Total	156	162	-6

In 2004 there was scarcely any change 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.

8 Other important events

The employees of TIPTEL AG, Ratingen, waived the collectively-agreed special annual payment (part of income for a 13th month) for the years 2004 and 2005, and also waived half of the additional vacation remuneration.

Claims to the collectively-agreed special annual payment for 2005 and half of the additional vacation remuneration for 2005 and to an additional one-off remuneration in 2005 to the amount of about KEUR 246 will be met if the economic situation of the company has improved such that the consolidated profit in 2005 is positive taking into account the possible obligation.

If the above collectively-agreed claims are accrued in 2005, they will be paid by 31 December 2007 at the latest.

Business situation

1 Net worth and capital structure

TIPTEL Group

The following shows the development of the net worth and capital structure over the years:

	2004	2003	2002	2001
	KEUR	KEUR	KEUR	KEUR
Fixed assets	5,393	4,900	7,147	9,505
Current assets*	12,896	15,256	17,861	19,378
Equity capital	897	1,745	3,510	5,576
Borrowed capital*	17,392	18,411	21,498	23,307
Balance sheet total	18,289	20,156	25,008	28,883
*including deferred items				

The balance-sheet total decreased over the previous year by KEUR 1,867 (– 9.3 per cent). The fixed assets increased by KEUR 493 (+ 10.1 per cent); in the 2004 financial year a sum of KEUR 1,434 (previous year: KEUR 283) was invested in fixed assets and intangible assets. The investments in intangible assets include development costs which are to be capitalised as self-constructed assets (KEUR 1,210) for the first time ever pursuant to the statutory provisions of IAS 38.

The net worth and capital structure was impacted to a considerable degree in 2004 by the inventories, accounts receivable and other assets. The inventories decreased by KEUR 505 (– 6.5 per cent) to KEUR 7,206. The capital tied up by accounts receivable and other assets decreased by KEUR 1,079 to KEUR 3,172. Accounts receivable were also decreased by factoring agreements which TIPTEL AG, Ratingen, and DFG, Marburg, concluded with EUROFACTOR AG, Munich, at the end of the first quarter of 2004.

The equity capital of the company decreased to KEUR 897 given the annual result. The borrowed capital decreased in 2004 by KEUR 1,019 (– 5.5 per cent).

On the whole the company was able to reduce its liabilities by KEUR 972 (– 9.4 per cent) to KEUR 9,416.

TIPTEL AG annual financial statements

The net worth and capital structure in the 2004 financial year was as follows:

	2004	2003	2002	2001
	KEUR	KEUR	KEUR	KEUR
Fixed assets	8,055	7,980	8,663	7,436
Current assets*	9,453	11,471	13,411	15,779
Equity capital	9,280	10,260	11,384	11,278
Borrowed capital*	8,228	9,191	10,690	11,937
Balance-sheet total	17,508	19,451	22,074	23,215
*including deferred items				

The balance-sheet total declined by KEUR 1,943 (– 10.0 per cent) to KEUR 17,508. The fixed assets saw a moderate increase of KEUR 75; a sum of KEUR 292 was invested in fixed assets and intangible assets.

Furthermore, in the financial assets segment a shareholding of KEUR 400 was written up in accordance with § 280 HGB, Section 1.

The accounts receivable and other assets are comprised as follows:

	2004	2003	Δ	Δ
	KEUR	KEUR	KEUR	in percent
Accounts receivable	803	1,195	–392	–32.8
Due from affiliated companies	4,279	5,801	–1,522	–26.2
Other assets	84	87	–3	–3.4
Total	5,166	7,083	–1,917	–27.1

The accounts receivable were also reduced on the basis of a factoring agreement concluded with EUROFACTOR AG, Munich.

The equity capital ratio developed as follows:

2004	2003	2002	2001
53.0 %	52.7 %	51.6 %	48.6 %

In 2004 the borrowed capital declined by KEUR 960 (– 10.5 per cent).

The liabilities were reduced by a total of KEUR 727. The bulk of this results from a reduction in the liabilities to credit institutes to the amount of KEUR 574 (– 13.9 per cent).

Asset and capital structure of TIPTEL AG

	31.12.2004		31.12.2003		Changes
	KEUR	%	KEUR	%	KEUR
ASSETS					
Fixed assets					
Intangible assets	384	2.2	383	2.0	+1
Tangible assets	2,122	12.1	2,333	12.0	-211
Investment	5,549	31.7	5,264	27.1	+285
	8,055	46.0	7,980	41.1	+75
Current assets					
Inventories	4,246	24.3	3,810	19.6	+436
Accounts receivable	803	4.6	1,195	6.1	-392
Accounts receivable from affiliated companies	4,279	24.4	5,801	29.8	-1,522
Other assets	84	0.5	87	0.4	-3
Liquid funds	33	0.2	569	2.9	-536
Deferred expenses and accrued income	8	0.0	9	0.1	-1
Overall assets	17,508	100.0	19,451	100.0	-1,943

	31.12.2004		31.12.2003		Changes
	KEUR	%	KEUR	%	KEUR
LIABILITIES					
Shareholders equity and similar to shareholders equity values					
Subscribed capital	13,347	76.2	13,347	68.6	0
Capital reserve	540	3.1	540	2.8	0
Revenue reserves	81	0.5	81	0.4	0
Balance sheet loss	-4,688	-26.8	-3,708	-19.1	-980
	9,280	53.0	10,260	52.7	-980
Long-term borrowed capital					
Liabilities due to banks	665	3.8	998	5.1	-333
	665	3.8	998	5.1	-333
Medium-term borrowed capital					
Liabilities due to banks	1,331	7.6	1,331	6.8	0
Liabilities due to affiliated companies	23	0.1	23	0.1	0
Other liabilities	102	0.6	153	0.8	-51
	1,456	8.3	1,507	7.7	-51
Short-term borrowed capital					
Provision for taxation	556	3.2	556	2.9	0
Other provisions	1,312	7.5	1,545	8.0	-233
Liabilities due to banks	1,562	8.9	1,803	9.3	-241
Accounts payable	2,134	12.2	2,052	10.6	+82
Liabilities due to affiliated companies	1	0.0	3	0.0	-2
Other liabilities	537	3.1	719	3.7	-182
	6,102	34.9	6,678	34.5	-576
Overall borrowed funds	8,223	47.0	9,183	47.3	-960
Deferred income and accrued expenses	5	0.0	8	0.0	-3
Total capital	17,508	100.0	19,451	100.0	-1,943

2 Financial situation

TIPTEL Group

The development of the liquidity of the TIPTEL Group includes an influx of funds from operating activities of KEUR 1,402.

In the course of the past four years the influx and outflow of funds from operating activities has developed as follows:

Financial year	KEUR	Change over the previous in KEUR
2001	-3,557	
2002	-591	+2,966
2003	+239	+1,052
2004	+1,402	+941

In the course of 2004 the capital expenditure for investments increased by KEUR 1,151 to KEUR 1,434; the bulk of the outflow was accounted for by investment in intangible assets.

The cash and cash equivalents posted on the cash-flow statement at the end of the period amount to KEUR 533 (previous year: KEUR 1,164).

The reduction in the financial assets from KEUR 1,164 to KEUR 533 includes a sum of KEUR 602 (previous year: KEUR 523) for interest payments.

TIPTEL AG annual financial statements

The outflow of funds from operating activities in the cash-flow statement is KEUR 196. Compared to the previous year this corresponds to a change of KEUR 610. A high proportion of this negative change results from structural balance-sheet effects. An example of this is the change in liabilities, a total sum of KEUR 727 or 10.3 per cent. The cash flow from investment activities (cash-flow statement, point 18) reflects the increased cost of investments.

The cash-flow statement shows the changes in the relatively low cash and cash equivalents of KEUR 5 (2003: KEUR 541). The cash and cash equivalents of KEUR 541 in the previous year include a sum of KEUR 330 which was not paid out until the beginning of January 2004.

Further details are to be found in the following presentation of the cash-flow statement of the stock corporation.

Cash flow statement of TIPTEL AG

	01.01. – 31.12.2004	Comparable prevoius
	KEUR	KEUR
1 Earnings prior to tax on profits and to financial result	./ 992	./ 1.228
2 Paid (-) / received (+) taxes on profits	./ 0	+ 7
3 Interest received	+ 26	+ 39
4 Interest paid	./ 638	./ 486
5 Dividends received	+ 485	+ 86
6 Result of the period	./ 1,119	./ 1,582
7 Depreciation (+) / write-ups (-) on – intangible and tangible assets (balance)	+ 501	+ 732
– financial assets	./ 400	./ 0
8 Increase (+) / decrease (-) in provisions	./ 233	./ 704
9 Other expenses (+) and income (-) not affecting cash flows	+ 186	./ 11
10 Profit (-) / loss (+) from disposal of fixed assets	./ 4	./ 11
11 Increase (-) / decrease (+) in inventories, receivables from goods and services and other assets (without investing activities)	+ 997	+ 2,397
12 Increase (+) / decrease (-) in accounts payable from and goods and services other liabilities (without financing and investing activities)	./ 124	./ 407
13 Cash flow from operating activities	./ 196	+ 414
14 Inflow from tangible asset disposals	+ 4	+ 11
15 Outflow for investments in tangible assets	./ 73	./ 75
16 Outflow for investments in intangible assets	./ 219	./ 104
17 Inflow from financial asset disposals	+ 115	+ 115
18 Cash flow from investing activities	./ 173	./ 53
19 Inflow from issuing loans and increase in borrowings	./ 0	./ 0
20 Outflow for repayments on borrowings	./ 167	./ 86
21 Cash flow from financing activities	./ 167	./ 86
22 Changes in cash and cash equivalents affecting cash flow	./ 536	+ 275
23 Increase (-) / decrease (+) of pledged funds	./ 0	+ 15
24 Cash and cash equivalents at beginning of period	+ 541	+ 251
25 Cash and cash equivalents at end of period thereof:	+ 5	+ 541
26 liquid funds	+ 33	+ 569
27 pledged funds	./ 28	./ 28
28 Cash and cash equivalents at end of period	+ 5	+ 541

3 Earnings

TIPTEL Group

The EBIT in the 2004 financial year increased to KEUR + 360, which corresponds to a rise of KEUR 1,145. Thus, for the first time in 3 years TIPTEL posted a positive EBIT at group level. With an EBIT margin of 1.1 per cent TIPTEL just surpassed the EBIT margin of 1 per cent as forecast in the 2003 annual report.

Financial year	EBIT in KEUR
2001	-6,213
2002	-2,385
2003	-785
2004	+360

The net result for 2004 improved over the previous year by KEUR 332 to KEUR – 838 (previous year: KEUR – 1,170).

The annual result includes, for the first time ever, capitalised self-constructed assets pursuant to IAS 38, as the prerequisites for the above statutory credit have been fulfilled in the meantime. Seen in analytical terms this set of circumstances leads to an effect of ca. KEUR 600 on the result. In the previous year an effect of ca. KEUR 601 was attained through the settlement regarding the real estate in Kiel.

On the whole it remains to be noted that the improvement of KEUR 332 in the annual result for 2004 is not due to one-off effects, but is also aided by an improvement in the result from operating activities; in the meantime this result has improved by KEUR 1,159 to KEUR + 323.

The EBITDA of the TIPTEL Group continued to develop positively and has changed as follows:

Financial year	EBITDA in KEUR
2001	-3,774
2002	-458
2003	+515
2004	+1,157

Seen over a period of several years the operating figures have continually developed positively. The as yet negative annual result reflects a decline in equity capital development, something which is to be reversed through further improvements in the operating areas (see also "Other details", 4. Probable development).

TIPTEL AG annual financial statements

The net result of the stock corporation improved from KEUR – 1,124 to KEUR - 980 (KEUR + 143/ + 12.7 per cent).

The result from ordinary activities improved by KEUR 427 to KEUR – 948 (previous year: KEUR – 1,375). The gross profit improved by 2.2 per cent to KEUR 9,319 (previous year: KEUR 9,120).

The total sum of personnel costs, other operating expenses and depreciation decreased in the year under review by KEUR 326. This sum includes a decrease of KEUR 261 in the personnel expenses. This saving was attained as, among other things, the Works Council and management agreed to forego the payment of a Christmas bonus in 2004.

On the whole the stock corporation's result has been impacted by a shareholding write-up of KEUR 400 (pursuant to § 280 HGB), as well as by higher one-off other operating expenses of KEUR 250.

DFG, Marburg, has transferred the assembly of its printed circuit boards from a third-party supplier in Slovakia to TIPTEL AG in Ratingen. In this regard DFG incurred costs which were reimbursed by the stock corporation. This measure has ensured that enhanced capacity utilisation has been attained in Ratingen. Other reasons for the transfer were more stable product quality and greater flexibility with a view to fluctuations in demand.

The EBITDA of the stock corporation has developed as follows:

Financial year	EBIT in KEUR	Δ over previous year
2001	-5,172	
2002	-2,083	+3,089
2003	-1,078	+1,004
2004	-614	+464

The EBIT result improved in the 2004 financial year by KEUR 464 over the previous year. When the development of the EBIT is viewed over a number of years, an absolute improvement of KEUR 4,558 is to be seen compared to the 2001 financial year.

The EBITDA of the stock corporation has changed as follows:

Financial year	EBITDA in KEUR	Δ over previous year
2001	-3,810	
2002	-971	+2,839
2003	-348	+623
2004	-113	+235

In a year-on-year comparison the EBITDA has improved by ca. 68 per cent to KEUR – 113. In 2001 the stock corporation still had a negative EBITDA of KEUR – 3,810; on a cumulated basis the EBITDA has improved by KEUR 3,697 since 2001.

In an analysis of the long-term business development of the stock corporation from 2001 through to the current annual financial statements for 2004 the EBIT development with a cumulated sum of KEUR + 4,558 and the EBITDA development with KEUR + 3,697 reflect the positive overall development of the company.

The earnings per share to DVFA/SG in 2004 amounted to EUR – 0.19 (previous year: EUR – 0.27). The net result per share is – 0.19 (previous year: EUR – 0.22)

The following table shows a detailed two-year comparison:

Earnings situation of TIPTEL AG

	01.01. – 31.12.2004		01.01. – 31.12.2004		Changes KEUR
	KEUR	%	KEUR	%	
Sales revenues	19,595	94.5	19,162	94.0	+433
Change in inventories	-78	-0.4	241	1.2	-319
Other operational income	1,214	5.9	974	4.8	+240
Operating efficiency	20,731	100.0	20,377	100.0	+ 354
Material expenses					
Expenses for raw materials and consumables	-11,412	-55.0	-11,257	-55.2	-155
Gross earnings	9,319	45.0	9,120	44.8	+ 199
Personnel expenses	-6,441	-31.1	-6,702	-32.9	+261
Depreciations of intangible and fixed assets	-501	-2.4	-732	-3.6	+231
Other operational expenses including other taxes (without tax on profits)	-3,369	-16.3	-3,203	-15.7	-166
Operational expenses	-10,311	-49.8	-10,637	-52.2	+ 326
Operating result	-992	-4.8	-1,517	-7.4	+ 525
Earnings from interest and shareholdings	372	1.8	439	2.2	-67
Interest expenses and depreciations on financial assets	-361	-1.7	-335	-1.6	-26
Financial result	11	0.1	104	0.6	-93
Extraordinary income	0	0.0	289	1.4	-289
Earnings before tax	-981	-4.7	-1,124	-5.5	+ 143
Net loss	-981	-4.7	-1,124	-5.5	+ 143
Loss carried forward	-3,708	-17.9	-2,584	-12.7	-1,124
Accumulated loss	-4,689	-22.6	-3,708	-18.2	-981

4 Shares held by directors

As of the cut-off date the following shares were held by member of the executive bodies:

	Board of Management 31.12.2004	31.12.2003
Werner Materna	300 shares	300 shares

	Supervisory Board 31.12.2004	31.12.2003
Erhard Schäfer	2.610.489 shares	2.610.489 shares
Rudolf Breiden	10 shares	10 shares
Ulrike Theiner	101 shares	101 shares

The other members of the executive bodies did not hold any shares in TIPTEL as of the above cut-off 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 planned the ISDN PBX system family tiptel 3011/3022, which was launched on the market in August 2003, was further developed in the course of 2004 and a large number of its features expanded. As this system not only covers the field of telephony, but also the fields of networks and internet access, a 19-inch rack version was also developed for this system family, and was presented to the public at CeBIT 2004. This version of the system may be installed easily in the network infrastructure of every company.

At the same time the more cost-favourable "System" version was presented. This is intended to appeal above all to customers who currently still prefer to see telecommunications and networking separated.

At the end of 2004 a 4 x s0 expansion module was completed, thus placing customers in a position to expand their systems to as many as eight s0 ports. Naturally this also applies to systems already on the market as well as to new ones. Thus, at the end of 2004, together with the WLAN module and the DSL modem module there were three retrofittable expansion modules for the tiptel 3011/3022 family. A voice storage module is also in preparation.

Another point of focus in 2004 was the field of VoIP, which will be at the focus of the development activities in the coming years. The foundation for VoIP development projects was laid in 2003 with the above PBX system family, whose platform also serves as the basis for VoIP developments.

Thus TIPTEL continues to place its faith in the integration of telecommunications and network solutions. Having set itself the goal of presenting VoIP products that have been completely developed by TIPTEL at CeBIT 2006, the necessary development work began in the fourth quarter of 2004. These activities will continue to dominate the area of research and development.

In the area of analog PBX systems in April 2004 the successor generation to the highly successful tiptel 1/8 fax clip and tiptel 2/8 clip was launched as previously announced in the 2003 annual report. Given the rising market demand in this sector it was possible to virtually double the planned sales figures. Naturally it is TIPTEL's objective to continue to satisfy customers' needs for such systems, making available products in this segment which meet both current and future requirements.

The new development launched in 2003 in the field of voice storage systems was also successfully concluded in the year under review with the flagship tiptel 570 office. On the same platform work then began as planned on the mid-segment device tiptel 540 office, which will be completed in the spring of 2005. This family of devices will probably be finalised in the third quarter of 2005 with the completion of the tiptel 545 pro as a representative of the upper mid-segment. Thus there will be a totally new generation of voice storage systems in the mid-segment, the upper mid-segment and the upper segment. These innovations will supersede the tiptel 340 clip and tiptel 345 pro devices.

An annual average of 32 staff (2003: 34 persons) were employed in Research and Development throughout the TIPTEL Group in 2004. The expenditure in this area in 2004 amounted to KEUR 2,421 (previous year: KEUR 2,573). This sum includes the development costs of KEUR 1,210 (previous year: KEUR 0) to be capitalised pursuant to IAS 38.

An annual average of 20 staff were employed (2003: 21 persons) in the field of Research and Development at the stock corporation. The expenses in this area in the year under review were KEUR 1,725 (2003: KEUR 1,845).

3 Essential risks of future development

The TIPTEL Group faces various risks within the framework of its business activity. In order to counter these risks adequately at an early stage an integral element in TIPTEL's planning and controlling process is a comprehensive early-warning system for risks. The fundamental aspects of the risk early-warning system, which prescribe the rules for the structured recording, evaluation and reporting of risks, are laid down in a manual. Within the individual business divisions, as well as in the subsidiaries and shareholdings, the management are responsible for the efficacy of the system and the recording of operating risks. Those with responsibility for the divisions report on a quarterly basis to the risk manager, who aggregates, analyzes and evaluates the risks on a pan-group basis.

Within the framework of the risks analysis TIPTEL has identified, from its current stance, the following essential risk areas.

Overall economic risks

The overall economic situation has an immediate impact on the willingness of companies to invest in capital equipment and on private spending, and thus has an immediate impact on the business development of the TIPTEL Group. The permanent analysis of the available early indicators place TIPTEL in a position to identify economic developments and to initiate the requisite consequences for production and marketing.

Operating risk

The success of the TIPTEL Group is dependent to a great degree on the know-how of its employees. Above all, a high level of fluctuation in the R&D team, in sales and in marketing could have a negative impact on the development of the company. Give the low fluctuation rate in the past, such a risk is not to be expected.

In the IT sector TIPTEL is - just like virtually every other company - open to possible external attacks, system failures and the loss of data. Using firewalls and state-of-the-art virus scanners these risks are reduced to a minimum. Moreover, all data are backed up monthly, weekly and daily.

Sales risk

Given its extensive distribution network and heterogeneous customer structure TIPTEL is not directly dependent on individual customers. Through constant observation and analysis of the sales markets TIPTEL identifies new trends and developments at an early stage and is able to initiate the corresponding corrective measures.

Purchasing risk

TIPTEL has an extensive network of suppliers, thus allowing it to react in good time to any possible price changes or a shift in delivery times.

Risks from Research & Development

TIPTEL's product solutions are positioned in selected niches. The key target groups are small and medium-sized enterprises (SMEs) as well as small offices and home offices (SoHo). In line with these core competencies, the activities in the field of research and development are concerned with a clearly defined product group. TIPTEL counters the risk of erroneous developments through constant observation and analysis of the local market in its own branch offices. If necessary the activities can be amended or expanded at an early stage therefore.

Legal risks

Insurance policies are concluded for liability risks and claims for damages; these minimise or completely exclude the possible impact of such claims.

Financial risks

Financial risks comprise liquidity, market price and counterparty default risks. TIPTEL counters these risks through individual cash management, suitable liquidity planning, and the cautious valuation of accounts receivable.

There are a number of legal disputes in connection with the construction of a building in Kiel. The company believes it has formed adequate provisions for these risks; these risks could, however, still lead to a charge on liquidity.

A further provision (tax provision) concerns possible turnover tax reimbursement claims in connection with the former turnover tax integration 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 area), mean, as in previous years, that the liquidity position remains strained.

4 Probable development

Economic environment

While, according to initial prognoses by leading economic research institutes, the global economy will weaken on the whole in 2005, not one single industrialised nation is likely to slide into a recession. The German growth rate in the eurozone will, as in previous years, tend to be below that of the average in the "old" EU countries.

After there had been a tangible downturn in the German economy in the second half of the year, the forecasts were revised downwards to a considerable degree. Thus, the Ifo Institute expects a maximum GDP growth in Germany of 1.2 per cent for 2005. In the opinion of leading German managers surveyed by the Hamburg-based market research institute Psephos at the end of October and the beginning of November 2004 the essential risk factors for the economic development in 2005 are:

Likelihood of occurrence as %	Risk
50	High costs at site location
44	Consumer reservation
38	High oil prices
17	Investment reticence on the part of companies
16	Globalisation
< 16	Downturn in global economy
< 16	Investment reticence on the part of the public sector

German small and medium-sized enterprises are optimistic. Thus 68 per cent of the SMEs expect to see a rise in sales in 2005, 38.2 per cent an increase in investments (only 17.7 per cent expect investment to decline) and a rise in profits (41.2 per cent expects profits to remain constant), and 35 per cent intend to employ more staff (50 per cent plan to maintain their current staffing levels).

TIPTEL Group and TIPTEL AG

In the opinion of the Board of Management the framework conditions have improved slightly, whereby this improvement will be reflected in the EU to a greater extent than it will in Germany.

Against this background and the innovations offensive in the product range for CeBIT 2005 the Board of Management assumes that the company will profit to an above-average degree from the slight recovery. The market likely to display the strongest growth will be the market for VoIP products, PBX systems and ergonomic telephones. TIPTEL believes that in this respect it has an interesting product range.

The TIPTEL Group and TIPTEL AG will continue their consolidation program in 2005 and demonstrate their competitiveness. TIPTEL will endeavour to bring about an increase in its sales revenues and its operating results.

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 2004 of TIPTEL AG on IFRS basis



Consolidated balance sheet of TIPTEL AG as of 31st December, 2004

	Notes Number	As of 31.12.2004	As of 31.12.2003
		KEUR	KEUR
ASSETS			
A Fixed assets			
I. Intangible assets	6.1	1,382	403
II. Tangible assets	6.2	2,354	2,702
III. According to equity accounting investments	6.3	6	6
IV. Investments	6.3	1,651	1,789
		5,393	4,900
B Current assets			
I. Inventories	6.4	7,206	7,711
II. Accounts receivable and other assets	6.5	3,172	4,251
III. Cash and cash equivalents	6.6	533	1,164
		10,911	13,126
C Deferred tax receivables	6.7	1,885	2,072
D Deferred expenses and accrued income		100	58
		18,289	20,156

	Notes Number	As of 31.12.2004	As of 31.12.2003
		KEUR	KEUR
LIABILITIES			
A Shareholders' equity			
I. Subscribed capital		13,347	13,347
II. Capital reserve		540	540
III. Revenue reserves		-8,302	-8,434
IV. Group results		-4,688	-3,708
	6.8	897	1,745
B Provisions			
I. Provisions for pensions		3,226	3,198
II. Provisions for income taxes		0	20
III. Other provisions and accruals		2,424	2,648
	6.9	5,650	5,866
C Liabilities			
I. Long-term liabilities		2,471	2,804
II. Trade accounts payable		2,888	2,966
III. Other liabilities	6.10	4,057	4,619
		9,416	10,389
D Deferred tax liabilities		465	211
E Deferred expenses and accrued income	6.11	1,861	1,945
		18,289	20,156

Consolidated profit and loss account for the period
from 1st January to 31st December, 2004

	Notes Number	01.01. – 31.12.2004	01.01. – 31.12.2003
		KEUR	KEUR
1. Sales revenues		+ 32,622	+ 34,190
2. Changes in inventories for finished and unfinished goods		./ 222	+ 40
3. Other capitalized services	7.12	+ 1,210	0
4. Other operating income		+ 664	+ 1,500
5. Cost of materials		./ 16,859	./ 18,072
6. Personnel expenses	7.13	./ 11,440	./ 11,898
7. Depreciation	7.14	./ 797	./ 1,300
8. Other operating expenses		./ 4,855	./ 5,296
9. Profit from operating activities		+ 323	./ 836
10. Other interest results	7.15	+ 37	+ 51
11. Interest income	7.16	./ 474	./ 445
12. Financial result		./ 437	./ 394
13. Result from ordinary activities		./ 114	./ 1,230
14. Other taxes		./ 74	./ 86
15. Result prior to tax on profits		./ 188	./ 1,316
16. Income taxes	7.17	./ 650	+ 146
17. Annual loss		./ 838	./ 1,170
18. Loss carried forward		./ 3,708	./ 2,584
19. Changes of reserves		./ 142	+ 46
20. Result of the group		./ 4,688	./ 3,708
Earnings per share		./ 0.16	./ 0.22

Development of the group's fixed assets
in the 2004 business year

HISTORICAL INITIAL AND PRODUCTION COSTS					
	As of 01.01.2004	Additions	Disposals	Transfers	As of 31.12.2004
	KEUR	KEUR	KEUR	KEUR	KEUR
Fixed assets					
I. Intangible assets					
1. Concessions, industrial property rights and similar rights and values, as well as licenses thereto	3,446	25	-19	0	3.452
2. Development costs	0	1,210	0	0	1.210
3. Goodwill	275	0	0	0	275
Total intangible assets	3,721	1,235	-19	0	4.937
II. Tangible assets					
1. Land and leasehold rights and buildings, including buildings on third-party land	1,969	0	0	0	1.969
2. Plant and machinery	7,481	7	-1	0	7.487
3. Other fixtures and fittings, tools and equipment	11,056	183	-89	75	11.225
4. Payments on account and tangible assets in course of construction	75	9	0	-75	9
Total tangible assets	20,581	199	-90	0	20.690
III. Financial assets					
1. Shares in affiliated companies	71	0	-45	0	26
2. Loans to affiliated companies	153	0	0	0	153
3. Other share holdings	6	0	0	0	6
4. Security investments	1,619	676	-699	0	1.596
5. Other loans	144	0	-115	0	29
Total financial assets	1,993	676	-859	0	1.810
Total fixed assets	26,295	2,110	-968	0	27.437

DEPRECIATION			BOOK VALUE		
As of 01.01.2004	Additions	Disposals	As of 31.12.2004	As of 31.12.2004	As of 31.12.2003
KEUR	KEUR	KEUR	KEUR	KEUR	
3,044	226	-13	3,257	195	402
0	23	0	23	1,187	0
274	1	0	275	0	1
3,318	250	-13	3,555	1,382	403
328	74	0	402	1,567	1,641
7,184	27	-1	7,210	277	297
10,367	446	-89	10,724	501	689
0	0	0	0	9	75
17,879	547	-90	18,336	2,354	2,702
45	0	-45	0	26	26
153	0	0	153	0	0
0	0	0	0	6	6
0	0	0	0	1,596	1,619
0	0	0	0	29	144
198	0	-45	153	1,657	1,795
21,395	797	-148	22,044	5,393	4,900

Schedule of TIPTEL-Group equity capital
for the business year 2004

	Subscribed capital	Capital reserve	Revenue reserves	Group results	Total
	KEUR	KEUR	KEUR	KEUR	KEUR
As of 31.12.2002	13,347	540	-8,447	-2,584	2,856
Transfers			-46	46	0
Net loss for the period				-1,170	-1,170
Other neutral changes			59		59
As of 31.12.2003	13,347	540	-8,434	-3,708	1,745
Transfers			142	-142	0
Net loss for the period				-838	-838
Other neutral changes			-10		-10
As of 31.12.2004	13,347	540	-8,302	-4,688	897

Cash flow statement for consolidated management report for the business year 2004

	01.01. – 31.12.2004	01.01. – 31.12.2003
	KEUR	KEUR
1. Group net loss (–) for the year prior to tax on profits and extraordinary items	./.	./.
	188	1,316
2. Depreciation (+) / write-ups (–) on fixed assets	+ 797	+ 1,295
3. Interest expenses	+ 481	+ 457
4. Increase (+) / decrease (–) in provisions	./.	./.
	216	1,055
5. Other expenses (+) / income (–) not affecting cash flow	0	+ 2
6. Profit (–) / loss (+) from disposal of fixed assets	./.	./.
	9	40
7. Outflow for interest	./.	./.
	78	150*
8. Outflow for tax on profits	./.	./.
	262	126
9. Increase (–) / decrease (+) in inventories, receivables and other assets	+ 1,067	+ 2,367
10. Increase (+) / decrease (–) in accounts payable from goods and services and other liabilities (without financing and investing activities)	./.	./.
	191	974*
11. Cash flow from operating activities	+ 1,402	+ 461
12. Inflow (+) from tangible asset disposals	+ 9	+ 21
13. Outflow (–) for investments in tangible assets	./.	./.
	199	175
14. Inflow (+) from intangible asset disposals	+ 6	+ 16
15. Outflow (–) for investments in intangible assets	./.	./.
	1,235	108
16. Inflow (+) from financial asset disposals	+ 814	+ 838
17. Outflow (–) for investments in financial assets	./.	./.
	676	774
18. Inflow (+) from interest received	+ 3	+ 12
19. Cash flow from investing activities	./.	./.
	1,278	170
20. Inflow (+) from increase in borrowings	+ 122	+ 326*
21. Outflow (–) for repayments on borrowings	./.	./.
	353	35
22. Outflow (–) from interest	./.	./.
	524	373*
23. Cash flows from financing activities	./.	+
	754	82
24. Changes in cash and cash equivalents affecting cash-flow	./.	+
	631	210
25. Cash and cash equivalents at beginning of period	1,164	954
26. Cash and cash equivalents at end of period	533	1,164
– thereof liquid assets	458	1,129
– thereof pledged assets	75	35

* For better comparability comparable figures of the 2003 business year are presented according to the 2004 business year

Consolidated notes for the 2004 business year

1 Fundamentals

The consolidated financial statements of TIPTEL AG and its subsidiaries have been prepared according 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 31 December 2004 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.

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.

Self-established intangible fixed assets are capitalised at manufacturing costs and subject to scheduled depreciation using the straight-line method over a useful life of six 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.

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 IAS 17.

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 value at balance sheet date. Other financial assets were depreciated on request to a lower value at balance sheet date.

Inventories

The inventories comprise raw materials and supplies, purchased goods, as well as payments on account for inventories. 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 period-end 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 10 (previous year: 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 case 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:

Name	Shareholders' equity 31.12.2004	Consolidated share in per cent	Annual result after taxes 2004 in national currency
TIPTEL AG, Ratingen	TEUR 10,261	100	KEUR -981
Deutsche Fernsprecher GmbH, Marburg	KEUR 630	100	KEUR 212
Tiptel NV/SA, (B)	KEUR -1,618	100	KEUR 1
Tiptel GmbH, (A)	KEUR -587	100	KEUR -101
Tiptel s.a.r.l., (F)	KEUR 39	100	KEUR 25
Tiptel AG, (CH)	KSFR -1,584	100	KSFR 6
Tiptel b.v., (NL)	KEUR 598	100	KEUR 302

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

Name	Shareholders' equity 31.12.2004	Consolidated share in per cent	Annual result after taxes 2004 in national currency
Telescout b.v., Almere	KEUR 12	49	KEUR 0.8

6 Comments on the consolidated balance sheet

6.1 Intangible fixed assets

	31.12.2004	31.12.2003
	KEUR	KEUR
Concessions, industrial property rights and similar rights and values as well as licences	195	402
Development costs	1,187	0
Goodwill	0	1
	1,382	403

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

6.2 Tangible assets

	31.12.2004	31.12.2003
	KEUR	KEUR
Land and leasehold rights and buildings including buildings on third-party land	1,567	1,641
Technical equipment and machines	277	297
Other fixtures and fittings, tools and equipment	501	689
Payments on account and tangible assets in course of construction	9	75
	2,354	2,702

As in the previous year there is a mortgage of KEUR 590 (previous year: 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 TIPTEL 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. In the 2004 business year only a car is included in the position "other assets, tools and equipment".

6.3 Financial assets

	31.12.2004	31.12.2003
	KEUR	KEUR
Other shareholding in affiliated companies	26	26
Other shareholdings	6	6
Security investments	1,596	1,619
Other loans	29	144
	1,657	1,795

The securities held as assets are pledged partly. These are primarily fixed-interest bonds. Positive cash-flow from these in the 2004 business year amount to KEUR 16 (2003: KEUR 51).

The other loans concern a loan to PAPP electronic GmbH & Co. KG, Hechingen. The loan is to be repaid by mid of the following business year. Hereof, re-payments of KEUR 115 were received affecting cash-flow. 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.

6.4 Inventories

	31.12.2004	31.12.2003
	KEUR	KEUR
Raw materials and consumables	4,302	4,691
Work in progress	836	900
Finished goods and trading stock	2,039	2,108
Advance payments	29	12
	7,206	7,711

An evaluation of the inventories is effected under consideration of service life reductions

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.

6.5 Accounts receivables and other assets

	31.12.2004	31.12.2003
	KEUR	KEUR
Trade accounts receivable	2,932	4,017
Other assets	240	234
	3,172	4,251
Thereof with a remaining time over one year		
Trade accounts receivable	0	1

6.6 Cash and cash equivalents at banks

	31.12.2004	31.12.2003
	KEUR	KEUR
Cash assets and cash equivalents	533	1,164

The sum of KEUR 47 (previous year: KEUR 7) receivable from UBS, Basel, has been pledged in order to secure the pension commitments included in the pension provisions.

Fixed-term accounts of KEUR 28 (previous year: KEUR 28) 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 39.15 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 40,977 (previous year: KEUR 38,816) as well as trade earnings tax loss carryforwards of KEUR 44,976 (previous: KEUR 43,093) which cannot be utilized.

6.7 Deferred tax assets

	31.12.2004	31.12.2003
	KEUR	KEUR
Deferred taxes	1,885	2,067
Corporate tax/trade income tax	0	5
	1,885	2,072

6.8 Shareholders' equity**Capital stock**

Since the annual general 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 annual general 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 and valued with the aid of the projected unit credit method.

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. 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 1 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 1 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 31 December 2004 there was a change in the number of future claimants and pensioners.

Cash value	
Cash value of liabilities (DBO)	4,412 KEUR
Fair time value of plan assets	-1,177 KEUR
	3,235 KEUR
Actuarial profits not included	9 KEUR
Passivated pension provisions	3,226 KEUR
Change in net debt	
Status 1.1.	3,198 KEUR
Expenses according to profit and loss account	202 KEUR
Pension payments	-174 KEUR
Status 31.12.	3,226 KEUR
Plan assets	
Earnings of plan assets	70 KEUR
Actuarial profits of plan assets	0 KEUR
Effective earnings of plan assets	70 KEUR
Fair market value	1,177 KEUR
Expenses according to profit and loss account	
Current service costs	22 KEUR
Interest expenses	250 KEUR
Expected earnings of plan assets	-70 KEUR
Actuarial profits and losses	0 KEUR
	202 KEUR
Applied actuarial assumptions at balance sheet date:	
Biometrial accounting principles: "Richttafel" (guidance board) 1998 of Klaus Heubeck	
Assumed interest rate:	5.1 per cent p. a.
Wages' and salaries' increase:	2.0 per cent p. a.
Pension increases:	1.25 per cent p. a.
Fluctuation:	2.0 per cent global

6.9 Development of the provisions in the 2004 business year

	Status 01.01.2004	Consumption	Dissolution	Additions	Status 31.12.2004
	KEUR	KEUR	KEUR	KEUR	KEUR
1. Provisions for pensions and similar obligations	3,198	174	0	202	3,226
2. Provisions for tax on profits	20	20	0	0	0
3. Other provisions					
– Legal proceedings building craft Kiel	651	136	0	31	546
– Personnel sector	665	524	14	379	506
– Sales sector	523	273	17	238	471
– Taxes/expenses	660	17	0	33	676
– Others	149	125	17	218	225
Total amount	5,866	1,269	48	1,101	5,650

Of the provisions for pensions and similar obligations a sum of KEUR 272 (previous year: KEUR 269) is likely to be due in the successive business year. The provisions for personnel primarily include vacation entitlements, royalties / bonuses and ERA adjustment funds of KEUR 344 (previous year: KEUR 476). A provision for the sales area essentially comprises a sum of KEUR 233 (previous year: KEUR 194) 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 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.

6.10 Other liabilities

	Status	Thereof remaining time:			Status
	31.12.2004	up to 1 year	up to 5 years	over 5 years	31.12.2003
	TEUR	TEUR	TEUR	TEUR	TEUR
Liabilities to banks	1,776	1,776	0	0	1,951
Liabilities to affiliated companies	24	1	23	0	24
Other liabilities	2,258	1,101	590	567	2,644
	4,058	2,878	613	567	4,619

6.11 Deferred income

	31.12.2004	31.12.2003
	KEUR	KEUR
Accounting profits due to sales of the real estate Halskestraße, Ratingen	1,772	1,936
Other deferred expenses and accrued income	89	9
	1,861	1,945

7 Comments of the consolidated profit and loss account**7.12 Other capitalised service**

	2004	2003
	KEUR	KEUR
Other capitalized services	1,210	0

7.13 Personnel expenses

	2004	2003
	KEUR	KEUR
Wages and salaries	9,199	9,672
Social payments and expenses for old-age pensions and benefit	2,241	2,226
	11,440	11,898
thereof old-age pensions	262	227

7.14 Depreciation

	2004	2003
	KEUR	KEUR
On intangible assets of fixed assets and tangible assets	797	1,295
On current assets	0	5
	797	1,300

7.15 Interest result

	2004	2003
	KEUR	KEUR
Earnings from securities of fixed assets	37	51

7.16 Interest income

	2004	2003
	KEUR	KEUR
Other interest and similar earnings	7	12
Interest and similar expenses	-481	-457
	-474	-445

7.17 Taxes on income

	2004	2003
	KEUR	KEUR
Deferred taxes	496	283
Corporate tax/trade income tax	-154	-137
	650	146

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 39.15 per cent (previous year: 40.46 per cent). This comprises corporation tax of 25.0 per cent (previous year: 26.5 per cent), trade earnings tax of 17.36 per cent, and a solidarity surcharge of 5.5 per cent.

7.18 Expected earnings of tax on income in 2003

	2003 Assessment basis	2003 Tax earnings
	KEUR	KEUR
Expected earnings from tax on profits	-1,316	-533
Decrease of assessment basis due to the increase of unused tax carry-forwards (no deferred taxes established)	682	276
Deferred taxes depreciation (not allowed for tax reasons) of inventories	-	133
Differences from foreign tax rates	-	-22
Disclosed tax earnings		-146

7.18 Expected expenses of tax on income in 2004

	2004 Assessment basis	2004 Tax earnings
	KEUR	KEUR
Expected earnings from tax on profits	-188	-76
Decrease of assessment basis due to the increase of unused tax carry-forwards (no deferred taxes established)	1,608	630
Deferred taxes depreciation (not allowed for tax reasons) of inventories	-	123
Differences from foreign tax rates	-	-25
Disclosed tax expenses		650

The spending in the field of research and development posted as expenses totalled KEUR 2.421 (previous year: KEUR 2,582) in 2004. Herein included are the according to IAS 38 capitalised development costs to the amount of KEUR 1.210 (previous year: KEUR 0). The expenses for research and development correspond to about 7.4 per cent (previous year: 7.5 per cent) of the net sales.

7.19 Earnings per share

	2004	2003
	EUR	EUR
Earnings per share	-0.16	-0.22
Group result	-838,482,93	-1,170,225.03
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 31 December 2004 and as of 31 December 2003 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 since December 2002 and is renewed prompt each year. The last change was published on 19 January 2005.

9 Segment reporting

PRIMARY SEGMENT 2004 (GEOGRAPHICAL SEGMENT)						
	Germany	Benelux	Rest of Europe	Inter-segment transfer	Eliminations	Total
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Earnings						
Sales revenue with third parties	16,873	8,931	6,818	0		32,622
Inter-segment revenue	6,945	620	115	+7,680		0
Total revenue	23,818	9,551	6,933	-7,680		32,622
Expenses of shareholdings in associated companies						-
Segment result from ordinary activity	-162	451	-55		-348	-114
Tax on profits						-650
Other taxes						-74
Annual loss						-838
Other information						
Segment assets	20,996	2,626	2,577		-9,794	16,405
Segment debts	14,056	3,704	4,186		-5,018	16,928
Purchase costs for fixed assets	153	36	10			199
Purchase costs for intangible assets	1,229	6				1,235
Depreciation	681	47	69			797

SECONDARY SEGMENT 2004 (BUSINESS AREAS)							
	ISDN	DECT	Analog	Others	Security technology	Made-to- order production	Total
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Earnings							
Sales revenue with third parties	8,394	3,827	13,983	1,817	135	4,466	32,622
Inter-segment revenue							
Total revenue	8,394	3,827	13,983	1,817	135	4,466	32,622
Expenses of shareholdings in associated companies							–
Segment result from ordinary activity	–173	155	–540	20	–1	425	–114
Tax on profits							–650
Other taxes							–74
Annual loss							–838
Other information							
Segment assets	4,221	1,925	7,031	914	68	2,246	16,405
Segment debts	4,355	1,986	7,256	943	70	2,318	16,928
Purchase costs for fixed assets	51	23	85	11	1	28	199
Purchase costs for intangible assets	820		390	25			1,235
Depreciation	329	29	423		1	15	797

PRIMARY SEGMENT 2003 (GEOGRAPHICAL SEGMENT)						
	Germany	Benelux	Rest of Europe	Inter-segment transfer	Eliminations	Total
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Earnings						
Sales revenue with third parties	19,449	8,424	6,317	0		34,190
Inter-segment revenue	6,866	281	66	+7,213		0
Total revenue	26,315	8,705	6,383	-7,213		34,190
Expenses of shareholdings in associated companies						-
Segment result from ordinary activity	-1,005	402	-361		-266	-1,230
Tax on profits						+146
Other taxes						-86
Annual loss						-1,170
Other information						
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	1,179	88	93		-60	1,300

SECONDARY SEGMENT 2003 (BUSINESS AREAS)							
	ISDN	DECT	Analog	Others	Security technology	Made-to- order production	Total
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Earnings							
Sales revenue with third parties	8,651	4,543	14,483	2,181	121	4,211	34,190
Inter-segment revenue							
Total revenue	8,651	4,543	14,483	2,181	121	4,211	34,190
Expenses of shareholdings in associated companies							–
Segment result from ordinary activity	–965	646	–1,490	163	1	415	–1,230
Tax on profits							+146
Other taxes							–86
Annual loss							–1,170
Other information							
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	496	38	551	71	0	144	1,300

10 Other details

Contingencies

There are no contingencies.

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 (previous year: 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 6,135 over five years.

Employees

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

Employees TIPTEL Group		
	Annual average	End of year
2002	284	277
2003	279	272
2004	263	259

The employees of TIPTEL AG, Ratingen, renounced to the collectively-agreed annual supplementary grant (part of the 13th monthly income) for the year 2004 and 2005 and to half of the supplementary vacation payment.

Claims for the collectively-agreed annual supplementary grant 2005 and for half of the supplementary collectively-agreed vacation payment 2005 and for an additional one-off payment in 2005 to the amount of KEUR 246 will be fulfilled if the economic situation of the company has improved insofar that the consolidated profit in 2005 is positive under consideration of obligations possibly to establish.

If the above mentioned collectively-agreed claims arise, payment will be effected by 31 December 2007 at the latest.

11 Executive bodies of the company

Board of Management

WERNER MATERNA
MBA, Ratingen

Supervisory Board

ERHARD SCHÄFER
Entrepreneur, Ratingen (Chairman)

RUDOLF BREIDEN
Dipl.-Ing., General Manager of SECOS GmbH
Hausen a. A, Switzerland (Deputy Chairman)

RAMONA SALECKER-SCHÄFER
Commercial Clerk, Ratingen

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

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 2004 business year. Mr. Breiden 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 (previous year: KEUR 30). In the business year 2004 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 2004 amounted to KEUR 184 (previous year: KEUR 183) and consisted with KEUR 179 of fixed remunerations (previous year: KEUR 183) and with KEUR 5 of variable remunerations.

Ratingen, 16 March 2005

TIPTEL AG
The Board of Management
Werner Materna

12 Independent Auditor's Report

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 1 January to 31 December 2004. 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 with TIPTEL AG joint management and group management report prepared by the Management for the financial year from 1 January to 31 December 2004 has not led to any reservations. In our opinion, the joint management and group 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 joint management and group management report. The section "other details" of the joint management and group 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 joint management and group management report of **TIPTEL AG, Ratingen**, for the business year from 1 January until 31 December 2004 meet the requirements for the company to be exempted from the obligation to prepare consolidated financial statements and a joint management and group management report for the group under German law.

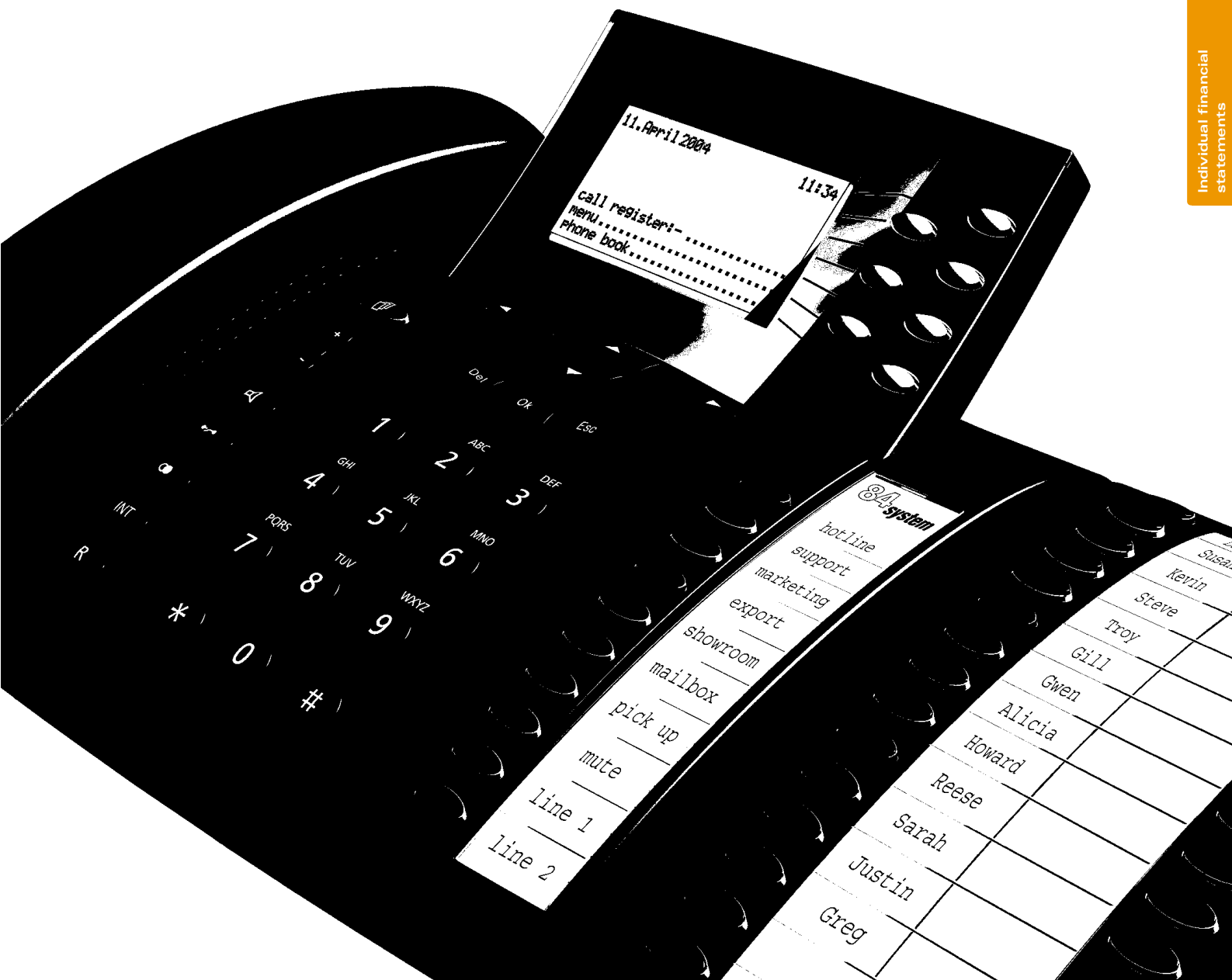
Düsseldorf, 16 March 2005

Warth & Klein GmbH
Wirtschaftsprüfungsgesellschaft

Dipl.-Kfm. Georg Holschbach
Auditor

Dipl.-Kfm. André Prengel
Auditor

Individual financial statements of TIPTEL AG acc. to HGB



Balance sheet of TIPTEL AG as of 31st December 2004

	Notes Number	As of 31.12.2004	As of 31.12.2003
		KEUR	KEUR
ASSETS			
A Fixed assets			
I. Intangible assets		384	383
II. Tangible assets		2,122	2,333
III. Financial assets	3.1	5,549	5,264
		8,055	7,980
B Current assets			
I. Inventories	3.2	4,246	3,810
II. Receivables and other assets	3.3	5,166	7,083
III. Cash on hand and in banking accounts		33	569
		9,445	11,462
C Deferred expenses and accrued income			
		8	9
		17,508	19,451

	Notes Number	As of 31.12.2004	As of 31.12.2003
		KEUR	KEUR
LIABILITIES			
A Shareholders equity			
I. Subscribed capital		13,347	13,347
II. Capital reserve		540	540
III. Revenue reserves		81	81
IV. Balance sheet loss		-4,688	-3,708
	3.4	9,280	10,260
B Provisions			
	3.5	1,868	2,101
C Liabilities			
	3.6	6,355	7,082
D Deferred expenses and accrued income			
		5	8
		17,508	19,451

Profit and loss account of TIPTEL AG
for the period of 1st January to 31st December 2004

	Notes Number	01.01. – 31.12.2004	Comparable previous year figur
		KEUR	KEUR
1. Sales revenues	4.1	+ 19,595	+ 19,162
2. Change in stock of finished goods and work in progress		./ 78	+ 241
3. Other operating income	4.2	+ 1,214	+ 974
4. Cost of materials Cost of raw materials, consumables and of purchased merchandise		./ 11,412	./ 11,257
5. Personnel expenses			
a) Wages and salaries		./ 5,343	./ 5,589
b) Social security, pensions and other benefit costs		./ 1,098	./ 1,113
– thereof for pensions: KEUR 33 (previous year KEUR 30)			
6. Depreciation of intangible assets and tangible assets		./ 501	./ 732
7. Other operating expenses	4.3	./ 3,337	./ 3,166
8. Income from investments – thereof from associated companies: KEUR 346 (previous year KEUR 400)		+ 346	+ 400
9. Other interest and similar income – thereof from associated companies: KEUR 22 (previous year KEUR 29)		+ 26	+ 39
10. Amortisation of financial assets – davon an verbundene Unternehmen: KEUR 16 (previous year KEUR 23)		./ 361	./ 335
11. Results from ordinary operations		./ 949	./ 1,375
12. Extraordinary expenses		+ 0	+ 289
13. Extraordinary result		+ 0	+ 289
14. Taxes on income		+ 0	+ 0
15. Other taxes		./ 32	./ 38
16. Net loss for the year		./ 981	./ 1,124
17. Loss carried forward		./ 3,708	./ 2,584
18. Balance sheet loss		./ 4,689	./ 3,708

Development of the fixed assets of TIPTEL AG
in the business year 2004

HISTORICAL INITIAL AND PRODUCTION COSTS				
	As of 01.01.2004	Additions	Disposals	As of 31.12.2004
	KEUR	KEUR	KEUR	KEUR
Fixed assets				
I. Intangible assets				
1. Concessions, industrial property rights and similar licenses thereto	2,882	19	0	2,901
2. Goodwill	262	0	0	262
3. Paid deposits	0	199	0	199
Total intangible assets	3,144	218	0	3,362
II. Tangible assets				
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	7	0	6,752
3. Other fixtures and fittings, tools and equipment	5,860	66	28	5,898
Total tangible assets	14,895	73	28	14,940
III. Financial assets				
1. Shares in affiliated companies	13,572	0	45	13,527
2. Loans to affiliated companies	725	0	153	572
3. Other loans	144	0	115	29
Total financial assets	14,441	0	313	14,128
Total fixed assets	32,480	291	341	32,430

DEPRECIATION				BOOK VALUE		
As of 01.01.2004	Additions	Disposals	Write-ups	As of 31.12.2004	As of 31.12.2004	As of 31.12.2003
KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
2,499	217	0	0	2,716	185	383
262	0	0	0	262	0	0
0	0	0	0	0	199	0
2,761	217	0	0	2,978	384	383
371	91	0	0	462	1,828	1,919
6,628	26	0	0	6,654	98	117
5,563	167	28	0	5,702	196	97
12,562	284	28	0	12,818	2,122	2,333
9,024	0	45	400	8,579	4,948	4,548
153	0	153	0	0	572	572
0	0	0	0	0	29	144
9,177	0	198	0	8,579	5,549	5,264
24,500	501	226	400	24,375	8,055	7,980

NOTES of TIPTEL AG for the 2004 business year

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 2003; 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. 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 and in the past business year through write-ups in accordance with § 280 (1) HGB.

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 required 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.

3.1 Financial assets

The item "other loans" includes a loan of KEUR 29 which was granted to PAPP electronic GmbH & Co. KG.

3.2 Inventories

	31.12.2004	31.12.2003
	KEUR	KEUR
Raw materials and supplies	2,935	2,550
Work in progress	395	299
Finished goods	444	617
Goods	443	344
Advance payments for goods	29	0
	4,246	3,810

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.

3.3 Accounts receivable and other assets

	31.12.2004	31.12.2003
	KEUR	KEUR
Receivables for goods delivered and services rendered	803	1,195
Receivables from affiliated companies	4,279	5,801
Other current assets	84	87
	5,166	7,083

Since March 2004 accounts receivable are assigned to a factoring company.

Accounts receivable from affiliated companies are based on supplies and services and on interest receivable for 2004.

The other assets essentially comprise the residual purchase price obligation from the sale of the shares in PAPP electronic GmbH & Co. KG (KEUR 77).

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

3.4 Shareholders' equity**Capital stock**

Since the annual General 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 annual General 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 01.01.2004	Additions	As of 31.12.2004
	KEUR	KEUR	KEUR
Shareholders' equity			
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	–3,708		–3,708
– Net loss for the year		–980	–980
Shareholders' equity	10,260	–980	9,280

Subscription rights to employees or to members of the Board of Management according to § 106 (1) 5 AktG (Companies Act) have not been granted.

3.5 Provisions

	31.12.2004	31.12.2003
	KEUR	KEUR
Provisions for taxation	556	556
Other provisions		
Provisions for guarantees	146	112
Personnel and holiday provisions	182	287
Other risks	984	1,146
	1,312	1,545
	1,868	2,101

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 2004 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 546.

3.6 Liabilities

LIABILITIES	Thereof residual terms:				As of 31.12.2003
	As of 31.12.2004	up to 1 year	up to 5 years	over 5 years	
	KEUR	KEUR	KEUR	KEUR	KEUR
Liabilities due to banks	3,558	1,562 (p.y. 1,803)	1,331 (p.y. 1,331)	665 (p.y. 998)	4,132
Account payable	2,133	2,133 (p.y. 2,051)	0 (p.y. 0)	0 (p.y. 0)	2,051
Liabilities due to affiliated companies	24	1 (p.y. 3)	23 (p.y. 23)	0 (p.y. 0)	26
Other liabilities	639	537 (p.y. 719)	102 (p.y. 153)	0 (p.y. 0)	872
– Thereof from taxes KEUR 182 (previous year KEUR 271)					
– Thereof from social security KEUR 193 (previous year KEUR 209)					
Total amount	6,354	4,233	1,456	665	7,081
		(p.y. 4,576)	(p.y. 1,507)	(p.y. 998)	

The liability due to banks is basically a re-payment obligation relating to the investment subsidy for the real estate in Kiel to the amount of KEUR 2,495 plus accrued interest of KEUR 54, which was paid as agreed on 25 January 2005. 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 liability due to banks to the amount of KEUR 989 is secured by a registered land charge on the land in Marburg.

The accounts payable from goods and services to the amount of KEUR 229 are secured by chattel mortgage.

The accounts payable have been evidenced using balance lists as of 31 December 2004.

4 Comments on the profit and loss account

4.1 Sales revenues

The sales revenues in the 2004 business year had the following structure:

ACCORDING TO SPECIFIC GEOGRAPHIC MARKETS		
	31.12.2004	31.12.2003
	KEUR	KEUR
Domestic	11,747	11,305
Foreign	7,848	7,857
	19,595	19,162

ACCORDING TO BUSINESS SECTORS		
	31.12.2004	31.12.2003
	KEUR	KEUR
Own products	12,475	13,014
Made-to-order production	4,645	3,773
Trade goods	2,475	2,375
	19,595	19,162

4.2 Other operating income

	31.12.2004	31.12.2003
	KEUR	KEUR
Other income	342	339
Other consolidated income	295	305
Income from reversal of general bad-debt charge	40	145
Reversal of provisions	39	68
Write-ups financial assets	400	0
Rental income	49	51
Sales to staff	45	55
Income from asset disposals	4	11
	1,214	974

The other operating income in the 2004 business year includes a write-up of the DFG shareholding according to § 280 (1) HGB to the amount of KEUR 400.

4.3 Other operating expenses

The other operating expenses are comprised as follows:

	31.12.2004	31.12.2003
	KEUR	KEUR
Administrative expenses	1,956	1,918
Selling and marketing expenses	434	455
Operating costs	383	364
Other expenses	498	293
Losses from valuation adjustments on current assets	66	136
	3,337	3,166

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 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 since December 2002 and is renewed each year. The last change was published on 19 January 2005.

6 Other information

Since March 2004 TIPTEL AG is co-operating with the factoring company EUROFACTOR AG, Munich. In this respect a factoring contract has also been concluded between the Deutsche Fernsprecher GmbH based in Marburg, a 100 per cent subsidiary of TIPTEL AG, and EUROFACTOR AG.

Contingencies

In the course of the co-operation with the factoring company TIPTEL AG granted a jointly and severally declaration of joint liability and letter of support to EUROFACTOR AG for the commitment entered by Deutsche Fernsprecher GmbH.

Contingencies as defined in § 251 HGB exist at TIPTEL AG to the following amount:

■ from bonds	KEUR
– in Euro	227

These are all contingent liabilities on behalf of affiliated companies.

Other financial 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 49.

On 21 December 2001 a settlement was agreed upon with the insolvency administrator of Hagenuk GmbH i. K. The debtor warrant includes further variable payments of max. KEUR 255 of the respective dividend-worthy profits until 2007.

The administrator declares that, after complete fulfilment of this settlement, all claims due to the insolvency of Hagenuk GmbH, no matter on which legal basis, will expire.

In the 2004 business year the management, the workers' council and the employees not represented by the workers' council agreed to a wages and salary waiver. In this respect the company committed itself to a unique supplementary grant in 2005 to the amount of KEUR 246 if the corporate result in 2005 is positive.

Employees

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

Employees TIPTTEL AG		
	2004	2003
Wage earners	77	81
Salaried workers	79	81
	156	162

Shareholdings as of 31 December 2004 in accordance with § 285 No. 11 HGB

Name	Shareholders' equity in local currency 31.12.2004	Holding in per cent	Result after taxes for 2004 in local currency
Deutsche Fernsprecher GmbH, Marburg	KEUR 630	100	KEUR 212
Tiptel NV/SA, Zaventem, (B)	KEUR -1.618	100	KEUR 1
Tiptel GmbH, Vienna (A)	KEUR -587	100	KEUR -101
Tiptel s.a.r.l. (F)	KEUR 39	100	KEUR 25
Tiptel AG (CH)	KSFR -1.584	100	KSFR 6
Tiptel b.v., Almere, (NL)	KEUR 598	100	KEUR 302
Hagenuk Automotive GmbH	KEUR 25	100	KEUR 0

7 Executive bodies of the company

Management Board

WERNER MATERNA, MBA
Ratingen

Supervisory Board

The Supervisory Board comprises the following members:

ERHARD SCHÄFER, Merchant (Chairman)
Ratingen

RUDOLF BREIDEN
Dipl.-Ing., General Manager of SECOS GmbH
Hausen a. A, Switzerland (Deputy Chairman)

RAMONA SALECKER-SCHÄFER
Commercial Clerk, Ratingen

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

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.

Supervisory Board remuneration

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

Ratingen, 15 February 2005

TIPTEL AG
The Board of Management
Werner Materna

8 Independent Auditor's Report

We have audited the annual financial statements of TIPTEL AG and the joint management and group management report of the company for the business year from 1 January 2004 to 31 December 2004. The accounting and the preparation of the annual financial statements and of the joint management and group 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 the joint management and group 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 joint management and group 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 joint management and group 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 joint management and group 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 of the company. The joint management and group 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 joint management and group management report. The "Other information" section refers to the other possible risks which could jeopardise the liquidity position and, therefore, the future development of the company.

Düsseldorf, 8 March 2005

Warth & Klein GmbH
Wirtschaftsprüfungsgesellschaft

Dipl.-Kfm. Torsten J. Schrimpf
Auditor

Dipl.-Kfm. Hans-Hermann Nothofer
Auditor

Proposal for the appropriation of profit

Taking into consideration the balance sheet loss of EUR 3,707,886.37 from the previous year there is a balance-sheet loss of EUR 4,688,430.20.

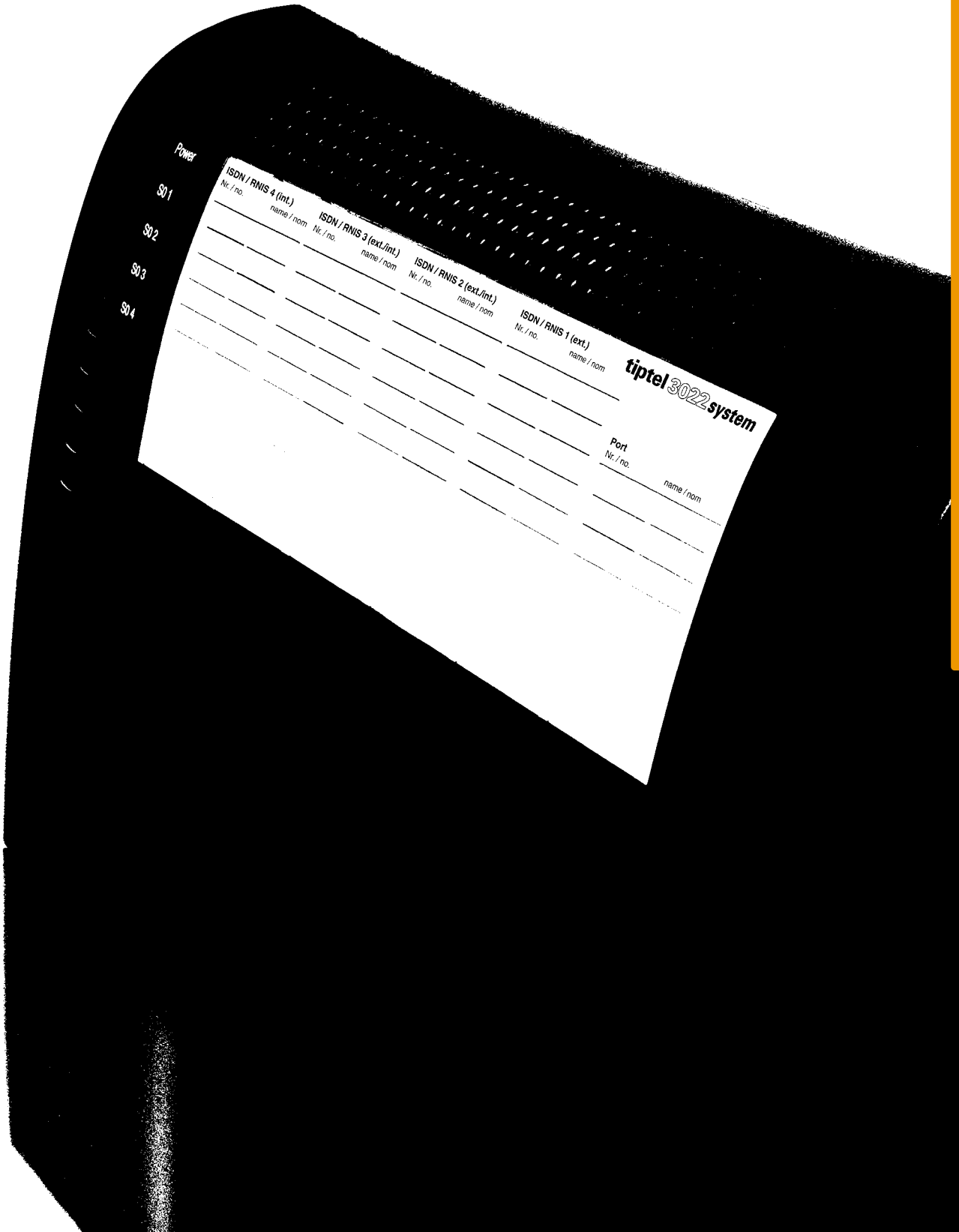
The Board of Management and the Supervisory Board propose that the balance sheet loss for the 2004 business year is carried forward.

Ratingen, 2 March 2005

TIPTEL AG
The Board of Management

Werner Materna

Corporate Governance



Good and responsible business management and control is of high significance for TIPTEL AG. The Management Board and the Supervisory Board continuously analyse the different management processes with the target to increase transparency. In the past year, this led to a further considerable improvement of the practised Corporate Governance and the thus related approval of six further recommendations of the German Corporate Governance Code. The development of the Corporate Governance at TIPTEL AG is described explicitly in the current declaration. Under I.) the recommendations are listed which TIPTEL AG newly transposed newly during the last two years and implemented into the business processes.

Declaration by the Management Board and the Supervisory Board of TIPTEL AG according to § 161 AktG (Joint Stock Corporation Act) referring to the Corporate Governance Code in effect as of May 21, 2003

The Management Board and the Supervisory Board of TIPTEL AG identify with the aims of the German Corporate Governance Code to enhance a good, trustful management orientated towards the benefit of shareholders, employees and customers. The Groups target is a lasting increase of the company value. Correspondingly, both executive bodies of TIPTEL AG approve the suggestions and rules of the German Corporate Governance Code. In the past two years they fulfilled and in future they will fulfill its conduct recommendations widely. Since the last declaration of conformity dated January 30, 2004 the company met further recommendations of the German Corporate Governance Code. In some aspects it still diverges. Details with explanations hereto are revealed in the following.

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

1. Clause 2.3.1

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 procedure is implemented since the General Meeting 2003.

2. Clause 2.3.2

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.

For the first time, at the occasion of the General Meeting 2004, TIPTEL informed about the convening of the General Meeting together with the convention documents, upon request, also using electronic channels and will provide this also for future General Meetings.

3. Clause 2.3.3

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.

Upon recommendation of the Supervisory Board an amendment of the articles of association was decided upon accordingly at the occasion of the General Meeting on June 2, 2004.

4. Clause 3.10

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.

Already in the Annual Report 2002 a detailed declaration regarding the Corporate Governance Code with corresponding explanations concerning possible deviations from the Code's recommendations has been issued. The company will also comment on this in the following Annual Reports.

5. Clause 4.2.4

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.

For the first time, in the Consolidated Financial Statements of 2003 the compensation of the Management Board was reported in an individualized form subdivided according to fixed, performance-related and long-term incentive components

6. Clause 4.3.4

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 were 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

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 was amended in this way that conflicts of interest of the Management Board due to taking over such sideline activities or mandates 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

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.

On March 24, 2004 the future age limit of 65 years for members of the Management Board was defined. 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 5.4.5

Payments made by the enterprise to the members of the Supervisory Board or advantages extended for services provided personally, in particular, advisory or agency services shall be listed separately in the Notes to the Consolidated Financial Statements.

For the first time, in the Notes to the Consolidated Financial Statements of 2003 individualized details concerning the compensation of the Supervisory Board were indicated. This will be continued in future Consolidated Financial Statements.

10. Clause 7.2.1

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, the Supervisory Board shall agree with the auditor that the Chairman of the Supervisory Board resp. of the Audit Committee 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 also be implemented for future Consolidated Financial Statements.

11. Clause 7.2.3

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, 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.

For the first time, these recommendations were 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. Current deviations:

1. Clause 3.8

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.

2. Clause 4.2.1

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.

3. Clause 4.2.3

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.

4. Clause 5.3.2

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.

5. Clause 5.4.1

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.

6. Clause 5.4.5

Clause 5.4.5 of the Code states that the members of the Supervisory Board shall receive fixed as well as performance-related compensation.

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.

7. Clause 7.1.2

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.

8. Clause 7.1.3

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.

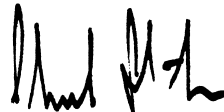
As soon as stock options schemes exist, we will give detailed information regarding the concrete definition of such schemes in the relevant Consolidated Financial Statements.

Ratingen, January 19, 2005

TIPTEL AG



The Management Board



The Supervisory Board

Investor Relations



The recovery on the German stock market still continued in 2004. After, at the beginning of the year due to strongly increasing raw material prices and the unchanged critical situation in Iraq, the development was affected by partly high volatility, the German stock index (DAX) levelled between 3,690 and 4,151 points, by mid of August a significant upward trend arose. Driven by a multitude of positive company reportings the annual maximum level of 4,261 points was reached on 28th December 2004. Thus, for the year 2004, a plus of totally 7.3 per cent resulted.

Significantly in a more positive way the so-called Small and MidCaps developed with an increase of 20.3 per cent (MDAX) resp. 21.6 per cent (SDAX). Whereas the course of the relevant index for technology shares TecDAX disappointed with a decrease to the amount of 3.9 per cent. The for TIPTEL relevant branch index Prime Technology Performance Index could not tie up to the positive development of previous year. In the course of the year it decreased from 353 to 274 points which corresponds to a minus of 22.2 per cent.

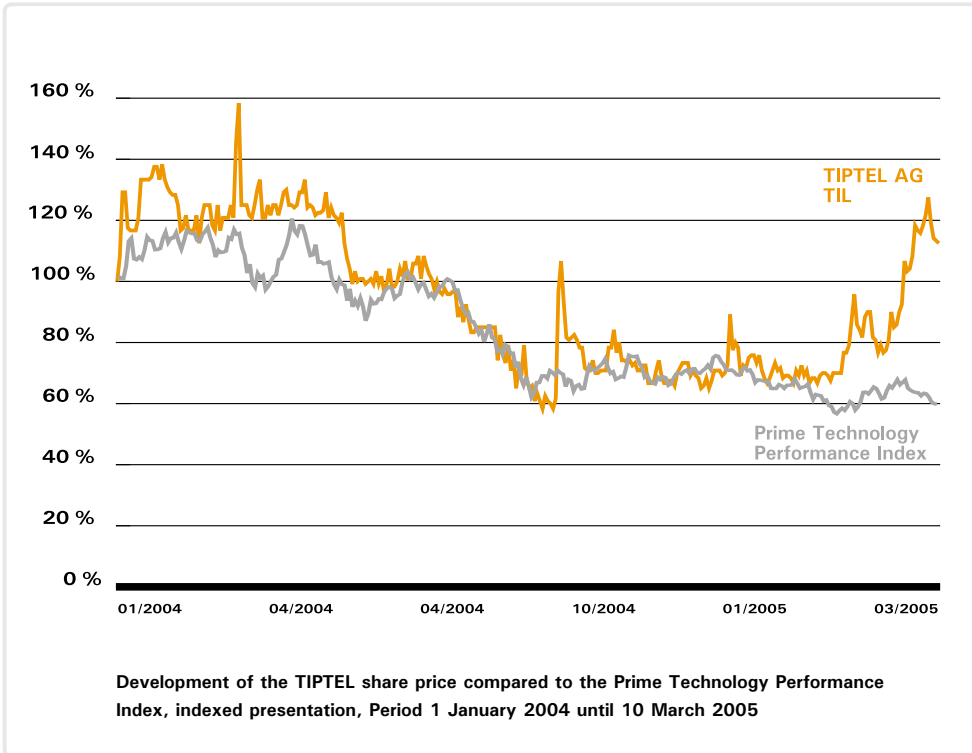
In the past year, the TIPTEL shares could not refrain from the weak development of technology shares. After having reached the annual maximum rate of 1.70 Euros by end of January, the shares ranged in a narrow corridor between 1.35 Euros and 1.68 Euros at the beginning of May. Until mid of August the shares fell to their annual minimum rate of 0.68 Euros. The publication of the positive 2nd interim report by end of August led to a volatile increase of the rate to the amount of 1.33 Euros. By the end of the year, admittedly, the shares decreased to an annual closing rate of 0.82 Euros. In general, in view of the significant improvements in the operative business the price of the shares remained unsatisfying with a decrease of 26.8 per cent. In the first weeks of the new business year the rates increased to a level of about 1.40 Euros.

The shareholders' structure remained unchanged in the past year. Erhard Schäfer holds 51.0 per cent of the shares, the remaining 49 per cent are in free-float. Securities business with obligation of informing according to § 15a Securities Trade Act (WpHG) did not take place.

The members of the Management and the Supervisory Board held the following TIPTEL shares by 31 December 2004:

Shares of TIPTEL AG		
Management Board	Werner Materna	300 shares
Supervisory Board	Erhard Schäfer	2,610,489 shares
	Rudolf Breiden	10 shares
	Ulrike Theiner	101 shares

The share



As member of the Prime Standard, the quality standard of the Frankfurt Stock Exchange, TIPTEL fulfills the requirements of the national and the international financial community. This year's annual press conference and the shareholders' meeting stood totally in the sign of the new positioning of the company as the central supplier of innovative telecommunications solutions for small and home offices.

Main instrument of the transparent and current communication with the financial community is the company's Internet homepage. Under www.tiptel.de the company promptly publishes all reports, press information and ad-hoc information as well as current data.

Current financial data

Publication of the 1st interim report 2005	31st May 2005
Shareholders' Meeting 2005	8th June 2005
Publication of the 2nd interim report 2005	31st August 2005
Publication of the 3rd interim report 2005	30th November 2005
Publication of the Annual Report 2005	31st March 2006

Basic data of TIPTEL shares

Trading segment	Prime Standard
Indices	Prime All Share Index Technology All Share Index Prime IG Communications Technology Index
ISIN	DE0007483604
SE code	TIL
Designated Sponsor	Lang & Schwarz Wertpapierhandel AG
Share capital	13,347,202.98
Number of shares	5,220,972
Class of shares	Common stock shares (without nominal value)

Key figures of TIPTEL shares

	2004 in EUR	2003 in EUR	2002 in EUR
Rate beginning of business year	1.12	0.69	0.92
Rate end of business year	0.82	1.12	0.69
Annual maximum rate	1.70	2.75	1.17
Annual minimum rate	0.68	0.51	0.48
Market capitalisation on 31.12.	4.3 million	5.8 million	3.6 million
Earnings per share	- 0.16	- 0.22	- 0.52

Contact



Contact

TIPTEL AG

Halskestrasse 1
D – 40880 Ratingen
Telephone +49 (0) 21 02 / 4 28-0
Fax + 49 (0) 21 02 / 428-10
E-Mail info@tiptel.de
Internet www.tiptel.de

Investor Relations

Haubrok Investor Relations GmbH

Kaistrasse 8
D – 40221 Düsseldorf
Telephone +49 (0) 2 11 / 301 26-0
Fax +49 (0) 2 11 / 301 26-172
E-Mail office@haubrok.de
Internet www.haubrok.de

Public Relations

alavia GmbH

Stefanie Kohlen
Volmerswerther Strasse 53
D – 40221 Düsseldorf
Telephone +49 (0) 2 11 / 30 06 54-0
Fax +49 (0) 2 11 / 30 06 54-40
E-Mail stefanie.kohlen@alavia.net
Internet www.alavia.net

Marketing & Service

TIPTEL AG

Ralf Kleinsteinberg
Telephone +49 (0) 21 02 / 4 28-425
Fax +49 (0) 21 02 / 4 28-440
E-Mail r.kleinsteinberg@tiptel.de

Company addresses

Tiptel GmbH

Tenschertstrasse 5
A - 1230 Vienna
Telephone +43(1)6167871
Fax +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
Telephone +33(1)39-446330
Fax +33(1)30-570029
E-Mail commercial@tiptel.fr
Internet www.tiptel.fr

Tiptel b.v.

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

Tiptel AG

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

Tiptel NV/SA

Leuvensesteenweg 510 bus 4
B - 1930 Zaventem
Telephone +32(2)7149333
Fax +32(2)7149334
E-Mail tiptel@tiptel.be
Internet www.tiptel.be

Other companies of the group

Deutsche Fernsprecher GmbH
Temmlerstrasse 5
D - 35039 Marburg
Telephone 06421-4020
Fax 06421-402400
E-Mail info@dfg-marburg.de
Internet www.dfg-quicktcl.de

Glossary

AktG	Joint Stock Corporation Act (Aktiengesetz)
AnSVG	Shareholder Protection Improvement Act (Anlegerschutzverbesserungsgesetz)
Clip	Calling Line Identification Presentation
DAX	German stock index for the 30 largest and most actively traded German stock corporations
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
EITO	European Information Technology Observatory - a European institution for market research in the IT / TC sector
ERA	The new unified payment system for manual workers and employees (Entgelt Rahmen Abkommen)
EU25	The EU after the joining of the 10 new countries von 1 May 2004
Eurostat	The EU statistical office
HGB	German Commercial Code (Handelsgesetzbuch)
Ifo-Institute	Institute for Economic Research of the Munich university
ISDN	Integrated Services Digital Network
MDAX	Midcap-Index of the German Stock Exchange (50 largest companies from classic sectors in Prime Standard ranking directly below the DAX shares).
R & D	Research and Development
SDAX	Index comprising 50 companies from classic sectors in the Prime Standard segment that rank directly below the MDAX shares in terms of size.
SME	Small and medium-sized enterprises - target group of TIPTEL
SoHo	Small Offices / Home Offices - target group of TIPTEL
TecDAX	Index that reflects the price development of the 30 largest technology shares in Prime Standard below the DAX.
USB	Universal Serial Bus
VoiceMail-System	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-net (LAN) or the Internet (WAN)
WLAN	Wireless local area network. Radio-based network within a building or area.
WpHG	Securities Trade Act (Wertpapierhandelsgesetz)

Imprint

Conception and text

TIPTEL AG, Ratingen

Haubrok Investor Relations GmbH, Düsseldorf

Design

TIPTEL AG, Ratingen

Print

Druckerei Preuß, Ratingen