

TIPTTEL AG

Interim report of the TIPTTEL Group

for the period from January 1 to June 30, 2006



Letter to the Shareholders

Dear shareholders and business friends,

In the second quarter of 2006 TIPTEL could confirm the pleasing turnover development of the first three months. With 8.42 MEUR we could increase the previous year's figure by 8.1 per cent. In the six months comparison the turnovers improved in total by 12.2 per cent from 15.99 MEUR to 17.95 MEUR. In order to stop the continuous turnover decrease of the past years, it was also necessary to realise turnover increases in business sectors with weaker margins. Against this background the earnings figures underachieved, as expected, those of previous year. Thus, the EBIT margin for the first half of the year amounts to 0.9 per cent (previous year: 3.7 per cent) and is, therefore, temporarily below the own annual target margin of 2.5 per cent. In the second half of the year we will focus on business sectors with stronger margins again in order to improve also the gross earnings situation again. Against this background we are still confident to reach our annual target margin.

On the operational side the second quarter of 2006 started with the successful market launch of the ISDN feature telephones tiptel 292 and tiptel 293. They are especially appropriate for small enterprises as well as for home offices. To the special features belong amongst others computer telephony integration (CTI) and for the tiptel 293 also the efficient answering machine and the SMS function for the conventional telephone network. These two features are also integrated in the new ISDN telephone tiptel 191A which was presented together with the tiptel 191 by end of June. With these two telephones TIPTEL met the increasing demand for low priced ISDN telephones with or without answering machine. With their numerous features both models are optimally suited for use in small offices and home offices.

Besides the ISDN feature telephones we also improved our existing PBX systems in the past quarter. Thus, by upgradings we could additionally valorise our PBX system family tiptel 30xx and, thus, bring in our high competence for voice and call management. The result is a very efficient communication basis for small enterprises.

Moreover, in June we started the marketing of the gateway tiptel 40 VoIP and, thus, we offer an easy and low priced solution for the gentle migration from existing ISDN PBX systems to voice over IP. The tiptel 40 VoIP combines an external ISDN connection (S0) of the existing ISDN telephone system with Internet access (e.g. DSL router).

That TIPTEL does not only ascribe great importance to customer specific requirements with regard to product development, is also shown concerning the internal structures in the second quarter of 2006. Since May Robert Kemna, amongst others so far specialist for the VoIP business, is at the disposal of architects, engineering companies and other technology consultants who plan and project data and voice networks in the same customer segment. Thus, TIPTEL complies with the since several months continuously increasing demand and high supporting intensity.

Another change regarding personnel took place in the sales department. Here, we could win Jürgen Taplick as new Head of Sales for our company. In addition to a business and engineering education Jürgen Taplick also disposes of long experience in the telecommunications industry. His main tasks are the co-ordination of the European sales (excluding the sales companies), intensifying the synergies between the different geographical markets and optimising the international market appearance. Last but not least, by this personnel measure we intend to create the pre-conditions for future company growth.

Due to our different product innovations in the first six months of 2006 we regard ourselves as already well positioned in total. Accordingly pleasant was the business development regarding turnover in the first half year of 2006. Besides these products launched in the first six months of 2006 we will also introduce new resp. further developed products in the second half of the year again. Thus, a further positive turnover development should be supported. We separated from the business sector of security technology as we do not see decisive growth potential in medium or long term and as the sales revenues in the last years were only minimal. As already mentioned, in the second half of the year we intend to improve the absolute (gross) earnings situation. Together with the course already taken we will thereby reach our most important target - the increase of the EBIT margin to 2.5 per cent for the total business year of 2006. Therefore, we still adhere to this forecast.

Yours,

A handwritten signature in black ink, appearing to read 'Werner Materna', with a large, stylized flourish at the end.

Werner Materna
Management Board of TIPTEL AG

Business development

In the first half of the year 2006 TIPTEL could improve the turnover by 12.2 per cent from 15.99 MEUR to 17.95 MEUR. In the months from April until June the group achieved 8.42 MEUR after 7.79 MEUR in the previous year's period.

A decisive part in this turnover increase had especially the **DECT** business sector. With 4.42 MEUR the revenues could significantly be improved by factor 1.5 in the six months comparison. In the second quarter the turnover was nearly doubled with 1.67 MEUR (previous year: 0.87 MEUR).

The sector of **Made-to-order production** developed likewise positively. In the first six months the turnover improved to 2.92 MEUR (previous year: 1.98 MEUR) and in the second quarter to 1.70 MEUR (previous year: 1.07 MEUR). This corresponds to an increase of 47.0 per cent resp. 58.7 per cent.

In the business sectors **Analogue** and **ISDN** the turnovers remained below previous years level. In the first half of the year 2006 TIPTEL here achieved 6.11 MEUR (previous year: 7.17 MEUR) resp. 3.60 MEUR (previous year: 4.01 MEUR) while the turnovers in the second quarter amounted to 2.97 MEUR (previous year: 3.10 MEUR) resp. 1.65 MEUR (previous year: 2.21 MEUR).

In the first half of the year the business sector **Other** contributed 0.85 MEUR (previous year: 1.06 MEUR) and in the second quarter 0.39 MEUR (previous year: 0.52 MEUR) to the total turnover.

Turnover according to business sectors	01.01. to 30.06.2006	01.01. to 30.06.2005	01.04. to 30.06.2006	01.04. to 30.06.2005
	KEUR	KEUR	KEUR	KEUR
ISDN	3,595	4,013	1,647	2,209
DECT	4,416	1,716	1,668	865
Analogue	6,105	7,169	2,973	3,104
Security technology	66	49	41	26
Made-to-order production	2,916	1,984	1,703	1,073
Other	853	1,063	392	516
Total amount	17,951	15,994	8,424	7,793

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The positive turnover development of the TIPTEL Group is also shown in the geographical analysis. Thus, the revenues increased in all regions. Especially in the Benelux countries TIPTEL achieved a plus of 0.41 MEUR to 2.51 MEUR. The same picture is shown in Germany where the turnover could be increased from 4.28 MEUR to 4.43 MEUR. Finally, in the other European countries also a slight improvement from 1.42 MEUR to 1.48 MEUR could be noted.

Turnover according to countries (TIPTEL Group)	01.01. to 30.06.2006 in KEUR	01.01. to 30.06.2005 in KEUR	01.04. to 30.06.2006 in KEUR	01.04. to 30.06.2005 in KEUR
Germany	8,633	8,790	4,435	4,284
Benelux countries	6,267	4,347	2,513	2,094
Other european countries	3,051	2,857	1,476	1,415
Total	17,951	15,994	8,424	7,793

Earnings situation and cost development

In the second quarter of 2006 the earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to -0.05 MEUR (Q2/2005: 0.41 MEUR). In the half year's comparison this figure amounted to 0.44 MEUR compared to 1.00 MEUR in the previous year. After reduction of amortisation to the amount of 0.28 MEUR the earnings before interest and taxes (EBIT) add up to 0.16 MEUR in the same period (previous year: 0.60 MEUR) while, in the second quarter, they amounted to -0.20 MEUR (previous year: 0.21 MEUR). By June 30 TIPTEL stated a result for the first half of the year of -0.44 MEUR (previous year: 0.11 MEUR). Thereof result earnings per share of -0.08 EUR after 0.02 EUR in the previous year's period.

With an EBITDA margin of 2.4 per cent achieved in the first half of the year 2006 (first half of 2005: 6.3 per cent) and an EBIT margin of 0.9 per cent (first half of 2005: 3.7 per cent) the margin development can be presented as follows in the longer-term survey:

Development of the EBITDA and the EBITDA margin in the Group	EBITDA in KEUR	EBITDA margin in per cent
2003 p.a.	515	+1.5
2004 p.a.	1,157	+3.5
2005 p.a.	1,091	+3.6
First half of 2006	438	+2.4

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Development of the EBIT and the EBIT margin in the Group	EBIT in KEUR	EBIT margin in per cent
2003 p.a.	-785	-2.3
2004 p.a.	360	+1.1
2005 p.a.	401	+1.3
First half of 2006	159	+0.9

By the end of the reporting period the material cost quota – under consideration of changes in inventories – amounted to 56.4 per cent after 48.4 per cent in 2005. The strong increase of the materials cost quota is based on the structural change of the sales revenues regarding the DECT sector as mentioned before. These DECT products are trade goods which generally burden the profit and loss account with a significantly higher material cost quota than products developed and produced on our own.

The amount of personnel expenses, other operational expenses and depreciation on fixed assets slightly increased from 8.59 MEUR to 8.69 MEUR by June 30, 2006.

Assets and financial situation

Compared to the balance sheet date of December 31, 2005 the balance sheet total of the TIPTEL Group increased from 17.22 MEUR to 18.16 MEUR by June 30, 2006.

Net worth and capital structure	30.06.2006 in KEUR	31.12.2005 in KEUR
Assets		
Short-term assets	9,599	9,175
Long-term assets	8,558	8,048
Liabilities		
Short-term liabilities	9,010	7,793
Long-term liabilities	8,906	8,747
Equity capital	241	683
Balance sheet total	18,157	17,223

On the assets' side regarding the long-term assets especially the inventories of the Group increased from 6.01 MEUR to 6.44 MEUR as well as the intangible assets from 2.35 MEUR to 2.86 MEUR.

On the liabilities' side the Group equity capital decreased to 0.24 MEUR due to the half year's result of -0.44 MEUR. Thereof results an equity capital ratio of 1.3 per cent after 4.0 per cent by December 31, 2005. In the sector of short-term debts the accounts payable increased temporarily amongst others due to higher purchase volumes by 1.24 MEUR and the financial liabilities by 0.27 MEUR. In contrast to this TIPTEL could reduce the other liabilities by 0.31 MEUR. In total the short-term debts increased by 0.16 MEUR to 8.91 MEUR by the end of the reporting period.

By June 30, 2006 the consolidated cash-flow statement shows an inflow from ordinary business activities of 0.60 MEUR (previous year: 0.45 MEUR). At the same time the cash-flow from investments increased from 0.63 MEUR to 0.79 MEUR as well as the cash-flow from financing activities rose from -0.07 MEUR to 0.27 MEUR.

Orders-on-hand

By June 30, 2006 the order-on-hand of TIPTEL AG and DFG amounted to in total 3.70 MEUR (previous year: 2.09 MEUR).

Investments / Research & Development

In the first half of the year 2006 TIPTEL invested in total 0.80 MEUR compared to 0.66 MEUR in the comparable period of 2005. Here, the focus of investment was mainly on investment in the product development.

By June 30, 2006 the expenses in the sector of research and development amounted to 0.97 MEUR (previous year: 1.07 MEUR). Herein included are capitalised self-constructed assets according to IAS 38 to the amount of 0.59 MEUR (previous year: 0.61 MEUR).

Staff

At the end of the reporting period the TIPTEL Group employed in total 252 persons (June 30, 2005: 260). Thereof, 215 persons were employed in Germany (June 30, 2005: 222).

Investor Relations

At the beginning of the second quarter of 2006 the TIPTEL AG share showed a Xetra price of 1.29 EUR. The annual peak so far was reached on April 6, 2006 with 1.48 EUR. In the following weeks and months an extremely weak development of the total capital market had to be observed which the TIPTEL share could not withdraw from. Thus, by the end of the reporting period the share price amounted to 0.83 EUR.

Further information regarding the TIPTEL AG can be obtained from our homepage www.tiptel.de.

Incidents after the end of the reporting period

No special incidents occurred after the end of the reporting period.

Future business outlook

On the operational side we will continue to enlarge our broad and balanced product portfolio. Thus, especially the driving forces for growth such as VoIP, PBX systems and ergonomic telephones remain unchanged in the focus of our activities. Here, we see the highest potential to further strengthen our market position concerning our target groups of SME and SoHo.

Internally TIPTEL will consistently continue the successful earnings and cost management. Regarding the cost management, e. g. in the sector of the other operational expenses, we have already reached a very high efficiency so that we have nearly exploited all potentials here. Additionally, we aim at reducing the inventories at Group level as well as the liabilities in the second half of the year 2006.

After having achieved a positive trend already regarding the turnover in the first half of the year, we expect this development also on the earnings' side for the remaining months of 2006. Against the background of the business development in 2006 up to now and the described strategy the Management Board further assumes to improve the EBIT margin to 2.5 per cent by the end of the business year.

Additional explanations

1. The balancing and valuation methods as well as the means of calculation used for the year up to December 31, 2005 remained unchanged for the period up to June 30, 2006.
2. The interim report of the TIPTEL Group for the period of January 1 to June 30, 2006 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, 2005 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 2005.

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Consolidated profit and loss account of TIPTEL AG as of January 1 to June 30, 2006

	Interim Report II/2006 01.04.2006 to 30.06.2006	Interim Report II/2005 01.04.2005 to 31.06.2005	6-Month- Report 01.01.2006 to 30.06.2006	6-Month- Report 01.01.2005 to 30.06.2005
	KEUR	KEUR	KEUR	KEUR
1. Revenues	8,424	7,793	17,951	15,994
2. Other operating income	91	181	402	316
3. Changes in inventories finished and unfinished goods	-342	-35	-264	101
4. Other capitalized service	299	298	589	607
5. Costs of materials	-4,347	-3,910	-9,858	-7,842
6. Personnel expenses	-2,955	-2,718	-5,850	-5,714
7. Depreciation on fixed assets and intangible assets	-148	-205	-279	-403
8. Other operating expenses	-1,247	-1,191	-2,559	-2,469
9. Result from operating activities	-225	213	132	590
10. Interest income	-107	-134	-221	-257
11. Foreign currency exchanges gains/loss	16	-15	12	-9
12. Other income/expenses	8	9	15	18
13. Result before income taxes	-308	73	-62	342
14. Income taxes	-61	-68	-241	-231
15. Annual result	-369	5	-303	111
16. Earnings entitled to other shareholders	-11	-	-140	-
17. Earnings entitled to group shareholders	-380	5	-443	111
Earnings per share (basic) in EUR	-0,07	0,00	-0,08	0,02
Weighted average shares outstanding (basic)	5,220,972	5,220,972	5,220,972	5,220,972

Consolidated Balance Sheet of TIPTEL AG
as of June 30, 2006

	As of 30.06.2006	As of 31.12.2005
	KEUR	KEUR
ASSETS		
A Current assets		
I. Liquid funds	390	313
II. Trade accounts receivable	2,132	2,151
III. Inventories	6,444	6,014
IV. Financial receivables	322	416
V. Other current assets	311	281
Total current assets	9,599	9,175
B Non current assets		
I. Property, plant and equipment	2,117	2,105
II. Intangible assets	2,855	2,352
III. Financial assets	1,637	1,637
IV. According to equity accounting investments	6	6
V. Deferred taxes	1,943	1,948
Total non current assets	8,558	8,048
Total assets	18,157	17,223
LIABILITIES		
A Current liabilities		
I. Trade accounts payable	3,857	2,616
II. Financial liabilities	1,930	1,661
III. Income tax payable	78	18
IV. Other Provisions and accruals	2,250	2,298
V. Other liabilities	895	1,200
Total current liabilities	9,010	7,793
B Non current liabilities		
I. Financial liabilities	2,312	2,249
II. Deferred tax liabilities	830	725
III. Provisions for pensions	3,215	3,224
IV. Other liabilities	2,549	2,549
Total non current liabilities	8,906	8,747
C Shareholders' equity		
I. Subscribed capital	13,347	13,347
II. Capital reserve	540	540
III. Balance sheet loss	-5,926	-5,484
IV. Accumulated other comprehensive loss	-8,048	-8,056
V. Minority interests	328	336
Total shareholders' equity	241	683
Total liabilities	18,157	17,223

Consolidated cash-flow statement of TIPTEL AG
as of January 1 to June 30, 2006

	01.01. to 30.06.2006	01.01. to 30.06.2005
	KEUR	KEUR
1. Group net result for the year prior to tax on profits	./. 62	+ 342
2. Depreciation (+) / write-ups (-) on fixed assets	+ 279	+ 403
3. Interest increase (+)	+ 222	+ 259
4. Increase (+) / decrease (-) in provisions	./. 58	./. 74
5. Profit (-) / loss (+) from disposal of fixed assets	-	./. 1
6. Outflow (-) for interest	./. 35	./. 54
7. Outflow (-) for tax on profits	./. 50	./. 67
8. Increase (-) / decrease (+) in inventories, receivables and other assets	./. 576	./. 269
9. Increase (+) / decrease (-) in accounts payable from goods and services and other liabilities (without financing and investing activities)	+ 879	./. 86
10. Cash-flows from operating activities	+ 599	+ 453
11. Inflow (+) from tangible asset disposals	-	+ 1
12. Outflow (-) for investments in fixed assets	./. 173	./. 43
13. Outflow (-) for investments in intangible assets	./. 622	./. 613
14. Inflow (+) from financial asset disposals	-	+ 30
15. Inflow (+) from interest received	+ 1	+ 0
16. Cash-flows from investing activities	./. 794	./. 625
17. Inflow (+) from increase in borrowings	+ 581	+ 143
18. Outflow (-) for repayments on borrowings	./. 181	./. 75
19. Outflow (-) from interest	./. 128	./. 135
20. Cash-flows from financing activities	+ 272	./. 67
21. Change in cash and cash equivalents affecting cash-flow	+ 77	./. 239
22. Cash and cash equivalents at beginning of period	313	533
23. Cash and cash equivalents at end of period	390	294
- thereof liquid assets	366	219
- thereof pledged assets	24	75

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Schedule of TIPTEL Group equity capital as of June 30, 2005

	Subscribed capital	Capital reserve	Accumulated other comprehensive loss	Balance sheet loss	Total
	KEUR	KEUR	KEUR	KEUR	KEUR
As of 01.01.05	13,347	540	-8,302	-4,688	897
Net profit for the period			111	111	
Other neutral changes			16		16
As of 30.06.05	13,347	540	-8,286	-4,577	1,024

Schedule of TIPTEL Group equity capital as of June 30, 2006

	Subscribed capital	Capital reserve	Accumulated other comprehensive loss	Balance sheet loss	Shares of other share- holders	Total
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
As of 31.12.2005	13,347	540	-8,056	-5,484	336	683
Net loss for the period				-443	+140	-303
Currency translation			8			8
Distribution					-147	-147
As of 30.06.06	13,347	540	-8,048	-5,927	329	241

Segment reporting

PRIMARY SEGMENT 2006 (GEOGRAPHICAL SEGMENT)						
	Germany	Benelux	Rest of Europe	Intersegment transfer	Eliminations	Total
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Earnings						
Sales revenue with third parties	8,633	6,267	3,051	0		17,951
Inter-segment transfer	2,920	430	301	+3,651		0
Sales revenue incl. transfer	11,553	6,697	3,352	-3,651		17,951
Segment result from ordinary business activity	-142	370	-49		-47	132
Interest income						-221
Foreign currency exchange gains/loss						12
Other income/expenses						15
Income tax						-241
Annual loss						-303
Other Information						
Segment assets	21,255	3,418	3,313		-11,772	16,214
Segment debts	14,049	4,061	4,433		-5,535	17,008
Purchase costs for fixed tangible assets	143	28	2			173
Purchase costs for fixed intangible asset	618	4				622
Depreciation	228	24	27			279

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SECONDARY SEGMENT 2006 (BUSINESS AREAS)							
	ISDN	DECT	Analogue	Others	Security technology	Made-to- order production	Total
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Earnings							
Sales revenue with third parties	3,595	4,416	6,105	853	66	2,916	17,951
Inter-segment transfer							
Sales revenue incl. transfer	3,595	4,416	6,105	853	66	2,916	17,951
Segment result from ordinary business activity	-407	78	38	263	9	151	132
Interest income							-221
Foreign currency exchange gains/loss							12
Other income/expenses							15
Income taxes							-241
Annual loss							-303
Other information							
Segment assets	3,247	3,988	5,514	771	60	2,634	16,214
Segment debts	3,406	4,184	5,784	809	62	2,763	17,008
Purchase costs for fixed tangible assets	35	43	59	8		28	173
Purchase costs for fixed intangible assets	441	8	166	2		5	622
Depreciation	102	13	105	11		48	279

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PRIMARY SEGMENT 2005 (GEOGRAPHICAL SEGMENT)						
	Germany	Benelux	Rest of Europe	Interseg- ment transfer	Elimi- nations	Total
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Earnings						
Sales revenue with third parties	8,790	4,347	2,857	0		15,994
Inter-segment transfer	3,008	305	6	+3,319		0
Sales revenue incl. transfer	11,798	4,652	2,863	3,319		15,994
Segment result from ordinary business activity	417	278	-54		-51	590
Interest income						-257
Foreign currency exchange gains/loss						-9
Other income/expenses						18
Income taxes						-231
Annual profit						111
Other Information						
Segment assets	21,160	2,975	2,603		-10,295	16,443
Segment debts	14,141	3,877	3,764		-5,080	16,702
Purchase costs for fixed tangible assets	36	4	3			43
Purchase costs for fixed intangible assets	613					613
Depreciation	354	23	26			403

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SECONDARY SEGMENT 2005 (BUSINESS AREAS)							
	ISDN	DECT	Analogue	Others	Security technology	Made-to-order production	Total
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Earnings							
Sales revenue with third parties	4,013	1,716	7,169	1,063	49	1,984	15,994
Inter-segment transfer							
Sales revenue incl. transfer	4,013	1,716	7,169	1,063	49	1,984	15,994
Segment result from ordinary business activity	251	172	-198	233		132	590
Interest income							-257
Foreign currency exchange gains/loss							-9
Other income/expenses							18
Income tax							-231
Annual profit							111
Other Information							
Segment assets	4,125	1,764	7,370	1,093	51	2,040	16,443
Segment debts	4,190	1,792	7,487	1,110	51	2,072	16,702
Purchase costs for fixed tangible assets	11	5	19	3		5	43
Purchase costs for fixed intangible assets	485		127			1	613
Depreciation	155	12	231			5	403

Shareholder structure

TIPTEL AG shows the following shareholder structure by June 30, 2006:

Erhard Schäfer	11.5 per cent
Free float	88.5 per cent

Directors Holdings

The following shares were held by members of the Management Board and the Supervisory Board by June 30, 2006:

Management Board

Werner Materna	300
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Supervisory Board

Erhard Schäfer	600,460
Rudolf Breiden	10
Ulrike Theiner	101

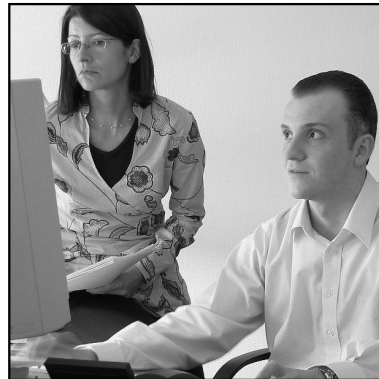
No TIPTEL shares were held by the other members of the executive bodies at the above mentioned cut-off date. No suscription rights were conferred on members of the executive bodies or other employees.

Service

All company reports of TIPTEL can be obtained in German and English language directly from the Internet under www.tiptel.de. In addition, under 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 for interim reports in 2006

November 30, 2006	Interim report 03/2006
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