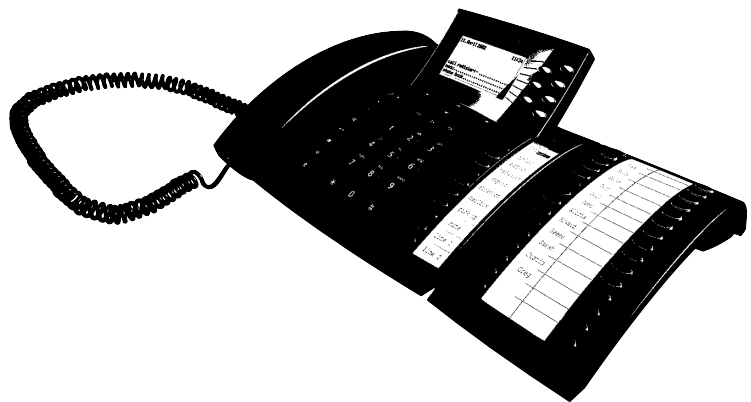
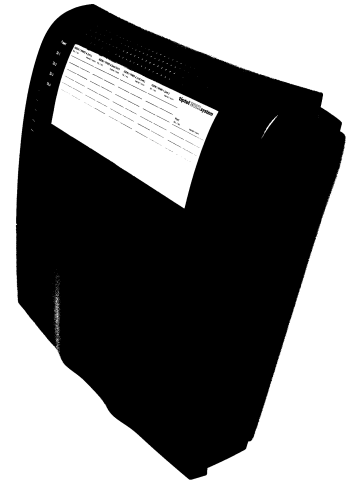


## **TIPTTEL AG**

Interim report of the TIPTTEL group  
for the period from January 1 to March 31, 2005



**tipttel**

## Letter to the Shareholders

### Dear shareholders and business friends,

TIPTEL has continued the positive trend of the business year 2004 also in the first three months of 2005. Thus, we could improve all revenue figures significantly compared to previous year's period. The earnings before interest and taxes (EBIT) have more than doubled. In spite of the thereof resulting EBIT margin of 4.8 per cent we will maintain our forecasted target of 1.9 per cent for the total business year as, in all probability, the economic situation will only increase conservatively.

After the present three months the Group turnover amounted to 8.2 MEUR and is thus below the value of the corresponding previous year's quarter of 9.4 MEUR but still above the turnover level of the fourth quarter 2004 (8.0 MEUR). The previous year's value is only comparable to a limited extent as in 2004 essential orders were brought forward to the first quarter 2004 according to customers requests. For the total business year 2005 we expect a turnover slightly above previous year's level. Thereby, on the product's side we still focus on the convergence of telecommunications and information technology. Centre of our product portfolio are PBX systems for small and medium-sized enterprises as well as for small and home offices. Also in the first quarter of 2005 we continued optimising our tailor-made communication solutions for the increasing merger of voice and data networks. Thus, with the tiptel 105 VoIP we presented a voice-over-IP adapter which permits a gentle migration of present conventional PBX-systems into the voice-over-IP world.

Besides the continuous enlargement and optimisation of the existing product portfolio TIPTEL also focusses on growth sectors regarding product development. Thus, also our this year's performance at the CeBIT stood in the sign of the Internet telephony (VoIP) becoming increasingly popular. In Hanover we could even present several product innovations in this business segment: While the tiptel 116 cyberphone via connection to the USB port of a computer is appropriate for the use with different providers, the tiptel cyberBOX 100 and the tiptel 115 USB phone are especially focussed on the Skype\* network, one of the most popular and biggest IP telephony providers worldwide.

For the further business development in 2005 we already see ourselves well-positioned. We are confident to grow on the turnover and earnings side as planned.



Werner Materna  
Management Board

\* Skype is a registered trademark and Internet telephony service of Skype Technologies S.A., Luxembourg. Skype Technologies S.A. does not have any connection to TIPTEL AG neither commercially nor organisationally.

## Business development

In the months from January to March 2005 the TIPTEL Group achieved a turnover to the amount of 8.2 MEUR after 9.4 MEUR in the previous year's period. Basically, the changing results from the decrease in the sector of made-to-order production. Upon customers requests important orders were brought forward to the first quarter of 2004; thus comparability with the first quarter of 2005 is only possible to a limited extent.

The turnover in the separate business sectors developed as follows. In our core business **tele-communications** the turnover amounted to 5.4 MEUR after 5.9 MEUR in the previous year's quarter.

The business sectors **DECT** and **ISDN** turned out declining with 0.9 MEUR (Q1/2004: 1.1 MEUR) and 1.8 MEUR (Q1/2004: 2.4 MEUR). The turnover decrease in the DECT sector results of the decision to withdraw from the DECT consumer business. The business sector **Analogue** developed positively. After a previous year's value of 3.8 MEUR the turnover amounted to 4.1 MEUR after the first three months of 2005 (+ about 8 per cent).

In the sector **Other** a turnover increase of 0.12 MEUR to 0.55 MEUR was achieved (previous year: 0.42 MEUR).

Turnover according to business sectors (TEUR)		
	01.01. – 31.03.2005	01.01. – 31.03.2004
ISDN	1,804	2,359
DECT	851	1,093
Analogue	4,065	3,809
Security technology	23	28
Made-to-order-production	911	1,663
Other	547	423
<b>Total amount</b>	<b>8,201</b>	<b>9,375</b>

The turnover development in the first quarter 2005 compared to previous year's period also reflects in the geographical segments. Thus, the turnover in Germany decreased by 0.5 MEUR to 4.51 MEUR. Regarding this changing in the geographical segment Germany it has to be considered that in the sector of made-to-order production a decline of about 0.7 MEUR had to be noted which was caused by bringing forward orders upon customers requests in the previous year's quarter.

Turnover of the primary segment of the TIPTEL Group in a survey (KEUR)		
	01.01. – 31.03.2005	01.01. – 31.03.2004
Germany	4,506	5,009
Benelux countries	2,253	2,487
Other european countries	1,442	1,879
<b>Total amount</b>	<b>8,201</b>	<b>9,375</b>

### Earnings situation and cost development

In spite of the turnover decrease TIPTEL could significantly improve all revenue figures compared to previous year's quarter. This positive development in the **costs sector** can mainly be ascribed to the significantly reduced material expenses. Here, the company could reduce the material expenses under consideration of changes in inventories by 5.1 percentage points to 46.3 per cent (previous year: 51.4 per cent). Moreover, the expenses (personnel expenses, other operational expenses, depreciation on tangible assets) decreased compared to the first quarter of 2004 from 4.53 MEUR to 4.47 MEUR.

Among others, due to this continuous cost management TIPTEL could increase the earnings before interest, taxes, depreciation and amortisation (EBITDA) by 44 per cent to 0.59 MEUR (Q1/2004: 0.41 MEUR). The earnings include capitalised self-constructed assets according to IAS 38 to the amount of 0.31 MEUR (Q1/2004: 0 EUR). The earnings before interest and taxes (EBIT) improved with 0.39 MEUR by more than factor 2 compared to previous year's value of 0.17 MEUR. This corresponds to an EBIT margin of 4.8 per cent. Finally, the period's profit increased from 0.02 MEUR in the previous year's quarter to 0.11 MEUR in the first quarter of 2005. The earnings per share amount to 0.02 EUR (previous year: 0.00 EUR).

With the achieved EBIT margin of 4.8 per cent the EBIT development in absolute figures turned out over the years as follows:

Survey of the TIPTEL Group's EBIT development		
	in KEUR	in %
2002 p. a.	- 2,385	- 6.6
2003 p. a.	- 785	- 2.3
2004 p. a.	360	+ 1.1
Q1/2005	392	+ 4.8

The EBITDA of TIPTEL Group also increased continuously as shown in the following chart:

Survey of the TIPTEL Group's EBITDA development		
	in KEUR	in %
2002 p. a.	- 458	- 1.3
2003 p. a.	515	+ 1.5
2004 p. a.	1,157	+ 3.5
Q1/2005	590	+ 7.2

## Assets and financial situation

The balance sheet total of the TIPTEL Group increased by 3 per cent to 18.83 MEUR compared to the value of 18.29 MEUR at the end of the business year 2004.

	31.03.2005	31.12.2004
	KEUR	KEUR
Fixed assets	5,519	5,393
Current assets*	13,315	12,896
Equity capital	1,018	897
Borrowed capital*	17,816	17,392
<b>Balance sheet total</b>	<b>18,834</b>	<b>18,289</b>

\* including deferred terms

The fixed assets increased by 0.13 MEUR to 5.5 MEUR (+ 2.4 per cent). To the increase of the current assets of 0.42 MEUR the rise of receivables from goods and services by 0.43 MEUR contributed.

The equity capital increased to 1.02 MEUR and the share capital ratio amounted to 5.4 per cent at the quarterly closing date after 4.9 per cent at the annual financial statements 2004.

Altogether, the borrowed capital increased by 0.42 MEUR to 17.8 MEUR. The changing of the borrowed capital includes in the sector of provisions accruals in the course of the year for vacation payments on the one hand and on the other hand partially accounted amounts which result among others from the fact that the management and the worker's council as well as the employees not represented by the worker's council agreed to a wages and salary waiver for certain components. In the first quarter 2005 this sum amounts to about 0.2 MEUR and a claim for payment exists only under the condition that the consolidated annual results of 2005 will be positive.

In the framework of the the consolidated cash-flow statement the outflow from continuous business activity stayed with 0.30 MEUR nearly at previous quarter's level (0.34 MEUR). The outflow from investments increased to 0.32 MEUR by March 31, 2005 (March 31, 2004: 0.04 MEUR) while the cash-flow from finance activities decreased from 0.44 MEUR to 0.16 MEUR due to reduced interest payments.

### Orders-on-hand

At the cut-off date the orders-on-hand for TIPTEL AG and DFG amounted to 5.8 MEUR after 6.9 MEUR by March 31, 2004.

### Investments/Research & Development

In the first three months of 2004 the investments of the TIPTEL Group amounted to 0.33 MEUR and were thus significantly above the comparable previous year's value of 0.07 MEUR. There, the investments were focussed on the product family of voice storage systems which will be rounded off by the completion of the tiptel 540 office and the tiptel 545 pro in the course of the year.

In the sector of research & development the expenses were with 0.54 MEUR just under the previous year's value of 0.58 MEUR. Included herein are capitalised self-constructed assets to the amount of 0.31 MEUR according to IAS 38 (previous year: 0 EUR).

## Staff

By March 31, 2005 the TIPTEL Group employed in total 260 persons after 270 persons in the previous year's period. Here, the number of employees in Germany amounted to 224 (Q1/2004: 228).

## Investor Relations

The positive trend of the business year 2004 also strongly influenced the stock exchange price of the TIPTEL share in the first quarter of 2005. Thus, the stock exchange price increased from 0.85 EUR by January 3 to 1.34 EUR by March 31. The shares reached the preliminary annual peak in the first quarter with 1,53 EUR on March 14.

This year's annual press conference in Düsseldorf was the start of the investor relations event of the business year 2005. At this occasion the representatives of economic journals were informed in detail about the business development in 2004 and our mid-term strategies and targets.

We invite our shareholders to a direct dialogue with the Management and the Supervisory Board at our this year's shareholders' meeting on June 8, 2005. Here, we will give you a review of the business year 2004 and a forecast on the current business year.

Current information regarding the TIPTEL AG is always available on our homepage [www.tiptel.de](http://www.tiptel.de).

## Future business outlook

For the presumable growth drivers in 2005 - VoIP, PBX systems and ergonomic telephones – TIPTEL regards itself as already well-positioned. Besides the further development of the existing product portfolio the clear focus of the research and development activities is on the VoIP sector.

Due to uncertainties in the further economic and political development TIPTEL sees no reason to transfer the current EBIT margin of 4.8 per cent to the entire business year. The Management Board expects to achieve the forecasted EBIT margin of 1.9 per cent and, furthermore, to increase the turnover.

### Additional explanations

1. The balancing and valuation methods as well as the means of calculation used for the year up to December 31, 2004 remained unchanged for the period up to March 31, 2005.
2. The interim report of the TIPTEL Group for the period of January 1 to March 31, 2005 is in accordance with the International Financial Reporting Standards (IFRS) in connection with IAS 34.
3. Compared to the consolidated annual financial statement by December 31, 2004 the basis of consolidation remained unchanged.
4. As to the evaluation of the essential risks for the future development under consideration of the further unstable market situation no significant changes result concerning the statements of the Annual Report 2004.



### Consolidated profit and loss account\* as of January 1 to March 31, 2005

	Interim Report I/2005 01.01.2005 to 31.03.2005	Interim Report I/2004 01.01.2004 to 31.03.2004	3-Month-Report 01.01.2005 to 31.03.2005	3-Month-Report 01.01.2004 to 31.03.2004
	KEUR	KEUR	KEUR	KEUR
Revenues	8,201	9,375	8,201	9,375
Other operating income	135	132	135	132
Changes in inventories of finished goods and work in progress	136	123	136	123
Other capitalized service	309	–	309	–
Costs of purchased materials and services	–3,932	–4,945	–3,932	–4,945
Personnel expenses	–2,996	–2,995	–2,996	–2,995
Depreciation and amortization	–198	–241	–198	–241
Other operating expenses	–1,278	–1,291	–1,278	–1,291
<b>Operating income</b>	<b>377</b>	<b>158</b>	<b>377</b>	<b>158</b>
Interest income and expenditure	–123	–101	–123	–101
Foreign currency exchange gains/losses	6	1	6	1
Other income/expense	9	14	9	14
<b>Result before income taxes (and minority interest)</b>	<b>269</b>	<b>72</b>	<b>269</b>	<b>72</b>
Income tax	–163	–51	–163	–51
<b>Result before minority interest</b>	<b>106</b>	<b>21</b>	<b>106</b>	<b>21</b>
Minority interests	–	–	–	–
<b>Net profit</b>	<b>106</b>	<b>21</b>	<b>106</b>	<b>21</b>
Earnings per share (basic) in EUR	0.02	0.00	0.02	0.00
Weighted average shares outstanding (basic)	5,220,972	5,220,972	5,220,972	5,220,972

\* without audit opinion

## Consolidated Balance Sheet\* as of March 31, 2005

	As of 31.03.2005	As of 31.12.2004
ASSETS	KEUR	KEUR
<b>Current Assets</b>		
Cash and cash equivalents	357	533
Trade accounts receivable	3,364	2,932
Inventories	7,276	7,177
Advanced payments on inventories	78	29
Prepaid expenses and other current assets	382	340
<b>Total Current Assets</b>	<b>11,457</b>	<b>11,011</b>
Property, plant and equipment	2,255	2,354
Intangible assets	1,617	1,382
Investments	1,622	1,622
According to equity accounting investments	6	6
Other loans	19	29
Deferred taxes	1,858	1,885
<b>Total Non Current Assets</b>	<b>7,377</b>	<b>7,278</b>
<b>Total Assets</b>	<b>18,834</b>	<b>18,289</b>

	As of 31.03.2005	As of 31.12.2004
LIABILITIES	KEUR	KEUR
<b>Current Liabilities</b>		
Short term debt and current portion of long-term debt	1,692	1,776
Trade accounts payable	3,147	2,888
Accounts payable due to related parties	1	1
Provisions	2,692	2,424
Deferred revenues	183	252
Taxes on income liabilities	34	-
Other current liabilities	1,029	1,100
<b>Total current liabilities</b>	<b>8,778</b>	<b>8,441</b>
Long-term debt, less current portion	2,471	2,471
Deferred revenues	1,609	1,609
Deferred taxes	541	465
Pension accrual	3,237	3,226
Others	1,180	1,180
<b>Total non-current liabilities</b>	<b>9,038</b>	<b>8,951</b>
<b>Shareholders' equity</b>		
Share Capital	13,347	13,347
Additional paid-in capital	540	540
Accumulated deficit	-5,035	-4,688
Accumulated other comprehensive loss	-7,834	-8,302
<b>Total shareholders' equity</b>	<b>1,018</b>	<b>897</b>
<b>Total Liabilities</b>	<b>18,834</b>	<b>18,289</b>

\* without audit opinion

### Consolidated cash-flow statement\* as of January 1st to March 31, 2005

	01.01. – 31.03.2005	01.01. – 31.03.2004
	KEUR	KEUR
1. Group net profit (+) for the year prior to tax on profits and extraordinary items	+ 269	+ 72
2. Depreciation (+) / write-ups (–) on fixed assets	+ 198	+ 241
3. Interest expenses (+)	+ 124	+ 103
4. Increase / decrease in provisions	+ 278	+ 108
5. Profit (–) / loss (+) from disposal of fixed assets	./ 1	./ 5
6. Outflow (–) for interest	./ 23	./ 7
7. Outflow (–) for tax on profits	./ 29	./ 112
8. Increase (–) / decrease (+) in inventories, receivables and other assets	./ 743	./ 849
9. Increase (+) / decrease (–) in accounts payable and other liabilities (without financing and investing activities)	+ 230	+ 785
<b>10. Cash-flows from operating activities</b>	<b>+ 303</b>	<b>+ 336</b>
11. Inflow (+) from tangible asset disposals	+ 2	+ 5
12. Outflow (–) for investments in tangible assets	./ 19	./ 58
13. Outflow (–) for investments in intangible assets	./ 315	./ 14
14. Inflow (+) from financial asset disposals	+ 10	+ 29
15. Inflow (+) from interest received	+ 0	+ 0
<b>16. Cash-flows from investing activities</b>	<b>./ 322</b>	<b>./ 38</b>
17. Inflow (+) from increase in borrowings	+ 73	+ 136
18. Outflow (–) for repayments on borrowings	./ 133	./ 207
19. Outflow (–) for interest	./ 97	./ 366
<b>20. Cash-flows from financing activities</b>	<b>./ 157</b>	<b>./ 437</b>
<b>21. Change in cash and cash equivalents affecting cash-flow</b>	<b>./ 176</b>	<b>./ 139</b>
22. Cash and cash equivalents at beginning of period	533	1,164
<b>23. Cash and cash equivalents at end of period</b>	<b>357</b>	<b>1,025</b>
– thereof liquid assets	282	990
– thereof pledged assets	75	35

\* for comparability previous year's figures were presented according to the quarterly report 2005.

Schedule of TIPTEL Group equity capital  
as of the business year 2004

	Issued capital	Capital reserve	Retained earnings	Net loss for the period	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			198	-198	0
Net profit for the period				21	21
Other neutral changes			1		1
<b>As of 31.03.2004</b>	<b>13,347</b>	<b>540</b>	<b>-8,235</b>	<b>-3,885</b>	<b>1,767</b>

Schedule of TIPTEL Group equity capital  
as of the business year 2005

	Issued capital	Capital reserve	Retained earnings	Net loss for the period	Total
	KEUR	KEUR	KEUR	KEUR	KEUR
<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>
Transfers			453	-453	0
Net profit for the period				106	106
Other neutral changes			15		15
<b>As of 31.03.2005</b>	<b>13,347</b>	<b>540</b>	<b>-7,834</b>	<b>-5,035</b>	<b>1,018</b>

## Segment reporting

PRIMARY REPORTING FORMAT 2005 (GEOGRAPHICAL SEGMENT)						
	Germany	Benelux	Others in Europe	Inter-segment transfer	Elimination	Total
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
<b>Earnings</b>						
Sales revenue with third parties	4,506	2,253	1,442	0		8,201
Inter-segment transfer	1,704	118		+1.822		0
<b>Total revenue incl. transfer</b>	<b>6,210</b>	<b>2,371</b>	<b>1,442</b>	<b>-1.822</b>		<b>8,201</b>
<b>Segment result from ordinary activity</b>	<b>129</b>	<b>200</b>	<b>-12</b>		<b>60</b>	<b>377</b>
Interest income and expenditure						-123
Foreign currency exchange gains/losses						6
Other income/expenses						9
Income taxes						-163
<b>Net profit</b>						<b>106</b>
<b>Other information</b>						
Segment assets	21,927	2,696	2,650		-10,297	16,976
Segment debts	15,008	3,616	3,824		-5,173	17,275
Purchase costs for fixed assets	16	1	2			19
Purchase costs for intangible assets	315					315
Depreciation/amortisation	175	11	12			198

<b>SECONDARY REPORTING FORMAT 2005 (SALES BY BUSINESS DIVISIONS)</b>							
	<b>ISDN</b>	<b>DECT</b>	<b>Analogue</b>	<b>Others</b>	<b>Security technology</b>	<b>Made-to- order production</b>	<b>Total</b>
	<b>KEUR</b>	<b>KEUR</b>	<b>KEUR</b>	<b>KEUR</b>	<b>KEUR</b>	<b>KEUR</b>	<b>KEUR</b>
<b>Earnings</b>							
Sales revenue with third parties	1,805	851	4,065	546	23	911	8,201
Inter-segment revenue							
<b>Total revenue incl. transfer</b>	<b>1,805</b>	<b>851</b>	<b>4,065</b>	<b>546</b>	<b>23</b>	<b>911</b>	<b>8,201</b>
<b>Segment result from ordinary activity</b>							
	<b>197</b>	<b>109</b>	<b>-157</b>	<b>141</b>	<b>1</b>	<b>86</b>	<b>377</b>
Interest income and expenditure							-123
Foreign currency exchange gains/losses							6
Other income/expenses							9
Income taxes							-163
<b>Net profit</b>							<b>106</b>
<b>Other information</b>							
Segment assets	3,736	1,762	8,414	1,131	47	1,886	16,976
Segment debts	3,802	1,793	8,562	1,151	48	1,919	17,275
Purchase costs for fixed assets	4	2	9	1		3	19
Purchase costs for intangible assets	258	1	55			1	315
Depreciation/amortisation	57	5	126	9		1	198

PRIMARY REPORTING FORMAT 2004 (GEOGRAPHICAL SEGMENT)*						
	Germany	Benelux	Others in Europe	Inter-segment transfer	Elimination	Total
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
<b>Earnings</b>						
Sales revenue with third parties	5,009	2,487	1,879	0		9,375
Inter-segment transfer	2,069	272	3	+2.344		0
<b>Total revenue incl. transfer</b>	<b>7,078</b>	<b>2,759</b>	<b>1,882</b>	<b>-2.344</b>		<b>9,375</b>
<b>Segment result from ordinary activity</b>	<b>-119</b>	<b>252</b>	<b>2</b>		<b>23</b>	<b>158</b>
Interest income and expenditure						-101
Foreign currency exchange gains/losses						1
Other income/expenses						14
Income taxes						-51
<b>Net profit</b>						<b>21</b>
<b>Other informationen</b>						
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

\* for comparability previous year's figures were presented according to the quarterly report 2005.

<b>SECONDARY REPORTING FORMAT 2004 (SALES BY BUSINESS DIVISIONS)*</b>							
	<b>ISDN</b>	<b>DECT</b>	<b>Analog</b>	<b>Others</b>	<b>Security technology</b>	<b>Made-to-order production</b>	<b>Total</b>
	<b>KEUR</b>	<b>KEUR</b>	<b>KEUR</b>	<b>KEUR</b>	<b>KEUR</b>	<b>KEUR</b>	<b>KEUR</b>
<b>Earnings</b>							
Sales revenue with third parties	2,359	1,093	3,809	423	28	1,663	9,375
Inter-segment revenue							
<b>Total revenue incl. transfer</b>	<b>2,359</b>	<b>1,093</b>	<b>3,809</b>	<b>423</b>	<b>28</b>	<b>1,663</b>	<b>9,375</b>
<b>Segment result from ordinary activity</b>							
	<b>-119</b>	<b>103</b>	<b>-59</b>	<b>72</b>	<b>-16</b>	<b>177</b>	<b>158</b>
Interest income and expenditure							-101
Foreign currency exchange gains/losses							1
Other income/expenses							14
Income taxes							-51
<b>Net profit</b>							<b>21</b>
<b>Other information</b>							
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	1	6	1		2	14
Depreciation/amortisation	106		120	13		2	241

\* for comparability previous year's figures were presented according to the quarterly report 2005.



## Shareholder structure

TIPTEL AG shows the following shareholder structure by March 31, 2005:

Erhard Schäfer	51 per cent
Free-float	49 per cent

## Directors Holdings

The following shares were held by members of the Management Board and the Supervisory Board by March 31, 2005:

### Management Board

Werner Materna	300
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### Supervisory Board

Erhard Schäfer (Chairman)	2,610,489
Rudolf Breiden	10
Ulrike Theiner (Employees' representative)	101

No TIPTEL shares were held by the other members of the executive bodies at the above mentioned cut-off date. No suscription rights were conferred on members of the executive bodies or other employees.

## Service

All company reports of TIPTEL AG can be obtained in German and English language directly from the Internet under [www.tiptel.de](http://www.tiptel.de). In addition, under [www.haubrok.de](http://www.haubrok.de) you can register in the mailing list for press information. You will then receive the latest information directly via e-mail.

## Dates in 2005

June 8, 2005	Shareholders' meeting
August 31, 2005	Interim report 2/2005
November 30, 2005	Interim report 3/2005
March 31, 2006	Annual report 2005

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