

2005

Semi-Annual Report



PAN|DATEL

PANDATEL GROUP (pursuant to IFRS)	to	01 Jan. 2005 30 June 2005	to	01 Jan. 2004 30 June 2004
Sales revenues (in €000)		5,942		7,404
Loss before income taxes (in €000)		-6,934		-5,292
Net loss for the period (in €000)		-6,865		-5,278
Earnings per share, diluted (in €)		-0.87		-0.73
Employees*		120		193

*average number according to entry date

With effect from 1st January 2005, accounting is in accordance with International Financial Reporting Standard (IFRS).

Business development

In the second quarter of the current fiscal year, Pandatel focused on the introduction of new products into the market. While sales and earnings were below levels of the previous year, new products booked a 170% increase in sales for H1/2005 compared to H1/2004. On these grounds management is optimistic that an improved sales and earnings situation may be achievable from H2/2005 onwards.

Stated in numbers the reporting quarter contributed € 3.1m to total sales revenues of € 5.94m in the first half of 2005. Compared to the previous year, this corresponds to a decline of H1 revenue € 1.5m or 20%. The EBIT for H1/2005 totaled € -7.1m versus € -5.5m for the same period the year before, which is a difference of -29 %.

Expansion of Operations in Germany, Austria and Switzerland

In order to achieve the expected turnaround in the medium term, Pandatel is expanding its business operations in Germany, Austria and Switzerland. The company is also intensifying its business efforts in the critically important markets of Eastern Europe. In taking these measures Pandatel is aiming to counter the competition from Asia, which is also strengthening its presence in the Eastern European countries.

New shares authorized for trade on the stock exchange

In conjunction with last year's takeover of Lightmaze Solutions AG the company's authorized capital was increased by € 670,806 to € 7,895,806 through issuance of 670,806 bearer shares.

Following registration of this capital increase with the Commercial Register of the Hamburg District Court in November 2004 the new shares were admitted to trade on the stock exchange (Regulated Market, Prime Standard, Frankfurt Stock Exchange) on 8 April 2005.

Shareholders' meeting

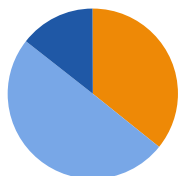
76 shareholders attended this year's shareholders' meeting on May 19, 2005 to gather first-hand information about the many changes effected in the previous fiscal year. The items on the agenda were discussed by shareholders in a businesslike atmosphere. The Executive Board and the Supervisory Board clarified the various measures taken to restructure the company. The shareholders approved all items on the agenda with a majority of over 96%. The full text of the management address as well as the discussion on various items on the agenda are available on the Internet.

Personal items

Commercial Director Ralph Breuling (46) left the company effective May 23, 2005.

In addition, a settlement was reached with the former Chief Executive Officer Norbert Wienck relating to his withdrawal from the company. A major part of the liability related to the compensation, which was paid at the beginning of Q3/2005, was already booked by the company in Q2/2005. No further charges negatively affecting the balance sheet or cash flow will be incurred hereafter. Thus, the said settlement contributes to a stabilization of the company's financial situation and assets.

Sales by business areas



Products

Over the course of the second quarter of 2005 the company proceeded with the introduction of new products into the market. Noted here especially are the C-MUX 155, the Yumix 4000-System, the ET-CA as well as the COP-FE. Pandatel managed to win initial projects for all the aforementioned products. In other words: the market is taking a positive stance towards these new products, so Pandatel expects a smooth introduction of the new products in the fourth quarter of 2005 or in the first quarter of 2006.

Pandatel is striving decisively to expand its existing partnerships with well-known system providers. Pandatel AG's YUMIX-platform for the construction of intelligent optical networks successfully passed the IBM TotalStorage Proven Program.

Sales and Results

In the reporting period the Group achieved total sales of € 5.9m (PY: € 7.4m) The EMEA region accounted for 65.5% (PY: 70.3%) or € 3.9m (PY: € 5.2m) of this, Asia Pacific reported 29.8% (PY: 25.6%) (or some € 1.8m [PY: € 1.9m]), with the remaining € 0.3m (PY: € 0.3m) attributed to the Americas. The repeatedly weak results from the American continent should experience a new impetus with the appointment of a new General Sales Manager for North America.

- Optical Systems 14.4%
- Connectivity Products 49.9%
- Access Multiplexers 35.7%

Regional Distribution of Sales

In this quarter again, France and Great Britain have asserted themselves as the strongest sales contributors with a share in global sales of 18.3% and 16.2% respectively.

Unfortunately, Germany could not sustain the positive trend set in the last quarter of the previous year and suffered a decline in sales of 65.8%, which company management attributes mainly to the declining sales of the older products with new products still contributing relatively little to the sales. Development in Eastern Europe was positive with sales growth of nearly 30%, in contrast to the rest of Europe, which showed a decline in sales of almost half that number. Asia performed at about the same level as the previous year and reported a decline of merely 6.5%, which may be attributed to a stronger price competition in Asian markets.

Sales by Business Areas

The Access Multiplexer segment achieved sales of around € 2.1m as compared to € 2.6m in the previous year, which corresponds to a decline of 18%. Connectivity Products booked sales of nearly € 3.0m against € 4.0m for the same half year period of 2004 or a decline of 27%. The Optical Systems business achieved slightly higher sales than the previous year. These amounted to € 0.9m (H1/2005), compared to € 0.8m (H1/2004), which is an increase of 7%.

Results by Region*

	Reporting period	External sales in		Internal sales		EBT	
		€000	in %	in €000	in %	in €000	in %
EMEA	30 June 2005	3,890	65.5	2,463	100.0	-6,810	98.0
	30 June 2004	5,205	70.3	1,847	100.0	-4,754	89.8
The Americas	30 June 2005	279	4.7	0	0.0	-131	1.9
	30 June 2004	303	4.1	0	0.0	-332	6.3
Asia Pacific	30 June 2005	1,773	29.8	0	0.0	6	0.1
	30 June 2004	1,896	25.6	0	0.0	-206	3.9
Group	30 June 2005	5,942	100.0	2,463	100.0	-6,935	100.0
	30 June 2004	7,404	100.0	1,847	100.0	-5,292	100.0

*Total assets break down in the regions as follows EMEA € 25,776,000 (H1/2004: € 39,824,000), The Americas € 145,000 (H1/2004: € 352,000) and Asia Pacific € 1,965,000 (H1/2004: € 2,148,000).

Net interest income of € 123,000 (H1/2004: € 161,000) was generated in the EMEA region. Of this, € 169,000 related to interest income (H1/2004: € 164,000) and € 46,000 related to interest expenses (H1/2004: € 3,000). In Germany sales of € 526,000 (H1/2004: € 1,275,000) were generated.

Results by Business Areas

	Reporting period	Sales in € 000	in %	Gross result in € 000	in %
Access Multiplexers	30 June 2005	2,121	35.7	733	35.6
	30 June 2004	2,599	35.1	1,022	32.2
Connectivity Products	30 June 2005	2,968	49.9	1,006	48.9
	30 June 2004	4,011	54.2	1,719	54.2
Optical Systems	30 June 2005	853	14.4	320	15.5
	30 June 2004	794	10.7	431	13.6
Group	30 June 2005	5,942	100.0	2,059	100.0
	30 June 2004	7,404	100.0	3,172	100.0

Balance Sheet and Cash Flow

Net loss for the first half of 2005 was € -6.9 Mio. (PY: € -5.3m), which corresponds to a difference of -30%. Part of this is due to the depreciation of goodwill for Lightmaze Solutions AG, totaling € 2.2m, which is due to the fact that the project business based on its YUMIX products developed more slowly than previously estimated. EBIT attained € -7.1m, i.e. 29% below the level of the previous year (PY: € -5.5m). Liquidity on the cut-off date totaled € 11.4m (PY: € 17.6m) and cash flow was € -3.6m (PY: € -4.6m). Moreover Pandatel booked € 5.8m (PY: € 7.0m) in incoming orders and has € 1.2m (PY: € 1.5m) in orders on hand.

Within the framework of the ongoing consolidation of the company sales and administrative expenses, as well as costs for research and development declined. These totaled € 7.7m, (PY: € 8.0m), which represents a decrease of 4% versus the same period the year before, where Research and Development costs were € 3.9m (PY: € 3.4m). Pandatel AG's equity-to-assets ratio continues to be high and stood at 82% (PY: 89%) on the cut-off date. No major investments were made in this reporting period.



- Technology All Share
- Pandatel share

Performance of the Pandatel share compared to reference indices in %

Costs

Cash consumption is seen as a key indicator for the success of the reorganization. In the first quarter of 2005 it summed up to € -1,019,400 and in the second quarter to € -1,246,748. In the third quarter slightly higher consumption is anticipated due to the departure of Ralph Breuling and Norbert Wienck from the company as well as personnel reshuffles in all areas of the company to achieve realignment towards future markets. Furthermore, some non-recurring expenditures will also be due for old vendor contracts. Cash consumption on 12/31/2005 however should have settled at a level clearly below that of the previous year (on 12/31/2004: € 11,508,000).

As of 31.12.2004, the provisions for restructuring amounted to € 1.2 m. In the first half of year 2005, additional restructuring costs of € 1.9 m were incurred – from which € 0.5 m related to departing executive board members, € 0.2 m for lawyer fees, and € 0.7 m for rental liabilities related to Fasanenweg premises, which cover the rental commitments up to 2008. In case a new renter is found for the buildings ad interim, the rental provisions may be released. In total, during the first half of year 2005 the restructuring costs led to a charge of € 0.9 m against the liquidity.

Share action

The shares were unable to rally and declined steadily. This is attributed among other factors to the depressed development of business. At the end of the reporting period value per share was € 1.17 (PY: € 2.86). This corresponds to a decline of some 59%. After the conclusion of the reporting period the share saw a significant trend upwards and on July 08 2005 attained a new year-to-date high of € 2.16, which corresponds to an increase of 85% since the end of the quarter. First profit-taking took place after that, which caused the price to pull back to settle at € 1.83 in early August.

Shareholder structure

AUGUSTA Technologie AG	49.98%
Private investors	8.5%
Free float	41.5%

Directors' holdings

as of 30 June 2005	No. of shares	Percentage of the capital stock in %	Stock options
Executive board:			
Norbert Wienck*	0	0	49,999
Elke Jahn	335,403	4.25	0
Niraj Agrawal	335,403	4.25	0
Supervisory board:			
Axel Haas	50,000	0.63	0
Uwe Hannig	1,000	0.01	0
Steffen Lestner	0	0.00	0

*withdrawn as of 19 January 2005

Risks

The recovery of the company depends largely on the rapid and successful introduction of the new products to compensate for the decline in sales of traditional products.

Furthermore an increase in monthly incoming order levels by the end of Q4/2005 or Q1/2006 will be critically important and would provide a clear signal of a successful turnaround.

Continued restructuring and realignment of the company are expected to have a decisive effect on the further development of the company.

Prospects

Sales of the new products increased by 170% in the first half of FY 2005 compared to H1/2004. This indicates increased market acceptance of the new product line-up. During the next half year, the company expects a further sales increase of the new products. Thus, the Management is optimistic that the negative sales trend of the recent past may soon be reversed.

Financial calendar

Q3 Report	10 November 2005
Analyst Conference	23 November 2005
Annual Report	March 2006
Analyst Conference	March/April 2006

Accounting and valuation principles

As of 1st January 2005, the consolidated financial statement of Pandatel AG will be drawn up in € in accordance with the International Financial Reporting Standards (IFRS). The quarterly financial statements for 2005 will also comply with IFRS. The consolidated financial statements include Pandatel AG as well as Lightmaze Solutions AG, Eisingen (Würzburg), 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 reporting 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 differences 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.

In accordance with IFRS 1, explanations must be published on the effects of the changeover to IFRS on comparative statements; these allow a conversion of the group's equity capital and consolidated earnings as reported in accordance with the accounting standards used so far (US GAAP). Parts of the IFRS standards that have a significant influence on the quarterly financial statement of Pandatel refer to the activation of development costs and thus to changes in individual items of the annual financial statement as well as of the profit and loss statement.

In accordance with IAS 38, development costs are to be activated; in accordance with US GAAP, these are as a rule booked immediately as expenditures. The obligation to activate these costs takes effect retroactively when certain conditions (for example technical feasibility, future financial benefit) have been fulfilled.

Conversion statement

Pandatel AG has drawn up a conversion statement of the net earnings of the current quarter as well as of the equity capital of the comparative balance sheet, from US GAAP to IFRS.

Conversion statement

Group balance sheet € 000	IFRS 31 December 2004	Delta	US GAAP 31 December 2004
Assets			
Non-current assets			
Intangible assets	1,648	4,168	5,816
Property, plant and equipment	2,352	0	2,352
Goodwill	4,349	-4,349	0
Investments	0	0	0
Notes receivable/loans	25	-25	0
Deferred taxes	2,066	0	2,066
Other assets	0	459	459
Others	0	0	0
Total non-current assets	10,439	253	10,693
Current assets			
Inventories	4,604	0	4,604
Trade accounts receivable	3,640	0	3,640
Accounts receivable due from related parties	0	0	0
Short-term investments/marketable securities	3,858	0	3,858
Prepaid expenses and other current assets	313	0	313
Cash and case equivalents	10,312	-433	9,879
Total current assets	22,728	-433	22,294
Total assets	33,167	-180	32,987

€000	IFRS 31 December 2004	Delta	US-GAAP 31 December 2004
Liabilities and shareholders' equity			
Shareholders' equity			
Share capital	7,896	0	7,896
Additional paid-in capital	21,579	-108	21,471
Revenue reserves	0	0	0
Changes in shareholders' equity not affecting earnings	0	119	119
Shareholders' equity from currency exchange	86	-86	0
Revaluation reserve	32	-32	0
Accumulated deficit	0	0	0
Total shareholders' equity	29,593	-107	29,486
Non-current liabilities			
Others	337	-337	0
Total non-current liabilities	337	-337	0
Current liabilities			
Trade accounts payable	599	0	599
Income tax payable	147	0	147
Tax accruals	0	0	0
Other accruals	1,774	-1,774	0
Accounts payable due to related parties	0	15	15
Advance payments received	0	0	0
Accrued expenses	0	1,760	1,760
Deferred taxes	0	263	263
Deferred revenues	0	0	0
Other current liabilities	717	0	717
Others	0	0	0
Total current liabilities	3,237	264	3,501
Minority interest	0	0	0
Total liabilities and shareholders' equity	33,167	-180	32,987

Statement of income of Pandatel group

In the second quarter 2004, no IFRS conversions had effect on the result for the period.

Shareholders' equity in €000 as of	01 January 2004	30 June 2004	31 December 2004
Shareholders' equity according to US GAAP	42,525	37,336	29,486
Activation of development expenses	0	0	180
Taxes from income and revenue	0	0	-73
Shareholders' equity according to IFRS	42,525	37,336	29,593

Consolidated balance sheet as of 30 June 2005

ASSETS	Semi-Annual Report 30 June 2005 €000	Annual Report 31 December 2004 €000
Non-current assets		
Intangible assets	1,264	1,648
Property, plant and equipment	1,878	2,352
Goodwill	2,174	4,349
Investments	0	0
Notes receivable/loans	0	25
Deferred taxes	2,943	2,066
Other assets	3	0
Others		
Total Non-current assets	8,262	10,440
Current assets		
Inventories	4,223	4,604
Trade accounts receivable	3,330	3,640
Accounts receivable due from related parties	0	
Short-term investments marketable securities	3,909	3,858
Prepaid expenses and other current assets	625	313
Cash and cash equivalents	7,537	10,312
Total current assets	19,624	22,727
Total assets	27,886	33,167

Liabilities and shareholders' equity	Semi-Annual Report 30 June 2005 €000	Annual Report 31 December 2004 €000
Shareholders' equity		
Share capital	7,896	7,896
Additional paid-in capital	21,628	21,579
Revenue reserves	0	0
Other comprehensive income	71	86
Accumulated other comprehensive income/loss	85	32
Accumulated deficit	-6,866	0
Total shareholders' equity	22,814	29,593
Non-current liabilities		
Long term debt, less current portion	0	0
Capital lease obligations, less current portion	0	
Deferred revenues	0	0
Deferred taxes	1,038	337
Pension accrual	0	0
Others	0	0
Total non-current liabilities	1,038	337
Current liabilities		
Trade accounts payable	946	599
Accounts payable due to related parties	0	
Income tax payable	246	147
Tax accruals	142	0
Advance payments received	0	
Accrued expenses	2,072	1,774
Deferred revenues	0	
Other current liabilities	610	717
Others	18	
Total current liabilities	4,034	3,237
Minority interest	0	0
Total Liabilities and shareholders' equity	27,886	33,167

Consolidated income statement

	Semi-Annual Report I/2005 01 Jan. 2005- 30 June 2005	Semi-Annual Report I/2004 01 Jan. 2004- 30 June 200	Quarterly Report II/2005 01 Apr. 2005- 30 June 2005	Quarterly Report II/2004 01 Apr. 2004- 30 June 2004
€000				
Revenues	5,942	7,404	3,098	4,337
Cost of revenues	-3,883	-5,034	-2,464	-2,979
Gross profit/loss	2,059	2,370	634	1,358
Selling and Marketing expenses	-1,359	-2,501	-544	-1,233
General and administrative expenses	-2,366	-2,099	-2,721	-1,065
Research and Development expenses	-3,945	-3,427	-1,559	-1,832
Other operating income and expenses	23	184	-182	103
Amortization (and impairment) of goodwill	0	0	0	0
Restructuring expenses	-1,442	0	-571	0
Others	0	0	0	0
Operating income/loss	-7,030	-5,474	-4,943	-2,669
Interest income and expenses	124	161	47	58
Foreign currency exchange gains / losses	-8	22	-180	-46
Other revenues/expenses	-20		-20	
Others	0	0	0	0
Result before income taxes (and minority interest)	-6,934	-5,292	-5,096	-2,657
Income tax	69	13	40	-944
Extraordinary income/expenses	0		0	
Result before minority interest	-6,865	-5,278	-5,056	-3,601
Minority interest	0	0	0	0
Net loss for the period	-6,865	-5,278	-5,056	-3,601
Earnings per share (basic)	-0.87	-0.73	-0.64	-0.50
Earnings per share (undiluted)	-0.87	-0.73	-0.64	-0.50
Weighted average shares outstanding (basic)	7,895,806	7,225,000	7,895,806	7,225,000
Weighted average shares outstanding (diluted)	7,895,806	7,262,380	7,895,806	7,243,402

Consolidated statement of cash flow

€000	01 Jan. 2005- 30 June 2005	01 Jan. 2004- 30 June 2004
Net loss before extraordinary items	-6,866	-5,278
Depreciation/appreciation on tangible assets	2,898	627
Expenses for stock options	0	34
Other expenses/revenues affecting earnings	0	0
Losses/gains on the disposal of fixed assets	401	22
Cash flow	-3,567	-4,596
Changes in		
Trade accounts receivable	310	1,395
Inventories	381	0
Other assets which cannot be classified as investing or financing activities	-1,072	-267
Changes in		
Trade accounts payable	348	85
Deferred taxes	1,341	-29
Other liabilities which cannot be classified as investing or financing activities	55	2
Payments of extraordinary items	0	0
Cash flow from operating activities	-2,204	-3,411
Income from disposal of fixed assets	0	131
Payment for investments in tangible assets	-184	-774
Income from disposal of intangible assets	0	0
Payment for investments in intangible assets	-58	-160
Income from the sale of securities	0	8,920
Payments for investments in financial assets	0	-50
Acquisition of subsidiaries less transferred cash and cash equivalents	0	-3,443
Payments owing to investments of financial resources as part of short-term treasury transactions	0	-12,386
Cash flow from investing activities	-242	-7,763
Changes in long term debt	0	0
Income from appropriation of shareholders' equity (capital increase)	49	0
Cost of IPO	0	0
Dividends	0	0
Cash flow from financing activities	49	0
Changes in cash balances impacting earnings	-2,397	-11,174
Changes in cash balances owing to exchange rate differences	56	0
Cash and cash equivalents at beginning of the period	9,878	22,426
Cash and cash equivalents at end of the period	7,537	11,252
Interest paid	4	3
Tax paid	38	61

Statement of changes in shareholders' equity

Changes in shareholders' equity according to IFRS	Subscribed capital		Capital reserves	Revenue reserves	Profit brought forward	Other changes in shareholders' equity not affecting earnings		Total Shareholders' equity
	Shares	€000				€000	€000	
	€000	€000	€000	€000	€000	€000	€000	
As of 31 December 2003	7,225,000	7,225	33,408	3,023	-1,009	-42	-80	42,525
Stock option program			34					34
Allocation to revenue reserves								
Net loss for the period					-5,279			-5,279
Dividends								
Unrealized exchange and currency diff. after deducting taxes of € -41,000						158		158
Unrealized exch and currency diff. not affecting tax liability							-103	-103
As of 30 June 2004	7,225,000	7,225	33,442	3,023	-6,288	116	-183	-37,336
					-3,265		-67	
As of 31 December 2004	7,895,806	7,896	21,471	0	0	241	-122	29,486
Changes according to IFRS (activation of development expenses/deferred taxes)			108					108
Stock option program			49					49
Allocation to revenue reserves								0
Net loss for the period					-4,319			-4,319
Dividends								
Unrealized exchange and currency diff. after deducting taxes of 40%						-171		-171
Unrealized exchange and currency diff. not affecting tax liability							275	275
As of 30 June 2005	7,895,806	7,896	21,628	0	-4,319	70	153	25,429
					-4,319		223	

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Pandatel AG

is a high-tech company operating in the telecommunications market of the future. Pandatel is one of the leading suppliers of connectivity products, access multiplexers, and wavelength division multiplexed systems.

Pandatel is one of the world 's few providers with such a wide range of products and systems for data transmission over both copper and fiber optics media as well as any combination thereof.

Pandatel products are used wherever new capacities have to be created or when the performance of existing networks need to be enhanced and/or optimized.

Pandatel 's activities focus on three product categories:

- Connectivity Products
- Access Multiplexers
- WDM/Optical Systems

Since November 1999 Pandatel has been listed at the Frankfurt Stock Exchange and was included in the Prime Standard segment in January 2003.

Only the German version of this report is legally binding.