



TIPTEL AG

Interim Report of the TIPTEL-Group

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

tiptel

Letter to the shareholders

Dear shareholders and business friends,

The first nine months of this year were a very eventful period for our company, internally as well as regarding the operative business. During the last months we arranged the structures within our organisation in a more efficient way and reduced our expenses to the minimum. Already after the first nine months these new structures have been stabilised.

Moreover, we experienced another highlight in the third quarter of this year. By means of a unique product launch in the thirtieth year since foundation of our company we documented our claim as leading specialist for innovative telecommunication solutions in the sector of telecommunication terminal devices as well as for computer and internet based voice and data communication. With the WLAN/DSL PBX systems tiptel 3011 / 3022 office and the tiptel WLAN DSL Gateway TIPTEL has already today obtained an outstanding position on the WLAN/DSL future market.

Overall, business in the third quarter of 2003 developed in a rather conservative way for the TIPTEL-Group. The sales markets relevant for us were marked by a generally persistent caution regarding investments. Within this market situation the success of our recently launched products will be postponed to the following quarters.

With regard to sales of these technologically challenging products extensive support is necessary for our sales partners. As part of our sales concept we offer a large programme consisting of roadshows, sales supporting measures, and intensive trainings for the new technologies to the specialised trade partners. Therefore, we are optimistic to achieve additional profits in this sector and, by this, to increase profitability constantly.

Werner Materna
Vorstand TIPTEL AG

A handwritten signature in black ink, appearing to read 'Werner Materna', written in a cursive style.

Business development

In the traditionally rather conservative third quarter the total turnover of 8.3 MEuros reached the level of the second quarter of 2003. Thus, we achieved an overall turnover of 25.2 MEuros in the first nine months. This is about 6.3 percent below the previous year's turnover of 26.8 MEuros.

In the analogue sector the economic weakness of the first half year on our target markets continued. After the first nine months of 2003 the proceeds of 10.6 MEuros were below those of the comparable previous year's period (12.4 MEuros).

The DECT business reached a turnover of 3.6 MEuros in the first nine months of 2003. Thus, revenues were slightly higher than the previous year's figures of 3.5 MEuros. In future, this positive trend will be supported by enlarging the product portfolio with our easyDECT series (tiptel *easyDECT* 1100, 3300, 5500).

For the beginning of 2004 we expect higher sales figures in the PBX sector. Besides, we could not continue the trend of the first half year in our ISDN business division. In total, the ISDN business increased by 0.4 percent compared to previous year. The successful product launch concerning the promising WirelessLAN/DSL technology and their successor products will influence the ISDN business even more positively in future.

Sales by business divisions (TEUR)

	01.01. – 30.09.2003	01.01. – 30.09.2002
ISDN	6,218	6,193
DECT	3,619	3,460
Analog	10,577	12,350
Security technology	103	215
Made-to-order production	3,185	3,239
Others	1,524	1,369
Total amount	25,226	26,826

Regarding our foreign sales subsidiaries we could continue the positive business development of the first half year for our Belgium subsidiary. A turnover plus of about 26.9 percent in the first nine months of 2003 confirms the lasting turnaround.

By realisation of concrete measures in the third quarter we have taken another step to achieve an increased profitability in the other foreign sales subsidiaries. In the third quarter we started concentrating the logistic support of the subsidiaries in Belgium, Switzerland and Austria in Ratingen. By the end of 2003 this process will be finalised for the foreign subsidiaries so that the released capacities can be used more efficiently for an intensive national market development. Thus, for the at present not satisfying sales business in Austria and Switzerland we anticipate a significantly improved business situation from the first two quarters of 2004 onwards.

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

	01.01. – 30.09.2003	01.01. – 30.09.2002
Germany	14,496	15,913
Benelux countries	6,103	5,309
Other European countries	4,627	5,604
Total amount	25,226	26,826

Earnings and cost development

In the first nine months the average purchase price was significantly below previous year's level. Due to the difficult economic situation sales prices underwent strong pressure. However, TIPTEL resisted such sales price alignments by accepting slight turnover losses.

Overall, we could keep the level of our operational expenses throughout the first nine months of 2003 constantly low. Our expenses (personnel, on material, depreciations) were reduced by 0.31 MEuros and, thereby, improved by 2.2 percent compared to the previous year. The position of other operational expenses has been adjusted by about 3.0 MEuros as this concerns special unique expenses in connection with the composition deed regarding the property in Kiel (please refer to the interim report for the period up to June 30, 2003).

In view of the earnings situation after the first nine months of 2003 we achieved earnings before interest, taxes, depreciation, and amortisation (EBITDA) of 0.8 MEuros and, thereby, improved the EBITDA compared to previous year's period by about 55 percent (2002: 0.4 MEuros). The EBITDA margin for the third quarter amounted to minus 2 percent. Compared to the previous quarter of 2003 it has to be taken into account that the earnings of the second quarter 2003 included unique earnings of about 0.7 MEuros. With operating earnings before interest and taxes (EBIT) of minus 0.2 MEuros in the first nine months of 2003 we obtained a significant improvement compared to previous year (minus 1.0 MEuros). Thus, we just slightly range below our expectations of a balanced EBIT.

The period's result amounts to minus 0.5 MEuros in the reporting period and improved by 0.8 MEuros compared to the previous year 2002: (minus 1.3 MEuros).

After minus 0.18 Euro in 2002 the earnings per share for the first nine months now amount to minus 0.11 Euro. For TIPTEL AG the earnings per share (HGB) improved by 0.02 Euro to minus 0.12 Euro compared to the previous year.

In view of the liquidity situation, the cash-flow from continuous business activity amounts to minus 0.2 MEuros by September 30, 2003. Thereby, the outflow of funds decreased by 0.3 MEuros in the first nine months of 2003.

Orders-on-hand

The orders-on-hand for TIPTEL AG and DFG amounted to 3.9 MEuros at the end of period by September 30, 2003 (September 30, 2002: 6.2 MEuros).

Investments

In the context of cost reduction measures we verified and adjusted our investments in the last nine months to a more focussed use. In the reporting period our investment volume was 0.14 MEuros below previous year's level of 0.33 MEuros. In the sector of Research & Development our expenses remained unchanged. Here, the main focus of investment activities referred to the development of the WirelessLAN/DSL technology. We see the efficiency and targeted precision of our investments in the due-date time and accurate launch of the Wireless/DSL PBX systems tiptel 3011 office and tiptel 3022 office as well as in the tiptel WLAN DSL Gateway solution in the third quarter. Also in future we will invest mainly in the development of these strongly growing sectors.

Staff

The total number of 278 employees by September 30, 2003 is composed of 234 employees within Germany and 44 employees abroad. Comparing previous year's figures, the number of employees was reduced by 3 (September 30, 2002: 281).

Investor Relations

The extensive cost reductions and the in time market launch of technologically trendsetting PBX systems were also acknowledged by the stock market. In the course of the third quarter TIPTEL shares improved from 0.83 Euro (July 1, 2003) to 1.74 Euro (September 30, 2003). With a share price of 2.75 Euro on September 9, 2003 a new peak level was reached.

By means of the consequently pushed consolidation of our business and our internal organisation we would like to affirm the confidence shown in our company for the future. We will actively communicate with analysts and investors upon publishing the results of the first nine months of 2003. At the occasion of a telephone conference we will report about the current development of our operative business as well as about the concrete results of the re-orientation of the Group in 2003.



tiptel 4011 XT: modulare PBX with system

Future business outlook

With an extensive know-how support we will assist our sales partners also for the coming market launch of the new DECT series products – tiptel *easy*DECT 5500, tiptel *easy*DECT 3300 as well as tiptel *easy*DECT 1100 – in December 2003.

At the same time we will push the focussed market development in the German and foreign sales markets during the next months. Thus, it is our target to increase the market share of TIPTEL AG in the sector of PBX systems significantly already in 2004. In order to put this on a solid basis, in parallel we will continue working on the consolidation of our Group both at home and abroad.

Considering the enlarged product portfolio and the active expansion of our sales concept we assume a stable sales increase by the end of the business year – even in case of an unchanged economic situation. For the fourth quarter already today a higher order level becomes apparent. It remains the management's priority objective to increase profitability even in a weak market situation. Thus, in view of the apparent consolidation of the order situation in the PBX sector, we expect a positive effect on our earnings situation from the fourth quarter 2003 onwards. For the total business year 2003 the management unalteredly expects to achieve the communicated turnover and earnings targets.

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 – except regarding the improved earnings situation due to the composition deed dated June 30, 2003 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 to December 31, 2002, remained unchanged for the period up to September 30, 2003.
2. The interim report of the TIPTEL Group for the period of January 1 to September 30, 2003 is in accordance with the 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 September 30th, 2003

	Interim Report III/2003 01.07.2003 to 30.09.2003	Interim Report III/2002 01.07.2002 to 30.09.2002	9-Month-Report 01.01.2003 to 30.09.2003	9-Month-Report 01.01.2002 to 30.09.2002
	TEUR	TEUR	TEUR	TEUR
Revenues	8,305	9,051	25,226	26,826
Other operating income	104	144	4,072	429
Changes in inventories of finished goods and work in progress	-23	-269	-77	-223
Other capitalized service	-	-	-	-
Cost of purchased materials and services	-4,410	-4,965	-12,869	-14,142
Personnel expenses	-2,987	-2,936	-8,712	-8,937
Depreciation and amortization	-259	-429	-1,022	-1,339
Other operating expenses	-1,185	-1,138	-6,855	-3,601
Others	-	-	-	-
Operating income / loss	-455	-542	-237	-987
Interest income and expenditure	-122	-123	-338	-317
Income from investments and participations	-	-	-	-
Income / expense from associated companies	-	-	-	-
Foreign currency exchange gains / losses	15	37	16	37
Other income / expense	14	-	41	-
Result before income taxes (and minority interest)	-548	-628	-518	-1,267
Income tax	-6	-6	-31	271
Extraordinary income / expenses	-	66	-	62
Result before minority interest	-554	-568	-549	-934
Minority interest	-	-	-	-
Net profit / loss in EUR	-554	-568	-549	-934
Earnings per share (basic)	-0.11	-0.11	-0.11	-0.18
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 September 30th, 2003

Assets		
	As of 30.09.2003	As of 31.12.2002
	TEUR	TEUR
Current Assets		
Cash and Cash Equivalents	465	954
Short-term Investments / Marketable securities	-	-
Trade accounts receivable	4,256	4,719
Accounts receivable due from related parties	-	-
Inventories	8,751	8,989
Prepaid expenses and other current assets	460	1,146
Others		93
Total Current Assets	13,932	15,901
Property, plant and equipment	2,860	4,772
Intangible assets	375	539
Investments	1,574	1,574
Equity investments	-	-
Notes receivable / loans	172	259
Goodwill	2	3
Deferred taxes	1,931	1,960
Other assets	-	-
Others	-	-
Total Non Current Assets	6,914	9,107
Total Assets	20,846	25,008
* without audit opinion		

Consolidated Balance sheet*

as of September 30th, 2003

Liabilities and shareholders' equity		
	As of	As of
	30.09.2003	31.12.2002
	TEUR	TEUR
Current liabilities		
Current portion of capital lease obligation	–	70
Short term debt and current portion of long-term debt	1,230	1,443
Trade accounts payable	3,226	3,421
Accounts payable due to related parties	23	23
Advance payments received	–	–
Accrued expenses	2,774	3,752
Deferred revenues	104	182
Income tax payable	19	55
Other current liabilities	1,218	1,393
Others	–	–
Total current liabilities	8,594	10,339
Long-term debt, less current portion	3,146	3,172
Capital lease obligations, less current portion	–	1,135
Deferred revenues	1,936	1,936
Deferred taxes	234	327
Pension accrual	3,168	3,168
Others	1,410	1,421
Total non-current liabilities	9,894	11,159
Minority interest	–	–
Shareholders' equity		
Share Capital	13,347	13,347
Additional paid-in capital	540	540
Treasury Stock	–	–
Accumulated deficit / retained earnings	–3,235	–2,584
Accumulated other comprehensive income / loss	–8,294	–7,793
Others	–	–
Total shareholders' equity	2,358	3,510
Total Liabilities and Shareholders' equity	20,846	25,008
* without audit opinion		

Cash-flow statement

as of January 1st to September 30th, 2003

	01.01 to 30.09.2003	01.01 to 30.09.2002
	TEUR	TEUR
1. Net profit (+) / loss (-) for the year prior to tax on profits and extraordinary items	./.	./.
	518	1,205
2. Depreciation (+) / write-ups (-) on fixed assets	+ 1,022	+ 1,339
3. Interest expenses	+ 350	+ 353
4. Increase / decrease of provisions	./.	./.
	978	332
5. Other expenses (+) / income (-) not affecting cash flows	+ 2	+ 528
6. Profit (-) / loss (+) from disposal of fixed assets	./.	./.
	15	3
7. Outflow (-) for Interest expenditure	./.	./.
	382	78
8. Outflow (-) for income taxes	./.	./.
	77	36
9. Increase (-) / decrease (+) in inventories, receivables and other assets	+ 855	+ 19
10. Increase (+) / decrease (-) in accounts payable and other liabilities (without financing and investing activities)	./.	./.
	502	1,119
11. Cash flows from operating activities	./.	./.
	243	534
12. Inflow (+) from tangible asset disposals	+ 38	+ 16
13. Outflow (-) for investments in tangible assets	./.	./.
	101	265
14. Outflow (-) for investments in intangible assets	./.	./.
	39	69
15. Inflow (+) from financial asset disposals	+ 86	+ 267
16. Inflow from interests	+ 9	+ 9
17. Cash flows from investing activities	./.	./.
	7	42
18. Inflow (+) from capital increase		+ 351
19. Inflow (+) from increase in borrowings		+ 16
20. Outflow (-) for repayments on borrowings	./.	./.
	239	454
21. Cash flows from financing activities	./.	./.
	239	87
22. Change in cash and cash equivalents	./.	./.
	489	663
23. Cash and cash equivalents at beginning of period	+ 954	+ 1,223
24. Cash and cash equivalents at end of period	+	+
	465	560
– thereof liquid assets	415	473
– thereof pledged assets	50	87

Schedule of TIPTEL Group equity capital as of September 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			-205	205	0
Net loss for the period				-934	-934
Other neutral changes			351		351
As of 30.09.02	13,347	540	-5,474	-3,420	4,993

Schedule of TIPTEL Group equity capital as of September 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 (IAS 8)			-654 ¹⁾		-654
As of 01.01.03	13,347	540	-8,447	-2,584	2,856
Transfers			102	-102	0
Net loss of the period				-549	-549
Other neutral changes			51		51
As of 30.09.03	13,347	540	-8,294	-3,235	2,358

¹⁾ When elaborating the second interim report 2003, 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 September 30th, 2003

	Germany	Benelux	Others in Europe	Inter- segment transfer	Elimi- nation	Total
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Earnings						
Sales revenue with third parties	14,496	6,103	4,627	0		25,226
Inter-segment transfer	5,565	144	46	+ 5,755		0
Total revenue incl. transfer	20,061	6,247	4,673	-5,755		25,226
Segment result from ordinary activity	-394	290	-268		-77	-449
Income taxes						-31
Other taxes						-69
Net loss						-549
Other information						
Segment assets	23,494	2,684	3,161		-10,424	18,915
Segment debts	15,813	3,360	4,571		-5,489	18,255
Purchase costs for fixed assets	91	1	9			101
Purchase costs for intangible assets	23		16			39
Depreciation / amortisation	884	64	74			1,022

Segment reporting

Primary reporting format 2002 (geographical segment)

as of January 1st to September 30th, 2002

	Germany	Benelux	Others in Europe	Inter- segment transfer	Elimi- nation	Total
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Earnings						
Sales revenue with third parties	15,913	5,309	5,604	0		26,826
Inter-segment transfer	3,863	222	322	+ 4,407		0
Total revenue incl. transfer	19,776	5,531	5,926	-4,407		26,826
Equity valuation of the result	-1,003	44	-623		372	-1,210
Income taxes						+ 271
Other taxes						-57
Extraordinary items						62
Net loss						-934
Other information						
Segment assets	23,930	2,789	4,107		-6,597	24,229
Segment debts	18,302	3,523	5,076		-5,597	21,304
Purchase costs for fixed assets	150	79	36			265
Purchase costs for intangible assets	69					69
Depreciation / amortisation	1,096	74	169			1,339

Segment reporting

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

	ISDN	DECT	Analog	Others	Security technology	Made-to- order production	Total
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Earnings							
Sales revenue with third parties	6,218	3,619	10,577	1,524	103	3,185	25,226
Inter-segment revenue							
Total revenue incl. transfer	6,218	3,619	10,577	1,524	103	3,185	25,226
Segment result from ordinary activity	-182	116	-863	100	-3	383	-449
Income taxes							-31
Other taxes							-69
Net loss							-549
Other information							
Segment assets	4,663	2,713	7,931	1,142	77	2,389	18,915
Segment debts	4,500	2,619	7,654	1,103	74	2,305	18,255
Purchase costs for fixed assets	25	14	42	6	1	13	101
Purchase costs for intangible assets	10	6	16	2		5	39
Depreciation / amortisation	374	32	444	46	5	121	1,022

Segment reporting

Secondary reporting format 2002 (sales by business divisions)

as of January 1st to September 30th, 2002

	ISDN	DECT	Analog	Others	Security technology	Made-to- order production	Total
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Earnings							
Sales revenue with third parties	6,193	3,460	12,350	1,369	215	3,239	26,826
Inter-segment revenue							
Total revenue incl. transfer	6,193	3,460	12,350	1,369	215	3,239	26,826
Segment result from ordinary activity	-881	267	-1,097	185	43	273	-1,210
Income taxes							+ 271
Other taxes							-57
Extraordinary items							62
Net loss							-934
Other information							
Segment assets	5,593	3,125	11,155	1,236	195	2,925	24,229
Segment debts	4,918	2,748	9,808	1,087	171	2,572	21,304
Purchase costs for fixed assets	61	34	123	13	2	32	265
Purchase costs for intangible assets	16	9	32	3	1	8	69
Depreciation / amortisation	469	25	631	69	2	143	1,339

Consolidated shares held

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

Managing Board	30.09.2003	31.12.2002
Werner Materna	300	300

Supervisory Board

Erhard Schäfer	2.610.489	2.610.489
Rudolf Breiden	10	10
Ulrike Theiner	101	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 30.09.2003

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.