

Q3 2003/2004

[9 months report]

for the period 2003-10-01 to 2004-06-30



KEY FIGURES

In TEUR	9 months report 2003-10-01 - 2004-06-30	9 months report 2002-10-01 - 2003-06-30
Net sales	6,859	6,983
EBITDA	-910	-590
EBIT	-3,239	-2,891
EBT	-3,148	-2,861
Cash flow from operating activities	-1,036	-366
Cash flow from investing activities	-1,278	-1,752
Net result for the period	-2,990	-2,955
Earnings per share (in EUR)	-0,56	-0,55
Quota of equity	74%	81%
Number of persons employed (at end of period)	106	136

ACCOUNTING PURSUANT TO IAS

This quarterly report includes the financial figures from the balance sheet and income statement, data on earnings per share, and the cash flow statement; each of these includes figures from the relevant year-before period for the purposes of comparison. The report is based on accounting according to IAS, International Financial Reporting Standards (IFRS) in future. The same accounting and valuation methods have been used as were applied in the last annual financial statements.

REVENUES

During the first nine months of the current financial year, the LS telcom group obtained total revenues of EUR 6,859 thousand (year-before period EUR 6,983 thousand). Revenue in the third quarter was EUR 1,968 thousand and thus nearly equal to revenues in the same quarter the year before (year-before EUR 1,970 thousand).

The following table presents sales trends by business segments:

SALES PER SEGMENT

in TEUR	Sales 9 months report 2003-10-01 - 2004-06-30	Sales 9 months report 2002-10-01 - 2003-06-30	Change	EBIT 9 months report 2003-10-01 - 2004-06-30	EBIT 9 months report 2002-10-01 - 2003-06-30
Software for Network Operators	2,464	2,414	2%	359	-331
Software for Regulatory Authorities	3,111	2,656	17%	-2,100	-1,516
Software in total	5,575	5,070	10%	-1,767	-1,847
Services	1,284	1,913	-33%	-1,498	-1,044
Total	6,859	6,983	-2%	-3,239	-2,891

During the current period, sales booked outside Germany is of approximately 88%, with sales inside Europe contributing to 55%, and sales in other regions amounting to 33%.

Total output of EUR 7,824 thousand shows a decrease of approximately 14% to the year-before period (EUR 9,065 thousand). This is also due to the reduction in head count and subsequently EUR 531 thousand lower capitalized development costs, as well as a negative balance of EUR 414 thousand within changes of work in progress.

The segment Software for Regulatory Authorities contributed the major share in revenues. This segment grew due to an increased activity of Spectrocan in this particular field; compared to the year-before at cost of the Services segment. Major impact on the EBIT of the segment Services were due to the high depreciations in the field of „SiteMarket“, already stated in the previous quarterly report, as well as expenses for purchased services of the Canadian subsidiary.

Furthermore, the EBIT of the segments Services and Software for Regulatory Authorities was considerably suffering from one-time restructuring expenses caused by the cost-saving measures that were implemented beginning 2004.

A significant increase in profitability is recognized in the segment Software for Network Operators despite an almost unchanged level of revenues compared to the year-before. This effect is caused mainly by cost-saving measures that were implemented during the course of last year in the field of mobile wireless business.

HUMAN RESOURCES

On June 30th, 2004, the worldwide payroll of the LS telcom group came to 106 employees (year-before period 135). The restructuring measures already implemented beginning 2004 will cause a further short-term decrease in head-count down to 94.

ORDER BOOK AND TARGETS

The present order volume secured by contract amounts to EUR 4.7 million. EUR 3.8 million hereof are allotted to the next 12 months (year-before period EUR 5.2 million).

In this context, reference is made to section „Outlook for the next months“ as we assume an augmentation of the order volume at very short notice what will cause an increased order book compared to the stated year-before value.

NET RESULT

The EBIT of EUR -3,239 thousand is considerably below the year-before value of EUR -2,891 thousand, which is mainly due to high one-time restructuring costs of a total of EUR 872 thousand that need to be considered in the period under review.

Despite slightly decreased revenues, negative changes in work-in-progress, as well as a negative balance of capitalized development costs pursuant to IAS and its corresponding depreciations, the EBIT before extraordinary effects is considerably higher than that of the year before.

For the report period a deficit of EUR -2,990 thousand (year-before period EUR -2,955 thousand) is recorded.

Loss per share thus comes to EUR -0.56 (year-before period EUR -0.55).

COST TRENDS

In comparison to the year-before period, all fix expenditures could be reduced. Because of the short-time working executed during the reporting period of the previous year and the one-time costs for restructuring measures, the comparison with the year-before period however does not reflect the total and lasting cost savings regarding staff in this report.

The increase in costs of purchased materials and services is partly due to external consultants that were needed in projects of Spectrocan. Meanwhile, such third party contributions could be replaced to a significant share by own resources. Besides, costs of materials include measurement equipment and digital mapping data.

INVESTMENTS

In the first nine months of the financial year 2003/2004, a total of EUR 1,284 thousand (year-before period EUR 1,815 thousand) was invested in capitalized development costs, as well as EUR 60 thousand in property, plant and equipment.

CASH BALANCES

As on June 30th, 2004 LS telcom held cash balances of EUR 5,251 thousand or EUR 0.98 per share. In the period under review, cash was partly needed for restructuring measures.

CHANGES IN MANAGEMENT AND SUPERVISORY BOARD MEMBERSHIP

In the period under review there were no changes in the membership of the Management and Supervisory Boards.

The number of shares and options in LS telcom AG held by members of the Management and Supervisory Board is presented in the following tables:

NUMBER OF SHARES

Number of shares	2004-06-30	2003-09-30
BOARD OF MANAGEMENT		
Dr. Lebherz	1,539,862	1,617,862
Dr. Schöne	1,634,954	1,643,862
Dipl.-Ing. Götz	4,148	4,148
SUPERVISORY BOARD		
Dr. Holtermüller	10,398	10,398
Prof. Dr. Wiesbeck	4,148	4,148
Dipl.-Betr. Reiser	4,148	4,148

Number of subscription rights (stock options) in LS telcom AG held by members of the Management and Supervisory Board:

NUMBER OF STOCK OPTIONS

Number of stock options	2004-06-30	2003-09-30
BOARD OF MANAGEMENT		
Dr. Lebherz	11,000	21,100
Dr. Schöne	11,000	21,100
Dipl.-Ing. Götz	11,000	21,100
SUPERVISORY BOARD		
Dr. Holtermüller	0	0
Prof. Dr. Wiesbeck	0	0
Dipl.-Betr. Reiser	0	0

The exercise period for the first tranche of 90,700 stock options, that was granted to senior staff and executive board, ended January 31st, 2004. Of the EUR 203,000 volume, authorized at November 27th, 2000 for conditional capital increase, a maximum total of EUR 112,300 remains for a potential capital increase, provided the options of the second tranche can be exercised.

At the same deadline, the exercise period for 20,000 stock options granted to LS telcom employees ended. The conditional capital increase of EUR 20,000 as authorized at November 27th, 2000 therefore will not happen.

OUTLOOK FOR THE NEXT MONTHS

We still do not expect a considerable change of the overall market situation within the next quarters. Anyhow, expectations are better than what the reported numbers may imply.

During the past weeks, LS telcom several times resulted as winner of a number of tender procedures. We expect corresponding contract conclusions shortly. Furthermore, within the next financial year, LS telcom will profit from a large contract, awarded by the Canadian government to a consortium including LS telcom group, who will have a significant share in the scope of supplies. From these awarded projects, we expect revenues in a range of EUR 6 millions for the mid-term.

Business with mobile operators has further improved according to our expectations due to the ongoing optimization in GSM networks and implementation of UMTS networks. From present point of view, own consulting staff of the segment Services is nearly fully booked until the end of this calendar year.

Lichtenau, August 2004

LS telcom AG

The Board of Management

BALANCE, PURSUANT TO IAS

Assets

In TEUR	9 months report 2003-10-01 - 2004-06-30	Annual report per 2003-09-30
CURRENT ASSETS:		
Cash and cash equivalents	1,123	5,680
Short-term investments/marketable securities	4,128	1,885
Trade accounts receivable	2,047	1,592
Account receivable due from related parties	0	0
Inventories	84	470
Deferred tax asset	0	0
Prepaid expenses and other current assets	475	355
OTHERS	0	0
Total current assets	7,857	9,982
NON CURRENT ASSETS:		
Property, plant and equipment	957	1,159
Intangible assets	4,165	4,926
Goodwill	629	689
Financial assets	0	0
Shares in associated companies	0	0
Loans to associated companies	73	121
Deferred taxes	684	691
Other assets	0	0
OTHERS	0	0
Total non current assets	6,508	7,586
Total assets	14,365	17,568

Shareholders' equity and liabilities

In TEUR	9 months report 2003-10-01 - 2004-06-30	Annual report per 2003-09-30
CURRENT LIABILITIES:		
Current portion of capital lease obligation	0	0
Short-term debt and current portion of long-term debt	5	0
Trade accounts payable	477	487
Advance payments received	5	0
Accrued expenses	771	860
Deferred revenues	407	446
Income tax payable	0	0
Deferred taxes	0	0
Other current liabilities	441	251
OTHERS	0	0
Total current liabilities	2,106	2,044
NON CURRENT LIABILITIES:		
Long-term debt, less current portion	49	23
Capital lease obligations, less current portion	0	0
Deferred revenues	225	347
Deferred taxes	1,267	1,426
Pension accrual	0	0
OTHERS	0	0
Total non current liabilities	1,541	1,796
Minority interest	0	0
SHAREHOLDERS' EQUITY:		
Share capital	5,335	5,335
Additional paid-in capital	18,373	18,373
Profit reserve	32	32
Treasury stock	0	0
Retained earnings/accumulated deficit	-13,022	-10,012
Accumulated other comprehensive income/loss	0	0
OTHERS	0	0
Total shareholders' equity	10,718	13,728
Total shareholders' equity and liabilities	14,365	17,568

Profit and Loss Account

In TEUR	Q3 2003/2004 2004-04-01 - 2004-06-30	Q3 2002/2003 2003-04-01 - 2003-06-30	9 months report 2003-10-01 - 2004-06-30	9 months report 2002-10-01 - 2003-06-30
Revenues	1,968	1,970	6,859	6,983
Other operating income	32	107	63	235
Changes in inventories of finished goods and work in progress	-431	137	-382	32
Production of own fixed assets capitalised	366	782	1,284	1815
Cost of purchased materials and services	57	271	787	683
Personnel expenses	1,597	2,009	5,912	6,340
Amortization/depreciation	591	773	2,293	2,266
Amortization (and impairment) of goodwill	12	12	36	35
Other operating expenses	882	1,247	2,035	2,632
OTHERS	0	0	0	0
Operating income/loss	-1,204	-1,316	-3,239	-2,891
Interest income and expenditure	56	61	80	276
Income from investments and participations	11	38	11	38
Income/expense from associated companies	0	0	0	0
Foreign currency exchange gains/losses	0	0	0	0
Other income/expense	0	-284	0	-284
Result before income taxes (and minority interest)	-1,137	-1,501	-3,148	-2,861
Income tax	-21	140	-158	94
Extraordinary income/expense	0	0	0	0
Result before minority interest	-1,116	-1,641	-2,990	-2,955
Minority interest	0	-9	0	0
Net income/loss	-1,116	-1,650	-2,990	-2,955
Net income/loss per share (basic) in EUR	-0,21	-0,31	-0,56	-0,55
Net income/loss per share (diluted) in EUR	-0,21	-0,31	-0,56	-0,55
Weighted average shares outstanding (basic) in thousands	5335	5335	5335	5335
Weighted average shares outstanding (diluted) in thousands	5335	5335	5335	5335

Cash-flow statement

In TEUR	9 months report 2003-10-01 - 2004-06-30	9 months report 2002-10-01 - 2003-06-30
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income/loss (before tax)	-3,148	-2,861
ADJUSTMENTS:		
Minority interests	0	-17
Amortization/depreciation	2,329	2,301
Tax expenditure	158	-94
CHANGES IN ASSETS AND LIABILITIES:		
Decrease/increase in trade accounts receivable and other assets	-575	319
Changes in inventories	386	-32
Decrease/increase in trade payables and other liabilities	-186	18
Net cash from operating activities	-1,036	-366
CASH FLOW FROM INVESTING ACTIVITIES:		
Acquisition of subsidiaries, net of cash acquired	0	0
Proceeds from disposal of subsidiary, net of cash transferred	0	0
Investments in intangible assets	-1,246	-1,975
Investments in property	-60	5
Investments in financial assets	48	230
Exchange rate differences (settled)	-20	-12
Net cash from investing activities	-1,278	-1,752
CASH FLOW FROM FINANCING ACTIVITIES:		
Decrease in bank loans	0	0
Increase in additional paid-in capital	0	0
Dividends paid to stockholders	0	0
Payment of capital lease liabilities	0	0
Net cash from financing activities	0	0
Net effect of currency translation in cash and cash equivalents		
Decrease/increase in cash and cash equivalents	-2,314	-2,118
Cash and cash equivalents at the beginning of the period	7,565	10,705
Cash and cash equivalents at the end of the period	5,251	8,587

Statement of changes in equity, pursuant to IAS

In TEUR	Capital subscribed	Capital reserves	Revenue reserves	Unappropriated profit	Total
Status as on 2000-10-01	1,083	2,551		2,657	6,291
Allocation to the revenue reserves			32	-32	0
Share capital increase on 2001-11-01	2,552	-2,552			0,0
IPO on 2001-03-05	1,700	19,550			21,25
Net IPO costs		-1,176			-1,176
Net income/loss for the year				395	395
Status as on 2001-09-30	5,335	18,373	32	365,657	421,365
Status as on 2001-10-01	5,335	18,373	32	365,657	421,365
Exchange rate differences				-96	-96
Net group result				-8,046	-8,046
Status as on 2002-09-30	5,335	18,373	32	261,611	317,319
Status as on 2002-10-01	5,335	18,373	32	-5,122	18,618
Exchange rate differences				-25	-25
Net group result				-4,865	-4,865
Status as on 2003-09-30	5,335	18,373	32	-10,012	13,728
Status as on 2003-10-01	5,335	18,373	32	-10,012	13,728
Exchange rate differences				-20	-20
Net group result				-2,990	-2,990
Status as on 2004-06-30	5,335	18,373	32	-13,022	10,718

FINANCIAL CALENDAR

Analysts' conference	September 10 th , 2004
Preliminary Annual Statement	November 2004
Annual Report 2003/2004	December 2004
3 months report	February 2005
Annual General Meeting in Bühl	March 3 rd , 2005

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