

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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Report of the first nine months of 2003

for the period Jan. 1 thru Sept. 30, 2003

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PAN|DATEL

Turn-around thanks to development drive – order receipts climb

In the past nine months, Pandatel has faced major entrepreneurial challenges:

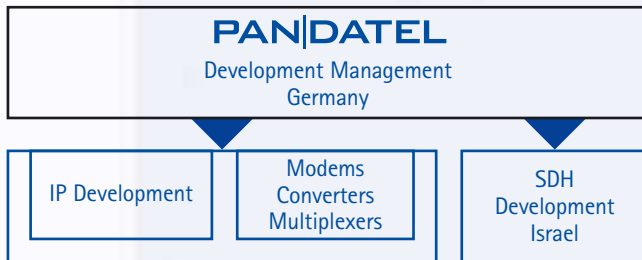
- Traditionally strong markets for network access equipment such as Asia and the United States have continued to book low sales, whereas East Europe, in particular Russia, have outperformed.
- The propensity among carriers to invest in new technologies and set up completely new networks – once regarded as a market with long-term high growth rates – will remain at a low level for some time to come.

| Pandatel Group (pursuant US-GAAP) | Jan. 1 – Sep. 30, 2003 | Jan. 1 – Sep. 30, 2002 |
|--|-----------------------------------|-----------------------------------|
| Sales revenues (in €000) | 14,400 | 22,681 |
| Earnings/loss before income taxes (in €000) | -5,416 | 1,158 |
| Net income/loss for the period (in €000) | -3,579 | 481 |
| Net earnings/loss per share (diluted) (in €000) | -0.49 | 0.07 |
| Net earnings/loss per share (undiluted) (in €000) | -0.50 | 0.07 |
| Employees (average) | 176 | 165 |

Pandatel responded to these changed conditions:

- It is investing an additional figure of approx. € 3m in measures destined to optimize development and sales.
- In order to cover the pent-up demand for leading technological products, in the past quarter Pandatel hired new staff specifically for the Development and Sales sections. The Competence Center in Israel went into operation and in early November the section in Germany was expanded to include a new six-person development team. Now that the main obstacles as regards restructuring the Development and Sales section have been overcome, Pandatel will continue to scrutinize all processes as a whole in order to identify further potential for boosting efficiency in all areas of the company.
- By developing product redesigns entailing lower manufacturing costs, we are countering the deterioration in margins as a consequence of the current price squeeze.

Investment activity among integrators and end users such as network operators and power utilities continues very restrained; in fact, some project start-ups have been postponed more than once. Nevertheless, for some months now Pandatel has discerned a gratifying development: Following the weaker first half, Q3 order receipts rose to € 6.3m and the total for nine months thus ran at € 14.4m (year-before period: € 22.6m).



Development section expanded and placed on a new footing

In August Pandatel founded its own development company in Kfar Saba, Israel. Pandatel Ltd. employs nine specialists for data transmission in fiber optic networks according to the SDH synchronous digital hierarchy standard. The development department in Germany has been expanded by taking on a complete existing team of IP specialists. In this way, Pandatel has optimally spread its development resources across its German and Israeli hubs – the two now function as a competence center covering the full spectrum of network access technology. The staff in Israel are in charge of the SDH technology, while the North German facility handles all IP technology development work. This concentration in each instance on a specific technology is intended to focus expertise and guarantee shorter development lead times.

Clear signal to our sales partners

In October, Pandatel invited our sales partners in the EMEA region (Europe, Mid-East and Africa) to the annual sales conference. 40 distributors informed themselves on the sales support Pandatel provides and discussed the product roadmap as well as current market trends. The result: a win-win situation. Pandatel fosters trust among its partners and at the same time receives valuable market information that is inputted into the roadmap. In order to ensure that this base for trust and information endures, Pandatel is busy expanding its partner program. The objectives: to deliver better information to its sales partners in the future and to integrate them into the development process.

Sales in Q3 pick up appreciably – lower margin squeezes earnings

In the third quarter, Pandatel sales climbed 7% on the prior quarter to reach € 5.5m. Total sales for the first nine months thus rose to approx. € 14.4m, and were thus 36.5% down on the year. Pandatel anticipates sales for 2003 as a whole running at € 21m. The strong decline in sales prices impacts directly on operating profits.

Central and East Europe remain the main pillars of sales

Sales trends in the individual regions tended very uneven: In particular, the Asia and Latin America sales regions saw a clear decrease, of 47% and 52% respectively. In Asia, the competition and pressure on prices have increased noticeably, and the economy in Latin America (where Pandatel sources about 2% of world sales) has been crushed by political turbulence. By contrast, business in various European countries developed favorably, as it did in the Mid-East and Africa, with Pandatel booking clear double-digit growth in sales. In East Europe, and in particular in Russia, sales in the first nine months were admittedly down on the year-before period, but rose emphatically in Q3. In particular, the Russian market is characterized by high volatility. The local German market also gives cause for optimism. There, Pandatel scored third-quarter sales in excess of € 2.1m or almost as much as in the first half as a whole. Exports fell as a ratio of total sales from 89% to 85% as a consequence.

■ Results by segment

| | EMEA | Asia | The Americas | Q1-Q3 Group |
|-------------------|--------|-------|--------------|----------------|
| External sales | 8,506 | 3,788 | 2,106 | 14,400 |
| Intra-group sales | 4,050 | 0 | 0 | |
| EBT | -5,156 | -94 | -167 | -5,416 |

| | EMEA | Asia | The Americas | Q1-Q3 Group |
|-------------------|--------|-------|--------------|----------------|
| External sales | 11,437 | 7,960 | 3,284 | 22,681 |
| Intra-group sales | 9,079 | 0 | 0 | |
| EBT | 1,287 | -41 | -89 | 1,158 |

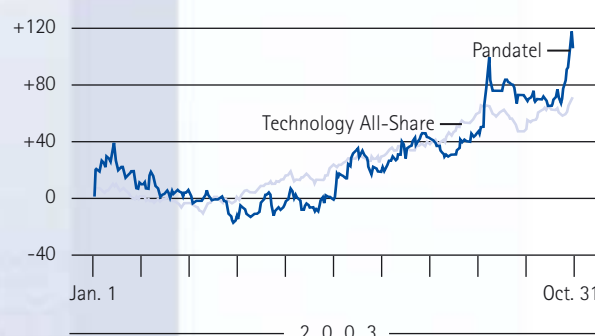
EBT unsatisfactory, cash flow from ongoing operations improves slightly

The loss before tax for the Jan.-Sept. period came to € 5.4m compared with EBT of € 1.2m one year earlier. The loss after taxes and minority interests as at Sept. 30 came to € 3.6m, as compared with the slight profit of € 0.5m reported one year earlier. Cash flow from ongoing operations improved by slightly more than one percent: the outflow was € 2.59m as against an outflow of € 2.62m for Q1-3, 2002.

Pandatel believes that in the future there are prime prospects for growth specifically in the markets of East Europe, and Asia is one of the regions with ground to make up. We expect that unit sales will bounce back significantly following the launch of a number of new products. Indeed, Pandatel is in the process of commencing marketing of its BM-G modem for copper networks; moreover, several new converters and a CWDM system are all scheduled for roll-out before the end of the year.

■ Pandatel equity in comparison

Performance in %



Stock market confident in the future

In Q3, the Pandatel equity put in a great performance. Since the beginning of the year, the share price has surged a good 90% to reach a new high for the year on Sept. 9, 2003 of € 6.05. Following a brief period of profit-taking, the share has since held steady at a point above € 5, marking a new 52-week high of € 6.80 in November. Analysts attributed the generally favorable mood in tech stocks to the strong progress made by high-tech providers in restructuring operations – major corporations in the networking sector have reported improved figures for Q3 and are cautiously optimistic as regards the future. Pandatel has also benefited from this climate and assumes that the share price will be boosted further as soon as the Company's sales and profits pick up.

■ Key financial dates 2003-4

Analyst meeting
Release of annual financial statements
Report of Q1
General Meeting

November 26
second half of March
mid-May
probably May 27

■ Shareholder structure

| | |
|------------------------|-------|
| Augusta Technologie AG | 57.9% |
| Freefloat | 42.1% |

Smaller Board

As at Aug. 31 a Board member withdrew from Pandatel management. Since that time, the duties of the CTO have been discharged by the remaining Board members Heinrich-J. Kraus and Norbert Wienck.

■ Directors' holdings as at September 30, 2003

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

* Board member Mauritz withdrew from the Company as at August 31, 2003

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 are eliminated.

Consolidated balance sheet

| Assets | | |
|--|------------------------------|---|
| €000 | 9-month report 30/09/2003 | Annual financial statements 31/12/2002 |
| Current assets | | |
| Cash and cash equivalents | 24,110 | 24,785 |
| Short-term investments/marketable securities | 2,610 | 5,111 |
| Trade accounts receivable | 5,408 | 5,594 |
| Inventories | 8,154 | 7,752 |
| Deferred tax asset | 3,112 | 1,225 |
| Prepaid expenses and other current assets | 1,019 | 2,540 |
| Total current assets | 44,413 | 47,007 |
| Non-current assets | | |
| Property, plant and equipment | 1,698 | 2,094 |
| Intangible assets | 1,324 | 1,312 |
| Investments | 0 | 0 |
| Notes receivable/loans | 0 | 0 |
| Deferred taxes | 0 | 0 |
| Other assets | 0 | 0 |
| Others | 76 | 83 |
| Total non-current assets | 3,098 | 3,489 |
| Total assets | 47,511 | 50,496 |

Consolidated balance sheet

| Liabilities and shareholders' equity | | |
|---|------------------------------|---|
| €000 | 9-month report 30/09/2003 | Annual financial statements 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 | 1,309 | 564 |
| Liabilities against affiliated companies | 0 | 100 |
| Accrued expenses | 1,186 | 1,156 |
| Accruals and liabilities for income taxes | 138 | 138 |
| Deferred taxes | 0 | 0 |
| Other current liabilities | 382 | 615 |
| Total current liabilities | 3,016 | 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 liabilities | 0 | 0 |
| Minority interest | 0 | 0 |
| Shareholders' equity | | |
| Share capital | 7,225 | 7,225 |
| Additional paid-in capital | 33,367 | 33,132 |
| Retained earnings | 4,105 | 7,685 |
| Accumulated other comprehensive income | -203 | -119 |
| Total shareholders' equity | 44,495 | 47,923 |
| Total liabilities and shareholders' equity | 47,511 | 50,496 |

Consolidated income statement

| €000 | Quartely report 01/07/2003 - 30/09/2003 | Quartely report 01/07/2002 - 30/09/2002 | 9-month report 01/01/2003 - 30/09/2003 | 9-month report 01/01/2002 - 30/09/2002 |
|---|--|--|---|---|
| Sales | 5,459 | 7,443 | 14,400 | 22,681 |
| Cost of production | -3,662 | -3,542 | -8,789 | -10,955 |
| Gross profit | 1,797 | 3,901 | 5,611 | 11,726 |
| Sales costs | -1,457 | -1,950 | -5,167 | -5,258 |
| General and administrative expenses | -1,173 | -1,359 | -3,511 | -3,109 |
| Research and development expenses | -1,169 | -934 | -3,210 | -2,233 |
| Other operating income and expenses | 0 | 0 | 0 | 0 |
| Amortization of goodwill | 0 | 0 | 0 | 0 |
| Operating income/loss | -2,002 | -342 | -6,277 | 1,126 |
| Interest income | 142 | 224 | 600 | 802 |
| Income from investments and participations | 0 | 0 | 0 | 0 |
| Income/expenses from associated companies | 0 | 0 | 0 | 0 |
| Foreign currency exchange gains/losses | -30 | -174 | -24 | -1,034 |
| Other income/expenses | 115 | 218 | 286 | 263 |
| Earnings before income taxes (and minority interest) | -1,776 | -73 | -5,416 | 1,158 |
| Income tax | 628 | -125 | 1,836 | -676 |
| Extraordinary income/expenses | 0 | 0 | 0 | 0 |
| Result before minority interest | -1,148 | -198 | -3,579 | 481 |
| Minority interest | 0 | 0 | 0 | 0 |
| Net income/loss | -1,148 | -198 | -3,579 | 481 |
| Earnings per share (diluted) in € | -0.16 | -0.03 | -0.49 | 0.07 |
| Earnings per share (undiluted) in € | -0.16 | -0.03 | -0.50 | 0.07 |
| Weighted average shares outstanding (diluted) | 7,225,000 | 7,225,000 | 7,225,000 | 7,225,000 |
| Weighted average shares outstanding (undiluted) | 7,266,418 | 7,225,000 | 7,248,006 | 7,225,000 |

Consolidated statement of cash flow

| €000 | 01/01/2003 - 30/09/2003 | 01/01/2002 - 30/09/2002 |
|--|-------------------------|-------------------------|
| Net income/loss before extraordinary items | -3,579 | 481 |
| Depreciation on intangible and tangible assets | 969 | 860 |
| Personnel expenses for stock options | 235 | 202 |
| Expense not impacting on earnings | 0 | 0 |
| Profit/loss from sales of tangible assets | -13 | 12 |
| Cash flow | -2,389 | 1,554 |
| Changes in | | |
| inventories | 184 | 2,594 |
| trade accounts receivable | -402 | 1,384 |
| other assets which cannot be classified as investing or financing activities | 1,429 | -3,547 |
| Changes in | | |
| trade accounts payable | 746 | 166 |
| deferred taxes | -1,887 | -83 |
| other liabilities which cannot be classified as investing or financing activities | -275 | -4,682 |
| Income from or payments for extraordinary items | 0 | 0 |
| Cash flow from operating activities | -2,594 | -2,616 |
| Income from disposals of fixed assets | 62 | 47 |
| Payment for investments in tangible assets | -194 | -643 |
| Payment for investments in intangible assets | -437 | -282 |
| Income from the sale of securities | 2,488 | 0 |
| Payments for investments in financial assets | 0 | -16 |
| Payments owing to investments of financial resources as part of short-term treasury transactions | 0 | 0 |
| Cash flow from investing activities | 1,919 | -894 |
| 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 | -675 | -4,520 |
| 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 | 24,110 | 13,600 |
| Interest paid | 2 | 1 |
| Tax paid | -1,809 | 6,222 |

Development of share capital

| | Subscribed capital | | Other changes in shareholders' capital not affecting earnings | | | | | |
|---|--------------------|----------------|---|------------------|------------------------|---------------------------|-------------------------------|---------------------------|
| | | | Accumul. | | | | | |
| | | | Capital reserves | Revenue reserves | Profit brought forward | exchange rate adjustments | Available-for-sale securities | Total shareholder capital |
| | Shares Units | Amount €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 | - | - | 202 | - | - | - | - | 202 |
| Allocation to profit reserves | - | - | - | 1,728 | -1,728 | - | - | - |
| Net income/loss for the year | - | - | - | - | 481 | - | - | 481 |
| Dividends | - | - | - | - | -1,011 | - | - | -1,011 |
| Unrealized exchange and currency diff. ¹ | - | - | - | - | - | - | -102 | -102 |
| At September 30, 2002 | 7,225,000 | 7,225 | 33,056 | 3,023 | 6,543 | 121 | -86 | 49,882 |
| At December 31, 2002 | 7,225,000 | 7,225 | 33,132 | 3,023 | 4,662 | 89 | -208 | 47,923 |
| Stock option program | - | - | 235 | - | - | - | - | 235 |
| Allocation to profit reserves | - | - | - | - | - | - | - | - |
| Net income/loss for the year | - | - | - | - | -3,579 | - | - | -3,579 |
| Dividends | - | - | - | - | - | - | - | - |
| Unrealized exchange and currency diff. ² | - | - | - | - | - | -119 | 35 | -84 |
| At September 30, 2003 | 7,225,000 | 7,225 | 33,367 | 3,023 | 1,083 | -30 | -173 | 44,495 |

¹ after deducting taxes of € 50,000

² after deducting taxes of € -89,000