Interim Report for H1 2003

for the period January 1 – June 30, 2003

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 170 employees at the Hamburg head office, in our Sunrise (Florida) and Singapore subsidiaries as well as our representative 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.

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Interim Report 2003

PAN|DATEL

Market for network equipment decreases for the third year running

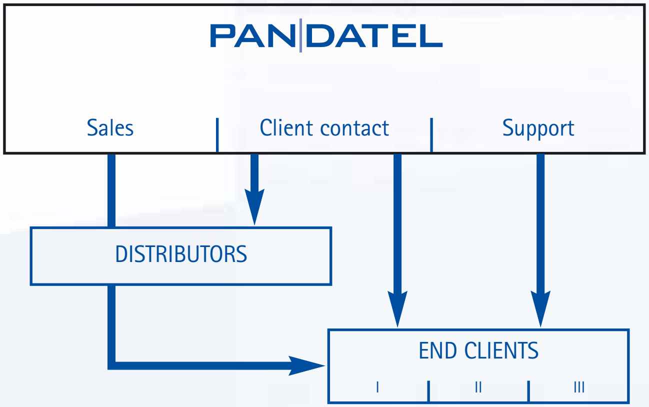
In H1 2003 the global market for network equipment saw restrained demand. Given these weak market conditions, Pandatel booked sales that were 41% down on the year and thus was in line with the market trend, which has now persisted since Q2 2001. The general weak global economy was subject to additional strain in the form of the unexpectedly strong surge in the euro against the dollar, the events surrounding the Iraq crisis and the SARS outbreak in Asia. Only to minor degree did network operators invest in new technologies in first-half 2003; they primarily focused on optimizing existing networks. Network equipment providers were therefore only able to score a very low level of new technologies sales.

Pandatel Group (pursuant US-GAAP)	**Jan. 1 – June 30, 2003**	Jan. 1 – June 30, 2002
Sales revenues (in €000)	**8,941**	15,238
Earnings/loss before income taxes (in €000)	**–3,640**	1,232
Net income/loss for the period (in €000)	**–2,432**	679
Net earnings/loss per share (in €)	**–0.34**	0.09
Employees (average)	**174**	154

Inside Pandatel

In Q2, Pandatel pressed ahead with implementation of its three-prong strategy (Sales, R&D, acquisitions) for profitable growth. The company put a cost-cutting program into place, restructured various of its business units and invested in R&D and sales. The strategy focused in particular on measures destined to advance Pandatel's transformation from a thoroughbred product component supplier into a specialist provider of professional network technology and consultancy capacity. Pandatel is lowering fixed costs first and foremost by optimizing its existing offices worldwide. For example, Pandatel Inc., our US subsidiary, concentrated the sales office in Sunrise, Florida, and closed the New Jersey and Miami offices. Pandatel rates the medium-term prospects for unit sales in the United States as mildly positive.

▮ Sales focusing on end clients



Sales: strengthening our consultancy expertise

Our objective: Pandatel wishes to bring new end clients on board by offering convincing sector-specific solutions. The focus here is currently on energy utilities and network operators (carriers). Pandatel is endeavoring to develop reference projects for these and other target industries. These projects will be used to demonstrate that Pandatel not only offers cost-optimized products but has also acquired in-depth expertise in systems solutions that give the client added value. In this context, Pandatel is prioritizing indirect sales and close partnerships with recognized systems integrators.

Initial successes: Pandatel has replaced the former division of tasks between the Distribution and Order Processing departments – with team work. In this way, the teams can address end customers' projects more accurately, generating additional demand and providing better client support with greater insight. Pandatel has launched a broad training program to help prepare staff for the greater advisory role they will play. And it has already scored a major success as regards reference projects: Pandatel has joined forces with systems integrator Damovo to set up the new communications network for energy utility Schleswag (see box).

Solutions for energy utilities

Schleswag (as of Sept. 1, 03: Eon Hanse), one of Germany's largest energy utilities, is switching its fiber-optic communications network over to WDM wavelength division multiplexing technology. Together with general contractor Damovo, Pandatel presented the Schleswag project managers with a convincing solution that won the day thanks to its modular concept. The project is designed such that the various locations can be hooked up successively, and existing services smoothly integrated into the new system. In this way, the proposal met all key requirements – low entry-level and operating costs, smooth technology transition and easy expansion of overall capacities. The changeover from SDH synchronous digital hierarchy to WDM technology has an additional advantage for Schleswag: all applications (IT, voice, radio, process technology) will run via a network that also has sufficient capacity to allow bandwidth to be rented out to external clients if required.

R&D: expanding capacity

Our objective: to make our R&D division faster and more flexible. To this end, Pandatel will be expanding development capacities at various locations; the Company's core competence remains highly innovative inhouse development. On a case-by-case basis, the Company will outsource development work on product updates and relaunches, while rounding out the product portfolio by means of selected OEM agreements.

Initial successes: Pandatel has converted the product roadmap into a central management tool. In this way, the Company can now control the entire development process for all product categories, reduce development times and optimize the product portfolio. In recent months, analysis showed that Pandatel's lines can at certain points be meaningfully complemented by products that other companies have already developed, but are not able to, or do not wish to market themselves. Instead of developing its own devices, Pandatel then includes these products in its own portfolio. For example, in the future Pandatel will be making available an inverse multiplexer for use in IP-based transport and access networks that was developed externally.

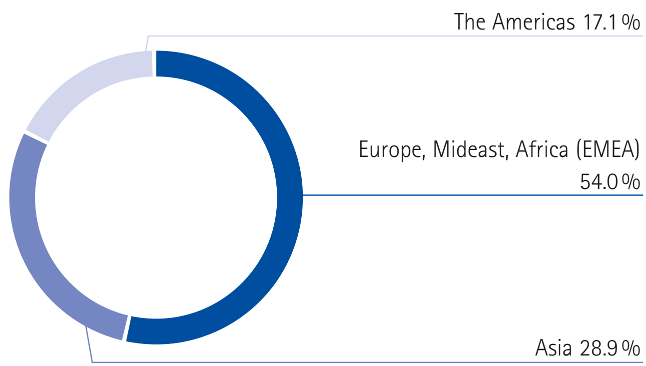
In July, Pandatel laid the basis for founding a development company in Israel, the "Silicon Valley of the Middle East", to improve its innovative reach. In future, a staff of 8-10 in Israel will help ease the burden on the team of developers in Hamburg. As at July 1, Pandatel also strengthened Hamburg staffing levels in this area – in the form of the new position of Head of the Development Dept. There is a clear challenge here: faster development cycles, more flexible structures, more favorably priced products.

Acquisitions: negotiations continue

Our objective: Pandatel intends not only to make a great leap forwards in terms of profitability, but also in the medium term to expand appreciably. The options for accelerating this growth track include takeovers of competitors. With its outstanding equity ratio of 94.5 % and strong cash balances, Pandatel is in a position to swiftly exploit lucrative opportunities. On the other hand, the Board of Management has a duty towards the shareholders to only commit the capital entrusted to it with the utmost care.

Initial successes: Companies considered as acquisitions to date did not pass the extensive due diligence tests. Pandatel continues to hold talks with several promising candidates.

Sales by region



Growth from 2004 onwards

The market for network equipment provider will probably not recover until 2004. The market researchers at iSuppli assume that in the current year the investment volume in the fixed-line telecom sector will contract a further 20 % and will pick up again as of 2004. Analysts consider Metro WDM to be the growth segment in the market for optical networks. The IDC research institute, for example, expects growth of an average 25 % per annum for 2003 thru 2007.

Pandatel expects sales in the European market to improve, an outlook supported by the most recent positive predictions by sector analysts such as US research institute RHK, who following stagnation in 2003, foresee 8 % growth in the market for fiber-optic networks in 2004. The European Information Technology Observatory EITO likewise expects that the West European IT and telco market will see fledgling growth in 2003 of 2.5 %, with the figure rising to 4 % in 2004. The economic prospects for the US and Asia, by contrast, remain weak. Overall, Pandatel's sales for 2003 as a whole should be on par with those for the prior year – although this presumes that clients implement their planned projects on the scale currently scheduled. The favorable rise in Pandatel order receipts in recent weeks would suggest this is happening.

Sales negatively impacted by dollar weakness and SARS

In H1 2003, Pandatel booked Group sales of € 8.94m, compared with € 15.24m one year earlier. The EMEA region (Europe, Mideast, Africa) contributed € 4.83m or 54.0 % of sales, as against 46.7 % the year before. In the period under review, the single largest selling region was East Europe, which sourced 16.9 % of the total, followed by Germany with 13.1 %. EMEA also proved to be the most stable market in terms of unit sales levels in H1 2003. Pandatel anticipates that this trend will persist for the foreseeable future.

Business in the US was sluggish. Following what had already been a weak first quarter, and the ongoing profound uncertainty on how the economy would perform, carriers were only to a very limited extent willing to invest. The ongoing political uncertainty in South and Latin America was reflected in high inflation rates and an almost complete absence of investments. Sales for the Americas totaled € 1.53m, slightly less than 58 % of the figure for H1 2002.

The outbreak of SARS paralyzed large parts of the Asian business world. Major industrial trade fairs, including CommunicAsia, so important for network equipment providers, were cancelled; business travel came to an almost complete stop. In this region, Pandatel posted sales of € 2.58m, compared with € 5.48m one year earlier.

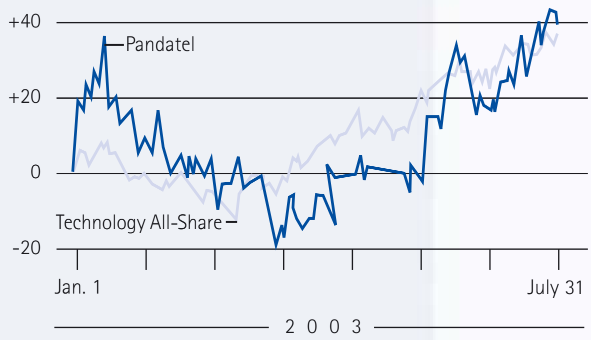
Results by segment

	EMEA	Asia	The Americas	H1 2003 Group
External sales	4,829	2,582	1,530	8,941
Intra-group sales	3,034	0	0	
EBT	-3,247	-98	-295	-3,640

	EMEA	Asia	The Americas	H1 2002 Group
External sales	7,129	5,457	2,652	15,238
Intra-group sales	6,406	0	0	
EBT	971	187	74	1,232

Pandatel equity in comparison

Performance in %



Earnings reflect sales trends

The unsatisfactory sales trend was fully reflected in earnings, as the majority of cost-cutting measures will not impact on the figures until coming quarters. The pre-tax loss for H1 2003 was € 3.64m, as compared with a pre-tax profit of € 1.23m one year earlier. The net loss was € 1.12m, as against a net profit of € 0.68m in H1 2001. Cash flow from current operating activities was a vast improvement on the year: H1 2002 closed with a cash outflow of € 4.82m, whereas as at June 30, 2003 Pandatel posted a cash outflow of only € 1.29m. Owing to the sale of marketable securities the cash flow from investing activities rose by almost € 2m, up just under € 2.6m on the figure for the same period the prior year.

Equity profits from mood upturn

Since the beginning of the year, the Pandatel equity, listed on the Prime Standard segment of the Frankfurt Stock Exchange, has climbed by at times as much as 35%, and closed on June 30 at € 3.61. The performance mirrored that of the Technology-All-Share benchmark, the successor to the Nemax-All-Share index. At the start of the year, the share price leaped to as much as € 4.50, and then followed the benchmark, at one point falling back to € 2.50. Since then, it has performed very well and as part of this stable upwards trend topped € 4.59 at the end of July. The current share price still does not adequately reflect our enterprise value, as is shown, for example, by the estimate issued by independent share analysis institute SES Research, whose analysts rate the Pandatel equity with a fair value of € 5. Yet even this price is only one euro higher than the ratio of Company liquid funds per share.

Directors' holdings
as at June 30, 2003

	No. of shares	Stock options	Percentage of the capital stock in %
Executive Board			
Heinrich-J. Kraus	0	25,000	0.35
Frank Mauritz	0	41,666	0.58
Norbert Wienck	0	49,999	0.69
Supervisory Board			
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	42.1 %

General Meeting very well attended

Some 180 Pandatel shareholders were present at the General Meeting in May, where they informed themselves on the current state of the Company. They approved all points on the agenda with a majority of over 98 %: in addition to approving the actions of the Management and Supervisory Boards they also concurred with the proposal to gear remuneration of the Supervisory Board to the Company's performance in line with the requirements of the Corporate Governance Code. Vote-holding shareholders waived disbursement of a dividend.

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 euro. The consolidated financial statements include Pandatel AG as well as Pandatel Inc., USA and Pandatel Asia Pacific Pte Ltd, Singapore, 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 have been eliminated.

Consolidated balance sheet

Assets

€ 000	30/06/2003	31/12/2002
Current assets		
Cash and cash equivalents	25,489	24,785
Short-term investments/marketable securities	2,654	5,111
Trade accounts receivable	4,571	5,594
Inventories	8,291	7,752
Deferred tax asset	2,454	1,225
Prepaid expenses and other current assets	1,437	2,540
Total current assets	**44,896**	**47,007**
Non-current assets		
Property, plant and equipment	1,826	2,094
Intangible assets	1,425	1,312
Investments	0	0
Notes receivable/loans	0	0
Deferred taxes	0	0
Other assets	0	0
Others	85	83
Total non-current assets	**3,336**	**3,489**
Total assets	**48,232**	**50,496**

Consolidated balance sheet

Liabilities and shareholders' equity

€ 000	30/06/2003	31/12/2002
Current liabilities		
Current portion of capital lease obligation	0	0
Short-term debt and current portion of long-term debt	0	0
Trade accounts payable	1,060	564
Liabilities against affiliated companies	0	100
Accrued expenses	951	1,156
Accruals and liabilities for income taxes	138	138
Deferred taxes	0	0
Other current liabilities	491	615
Total current liabilities	**2,641**	**2,573**
Non-current liabilities		
Long-term debt	0	0
Capital lease obligations, less current portion	0	0
Deferred taxes	0	0
Total non-current liabilitites	**0**	**0**
Minority interest	0	0
Shareholders' equity		
Share capital	7,225	7,225
Additional paid-in capital	33,287	33,132
Retained earnings	5,253	7,685
Accumulated other comprehensive income	-174	-119
Total shareholders' equity	**45,591**	**47,923**
Total liabilities and shareholders' equity	**48,232**	**50,496**

Consolidated income statement

€ 000	01/04/2003 – 30/06/2003	01/04/2002 – 30/06/2002	01/01/2003 – 30/06/2003	01/01/2002 – 30/06/2002
Sales	5,091	8,185	8,941	15,238
Cost of production	-2,722	-4,317	-5,127	-7,413
Gross profit	**2,369**	**3,868**	**3,813**	**7,825**
Sales costs	-1,883	-1,722	-3,709	-3,308
General and administrative expenses	-1,155	-676	-2,338	-1,750
Research and development expenses	-1,254	-692	-2,041	-1,299
Other operating income and expenses	0	0	0	0
Amortisation of goodwill	0	0	0	0
Operating income/loss	**–1,922**	**778**	**–4,275**	**1,468**
Interest income	192	216	458	578
Income from investments and participations	0	0	0	0
Income/expenses from associated companies	0	0	0	0
Foreign currency exchange gains/losses	-27	-807	5	-860
Other income/expenses	135	-14	171	45
Earnings before income taxes (and minority interest)	**–1,623**	**174**	**–3,640**	**1,232**
Income tax	499	80	1,209	-552
Extraordinary income/expenses	0	0	0	0
Result before minority interest	**–1,124**	**252**	**–2,432**	**679**
Minority interest	0	0	0	0
Net income/loss	**–1,124**	**252**	**–2,432**	**679**
Earnings per share (diluted) in €	**–0,16**	**0,03**	**–0,34**	**0,09**
Earnings per share (undiluted) in €	**–0,16**	**0,03**	**–0,34**	**0,09**
Weighted average shares outstanding (diluted)	**7,225,000**	**7,225,000**	**7,225,000**	**7,225,000**
Weighted average shares outstanding (undiluted)	**7,231,689**	**7,225,000**	**7,234,236**	**7,225,000**

Consolidated statement of cash flow

€000	01/01/2003 – 30/06/2003	01/01/2002 – 30/06/2002
Net income/loss before extraordinary items	-2,432	679
Depreciation on intangible and tangible assets	655	544
Personnel expenses for stock options	154	135
Expense not impacting on earnings	0	0
Profit/loss from sales of tangible assets	-14	12
Cash flow	**–1,636**	**1,369**
Changes in		
inventories	-539	54
trade accounts receivable	1,022	1,790
other assets which cannot be classified as investing of financing activities	995	-3,263
Changes in		
trade accounts payable	496	151
deferred taxes	-1,229	-86
other liabilities which cannot be classified as investing of financing activities	-401	-4,831
Income from or payments for extraordinary items	0	0
Cash flow from operating activities	**–1,292**	**–4,817**
Income from disposals of fixed assets	62	47
Payment for investments in tangible assets	-159	-409
Payment for investments in intangible assets	-387	-207
Income from the sale of securities	2,488	0
Payments for investments in financial assets	-9	-16
Payments owing to investments of financial resources as part of short-term treasury transactions	0	0
Cash flow from investing activities	**1,996**	**–585**
Changes in long-term debt	0	0
Inflow from capital increase	0	0
Dividends disbursed	0	-1,011
Cash flow from financing activities	**0**	**–1,011**
Changes in cash balances impacting earnings	**704**	**–6,413**
Changes in cash balances owing to exchange rate differences	**0**	**0**
Cash and cash equivalents at beginning of period	**24,785**	**18,121**
Cash and cash equivalents at end of period	**25,489**	**11,706**
Interest paid	1	1
Tax paid	-1,357	2,046

Development of share capital

	Subscribed capital				Other changes in shareholders' capital not affecting earnings			
	Shares	Amount	Capital reserves	Revenue reserves	Profit brought forward	Accumul. exchange rate adjustments	Available-for-sale-securities	Total sharehold.' capital
	Units	€000	€000	€000	€000	€000	€000	€000
At December 31, 2001	**7,225,000**	**7,225**	**32,854**	**1,295**	**8,801**	**121**	**16**	**50,312**
Stock option program	–	–	135	–	–	–	–	135
Allocation to profit reserves	–	–	–	1,728	-1,728	–	–	–
Net income/loss for the year	–	–	–	–	679	–	–	679
Dividends	–	–	–	–	-1,011	–	–	-1,011
Unrealized exchange and currency diff.[1]	–	–	–	–	–	-136	-61	-198
At June 30, 2002	**7,225,000**	**7,225**	**32,989**	**3,023**	**6,741**	**-15**	**-45**	**49,917**
At December 31, 2002	**7,225,000**	**7,225**	**33,132**	**3,023**	**4,662**	**89**	**-208**	**47,923**
Stock option program	–	–	154	–	–	–		154
Allocation to profit reserves	–	–	–	–	–	–		–
Net income/loss for the year	–	–	–	–	-2,432	–		-2,432
Dividends	–	–	–	–	–	–		–
Unrealized exchange and currency diff.[2]	–	–	–	–	–	-116	61	-55
At June 30, 2003	**7,225,000**	**7,225**	**33,286**	**3,023**	**2,230**	**-27**	**-147**	**45,591**

[1] after deducting taxes of € 24,000

[2] after deducting taxes of € 69,000