



Interim Report of the TIPTEL Group

for the period from January 1st to March 31st, 2004

tiptel

Letter to the shareholders

Dear shareholders and business friends,

TIPTEL AG has started the business year 2004 with a throughout pleasant business development in the first three months. Thus, we could increase our turnover by a total of 8.3 per cent and are also on the earnings side with an EBIT margin of 1.8 per cent by 0.8 percentage points above our expectations for the business year 2004.

By the positive business development in our core business of telecommunications (TC) our positioning in the operative business is confirmed. With the products developed in 2002/2003 and already partly introduced to the market in the TC growth sectors ISDN, WLAN and DSL we positioned ourselves clearly on the market and created competitive advantages by the efficient and market-conform structure of our company.

Today, TIPTEL presents itself as specialist for innovative telecommunications solutions in the sector of telecommunication terminal devices as well as for computer and internet based voice and data communication. Today, especially for the requirements of small and medium-sized enterprises we offer telecommunications system-solutions in which flexibly extendible telecommunications and network components are adapted to the telephony and network requirements of this user group.

At this year's CeBIT TIPTEL presented itself with an innovative product portfolio in the sectors ISDN, WLAN and DSL for the medium-sized businesses market. In general, we met a great response and led a multitude of qualified discussions with the trade public relevant for us. Especially the tiptel 3011/3022 PBX family and the tiptel 6000 business attracted great interest. Also by the recent addition of the two PBX models "tiptel 3022 system" and "tiptel 3011 system" we will answer directly to the market requirements of the medium-sized businesses market we are focussing on. In the first quarter 2004, after the throughout weak demand in the previous year, we believe to experience a

first increase of the readiness to invest regarding small and medium-sized enterprises. Accompanied by a further, targeted market development and a technological advancement we see positive impulses for our company for the current business year in the growth sectors ISDN/WLAN.

Within this framework we will continue our successfully installed professional sales partner concept in 2004. The offer of a targeted and technologically funded support for the specialised trade is used with great interest by our in the meantime over 180 sales partners. Thereby, we guarantee a constantly professional support of our trade partners.

A handwritten signature in black ink, appearing to read 'Werner Materna'. The signature is fluid and cursive, with the first name 'Werner' written in a smaller, more compact script than the last name 'Materna', which has a large, sweeping flourish.

Werner Materna
Management Board

Business development

The market-conform orientation and the efficient positioning of our company reflected itself in a pleasant development of our business at the beginning of 2004. Thus, in the first three months of 2004 TIPTTEL reached a **total turnover** of 9.38 MEuros on Group level. Therewith, we could improve by 8.3 per cent compared to previous year's quarter (Q1 2003: 8.65 MEuros).

Also the sectors ISDN and Analogue of our telecommunications core business contributed to this positive turnover development in the first three months of 2004.

Compared to the previous year's period, we registered a turnover increase of about 11 per cent in the **ISDN** sector. Regarding medium-sized businesses and compared to the previous year's quarters we noted a slightly increasing readiness to invest in new PBX systems. We expect another slightly developing increase of sales figures in the PBX sector from mid 2004 onwards. Especially our product portfolio with the tiptel 3011/3022 PBX family will contribute to this.

Also in the sector **Analogue** business developed in a pleasant manner since beginning of the year. After the first three months of 2004 the proceeds were by 3.81 MEuros above those of the 2003 comparable period of 3.42 MEuros.

However, slightly regressing was the **DECT** business with a turnover of 1.09 MEuros. Therewith, the proceeds were 24 per cent below previous year's value (comparison of Q1 2003 with Q1 2002: +43.4 per cent).

The sector of **made-to-order-production** developed in a pleasant way in the first quarter of 2004. With an increase of more than 88 per cent we achieved a turnover of 1.66 MEuros (Q1 2003: 0.91 MEuros). This increase, however, cannot be transferred to the coming quarters as, due to customer request, some important orders were brought forward to the first quarter of 2004.

Sales by business divisions (KEUR)

	01.01. – 31.03.2004	01.01. – 31.03.2003
ISDN	2,427	2,121
DECT	1,107	1,438
Analog	3,873	3,422
Security technology	30	41
Made-to-order production	1,509	906
Others	429	726
Total amount	9,375	8,654

TIPTEL achieved a turnover increase to the amount of 0.72 MEuros in all geographical segments in the first quarter of 2004. Compared to previous year, Germany represented the biggest part of this absolute increase with a rise of 0.3 MEuros. The turnover in the sectors Benelux and Other European Countries also developed positively. Here, TIPTEL achieved an absolute increase of 0.43 MEuros (+10.8 per cent).

Turnover of the primary segment of the TIPTEL group in a survey (KEUR)

	01.01. – 31.03.2004	01.01. – 31.03.2003
Germany	5,009	4,713
Benelux countries	2,487	2,235
Other European countries	1,879	1,706
Total amount	9,375	8,654

Earnings and cost development

The absolute gross profit of the first quarter 2004 improved by 0.13 MEuros (+2.8 per cent). In spite of at average lower purchase prices and under consideration of the changes in inventories the quota of material costs was 2.5 percentage points above the previous year's value. Sales prices remained at a constant level. The increase of the material costs quota is due to the disproportionate turnover development of the sector made-to-order-production in the first quarter of 2004.

For the sector of expenses (personnel, depreciation and other operational expenses) with 4.53 MEuros a slight increase of 1.2 per cent resulted compared to the first quarter of previous year.

Also regarding the **profitability** we could continue the positive trend of the previous year's quarter and reach the targeted percentage-wise profit level for 2004. Disclosing positive earnings before interest, taxes, depreciation and amortisation (EBITDA) of 0.52 MEuros already in the annual financial statements 2003, the EBITDA of the first three months of 2004 amounted to 0.40 MEuros. Compared to the first quarter of 2003 the EBITDA changed slightly (Q1 2003: 0.47 MEuros). Regarding the operating results (EBIT) we continued the uninterrupted trend to an improved earnings situation: In the first quarter of 2004 the EBIT amounted to 0.17 MEuros and improved compared to the previous year's value (0.10 MEuros). This corresponds to an EBIT margin of 1.8 per cent, whereby we are 0.8 percentage points above the forecasted earnings development of an EBIT margin of 1 per cent for 2004. The annual result in the first quarter of 2004 increased from 0.017 MEuros of the first quarter of previous year to 0.021 MEuros.

As in the previous quarter the earnings per share on Group level are balanced in the first three months of 2004. For TIPTEL AG the earnings per share (HGB) amounted to -0.03 Euro (Q1 2003: 0.01 Euro).

In view of the **liquidity situation** in the first three months of 2004 we were anxious to continue the positive cash-flow development of the previous business year. With a nearly balanced cash-flow from continuous business activity by March 31st, 2004 (-0.06 MEuros) we could improve the outflow of funds in 2004 compared to the previous quarter of 2003 by 0.57 MEuros. By end of March 2004 cash and cash equivalents of the Group amounted to positive 1.03 MEuros (March 31st, 2003: 0.70 MEuros). Besides the operative business the strengthening of our capital structure and liquidity situation is one of the top priorities for the Management Board.

Orders-on-hand

The orders-on-hand for TIPTEL AG and DFG amounted to 6.9 MEuros at the cut-off date March 31st, 2004 (March 31st, 2003: 5.9 MEuros).

Investments / Research & Development

With an investment volume of 0.07 MEuros in the first three months 2004 TIPTEL was above the investment amount of the previous year's quarter (0.02 MEuros).

Compared to previous year we kept our expenses in the sector of research & development with 0.58 MEuros at nearly the same level.

Here, our investments are focussed on the advancement and modular enlargement of the tipitel 3011/3022 PBX family as well as on the development of a new PBX family for the SOHO sector. By these targeted investment activities we guarantee the high quality standard of our products in order to continue our successful market position also in future. In the sector of research & development, in 2004, TIPTEL will continue to concentrate on the pacemaker technologies LAN and WLAN as well as on the sector of unified messaging.

Staff

In the first quarter of 2004 the number of employees in the TIPTEL Group decreased compared to the previous year's period by 8 persons to 270 (-2.9 per cent). The number of employees in Germany amounted to 228 (Q1 2003: 233).

Investor Relations

At the beginning of this year we kept in direct contact with the press as well as with analysts and investors.

Thus, at the occasion of this year's annual press conference in April we presented our company, especially the details of the consequently pushed consolidation of TIPTEL in 2003, to representatives of the financial press.

To this year's Shareholders Meeting, taking place on June 2nd, 2004, we invite our shareholders to a direct dialogue with the Management Board and the Supervisory Board and will give them a review of 2003 and a forecast of the current year.

As already mentioned in our annual report 2003 we would like to draw your attention to the extensive information given to you as interested party at the homepage of TIPTEL AG.

Future business outlook

In general, we see our company well positioned for the market in 2004 with our core competences in classic telecommunications as well as in the for our target groups trendsetting technologies of telecommunications and network technologies.

Against the background of a positive start in the new business year and upon a still slightly increasing readiness to invest by our target markets, we are confident to meet our expectations for the total business year. We expect to achieve an EBIT margin of about 1 per cent.

In spite of our confidence regarding our positioning and a good forecast in our core business of telecommunications we will continue observing intensively the still instable market situation in 2004.

In the second quarter of 2004 the finance volume will increase due to a factoring contract concluded by the end of March 2004.

Additional explanations

1. The balancing and valuation methods as well as the means of calculation used for the year up to December 31, 2003, remained unchanged for the period up to March 31st, 2004.
2. The interim report of the TIPTEL Group for the period of January 1th to March 31st, 2004 is in accordance with the International Financial Reporting Standards (IFRS) in connection with IAS 34.

Consolidated profit and loss account* as of January 1st to March 31st, 2004

	Interim Report I/2004 01.01.2004 to 31.03.2004	Interim Report I/2003 01.01.2003 to 30.03.2003	3-Month-Report 01.01.2004 to 31.03.2004	3-Month-Report 01.01.2003 to 31.03.2003
	KEUR	KEUR	KEUR	KEUR
Revenues	9,375	8,654	9,375	8,654
Other operating income	132	132	132	132
Changes in inventories of finished goods and work in progress	123	1	123	1
Other capitalized service	-	-	-	-
Cost of purchased materials and services	-4,945	-4,230	-4,945	-4,230
Personnel expenses	-2,995	-2,860	-2,995	-2,860
Depreciation and amortization	-241	-381	-241	-381
Other operating expenses	-1,291	-1,231	-1,291	-1,231
Others	-	-	-	-
Operating income / loss	158	85	158	85
Interest income and expenditure	-101	-112	-101	-112
Income from investments and participations	-	-	-	-
Income / expense from associated companies	-	-	-	-
Foreign currency exchange gains / losses	1	24	1	24
Other income / expense	14	14	14	14
Result before income taxes (and minority interest)	72	11	72	11
Income tax	51	-6	51	-6
Extraordinary income / expenses	-	-	-	-
Result before minority interest	21	17	21	17
Minority interest	-	-	-	-
Net profit	21	17	21	17
Earnings per share (basic) in EUR	0,00	0,00	0,00	0,00
Weighted average shares outstanding (basic) in EUR	5,220,972	5,220,972	5,220,972	5,220,972

* without audit opinion

Consolidated Balance sheet* as of March 31st, 2004

Assets

	As of 31.03.2004	As of 31.12.2003
	KEUR	KEUR
Current Assets		
Cash and Cash Equivalents	1,025	1,164
Trade accounts receivable	4,309	4,016
Inventories	8,089	7,699
Advanced payments on inventories		12
Prepaid expenses and other current assets	429	297
Total Current Assets	13,852	13,188
Property, plant and equipment	2,587	2,702
Intangible assets	348	402
Investments	1,645	1,645
According to equity accounting investments	6	6
Notes receivable / loans	115	144
Goodwill	1	1
Deferred taxes	2,064	2,067
Other assets	-	-
Others	-	1
Total Non Current Assets	6,766	6,968
Total Assets	20,618	20,156

* without audit opinion

Consolidated Balance sheet*

as of March 31st, 2004

Liabilities and shareholders' equity

	As of 31.03.2004	As of 31.12.2003
	KEUR	KEUR
Current liabilities		
Short term debt and current portion of long-term debt	1,591	1,951
Trade accounts payable	3,896	2,966
Accounts payable due to related parties	1	1
Provisions	2,776	2,668
Deferred revenues	185	172
Taxes on income liabilities	57	60
Other current liabilities	1,198	1,409
Total current liabilities	9,704	9,227
Long-term debt, less current portion	2,795	2,804
Deferred revenues	1,773	1,773
Deferred taxes	121	151
Pension accrual	3,198	3,198
Others	1,260	1,258
Total non-current liabilities	9,147	9,184
Minority interest	-	-
Shareholders' equity		
Share Capital	13,347	13,347
Additional paid-in capital	540	540
Accumulated deficit / retained earnings	-3,885	-3,708
Accumulated other comprehensive income / loss	-8,235	-8,434
Total shareholders' equity	1,767	1,745
Total Liabilities and Shareholders' equity	20,618	20,156

* without audit opinion

Cash-flow statement as of January 1st to March 31st, 2004

	01.01 – 31.03.2004	01.01 – 31.03.2003*
	KEUR	KEUR
1. Net profit (+) / loss (-) for the year prior to tax on profits and extraordinary items	+ 72	+ 19
2. Depreciation (+) / write-ups (-) on fixed assets	+ 241	+ 381
3. Interest expenses (+)	+ 103	+ 111
4. Increase / decrease of provisions	+ 108	+ 77
5. Other expenses (+) / income (-) not affecting cash flows	–	./.
6. Profit (-) / loss (+) from disposal of fixed assets	./.	./.
7. Outflow (-) for Interest expenditure	./.	./.
8. Outflow (-) for income taxes	./.	./.
9. Increase (-) / decrease (+) in inventories, receivables and other assets	./.	./.
10. Increase (+) / decrease (-) in accounts payable and other liabilities (without financing and investing activities)	+ 753	+ 323
11. Cash flows from operating activities	./.	./.
12. Inflow (+) from tangible asset disposals	+ 5	+ 22
13. Outflow (-) for investments in tangible assets	./.	./.
14. Outflow (-) for investments in intangible assets	./.	./.
15. Inflow (+) from financial asset disposals	+ 29	+ 29
16. Inflow from interests	–	1
17. Cash flows from investing activities	./.	+
18. Inflow (+) from capital increase	+ 117	+ 260
19. Inflow (+) from increase in borrowings	156	./.
20. Outflow (-) for repayments on borrowings	./.	+
21. Cash flows from financing activities	./.	./.
22. Change in cash and cash equivalents	1,164	954
23. Cash and cash equivalents at end of period	1,025	704
– thereof liquid assets	990	652
– thereof pledged assets	35	52

* for comparability previous year's figures were adapted according to the first quarter of 2004.

Schedule of TIPTEL Group equity capital as of March 31st, 2003*

	Issued capital KEUR	Capital reserve KEUR	Retained earnings KEUR	Net profit for the period KEUR	Total KEUR
As of 31.12.02	13,347	540	-7,793	-2,584	3,510
Correction to IAS 8			-654		-654
As of 31.12.02 (adapted)	13,347	540	-8,447	-2,584	2,856
Transfers			-45	45	0
Net loss for the period				17	17
Other neutral changes			-23		-23
As of 31.03.03	13,347	540	-8,515	-2,522	2,850

Schedule of TIPTEL Group equity capital as of March 31st, 2004

	Issued capital KEUR	Capital reserve KEUR	Retained earnings KEUR	Net profit for the period KEUR	Total KEUR
As of 31.12.03	13,347	540	-8,434	-3,708	1,745
Transfers			198	-198	0
Net loss of the period				21	21
Other neutral changes			1		1
As of 31.03.04	13,347	540	-8,235	-3,885	1,767

* adapted schedule of TIPTEL Group equity capital as of March 31st, 2003

Segment reporting

Primary reporting format 2004 (geographical segment) as of January 1st to March 31st, 2004

	Germany	Benelux	Others in Europe	Inter- segment transfer	Elimi- nation	Total
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Earnings						
Sales revenue with third parties	5,009	2,487	1,879	0		9,375
Inter-segment transfer	2,069	272	3	+2,344		0
Total revenue incl. transfer	7,078	2,759	1,882	-2,344		9,375
Segment result from ordinary activity						
	-173	248	-9		23	89
Income taxes						-51
Other taxes						-17
Net profit						21
Other information						
Segment assets	22,918	3,069	2,684		-10,118	18,553
Segment debts	15,976	3,912	4,200		-5,359	18,729
Purchase costs for fixed assets	54		4			58
Purchase costs for intangible assets	3		11			14
Depreciation / amortisation	211	12	18			241

**Primary reporting format 2003 (geographical segment)
as of January 1st to March 31st, 2003**

	Germany	Benelux	Others in Europe	Inter- segment transfer	Elimi- nation	Total
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Earnings						
Sales revenue with third parties	4,713	2,235	1,706	0		8,654
Inter-segment transfer	2,307	7	16	+2,330		0
Total revenue incl. transfer	7,020	2,242	1,722	-2,330		8,654
Segment result from ordinary activity						
	44	208	-117		-110	25
Extraordinary items						0
Steuern vom Einkommen/Ertrag						+6
Other taxes						-14
Net profit						17
Other information						
Segment assets	27,901	3,090	3,601		-11,551	23,041
Segment debts	18,804	3,812	4,802		-5,521	21,897
Purchase costs for fixed assets	13	1	10			24
Purchase costs for intangible assets						
Depreciation / amortisation	331	22	35		-7	381

**Secondary reporting format 2004 (sales by business divisions)
as of January 1st to March 31st, 2004**

	ISDN KEUR	DECT KEUR	Analog KEUR	Others KEUR	Security technology KEUR	Made-to- order production KEUR	Total KEUR
Earnings							
Sales revenue with third parties	2,359	1,093	3,809	423	28	1,663	9,375
Inter-segment revenue							
Total revenue incl. transfer	2,359	1,093	3,809	423	28	1,663	9,375
Segment result from ordinary activity							
	-133	93	-86	68	-16	163	89
Income taxes							-51
Other taxes							-17
Net profit							21
Other information							
Segment assets	4,669	2,162	7,539	837	56	3,290	18,553
Segment debts	4,713	2,183	7,610	845	57	3,321	18,729
Purchase costs for fixed assets	14	7	24	3		10	58
Purchase costs for intangible assets	4	2	6	1		2	14
Depreciation / amortisation	106		120	13		2	241

**Secondary reporting format 2003 (sales by business divisions)
as of January 1st to March 31st, 2003**

	ISDN KEUR	DECT KEUR	Analog KEUR	Others KEUR	Security technology KEUR	Made-to- order production KEUR	Total KEUR
Earnings							
Sales revenue with third parties	2,121	1,438	3,422	726	41	906	8,654
Inter-segment revenue							
Total revenue incl transfer	2,121	1,438	3,422	726	41	906	8,654
Segment result from ordinary activity	41	147	-396	118	1	114	25
Income taxes							+6
Other taxes							-14
Net profit							17
Other information							
Segment assets	5,649	3,829	9,110	1,933	108	2,412	23,041
Segment debts	5,368	3,639	8,658	1,837	103	2,292	21,897
Purchase costs for fixed assets	6	4	9	2		3	24
Purchase costs for intangible assetse							
Depreciation / amortisation	138	18	172	20	4	29	381

Consolidated shares held

The following shares were held by members of executive bodies as at the reference dates indicated below:

Managing Board	March 31st, 2004	December 31st, 2003
Werner Materna	300	300

Supervisory Board

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

No TIPTEL shares were held by the other members of executive bodies as at the abovementioned reference dates. No subscription rights were conferred on members of executive bodies or other employees.

Shareholders' structure by March 31st, 2004

Erhard Schäfer:	51 per cent
Free float:	49 per cent

Service

All company related information of TIPTEL AG in German and English can be obtained directly from the internet www.tiptel.de.