

# 2004 Quarterly Report

**PANDATEL GROUP**

(pursuant to US-GAAP)

	Jan. 1 – March 31, 2004	Jan. 1 – March 31, 2003
Sales revenues (in €000)	3,067	3,849
Loss before income taxes (in €000)	-2,635	-2,017
Net loss for the period (in €000)	-1,678	-1,307
Net loss per share (in €)	-0.23	-0.18
Employees*	179	174

\*average number according to entry date

## First quarter: weak business momentum, but successful CeBIT participation

The first quarter of Fiscal Year '04 was much influenced by the largest product offensive in Pandatel's history. The company introduced 15 new products at the CeBIT. Additional relevant events during the first months:

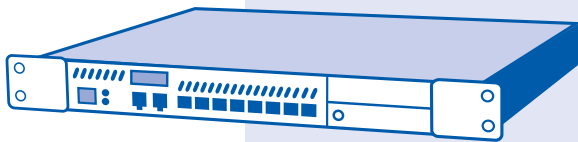
— Effective as of 1 April 2004, Norbert Wienck was appointed CEO of Pandatel AG. Formerly, he acted as board member and was responsible for Finance & Controlling as well as Production. CEO Heinrich-J. Kraus left the enterprise at the end of the first quarter. Wienck plans to swiftly implement the strategy he and his predecessor jointly decided on and to reduce the cost ratio.

— Project business is continually increasing: In the first quarter, Pandatel was able to achieve 20 % of its revenue based on specific projects solutions and by signing various OEM agreements. That is where the recently established department Business Development shows initial positive results. Our goal is to increase this share to 30 % by the end of the year and to achieve 80 % of the revenue

based on project and OEM business in the medium term. Large projects require thorough preparation and will increase production planning reliability as well as reduce margin pressure.

— Optimizing the product portfolio: At the beginning of the current year the enterprise has launched a product offensive and checked the profitability along with the prospects of the complete product range. Items that are no longer profitably marketable will be removed from the range in the coming months thus considerably streamlining the portfolio.

Business has not stabilized during the first three months. Being traditionally the weakest quarter of the year in the network market, Pandatel's sales revenue totaled € 3.1m and net loss amounted to € 1.7m. External factors for the decrease in turnover by 20 % are the continually strong euro as well as prices being constantly under pressure. We must assume the last-mentioned factor to remain industry-specific – another finding of the CeBIT.



FOMUX C100

## FOMUX C100: Optical network connection for the mid-market

A large number of visitors to Pandatel's CeBIT stand showed interest in the FOMUX C100. This fiber optic multiplexer is compact and attractively priced enabling small enterprises to benefit from the advantages of optical networks for network access, LAN expansion or computer centers. The FOMUX C100 is suitable for use in a wide variety of corporate infrastructures: data speeds from 100 Mbps to 2.5 Gbps and all protocols are supported. It is capable of transmitting up to eight different applications via a single fiber pair with throughput rates of up to 20 Gbps. Since early March, the multiplexer has complemented the business area Optical Systems.

### Numerous CeBIT leads

Pandatel is very contented with the results of the worldwide number one industry trade show – the CeBIT. The variety of new products made a positive impression on the visitors to our stand. The co-operation with the network integrator Damovo that was also present on the Pandatel stand resulted in numerous power provider leads. The sales team developed new business with some distributors and has launched interesting projects with large customers e.g. in Scandinavia. Representatives of Pandatel and Siemens met during the trade show in order to sign the Siemens HiPath Ready Net contract concerning the new multiplexer C-MUX-155.

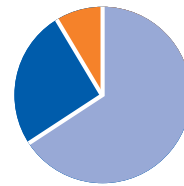
### New management structure: CEO Norbert Wienck head of the Executive Committee

Starting 1 April 2004, Norbert Wienck leads the Pandatel AG acting as sole board member. He shares the management tasks with his three Vice Presidents Ilan Elad responsible for Sales, Holger Rinne responsible for Finance & Operations as well as Jürgen Schröder responsible for Research & Development. Together, they form the recently established Executive Committee. Norbert Wienck puts his management emphasis on the implementation of the growth and

profitability strategy developed in the previous year. His goal is to make the company profitable by 2005 and to continually increase net margins.

### ProVit to raise profitability and to optimize efficiency

In addition to margin improvement and revenue increase, Pandatel AG takes great effort in reducing the operating cost. The ProVit program which has started earlier this year shall save € 2m in 2004. Organization optimization encompasses the largest share of this sum: Main aspects of this program are order logistic improvement as well as least-cost purchasing. An integral part of this program is a package of immediate actions for all divisions. They are to become effective in the coming quarters. Internal processes will improve based on a continual process and planning quality will increase. The enterprise intends to implement the cost-cutting program without reducing its staff – no employees shall be dismissed due to the taken measures.



- Connectivity Products 65%
- Access Multiplexers 26%
- Optical Systems 9%

Sales by business area

### Reducing production cost by streamlining the product range

Limited lot sizes and thus increased production cost have negative impact on the margins of the current product range. For this reason, streamlining the product range i.e. reducing the number of items from 2,200 to approximately 1,200 constitutes one of the most important marketing and sales tasks that is to be finished by September. Pandatel does not reduce unit cost alone but inventory levels and administration as well. Modular structures are considered priority during the development of modems and converters.

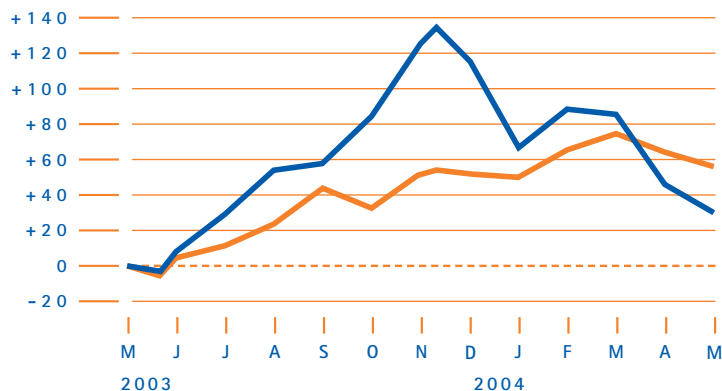
### Europe provides agreeable results

On a worldwide basis, the group achieved sales revenues of approximately € 3.1m in the first quarter of 2004. The nearly 20 % decrease (Q1/2003: € 3.8m) was caused by the decline in demands by dollar customers in the USA and Asia. Euro devaluation could be compensated only on a small scale basis. However, Pandatel was able to achieve positive revenue in EMEA (Europe, Middle East,

Africa). EMEA could continually strengthen its position as Pandatel's major performer with a revenue increase from 18.9 % to € 2.2m (Q1/2003: € 1.9m). In particular, last year's weak domestic market seemed to be most inclined to invest: Germany again reached an acceptable result by increasing its revenue by 59.5 % (€ 0.7m revenue) compared to previous year's first quarter. UK as well as "Africa and Middle East" achieved excellent results and increased their sales revenue by 89.3 % and 88.1 % respectively. Eastern Europe alone had to face considerable decrease as one of the top-selling regions. In the coming months, Pandatel expects significantly higher revenues due to reorganizing its sales partner structure. Due to EU enlargement, Pandatel considers this region to gain importance. Main customers in this area are banks and energy suppliers.

Performance of the Pandatel share compared to reference indices in %

■ Pandatel AG  
 ■ Technology All Share



To reopen the American market Pandatel appointed three additional sales people. The region had a 7.6 % share of the total revenue in the first quarter of 2004 (€ 0.2m). The Asian development was not quite as weak. Business decreased by 46.1 % to € 0.6m. The region has a sales revenue share that decreased to 20.0 % during the reporting period. Asia's strongest markets remain Hong Kong, followed by Singapore, the PR China and Pakistan. Together, they cover 80 % of the region's business. Pandatel expects new momentum in the region through its recently acquired partners in India and on the Philippines.

### Revenue decrease and development cost outweigh cost reduction

Sales revenues of € 3.1m (Q1/2003: € 3.8m) compare to production cost of € 2.1m. The operational result totals € -2.8m (Q1/2003: € -2.4m). Sales and administration cost have considerably reduced whereas development cost has significantly increased mainly caused by establishing and expanding both the development departments

in Israel and in Germany. Thus a prior-tax result (EBT) of € -2.6m (Q1/2003: -2.0m) was achieved. Net loss after taxes amounts to € 1.7m i.e. 28 % above last year's first quarter (net loss: € 1.3m).

Cash flow decreased from € -0,9m to € -1.3m. Cash flow from investment activities changed on a larger scale: Liquid resources were redirected to short term investment shares and securities in order to profit from increasing investment incomes. As a result, the cash flow from investment activities decreased from € 2.35m to € -12.7m.

Still, the rate of new orders does not show any trend reversion: The amount of new orders totals a value of € 3.1m i.e. by 36 % below previous year's value. As of 31 March 2003 the order books showed € 3.9m whereas this year's order books showed € 2.0m.

## Segment results

	Reporting period	External sales		Intra-group sales		EBT	
		€ 000	in %	€ 000	in %	€ 000	in %
EMEA	31 March 2004	2,219	72.4	1,339	100.0	-2,283	86.6
	31 March 2003	1,866	48.5	1,350	100.0	-1,700	84.3
The Americas	31 March 2004	234	7.6	0	0.0	-95	3.6
	31 March 2003	844	21.9	0	0.0	-184	9.1
Asia Pacific	31 March 2004	614	20.0	0	0.0	-257	9.8
	31 March 2003	1,139	29.6	0	0.0	-133	6.6
Group	31 March 2004	3,067	100.0	1,339	100.0	-2,635	100.0
	31 March 2003	3,849	100.0	1,350	100.0	-2,017	100.0

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Total assets breakdown in the regions as follows: EMEA € 41,416,000 (Q1/2003: € 42,465,000), The Americas € 396,000 (Q1/2003: € 373,000) and Asia Pacific € 1,670,000 (Q1/2003: € 2,236,000).

Net interest income of € 103,000 (Q1/2003: € 266,000) was generated in EMEA. Of this, € 106,000 related to interest income (Q1/2003: € 267,000) and € 3,000 related to interest expenses (Q1/2003: € 1,000).

	Reporting period	Sales		Gross result	
		€ 000	in %	€ 000	in %
Access Multiplexers	31 March 2004	801	26.1	304	20.3
	31 March 2003	1,145	29.7	610	29.5
Connectivity Products	31 March 2004	2,000	65.2	1,080	72.0
	31 March 2003	2,198	57.1	1,124	54.4
Optical Systems	31 March 2004	266	8.7	115	7.7
	31 March 2003	506	13.1	334	16.2
Group	31 March 2004	3,067	100.0	1,499	100.0
	31 March 2003	3,849	100.0	2,068	100.0

## Directors' holdings as of 31 March 2004

	No. of shares	Percentage of the capital stock in %	Stock options
<b>Executive board</b>			
Heinrich-J. Kraus*	0	0	25,000
Norbert Wienck	0	0	49,999
<b>Supervisory board</b>			
Axel Haas	50,000	0.69	-
Uwe Hannig	200	<0.01	-
Steffen Leistner	1,145	0.02	-

\*resigned as of 31 March 2004

## Financial calendar

AGM	27 May 2004
Semi-annual report	11 August 2004
Q3 report	11 November 2004
Publication of annual financial statements 2004	March 2005
AGM	exp. 19 May 2005

## Analysts see potential

The Pandatel share decreased by app. 15 % in the reporting period. Previous quarter's very positive development could not be repeated. Analysts expect share prices to rise and consider the current low price attractive for buyers. Thus, analysts of AC Research recommend to accumulate Pandatel shares because they consider them to be moderately valued. [Source: AC Research, 22 March 2004]

During the first quarter 2004, Augusta Technologie AG slightly reduced Pandatel holdings from 57.9 % to 56.2 %. Accordingly, Augusta holds 4,060,516 Pandatel shares and free float increased to nearly 44 %.

## Shareholder structure

Augusta Technologie AG	56.2%
Free float	43.8%

## Accounting and valuation principles

These consolidated financial statements have been prepared in line with US Generally Accepted Accounting Principles (US-GAAP) and are denominated in euros. The consolidated financial statements include Pandatel AG as well as Pandatel Inc., USA, Pandatel Asia Pacific Pte Ltd, Singapore and Pandatel Ltd., Israel, in which Pandatel AG had a controlling financial interest (100 % of the voting rights). The statements of the individual companies were drawn up in line with uniform accounting and valuation principles in order to facilitate their inclusion in the consolidated financial statements. All companies included in the consolidation use the same recording date for the statements. The capital consolidation has been undertaken in line with the so-called book value method by offsetting the cost of acquisition against the proportionate stake in the shareholders' capital of the subsidiary at the time of first inclusion in the consolidation. No difference remained as a result of the consolidation. Loans and other receivables and liabilities between the consolidated companies are offset against each other. Income from intra-group sales as well as other intra-group income are offset against the corresponding expenses. Interim earnings or losses are eliminated.

## Consolidated Balance Sheet as of 31 March 2004

Assets		
€ 000	Quarterly report 31 March 2004	Annual financial statement 31 Dec. 2003
<b>Current assets</b>		
Cash and cash equivalents	8,369	22,425
Short-term investments/marketable securities	15,214	2,820
Trade accounts receivable (net)	3,759	5,547
Inventories	7,941	7,366
Deferred taxes	104	48
Prepaid expenses and other current assets	1,006	638
<b>Total current assets</b>	<b>36,393</b>	<b>38,844</b>
<b>Non-current assets</b>		
Property, plant and equipment	1,970	1,926
Intangible assets	1,115	1,231
Deferred taxes	3,887	2,990
Other assets	117	83
<b>Total non-current assets</b>	<b>7,089</b>	<b>6,230</b>
<b>Total assets</b>	<b>43,482</b>	<b>45,074</b>



## Consolidated Balance Sheet as of 31 March 2004

### Liabilities and shareholders' equity

€ 000	Quarterly report 31 March 2004	Annual financial statement 31 Dec. 2003
<b>Current liabilities</b>		
Current portion of capital lease obligation	12	0
Trade accounts payable	1,146	969
Liabilities against affiliated companies	0	25
Accrued expenses	768	873
Accruables and liabilities for income taxes	164	138
Other current liabilities	538	544
<b>Total current liabilities</b>	<b>2,628</b>	<b>2,549</b>
<b>Non-current liabilities</b>		
<b>Total non-current liabilities</b>	<b>0</b>	<b>0</b>
Minority interest	0	0
<b>Shareholders' equity</b>		
Share capital	7,225	7,225
Additional paid-in capital	33,423	33,408
Retained earnings	336	2,014
Accumulated other comprehensive income	-130	-122
<b>Total shareholders' equity</b>	<b>40,854</b>	<b>42,525</b>
<b>Total liabilities and shareholders' equity</b>	<b>43,482</b>	<b>45,074</b>

## Consolidated Income Statement

€ 000	01 Jan. 2004 - 31 March 2004	01 Jan. 2003 - 31 March 2003
Sales	3,067	3,849
Production cost	-2,055	-2,406
<b>Gross profit</b>	<b>1,012</b>	<b>1,444</b>
Sales cost	-1,269	-1,826
General and administrative expenses	-1,035	-1,183
Research and development expenses	-1,595	-788
Other income*	81	36
<b>Operating income/loss</b>	<b>-2.805</b>	<b>-2.316</b>
Interest income	103	266
Foreign currency exchange gains	68	32
Other income/expenses	0	0
<b>Earnings before income taxes (and minority interest)</b>	<b>-2,635</b>	<b>-2,017</b>
Income tax	957	710
<b>Result before minority interest</b>	<b>-1,678</b>	<b>-1,307</b>
Minority interest	0	0
<b>Net income/loss</b>	<b>-1,678</b>	<b>-1,307</b>
Earnings per share (undiluted) in €	-0.23	-0.18
Earnings per share (diluted) in €	-0.23	-0.18
Weighted average shares outstanding (undiluted)	7,225,000	7,225,000
Weighted average shares outstanding (diluted)	7,275,099	7,236,675

\*Last year, "Other income" was allocated to "Other income/expenses" causing a change in the "Operating income/loss" in Q1/2003 (pursuant to Quarterly report 2003: € -2,352,000).

## Consolidated Statement of Cash Flow

€ 000	01 Jan. 2004 - 31 March 2004	01 Jan. 2003 - 31 March 2003
Net loss before extraordinary items	-1,678	-1,307
Depreciation on tangible assets	344	318
Personnel expenses for stock options	15	74
Loss from sales of tangible assets	-17	-2
<b>Cash flow</b>	<b>-1,335</b>	<b>-918</b>
Changes in		
trade accounts receivable	1,787	1,689
inventories	-576	-316
other assets which cannot be classified as investing or financing activities	-339	-1,150
Changes in		
trade accounts payable	178	419
deferred taxes	-953	-791
other liabilities which cannot be classified as investing or financing activities	-120	383
<b>Cash flow from operating activities</b>	<b>-1,358</b>	<b>-684</b>
Income from disposals of fixed assets	141	33
Payment for investments in tangible assets	-354	-125
Payment for investments in intangible assets	-38	-36
Income from the sale of securities	0	2,488
Payments for investments in financial assets	-36	-9
Payments owing to investments of financial resources as part of short-term treasury transactions	-12,410	0
<b>Cash flow from investing activities</b>	<b>-12,698</b>	<b>2,351</b>
Changes in long-term debt	0	0
<b>Cash flow from financing activities</b>	<b>0</b>	<b>0</b>
<b>Changes in cash balances impacting earnings</b>	<b>-14,057</b>	<b>1,668</b>
<b>Changes in cash balances owing to exchange rate differences</b>	<b>0</b>	<b>0</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>22,425</b>	<b>24,785</b>
<b>Cash and cash equivalents at end of period</b>	<b>8,369</b>	<b>26,453</b>
Interest paid	3	1
Tax paid	41	71

## Statement of Changes in Shareholders' Equity

	OTHER CHANGES IN SHAREHOLDERS' CAPITAL NOT AFFECTING EARNINGS							
	SUBSCRIBED Shares	CAPITAL Amount	Capital reserves	Revenue reserves	Profit	Accumulated	Available-	Total
					brought forward	exch. rate adjustments	for-sale securities	sharehold' capital
	Units	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
<b>As of 31 December 2002</b>	<b>7,225,000</b>	<b>7,225</b>	<b>33,132</b>	<b>3,023</b>	<b>4,662</b>	<b>89</b>	<b>-208</b>	<b>47,923</b>
Stock option program	-	-	74	-	-	-	-	74
Allocation to profit reserves	-	-	-	-	-	-	-	-
Net income/loss for the year	-	-	-	-	-1,307	-	-	-1,307
Dividends	-	-	-	-	-	-	-	-
Unrealized exchange and currency diff. after deducting taxes of € -140,000	-	-	-	-	-	-170	-34	-204
<b>As of 31 March 2003</b>	<b>7,225,000</b>	<b>7,225</b>	<b>33,206</b>	<b>3,023</b>	<b>3,355</b>	<b>-81</b>	<b>-242</b>	<b>46,486</b>
<b>As of 31 December 2003</b>	<b>7,225,000</b>	<b>7,225</b>	<b>33,408</b>	<b>3,023</b>	<b>-1,009</b>	<b>-42</b>	<b>-80</b>	<b>42,525</b>
Stock option program	-	-	15	-	-	-	-	15
Allocation to profit reserves	-	-	-	-	-	-	-	-
Net income/loss for the year	-	-	-	-	-1,679	-	-	-1,679
Dividends	-	-	-	-	-	-	-	-
Unrealized exchange and currency diff. after deducting taxes of € -4,000	-	-	-	-	-	94	11	104
Unrealized exchange and currency diff. not affecting tax liability	-	-	-	-	-	-	-113	-113
<b>As of 31 March 2004</b>	<b>7,225,000</b>	<b>7,225</b>	<b>33,423</b>	<b>3,023</b>	<b>-2,688</b>	<b>52</b>	<b>-182</b>	<b>40,853</b>
					<b>335</b>		<b>-131</b>	

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PANDATEL is an internationally active specialist provider of professional network technology. As a high-tech corporation, Pandatel develops, produces and distributes optical components and complex systems for data transmission in heterogeneous networks. Some 180 employees at the Hamburg headquarters, in our Sunrise (Florida), Israel and Singapore subsidiaries as well as our offices in London, Paris and Shanghai support clients in 90 countries.

For over 15 years now, Pandatel has been one of the cutting-edge providers of fiber-optic data transmission technologies, offering reliable products and technological advice in the growth-track markets for metropolitan area networks (MANs) and storage area networks (SANs). Since November 1999, Pandatel has been listed on the Frankfurt Stock Exchange and was admitted to the latter's Prime Standard segment in January 2003.