

Pandatel is a specialist supplier of professional networking technology that is active world-wide. As a high-tech company, we develop, produce and market data transmission and network access components and systems. Around 170 Pandatel staff members at the Head Office in Hamburg, at the subsidiaries in New Jersey and Singapore, as well as in the representative offices in London, Miami, Paris and Shanghai support clients in over 80 different countries.

For over 15 years now, Pandatel has been making cutting-edge fiber-optic data transmission technology available, offering reliable products and technological consultancy capacity in the fast-growth MAN (metropolitan area network) and SAN (storage area network) markets. Pandatel first listed on the Frankfurt Stock Exchange in November 1999 and since January 2003 the equity has been included in the Prime Standard segment.

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## Quarterly Report 2003

for the period January 1 – March 31, 2003



Quarterly Report  
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PAN|DATEL

## Pandatel: streamlining structures and cutting costs

In the first quarter of 2003, Pandatel felt the impact of economic and political uncertainties to an above-average extent. As a consequence, the Company was not able to meet its own sales forecast. There were two main reasons. First, the propensity to invest once again deteriorated markedly world-wide, specifically in the main markets in which Pandatel is active. The political uncertainties triggered by the Iraq crisis prompted many corporations to further put back their investments in network technologies. Second, the Company saw a need for restructuring.

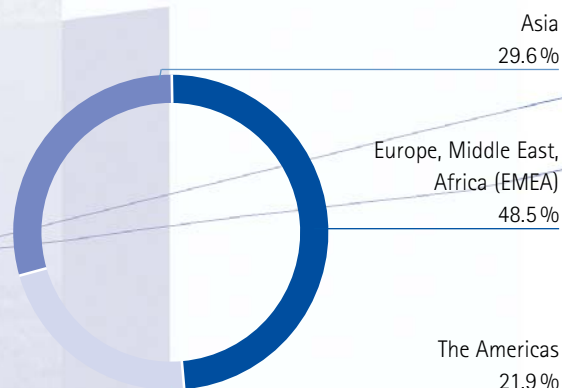
That said, Pandatel responded swiftly and emphatically to the emerging weak sales trend. For example, the Pandatel Inc. subsidiary in the United States was scaled back at the end of 2002, the sales office in Stockholm, Sweden was closed in February 2003, and a series of cost-cutting measures were devised for the Group as a whole. However, in

the long run cost-cutting measures alone are not a strategic solution for a company geared to growth. At CeBIT in mid-March, the Executive Board presented a three-prong strategy to the press and analysts – the strategy is designed to boost the Company's innovative muscle and sales strengths (see p. 8). Pandatel has already scored initial successes implementing the strategy. It has reorganized the sales department and included several OEM products in its portfolio. Promising contacts regarding cooperations have been established with two interesting companies. Nevertheless, the focus on innovative products continues to form the core of Pandatel's activities as a high-tech player. The new roadmap for all the Pandatel products is helping to ensure better exploitation of development synergies and to more swiftly correct deviations from targets. In this way, we will soon be able to appreciably shorten development lead times.

### Pandatel Group (pursuant US GAAP)

	Jan. 1 – Mar. 31, 2003	Jan. 1 – Mar. 31, 2002
Sales revenues (in €000)	3,849	7,053
Earnings/loss before income taxes (in €000)	-2,017	1,059
Net income/loss for the period (in €000)	-1,307	427
Net earnings per share (in €)	-0.18	0.06
Employees (average)	174	154

### ■ Sales by region



## Sales reflect regional trends

Group sales in the first three months of 2003 totaled € 3.85m as against € 7.05m in the year-before period. In Germany, sales fell sharply, a clear sign of the fact that political factors led to investments bottlenecking. Exports now account for 89.2 % of sales as compared with 87.9 % one year earlier.

Business in the EMEA region (Europe/Middle East/Africa) also tended weak, with sales declining 47.8 % from € 3.57m in Q1 2002 to € 1.87m. In particular, countries that saw strong sales in recent quarters, such as Germany, Great Britain and Italy performed disappointingly. East Europe is still characterized by strongly fluctuating sales. Pandatel took this into account by implementing a new sales structure for the EMEA markets and closing the Stockholm sales office.

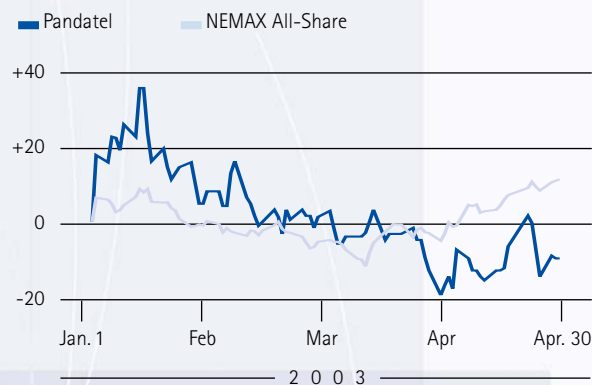
The Asia-Pacific region, which sources just under 30 % of sales, is an important Pandatel market. However, the trend there was similar, with sales plummeting 45.9 %. In absolute figures, sales revenues came to € 1.14m as opposed to € 2.10m in Q1 2002. Yet Pandatel remains cau-

tiously optimistic as regards this market and believes investments will pick up in the second half of 2003. However, this prediction will only come true if the outbreak of SARS in Asia is swiftly contained and does not impact negatively on the regional economy and if the US dollar regains some of its strength.

There was no halting the downturn on the US markets, which were already weak in 2002. The decline in the United States was on par with expectations, with sales dwindling 35.5 %, from € 1.17m in the first quarter of 2002 to € 0.76m. The Latin American market saw investments come to an almost complete halt owing to the financial crisis in Argentina and neighboring countries. There, Pandatel sales slumped 56.9 % from € 0.20m to € 0.09m.

Pandatel order receipts as at March 31, 2003 came to € 4.9m, as compared with € 9.6m one year earlier. The value of the order backlog as at the end of Q1 2003 was € 3.9m, as against € 5.0 million 12 months before.

Pandatel equity compared with the  
NEMAX All Share index  
Performance in %



## Unsatisfactory earnings

Pandatel posted a loss before taxes of € 2.02m for the first three months of the year owing to the downturn in sales (compared with EBT of € 1.06 one year earlier). The loss for the year incurred during Q1 2003 came to € 1.31m, compared with net income of € 0.43m in the year-before period.

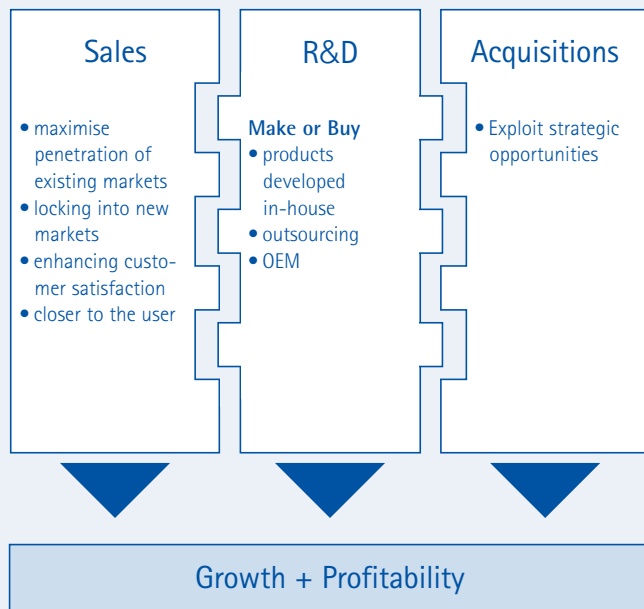
Cash flow from ongoing operations improved appreciably on Q1 2002, when a cash outflow of € 4.02m was reported. Pandatel has now pruned the figure to € 0.68m. Cash flow for investing activities was € 0.29m as at March 31, 2002 whereas a net inflow was achieved in Q1 2003 of € 2.35m. Marketable securities have been sold and the proceeds re-invested in sight deposits, meaning that the cash and cash equivalents available for acquisitions now amount to a record € 26.45m.

## Equity clearly undervalued

Along with its re-segmentation of the stock market, Deutsche Börse AG has included the Pandatel share in the new Prime Standard segment. In Q1 2003 the share mainly followed the benchmark NEMAX All-Share index.\* Following a high for the year of € 4.55 in mid-January, the share price steadily lost ground until reaching an all-time low of € 2.50 on March 31, 2003. During April, the price was back on the rise, reaching € 2.80. This figure means that the Company is still clearly undervalued, as its liquid assets including marketable securities alone amount to € 4.01 per share.

\* As of March 24, Deutsche Börse AG reorganized its indices; the benchmark index for Pandatel is now the Technology All Share index.

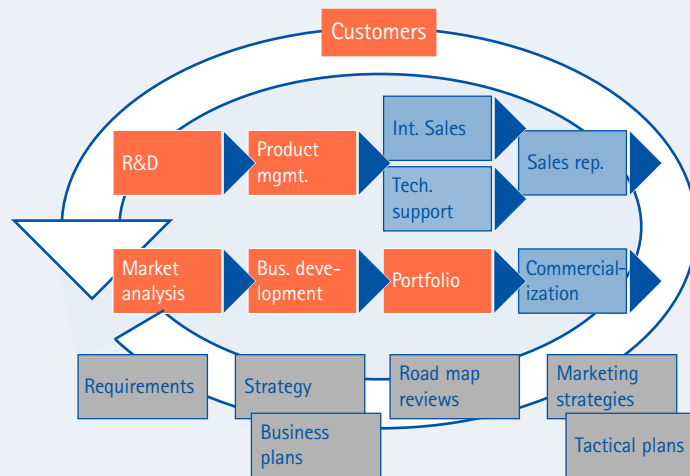
### ■ Three-Prong Strategy



### Management swiftly and consistently implements the three-prong strategy

In Q1 2003 Pandatel management dedicated itself to identifying potential corporate weaknesses and pinpointing the strengths acquired in over 15 years as a medium-sized product-driven supplier of high-tech. The three-prong strategy announced in March is the first result of this process, which will enable the Company to focus more closely on its target markets. The concept applies to all areas of the Company and the prime aim is to make certain products are readied for market sooner and can be offered at more favorable terms. As Pandatel's core divisions, Sales, R&D and Production departments will see the most pronounced changes as a consequence of implementation of the strategy.

### ■ Sales Model



Greater client focus, short development lead-times, and more efficient use of production capacities

Pandatel has created the new position of Director Sales EMEA (Europe, Middle East, Africa). Ilan Elad, who holds this key position, was previously a manager at a Pandatel sales partner. The Director of Sales is in charge of reorganizing our Sales division. Pandatel intends to familiarize end users of network technology with the quality and cost-efficient nature of its products, thus triggering additional demand among distributors and systems integrators. The strategy hinges on a new understanding of clients: final Pandatel technology users, i.e., network operators and corporations with their own networks. Pandatel views such firms not only as clients, but as partners who provide key information on what development work should focus on. This spirit of partnership in our CRM forms a crucial part of the new sales organization. Consultancy therefore means not only providing

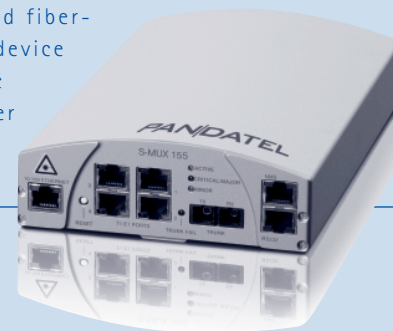
solutions but also listening and swiftly transforming client requirements into reliable and competitive products. The previous hierarchical sales organization, which distinguished client development from order processing, has been replaced by a team structure that offers the staff scope for personal initiative and facilitates a greater exchange of know-how. The new approach to clients has already scored initial successes, as Pandatel demonstrated at the CeBIT: Despite the 17 % downturn in the overall number of CeBIT visitors, Pandatel booked an appreciably higher number of new client contacts, up 13 % on the CeBIT 2002 figure.

Pandatel has set itself the goal of upping its innovation rate. The greater client focus will enable us to develop new products more swiftly, as the experiences made by our sales staff will be quickly brought to bear as input in our development division, where they will influence the shape of new products. Here, our sales engineers and product managers interface and have therefore played a pivotal role in moving forward our product road map, introduced at the beginning of the year. Partial outsourcing of development work for product updates and improvements will also ease the strain on the Development division, which will in future concentrate on high-end solutions that offer greater value added.

We intend to make greater use of OEM agreements in order to generate additional sales without tying down our own development capacities. A good example is the recently concluded agreement whereby Pandatel not only manufactures part of the new IPV-MUX modular multiplexer, but has also acquired the world-wide exclusive rights to distribute this high-end product. Wherever possible, products where unit sales develop especially gratifyingly are taken on completely in order to augment our profit margin and production capacity utilization. Thus, since April 2003 we have succeeded in completely taking on the fiber-optic S-MUX 155 multiplexer. Since presenting the two products at the CeBIT, we have received a great number of inquiries regarding their use in large-scale projects.

### S-MUX 155

The S-MUX 155 is a compact cost-effective multiplexer that simultaneously transmits data from up to five different applications. Data and voice transmissions are multiplexed, in other words bundled on one dedicated fiber-optic line. The device makes economic sense for smaller companies and carriers alike.



### IPV-MUX

IPV-MUX is a modular IP multiplexer that can deliver parallel voice and data transmission. The IPV-MUX can, for example, link up different company sections or offices. The existing infrastructure, such as phone networks, then remain in use, meaning that no additional costs arise.



### ■ Directors' holdings

As at March 31, 2003

	No. of shares	Stock options	Percentage of the capital stock
<u>Executive Board</u>			
Heinrich-J. Kraus	0	25,000	0.35
Frank Mauritz	0	41,666	0.58
Norbert Wienck	0	49,999	0.69
<u>Supervisory Board</u>			
Axel Haas	50,000	0	0.69
Uwe Hannig	200	0	<0.01
Steffen Leistner	1,145	0	0.02

### ■ Shareholder structure

Augusta Technologie AG	57.9 %
Freefloat	35.5 %
Detlef Küster	6.6 %

### ■ Key financial dates 2003

General Meeting	May 28
Report on Q2 2003	Aug. 13
Report on Q3 2003	Nov. 12

Pandatel presents its product lines at trade fairs and shows the world over, offering clients and users advice on the range of possible applications for Pandatel and the cost benefits involved. This year, Pandatel has already participated in trade fairs and shows in Lodz, Moscow, Milan, Prague, Brussels, Amsterdam and Lahore – with the highlight of the trade fairs being this year's CeBIT in Hanover.

## Consolidated Financial Statements of Pandatel AG

for the period January 1 - March 31, 2003

<u>Consolidated balance sheet</u>	14
<u>Consolidated income statement</u>	18
<u>Consolidated statement of cash flow</u>	20
<u>Development of share capital</u>	22

## Consolidated balance sheet

as of March, 31st 2003

Assets		
€000		
	31/03/2003	31/12/2002
<b>Current assets</b>		
Cash and cash equivalents	26,453	24,785
Short-term investments/marketable securities	2,494	5,111
Trade accounts receivable	3,903	5,594
Inventories	8,068	7,752
Deferred tax asset	2,016	1,225
Prepaid expenses and other current assets	2,837	2,540
<b>Total current assets</b>	<b>45,771</b>	<b>47,007</b>
<b>Non-current assets</b>		
Property, plant and equipment	2,000	2,094
Intangible assets	1,219	1,312
Investments	0	0
Notes receivable/loans	0	0
Deferred taxes	0	0
Other assets	0	0
Others	90	83
<b>Total non current assets</b>	<b>3,309</b>	<b>3,489</b>
<b>Total assets</b>	<b>49,080</b>	<b>50,496</b>



## Consolidated balance sheet

as of March, 31st 2003

Liabilities and shareholders' equity		
€000		
	31/03/2003	31/12/2002
<b>Current liabilities</b>		
Current portion of capital lease obligation	6	0
Short-term debt and current portion of long-term debt	0	0
Trade accounts payable	983	564
Liabilities against affiliated companies	0	100
Accrued expenses	849	1,156
Accruals and liabilities for income taxes	138	138
Deferred taxes	0	0
Other current liabilities	618	615
<b>Total current liabilities</b>	<b>2,594</b>	<b>2,573</b>
<b>Non-current liabilities</b>		
Long-term debt	0	0
Capital lease obligations, less current portion	0	0
Deferred taxes	0	0
<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	33,206	33,132
Retained earnings	6,378	7,685
Accumulated other comprehensive income	-323	-119
<b>Total shareholders' equity</b>	<b>46,486</b>	<b>47,923</b>
<b>Total liabilities and shareholders' equity</b>	<b>49,080</b>	<b>50,496</b>

## Consolidated income statement

for the period January 1 to March 31, 2003

€000	01/01/2003 - 31/03/2003	01/01/2002 - 31/03/2002
Sales	3,849	7,053
Cost of production	-2,406	-3,096
<b>Gross profit/loss</b>	<b>1,444</b>	<b>3,957</b>
Sales costs	-1,826	-1,586
General and administrative expenses	-1,183	-1,074
Research and development	-788	-607
Other operating income and expenses	0	0
Amortization of goodwill	0	0
<b>Operating income/loss</b>	<b>-2,352</b>	<b>690</b>
Interest income/expenses	266	362
Income from investments and participations	0	0
Income/expenses from associated companies	0	0
Foreign currency exchange gains/losses	32	-53
Other income/expenses	36	59
<b>Earnings before income taxes (and minority interest)</b>	<b>-2,017</b>	<b>1,059</b>
Income tax	710	-632
Extraordinary income/expenses	0	0
<b>Result before minority interest</b>	<b>-1,307</b>	<b>427</b>
Minority interest	0	0
<b>Net income/loss</b>	<b>-1,307</b>	<b>427</b>
Earnings per share (diluted) in €	-0,18	0.06
Earnings per share (undiluted) in €	-0,18	0.06
Weighted average shares outstanding (diluted) per unit	7,225,000	7,225,000
Weighted average shares outstanding (undiluted) per unit	7,236,675	7,225,000

## Consolidated statement of cash flow

for the period January 1 to March 31, 2003

€000	01/01/2003 - 31/03/2003	01/01/2002 - 31/03/2002
Net income/loss before extraordinary items	-1,307	427
Depreciation on intangible and tangible assets	318	260
Personnel expenses for stock options	74	-66
Expense not impacting on earnings	0	0
Profit/loss from sales of tangible assts	-2	13
<b>Cash flow</b>	<b>-918</b>	<b>634</b>
Changes in		
inventories	-316	-767
trade accounts receivable	1,689	1,542
other assets which cannot be classified as investing or financing activities	-1,150	-2,749
Changes in		
trade accounts payable	419	1,153
deferred taxes	791	-107
other liabilities which cannot be classified as investing or financing activities	383	-3,720
Income from or payments for extraordinary items	0	0
<b>Cash flow from operating activities</b>	<b>-684</b>	<b>-4,014</b>
Income from disposals of fixed assets	33	18
Payment for investments in tangible assets	-125	-193
Payment for investments in intangible assets	-36	-111
Income from the sale of securities	2,488	0
Payments for investments in financial assets	-9	-4
Payments owing to investments of financial resources as part of short-term treasury transactions	0	0
<b>Cash flow from investing activities</b>	<b>2,351</b>	<b>-291</b>
Changes in long-term debt	0	0
Inflow from capital increase	0	0
Dividends disbursed	0	0
<b>Cash flow from financing activities</b>	<b>0</b>	<b>0</b>
<b>Changes in cash balances impacting earnings</b>	<b>1,668</b>	<b>-4,304</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>24,785</b>	<b>18,121</b>
<b>Cash and cash equivalents at end of period</b>	<b>26,453</b>	<b>13,815</b>
Interest paid	1	0
Tax paid	71	553

## Development of share capital

	Subscribed capital				Other chances in shareholders' capital not affecting earnings			
					Accumul.			
	Shares	Amount	Capital reserves	Revenue reserves	Profit brought forward	exchange rate adjustments	Available-for-sale securities	Total sharehold' capital
	Units	€000	€000	€000	€000	€000	€000	€000
At December 31, 2000	7,225,000	7,225	32,984	1,295	8,604	31	25	50,164
Stock option program	-	-	-130	-	-	-	-	-130
Net income for the year	-	-	-	-	2,339	-	-	2,339
Dividends	-	-	-	-	-2,142	-	-	-2,142
Unrealized share-price and currency diff. <sup>1</sup>	-	-	-	-	-	90	-9	81
At December 31, 2001	7,225,000	7,225	32,854	1,295	8,801	121	16	50,312
Stock option program	-	-	278	-	-	-	-	278
Allocation to profit reserves	-	-	-	1,728	-1,728	-	-	-
Net income for the year	-	-	-	-	-1,400	-	-	-1,400
Dividends	-	-	-	-	-1,011	-	-	-1,011
Unrealized share-price and currency diff. <sup>2</sup>	-	-	-	-	-	-32	-224	-256
At December 31, 2002	7,225,000	7,225	33,132	3,023	4,662	89	-208	47,923
Stock option program	-	-	74	-	-	-	-	74
Allocation to profit reserves	-	-	-	-	-	-	-	-
Net income for the year	-	-	-	-	-1,307	-	-	-1,307
Dividends	-	-	-	-	-	-	-	-
Unrealized share-price and currency diff. <sup>3</sup>	-	-	-	-	-	-170	-34	-204
At March 31, 2003	7,225,000	7,225	33,206	3,023	3,355	-81	-242	46,486

<sup>1</sup> after deducting taxes of € 32,000

<sup>2</sup> after deducting taxes of -€ 68,000

<sup>3</sup> after deducting taxes of -€ 140,000