



## 1. Business Report

Ladies and Gentlemen,  
Dear Shareholders,

The generally weak economic growth that has been evident for more than two years now and not merely in CeoTronics' priority markets, has had a particularly strong, but delayed, effect on CeoTronics' business development since the beginning of calendar year 2003.

The difficult economic environment did not improve in the reporting period June 1, 2003 to August 31, 2003. On the contrary, fears of stagnation in Europe and the United States, as well as the recessionary trends in Germany, became reality. The financial position of public sector customers has been extremely difficult on a global scale. The slight improvement in economic prospects and the greater likelihood of increased capital spending did not affect the period under review.

With capital budgets at CeoTronics' customers non-existent or savagely slashed, the need for budgetary restraint restricted spending on standard products in most cases to replacement investments only, and the overall market is shrinking.

CeoTronics adapted to these trends at an early stage and focused on the development and marketing of special-purpose systems with pronounced USPs. We were able to exploit the positive trend in the potential sales volume for high-grade special-purpose systems, e.g., for law enforcement special units, CT-DECT communication systems, and ATEX-certified explosion-proof communication products.

At 2.4% revenue growth in the CeoTronics Group is satisfactory in light of the sluggish state of the economy, and in comparison with the communication electronics sector.

CeoTronics increased German revenues by 1.8%.

There are growing signs of a turnaround in business development at CeoTronics in the United States, confirmed by 30% revenue growth and a 282% year-on-year increase in the order backlog. Although we still have some way to go before we can realize the potential for market success of CeoTronics in the U.S., we are certainly heading in the right direction there.

We recorded 154% revenue growth and a 927% hike in orders in France compared with the year-ago quarter. We are encouraged by the choice of superior CeoTronics technology by the French security authorities for two major orders.

CT-Video GmbH recorded 5% improvement in revenues in the 1st quarter of fiscal year 03/04.

Spain recorded 37% year-on-year revenue growth.

Aacom-CeoTronics in Poland reported 116% revenue growth in the period under review.

CeoTronics Switzerland reported a relatively sharp decline in revenues in the 1st quarter of fiscal 03/04 because key customer groups in project based business were still in the process of deciding on the switch from analog to digital communication technology.

Earnings deteriorated year-on-year due to one-time factors, such as the one-time costs of workforce restructuring, which have depressed earnings.

# 2003/2004

Consolidated interim report CeoTronics AG for the first quarter

Without these special factors, we would actually have exceeded the satisfactory prior-year period earnings even more.

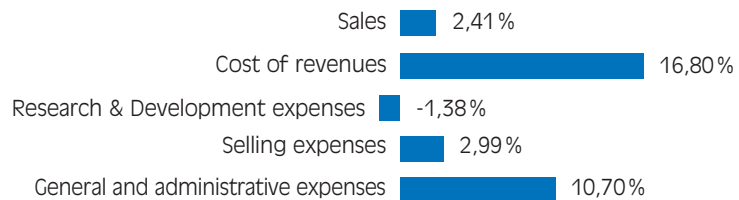
It should also be noted that CeoTronics' fiscal year commences on June 1, and that the first quarter is always the weakest for CeoTronics. This quarter reflects the vacation months of June, July, and August, in which revenues are weak, but full-quarter fixed costs are incurred. This seasonal effect means that CeoTronics only ever generates around 2/3 of average quarterly revenues in its first quarter, although there is no corresponding drop in costs.

EBITDA, i.e., Earnings Before Interest, Taxes, and goodwill Amortization (impairment), fell by € -28 thousand, from € -107 thousand in the first quarter of the previous year to € -135 thousand. EBIT increased over the same period by € 10 thousand, from € -263 thousand to € -253 thousand. The net loss after taxes decreased by € 42 thousand year-on-year, from € -314 thousand to € -272 thousand. The cash flow increased in the reporting period by € 4 thousand from € -158 thousand to € -154 thousand.

Investments in property, plant, and equipment rose by more than 130% year-on-year.

At 68% (previous period: 71%), the equity ratio is very high compared with the average of around 18% for German industry, and reflects CeoTronics' sound financing policy.

The consolidated figures (U.S. GAAP, unaudited) for the first three months of fiscal year 2003/2004 were as follows:



The percentage cost of revenues increased due to unusually strong purchases of higher-value merchandise.

Despite cost-cutting in research and development, we were able to complete a large number of modifications and new developments, and to launch promising new projects. We can only maintain our technology lead and capture market share with innovative products and systems offering pronounced USPs.

The rise in the marketing and sales spend is due to the development of new marketing structures in the U.S. and France, and to the market launch costs for new products and systems.

The unusual rise in general and administrative expenses is due to the costs of the workforce restructuring; these one-time factors impacted the 1st quarter in particular.

The number of employees in the Group rose to 129 at August 31, 2003 (August 31, 2002 = 125) because of the expansion in the sales forces in France and the U.S., apprentices were taken over, and the effects of the workforce reduction in Germany will only start to be felt in the second quarter.

The price of CeoTronics shares recorded positive growth during the period under review, and its liquidity has increased appreciably since the bonus share issue. Unfortunately, though, there has been no change in the extreme undervaluation due to the general reluctance by investors to invest in equities.

In light of the macroeconomic environment, the Board of Management is satisfied with the results of operations and assumes that revenues and earnings will improve even more in the coming quarters, driven by the high order backlog, the high level of offer volumes, the tenders that will soon be awarded, and the marketing campaign for new products and systems.

Board of Management

Thomas H. Günther  
Chairman of the Board of Management

Berthold Hemer  
Deputy Chairman  
Research & Development

Rödermark, October 15, 2003

## 2. Balance Sheet (according to US-GAAP)

Assets	Quarterly Report (Date of current quarter) August 31, 2003	Annual Report (Date of last annual report) May 31, 2003
	T€	T€
<b>Current Assets</b>		
Cash and cash equivalents	425	527
Short-term investments/marketable securities	0	0
Trade accounts receivable	2,072	2,231
Accounts receivable due from related parties	0	0
Inventories	3,968	3,766
Deferred tax	1,621	1,615
Prepaid expenses and other current assets	566	360
<b>Total current assets</b>	<b>8,652</b>	<b>8,499</b>
<b>Non-current assets</b>		
Property, plant and equipment	3,455	3,434
Intangible assets	105	112
Goodwill	1,625	1,550
Participations	0	0
Investments	17	18
Investments accounted for by the equity method	0	0
Deferred tax	0	0
Other assets		
<b>Total non-current assets</b>	<b>5,202</b>	<b>5,114</b>
<b>Total assets</b>	<b>13,854</b>	<b>13,613</b>

Liabilities and shareholders' equity	Quarterly Report (Date of current quarter) August 31, 2003	Annual Report (Date of last annual report) May 31, 2003
	T€	T€
<b>Current liabilities</b>		
Current portion of capital lease obligation	0	0
Short-term debt and current portion of long-term debt	1,002	1,054
Trade accounts payable	867	374
Accounts payable due to related parties	0	0
Advance payments received	0	11
Accrued expenses	299	415
Deferred revenues	0	0
Income tax payable	445	451
Deferred tax	0	0
Other current liabilities	650	529
<b>Total current liabilities</b>	<b>3,263</b>	<b>2,834</b>
<b>Non-current liabilities</b>		
Long-term debt, less current portion	1,136	1,136
Capital lease obligations, less current portion	0	0
Deferred revenues	0	0
Deferred tax	0	0
Pension accrual	0	0
<b>Total non-current liabilities</b>	<b>1,136</b>	<b>1,136</b>
<b>Minority interest</b>	<b>25</b>	<b>24</b>
<b>Shareholders' equity</b>		
Share capital	6,600	6,600
Additional paid-in capital	4,935	4,935
Treasury stock	-614	-614
Retained earning/accumulated deficit	-1,584	-1,312
Accumulated other comprehensive income/loss	93	10
Currency translation adjustment		
<b>Total shareholders' equity</b>	<b>9,430</b>	<b>9,619</b>
<b>Total liabilities and shareholders' equity</b>	<b>13,854</b>	<b>13,613</b>

### 3. Income Statement

Income Statement (according to US-GAAP)	Quarterly Report (current quarter)  June 1, 2003- August 31, 2003	Quarterly Report (comparative quarter previous year) June 1, 2002- August 31, 2002
	T€	T€
<b>Revenues</b>	<b>2,551</b>	<b>2,491</b>
Cost of revenues	-1,474	-1,262
<b>Gross profit/loss</b>	<b>1,077</b>	<b>1,229</b>
Selling and marketing expenses	-828	-804
General and administrative expenses	-423	-383
Research and development expenses	-215	-218
Other operating income and expenses	136	-63
Amortization (and impairment) of goodwill	0	-24
<b>Operating income/loss (E.B.I.T.)</b>	<b>-253</b>	<b>-263</b>
Interest income and expenses	-21	-27
Income from investments and participations	0	0
Income/expense from investments accounted for by the equity method	0	0
Foreign currency exchange gains/losses	0	0
Other income/expenses	0	0
<b>Result before income tax (and minority interest)</b>	<b>-274</b>	<b>-290</b>
Income tax	2	-25
Extraordinary income/expenses	0	0
<b>Result before minority interest</b>	<b>-272</b>	<b>-315</b>
Minority interest	0	1
<b>Net income/loss</b>	<b>-272</b>	<b>-314</b>
Net income per share (basic) in €	-0.13	-0.15
Net income per share (diluted) in €	-0.13	-0.15
Weighted average shares outstanding (basic)	2,159,998	2,159,998
Weighted average shares outstanding (diluted)	2,159,998	2,159,998

\* Due to the issue of bonus shares as of February 3, 2003 the total number of shares doubled.  
In order to improve the comparability of last years figures, the number of shares outstanding  
was adjusted the in the same way.

## 4. Consolidated Cash Flow Statement

Cash Flow Statement	Quarterly Report (current year to date) June 1, 2003-August 31, 2003	Quarterly Report (comparative period previous year) June 1, 2002-August 31, 2002
	T€	T€
<b>Cash flow from operating activities</b>		
Net income before tax	-274	-290
Income tax	2	-25
<b>Net income after tax and after earnings</b>	<b>-272</b>	<b>-315</b>
Minority interest	0	1
<b>Net income after tax and after minority interest</b>	<b>-272</b>	<b>-314</b>
Depreciation	118	156
<b>Subtotal</b>	<b>-154</b>	<b>-158</b>
<b>Changes in assets and liabilities</b>		
Change in trade accounts receivable	159	1.042
Change in inventories	-202	-210
Change in prepaid expenses and other current assets	-206	-132
Change in trade accounts payable	493	-391
Change in advanced payments received	-11	-1
Change in other accruals	-116	-190
Change in corporate tax liabilities	-5	17
Change in other liabilities	120	-3
Change in asset-side adjustment for deferred tax	-5	15
<b>Total changes</b>	<b>227</b>	<b>147</b>
<b>Net cash provided by operating activities</b>	<b>73</b>	<b>-11</b>
<b>Cash flow from investing activities</b>		
Investments in intangible assets	-9	-130
Investments in fixed assets	-113	-49
Changes in other assets and prepaid expenses	1	0
Investments in participations	0	138
Change in foreign currency differences	-85	79
Disposal of assets (net book value)	0	0
<b>Net cash used in investing activities</b>	<b>-206</b>	<b>38</b>
<b>Cash flow from financing activities</b>		
Change in other liabilities	0	-37
Change in minority interest	1	24
Change in short-term liabilities to banks	-53	272
Change in long-term liabilities to banks	0	0
Change in common stock	0	0
Change in additional paid in capital	0	0
<b>Net cash provided by financing activities</b>	<b>-52</b>	<b>259</b>
<b>Change in cash and cash equivalents</b>	<b>-185</b>	<b>286</b>
Net effect of currency translation in cash and cash equivalents	83	-101
Cash and cash equivalents at beginning of period	527	851
Cash and cash equivalents at end of period	425	1,036



## 5. Statement of Shareholders' Equity

	Capital stock	Treasury stock	Capital reserve	Revenue reserve	Retained earnings	Currency translation	Comprehensive income	Shareholders' equity
	T€	T€	T€	T€	T€	T€	T€	T€
<b>As of May 31, 2003</b>	<b>6,600</b>	<b>-614</b>	<b>4,935</b>	<b>70</b>	<b>-1,382</b>	<b>10</b>		<b>9,619</b>
Consolidated net loss					-272		-272	-272
Currency translation differences in the period						83	83	83
Comprehensive income							-189	0
<b>As of August 31, 2003</b>	<b>6,600</b>	<b>-614</b>	<b>4,935</b>	<b>70</b>	<b>-1,654</b>	<b>93</b>		<b>9,430</b>

As of August 31, 2003 the CeoTronics Group had an equity ratio of 68,07 %.

Further substantial changes in the area of the equity and stock-options did not occur during the reporting period.

## 6. Segment Reporting

The company measures the success of its subsidiaries by measuring their net income. The accounting and reporting principles used for regional reporting are according to the group accounting rules. The subsidiaries in the individual countries are legally independent and have their own management teams.

The company's product groups are comparable both with regard to their production process and the market development methods used. Internal and external reporting follows geographical criteria in the first instance.

The information below is presented by region.

Net sales for the first quarter 2003/2004 and 2002/2003 are broken down by region as follows:

	First quarter 2003/2004	First quarter 2002/2003
	T€	T€
Germany	1,434	1,092
Rest of Europe and rest of world	2,016	2,070
Subtotal	3,450	3,162
Elimination of intercompany trade	-899	-671
External revenues	2,551	2,491

Net income for the first quarter 2003/2004 and 2002/2003 is broken down by region as follows:

	First quarter 2003/2004	First quarter 2002/2003
	T€	T€
Germany	-317	-212
Rest of Europe and rest of world	-11	-95
Subtotal	-328	-307
Consolidation entries	56	-7
Consolidated net income	-272	-314

Total assets as of August 31, 2003 and August 31, 2002 are broken down by region as follows:

	As of August 31, 2003	As of August 31, 2002
	T€	T€
Germany	16,629	16,593
Rest of Europe and rest of world	5,395	5,828
Subtotal	22,024	22,421
Consolidation entries	-8,170	-8,033
Consolidated total assets	13,854	14,388

Total non-current assets as of August 31, 2003 and August 31, 2002 are broken down by region as follows:

	As of August 31, 2003	As of August 31, 2002
	T€	T€
Germany	3,301	3,474
Rest of Europe and rest of world	1,900	2,131
Non-current assets (total)	5,201	5,605

Capital expenditure for the first quarter 2003/2004 and 2002/2003 is broken down by region as follows:

	First quarter 2003/2004	First quarter 2002/2003
	T€	T€
Germany	113	167
Rest of Europe and rest of world	8	12
Capital expenditure (total)	121	179

## 7. Reportable Security Portfolio

Reportable Security Portfolio as of August 31, 2003		CeoTronics Shares (ISIN DE0005407407/WKN 540740) per pcs.	Stock options per pcs.
<b>Board of Management</b>			
Chairman	<b>Thomas Günther</b>	7,998	4,800
Deputy Chairman, Senior-Vice President R&D	<b>Berthold Hemer</b>	212,600	6,000
Vice President Operations	<b>Günther Thoma</b>	5,222	4,800
Vice President Finance/Human Resources	<b>Bernd Weinel</b>	0	0
<b>Supervisory Board</b>			
Chairman	<b>Hans-Dieter Günther</b>	387,600	0
Deputy Chairman	<b>Horst Schöppner</b>	226,300	0
Member of Supervisory Board	<b>Stephan Haack</b>	0	0
<b>CeoTronics AG</b>			
Treasury Stock		40,000	0

The total number of shares amounted to 2,199,998 as of August 31, 2003

No dividends were paid during the reporting period.

## 8. CeoTronics Shares



## 9. Changes in the Scope of Consolidation

The scope of consolidation now consists of the following companies:

CeoTronics AG, Rotkreuz, Switzerland,  
 CeoTronics Sarl, Pontault-Combault, France,  
 CeoTronics Ltd., Bordon/Hants, Great Britain,  
 CeoTronics, Inc., Chesapeake, Virginia, USA,  
 CeoTronics S.L., Madrid, Spain,  
 CT-Video GmbH, Rothenschirmbach, Germany,  
 AACOM-CeoTronics Ltd., Lodz, Poland.

Subsidiaries in which the parent company indirectly holds the majority of shares, and hence of the voting rights, are consolidated in accordance with the principles of capital consolidation..

The minority interests of 25 % in AACOM-CeoTronics Ltd., Lodz/Poland, is taken into account in the way, that the minority interests and the effects resulting from it are listed openly in the liability side of the Balance Sheet, in the Income Statement and in the Cash Flow Statement.

## 10. Changes in the Company Organisation

No changes in the Company Organisation in the 1st quarter of fiscal year 03/04

## 11. News from the Group

### Digital technology from CeoTronics

New digital products from CeoTronics will shortly be launched, following the successful market introduction of the CT-DECT digital radio systems:

- CT-DigiCom, the unique digital induction receiver, a global first for the fully concealed, interference-free use of communication equipment by law enforcement agencies.
- CT-DNR, the Digital Noise Reduction module that can be integrated with existing CT products and systems or as an inline solution, e.g., for hands-free vehicle systems.
- CT-GroundCom Digital, the world's first ground-to-cockpit headset offering perfect speech communication up to 140 dB(A) engine noise.

These new digital systems, the large number of new analog products, and the proven audio, video, and data products and systems, underscore CeoTronics' global market and technology lead, and will help us further extend our market share despite the stiff competition.



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