



## 1. Business Report

Ladies and Gentlemen,  
Dear Shareholders,

In the third quarter of the current fiscal year (December 1, 2003 to February 29, 2004), economic development in Germany and Europe failed to meet expectations. Indeed, the lack of dynamic, sustained growth served to exacerbate the already weak financial situation at public-sector customers.

Political mismanagement of economic and tax policy and German banks' continued restrictive lending policies, together with the terrorist attacks and threats in Europe, led to an increase in general uncertainty about the future. As a result, industry postponed a large number of planned investments. In addition, the seemingly endless debate on the wide-scale introduction of a uniform digital communications system for the emergency services is holding back urgently needed replacement investments in analog equipment by government law enforcement agencies and rescue services.

Despite this, CeoTronics' comprehensive product range, broad customer group portfolio, and sales strength in its priority markets meant that the Company was able to optimally leverage the scarce market potential. Some of the major orders (e.g. from France) that had been postponed for a number of quarters were finally placed. CeoTronics was able to offset the temporary drop in revenues from its standardized products and volumes on the back of the economic situation with large-scale projects and the success on the market of its digital radio headsets and systems.

Consolidated revenues in the first nine months of fiscal year 2003/2004 increased by just 1.5% year-on-year from € 9,213 thousand to € 9,354 thousand, as some orders can only be charged in the following quarters.

At February 29, 2004, the order backlog in the CeoTronics Group was up by 113.5% on the previous year. For the third quarter in succession, the volume and development of the order backlog give grounds for optimism about future revenue growth.

In light of the difficult economic conditions and budgetary constraints at public-sector customers, the Board of Management considers this unusually high order backlog, accompanied by significant earnings growth, to be a reflection of the excellent overall performance of the CeoTronics Group.

Despite the ongoing weakness of the economic environment and the worsening budgetary situation at public-sector customers, the revenues generated by CeoTronics AG, Rödermark/Germany, the parent company of the CeoTronics Group, remained at the prior-year level.

CeoTronics AG's order backlog for the first nine months of the year improved by 175.2% year-on-year.

In line with the principles of prudent business practice, the accrual for Group risks recognized in the German balance sheet of the parent company was increased by € 50 thousand, from € 275 thousand to € 325 thousand, to safeguard against potentially negative developments at CeoTronics, Inc. USA.

After the first nine months of the year, CeoTronics AG generated net income after tax of € 37 thousand.

CeoTronics USA achieved year-on-year revenue growth (in dollars) of 5.2%, while the order backlog (in dollars) rose by 23.2%. Earnings also improved substantially. This revenue growth was lower than forecast due to the unsatisfactory development of new orders in the third quarter, and is not a fair reflection of market potential in the U.S.

CeoTronics continued its positive development in France, where it generated revenue growth of 124.4% and a 332.5% hike in the order backlog.

# 2003/2004

Consolidated interim report CeoTronics AG for the first three quarters

During the period under review, CeoTronics Switzerland recorded revenue growth (in CHF) of 115.8%, while the order backlog (in CHF) increased by 896%.

Aacom-CeoTronics in Poland grew revenues (in PLN) by 18.3%. The order backlog (in PLN) fell by 28%.

Revenues at CT-Video GmbH (Saxony-Anhalt) declined by 8.6%, as two major export projects where put on hold. Compared to the extremely good previous year the order backlog was down 81.1% year-on-year. But this year a positive result is expected again.

In Spain, CeoTronics recorded a decline in revenues of around 14%, while the order backlog fell by 51.7% year-on-year; however, this development should be seen in the light of the high level in the previous year. Also in Spain a positive result by the end of the year is expected again.

On a low level revenues at CeoTronics UK (in GBP) declined by 24.4%, while the order backlog (in GBP) fell by 42.3%.

The positive trend in key Group earnings indicators in the first two quarters of 2003/2004 accelerated in the third quarter.

Despite the exceptionally high costs of workforce restructuring, which still impacted earnings in the third quarter, the CeoTronics Group improved EBITDA (Earnings before Interest, Taxes, Depreciation and goodwill Amortization/impairment) by € 424 thousand, from € 62 thousand to € 486 thousand, after the first nine months ended February 29, 2004. EBIT increased by € 546 thousand year-on-year, from € -392 thousand to € 154 thousand. The Group generated net income after tax of € 5 thousand, after a net loss of € 577 thousand in the previous year; this represents a year-on-year improvement of € 582 thousand. In the third quarter, gross cash flow increased by € 459 thousand year-on-year, from € -122 thousand to € 337 thousand.

The other consolidated key figures (U.S. GAAP, unaudited) for the first nine months of fiscal year 2003/2004 changed as follows on a year-on-year basis:

Sales	1.53 %
Cost of Sales	-0.28 %
Research & Development expenses	-11.52 %
Selling expenses	2.81 %
General and administrative expenses	-16.29 %

Investments in the first generation of digital radio communication for the CT-DECT product group have now been completed. This had a clearly positive effect on research and development cost trends. Thanks to these new, innovative products and systems, CeoTronics has maintained its technology lead and will continue to capture market share.

Strict cost discipline allowed the increase in marketing and sales expenses to be capped. This was despite our investment in the development of new marketing structures in the U.S. and France as announced, the budgeted costs for the launch of new products and systems, as well as the costs of workforce restructuring in the third quarter, all of which also affected this cost trend.

General and administrative expenses fell substantially, reflecting the positive effects from the workforce restructuring in this area.

The number of employees in the Group as of February 29, 2004 fell to 126 (previous year: 130).

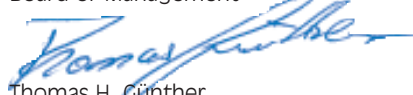
The price of CeoTronics shares grew by 124% during the period under review (June 1, 2003 to February 29, 2004), significantly outperforming the DAX and TECDEX benchmark indices. However, the shares remain heavily undervalued.

In light of the macroeconomic environment, the Board of Management is generally satisfied with the results of operations, and still believes that the forecast revenues in excess of € 13 million and earnings in the positive lower six-digit range will be achieved as of May 31, 2004, due to

- the high order backlog in the Group (at April 8, 2004: up + 129.6% year-on-year),
- the high level of offer volumes, and
- the Group's sales strength in the EU accession countries.

CeoTronics – Prime Technology!

Board of Management



Thomas H. Günther  
Chairman of the Board of Management



Berthold Hemer  
Deputy Chairman  
Senior-Vice President R&D

Rödermark, April 14, 2004

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

Assets	Quarterly Report (Date of current quarter) February 29, 2004	Annual Report (Date of last annual report) May 31, 2003
	T€	T€
<b>Current Assets</b>		
Cash and cash equivalents	286	527
Short-term investments/marketable securities	0	0
Trade accounts receivable	2,696	2,231
Accounts receivable due from related parties	0	0
Inventories	4,075	3,766
Deferred tax	1,623	1,615
Prepaid expenses and other current assets	363	360
<b>Total current assets</b>	<b>9,043</b>	<b>8,499</b>
<b>Non-current assets</b>		
Property, plant and equipment	3,421	3,434
Intangible assets	99	112
Goodwill	1,492	1,550
Participations	0	0
Investments	16	18
Investments accounted for by the equity method	0	0
Deferred tax	0	0
<b>Total non-current assets</b>	<b>5,028</b>	<b>5,114</b>
<b>Total assets</b>	<b>14,071</b>	<b>13,613</b>

Liabilities and shareholders' equity	Quarterly Report (Date of current quarter) February 29, 2004	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	1,167	1,054
Trade accounts payable	982	374
Accounts payable due to related parties	0	0
Advance payments received	0	11
Accrued expenses	407	415
Deferred revenues	0	0
Income tax payable	469	451
Deferred tax	0	0
Other current liabilities	416	529
<b>Total current liabilities</b>	<b>3,441</b>	<b>2,834</b>
<b>Non-current liabilities</b>		
Long-term debt, less current portion	1,046	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>1,046</b>	<b>1,136</b>
<b>Minority interest</b>	<b>28</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	-1,307	-1,312
Accumulated other comprehensive income/loss	-58	10
<b>Total shareholders' equity</b>	<b>9,558</b>	<b>9,619</b>
<b>Total liabilities and shareholders' equity</b>	<b>14,071</b>	<b>13,613</b>

### 3. Income Statement

Income Statement (according to US-GAAP)	Quarterly Report (current quarter)  Dec. 1, 2003- Feb. 29, 2004	Quarterly Report (comparative quarter previous year)  Dec. 1, 2002- Feb. 28, 2003	Quarterly Report (current year to date)  June 1, 2003- Feb. 29, 2004	Quarterly Report (comparative period previous year)  June 1, 2002- Feb. 28, 2003
	T€	T€	T€	T€
<b>Revenues</b>	<b>3,419</b>	<b>2,904</b>	<b>9,354</b>	<b>9,213</b>
Cost of revenues	-1,583	-1,417	-4,570	-4,583
<b>Gross profit/loss</b>	<b>1,836</b>	<b>1,487</b>	<b>4,784</b>	<b>4,630</b>
Selling and marketing expenses	-977	-929	-2,785	-2,709
General and administrative expenses	-378	-458	-1,141	-1,362
Research and development expenses	-228	-264	-645	-729
Other operating income and expenses	-85	-67	-59	-147
Amortization (and impairment) of goodwill	0	-23	0	-75
<b>Operating income/loss (E.B.I.T.)</b>	<b>168</b>	<b>-254</b>	<b>154</b>	<b>-392</b>
Interest income and expenses	-40	-32	-89	-96
Income from investments and participations	0	0	0	0
Income/expense from investments accounted for by the equity method	0	0	0	0
Foreign currency exchange gains/losses	0	0	0	0
Other income/expenses	0	0	0	0
<b>Result before income tax (and minority interest)</b>	<b>128</b>	<b>-286</b>	<b>65</b>	<b>-488</b>
Income tax	-25	-30	-58	-87
Extraordinary income/expenses	0	0	0	0
<b>Result before minority interest</b>	<b>103</b>	<b>-316</b>	<b>7</b>	<b>-575</b>
Minority interest	-2	-4	-2	-2
<b>Net income/loss</b>	<b>101</b>	<b>-320</b>	<b>5</b>	<b>-577</b>
Net income per share (basic) in □	0.05	-0.15	0.00	-0.27
Net income per share (diluted) in □	0.05	-0.15	0.00	-0.27
Weighted average shares outstanding (basic)	2,159,998	2,159,998	2,159,998	2,159,998
Weighted average shares outstanding (diluted)	2,159,998	2,159,998	2,159,998	2,159,998



## 4. Consolidated Cash Flow Statement

Cash Flow Statement	Quarterly Report (current year to date) June 1, 2003 - Feb. 29, 2004	Quarterly Report (comparative period previous year) June 1, 2002 - Feb. 28, 2003
	T€	T€
<b>Cash flow from operating activities</b>		
Net income before tax	65	-488
Income tax	-58	-87
<b>Net income after tax and after earnings</b>	<b>7</b>	<b>-575</b>
Minority interest	-2	-2
<b>Net income after tax and after minority interest</b>	<b>5</b>	<b>-577</b>
Depreciation	332	455
<b>Subtotal</b>	<b>337</b>	<b>-122</b>
<b>Changes in assets and liabilities</b>		
Change in trade accounts receivable	-465	985
Change in inventories	-309	-70
Change in prepaid expenses and other current assets	-3	-97
Change in trade accounts payable	608	-349
Change in advanced payments received	-11	0
Change in other accruals	-8	-143
Change in corporate tax liabilities	18	-15
Change in other liabilities	-113	-153
Change in asset-side adjustment for deferred tax	-8	17
<b>Total changes</b>	<b>-291</b>	<b>175</b>
<b>Net cash provided by operating activities</b>	<b>46</b>	<b>53</b>
<b>Cash flow from investing activities</b>		
Investments in intangible assets	-22	-188
Investments in fixed assets	-280	-171
Changes in other assets and prepaid expenses	2	0
Investments in participations	0	138
Change in foreign currency differences	54	212
Disposal of assets (net book value)	0	16
<b>Net cash used in investing activities</b>	<b>-246</b>	<b>7</b>
<b>Cash flow from financing activities</b>		
Change in other liabilities	113	-250
Change in minority interest	4	28
Change in middle and long-term debt	-90	123
Change in common stock	0	3,300
Change in additional paid in capital	0	-3,300
<b>Net cash provided by financing activities</b>	<b>27</b>	<b>-99</b>
<b>Change in cash and cash equivalents</b>	<b>-173</b>	<b>-39</b>
Net effect of currency translation in cash and cash equivalents	-68	-268
Cash and cash equivalents at beginning of period	527	851
Cash and cash equivalents at end of period	286	544

## 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>Current year</b>								
<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/income					5		5	5
Currency translation differences in the period						-68	-68	-68
Comprehensive income							<b>39</b>	0
<b>As of February 29, 2004</b>	<b>6,600</b>	<b>-614</b>	<b>4,935</b>	<b>70</b>	<b>-1,375</b>	<b>-58</b>		<b>9,556</b>
<b>Previous year's values to the comparison</b>								
<b>As of Mai 31, 2002</b>	<b>3,300</b>	<b>-614</b>	<b>8,235</b>	<b>70</b>	<b>-816</b>	<b>432</b>		<b>10,607</b>
Consolidated net loss/income					-577		-577	-577
Currency translation differences in the period						-268	-268	-268
Comprehensive income							<b>-845</b>	0
Capital increase (bonus shares)	3,300		-3,300					
<b>As of February 28, 2003</b>	<b>6,600</b>	<b>-614</b>	<b>4,935</b>	<b>70</b>	<b>-1,393</b>	<b>164</b>		<b>9,762</b>

As of February 29, 2004, the CeoTronics Group had an equity ratio of 67.9%.

There were no material changes in the equity and stock option plans compared with the previous quarter.

## 6. Notes to the consolidated report of CeoTronics AG on the first nine months ended February 29, 2004

The quarterly report was prepared in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP). There were no changes in the accounting, measurement and consolidation principles compared with the most recent annual financial statements as of May 31, 2003. Further details can be found in the Annual Report for fiscal year 2002/2003.

## 7. Segment Reporting

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

The company's product groups are comparable in terms of both 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.

Revenues for the first three quarters of 2003/2004 and 2002/2003 are broken down by region as follows:

	Three quarters 2003/2004	Three quarters 2002/2003
	T€	T€
Germany	3,074	4,198
Rest of Europe and rest of world	9,583	7,149
Subtotal	12,657	11,347
Elimination of intercompany trade	-3,303	-2,134
External revenues	9,354	9,213

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

	Three quarters 2003/2004	Three quarters 2002/2003
	T€	T€
Germany	44	-170
Rest of Europe and rest of world	83	-122
Subtotal	127	-292
Consolidation entries	-122	-285
Consolidated net income	5	-577

Total assets as of February 29, 2004 and February 28, 2003 are broken down by region as follows:

	As of Feb. 29, 2004	As of Feb. 28, 2003
	T€	T€
Germany	17,053	16,560
Rest of Europe and rest of world	5,312	5,533
Subtotal	22,365	22,093
Consolidation entries	-8,294	-8,587
Consolidated total assets	14,071	13,506

Total non-current assets as of February 29, 2004 and February 28, 2003 are broken down by region as follows:

	As of Feb. 29, 2004	As of Feb. 28, 2003
	T€	T€
Germany	3,277	3,376
Rest of Europe and rest of world	1,751	1,867
Non-current assets (total)	5,028	5,243

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

	Three quarters 2003/2004	Three quarters 2002/2003
	T€	T€
Germany	288	345
Rest of Europe and rest of world	14	14
Capital expenditure (total)	302	359

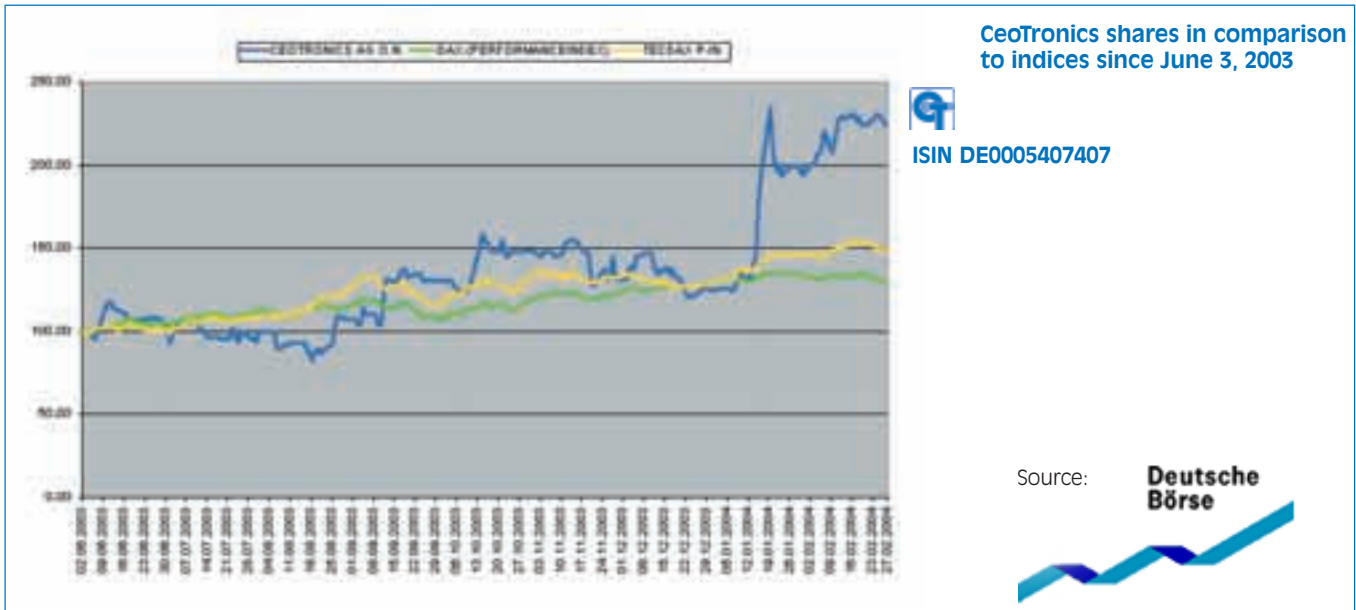
## 8. Reportable Security Portfolio

Reportable Security Portfolio as of February 29, 2004		CeoTronics Shares (ISIN DE0005407407) per pcs.	Stock options per pcs.
<b>Board of Management</b>			
Chairman	<b>Thomas Günther</b>	8,998	6,000
Deputy Chairman, Senior-Vice President R&D	<b>Berthold Hemer</b>	212,600	7,000
Vice President Operations	<b>Günther Thoma</b>	6,022	6,000
<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 of CeoTronics AG at the reporting date amounted to 2,199,998.

No dividends were paid during the period under review.

## 9. CeoTronics Shares



## 10. Changes in the Scope of Consolidation

The scope of consolidation consists without change of the following companies:

CeoTronics AG, Rödermark, Germany,  
CeoTronics AG, Rotkreuz, Switzerland,  
CeoTronics Sarl, Pontault-Combault, France,  
CeoTronics Ltd., Bordon/Hants, United Kingdom,  
CeoTronics, Inc., Chesapeake, Virginia, U.S.A.,  
CeoTronics S.L., Madrid, Spain,  
CT-Video GmbH, Rothenschirmbach, Germany,  
AACOM-CeoTronics Ltd., Lodz, Poland.

Subsidiaries in which the parent company directly or 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, are taken into account such that the minority interests and the resulting minority interests in net income/loss are recognized as liabilities in the balance sheet, and as an expense in the income statement and in the cash flow statement.

## 11. Changes in the Company's Executive Bodies

There were no changes in the Company's executive bodies in the third quarter of fiscal year 2003/2004.

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