



TIPTEL AG

Interim Report of the TIPTEL-Group

for the period from January 1st to June 30th, 2003

tiptel

Letter to the shareholders

Dear shareholders and business friends,

The macroeconomic stagnation during the first half of 2003 influenced the ITC market relevant for TIPTEL nationally and internationally. Thus, it was not possible for us to elude the general reluctance to invest. After a quite positive course of business during the first quarter, it was restrained during the second quarter. Our turnover in the second quarter was by approx. 0.4 MEUR less than during the first one. In consideration of the composition deed regarding the property in Kiel our other operating costs remained constant. The comprehensive restructuring measures and cost reductions during the past quarters resulted in a reduction of expenses to the minimum. On this basis, we believe that our Group is well positioned for the future. Rising turnover will enable TIPTEL to gain profit again and increase earning capacity.

One important positive event at the end of the first half of 2003, which also influenced our earning situation, is the agreement in the legal dispute concerning the cancellation of the leasing contract on the property in Kiel. In the context of the insolvency proceedings of Hagenuk GmbH (Kiel) in 1999 our Group became lessee of the property because of an obligation to enter into the hiring contract. Despite of the fact that the notice of cancellation of the leasing contract was already in June 2001, time and cost intensive negotiations ensued, which were terminated now by means of composition. Within the scope of this composition deed, TIPTEL pays a total of 100,000 EUR. No further expenses will occur which could burden the future earnings development within the Group.

Because of the final settlement of the legal dispute, the Group obtained a non-recurring profit of approx. 0.7 MEUR during the second quarter of 2003.

In spite of the weak market, we continuously worked on the strengthening of our position being leading specialist for innovative solutions in the field of telecommunications and computer- and Internet-based voice and data communications. Special focus was laid on the further development of the WLAN product line tiptel 3022 office / tiptel 3011 office. These products will be introduced on the market during the third quarter 2003. With these two product lines we offer – instead of single components for WirelessLAN, network and telephony – a system solution with a standardised configuration interface.

During the first half of 2003 we also advanced the tiptel WLAN DSL Gateway, which represents an efficient and flexible communications solution. The WirelessLAN component serves to interconnect PCs and laptops either by cable or wireless via WirelessLAN. With this TIPTEL WirelessLAN product line we are – focussed to our target group home offices and small to medium sized companies – outstandingly positioned on the future market WLAN.

The further implementation and strengthening of our system-partner sales concept during the second quarter of 2003 met with a very positive response. Due to our close cooperation with the specialised trade we ensure a professional advice and support of our customers. We offer our sales partners and the TC specialised trade not only sales support but also technical training in order to gain the necessary know-how. In this context we prepared a roadshow across all Germany giving detailed information on the important sectors WirelessLAN and DSL, which will take place during the third quarter of 2003. We regard this as optimal professional support of our product launches.

A handwritten signature in black ink, appearing to read 'Werner Materna'. The signature is written in a cursive style with a large, prominent loop at the end.

Werner Materna
CEO of TIPTEL AG

Business development

We achieved a total turnover of 8.3 MEUR in the second quarter of 2003. This is 4.7 per cent less than in the previous quarter (8.7 MEUR). Thus the overall turnover in the first half of 2003 adds up to 16.9 MEUR. This is 4.8 per cent less than compared to previous year's period (17.8 MEUR).

Proceeds from the sales in the **analogue sector** remained with 6.9 MEUR below the previous year's period (8.2 MEUR). The reason for this development is to be seen as well in the weakness of economical activity within our target markets.

In spite of the difficult market situation, the **DECT** business developed positively during the first half year and increased with 2.7 MEUR by 8 per cent compared to the previous year's period (2.5 MEUR).

Also very positively developed our business division **ISDN**, where we achieved a turnover amounting to 4.3 MEUR. This is an increase of more than 19 per cent compared to the previous year.

Sales by business divisions (TEUR)

	01.01. – 30.06.2003	01.01. – 30.06.2002
ISDN	4,300	3,641
DECT	2,703	2,467
Analog	6,892	8,212
Security technology	85	133
Made-to-order production	1,823	2,380
Others	1,118	942
Total amount	16,921	17,775

With regard to the countries, especially the sector Benelux generated significant success. In particular the development of the results of our Belgium subsidiary should be stressed positively. Here the continuation of the positive trend could be observed during the first half year. A plus in turnover of approx. 28 per cent confirms that the turnaround could be achieved with new management structures. We endeavour to steer the same positive course in other countries.

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

	01.01. – 30.06.2003	01.01. – 30.06.2002
Germany	9,395	10,886
Benelux countries	4,289	3,481
Other European countries	3,237	3,408
Total amount	16,921	17,775

Earnings and cost development

During the first six months the average purchasing prices remained below the previous year's level. The continued difficult overall market situation imposed pressure on the sales prices within the TC market relevant for TIPTEL. We resisted the general decline in prices by accepting slightly decreasing sales.

After implementing our cost reduction program to a large extent, our costs remained quite constant during the first half year of 2003. Costs of materials remained on the same level as during the previous year's period. Expenditure on personnel decreased by approx. 5 per cent (0.3 MEUR) compared to the first half year of 2002.

Regarding earnings, the Group entered non-recurrent receipts amounting to approx. 0.7 MEUR based on the settlement by composition of the legal dispute in connection with the property in Kiel. This amount is composed of other operating incomes of 3.7 MEUR and other operating expenses of 3.0 MEUR.

Thus, within the cycle-induced weak business development, the Group managed to increase the earnings before interest, taxes, depreciation and amortisation (EBITDA) during the first half year from 0.5 MEUR in 2002 to 1.02 MEUR in 2003. The positive operating results (EBIT) during the first six months of 2003 in the amount of 0.26 MEUR after -0.41 MEUR in the previous years' period met our expectations. The annual net result of the first half year of 2003 amounts to 0.005 MEUR (first half year of 2002: -0.37 MEUR). Thus we achieved balanced earnings per share for the first six months of 2003 – after a negative result of -0.07 EUR in the 2002 comparison period. At TIPTEL AG the profit per share (HGB) improved by 0.04 EUR to -0.03 EUR compared to the previous year.

In view of the liquidity situation, the outflow of funds from the cash flow statement decreased during the first six months of 2003 by 0.4 MEUR compared to the previous year's period.

Orders-on-hand

The orders-on-hand for TIPTEL AG and DFG amounted to 5.6 MEUR by June 30, 2003 (June 30, 2002: 7.9 MEUR).

Investments

Comparing the first six months of 2003 and 2002 we kept the investments in the research and development sector at a constant level of 1.2 MEUR. This corresponds to 8 per cent of the turnover excluding the business sector "made-to-order production" (previous year: 8 per cent).

We concentrated our investment activity during the first half year of 2003 on the development of the WirelessLAN technology.

In the course of our cost reduction measurements, we carefully reconsidered our investments with regard to selective use. This resulted in a reduced investment volume of 0.1 MEUR during the first six months of 2003 compared to 0.4 MEUR in the first six months of the previous year.

Staff

The total number of 278 employees by June 30, 2003 is composed of 233 employees within Germany and 45 employees abroad. Comparing the half years figures, the total number of employees was reduced by 4 (June 30, 2002: 282).

Investor Relations

The second quarter was characterized by a more intense contact to our shareholders and the specialised journalism. During the press conference for financial statement in Düsseldorf in April 2003 we presented our business development of 2002 and our corporate strategy to the journalists.

In the course of our shareholders' meeting in Duisburg on June 13, 2003 we reported together with the supervisory board on the past business year 2002. Very positive response was given to the restructuring measures of the TIPTEL Group, which had already been successfully implemented to a large extent. All resolutions passed with large majority.



tiptel 4011 XT: modulare PBX with system

Future business outlook

For the second half year we expect to stabilise our position within the continuously difficult situation on the ITC market. Beneath the modular telephone system “tiptel 4011 XT” new WirelessLAN products will be introduced to the market from the third quarter of 2003 onwards, from which we expect a positive impetus on our business development. An up-to-date report of TEC-Consults forecasts a growth by 77 per cent during 2003 in the business sector WLAN. Especially with focus to our target groups home offices and small to medium sized companies we are outstandingly positioned on the future market WLAN.

Based on the expansion of our product portfolio in the second half of 2003 and the further active implementation of our sales partner concept we expect a stable growth of turnover in the second half of 2003 – assuming that the overall market situation will remain difficult. It is the management’s priority objective for 2003 to increase the profitability within the difficult market. The board of directors continuously expects to achieve the turnover and profit aim, which had been published at the beginning of the business year.

Under consideration of the still difficult market situation the evaluation of major risks for the future development showed no significant changes compared to the explanations given in our annual report 2002 – expect regarding the improved earning situation, which is due to the above mentioned composition deed concerning the property in Kiel.



tiptel 3022 office: telecommunication, network technology, internet access in one device

Additional explanations

1. The balancing and valuation methods as well as the means of calculation used for the year up December 31, 2002, remained unchanged for the period up to June 30, 2003.
2. The interim report of the TIPTEL group for the period of January 1 to June 30, 2003 is according to International Financial Reporting Standards (IFRS) in connection with IAS 34.
3. Because of the composition deed regarding the property in Kiel the high shelf warehouse and the corresponding leasing commitment had to be written-off.

Consolidated profit and loss account* as of January 1st to June 30th, 2003

	Interim Report II/2003 01.04.2003 to 30.06.2003	Interim Report II/2002 01.04.2002 to 30.06.2002	6-Month-Report 01.01.2003 to 30.06.2003	6-Month-Report 01.01.2002 to 30.06.2002
	TEUR	TEUR	TEUR	TEUR
Revenues	8,267	9,331	16,921	17,775
Other operating income	3,836	166	3,968	285
Changes in inventories of finished goods and work in progress	-55	-407	-54	46
Other capitalized service	-	-	-	-
Cost of purchased materials and services	-4,229	-4,678	-8,459	-9,177
Personnel expenses	-2,864	-3,034	-5,724	-6,001
Depreciation and amortization	-382	-482	-763	-910
Other operating expenses	-4,411	-1,077	-5,629	-2,430
Others	-	-	-	-
Operating income / loss	162	-181	260	-412
Interest income and expenditure	-105	-70	-216	-194
Income from investments and participations	-	-	-	-
Income / expense from associated companies	-	-	-	-
Foreign currency exchange gains / losses	23	-	1	-
Other income / expense	-15	1	-15	-33
Result before income taxes (and minority interest)	19	-250	30	-639
Income tax	-31	469	-25	277
Extraordinary income / expenses	-	-4	-	-4
Result before minority interest	-12	215	5	-366
Minority interest	-	-	-	-
Net profit / loss	-12	215	5	-366
Earnings per share (basic) in EUR	0.00	0.04	0.00	-0.07
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 June 30th, 2003

Assets		
	As of 30.06.2003	As of 31.12.2002
	TEUR	TEUR
Current Assets		
Cash and Cash Equivalents	685	954
Short-term Investments / Marketable securities	-	-
Trade accounts receivable	4,694	4,719
Accounts receivable due from related parties	-	-
Inventories	9,171	8,989
Deferred taxes	1,075	1,072
Prepaid expenses and other current assets	489	1,146
Others		93
Current Assets, total	16,114	16,973
Property, plant and equipment	3,002	4,772
Intangible assets	409	539
Investments	1,574	1,574
Equity investments	-	-
Notes receivable / loans	202	259
Goodwill	2	3
Deferred taxes	888	888
Other assets	-	-
Others	-	-
Total Non Current Assets	6,077	8,035
Total Assets	22,191	25,008
* without audit opinion		

Consolidated Balance sheet*

as of June 30th, 2003

Liabilities and shareholders' equity		
	As of 30.06.2003	As of 31.12.2002
	TEUR	TEUR
Current liabilities		
Current portion of capital lease obligation	–	70
Short term debt and current portion of long-term debt	1,396	1,443
Trade accounts payable	3,910	3,421
Accounts payable due to related parties	23	23
Advance payments received	–	–
Accrued expenses	2,489	3,752
Deferred revenues	124	182
Income tax payable	55	55
Deferred taxes	144	207
Other current liabilities	1,368	1,393
Others	–	–
Total current liabilities	9,509	10,546
Long-term debt, less current portion	3,154	3,172
Capital lease obligations, less current portion	–	1,135
Deferred revenues	1,936	1,936
Deferred taxes	120	120
Pension accrual	3,168	3,168
Others	1,383	1,421
Total non-current liabilities	9,761	10,952
Minority interest	–	–
Shareholders' equity		
Share Capital	13,347	13,347
Additional paid-in capital	540	540
Treasury Stock	–	–
Accumulated deficit / retained earnings	–2,788	–2,584
Accumulated other comprehensive income / loss	–8,178	–7,793
Others	–	–
Total shareholders' equity	2,921	3,510
Total Liabilities and Shareholders' equity	22,191	25,008
* without audit opinion		

Cash-flow statement

as of January 1st to June 30th, 2003

	01.01 to 30.06.2003	01.01 to 30.06.2002
	TEUR	TEUR
1. Net profit (+) / loss (-) for the year prior to income tax and extraordinary items	+ 15	./ 642
2. Depreciation (+) / write-ups (-) on fixed assets	+ 763	+ 910
3. Interest expenses (+)	+ 220	+ 236
4. Increase (+) / decrease (-) of provisions	./ 1,264	./ 233
5. Other expenses (-) / income (+) not affecting cash flows	+ 69	+ 302
6. Profit (-) / loss (+) from disposal of fixed assets	./ 15	./ 3
7. Outflow (-) for Interest expenditure	./ 71	./ 71
8. Outflow (-) for income taxes	./ 38	./ 36
9. Increase (-) / decrease (+) in inventories, receivables and other assets	./ 64	./ 691
10. Increase (+) / decrease (-) in accounts payable and other liabilities (without financing and investing activities)	+ 136	./ 413
11. Cash flows from operating activities	./ 249	./ 641
12. Inflow (+) from tangible asset disposals	+ 53	+ 15
13. Outflow (-) for investments in tangible assets	./ 52	./ 373
14. Outflow (-) for investments in intangible assets	./ 19	./ 75
15. Inflow (+) from financial asset disposals	+ 58	+ 182
16. Outflow (-) for investments in financial assets		./ 59
17. Inflow from interests	+ 4	+ 1
18. Cash flows from investing activities	+ 44	./ 309
19. Inflow (+) from increase in borrowings		+ 371
20. Outflow (-) for repayments on borrowings	./ 64	./ 67
21. Cash flows from financing activities	./ 64	+ 304
22. Change in cash and cash equivalents	./ 269	./ 646
23. Cash and cash equivalents at beginning of period	954	+ 1,223
24. Cash and cash equivalents at end of period	685	+ 577
- thereof liquid assets	635	513
- thereof pledged assets	50	64

Schedule of TIPTEL group equity capital as of June 30th, 2002

	Issued capital	Capital reserve	Retained earnings	Net profit for the period	Total
	TEUR	TEUR	TEUR	TEUR	TEUR
As of 31.12.01	13,347	540	-5,620	-2,691	5,576
Transfers			-15	15	0
Net loss for the period				-366	-366
Other neutral changes			427		427
As of 30.06.02	13,347	540	-5,208	-3,042	5,637

Schedule of TIPTEL group equity capital as of June 30th, 2003

	Issued capital	Capital reserve	Retained earnings	Net profit for the period	Total
	TEUR	TEUR	TEUR	TEUR	TEUR
As of 31.12.02	13,347	540	-7,793	-2,584	3,510
Neutral changes in retained earnings to IAS 8			-654 ¹⁾		-654
As of 01.01.03	13,347	540	-8,447	-2,584	2,856
Transfers			209	-209	0
Net loss of the period				5	5
Other neutral changes			60		60
As of 31.03.03	13,347	540	-8,178	-2,788	2,921

¹⁾ When elaborating this interim report, it was discovered for the first time that the a.m. correction is necessary. As this correction had no influence on the 2002 annual result of the TIPTEL Group and the tangible balance sheet relations by December 31, 2002 would not be changed considerably, the management decided to abstain from amending the consolidated annual accounts by December 31, 2002.

Segment reporting

Primary reporting format 2003 (geographical segment)
as of January 1st to June 30th, 2003

	Germany	Benelux	Others in Europe	Inter- segment transfer	Elimi- nation	Total
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Revenues						
Sales revenue with third parties	9,395	4,289	3,237	0		16,921
Inter-segment transfer	4,024	72	25	+ 4,121		0
Total revenues incl. transfer	13,419	4,361	3,262	-4,121		16,921
Segment result from ordinary activity	142	263	-198		-135	72
Income taxes						-25
Other taxes						-42
Net income / loss						5
Other information						
Segment assets	24,467	2,934	3,293		-10,467	20,227
Segment debts	16,253	3,626	4,602		-5,475	19,006
Purchase costs for fixed assets	42	1	9			52
Purchase costs for intangible assets	4		15			19
Depreciation / amortisation	652	43	68			763

Primary reporting format 2002 (geographical segment)
as of January 1st to June 30th, 2002

	Germany	Benelux	Others in Europe	Inter- segment transfer	Elimi- nation	Total
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Revenues						
Sales revenue with third parties	10,886	3,481	3,408	0		17,775
Inter-segment transfer	2,701	142	204	+3,047		0
Total revenues incl. transfer	13,587	3,623	3,612	-3,047		17,775
Segment result from ordinary activity	-658	30	-245		267	-606
Income taxes						+277
Other taxes						-33
Extraordinary items						-4
Net income / loss						-366
Other information						
Segment assets	30,271	4,047	4,084		-10,315	28,087
Segment debts	20,899	4,839	4,921		-6,508	24,151
Purchase costs for fixed assets	23	61				84
Purchase costs for intangible assets	60					60
Depreciation / amortisation	764	60	101		-15	910

Secondary reporting format 2003 (sales by business divisions)
as of January 1st to June 30th, 2003

	ISDN	DECT	Analog	Others	Security technology	Made-to-order production	Total
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Revenues							
Sales revenue with third parties	4,300	2,703	6,892	1,118	85	1,823	16,921
Inter-segment revenue							
Total revenues incl. transfer	4,300	2,703	6,892	1,118	85	1,823	16,921
Segment result from ordinary activity	70	210	-514	81	10	215	72
Income taxes							-25
Other taxes							-42
Net income / loss							5
Other information							
Segment assets	5,140	3,232	8,239	1,336	102	2,178	20,227
Segment debts	4,830	3,036	7,742	1,256	95	2,047	19,006
Purchase costs for fixed assets	13	9	21	3		6	52
Purchase costs for intangible assets	5	3	8	1		2	19
Depreciation / amortisation	316	17	372	45	3	10	763

Secondary reporting format 2002 (sales by business divisions)
as of January 1st to March 31st, 2002

	ISDN	DECT	Analog	Others	Security technology	Made-to-order production	Total
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Revenues							
Sales revenue with third parties	3,641	2,466	8,212	942	133	2,381	17,775
Inter-segment revenue							
Total revenues incl. transfer	3,641	2,466	8,212	942	133	2,381	17,775
Segment result from ordinary activity	-679	379	-805	164	18	317	-606
Income taxes							+ 277
Other taxes							-33
Extraordinary items							-4
Net income / loss							-366
Other information							
Other information							
Segment assets	5,754	3,898	12,976	1,488	210	3,761	28,087
Segment debts	4,948	3,352	11,157	1,280	180	3,234	24,151
Purchase costs for fixed assets	17	12	39	4	1	11	84
Purchase costs for intangible assets	12	8	28	3		9	60
Depreciation / amortisation	277	20	463	55	2	93	910

Consolidated shares held

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

Managing Board	30.06.2003	31.12.2002
Werner Materna	300	300

Supervisory Board

Erhard Schäfer	2.610.489	2.610.489
Rudolf Breiden	10	10
Ulrike Theiner	51	51

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 30.06.2003

Erhard Schäfer:	51 %
Free float:	49 %

Service

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