



Interim report of the TIPTEL Group

for the period from January 1 to September 30, 2004

tiptel

Letter to the shareholders

Dear shareholders and business friends,

In the past three quarters we could continuously improve the earnings situation of our Group. Thus, in the third quarter of 2004 TIPTEL achieved an EBIT margin of 2.0 per cent with a total turnover of 7.47 MEuros. In the previous quarters the EBIT margin increased from - 5.1 per cent (Q3 2003) by 7.1 percentage points to 2 per cent (Q3 2004). With view to the first nine months of this business year our Group reached an EBIT margin of 1.2 per cent with a turnover of 24.59 MEuros. Thus, after the first nine months we correspond to our expectations regarding the earnings situation for the total business year 2004 and see ourselves in the consequent following-up of the pursued consolidation course.

With view to the general business development the conservative business trend of the midyear continued in the third quarter of 2004. Thus, we further on perceived a long lasting investment reticence in the market of small and medium-sized enterprises relevant for the TIPTEL Group.

Also within these market surroundings we could assert ourselves as leading specialist for innovative telecommunication systems in the sector of telecommunications terminal devices as well as for computer and Internet based voice and data communication. With our ample product portfolio we offer telecommunications solutions especially focussed on the requirements of small and medium-sized enterprises at a high level. Our market presence since 30 years confirms our competence as telecommunication specialist for small and medium-sized enterprises. During the past three months we could prove this claim by further new products. Thus, in the third quarter TIPTEL announced the market launch of the digital message center tiptel 570 office. Worldwide, the tiptel 570 office is the only device having a USB interface. Configuration of the substantial features as well as data transfer and archiving of any amount of voice messages can therefore be done easily and without any problems. Until the end of 2004 TIPTEL will bring the international version of the small ISDN PBX with Internet access tiptel 412 USB as well as the new answering

machine tiptel 215 clip to the market. The well-priced answering machine offers a digital recording capacity of 30 minutes. From the additionally included calling list a direct connection to the conversational partner can be established by key-stroke. In the fourth quarter the DECT telephone tiptel easy DECT XL2 will be launched. With its especially big keys as well as the emergency function it is the follow-up model of the successful model tiptel easyDECT XL.

With a focussed offensive in our sales partner network we countersteered the weak market trend. By a sector focussed information campaign we supported our sales partners upon targeted contacting of small and medium-sized section and professional groups. In parallel, by roadshows, sales-supporting measures and workshops we continued our substantial technological support for specialised traders.

We are confident that an expected market recovery in combination with our intensive co-operation with the specialised trade will result in an improved sales situation for TIPTEL in short- to midterm.

Parallel to the operative business we will follow-up the course of a continuous earnings improvement. For the current business year 2004 we assume to achieve the expected result of an EBIT margin of 1 per cent.



Werner Materna
Management Board

Business development

In the third quarter with 7.47 MEuros the turnover was slightly below the level of 2004's second quarter (7.75 MEuros). In total, we achieved a total turnover of 24.59 MEuros in the first nine months. Thus, we are by 3 per cent below previous year's amount of 25.23 MEuros.

in KEUR	01.01. – 30.09.2004	01.01. – 30.09.2003
ISDN	6,358	6,218
DECT	2,799	3,619
Analogue	10,814	10,577
Security technology	108	103
Made-to-order production	3,348	3,185
Other	1,161	1,524
Total amount	24,588	25,226

Parallel to a traditionally conservative business situation in the third quarter of every business year the sales revenues in our telecommunications core business (DECT, Analogue and ISDN) decreased in the first nine months of 2004 by 0.44 MEuros to 19.97 MEuros (2003: 20.41 MEuros). Furthermore, the non-availability of a special telephone in the ergonomics sector resulting from a supplier's change in connection with the new development of a follow-up model influenced the earnings situation in the DECT business sector (sales revenues of –23 per cent in the third quarter of 2004).

The turnover in the business sectors ISDN and Analogue increased slightly by 2 per cent each compared to reference values of 2003. With view to the innovative product range in these two business sectors this business development did not yet correspond to the expectations of the Management.

The sector of Made-to-Order-Production developed positively in the first nine months of 2004. Due to a major order receipt at the beginning of 2004 a turnover increase of 5 per cent could be achieved compared to the reference turnover of previous year. In this business sector TIPTEL puts its extensive production capacities and its know-how regarding the production of technically demanding products at the disposal of third parties.

With view to the regional turnover segmentation the Group closed the third quarter of 2004 in the other European countries with an increase of 9 per cent. Here, in the first nine months of the year TIPTEL reached a turnover of 5.0 MEuros. Especially in the Benelux countries we continued the positive business development of the first half year with a turnover plus of about 25 per cent in the third quarter of 2004. The pleasing turnover situation in the other European countries could only help to compensate the weaker trend of the German business to a limited extend. Here, in the last quarter the company achieved 3.7 MEuros (5.1 MEuros in 2003). By the positive development in the foreign business we see ourselves strengthend to use the synergies of our europe-wide presence more intensively in future.

In KEUR	01.01. - 30.09.2004	01.01. - 30.09.2003
Germany	12,623	14,496
Benelux countries	6,923	6,103
Other European countries	5,042	4,627
Total amount	24,588	25,226

Earnings situation and cost development

In the first nine month the average purchase price was slightly below previous year's level. The development of purchases prices observed since the beginning of 2004 continued in the third quarter. Overall, under consideration of the changes in inventories the material costs quota decreased by 0.6 percentage points to 50.7 per cent in the first nine months of 2004 (2003: 51.3 per cent).

Also in the third quarter of 2004 we could reduce the level of the operational costs in total . Thus, the positive tendency of the four preceding quarters has been continued. Our expenses in the personnel sector, for depreciations and other operational expenses decreased compared to previous year by 6.2 per cent to 12.73 MEuros (2003: 13.57 MEuros).

For the first time, in the third quarter of 2004 according to the accounting directives of IFRS development costs of the Group were activated as capitalised service. Thus, in future, development costs can be assigned to individual product projects and can, therefore, be put into direct relation to the turnover realisation. Balanced with deferred taxes hereof an amount of about 0.4 MEuros is included affecting earnings.

In view of the earnings situation after the first nine months of 2004 we achieved earnings before interest, taxes, depreciation and amortisation (EBITDA) of 0.93 MEuros after 0.84 MEuros in the previous year's period. For the third quarter we achieved 0.29 MEuros (2003: -0.17 MEuros). Proportional to the turnover of the third quarter 2004 this corresponds to an EBITDA margin of 3.9 per cent. Yet in the previous year's quarter the EBITDA margin amounted to minus 2 per cent.

In the third quarter the operating results (EBIT) improved from minus 0.43 MEuros in 2003 to positive 0.15 MEuros in 2004. This corresponds to an EBIT margin of 2 per cent. Thereof results an absolute earnings improvement of about 0.6 MEuros compared to previous year's period. In the nine months period of 2004 the operating results amounted to positive 0.31 MEuros after minus 0.18 MEuros in the reference period of previous year. This corresponds to an EBIT margin of 1.2 per cent compared to minus 0.7 per cent in previous year's period. Thus, compared to previous year's period an absolute EBIT improvement of 0.49 MEuros is shown. The EBIT of the reference period of 2003 included special earnings to the amount of 0.74 MEuros. Adjusted by these special earnings the previous year's EBIT amounted to -0.92 MEuros. Considered strictly from the operative point of view, the EBIT in the first nine months of 2004 improved by about 1.2 MEuros.

Due to increased tax expenses of 0.2 MEuros in the third quarter of 2004 the period's result in the third quarter of 2004 amounts to -0.17 MEuros (2003: -0.55 MEuros). In the nine months period the period's result amounted to -0.31 MEuros (2003: -0.55 MEuros). The earnings per share in the first nine months of 2004 amount to -0.06 Euros after -0.11 Euros in 2003.

Balance sheet date, investments and liquidity

In 2004 the cash-flow resulting from the operative sector is positive for the first time and amounts to positive 0.1 MEuros in the nine months period of 2004. Thus, the cash-flow could be improved by 0.07 MEuros compared to previous year's period.

In the first nine months of 2004 TIPTEL invested in total 0.75 MEuros and is therefore above previous year's level. The main focus of the investment activity lay in development activities regarding the business sectors relevant for TIPTEL. In the sector of research and development expenses are with 1,9 MEuros on previous year's level and included partial capitalised service. With completion of the message center tiptel 570 office the cornerstone for a completely new analogue voice-mail and message center generation was laid which will be continued with two further devices in 2005. For the first time, configuration of the device and digital storage of messages via PC are possible.

The analogue PBX systems were subject to an extensive redesign with numerous additional features whereby especially the various requirements of the different European markets and the again increasing significance of analogue PBX systems was observed.

The expansion of the PBX family tiptel 3011/3022 was advanced further on whereby now a modular ISDN port extension is available, too.

The migration of voice and data is still an important development focus whereas especially the issue of VoIP (voice over IP) has a high significance in the basic research activities of our development sector.

After the first nine months of 2004 the Group reached an equity ratio of 7.3 per cent (2003: 11.3 per cent).

Orders-on-hand

At the cut-off date September 30, 2004 the orders-on-hand for TIPTEL AG and DFG amounted to 2.9 MEuros (September 30, 2003: 3.9 MEuros).

Staff

At the end of the third quarter TIPTEL employed 274 persons in the Group, thereof 232 in Germany (September 30, 2003: 234) and 42 persons abroad (September 30, 2003: 44). Compared to previous year's period the number of employees was reduced by about 1.4 per cent.

Investor Relations

By frank investor relations activities TIPTEL still endeavours to create solid mutual trust for the future. Thus, the Management Board appreciates the substantial changes regarding the ad-hoc publicity as well as in the sector of Directors' Dealings and insider regulations which were implemented by the Anlegerschutzverbesserungsgesetz (AnSVG - Improvement of Investor Protection Act).

Future business outlook

Our qualitative high-class product solutions for small and medium-sized enterprises offer us advantages compared to competitors. By forthcoming product innovations in the last quarter of 2004 as well as in the course of 2005 we will further enlarge this position. A main focus of the development activities in the course of 2005 will be put on developing new voice over IP (VoIP) solutions. By the target-group focussed positioning of our product portfolio we expect an improved sales situation for TIPTEL upon a rise in the propensity to invest in our target markets of small and medium-sized enterprises.

By the measures realised in 2002/03 we could achieve considerable cost saving potentials in the past quarters. The advantages of our significantly more efficient organisation structure became obvious in the operative business. In the second half of 2004 the Management Board and the Supervisory Board in accordance with the workers' council and the total workforce decided on further steps in order to successfully reach the self-set targets by more cost efficient and more flexible structures. By adapting the working time and special allowances to the current requirements of the Group the workforce showed additional flexibility and supports the Management in its efforts.

In the first nine months of 2004 we achieved an EBIT margin of 1.2 per cent and are confident to reach the earnings prognosis of an EBIT margin of 1 per cent for the total business year 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 September 30, 2004.
2. The interim report of the TIPTEL Group for the period of January 1st to September 30th, 2004 is in accordance with the International Financial Reporting Standards (IFRS) in connection with ISA 34.
3. 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 2003.

Consolidated profit and loss account* as of January 1st to September 30th, 2004

	Interim Report III/2004	Interim Report III/2003	9-Month-Report	9-Month-Report
	01.07.2004 to 30.09.2004	01.07.2003 to 30.09.2003**	01.01.2004 to 30.09.2004	01.01.2003 to 30.09.2003**
	KEUR	KEUR	KEUR	KEUR
Revenues	7,465	8,305	24,588	25,226
Other operating income	60	104	281	1,051
Changes in inventories of finished goods and work in progress	-280	-23	59	-77
Other capitalized service	583	-	583	-
Cost of purchased materials and services	-3,663	-4,410	-12,530	-12,869
Personnel expenses	-2,738	-2,987	-8,463	-8,712
Depreciation and amortization	-140	-259	-627	-1,022
Other operating expenses	-1,145	-1,185	-3,639	-3,834
Operating loss / income	142	-455	252	-237
Interest income and expenditure	-110	-122	-327	-338
Foreign currency exchange gains / losses	-7	15	13	16
Other income / expense	14	14	41	41
Result before income taxes (and minority interest)	39	-548	-21	-518
Income tax	-205	-6	-292	-31
Result before minority interest	-166	-554	-313	-549
Net loss/profit	-166	-554	-313	-549
Earnings per share (basic) in EUR	-0.03	-0.11	-0.06	-0.11
Weighted average shares outstanding (basic) in EUR	5,220,972	5,220,972	5,220,972	5,220,972

* without audit opinion

** for comparability previous year's figures were presented according to the quarterly report of the year 2004

Consolidated Balance sheet* as of September 30th, 2004

Assets

	As of 30.09.2004	As of 31.12.2003
	KEUR	KEUR
Current Assets		
Cash and Cash Equivalents	383	1,164
Trade accounts receivable	3,572	4,016
Inventories	8,206	7,699
Advanced payments on inventories	–	12
Prepaid expenses and other current assets	332	297
Total Current Assets	12,493	13,188
Property, plant and equipment	2,577	2,702
Intangible assets	654	402
Investments	1,645	1,645
According to equity accounting investments	6	6
Notes receivable / loans	58	144
Goodwill	–	1
Deferred taxes	2,035	2,067
Others	–	1
Total Non Current Assets	6,975	6,968
Total Assets	19,468	20,156

* without audit opinion

Consolidated Balance sheet* as of September 30th, 2004

Liabilities and shareholders' equity

	As of 30.09.2004	As of 31.12.2003
	KEUR	KEUR
Current liabilities		
Short term debt and current portion of long-term debt	1,855	1,951
Trade accounts payable	3,490	2,966
Accounts payable due to related parties	1	1
Provisions	2,324	2,668
Deferred revenues	112	172
Taxes on income liabilities	–	60
Other current liabilities	967	1,409
Total current liabilities	8,749	9,227
Long-term debt, less current portion	2,769	2,804
Deferred revenues	1,773	1,773
Deferred taxes	264	151
Pension accrual	3,220	3,198
Others	1,265	1,258
Total non-current liabilities	9,291	9,184
Shareholders' equity		
Share Capital	13,347	13,347
Additional paid-in capital	540	540
Accumulated deficit / retained earnings	–4,462	–3,708
Accumulated other comprehensive income / loss	–7,997	–8,434
Total shareholders' equity	1,428	1,745
Total Liabilities and Shareholders' equity	19,468	20,156

* without audit opinion

Cash-flow statement as of January 1st to September 30th, 2004

	01.01 to 30.09.2004		01.01 to 30.09.2003	
	KEUR		KEUR	
1. Group net loss (-) for the year prior to tax on profits and extraordinary items	./.	21	./.	518
2. Depreciation (+) / write-ups (-) on fixed assets	+	627	+	1,022
3. Interest expenses (+)	+	334	+	350
4. Increase / decrease in provisions	./.	321	./.	978
5. Other expenses (+) / income (-) not affecting cash flows		-	+	2
6. Profit (-) / loss (+) from disposal of fixed assets	./.	9	./.	15
7. Outflow (-) for Interest	./.	175	./.	108
8. Outflow (-) for tax on profits	./.	202	./.	77
9. Increase (-) / decrease (+) in inventories, receivables and other assets	./.	350	+	855
10. Increase (+) / decrease (-) in accounts payable and other liabilities (without financing and investing activities)	+	218	./.	502
11. Cash flows from operating activities	+	101	+	31
12. Inflow (+) from tangible asset disposals	+	10	+	38
13. Outflow (-) for investments in tangible assets	./.	147	./.	101
14. Outflow (-) for investments in intangible assets	./.	606	./.	39
15. Inflow (+) from financial asset disposals	+	86	+	86
16. Inflow (+) from interest received	+	1	+	9
17. Cash flows from investing activities	./.	656	./.	7
18. Inflow (+) from increase in borrowings	+	251		-
19. Outflow (-) for repayments on borrowings	./.	93	./.	239
20. Outflow (-) for interest	./.	385	./.	274
21. Cash flows from financing activities	./.	227	./.	513
22. Change in cash and cash equivalents affecting cash-flow	./.	782	./.	489
23. Cash and cash equivalents at beginning of period		1,164		954
24. Cash and cash equivalents at end of period		382		465
- thereof liquid assets		347		415
- thereof pledged assets		35		50

Schedule of TIPTEL Group equity capital as of September 30th, 2003

	Issued capital	Capital reserve	Retained earnings	Net loss for the period	Total
	KEUR	KEUR	KEUR	KEUR	KEUR
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

Schedule of TIPTEL Group equity capital as of September 30th, 2004

	Issued capital	Capital reserve	Retained earnings	Net loss for the period	Total
	KEUR	KEUR	KEUR	KEUR	KEUR
As of 01.01.2004	13,347	540	-8,434	-3,708	1,745
Transfers			441	-441	0
Net loss of the period				-313	-313
Other neutral changes			-4		-4
As of 30.09.2004	13,347	540	-7,997	-4,462	1,428

Segment reporting

Primary reporting format 2004 (geographical segment) as of January 1st to September 30th, 2004*

	Germany	Benelux	Others in Europe	Inter- segment transfer	Elimi- nation	Total
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Earnings						
Sales revenue with third parties	12,623	6,923	5,042	0		24,588
Inter-segment transfer	5,581	519	6	+6,106		0
Total revenue incl. transfer	18,204	7,442	5,048	-6,106		24,588
Segment result from ordinary activity	-143	462	-115		49	253
Interest income and expenditure						-327
Foreign currency exchange gains/losses						+13
Other income/expenses						+41
Income taxes						-293
Net loss						-313
Other information						
Segment assets	20,683	3,272	3,279		-9,800	17,434
Segment debts	14,892	3,921	5,172		-6,210	17,775
Purchase costs for fixed assets	137	8	2			147
Purchase costs for intangible assets	595		11			606
Depreciation / amortisation	538	35	54			627

* for improved comparison parts of the segment reporting were presented according to the consolidated profit and loss account

**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
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
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						
	-216	304	-212		-113	-237
Interest income and expenditure						-338
Foreign currency exchange gains/losses						+16
Other income/expenses						+41
Income taxes						-31
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

* for comparability previous year's figures were presented according to the quarterly report of the year 2004

**Secondary reporting format 2004 (sales by business divisions)
as of January 1st to September 30th, 2004***

	ISDN	DECT	Analog	Others	Security technology	Made-to- order production	Total
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Earnings							
Sales revenue with third parties	6,358	2,799	10,814	1,161	108	3,348	24,588
Inter-segment revenue							
Total revenue incl. transfer	6,358	2,799	10,814	1,161	108	3,348	24,588
Segment result from ordinary activity							
	-135	296	-211	54	-9	258	253
Interest income and expenditure							-327
Foreign currency exchange gains/losses							+13
Other income/expenses							+41
Income taxes							-293
Net profit							-313
Other information							
Segment assets	4,508	1,984	7,668	823	77	2,374	17,434
Segment debts	4,597	2,023	7,818	839	78	2,420	17,775
Purchase costs for fixed assets	38	17	65	7	1	20	147
Purchase costs for intangible assets	295	3	303	1		4	606
Depreciation / amortisation	250	15	321	33	1	7	627

* for improved comparison parts of the segment reporting were presented according to the consolidated profit and loss account

**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
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
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							
	-130	147	-775	113	-2	410	-237
Interest income and expenditure							-338
Foreign currency exchange gains/losses							+16
Other income/expenses							+41
Income taxes							-31
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

* for comparability previous year's figures were presented according to the quarterly report of the year 2004

Shareholder structure by September 30, 2004

TIPTEL AG shows the following shareholder structure by September 30, 2004:

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 September 30, 2004:

Management Board	Shares
Werner Materna	300

Supervisory Board	
Erhard Schäfer (Chairman of the Supervisory Board)	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 subscription 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. 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 in 2004

November 30, 2004	3rd interim report 2004
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