

# TIPTTEL AG

Annual report 2005 of group and AG



## 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	2005	2004	2003	2002
	KEUR	KEUR	KEUR	KEUR
<b>Turnover</b>	<b>30,444</b>	<b>32,622</b>	<b>34,190</b>	<b>36,379</b>
thereof:				
– Domestic	15,673	16,873	19,449	21,421
– Foreign	14,771	15,749	14,741	14,958
– Foreign ratio in per cent	48.5 %	48.3 %	43.1 %	41.1 %
<b>Turnover according to business sectors</b>	<b>30,444</b>	<b>32,622</b>	<b>34,190</b>	<b>36,379</b>
thereof:				
– ISDN	7,866	8,394	8,651	8,879
– DECT	4,277	3,827	4,543	4,707
– Analog	13,040	13,983	14,483	16,440
– Security technology	99	135	121	248
– Made-to-order production	3,422	4,466	4,211	4,367
– Other	1,740	1,817	2,181	1,738
<b>EBITDA</b>	<b>1,091</b>	<b>1,157</b>	<b>515</b>	<b>-458</b>
<b>EBIT</b>	<b>401</b>	<b>360</b>	<b>-785</b>	<b>-2,385</b>
<b>EBIT margin</b>	<b>1.3 %</b>	<b>1.1 %</b>	<b>-2.3 %</b>	<b>-6.6 %</b>
<b>Annual profit/loss</b>	<b>-507</b>	<b>-838</b>	<b>-1,170</b>	<b>-2,715</b>
<b>Cash flow</b>				
– from continuous business activity	970	1,402	461	-591
– from continuous business activity per share	0.19	0.27	0.09	-0.11
<b>Balance sheet total</b>	<b>17,223</b>	<b>18,289</b>	<b>20,156</b>	<b>25,008</b>
<b>Share capital ratio</b>	<b>4.0 %</b>	<b>4.9 %</b>	<b>8.7 %</b>	<b>14.0 %</b>
<b>Investment</b>	<b>1,421</b>	<b>1,434</b>	<b>283</b>	<b>317</b>
<b>Number of employees (Average)</b>	<b>257</b>	<b>263</b>	<b>279</b>	<b>284</b>
thereof:				
– Domestic	220	223	234	238
– Foreign	37	40	45	46
<b>Earnings per share (in EUR)</b>	<b>-0.10</b>	<b>-0.16</b>	<b>-0.22</b>	<b>-0.52</b>

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## Report of the Supervisory Board

## Report of the Supervisory Board

Dear shareholders,

Dear Sirs,

The second year in series our group could achieve positive earnings before interest and taxes (EBIT) and could increase the EBIT margin to 1.3 per cent. Thus the earnings situation continued to improve in the past business year. This proves the sustained success of our focussing on small and medium-sized enterprises as well as on small and home offices.

For this positive development, we, the Supervisory Board, consulted with the Management Board closely, reviewed it continuously and thus fulfilled our tasks according to law and the articles of association. The Management Board reported to us in written form and orally in detail and continuously about all significant developments in the group. Besides written reports this happened especially during our Supervisory Board meetings. In all decisions of significant importance to our company the Supervisory Board was involved directly. Moreover, apart from Supervisory Board meetings I got informed regularly by the Management Board about all processes and decisions in the group.

In the 2005 business year the Supervisory Board met four times. All members of the Supervisory Board participated in the meetings on 17 March, 8 June, 7 September and 23 November 2005. Main consulting focus was on the economic situation and development of the company, the liquidity situation, the business policy, the corporate planning as well as on all significant business processes. Furthermore, we intensively dealt with the further development of our Corporate Governance. All meetings took place in presence of the Management Board.

According to the vote of the shareholders' meeting on 8 June 2005 the individual financial statements and the consolidated financial statements as well as the combined management and group management report were audited by the assigned auditors Warth & Klein GmbH, Wirtschaftsprüfungsgesellschaft, Düsseldorf, and were certified unlimitedly with additional remark. All members of the Supervisory Board received the individual financial statements and the consolidated financial statements, the combined management and group management report as well as the audit report before the balance stating meeting on 27 March 2006. The auditor participated in the meeting, explained his audit statements and answered in detail to the questions of the Supervisory Board.

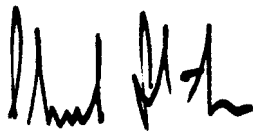
After own intensive review the Supervisory Board had no objections and approved the individual financial statements as well as the management report of TIPTEL AG and the consolidated financial statements as well as the group management report and the audit report. Thus, the individual financial statements of TIPTEL AG established by the Management Board were approved. The Supervisory Board agrees to the proposal of the Management Board to carry forward the results of the 2005 business year to new account.

As already mentioned, in the past year we also dealt extensively with optimising our Corporate Governance. The company accepted the new code recommendations to a large extent. In view of the specific requirements and realities of the company the Management Board and the Supervisory Board jointly decided not to adhere to some recommendations for good reasons. These aspects are revealed in the Corporate Governance report on page 88 and are explained in detail. By questioning the Supervisory Board and the Management Board it was stated that on part of the Supervisory Board and the Management Board no conflicts of interest in the sense of the German Corporate Governance Code occurred in the past business year.

## Report of the Supervisory Board

The Supervisory Board thanks all employees as well as the Management Board for their great engagement and their performance in the 2005 business year. In the same way we would like to express our thanks to our shareholders for the confidence the company was entrusted with.

Ratingen, 27 March 2006

A handwritten signature in black ink, appearing to read 'Erhard Schäfer', with a stylized flourish at the end.

Erhard Schäfer  
Chairman of the Supervisory Board





## Combined management report for the group and the stock corporation

The combined management report for the business year from 1 January to 31 December 2005 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.

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## Course of business

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

#### Development of the economy as a whole

In the past 2005 business year the global economy again developed positively. With a growth rate of 4.4 per cent (source: Institute for World Economics at the University of Kiel) it remained lower than the figure of 5.2 per cent seen in the previous year however. As in the previous year the developing and threshold countries were able to post positive growth rates. The reasons for this were the generally low interest rates on the global capital markets and a rise in prices for raw materials, from which these countries benefited considerably as raw materials exporters. On the whole the major growth stimulus again came from the USA and China, where the growth in gross domestic product (GDP) was 3.5 per cent and 9.9 per cent, respectively. In the eurozone the gross domestic product rose by 1.4 per cent in 2005 (previous year: 2.1 per cent) and in the EU25 by 1.6 per cent (previous year: 2.4 per cent). Within the eurozone Spain, Greece and Ireland posted the highest growth rates, whereas France, Germany and, above all, Italy lagged well behind the other countries.

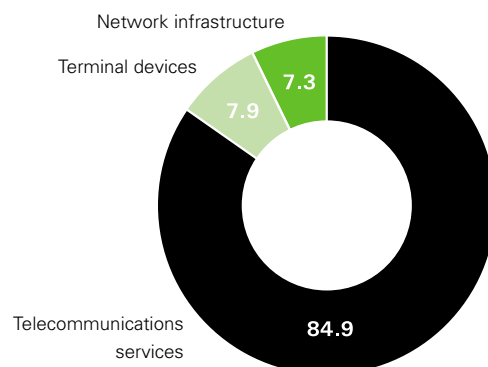
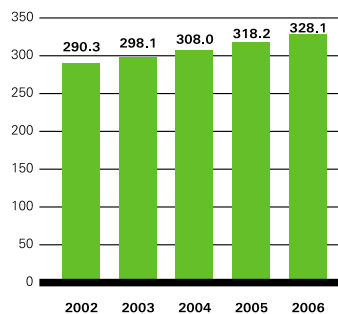
According to figures from the German Statistics Agency, the German economy posted growth of 0.9 per cent in GDP in the past business year. Thus it was not possible to continue the positive development seen in the previous year, when the growth rate was 1.6 per cent. Economic growth in 2005 was also borne along by a very dynamic export sector. As in the previous year, exports in real terms increased by 6.2 per cent, again outpacing the rise in imports (5.0 per cent). Private consumer spending stagnated compared to the previous year, while public-sector consumer spending actually decreased (-0.4 per cent). A similar development was to be observed with gross investment in plant and equipment, which decreased by 0.3 per cent in 2005.

#### Development of the industry

In 2005 the western European market for telecommunications was able to continue the positive development seen in recent years. According to figures from the European Information Technology Observatory (EITO), the market grew by 3.3 per cent last year to 318.2 billion euros. In this respect, as in 2004 telecommunications services accounted for the largest market share with 84.9 per cent, while terminal devices made up 7.9 per cent, and network infrastructure 7.3 per cent of the entire market. In the past year the driving forces for growth were VoIP telecommunications systems (in the SoHo sector and SMEs still at a low level) and mobile telephones.

As one of the European specialists for innovative telecommunications solutions TIPTEL serves the target markets Germany, Netherlands, Belgium / Luxembourg, France, Austria and Switzerland. With a comprehensive product portfolio the company is represented in the telecoms market segments telephone systems, corded and cordless telephones, as well as voice storage systems (call managers, voice-mail systems, answering machines). In the past business year the markets relevant to TIPTEL saw a pleasing development on the whole in the above-mentioned regions, and for the first time since 2003 there was no downward development. In this respect the downturn in cordless and corded telephones, as well as in voice-mail storage systems, was compensated for by the strong growth in telephone systems. The growth rate of this market segment was 3.4 per cent.

### The western European telecommunications market has displayed continuous growth



#### Western Europe

Market for telecommunications as a whole and by segments in billions of euros 2001-2006 and as a percentage 2005

*EITO, March 2005*

The following market data take into account the core target groups for TIPTEL (small and medium-sized enterprises as well as small and home offices) and, above all, private households as well as larger companies and major corporations. Furthermore, the company merely serves selected niches inside these market segments.

## Course of business

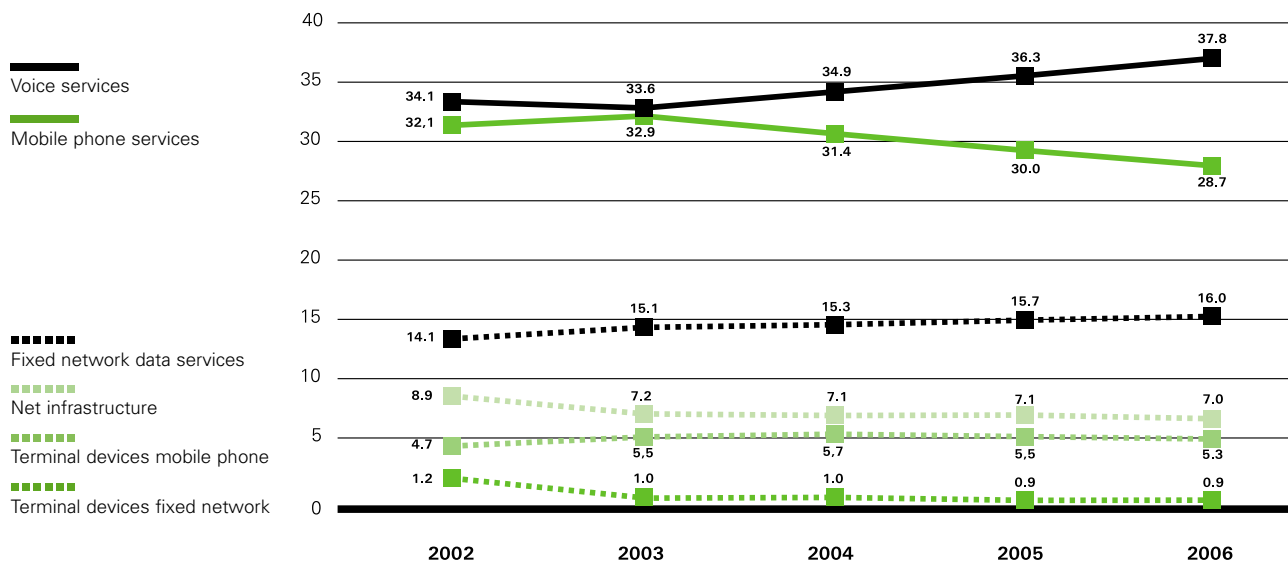
MARKET SEGMENTS*									
	Market volume in EUR million					Development in per cent			
	2002	2003	2004	2005	2006	2003/ 2002	2004/ 2003	2005/ 2004	2006/ 2005
Cordless and corded telephones (analog, DECT, ISDN)	1,629	1,559	1,547	1,530	1,527	-4.3	-0.8	-1.1	-0.2
Telephone system (incl. IP telecoms systems)	2,477	2,274	2,286	2,363	2,427	-8.2	0.5	3.4	2.7
Other telecoms equipment (answering machines, fax, video-conference systems)	1,939	1,846	1,812	1,754	1,704	-4.8	-1.8	-3.2	-2.9
<b>Total</b>	<b>6,045</b>	<b>5,679</b>	<b>5,645</b>	<b>5,647</b>	<b>5,658</b>	<b>-6.1</b>	<b>-0.6</b>	<b>0.0</b>	<b>0.2</b>
IT market**	275,559	271,493	279,689	292,370	305,528	-1.5	3.0	4.5	4.5
Telecoms market**	296,421	305,901	316,732	328,015	338,525	3.2	3.5	3.6	3.2

(\*) TIPTEL markets: Germany, Netherlands, Belgium/Luxembourg, France, Austria, Switzerland

(\*\*) EU25 excl. Cyprus and Malta

Source: EITO Almanac 2005

Mobile phone and data services in the fixed network at present achieve highest growth rates



### Western Europe

Market for telecommunications according to segments in per cent of the total market 2002 until 2006

Source: EITO, March 2005

## 2 Development of sales revenues

### TIPTEL Group

Compared to previous year a turnover decrease to the amount of 6.7 per cent (KEUR –2,178) has to be noted in the group. Almost half of this turnover decrease (–48.4 per cent = KEUR –1,054) was attributed to the business sector of made-to-order production. Thereof, KEUR 484 account for the affiliated company at Marburg. At Marburg, TIPTEL intends to withdraw completely from this business sector. Another decrease to the amount of KEUR 711 was linked to the development of a customer working in another industry. In the past year this industry sector developed extremely negative.

In contrast to the trend of the past years, TIPTEL had to note an unexpected turnover decrease in the other business sectors of the distribution companies (KEUR –802, –5.9 per cent). Also the sector export others declined by KEUR 648 which was basically linked to project businesses which are subject to strong fluctuations regarding the turnover potential in the individual years.

The other domestic business sectors achieved a turnover plus to the amount of KEUR 326 compared to the 2004 business year.

### TIPTEL AG annual financial statements

In the past business year TIPTEL AG posted sales revenues of KEUR 17,830, a downturn of 9.0 per cent. One of the reasons for this was the downward development of inter-company revenues with the TIPTEL sales companies, which fell by KEUR 1,754 to KEUR 4,318 in the past business year. This internal decrease in sales was in part compensated for by the rise in inter-company revenues with the company's own production company (KEUR +1,014).

Sales excluding inter-company sales declined by a total of KEUR 1,025 to KEUR 11,636. Of this sum, KEUR 678 were accounted for by the made-to-order production division and KEUR 686 by exports of telecommunications products to non-affiliated companies. Sales of telecommunications products to non-affiliated companies in Germany showed an increase of KEUR 339 and were thus able to compensate in part for this development. Orders on hand as of 31 December 2005 amounted to KEUR 2,016, following on from KEUR 1,830 in the previous year. This corresponds to an increase of KEUR 186 or 10.2 per cent.

## Course of business

### 3 Production

#### TIPTEL Group

The production site at Ratingen comprises the total production process from mounting of the raw printed circuit boards up to packing of the final product. In contrast to this, the production process at Marburg consists only of final assembly (assembling of components including packaging).

In the production sector in total 124 persons are employed (previous year: 123). This number of employees also includes employees from the sections warehousing, logistics, quality assurance and process planning.

#### TIPTEL AG annual financial statements

The extensive machinery and equipment meets production needs and essentially comprises two axial and two radial machines, as well as three SMD lines. Thus high-quality products are manufactured economically. All the production stages are certified to ISO 9001:2000. Quality assurance is ensured thanks to continuous in-process quality and function tests with in-circuit testers or specially constructed test facilities. The competence and experience in these areas are also offered by TIPTEL as a supplier of electronic components and products in the made-to-order production division.

The placement systems production area was, as in previous years, primarily used in two shifts.

As of 1 July 2006 the EU Directive Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS) came into effect for new electrical and electronic devices. TIPTEL, a telecommunications specialist with its own production facilities in Ratingen, had already prepared its production as of 1 January 2006 for the necessary lead-free processes.

An annual average of 86 staff were employed in production in 2005 (previous year: 84); this figure is thus 2.3 per cent higher than in the previous year.

### 4 Procurement

According to iSuppli the market for analog ICs (integrated circuits) declined on the whole in 2005. For 2006 the research institute assumes, however, that there will be restrained growth with considerable price pressure at the same time.

According to figures from the Central Association of the Electrotechnology and Electronics Industry (ZVEI) the global semiconductor market posted growth of 6.8 per cent to 227.5 billion US dollars in 2005. In this respect the development in the individual product segments differed greatly. For the current 2006 business year, in contrast, positive growth rates have been forecast for all the segments.

PRODUCT SEGMENTS	ACTUAL STATUS IN 2005	PROGNOSIS FOR 2006
	in per cent	in per cent
Integrated circuits	+8	+8
Discrete devices	-3	+3
Opto semiconductors	+9	+11
Sensors / Actuators	-5	+16

According to ZVEI the Asian market will purchase more than half of all semiconductor devices through to 2009. Solid growth is expected for this period in Europe (2006: about 2 per cent).

In the product segment bare circuit boards the increase in prices for raw materials and energy has led to a rise in the cost of production processes for printed circuit boards. Likewise the increase in oil prices will in part mean price rises for plastics (casing, cable) and plastic composites (e.g. strips, terminal blocks). TIPTEL assumes that it will not only be able to cushion the price increases, but actually asset price reductions. To this end the company will intensify the cooperation with Asian suppliers, specifically purchase surplus volumes on the spot market, and further optimize the number of suppliers.

In the opinion of TIPTEL there may be a temporary shortage of components; an allocation phase with semiconductors is unlikely however. This shortage will be compounded by a number of manufacturers discontinuing certain devices as a consequence of the launch of RoHS-compliant devices. Further price reductions are expected with the development of US dollar/euro parity.

In 2006 TIPTEL also intends to further reduce the inventories at Group level as well as at TIPTEL AG. In 2005 the Group inventories were further reduced from KEUR 7,206 to KEUR 6,014. At TIPTEL AG the inventories were also reduced by KEUR 717 to KEUR 3,529.

## Course of business

### 5 Investment

#### TIPTEL Group

The investment in intangible fixed assets and fixed assets on group level amounted to KEUR 1,421 (previous year: KEUR 1,434). Thus, investments were mainly made in the development of new products (cf. chapter "Other details", 2. Research & Development).

For a detailed presentation the fixed-asset movement schedule of the group is referred to.

#### TIPTEL AG annual financial statements

At TIPTEL AG the investment in intangible fixed assets and fixed assets was KEUR 640 (previous year: KEUR 292). Furthermore, the loans increased by KEUR 200 with the granting of a loan to a subsidiary. This measure served to improve, among other things, the creditworthiness of this company.

For a detailed presentation please refer to the development of fixed assets at TIPTEL AG.

### 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 in line with 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 2005 the TIPTEL Group employed 254 staff (31.12.2004: 259). This corresponds to a downturn of 5 employees (-1.9 per cent).



<b>EMPLOYEES TIPTEL GROUP</b>		
	<b>Annual average</b>	<b>End of year</b>
2002	284	277
2003	279	272
2004	263	259
2005	257	254

<b>NUMBER OF EMPLOYEES BY COMPANY (CUT-OFF DATE)</b>		
	<b>2005</b>	<b>2004</b>
TIPTEL AG, Ratingen	155	156
Deutsche Fernsprecher GmbH, Marburg	61	65
Tiptel B.V., Netherlands	20	19
Tiptel NV/SA, Belgium	7	5
Tiptel s.a.r.l., France	7	9
Tiptel GmbH, Austria	3	3
Tiptel AG, Switzerland	1	2
<b>Total</b>	<b>254</b>	<b>259</b>

#### TIPTEL AG annual financial statements

The number of employees compared to the previous year remained virtually unchanged, both at the end of 2005 as well as on an annual average (-1 employee or -0.6 per cent). Accordingly the development in 2005 was as follows:

<b>EMPLOYEES TIPTEL AG</b>		
	<b>Annual average</b>	<b>End of year</b>
2002	166	163
2003	162	160
2004	156	156
2005	155	155

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

<b>EMPLOYEES INDIVIDUAL AREAS</b>			
	<b>2005</b>	<b>2004</b>	<b>2003</b>
Sales	35	33	32
Research & Development	17	20	21
Production	86	84	85
Administration	17	19	24
<b>Total</b>	<b>155</b>	<b>156</b>	<b>162</b>

## Course of business

### 8 Other important events

A major company in the telecommunications sector maintains that TIPTEL AG has violated certain patents. So as to avoid licence payments for periods in the past it has been possible to conclude a future-oriented agreement with this company in the meantime. This agreement regulates the use of patents against the payment of licence fees. The agreement still has to be approved by the Supervisory Board.

In August 2005 TIPTEL AG sold 49 per cent of its shares in the Dutch company Tiptel b.v. The proceeds of KEUR 997 from the sale were appropriated by the company. The buyer has the option of acquiring a stake of as much as 100 per cent in Tiptel b.v. in the future.

With effect of 1 January 2005 TIPTEL AG concluded a profit and loss transfer agreement with Deutsche Fernsprecher GmbH in terms of § 291 et seq. AktG (Joint Stock Corporation Act). Thereby, Deutsche Fernsprecher GmbH is obliged to transfer the complete profit to TIPTEL AG. The company contract has a term until 31 December 2009.

Within the framework of further consolidation measures the collectively-agreed wages scales based on scales for the industry was terminated as of 28 February 2006. In this respect there could, among other things, be industrial action measures.

## Business situation

### 1 Net worth and capital structure

#### TIPTEL Group

The following scheme shows a survey of the net worth and capital structure in a two-years comparison:

	2005 in KEUR	2004 in KEUR
<b>Assets</b>		
Short-term assets	9,175	11,011
Long-term assets	8,048	7,278
<b>Liabilities</b>		
Short-term liabilities	7,793	8,441
Long-term liabilities	8,747	8,951
Equity capital	683	897
<b>Balance sheet total</b>	<b>17,223</b>	<b>18,289</b>

In the 2005 business year the balance sheet total decreased by KEUR 1,066. Fundamental changes in the assets sector are the reduction of inventories by KEUR 1,192 (-16.5 per cent) as well as the increase of the intangible fixed assets by KEUR 970 (+70.2 per cent).

These changes could be achieved by consistent inventory management as well as by further capitalisation of development cost.

Short-term and long-term liabilities were reduced by KEUR 852 compared to the 2004 business year. Fundamental aspects are here the balance sheet items liabilities from goods and services as well as financial liabilities, which in total decreased from KEUR 7,159 to KEUR 6,526 (KEUR -633). This decrease by 8.8 per cent could, among others, be achieved as the group additionally disposes of liquid funds to the amount of KEUR 977 due to the sale of shares of 49 per cent of an affiliated company.

The group's equity development is shown in the detailed transitional calculation of the group equity capital.

The share capital ratio reduced from 4.9 per cent to 4.0 per cent due to the annual loss.

## Business situation

### TIPTEL AG annual financial statements

The net worth and capital structure has changed as follows over the years:

	2005	2004	2003	2002
	in KEUR	in KEUR	in KEUR	in KEUR
Fixed assets	8,004	8,055	7,980	8,663
Current assets *	7,809	9,453	11,471	13,411
Equity capital	8,038	9,280	10,260	11,384
Borrowed capital *	7,775	8,228	9,191	10,690
<b>Balance-sheet total</b>	<b>15,813</b>	<b>17,508</b>	<b>19,451</b>	<b>22,074</b>

\* including deferred items

As of 31 December 2005 the balance-sheet total decreased by KEUR 1,695 (–9.7 per cent) to KEUR 15,813. The fixed assets remained virtually unchanged over the previous year at KEUR 8,004. In the financial assets sector a shareholding of KEUR 100 was written up in accordance with § 280 Section 1 HGB.

The current assets declined in the past business year by KEUR 1,676. The reason for this was primarily the reduction of KEUR 403 in accounts receivable through the existing factoring agreement and a reduction of KEUR 668 in the group receivables. There is a receivable of KEUR 213 due from the factoring company, which is shown in the other assets. Furthermore, the inventories declined by KEUR 717 over 2004.

The accounts receivable and other assets were comprised as follows in 2005:

	2005	2004	Δ	Δ
	in KEUR	in KEUR	in KEUR	in per cent
Accounts receivable	400	803	–403	–50,2
Due from affiliated companies	3,611	4,279	–668	–15,6
Other assets	238	84	+154	+183,3
<b>Summe</b>	<b>4,249</b>	<b>5,166</b>	<b>–917</b>	<b>–17,8</b>

The equity capital ratio developed as follows in past years:

2005	2004	2003	2002
50.8 %	53.0 %	52.7 %	51.6 %

The borrowed capital was reduced by KEUR 453 (-5.5 per cent) in 2005. In this respect the trade accounts payable declined by a total of KEUR 500 (-23.4 per cent), and TIPTEL was able to lower the trade accounts payable by KEUR 500 to KEUR 1,634. The long-term liabilities to credit institutes were also lowered by KEUR 166.

The reduction in the liabilities was essentially attained through the transfer of liquid funds following the sale of shares in the Dutch subsidiary and through consistent inventory management.

## Business situation

### Net worth and capital structure of TIPTEL AG

	31.12.2005		31.12.2004		Change KEUR
	KEUR	%	KEUR	%	
<b>ASSETS</b>					
<b>Fixed assets</b>					
Intangible assets	637	4.0	384	2.2	+253
Tangible assets	1,936	12.3	2,122	12.1	-186
Financial assets	5,431	34.3	5,549	31.7	-118
	<b>8,004</b>	<b>50.6</b>	<b>8,055</b>	<b>46.0</b>	<b>-51</b>
<b>Current assets</b>					
Inventories	3,529	22.3	4,246	24.3	-717
Accounts receivable	400	2.6	803	4.6	-403
Group accounts receivable	3,611	22.8	4,279	24.4	-668
Other assets	238	1.5	84	0.5	+154
Liquid funds	7	0.0	33	0.2	-26
	<b>7,785</b>	<b>49.2</b>	<b>9,445</b>	<b>54.0</b>	<b>-1,660</b>
<b>Prepayments and accrued income</b>	<b>24</b>	<b>0.2</b>	<b>8</b>	<b>0.0</b>	<b>+16</b>
<b>Total assets</b>	<b>15,813</b>	<b>100.0</b>	<b>17,508</b>	<b>100.0</b>	<b>-1,695</b>
<b>LIABILITIES</b>					
<b>Equity capital and values similar to equity capital</b>					
Subscribed capital	13,347	84.4	13,347	76.2	0
Capital reserve	540	3.4	540	3.1	
Revenue reserve	81	0.5	81	0.5	0
Balance-sheet loss	-5,930	-37.5	-4,688	-26.8	-1,242
	<b>8,038</b>	<b>50.8</b>	<b>9,280</b>	<b>53.0</b>	<b>-1,242</b>
<b>Borrowed funds - long-term</b>					
Bank liabilities	499	3.2	665	3.8	-166
	<b>499</b>	<b>3.2</b>	<b>665</b>	<b>3.8</b>	<b>-166</b>
<b>Borrowed funds - medium-term</b>					
Bank liabilities	1,331	8.4	1,331	7.6	0
Group liabilities	109	0.7	23	0.1	+86
Other liabilities	51	0.3	102	0.6	-51
	<b>1,491</b>	<b>9.4</b>	<b>1,456</b>	<b>8.3</b>	<b>+35</b>
<b>Borrowed funds - short-term</b>					
Provisions for taxation	556	3.5	556	3.2	0
Other provisions	1,284	8.1	1,312	7.5	-28
Bank liabilities	1,466	9.4	1,562	8.9	-96
Accounts payable	1,634	10.3	2,134	12.2	-500
Group liabilities	408	2.6	1	0.0	+407
Other liabilities	431	2.7	537	3.1	-106
	<b>5,779</b>	<b>36.6</b>	<b>6,102</b>	<b>34.9</b>	<b>-323</b>
<b>Total borrowed funds</b>	<b>7,769</b>	<b>49.2</b>	<b>8,223</b>	<b>47.0</b>	<b>-454</b>
<b>Deferred income</b>	<b>6</b>	<b>0.0</b>	<b>5</b>	<b>0.0</b>	<b>+1</b>
<b>Total capital</b>	<b>15,813</b>	<b>100.0</b>	<b>17,508</b>	<b>100.0</b>	<b>-1,695</b>

## 2 Financial situation

### TIPTEL Group

In the 2005 business year the inflow from ordinary business activities is with KEUR 970 still positive. Compared to previous year, however, a clear decrease has to be noted. Essential reason for this is the poor business development especially in the third quarter of 2005.

The outflow for investments in fixed assets and intangible fixed assets is approximately on previous year's level.

The inflow from financial assets disposal included the inflow from sale of shares to the amount of KEUR 997.

For two years now TIPTEL is investing in future-orientated product developments (cf. "Other details", 2. Research & Development). In total, the outflow for investments amounts to KEUR 401.

Cash and cash equivalents decreased by KEUR 220. This is caused by a reduction of borrowings and liabilities.

### TIPTEL AG annual financial statements

In the past 2005 business year the cash flow from current business activities was KEUR –329.

This negative effect from the 2005 business year was more than compensated for by positive effects from the investment activity, and essentially by the sale of shares in a subsidiary to the amount of KEUR 997.

The investment activity of the stock corporation led to a total influx of funds of KEUR 642 as a result of the sale of shares in the past 2005 business year. A sum of KEUR 384 was invested in the intangible fixed assets. This shows that despite a somewhat difficult cash flow situation suitable amounts have been invested in the future of the company.

The outflow from the financial assets served to support the future positive development of a subsidiary.

The cash and cash equivalents as of 31 December 2005 were KEUR 7 (previous year: KEUR 33).

## Business situation

### Cash flow statement for TIPTEL AG 2005

	2005	2004
	KEUR	KEUR
1. Net profit for the year before extraordinary items	-1,242	-981
2. +/- Depreciation/write-ups on fixed assets	561	101
3. +/- Increase/decrease in provisions	-27	-233
4. +/- Other expenses / income not affecting payments	-1	-151
5. +/- Profit/loss from the disposal of fixed assets	-952	-4
6. +/- Increase/decrease in inventories, accounts receivable as well as other assets which cannot be allocated to the investment or financing activities	1,418	1,483
7. +/- Increase/decrease in accounts payable as well as other liabilities which cannot be allocated to the investment or financing activities	-86	-288
<b>8. = Cash outflow from ordinary activities</b>	<b>-329</b>	<b>-73</b>
9. Inflow from disposals of fixed assets	0	4
10. - Outflow for investments in fixed assets	-56	-73
11. - Outflow for investments in intangible fixed assets	-384	-219
12. + Inflow from disposals of financial assets	1,082	268
<b>13. = Cash inflow/outflow from investment activity</b>	<b>642</b>	<b>-20</b>
14. - Outflow from the repayment of loans and (financing) credits	-339	-443
<b>15. = Cash outflow from financing activity</b>	<b>-339</b>	<b>-443</b>
16. Changes in the cash and cash equivalents affecting payments (total from lines 8., 13. and 15.)	-26	-536
17. + Cash and cash equivalents at the beginning of the period	33	569
<b>18. = Cash and cash equivalents at the end of the period</b>	<b>7</b>	<b>33</b>

„The cash flow statement was prepared in line with this method for the first time ever. The figures for the previous year have been amended accordingly.“



### 3 Earnings

#### TIPTEL Group

Since the 2002 business year the absolute EBIT development improves continuously.

Business year	EBIT in KEUR
2002	-2,385
2003	-785
2004	+360
2005	+401

With an EBIT increase to the amount of KEUR 41 in 2005 the leap to the forecasted EBIT could not be achieved. The reduction of the material cost quota by 1.2 percentage points could not compensate the lower gross profit resulting from the decline of sales revenues.

The operating result improved by KEUR 49 (+15.2 per cent) to KEUR 372. The annual loss reduced by KEUR 331 to KEUR -507 (+39.5 per cent).

The earnings to the amount of KEUR 50 entitled to other shareholders occurred for the first time in 2005 as TIPTEL AG sold shares of an affiliated company. The owner of these shares is entitled to a corresponding quota of the annual results of this affiliated company.

Upon consideration of the profit and loss account of the business years 2005 and 2004 a reduction of the annual loss as well as a slight increase of the EBIT and the operating results has to be noted. In the framework of an analysis it has, however, to be observed that single revenues after deduction of transfer costs to the amount due to the sale of the shares of about KEUR 562 supported the result positively.

The amount for personnel expenses, depreciations and other operational expenses was with KEUR 17,001 within the scope of previous year level (KEUR 17,092).

#### TIPTEL AG annual financial statements

The net result for the year at the stock corporation decreased in the past business year by KEUR 262 to KEUR -1,242 while the result from ordinary activities decreased from KEUR -948 to KEUR -1,210.

The operating result improved by KEUR 219 to KEUR -772 (previous year: KEUR -991). The gross profit decreased by KEUR 412 to KEUR 8,907 and was thus lower than in the 2004 business year.

## Business situation

As in the previous year TIPTEL was again able to decrease the personnel expenses, other operating expenses and depreciation. Compared to the 2004 business year this figure decreased by KEUR 631 to KEUR 9,679. This is due, among other factors, to a reduction of KEUR 237 in personnel expenses. Prior to this the workers' council and the management had reached an agreement on foregoing certain special payments should the consolidated result for 2005 again be negative after taking into account liabilities still to be booked.

In the 2005 business year the result at the stock corporation is impacted by a shareholding write-up of KEUR 100 (in accordance with § 280 HGB) and by amortization of financial assets to the amount of KEUR 288.

The EBIT of TIPTEL AG has developed as follows in past years:

Business year	EBIT in KEUR	Δ to previous year
2002	-2,083	
2003	-1,078	+1,004
2004	-614	+464
2005	-593	+21

The EBIT improved slightly over the previous year by KEUR 21.

The earnings per share to DVFA/SG in the past business year were EUR -0.24 (previous year: EUR -0.19), and the net profit for the year per share was EUR -0.24 (previous year: EUR -0.19).

On the whole the result for 2005 at TIPTEL AG has been shaped by the reserved course of business in the second half of the year and the associated decline in the gross profit. The increase of KEUR 449 in other operating income compared to previous year was offset by the lower gross profit, with the effect that the absolute gross profit was KEUR 412 lower in a year-on-year comparison.

## Earnings situation at TIPTEL AG

	01.01. – 31.12.2005		01.01. – 31.12.2004		Change
	KEUR		KEUR		KEUR
Sales revenues	17,830	91.5	19,595	94.5	-1,765
Change in inventories	-10	-0.1	-78	-0.4	+68
Other operating income	1,663	8.6	1,214	5.9	+449
<b>Operating performance</b>	<b>19,483</b>	<b>100.0</b>	<b>20,731</b>	<b>100.0</b>	<b>-1,248</b>
Cost of raw materials, consumables and supplies	-10,576	-54.3	-11,412	-55.0	+ 836
Cost of materials	-10,576	-54.3	-11,412	-55.0	+ 836
<b>Gross profit</b>	<b>8,907</b>	<b>45.7</b>	<b>9,319</b>	<b>45.0</b>	<b>-412</b>
Personnel expenses	-6,204	-31.8	-6,441	-31.1	+237
Depreciation of intangible fixed assets and tangible assets	-373	-1.9	-501	-2.4	+128
Other operating expenses including other taxes (without taxes on earnings)	-3,102	-15.9	-3,368	-16.2	+266
<b>Operating expenses</b>	<b>-9,679</b>	<b>-49.7</b>	<b>-10,310</b>	<b>-49.7</b>	<b>+631</b>
<b>Opreating result</b>	<b>-772</b>	<b>-4.0</b>	<b>-991</b>	<b>-4.8</b>	<b>+219</b>
Interest income and investment income	166	0.9	372	1.8	-206
Interest expenses and amortization of financial assets	-636	-3.3	-361	-1.7	-275
<b>Financial result</b>	<b>-470</b>	<b>-2.4</b>	<b>11</b>	<b>0.1</b>	<b>-481</b>
Extraordinary income	0	0.0	0	0.0	0
<b>Extraordinary result</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>
<b>Result before taxes on income</b>	<b>-1,242</b>	<b>-6.4</b>	<b>-980</b>	<b>-4.7</b>	<b>-262</b>
<b>Net loss for the year</b>	<b>-1,242</b>	<b>-6.4</b>	<b>-980</b>	<b>-4.7</b>	<b>-262</b>
Loss/profit carried forward	-4,688	-24.1	-3,708	-17.9	-980
<b>Balance-sheet loss</b>	<b>-5,930</b>	<b>-30.4</b>	<b>-4,688</b>	<b>-22.6</b>	<b>-1,242</b>

### 4 Shares held by directors

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

	31.12.2005	31.12.2004
<b>Board of Management</b>		
Werner Materna	300 shares	300 shares
<b>Supervisory Board</b>		
Erhard Schäfer	600,460 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 mentioned 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 Management Board of TIPTEL AG has declared the following in accordance with § 312 Section 3 German Stock Corporation Act: "The Management Board 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 Management Board 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 announced in the last annual report, the development activities will continue to focus on the VoIP segment. Accordingly, in 2005 the majority of employees in the field of research and development were involved directly or indirectly with this area. In this respect it has to be remembered that above all in the fields of VoIP and ISDN telephone systems the devices have been developed so as to be heavily platform-oriented, whereby ISDN telephone systems fundamentally support VoIP functionality in full. Only thus was it possible to successfully conclude numerous projects from other product areas in addition to those in the field of VoIP, the main focus of development work.

Thus, as planned, the **ISDN telephone system family** tiptel 3011/3022 was further developed and expanded to include a wide range of features; this family came onto the market as Release 4. Systems that have already been launched may be retrofitted accordingly. Among the most important features is a flexible switch function, whose most important application is day/night switching, and comfortable integration into fee evaluation programs.

The development of Release 5, which comes with innovations such as LCR, CTI and special group functions, has already begun. Furthermore, a voice-mail module is in the development phase, which is to be launched on the market at the same time as Release 5 in the second quarter of 2006. This multi-channel module with a recording period of 14 hours will have a wide range of functions, from an answering machine through to an automatic exchange. Control will be via either the PC or the system telephone of the individual users.

Furthermore, TIPTEL is currently developing a new **ISDN telephone system family**, which comprises four different devices. In addition to a device with four internal analog extensions, there is also a device with eight internal analog extensions and an internal S0 port. The configuration of

these systems is, just as with the tiptel 3011/3022 family, via a web interface and is thus not only possible via PCs with the Windows operating systems, but also via Apple Macintosh and Linux computers for example. The range of functions will correspond to that of the tiptel 3011/3022 family - including an optional voice-mail module. Moreover, all the systems are prepared for VoIP, whereby this functionality may be downloaded later quite simply using a firmware upgrade.

In the **VoIP sector** at CeBIT 2005 TIPTEL was able to present to the public the analog SIP terminal adapter tiptel 105 VoIP, which thanks to its specially developed user interface may be configured and put into operation very quickly and without any detailed systems knowledge. The SIP terminal adapter tiptel 106 VoIP was completed as early as the middle of the year. On the one hand this allows for telephony over the internet with every form of analog telephone; on the other hand, with every phone call the user can decide for himself or with the aid of a programmable least cost router (LCR) with which numbers he wishes to make calls over the internet or the fixed line network. Both devices may also be operated over the internal ports of telecommunications systems.

In the second half of 2005 TIPTEL began with the development of a further VoIP device. Existing ISDN telephone systems and ISDN telephones are made VoIP-capable with the ISDN SIP gateway. The device has two channels, with the effect that two VoIP phone calls may be made at the same time. In conjunction with telephone systems with an integrated least cost router a user can then automatically specifically route certain calls via fixed lines and other calls specifically through the internet. In this respect systems such as the tiptel 4011 XT and above all the tiptel 3011/3022 family are particularly suited thanks to their standard configuration interface. Likewise, connection of any ISDN telephone system and all ISDN telephones is possible.

TIPTEL has, as planned, attained the objective which it set itself at the end of 2004, namely that of presenting VoIP products at CeBIT 2006 which have been fully developed by TIPTEL.

In the field of **analog high-end telephones** the development of the tiptel 275 commenced. This is an upper-segment device with a new optically-appealing casing, an integrated answering machine, alpha keyboard and high-resolution illuminated graphic display. The device may be programmed using the integrated keyboard or with the aid of a PC via the integrated USB port. In terms of functionality this product easily surpasses the very successful predecessor tiptel 175 and is even long-message SMS-capable.

## Other details

Also in the development phase are three new ISDN telephones. The tiptel 292 and tiptel 293 are successors to the popular tiptel 192 (plus) and tiptel 193 (plus), while the tiptel 83 system is the follow-up to the system telephone tiptel 82 system (plus). A particular feature of these devices is the attractive casing with a large illuminated vertical display. The telephones are to be launched on the market in the spring of 2006.

In the field of voice storage systems TIPTEL launched two new devices on the market in 2005. In the upper mid-segment the tiptel 540 replaced the tiptel 340, while in the upper segment the tiptel 545 succeeded the tiptel 345. Among the considerably enhanced functionality of the two devices is a large high-resolution illuminated graphic display. Furthermore, numerous new functions have been integrated and existing functions expanded. Within the framework of message forwarding per SMS the message recipient is now informed of the identity of the caller's number or - if already known in the device - the caller's name per SMS. In particular the tiptel 545 now has a USB port with which the device may be configured very comfortably from a PC. A further highlight for operation with telephone systems is the music-on-hold function, which complements answering machine mode as an alternative or using an automatic switch function. At night-time and during breaks the device functions as an answering machine, otherwise it plays music for callers on hold.

On an annual average 28 staff were employed in research and development at the TIPTEL Group (2004: 32 persons). The spending in this sector was KEUR 2,194 (previous year: KEUR 2,421).

TIPTEL AG employed an annual average of 17 staff in research and development (2004: 20 persons). Spending in 2005 amounted to KEUR 1,377 (2004: KEUR 1,725). This corresponds to around 7.7 per cent of the net revenues in 2005 compared to a figure of 8.8 per cent in the previous year.

### 3 Opportunities and risks of future development

The risk management system of the TIPTEL Group is part of the overall planning, controlling and reporting processes. A guideline defines the correct identification, recording and analysis of risks as well as those responsible for such risks within the Group. Those with responsibility within the divisions and subsidiaries report on a quarterly basis to the risk manager, who aggregates, analyzes and evaluates the risks on a pan-group basis. The objective is that of identifying the possible risks at an early stage and creating the necessary leeway for manoeuvre to secure the long-term future of the company.

In the opinion of the company the following risks could have a significant negative impact on the economic position of the TIPTEL Group and the business development:

#### Overall economic risks

The economic success of the TIPTEL Group is also dependent on the economic development in the individual target countries and markets. In the event of a clear deterioration in the economy the investment willingness of companies and private consumption could also decline, and thus have an immediate impact on TIPTEL's business development.

#### Operating risk

The long-term success of the TIPTEL Group is dependent to a great degree on the know-how and commitment of its employees. Competition for highly-qualified managers and specialists is very intensive, however. The corresponding fluctuation cannot be fully excluded therefore, something which could have a negative effect on the development of the company.

#### Information technology risks

TIPTEL counters risks arising in connection with information security through regular maintenance and through various technical back-up and security measures. Among these are protective systems such as firewalls and virus scans. In this manner it is intended to guarantee data security, protection against unauthorized data access by third parties, and the secure flow of business processes. Should TIPTEL not succeed in countering such risks, this could have a considerable impact on the business development.

#### Sales risk

Competition within the core target groups of TIPTEL is very intensive. Some of the competitors are larger than TIPTEL and have more extensive resources. This fact, and negative developments within the industry and individual economies, could have a negative impact on the sales potential.

#### Procurement risk

In the future TIPTEL intends to intensify the cooperation with Asian suppliers, to purchase surplus volumes on the spot market, and to further optimize the number of suppliers. In this manner not only is the supplier network optimized, but possible price increases and changes in delivery times are also countered at an early stage. Unexpected price increases (e.g. through a change in US dollar/euro parity), the loss of key suppliers and other factors could also have a negative impact.

## Other details

### Risks from Research & Development

TIPTEL's product portfolio is positioned in selected niches of the telecommunications market and serves the key target groups of small and medium-sized enterprises (SMEs) as well as of small offices and home offices (SoHo). In order to satisfy the specific needs of these customers, the activities in the field of research and development are oriented towards the target groups. These activities are not necessarily always going to be successful and, thus, there may be a negative impact on sales revenues and earnings.

### Legal risks

Insurance policies are concluded for liability risks and claims for damages so as to minimise the possible impact of such claims. These risks cannot be fully excluded however.

### Financial risks

Liquidity risks are countered by TIPTEL with suitable liquidity planning. Given the ongoing tense liquidity situation, deviations in the estimation of the business development which cannot be cushioned by counter-measures may lead to financing requirements which cannot be covered by existing or additional financing possibilities.

The following opportunities could in the opinion of the company have a positive effect on the economic position and business development of the TIPTEL Group:

### Operating opportunities

According to figures from the European Information Technology Observatory (EITO) the telecommunications market within the EU25 will grow by 3.2 per cent to 338.5 billion euros in 2006. In Germany the telecommunications market will expand by 2.7 per cent over the previous year to 68.3 billion euros. In the opinion of the Management Board the dominant trend in this year, and in coming years, will be voice telephony over the internet (VoIP) and the convergence of voice and data transport across networks. In the estimation of TIPTEL this development will not be revolutionary but rather evolutionary. In this respect four VoIP strategies are conceivable:



1. **No current usage**, yet scrutiny of all forthcoming investments with a view to future VoIP compatibility.
2. **Savings through VoIP** (Quick Wins) without a long-term decision in favour of or against VoIP.
3. **Complete conversion to VoIP**, as a rule through gradual migration.
4. **External solution**: The company has the IP PBX (PBX = Private Branch Exchange) operated externally by a service provider. Here there are two variations: Hosted IP PBX or IP Centrex.

The majority of users will base their decision not only on technological aspects but also on economic aspects (costs-benefits). TIPTEL will specifically amend its product portfolio within the framework of resources to the new requirements (for example VoIP gateways, VoIP telephones). In the estimation of the company the TIPTEL target groups (SoHo, SME) will increasingly look at the subject of VoIP from 2006 onwards. Through training courses and workshops TIPTEL will specifically prepare its customers, and in particular those in the telecommunications specialist trade, for the new demands in terms of telecommunications, network and information technology knowledge. Within the framework of the research and development activities the company will continue to focus on the areas of VoIP, telephone systems and ergonomic telephones.

Existing customer relationships are reviewed with such market developments. This is an opportunity for TIPTEL to generate further potential for sales revenues, and in particular in the telecommunications systems sector.

An improved product portfolio gives TIPTEL the opportunity to generate additional sales revenues potential in existing and / or new markets.

#### Opportunity from the utilization of loss carry-forwards

As soon as the TIPTEL Group posts profits on a sustainable basis the existing loss carry-forwards at some companies may be utilized.

#### Opportunity from the development of the economy as a whole and the sector

A more positive development of the factors outside TIPTEL's sphere of influence could have a positive effect on the development of the sales revenues and thus on the development of earnings.

## Other details

### 4 Probable development

Against the background of the general economic and market estimates, and on the basis of the company's own planning, for the 2006 business year the Management Board expects an EBIT margin for TIPTEL AG of –0.7 per cent (including investment income) and of 2.5 per cent for the TIPTEL Group. The essential target for the current business year is an improvement in this earnings margin over the previous year. For 2007 TIPTEL also assumes it can continue the positive development in terms of earnings. Furthermore, in the medium term TIPTEL plans to bring about a positive development in sales revenues and to improve the liquidity situation.

The management report includes past-oriented and forward-looking statements. Forward-looking statements are always associated with a certain uncertainty. For this reason the actual results may deviate – either positively or negatively – from the expected results.

### 5 Reporting to § 289 Abs. 2 HGB

After the balance sheet date there were no operational or structural changes or business transactions in the TIPTEL Group which had any major impact on the net worth, financial situation or earnings or which would have to be reported here and which would affect the comments on the 2005 annual financial statements.



## Consolidated financial statements of TIPTEL AG

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## Consolidated balance sheet

### Consolidated balance sheet of TIPTEL AG as of 31st Dezember 2005

	Notes Number	As of 31.12.2005 KEUR	As of 31.12.2004 KEUR
<b>ASSETS</b>			
<b>A Current assets</b>			
I. Liquid funds	7.1	313	533
II. Trade accounts receivable	7.2	2,151	2,246
III. Inventories	7.3	6,014	7,206
IV. Financial receivables	7.4	416	686
V. Other current assets		281	340
<b>Total current assets</b>		<b>9,175</b>	<b>11,011</b>
<b>B Non current assets</b>			
I. Property, plant and equipment	7.5	2,105	2,354
II. Intangible assets	7.6	2,352	1,382
III. Financial assets	7.7	1,637	1,622
IV. According to equity accounting investments	7.8	6	6
V. Financial receivables		0	29
VI. Deferred taxes	7.9	1,948	1,885
<b>Total non current assets</b>		<b>8,048</b>	<b>7,278</b>
<b>Total assets</b>		<b>17,223</b>	<b>18,289</b>
<b>LIABILITIES</b>			
<b>A Current liabilities</b>			
I. Trade accounts payable		2,616	2,888
II. Financial liabilities	7.10	1,661	1,777
III. Income tax payable		18	0
IV. Other provisions and accruals	7.11	2,298	2,424
V. Other liabilities		1,200	1,352
<b>Total current liabilities</b>		<b>7,793</b>	<b>8,441</b>
<b>B Non current liabilities</b>			
I. Financial liabilities	7.12	2,249	2,494
II. Deferred tax liability		725	465
III. Provisions for pensions	7.13	3,224	3,226
IV. Other liabilities	7.14	2,549	2,766
<b>Total non current liabilities</b>		<b>8,747</b>	<b>8,951</b>
<b>C Shareholders' equity</b>			
I. Subscribed capital	7.15	13,347	13,347
II. Capital reserve	7.16	540	540
III. Balance sheet loss		-5,484	-4,688
IV. Accumulated other comprehensive loss		-8,056	-8,302
V. Minority interests	7.17	336	0
<b>Total shareholders' equity</b>		<b>683</b>	<b>897</b>
<b>Total liabilities</b>		<b>17,223</b>	<b>18,289</b>

## Consolidated profit and loss account

Consolidated profit and loss account for the period from 1st January to 31st Dezember, 2005

	Notes Number	As of 01.01. - 31.12.2005	As of 01.01. - 31.12.2004
		KEUR	KEUR
<b>1. Sales revenues</b>		<b>+ 30,444</b>	<b>+ 32,622</b>
2. Changes in inventories for finished and unfinished goods		./. 118	./. 222
3. Other capitalized services	8.1	+ 1,228	+ 1,210
4. Other operating income	8.2	+ 1,289	+ 664
5. Cost of materials		./. 15,470	./. 16,859
6. Personnel expenses	8.3	./. 11,407	./. 11,440
7. Depreciation	8.4	./. 690	./. 797
8. Other operating expenses		./. 4,904	./. 4,855
<b>9. Profit from operating activities</b>		<b>+ 372</b>	<b>+ 323</b>
10. Interest income	8.5	./. 467	./. 474
11. Depreciation of investments		./. 18	0
12. Other financial income	8.6	+ 29	+ 37
<b>13. Financial result</b>		<b>./. 456</b>	<b>./. 437</b>
<b>14. Result from ordinary activities</b>		<b>./. 84</b>	<b>./. 114</b>
15. Other taxes		./. 66	./. 74
<b>16. Result prior to tax on profits</b>		<b>./. 150</b>	<b>./. 188</b>
17. Income taxes	8.7	./. 357	./. 650
<b>18. Annual loss</b>		<b>./. 507</b>	<b>./. 838</b>
19. Earnings entitled to other shareholders	8.8	./. 50	0
<b>20. Earnings entitled to group shareholders</b>		<b>./. 557</b>	<b>./. 838</b>
<b>Earnings per share</b>	<b>8.9</b>	<b>./. 0.10</b>	<b>./. 0.16</b>

## Development of the group's fixed assets

### Development of the group's fixed assets in the 2005 business year

HISTORICAL INITIAL AND PRODUCTION COSTS						
	As of 01.01.2005	Currency translation	Additions	Disposals	Transfers	As of 31.12.2005
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
<b>Fixed assets</b>						
<b>I. Tangible assets</b>						
1. Land and leasehold rights and buildings, including buildings on third-party land	1,969	0	0	0	0	1,969
2. Plant and machinery	7,487	0	0	0	0	7,487
3. Other fixtures and fittings, tools and equipment	11,225	2	138	-84	9	11,290
4. Payments on account and tangible assets in course of construction	9	0	21	0	-9	21
<b>Total tangible assets</b>	<b>20,690</b>	<b>2</b>	<b>159</b>	<b>-84</b>	<b>0</b>	<b>20,767</b>
<b>II. Intangible assets</b>						
1. Industrial property rights and similar rights and values	3,452	0	34	0	0	3,486
2. Development costs	1,210	0	1,228	0	0	2,438
3. Goodwill	275	0	0	0	0	275
<b>Total intangible assets</b>	<b>4,937</b>	<b>0</b>	<b>1,262</b>	<b>0</b>	<b>0</b>	<b>6,199</b>
<b>III. Financial assets</b>						
1. Shares in affiliated companies	26	0	0	0	0	26
2. Loans to affiliated companies	153	0	0	-153	0	0
3. Other share holdings	6	0	0	0	0	6
4. Security investments	1,596	0	283	-250	0	1,629
5. Other loans	29	0	0	-29	0	0
<b>Total financial assets</b>	<b>1,810</b>	<b>0</b>	<b>283</b>	<b>-432</b>	<b>0</b>	<b>1,661</b>
<b>Total fixed assets</b>	<b>27,437</b>	<b>2</b>	<b>1,704</b>	<b>-516</b>	<b>0</b>	<b>28,627</b>

DEPRECIATION				BOOK VALUE		
As of 01.01.2005	Currency translation	Additions	Disposals	As of 31.12.2005	As of 31.12.2005	As of 31.12.2004
KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
402	0	73	0	475	1,494	1,567
7,210	0	73	0	7,283	204	277
10,724	2	252	-74	10,904	386	501
0	0	0	0	0	21	9
<b>18,336</b>	<b>2</b>	<b>398</b>	<b>-74</b>	<b>18,662</b>	<b>2,105</b>	<b>2,354</b>
3,257	0	135	0	3,392	94	195
23	0	157	0	180	2,258	1,187
275	0	0	0	275	0	0
<b>3,555</b>	<b>0</b>	<b>292</b>	<b>0</b>	<b>3,847</b>	<b>2,352</b>	<b>1,382</b>
0	0	0	0	0	26	26
153	0	0	-153	0	0	0
0	0	0	0	0	6	6
0	0	18	0	18	1,611	1,596
0	0	0	0	0	0	29
<b>153</b>	<b>0</b>	<b>18</b>	<b>-153</b>	<b>18</b>	<b>1,643</b>	<b>1,657</b>
<b>22,044</b>	<b>2</b>	<b>708</b>	<b>-227</b>	<b>22,527</b>	<b>6,100</b>	<b>5,393</b>

## Group equity capital

### Schedule of TIPTEL group equity capital for the business year 2005

	Subscribed capital	Capital reserve	Accumulated other comprehensive loss	Balance sheet loss	Shares of other shareholders	Total
	KEUR	KEUR	KEUR	KEUR		KEUR
<b>As of 31.12.2003</b>	<b>13,347</b>	<b>540</b>	<b>-8,434</b>	<b>-3,708</b>		<b>1,745</b>
Transfers			142	-142		0
Net loss for the period				-838		-838
Other neutral changes			-10			-10
<b>As of 31.12.2004</b>	<b>13,347</b>	<b>540</b>	<b>-8,302</b>	<b>-4,688</b>		<b>897</b>
Net loss for the period				-557	+50	-507
Disposal of Tiptel b.v. (NL)			409			409
Currency translation			7			7
Compensation entries for shares of other shareholders			-170	-116	286	0
Distribution				-123		-123
<b>As of 31.12.2005</b>	<b>13,347</b>	<b>540</b>	<b>-8,056</b>	<b>-5,484</b>	<b>336</b>	<b>683</b>



## Consolidated cash flow statement

### Cash flow statement for consolidated management report for the business year 2005

	01.01. – 31.12.2005	01.01. – 31.12.2004
	KEUR	KEUR
<b>1. Group net loss (-) / for the year prior to tax on profits</b>	./. 150	./. 188
2. Depreciation (+) / write-ups (-) on fixed assets	+ 707	+ 797
3. Interest increase	+ 472	+ 481
4. Increase (+) / decrease (-) in provisions	./. 128	./. 216
5. Profit (-) / loss (+) from disposal of fixed assets	./. 601	./. 9
6. Outflow for interest	./. 86	./. 78
7. Outflow for tax on profits	./. 135	./. 262
8. Decrease (-) / increase (+) in inventories, receivables and other assets	+ 1,204	+ 1,067
9. Increase (+) / decrease (-) in accounts payable from goods and services and other liabilities (without financing and investing activities)	./. 313	./. 191
<b>10. Cash flow from operating activities</b>	<b>+ 970</b>	<b>+ 1,401</b>
11. Inflow (+) from tangible asset disposals	+ 24	+ 9
12. Outflow (-) for investments in tangible assets	./. 159	./. 199
13. Inflow (+) from intangible asset disposals	0	+ 6
14. Outflow (-) for investments in intangible assets	./. 1,262	./. 1,235
15. Inflow (+) from financial asset disposals	+ 1,275	+ 814
16. Outflow (-) for investments in financial assets	./. 282	./. 676
17. Inflow (+) from interest received	+ 3	+ 3
<b>18. Cash flow from investing activities</b>	<b>./. 401</b>	<b>./. 1,278</b>
19. Inflow (+) from increase in borrowings	+ 98	+ 122
20. Outflow (-) for repayments on borrowings	./. 615	./. 352
21. Outflow (-) from interest	./. 273	./. 524
<b>22. Cash flow from financing activities</b>	<b>./. 789</b>	<b>./. 754</b>
<b>23. Changes in cash and cash equivalents affecting cash flow</b>	<b>./. 220</b>	<b>./. 631</b>
24. Cash and cash equivalents at beginning of period	533	1,164
<b>25. Cash and cash equivalents at end of period</b>	<b>313</b>	<b>533</b>
– thereof liquid assets	289	458
– thereof pledged assets	24	75

## Consolidated notes

### Consolidated notes for the 2005 business year

#### 1 Fundamentals

The TIPTEL AG, located in Ratingen, Halskestraße 1, is the parent company of the TIPTEL Group and a public company according to German law, quoted on the stock exchange. The company is entered in the commercial register of the local court in Düsseldorf (HRB 43488).

The group develops and produces telecommunications terminal devices and systems as well as products of security technology. Furthermore, the group offers the section "made-to-order-production". Both, the production facilities and the administration are located in Ratingen. The sales on the local market are carried out by correspondingly specialised retailers, whereas the European distribution is realised by the TIPTEL AG and by the foreign subsidiaries in Belgium, France, the Netherlands, Austria and Switzerland.

The consolidated financial statement was prepared in euros. Unless otherwise indicated, all amounts have to be regarded as thousand euro (KEUR).

#### 2 Fundamentals for accounting

Due to the adoption of § 315a paragraph 1 HGB (German Commercial Code) in connection with the regulation of the European Union (EG-no. 1606/2002), the TIPTEL AG is legally obliged – from the beginning of the year 2005 – to prepare the consolidated financial statement according to the regulations of the International Accounting Standards Board (IASB), London, the International Financial Reporting Standards (IFRS).

The IFRS are applied in the form as being converted into national law after the acknowledgement procedure by the European Commission. Apart from this, the regulations of § 315a paragraph 1 HGB regarding the commercial law are complied with. All required standards, compulsorily applicable at the balance sheet date, were fulfilled without any exception. Starting with the 2005 business year, the following standards were newly applied: IAS 1 (Presentation of Financial Statements), IAS 32 (financial instruments: indications and presentation) as well as IAS 39 (financial instruments: accounting and valuation).

The following paragraphs describe the essential effects resulting from the newly applied standards – compared to the business year 2004 – on balancing and valuation methods of the group as well as the presentation of the financial statement.

With regard to the balancing of pension obligations, the option provided by IAS 19 is not considered (neutral offsetting of actuarial profits and losses at the time of accrue ment with the shareholders' equity).

The arrangement and structuring of the balance sheet according to time patterns (as per IAS 1), were realised for the first time in the 2005 business year; values of the previous year were adopted correspondingly.

### 3 Accounting and valuation methods

The financial statements of the companies belonging to the group are prepared according to uniform accounting and valuation methods. The amounts stated in the consolidated financial statement are – without influence of tax regulations – only determined by the economic presentation of fixed assets, the financial situation and the profitability situation according to the IASB regulations.

#### Accounts receivable and other assets

Accounts receivable and other assets are – in case of initial valuation – stated at fair-market value. Afterwards, they are valued at continued acquisition costs. Known individual risks are considered by adequate valuation mark-downs.

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.

#### Inventories

The inventories comprise raw materials and supplies, unfinished and finished products as well as purchased goods and 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 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 valuation 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.

#### 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 depreciations. The manufacturing costs cover all the costs directly attributable to the manufacturing process. Financing costs are not stated. Depreciation exclusively based on fiscal regulations is not applied.

## Consolidated notes

A useful life of 25 years is applied to buildings. A useful life of four to ten years is applied to technical plan and machinery. Tools and equipment are depreciated according to straight-line schedule over four to ten years with normal use.

Expected long-term loss in value, exceeding the normal useful life, is considered by unscheduled depreciation, thus affecting earnings. In case of known events or indications leading to a loss in value, the book value is compared to the attainable amount during the impairment tests.

If there are no more reasons to continue the unscheduled depreciations of the previous years, corresponding write-ups will be done in favour of the other incomes.

### Intangible fixed assets

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

Expected long-term loss in value, exceeding the normal useful life, is considered by unscheduled depreciation, thus affecting earnings. In case of known events or indications leading to a loss in value, the book value is compared to the attainable amount during the impairment tests.

If there are no more reasons to continue the unscheduled depreciations of the previous years, corresponding write-ups will be done in favour of the other incomes. Write-ups to the goodwill are not admissible according to IAS 36.

### 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 of time they were issued. Marketable, listed shares are stated at fair-market value at the balance sheet date. Other financial assets were depreciated to a lower value at balance sheet date, provided that the depreciation can be expected to be permanent.

### Deferred taxes

Accounting and valuation of deferred taxes is performed according to IAS 12 of the balance sheet-oriented liability method on the basis of tax rate valid at the point of time of the realisation. For expected tax advantages resulting from estimated realisations of future accumulated deficits as well as from temporary differences between tax statements and consolidated financial statements, active deferred taxes will be stated.

### Trade accounts payable and financial liabilities

Liabilities are generally stated at the point of time of their coming into existence with their fair-market value, after deduction of capital and transaction costs. In the course of time, the liabilities are valued - on the basis of the effective interest method - with their continued acquisition costs. Dividends shall be considered to be the unpaid claims of minority shareholders of the Tiptel b.v., Almere, Netherlands.

### Other provisions and accruals

Other provisions and accruals are created for uncertain obligations with third parties if these obligations will most probably lead to a future burden on assets. They will be stated with their probable amount and are not offset against recourse claims. Earnings resulting from the reverse of accruals are indicated in the item "other operating income" in the profit and loss account.

### Pension provisions

The valuation of pension provisions is realised according to the Projected-Unit-Credit-method, with future development of salaries being considered (IAS 19).

### Realisation of earnings and expenses

Sales revenues and other operating income are realised upon the provision of the services 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 the were paid out.

## Consolidated notes

### 4 Currency translation

For the purpose 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 statement of the foreign subsidiary in Switzerland is translated into euro in line with the concept of the functional currency. Their functional currency is the 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 66 (previous year: KEUR 59) have been recorded in the shareholders' equity as having no impact on results.

### 5 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.

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.

The depreciations and write-ups on shares of group companies made in the individual financial statements during the business year will be cancelled in the consolidated financial statement.

Any remaining difference on the assets side from the capital consolidation is capitalised as goodwill. Applying the IFRS 3, a scheduled depreciation of goodwill will not be realised anymore. The verification of the goodwill (impairment test) is regularly carried out, at least once a year on termination of the annual planning process.

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 performed for temporary differences from the consolidation to IAS 12.

## 6 Reporting entity

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

REPORTING ENTITY BY 31.12.2005				
Name	Shareholders' equity in national currency 31.12.2005	Consolidated share in per cent	Annual result after taxes 2005 in national currency	
TIPTEL AG, Ratingen	KEUR 8,038	100	KEUR -1,241	
Deutsche Fernsprecher GmbH, Marburg	KEUR 808	100	KEUR 178	
Tiptel NV/SA, Zaventem (B)	KEUR -1,615	100	KEUR 4	
Tiptel GmbH, Vienna (A)	KEUR -670	100	KEUR -83	
Tiptel s.a.r.l., Voisins-le-Bretonneux (F)	KEUR -84	100	KEUR -123	
Tiptel AG, Regensdorf (CH)	KSFR -1,551	100	KSFR 33	
Tiptel b.v., Almere (NL)	KEUR 679	51	KEUR 331	

In the 2005 business year, 49 per cent of the shares in the Dutch subsidiary, Tiptel b.v., Almere, were sold to the company Robinco Treuhand GmbH & Co. Beteiligungs KG.

Due to its lower essentiality, the company Hagenuk Automotive GmbH, Ratingen, is not included in the consolidated accounting. Its sole task is to hold the insolvent subsidiary Hagenuk GmbH i. I.

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

Name	Shareholders' equity in national currency 31.12.2005	Consolidated share in per cent	Annual result after taxes 2005 in national currency	
Telescout b.v., Almere, (NL)	KEUR 12	49	KEUR -0,3	

## Consolidated notes

### 7 Comments on the consolidated financial statements

#### Short-term assets

##### 7.1 Liquid funds

<b>CASH ASSETS, CASH ASSETS AT BANKS</b>		
	<b>31.12.2005</b>	<b>31.12.2004</b>
	<b>KEUR</b>	<b>KEUR</b>
Cash assets	6	9
Cash assets at banks	307	524
<b>Total</b>	<b>313</b>	<b>533</b>

The therein included deposit with a bank to the amount of KEUR 24 (previous year: KEUR 47) is pledged in order to secure the pension commitments considered in the pension provisions.

In the previous year fixed-term accounts of KEUR 28 were frozen in connection with bonds and sureties. TIPTEL did not have any rights of disposal without the prior consent of Deutsche Bank.

##### 7.2 Trade accounts receivable

Short-term accounts receivable are stated at acquisition costs. If there is any doubt surrounding the recoverability of the receivable, the accounts receivable are stated at the lower recoverable sum. Interest calculation for accounts receivable from goods and services is not effected. Thus, they are not subject to any risk of change in interest rate. Accounts receivable in foreign currencies are valued at the average exchange rate on the balance sheet date.

##### 7.3 Inventories

	<b>31.12.2005</b>	<b>31.12.2004</b>
	<b>KEUR</b>	<b>KEUR</b>
Raw materials and consumables	3,307	4,302
Work in progress	721	836
Finished goods and trading stock	1,833	2,039
Advance payments	153	29
<b>Total</b>	<b>6,014</b>	<b>7,206</b>

In the business year value reductions to the fair market value were effected to the amount of KEUR 478 (previous year: KEUR 494).

Neither in the past business year nor in previous business year write-ups to inventories were effected.



#### 7.4 Financial accounts receivable

The financial accounts receivable comprise the outstanding accounts receivable from goods and service sold to a factoring company but not yet paid to the TIPTEL Group. Interest calculation for financial accounts receivable is not effected. Thus, they are not subject to any risk of change in interest rate.

#### Long-term assets

#### 7.5 Property, planned and equipment

	31.12.2005	31.12.2004
	KEUR	KEUR
Land and leasehold rights and buildings, including buildings on third-party land	1,494	1,567
Plant and machinery	204	277
Other fixtures and fittings, tools and equipment	386	501
Payments on account and tangible assets in course of construction	21	9
<b>Total</b>	<b>2,105</b>	<b>2,354</b>

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

#### 7.6 Intangible assets

	31.12.2005	31.12.2004
	KEUR	KEUR
Industrial property rights and similar rights and values	94	195
Development costs	2,258	1,187
<b>Total</b>	<b>2,352</b>	<b>1,382</b>

Depreciations of all intangible fixed assets are shown in the consolidated profit and loss account under the item "depreciations".

As in previous year, write-ups to intangible fixed assets were not effected. Essential restraints on property or disposal do – as in previous year – also not exist.

## Consolidated notes

### 7.7 Financial assets

	31.12.2005	31.12.2004
	KEUR	KEUR
Shares in affiliated companies	26	26
Security investments	1,611	1,596
<b>Total</b>	<b>1,637</b>	<b>1,622</b>

The securities held as assets are pledged partly. These are basically fixed-interest bonds. Cash flows hereof in the 2005 business year amount to KEUR 9 (previous year: KEUR 16).

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

The long-term accounts receivable of previous year include a borrowing to PAPP electronic GmbH & Co. KG, Hechingen. In the past business year the loan was repaid completely.

### 7.8 Financial assets entered in the balance sheet according to the equity method

The pro-rata annual result of the affiliated company valued using the equity method is shown under inflow and outflow while extraordinary loss in value is shown as value adjustment.

### 7.9 Deferred taxes

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. Moreover, tax loss carryforwards, which can probably be utilised in the future, are capitalised to the amount of the deferred tax claim. The tax rates 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.

According to the present estimation of the Management Board there are currently corporation tax loss carryforwards of KEUR 41,486 (previous year: KEUR 40,977) as well as trade tax loss carryforwards of KEUR 44,702 (previous year: KEUR 44,976) which can probably not be utilized.

The deferred taxes on the assets and liabilities side entered in the balance sheet split up to the following issues:

	31.12.2005	31.12.2004
	KEUR	KEUR
	<b>assets-side</b>	<b>assets-side</b>
Sale and leaseback transaction (operating leasing)	630	694
Capitalised tax savings from future realisable loss carryforwards	610	460
Valuation differences at pension provisions	431	419
Devaluation of inventories not allowed for tax purposes	187	193
Elimination of sub total in the sector of inventories	78	107
Valuation differences at other provisions	12	12
<b>Activated deferred taxes</b>	<b>1,948</b>	<b>1,885</b>
	<b>liabilities-side</b>	<b>liabilities-side</b>
Valuation differences at intangible fixed assets	661	387
Different depreciations methods	51	72
Valuation differences at accounts receivable from goods and services	13	6
<b>Passivated deferred taxes</b>	<b>725</b>	<b>465</b>

### Short-term liabilities

#### 7.10 Financial liabilities

	31.12.2005	31.12.2004
	KEUR	KEUR
Liabilities to banks	1,495	1,770
Distribution	123	0
Advanced payments received	6	0
Other financial liabilities	37	7
<b>Total</b>	<b>1,661</b>	<b>1,777</b>

Liabilities from financing leasing contracts are calculated at the point in time the agreement is concluded at the cash value of the leasing instalments, other liabilities with the amount repayable. Liabilities in foreign currencies are valued at the average exchange rate on the balance sheet date. The figure stated for the financial liabilities corresponds to the lower of market or value.

## Consolidated notes

The short-term financial liabilities to banks are operating credits which are issued for a limited period of time and which may be amended in line with the respective business development and on which interests are paid variably on basis of individual agreements at market-driven conditions.

### 7.11 Other provisions and accruals

DEVELOPMENT OF THE PROVISIONS IN THE BUSINESS YEAR 2005					
	As of 01.01.2005	Consumption	Dissolution	Additions	As of 31.12.2005
	KEUR	KEUR	KEUR	KEUR	KEUR
– Litigation building craft Kiel	546	0	108	0	438
– Personnel sector	506	267	69	413	583
– Sales sector	471	140	25	118	424
– Taxes / Expenses	676	0	0	33	709
– Others	225	216	9	144	144
<b>Total</b>	<b>2,424</b>	<b>623</b>	<b>211</b>	<b>708</b>	<b>2,298</b>

The provisions for the personnel sector primarily include vacation entitlements, royalties / bonuses and ERA adjustment funds of KEUR 493 (previous year: KEUR 344). Provisions for the sales area essentially comprise a sum of KEUR 200 (previous year: KEUR 233) 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.

### Long-term liabilities

#### 7.12 Financial liabilities

	Status	Thereof remaining times:		Status
	31.12.2005	between 1-5 years	over 5 years	31.12.2004
	KEUR	KEUR	KEUR	KEUR
Liabilities to banks	2,228	1,449	779	2,459
Other financial liabilities	21	21		35
<b>Total</b>	<b>2,249</b>	<b>1,470</b>	<b>779</b>	<b>2,494</b>

Long-term financial liabilities to banks exist concerning the real estate financing of the premises and building of the distribution company in the Netherlands. The loan has to be repaid over a term of 20 years. The remaining term of the loan agreement amounts to 14 years. The interest rate corresponds to market-driven conditions and is fixed for the complete term.

Another loan exists from an investment bank to the amount of KEUR 1.830 (previous year: KEUR 1,996). The loan agreement expires in the 2011 business year. This loan is repaid each business year according to schedule and interests of 3 per cent above base rate according to the discount rate transitional law are paid on variably.

#### **7.13 Provision for pensions**

The valuation of the pension provisions is based on the projected unit credit method for defined benefit pension plans according to IAS 19.

The direct and indirect pension obligations of the company are regarded as "defined benefit plan" and are valued by means of the "projected unit credit method".

Realistic assumptions were, among others, presumed for the discount rate as well as for future salary increases in cases of salary dependent pension obligations and for future pension revaluation. The interest portion included in the pension expenses is shown in the personnel expenses.

#### **Details regarding defined benefit plans**

Contractual basis for the pension obligation:

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

## Consolidated notes

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 2005 there was a change in the number of future claimants and pensioners.

	2005	2004
	KEUR	KEUR
Cash value of liabilities (DBO)	4,746	4,412
Fair time value of plan assets	-1,148	-1,177
	<b>3,598</b>	<b>3,235</b>
Actuarial profits not included	374	9
Passivated pension provisions	3,224	3,226
<b>Change in net debt</b>		
Status 1.1.	3,226	3,198
Expenses according to profit and loss account	172	202
Pension payments	-174	-174
Status 31.12.	3,224	3,226
<b>Plan assets</b>		
Earnings of plan assets	68	70
Actuarial profits of plan assets	0	0
Effective earnings of plan assets	66	70
Fair market value	1,148	1,177
<b>Expenses according to profit and loss account</b>		
Current service costs	21	22
Interest expenses	219	250
Expected earnings of plan assets	-68	-70
Actuarial profits and losses	0	0
	<b>172</b>	<b>202</b>
<b>Applied actuarial assumptions at balance sheet date:</b>		
Biometrical accounting principles: "Richttafeln" 2005 G of Klaus Heubeck		
Assumed interest rate:	4.3 per cent p.a.	5.1 per cent p.a.
Wages and salaries increase:	2.0 per cent p.a.	2.0 per cent p.a.
Pension revaluation:	1.25 per cent p.a.	1.25 per cent p.a.
Fluctuation:	2.0 per cent global	2.0 per cent global

The development of the cash value of the pension obligations as well as of the plan assets for the current as well as the four preceding business years is presented as follows:

	Cash value of liabilities (DBO)	Plan assets
31.12.2005	4,746 KEUR	1,148 KEUR
31.12.2004	4,412 KEUR	1,177 KEUR
31.12.2003	4,284 KEUR	1,205 KEUR
31.12.2002	4,309 KEUR	1,232 KEUR
31.12.2001	4,343 KEUR	1,258 KEUR

Of the pension provisions and similar obligations KEUR 266 (previous year: KEUR 272) will become due in the following business year.

DEVELOPMENT OF PROVISIONS FOR PENSIONS IN THE BUSINESS YEAR 2005					
	As of	Consumption	Dissolution	Additions	As of
	01.01.2005				31.12.2005
	KEUR	KEUR	KEUR	KEUR	KEUR
Provisions for pensions and similar obligation	3,226	174	0	172	3,224

#### 7.14 Other liabilities

	Thereof remaining times:			
	Status 31.12.2005	between 1 - 5 years	over 5 years	Status 31.12.2004
	KEUR	KEUR	KEUR	KEUR
Sale and leaseback transaction	1,446	652	794	1,609
Other liabilities	1,103	436	667	1,157
<b>Total</b>	<b>2,549</b>	<b>1,088</b>	<b>1,461</b>	<b>2,766</b>

In the 2002 business year TIPTEL AG sold the office and production buildings. The thereof achieved profits are passivated and dissolved over the contract period as it is a sale-and-leaseback transaction in the framework of operating leasing.

#### Shareholders' equity

##### 7.15 Subscribed capital

Since the annual general meeting on 19 June 2001 the capital stock of the company amounts 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.

## Consolidated notes

Furthermore, the annual general meeting on 19 June 2001 authorised the Management Board 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. The resolutions were registered to the commercial register on 26 September 2002.

Subscription rights to employees or to members of the Management Board were not granted.

### 7.16 Capital reserve

The capital reserve only consists of transfers of premiums from the issue of shares.

### 7.17 Minority interests

The minority interests only account for the 49 per cent of shares of Tiptel b.v., Almere, Netherlands sold in the 2005 business year.

## 8 Comments on the consolidated profit and loss account

### 8.1 Other capitalised services

The other capitalised services only accounts for the capitalised development costs in the 2005 business year in the TIPTEL Group.

The expenses in the research and development sector amounted to in total KEUR 2,194 in 2005 (previous year: KEUR 2.421). Therein included are the according to IAS 38 capitalised development costs. The expenses in the research and development sector correspond to about 7.2 per cent (previous year: 7.4 per cent) of the net sales.

### 8.2 Other operating income

The other operation income includes revenues to the amount of KEUR 588 resulting of the sales of 49 per cent of the affiliated company Tiptel b.v., Almere, Netherlands. Further explanations to this subject are given under the position "related parties".



### 8.3 Personnel expenses

	<b>2005</b>	<b>2004</b>
	<b>KEUR</b>	<b>KEUR</b>
Wages and salaries	9,270	9,199
Social payments and expenses for old-age pensions and benefit	2,137	2,241
<b>Total</b>	<b>11,407</b>	<b>11,440</b>
Thereof old-age pensions	270	262

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

	<b>Annual average</b>	<b>End of the year</b>
2003	279	272
2004	263	259
2005	257	254

In the 2004 business year the Management Board, the workers' council and the employees not represented by the workers' council agreed to a partial wages and salary waiver. In this connection TIPTEL AG is obliged to supplementary grants in 2005 if the 2005 corporate result were positive.

As the corporate result is negative in view of the provisions to be considered, the aforementioned conditions are completely inapplicable.

### 8.4 Depreciations

Depreciations include depreciations both on intangible fixed assets and on tangible fixed assets. Depreciations are based on the uniform useful lives outlined in the explanatory information on accounting and measurement. In the 2004 and 2005 business years only regular depreciations were effected.

### 8.5 Interest income

	<b>2005</b>	<b>2004</b>
	<b>KEUR</b>	<b>KEUR</b>
Other interest and similar earnings	5	7
Interest and similar expenses	-472	-481
<b>Total</b>	<b>-467</b>	<b>-474</b>

## Consolidated notes

### 8.6 Other financial income

	2005	2004
	KEUR	KEUR
Earnings of securities of fixed assets	29	37
<b>Total</b>	<b>29</b>	<b>37</b>

### 8.7 Income taxes

	2005	2004
	KEUR	KEUR
Deferred taxes	-197	-496
Corporate tax/trade income tax	-160	-154
<b>Total</b>	<b>-357</b>	<b>-650</b>

The following charts show the transitional calculation from the expected to the effective tax expenses. In order to calculate the expected tax expenses the earnings before tax on profits are multiplied by a tax rate of 39.15 per cent (previous year: 39.15 per cent). The latter consists of a corporation tax rate of 25.0 per cent (previous year: 25.0 per cent), a trade tax rate of 17.36 per cent as well as a solidarity surcharge of 5.5 per cent.

EXPECTED EXPENSES FROM TAX ON PROFITS IN 2005		
	2005	2005
	KEUR	KEUR
	Assessment basis	Tax earnings
<b>Expected expenses from tax on profits</b>	<b>-150</b>	<b>-59</b>
Decrease of assessment basis due to the increase of unused tax carry-forwards (no deferred taxes established)	1,144	448
Deferred taxes depreciation (not allowed for tax reasons) of inventories	-	6
Differences from foreign tax rates	-	-38
<b>Disclosed tax earnings</b>		<b>357</b>

<b>EXPECTED EXPENSES FROM TAX ON PROFITS IN 2004</b>		
	<b>2004</b>	<b>2004</b>
	<b>KEUR</b>	<b>KEUR</b>
	<b>Assessment basis</b>	<b>Tax earnings</b>
<b>Expected expenses from tax on profits</b>	<b>-188</b>	<b>-76</b>
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
<b>Disclosed tax earnings</b>		<b>650</b>

### 8.8 Earnings entitled to other shareholders

This concerns the portion of earnings entitled to the other shareholders of Tiptel b.v., Almere, Netherlands.

### 8.9 Earnings per share

	<b>2005</b>	<b>2004</b>
Earnings per share in EUR	-0.10	-0.16
Annual loss in EUR	-507,360.42	-838,482.93
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. Neither of 31 December 2005 nor of 31 December 2004 there were outstanding shares which could have diluted the result.

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

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

This declaration has been accessible on a permanent basis to the shareholders on the homepage of TIPTEL AG under the Internet address [www.tiptel.de](http://www.tiptel.de) since December 2002 and is renewed promptly each year. The last change was published on 18 January 2006.

## Consolidated notes

## 10 Segment reporting

PRIMARY SEGMENT 2005 (GEOGRAPHICAL SEGMENT)						
	Rest of Germany	Benelux	Europe	Inter- segment transfer	Elimina- tions	Total
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
<b>Earnings</b>						
Sales revenue with third parties	15,673	8,985	5,786	0		30,444
Inter-segment revenue	5,340	541	127	+6.008		0
<b>Sales revenue incl. transfer</b>	<b>21,013</b>	<b>9,526</b>	<b>5,913</b>	<b>-6.008</b>		<b>30,444</b>
Expenses of shareholdings in associated companies						-
<b>Segment result from ordinary activity</b>	<b>281</b>	<b>520</b>	<b>-197</b>		<b>-221</b>	<b>383</b>
Interest income						-467
Income taxes						-357
Other taxes						-66
<b>Annual loss</b>						<b>-507</b>
<b>Other information</b>						
Segment assets	19,371	3,069	2,532		-9,697	15,275
Segment liabilities	12,784	3,535	3,815		-4,319	15,815
Purchase costs for fixed tangible assets	87	67	5			159
Purchase costs for fixed intangible assets	1,242	20				1,262
Depreciation	594	47	49			690

SECONDARY SEGMENT 2005 (BUSINESS AREAS)							
	ISDN	DECT	Analogue	Others	Security tech- nology	Made-to- order production	Total
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
<b>Earnings</b>							
Sales revenue with third parties	7,866	4,277	13,040	1,740	99	3,422	30,444
Inter-segment revenue							
<b>Sales revenue incl. transfer</b>	<b>7,866</b>	<b>4,277</b>	<b>13,040</b>	<b>1,740</b>	<b>99</b>	<b>3,422</b>	<b>30,444</b>
Expenses of shareholdings in associated companies							-
<b>Expenses of shareholdings in associated companies</b>	<b>-362</b>	<b>269</b>	<b>-386</b>	<b>545</b>	<b>8</b>	<b>309</b>	<b>383</b>
Interest income							-467
Income taxes							-357
Other taxes							-66
<b>Annual loss</b>							<b>-507</b>
<b>Other information</b>							
Segment assets	3,947	2,146	6,542	873	50	1,717	15,275
Segment liabilities	4,086	2,222	6,773	904	51	1,778	15,815
Purchase costs for fixed tangible assets	41	22	68	9	1	18	159
Purchase costs for fixed intangible assets	982	5	269	2		4	1,262
<b>Depreciation</b>	<b>289</b>	<b>17</b>	<b>359</b>	<b>22</b>		<b>3</b>	<b>690</b>

## Consolidated notes

PRIMARY SEGMENT 2004 (GEOGRAPHICAL SEGMENT)						
	Rest of Germany	Benelux	Europe	Inter- segment transfer	Elimina- tions	Total
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
<b>Earnings</b>						
Sales revenue with third parties	16,873	8,931	6,818	0		32,622
Inter-segment revenue	6,945	620	115	+7.680		0
<b>Sales revenue incl. transfer</b>	<b>23,818</b>	<b>9,551</b>	<b>6,933</b>	<b>-7.680</b>		<b>32,622</b>
Expenses of shareholdings in associated companies						-
<b>Segment result from ordinary activity</b>	<b>228</b>	<b>485</b>	<b>-5</b>		<b>-348</b>	<b>360</b>
Interest income						-474
Income taxes						-650
Other taxes						-74
<b>Annual loss</b>						<b>-838</b>
<b>Other information</b>						
Segment assets	20,996	2,626	2,577		-9,794	16,405
Segment liabilities	14,056	3,704	4,186		-5,018	16,928
Purchase costs for fixed tangible assets	153	36	10			199
Purchase costs for fixed intangible assets	1,229	6				1,235
Depreciation	681	47	69			797

<b>SECONDARY SEGMENT 2004 (BUSINESS AREAS)</b>							
	ISDN	DECT	Analogue	Others	Security tech- nology	Made-to- order production	Total
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
<b>Earnings</b>							
Sales revenue with third parties	8,394	3,827	13,983	1,817	135	4,466	32,622
Inter-segment revenue							
<b>Sales revenue incl. transfer</b>	<b>8,394</b>	<b>3,827</b>	<b>13,983</b>	<b>1,817</b>	<b>135</b>	<b>4,466</b>	<b>32,622</b>
Expenses of shareholdings in associated companies							-
<b>Expenses of shareholdings in associated companies</b>	<b>-51</b>	<b>210</b>	<b>-337</b>	<b>47</b>	<b>1</b>	<b>490</b>	<b>360</b>
Interest income							-474
Income taxes							-650
Other taxes							-74
<b>Annual loss</b>							<b>-838</b>
<b>Other information</b>							
Segment assets	4,221	1,925	7,031	914	68	2,246	16,405
Segment liabilities	4,355	1,986	7,256	943	70	2,318	16,928
Purchase costs for fixed tangible assets	51	23	85	11	1	28	199
Purchase costs for fixed intangible assets	820		390	25			1,235
<b>Depreciation</b>	<b>329</b>	<b>29</b>	<b>423</b>		<b>1</b>	<b>15</b>	<b>797</b>

## Consolidated notes

### 11 Other details

#### 11.1 Contingencies

Contingencies in terms of § 251 HGB (German Commercial Code) do not exist.

#### 11.2 Other financial obligations

For the office and production building at Halskestrasse 1, Ratingen, rented since 6 November 2000 an annual rent of KEUR 1,023 plus valid rate of VAT has to be paid in the framework of operating leasing. The rental contract is subject to an un-redeemable term of 15 years. The sum of minimum rental payments amounts to KEUR 1,023 for up to one year to KEUR 4,090 between one and five years and to KEUR 4,857 for more than five years.

On 21 December 2001 a settlement was agreed upon with the insolvency administrator of Hagenuk GmbH i. l. 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.

Further basic other financial obligations do not exist.

### 12 Financial instruments

Financial instruments represent contractual rights or obligations that will lead to an outflow or inflow of financial assets or to the issue of equity rights.

As Europe orientated company, the TIPTEL Group is in its ordinary business activity basically subject to cash flow, market and liquidity risks which could have impact on the net worth, financial position and earnings situation.

In the following individual risks as well as the risk management are explained:

#### Risk management

The risk management system also in view of the financial risks is part of the overall planning, controlling and reporting processes. A guideline defines the correct identification, recording and analysis of risks as well as those responsible for such risks. Those with responsibility for the divisions and subsidiaries report regularly to the risk manager of the group, who aggregates, analyzes and evaluates the risks. The objective is that of identifying the risks at an early stage and creating the necessary leeway for manoeuvre to secure the long-term future of the company.



**Cash flow risk**

The economic success of the TIPTEL Group depends, among others, on the cyclical development in the individual target countries and target markets. In case of a significant deterioration also the willingness of companies to invest as well as the private consumer behaviour could decrease and, thus, directly influence the cash flow situation.

**Market risk**

Market risk arises from the fact that the value of a financial instrument may change due to fluctuating market prices. In accordance with the rules of IAS 39 non-current investments are recognised at their fair values. The market risk of these investments was not hedged.

**Liquidity risk**

The TIPTEL Group counteracts the liquidity risk by adequate liquidity planning and this is covered by credit line commitments. Due to the unchanged strained liquidity situation deviations from the evaluation of the business development, which cannot be compensated by countermeasures, could lead to funding requirements which cannot be covered by existing or additional financing possibilities.

**Currency risk**

For the TIPTEL Group the currency risks exist with regard to purchasing of raw materials, supplies and purchased goods ordered in US-dollar from the Asian region. In the TIPTEL Group the currency risk resulting from purchasing is in view of currency fluctuation of lower importance and is for this reason not hedged separately. In total, less than 10 per cent of the purchasing volume is handled in US-dollar.

**Credit risk**

Credit risks result from the risk of non-performance of contractual payment obligations by contract partners. In the TIPTEL Group risks of accounts receivable are counteracted partially by concluded factoring contracts whereby the credit risk is transferred to third parties. The remaining credit risks are basically covered by corresponding credit insurances so that here the risk potential is classified being rather low.

## Consolidated notes

### 13 Other details

#### 13.1 Events after balance sheet date

Essential events did not take place in the TIPTEL Group after balance sheet date.

#### 13.2 Services of auditors of the financial statements

In the 2005 business year, total expenses of KEUR 98 were carried for the services provided by the auditors of the consolidated financial statements, Warth & Klein GmbH, Wirtschaftsprüfungsgesellschaft. This total included an amount of KEUR 83 for audits of the financial statements, KEUR 4 for tax consultancy services as well as KEUR 11 for other services provided for TIPTEL AG or its subsidiaries.

#### 13.3 Related parties

Apart from the subsidiaries included in the consolidated financial statements, TIPTEL AG, in carrying out its ordinary business activities, maintained indirect or direct relationships with related parties. Related parties which could control the TIPTEL Group or which could exercise a significant influence over the TIPTEL Group are a shareholder of TIPTEL AG (Mr. Schäfer) as well as the Robinco Treuhand GmbH & Co. Beteiligungs KG controlled by him including its subsidiary Intec GmbH.

In the 2005 business year TIPTEL AG sold 49 per cent of its shares of Tiptel b.v., Almere, Netherlands, to Robinco Treuhand GmbH & Co. Beteiligungs KG at a price of KEUR 997. The sales price is based on an expert's evaluation.

Besides the sales contract an option contract I (acquisition of 2 per cent of shares), an option contract II (acquisition of the remaining 49 per cent of shares) and a voting right contractual obligation were concluded between TIPTEL AG and Robinco Treuhand GmbH & Co. Beteiligungs KG. Due to the voting right contractual obligation the control over Tiptel b.v. remains with TIPTEL AG.

Furthermore, TIPTEL AG pays licence fees to Intec GmbH for TIPTEL products developed by them. The licence fee amounts to 3 per cent on all effective net sales. Noteworthy payments were not effected thereof in the 2005 business year.

Further essential business events between the TIPTEL Group and related parties did not occur in the 2005 business year.

### 13.4 Executive bodies of the company

#### Management Board

WERNER MATERNA

Dipl.-Betriebswirt, Ratingen

#### Supervisory Board

ERHARD SCHÄFER

Merchant, Ratingen (Chairman)

RUDOLF BREIDEN

General Manager, Düsseldorf (Deputy Chairman)

RAMONA SALECKER-SCHÄFER

Commercial clerk, Ratingen

CHRISTIAN PEREIRA

Dipl.-Ing., Dipl.-Inf. wiss., General Manager, 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 Management Board 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 2006 business year. In total four Supervisory Board meetings took place in the 2005 business year.

## Consolidated notes

### 13.5 Remuneration of Supervisory Board and Management Board

The remuneration for the Supervisory Board of TIPTEL AG in the business year amounted to KEUR 30 (previous year: KEUR 30). In the 2005 business year the Chairman received KEUR 8, the Deputy Chairman KEUR 6. The other members of the Supervisory Board received KEUR 4 each for their Supervisory Board function. The remunerations are fixed compensations. The total remuneration of the Management Board for 2005 amounted to KEUR 177 (previous year: KEUR 184) and included KEUR 177 (previous year: KEUR 179) fixed compensations and KEUR 5 (for the previous year) variable compensations.

Ratingen, 21 March 2006

TIPTEL AG

Management Board

Werner Materna

## 14 Independent auditor's report

We have audited the consolidated financial statements prepared by TIPTEL AG, Ratingen, comprising the balance sheet, the profit and loss account, the equity capital schedule, the cash flow statement and the notes, as well as the group management report of TIPTEL AG which is combined with the management report of TIPTEL AG for the business year from 1 January to 31 December 2005. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB (Handelsgesetz-buch / German Commercial Code) are the responsibility of the Management Board. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and result of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and expectations as to possible misstatements are taken into account in the determination of the audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statement of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates of the Management Board, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not lead to any objections.

In our opinion based on the findings of our audit the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant § 315a paragraph. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these provisions. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the group's position and suitably presents the chances and risks of future development.

## Consolidated notes

Without qualifying this evaluation, we would refer to the comments by the Board of Management in the combined 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, 24 March 2006

Warth & Klein GmbH  
Wirtschaftsprüfungsgesellschaft

Dipl.-Kfm. Hans-Hermann Nothofer  
Wirtschaftsprüfer

Dipl.-Kfm. André Prengel  
Wirtschaftsprüfer



## Individual financial statements of TIPTEL AG

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## Balance sheet of TIPTEL AG

### Balance sheet of TIPTEL AG as of 31st Dezember 2005

	Notes Number	As of 31.12.2005	As of 31.12.2004
		KEUR	KEUR
<b>ASSETS</b>			
<b>A Fixed assets</b>			
I. Intangible assets		637	384
II. Tangible assets		1,936	2,122
III. Financial assets	3.1	5,431	5,549
		<b>8,004</b>	<b>8,055</b>
<b>B Current assets</b>			
I. Inventories	3.2	3,529	4,246
II. Receivable and other assets	3.3	4,249	5,166
III. Cash on hand and in banking accounts		6	33
		<b>7,784</b>	<b>9,445</b>
<b>C Deferred expenses and accrued income</b>			
		<b>25</b>	<b>8</b>
		<b>15,813</b>	<b>17,508</b>
<b>LIABILITIES</b>			
<b>A Shareholders equity</b>			
I. Subscribed capital		13,347	13,347
II. Capital reserve		540	540
III. Revenue reserves		81	81
IV. Balance sheet loss		-5,930	-4,688
	<b>3.4</b>	<b>8,038</b>	<b>9,280</b>
<b>B Provisions</b>			
	<b>3.5</b>	<b>1,841</b>	<b>1,868</b>
<b>C Liabilities</b>			
	<b>3.6</b>	<b>5,929</b>	<b>6,355</b>
<b>D Deferred expenses and accrued income</b>			
		<b>5</b>	<b>5</b>
		<b>15,813</b>	<b>17,508</b>



## Profit and loss account

Profit and loss account of TIPTEL AG  
for the period of 1st January to 31st Dezember 2005

	Notes Number	01.01. – 31.12.2005	Comparable previous year figure
		KEUR	KEUR
<b>1. Sales revenues</b>	<b>4.1</b>	<b>+ 17,830</b>	<b>+ 19,595</b>
2. Change in stock of finished goods and work in progress		./. 10	./. 78
3. Other operating income	4.2	+ 1,663	+ 1,214
4. Cost of materials Cost of raw materials, consumables and of purchased merchandise		./. 10,576	./. 11,412
5. Personnel expenses			
a) Wages and salaries		./. 5,175	./. 5,343
b) Social security, pensions and other benefit costs		./. 1,030	./. 1,098
– thereof for pensions: KEUR 36 (previous year: KEUR 33)			
6. Depreciation of intangible assets and tangible assets		./. 373	./. 501
7. Other operating expenses	4.3	./. 3,071	./. 3,337
8. Income from investments – thereof from associated companies: KEUR 128 (previous year: KEUR 346)		+ 128	+ 346
9. Income from profit transfer agreement		+ 20	+ 0
10. Other interest and similar income – thereof from associated companies: KEUR 17 (previous year: KEUR 22)		+ 128	+ 346
11. Repreciation of financial fixed assets marketable securities		./. 288	./. 0
12. Amortisation of financial assets – davon an verbundene Unternehmen: KEUR 30 (previous year: KEUR 16)		./. 348	./. 361
<b>13. Results from ordinary operations</b>		<b>./. 1,211</b>	<b>./. 949</b>
14. Taxes on income		+ 0	+ 0
15. Other taxes		./. 31	./. 32
<b>16. Net loss of the year</b>		<b>./. 1,242</b>	<b>./. 981</b>
17. Loss carried forward		./. 4,688	./. 3,708
<b>18. Balance sheet loss</b>		<b>./. 5,930</b>	<b>./. 4,689</b>

## Development of the fixed assets

### Development of the fixed assets of TIPTEL AG in the 2005 business year

HISTORICAL INITIAL AND PRODUCTION COSTS					
	As of 01.01.2004	Additions	Transfer of the business year	Disposals	As of 31.12.2004
	KEUR	KEUR		KEUR	KEUR
<b>Fixed assets</b>					
<b>I. Intangible assets</b>					
1. Concessions, industrial property rights and similar rights and values as well as licences at such rights and values	2,901	384	199	0	3,484
2. Goodwill	262	0	0	0	262
3. Paid deposits	199	0	-199	0	0
<b>Total</b>	<b>3,362</b>	<b>384</b>	<b>0</b>	<b>0</b>	<b>3,746</b>
<b>II. Tangible assets</b>					
1. Land and leasehold rights and buildings, including buildings on third-party land	2,290	0	0	0	2,290
2. Plant and machinery	6,752	0	0	0	6,752
3. Other fixtures and fittings, tools and equipment	5,898	50	0	8	5,940
4. Payments on account and tangible assets in course of construction	0	6	0	0	6
<b>Total</b>	<b>14,940</b>	<b>56</b>	<b>0</b>	<b>8</b>	<b>14,988</b>
<b>III. Financial assets</b>					
1. Shares in affiliated companies	13,527	0	0	44	13,483
2. Loans to affiliated companies	572	200	0	57	715
3. Other loans	29	0	0	29	0
<b>Total</b>	<b>14,128</b>	<b>200</b>	<b>0</b>	<b>130</b>	<b>14,198</b>
<b>Total fixed assets</b>	<b>32,430</b>	<b>640</b>	<b>0</b>	<b>138</b>	<b>32,932</b>

DEPRECIATION					BOOK VALUE		
As of 01.01.2005	Additions	Transfer of the business year	Disposals	Write-ups	As of 31.12.2005	As of 31.12.2005	As of 31.12.2004
KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
2,716	131	0	0	0	2,847	637	185
262	0	0	0	0	262	0	0
0	0	0	0	0	0	0	199
<b>2,978</b>	<b>131</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,109</b>	<b>637</b>	<b>384</b>
462	91	0	0	0	553	1,737	1,828
6,655	27	0	0	0	6,682	70	98
5,701	124	0	8	0	5,817	123	196
0	0	0	0	0	0	6	0
<b>12,818</b>	<b>242</b>	<b>0</b>	<b>8</b>	<b>0</b>	<b>13,052</b>	<b>1,936</b>	<b>2,122</b>
8,579	288	0	0	100	8,767	4,716	4,948
0	0	0	0	0	0	715	572
0	0	0	0	0	0	0	29
<b>8,579</b>	<b>288</b>	<b>0</b>	<b>0</b>	<b>100</b>	<b>8,767</b>	<b>5,431</b>	<b>5,549</b>
<b>24,375</b>	<b>661</b>	<b>0</b>	<b>8</b>	<b>100</b>	<b>24,928</b>	<b>8,004</b>	<b>8,055</b>

## Notes of TIPTEL AG

### NOTES of TIPTEL AG for the 2005 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 2004; 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 basically at the original acquisition costs or - upon probable permanent decrease in value - at the lower fair time value on balance sheet date. As far as regaining of value was noted, write-ups were done. Comments on the shareholdings are to be found under "Financial Assets". The extraordinary depreciation performed in prior years was in part regained in 2001, 2002 and 2004 as well as 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

Changes in the sector of financial assets are shown in detail in the fixed-asset movement schedule.

### 3.2 Inventories

	31.12.2005	31.12.2004
	KEUR	KEUR
Raw materials and supplies	2,347	2,935
Work in progress	430	395
Finished goods and goods for resale	399	444
Goods	347	443
Down payments received for goods	6	29
<b>Total</b>	<b>3,529</b>	<b>4,246</b>

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

## Notes of TIPTEL AG

### 3.3 Accounts receivable and other assets

	31.12.2005	31.12.2004
	KEUR	KEUR
Accounts receivable from goods and services	400	803
Accounts receivable from affiliated companies	3,611	4,279
Other current assets	238	84
<b>Total</b>	<b>4,249</b>	<b>5,166</b>

Since March 2004 accounts receivable are assigned to a factoring company. In the business year 2005 the other current assets include accounts receivable from the factoring company for the first time. These are accounts receivable from goods and services which the factoring company bought and for which payment to TIPTEL was not yet effected (KEUR 213).

Accounts receivable from affiliated companies are based on goods and services and on interests receivable for 2005.

The residual terms of the accounts receivable and other current 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.

<b>SHAREHOLDERS' EQUITY</b>			
	<b>As of 01.01.2005</b>	<b>Withdrawal</b>	<b>As of 31.12.2005</b>
	<b>KEUR</b>	<b>KEUR</b>	<b>KEUR</b>
I. Subscribed capital	13,347	0	13,347
II. Capital reserve	540	0	540
III. Revenue reserves			
Statutory reserves	81	0	81
IV. Balance-sheet loss			
Loss carried forward	-4,688		-4,688
Net loss for the year	0	-1,242	-1,242
<b>Shareholders' equity</b>	<b>9,280</b>	<b>-1,242</b>	<b>8,038</b>

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

<b>PROVISIONS</b>		
	<b>31.12.2005</b>	<b>31.12.2004</b>
	<b>KEUR</b>	<b>KEUR</b>
Provisions for taxation	556	556
<b>Other provisions</b>		
Provisions for guarantees	149	146
Personnel and holiday provisions	272	182
Other risks	864	984
	<b>1,285</b>	<b>1,312</b>
<b>Total</b>	<b>1,841</b>	<b>1,868</b>

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

The value of the provisions for guarantees has been determined on the basis of the repairs conducted in 2005 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 438.

## Notes of TIPTEL AG

## 3.6 Liabilities

	thereof residual terms:				As of 31.12.2004
	As of 31.12.2005	up to 1 year	up to 5 years	over 5 years	
	KEUR	KEUR	KEUR	KEUR	KEUR
Liabilities due to banks	3,296	1,466	1,331	499	3,558
		(prev. year 1,562)	(prev. year 1,331)	(prev. year 665)	
Liabilities from goods and service	1,634	1,634	0	0	2,133
		(prev. year 2,133)	(prev. year 0)	(prev. year 0)	
Liabilities due to affiliated companies	517	517	0	0	24
		(prev. year 1)	(prev. year. 23)	(prev. year. 0)	
Other liabilities	482	431	51	0	639
		(prev. year 537)	(prev. year 102)	(prev. year 0)	
– thereof of taxes: KEUR 140 (prev. year KEUR 182)					
– thereof from social security: KEUR 167 (prev. year KEUR 193)					
<b>Total amount</b>	<b>5,929</b>	<b>4,047</b>	<b>1,382</b>	<b>499</b>	<b>6,354</b>
		(prev. year 4,233)	(prev. year 1,456)	(prev. year 665)	

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 2,163 plus accrued interest of KEUR 47, which was paid as agreed on 20 February 2006. The loan is 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 1,087 is secured by a registered land charge on the land in Marburg.

The liabilities from goods and services have been evidenced using balance lists as of 31 December 2005.



#### 4 Comments on the profit and loss account

##### 4.1 Sales revenues

The sales revenues in the 2005 business year had the following structure:

ACCORDING TO SPECIFIC GEOGRAPHIC MARKETS		
	31.12.2005	31.12.2004
	KEUR	KEUR
Domestic	12,437	11,747
Foreign	5,393	7,848
<b>Total</b>	<b>17,830</b>	<b>19,595</b>

ACCORDING TO BUSINESS SECTORS		
	31.12.2005	31.12.2004
	KEUR	KEUR
Own products	10,228	12,475
Made-to-order production	5,234	4,645
Trade goods	2,368	2,475
<b>Total</b>	<b>17,830</b>	<b>19,595</b>

##### 4.2 Other operating income

	31.12.2005	31.12.2004
	KEUR	KEUR
Income from asset disposals	952	4
Other consolidated income	249	295
Reversal of provisions	138	39
Other income	119	342
Write-ups financial assets	100	400
Rental income	56	49
Sales to staff	46	45
Income from reversal of general bad-debt charge	3	40
<b>Total</b>	<b>1,663</b>	<b>1,214</b>

The other operating income includes income to the amount of KEUR 952 from the sales of shares of the affiliated company Tiptel b.v., Almere.

## Notes of TIPTEL AG

### 4.3 Other operating expenses

The other operating expenses are comprised as follows:

	31.12.2005	31.12.2004
	KEUR	KEUR
Administrative expenses	1,984	1,956
Sales and marketing expenses	425	434
Operating costs	367	383
Other expenses	167	498
Losses from valuation adjustments on current assets	128	66
<b>Total</b>	<b>3,071</b>	<b>3,337</b>

### 5 Declaration on the Corporate Governance Codex

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

This declaration has been accessible on a permanent basis to the shareholders on the homepage of TIPTEL AG under the Internet address [www.tiptel.de](http://www.tiptel.de) since December 2002 and is renewed each year. The last change was published on 18 January 2006.

### 6 Other information

#### 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.

In order to secure the credit line of Tiptel b.v., Almere, the Netherlands, TIPTEL AG accepted a bond to the amount of KEUR 227.

Deutsche Fernsprecher GmbH, a wholly owned subsidiary of TIPTEL AG, Ratingen, received a credit line of KEUR 300 (KEUR 50 current account, KEUR 250 letter of credit). A declaration of joint liability and letter of support of TIPTEL AG serves as security.

### Other financial obligations

For the office and production building rented since 6 November 2000 at Halskestrasse 1, Ratingen, an annual rent of KEUR 1,023 is payable plus the valid rate of VAT. Up to the end of the rental period by 30 September 2015 probably rental expenses to the amount of KEUR 9,970 plus VAT will have to be paid. 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 partial wages and salary waiver. In this respect the company committed itself to supplementary grants in 2005 and the following years if the corporate result is positive in 2005.

As the corporate result is negative in view of the provisions to be considered, the aforementioned conditions are completely inapplicable.

### Employees

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

	31.12.2005	31.12.2004
Wage earners	76	77
Salaried workers	79	79
<b>Total</b>	<b>155</b>	<b>156</b>

## Notes of TIPTTEL AG

Shareholdings as of 31 December 2005 in accordance with § 285 No. 11 HGB

Name	Shareholders' equity in local currency as of 31st December 2005	Holding in per cent	Result after taxes for 2005 in local currency
Deutsche Fernsprecher GmbH, Marburg	KEUR 808	100	KEUR 178
Tiptel NV/SA, Zaventem (B)	KEUR -1.614	100	KEUR 4
Tiptel GmbH, Wien (A)	KEUR -670	100	KEUR -83
Tiptel s.a.r.l. (F)	KEUR -84	100	KEUR -123
Tiptel AG (CH)	KSFR -1.551	100	KSFR 33
Tiptel b.v., Almere (NL)	KEUR 679	51	KEUR 331
Hagenuk Automotive GmbH	KEUR 26	100	KEUR 1

### Auditors' remuneration

The auditors' remuneration for the 2005 business year consists of the following:

	KEUR
Auditing	70
Tax consultancy services	2
Other confirmation and evaluation services	11
<b>Total</b>	<b>83</b>

## 7 Executive bodies of the company

### Management Board

WERNER MATERNA

Dipl.-Betriebswirt, Ratingen

### Supervisory Board

ERHARD SCHÄFER

Merchant, Ratingen (Chairman)

RUDOLF BREIDEN

General Manager, Düsseldorf (Deputy Chairman)

RAMONA SALECKER-SCHÄFER

Commercial clerk, Ratingen

CHRISTIAN PEREIRA

Dipl.-Ing., Dipl.-Inf. wiss., General Manager, 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 Management Board 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 2006 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, 7 March 2006

TIPTEL AG

The Management Board

Werner Materna

## Notes of TIPTEL AG

### 8 Independent auditor's report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the combined management report of TIPTEL AG for the fiscal year from 1 January 2005 to 31 December 2005. The maintenance of the books and records and the preparation of the annual financial statements and combined management report in accordance with German commercial law are the responsibility of the company's Management Board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the combined management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Article) 317 HGB ("Handelsgesetzbuch" / German Commercial Code) and German generally accepted standards for the audit of financial statement promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the combined management report are detected with reasonable assurance.

Knowledge of the business activities and the economic and legal environment of the company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the company's Management Board, as well as evaluating the overall presentation of the annual financial statements and combined management report. We believe our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the company in accordance with (German) principles of proper accounting. The combined management report is consistent with the annual financial statements and as a whole provides a suitable view of the position of TIPTEL AG and suitably presents the opportunities and risks of future development.

Without qualifying this evaluation, we would refer to the comments by the Management Board in the combined 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, 21 March 2006

Warth & Klein GmbH  
Wirtschaftsprüfungsgesellschaft

Dipl.-Kfm. Hans-Hermann Nothofer  
Wirtschaftsprüfer  
(German Public Auditor)

Dipl.-Kfm Torsten J. Schrimpf  
Wirtschaftsprüfer  
(German Public Auditor)

## Notes of TIPTEL AG

### Proposal for the appropriation of profit

Taking into consideration the balance-sheet loss of EUR 4,688,430.20 from the previous year there is a balance-sheet loss of EUR 5,930,037.56.

The Management Board and the Supervisory Board propose that the balance sheet loss for the 2005 business year is carried forward.

Ratingen, 7 March 2006

TIPTEL AG  
The Management Board  
Werner Materna





## Corporate Governance Report

## Corporate Governance

### Corporate Governance Report

A transparent and responsible Corporate Governance takes the centre stage of entrepreneurial practice at TIPTEL AG. To the benefit of the company and to the lasting increase of the company value TIPTEL fulfills the proposals and rules of the German Corporate Governance Code as far as the company's size and company specific realities permit this. At the same time, by this means the confidence of national and international investors, of customers, employees and the public towards the company should be enhanced.

A backward analysis of the Corporate Governance has shown that in the past business year a negative deviation compared to the declaration of conformity with the Code dated 19 January 2005 occurred. This concerns clause 5.4.3 of the German Corporate Governance Code. Details hereto and to further existing deviations are shown in the current declaration of conformity with the Code dated 18 January 2006 (please refer to page 93).

### Shareholders and shareholders' meeting

The Internet homepage of TIPTEL AG serves shareholders and other interested parties for detailed and prompt information. Here, for example, all relevant information regarding the shareholders' meeting is available. Thereto, among others, are accounted the votes as well as the invitation together with the agenda. Counter motions were not submitted this year. The five topics of the agenda were agreed to each with clear majority. This year, the calculational presence amounted to 51.28 per cent which corresponds to 2,677,076 shares.

### Co-action of Management Board and Supervisory Board

In the past year the Management Board and the Supervisory Board co-operated continuously and closely to the benefit of the company. The Management Board consulted the Supervisory Board on the strategic alignment of the company and together both bodies reviewed the implementation of the strategy in regular periods. Beyond the four Supervisory Board meetings the Management Board was in permanent contact with the Chairman of the Supervisory Board in order to report in detail and promptly about the current business development.

For the first time, in the 2002 annual report TIPTEL informed by a report about the status and the development of the Corporate Governance. This reporting was and will be continued. Previous declarations of conformity with the Code are kept available on the company's Internet homepage for a period of at least five years.

## Management Board

Werner Materna is unchanged sole member of the Management Board. Focus of his acting is the increase of the lasting company value. Thereto, the Management Board develops a company strategy and realizes it in close consultation with the Supervisory Board. Moreover, the Management Board takes care of an adequate risk management and risk controlling.

The compensation system for the Management Board remains unchanged in the 2005 business year. Main features are explained in the notes of the consolidated financial statements (page 66).

## Supervisory Board

In the past year the Supervisory Board regularly consulted with and surveyed the Management Board. Here the strategy, the development of the company and the risk management of TIPTEL AG were in the focus.

The members of the Supervisory Board receive unmodified an annual compensation.

COMPENSATION OF THE SUPERVISORY BOARD MEMBERS FOR 2005	
Name	KEUR
Erhard Schäfer, Chairman	8
Rudolf Breiden, Deputy Chairman	6
Ramona Salecker-Schäfer	4
Christian Pereira	4
Ulrike Theiner	4
Ingo Lindt	4

According to own evaluation the Supervisory Board disposes of a sufficient number of members. Two of the six members are employees' representatives. Conflicts of interest did not occur within this body.

## Transparency

The Management Board immediately publishes insider information directly relating to the company. Thus, in the past business year two ad-hoc announcements according to § 15 WpHG (Securities Trade Act) were published. Furthermore, all notifications received by the company regarding the excess or falling short in view of the voting right limits of 5, 10, 25, 50 and 75 per cent were promptly published in a newspaper authorised by the German stock exchange and transferred to the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht).

## Corporate Governance

DIRECTORS' DEALINGS IN THE 2005 BUSINESS YEAR					
Name	Body	Date	Volume	Price in EUR	Trade
Robinco Treuhand GmbH & Co. Beteiligungs KG	Entity with connection to the Supervisory Board	8 July 2005	45,000	1.79	Sales
Robinco Treuhand GmbH & Co. Beteiligungs KG	Entity with connection to the Supervisory Board	8 July 2005	38,080	1.87	Sales
Erhard Schäfer	Supervisory Board	11 July 2005	83,835	1.82	Sales
Erhard Schäfer	Supervisory Board	3 August 2005	400,000	1.40	Sales
Erhard Schäfer	Supervisory Board	3 August 2005	11,859	1.78	Sales
Erhard Schäfer	Supervisory Board	11 August 2005	400,000	1.37	Sales
Erhard Schäfer	Supervisory Board	12 August 2005	157,235	2.089	Sales
Erhard Schäfer	Supervisory Board	15 August 2005	63,765	2.048	Sales
Erhard Schäfer	Supervisory Board	16 August 2005	80,000	2.05	Sales
Erhard Schäfer	Supervisory Board	17 August 2005	25,000	2.20	Sales
Erhard Schäfer	Supervisory Board	17 August 2005	74,336	1.91	Sales
Erhard Schäfer	Supervisory Board	18 August 2005	67,903	1.83	Sales
Erhard Schäfer	Supervisory Board	19 August 2005	24,270	1.81	Sales
Erhard Schäfer	Supervisory Board	19 August 2005	57,761	1.82	Sales
Erhard Schäfer	Supervisory Board	22 August 2005	69,822	1.74	Sales
Erhard Schäfer	Supervisory Board	23 August 2005	63,083	1.73	Sales
Erhard Schäfer	Supervisory Board	24 August 2005	27,380	1.70	Sales
Erhard Schäfer	Supervisory Board	24 August 2005	5,841	1.73	Sales
Erhard Schäfer	Supervisory Board	25 August 2005	14,859	1.69	Sales
Erhard Schäfer	Supervisory Board	26 August 2005	36,150	1.82	Sales
Erhard Schäfer	Supervisory Board	29 August 2005	31,811	1.78	Sales
Erhard Schäfer	Supervisory Board	29 August 2005	13,850	1.788	Sales
Erhard Schäfer	Supervisory Board	30 August 2005	12,701	1.76	Sales
Erhard Schäfer	Supervisory Board	31 August 2005	5,488	1.77	Sales
Erhard Schäfer	Supervisory Board	31 August 2005	9,644	1.72	Sales
Erhard Schäfer	Supervisory Board	2 September 2005	40,356	1.61	Sales
Erhard Schäfer	Supervisory Board	5 September 2005	8,886	1.558	Sales
Erhard Schäfer	Supervisory Board	6 September 2005	17,160	1.55	Sales
Erhard Schäfer	Supervisory Board	7 September 2005	50,000	1.61	Sales
Erhard Schäfer	Supervisory Board	7 September 2005	23,954	1.59	Sales
Erhard Schäfer	Supervisory Board	8 September 2005	750	1.65	Sales
Erhard Schäfer	Supervisory Board	9 September 2005	6,650	1.60	Sales
Erhard Schäfer	Supervisory Board	12 September 2005	1,500	1.60	Sales
Erhard Schäfer	Supervisory Board	15 September 2005	5,090	1.60	Sales
Erhard Schäfer	Supervisory Board	16 September 2005	22,510	1.51	Sales
Erhard Schäfer	Supervisory Board	19 September 2005	13,500	1.507	Sales

The members of the Management Board and the Supervisory Board held the following shares of TIPTEL AG by 31 December 2005:

<b>Management Board:</b>	
Werner Materna	300 Shares
<b>Supervisory Board:</b>	
Erhard Schäfer	600,460 Shares
Rudolf Breiden	10 Shares
Ulrike Theiner	101 Shares

**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 June 2, 2005**

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 Group's 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 three years they fulfilled and in future they will fulfil its conduct recommendations widely. In some aspects it still diverges. Details with explanations hereto are revealed in the following.

#### **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 endeavours 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.

## Corporate Governance

### 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 co-operation 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 on 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 fixed 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.

**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 5.4.3**

*Clause 5.4.3 of the Code states that the elections to the Supervisory Board shall be made on an individual basis.*

In the past TIPTEL AG organized - and in future will do so - the elections to the Supervisory Board not on an individual basis but as en-bloc voting. En-bloc votings are common practice and have proven of value concerning an efficient execution of the General Meeting.

**7. Clause 5.4.7**

*Clause 5.4.7 of the Code states that the members of the Supervisory Board shall receive fixed as well as performance-related compensation. The compensation of the members of the Supervisory Board shall be reported individually in the Corporate Governance Report, subdivided according to components.*

The members of the Supervisory Board receive a fixed annual compensation. Up to now the compensation has been specified in the consolidated notes of the annual report. We intend to follow this recommendation starting with the annual report 2005.

## Corporate Governance

### 8. 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.

### 9. Clause 7.1.3

*Clause 7.1.3 of the Code requires that the Corporate Governance Report shall contain information on stock option programmes and similar securities-based incentive systems of the company.*

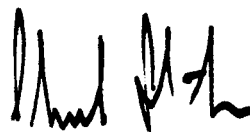
As soon as stock options schemes exist, we will give detailed information regarding the concrete definition of such schemes in the relevant Corporate Governance Report.

Ratingen, January 18, 2006

TIPTEL AG



The Management Board



The Supervisory Board





## Investor Relations

## Investor Relations

The year 2005 was a very positive year for the stock exchanges. Thus, the most important key indices showed clear growth rates without exception – and this in spite of terrorist attacks, record oil prices and natural disasters. Thus, the German stock index DAX could increase clearly in the course of the year 2005. After a first market price of 4,260.92 points at the beginning of the year the key index of the 30 largest German equities reached the annual peak with 5,458.58 points on 29 December 2005 before closing the year 2005 with 5,408.26 points. This corresponds to a plus of 26.9 per cent in the course of the year 2005. So, the DAX increased the third year in series.

However, front-runner was the MDAX with an increase of 35.8 per cent closely followed by the SDAX with a plus of 35.2 per cent. Thus, the positive development of small and mid caps continued in the 2005 past business year.

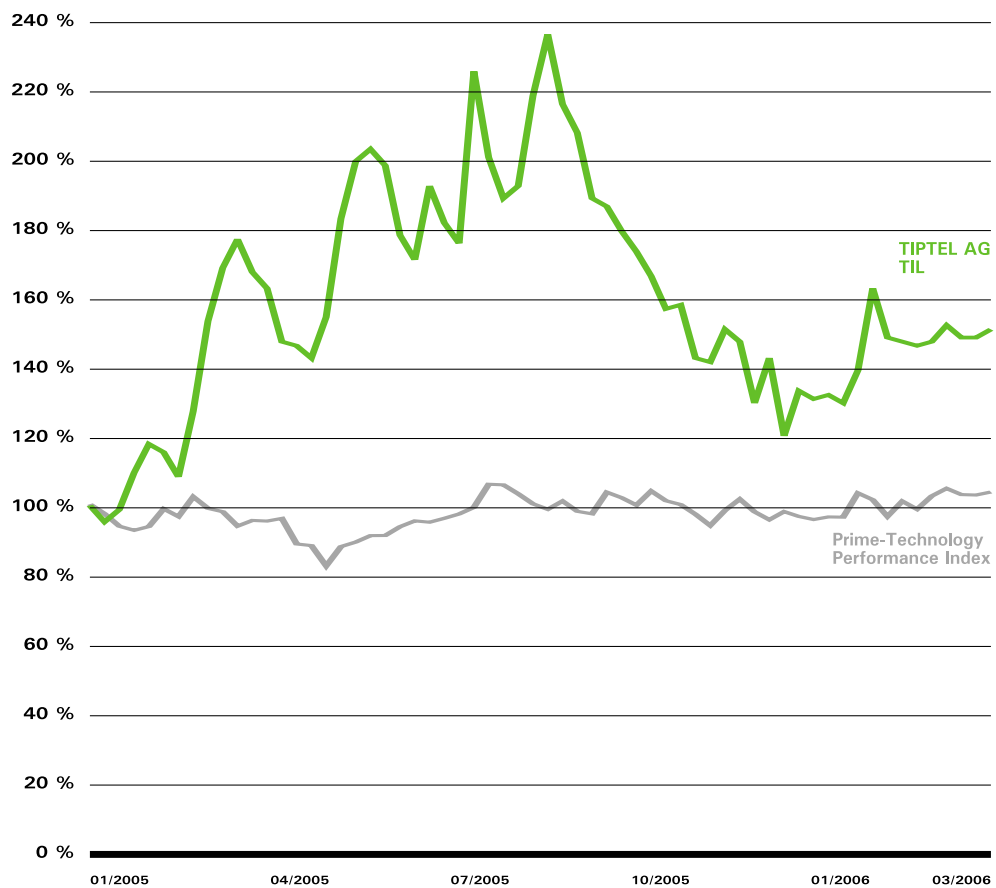
Also the TecDAX index relevant for technology equities could note a plus in contrast to previous year. While in 2004 a minus of 4.0 per cent was added up, the growth rate in the past year amounted to 14.0 per cent. In contrast to this the branch index Prime Technology Performance-Index relevant for TIPTEL AG had to cope with a decrease in prices again, although not to the same extent as in the previous year. After –22.6 per cent in 2004 the minus reduced to 4.5 per cent in 2005.

In the past business year the TIPTEL share could achieve a clear plus of 29.4 per cent. The share started with a price of 0.85 euro. In the further course of the year the price altogether increased clearly and reached the annual peak with 2.34 Euros on 11 August 2005. Reason for this was the clear improvement of the operative margin which led to positive evaluations of the TIPTEL share at the beginning of August. Thus, in August the experts of "Performaxx-Anlegerbrief" as well as of "Small Cap Scout" rated the share as "promising investment" respectively with "buying".

In the forth quarter the share price regressed – especially due to the short-term market weakness in the third quarter and the thereof resulting conservative business development. With a closing price of 1.10 Euros at the end of the year an in total clearly positive increase of 29.4 per cent resulted with which the TIPTEL share could compete successfully compared with other technology shares. The present share price development in the new 2006 business year shows a further positive tendency. At present the share quotes about 1.30 euros.

## The share

Development of the TIPTEL share price compared to the Prime Technology Performance-Index, indexed presentation, Period 1 January 2005 until 11 March 2006



## Investor Relations

In the past business year changes within the shareholder structure of TIPTEL AG occurred. By placement of TIPTEL shares held by Mr. Schäfer, Chairman of the Supervisory Board of TIPTEL AG, the free-float increased to nearly 90 per cent in the reporting period.

TIPTEL AG is listed in the quality segment Prime Standard of the Frankfurt stock exchange. Thereby the company complies with highest transparency and publicity duties – nationally as well as internationally. The direct contact and the continuous and especially prompt information of analysts, institutional investors, private shareholders and journalists enjoys high priority. Basically both aspects are assured by regular press information and detailed quarterly interim reporting. Besides the annual press conference and the analysts conference especially the shareholders' meeting are part of this. Also this year shareholders, guests and representatives of the press could inform themselves in detail about the 2004 business year as well as about the development in 2005 in an open dialog with the Management Board and the Supervisory Board. Altogether the shareholders were satisfied. Consequently, the shareholders' meeting agreed to all items of the agenda with great majority and thus approved the course adopted by the Management Board and the Supervisory Board.

The company's Internet homepage serves as further source of information for interested parties. Under [www.tiptel.de](http://www.tiptel.de) all company reports, press information and ad hoc announcements as well as all documents for the shareholders' meeting are made available. Also shown are the declaration of conformity with the German Corporate Governance Code, the statements of securities transactions subject to reporting requirements according to § 15a WpHG (Securities Trade Act) as well as current financial data. In that way TIPTEL assures a detailed, transparent and especially prompt communication with the financial community.

<b>CURRENT FINANCIAL DATA</b>	
Publication of 1 <sup>st</sup> interim report 2006	31 May 2006
Shareholders' meeting 2006	7 June 2006
Publication of 2 <sup>nd</sup> interim report 2006	31 August 2006
Publication of 3 <sup>rd</sup> interim report 2006	30 November 2006
Publication of the annual report 2006	31 March 2007

<b>BASIC DATA OF TIPTEL SHARES</b>	
Trading segment	Prime Standard
Indices	Prime All Share Index Technology All Share Index Prime Technology 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)

<b>KEY FIGURES OF TIPTEL SHARES</b>			
	<b>2005 in EUR</b>	<b>2004 in EUR</b>	<b>2003 in EUR</b>
Rate at the beginning of the year	0.85	1.12	0.69
Rate at the end of the year	1.10	0.82	1.12
Annual maximum rate	2.34	1.70	2.75
Annual minimum rate	0.80	0.68	0.51
Market capitalisation on 31 December	5.8 Mio.	4.3 Mio.	5.8 Mio.
Earnings per share	-0.10	-0.16	-0.22

## Contact

### Contact

#### **TIPTEL AG**

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

#### **Marketing and Service**

##### **TIPTEL AG**

Ralf Kleinsteiberg  
Telephone +49 (0) 21 02 / 4 28-425  
Fax +49 (0) 21 02 / 4 28-440  
E-Mail [r.kleinsteiberg@tiptel.de](mailto:r.kleinsteiberg@tiptel.de)

#### **Investor Relations**

##### **Haubrok Investor Relations GmbH**

Linh Chung  
Kaistrasse 16  
40221 Düsseldorf  
Telephone +49 (0) 2 11 / 301 26-0  
Fax +49 (0) 2 11 / 301 26-172  
E-Mail [l.chung@haubrok.de](mailto:l.chung@haubrok.de)  
Internet [www.haubrok.de](http://www.haubrok.de)

#### **Public Relations**

##### **alavia GmbH**

Stefanie Kohlen  
Volmerswerther Strasse 53  
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](mailto:stefanie.kohlen@alavia.net)  
Internet [www.alavia.net](http://www.alavia.net)

## 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 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 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 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

### 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

## 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-quicktel.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 key European institute for market observation in the field of IT/telecoms
ERA	The new unified payment system for manual workers and employees (Entgelt Rahmen Abkommen)
EU25	The European Union following the accession of ten new member states on 1 May 2004
HGB	German Commercial Code (Handelsgesetzbuch)
IC	Integrated Circuit
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).
RoHS	Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment
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 enterprise
SoHo	Small offices and home offices
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 internet protocol
WLAN	Wireless local area network. Radio-based network within a building or area.
WpHG	Securities Trade Act (Wertpapierhandelsgesetz)
ZVEI	Zentralverband Elektrotechnik- und Elektronikindustrie e.V., Central Association of the Electrotechnology and Electronics Industry



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# tiptel

Halskestrasse 1

D-40880 Ratingen

Telephone +49 (0 21 02) 428-0

Fax +49 (0 21 02) 428-10

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