

# Q2 2003/2004

[6 months report]

for the period 2003-10-01 to 2004-03-31



## KEY FIGURES

In TEUR	6 months report 2003-10-01 - 2004-03-31	6 months report 2002-10-01 - 2003-03-31
Net sales	4,891	5,013
EBITDA	-309	-60
EBIT	-2,035	-1,576
EBT	-2,011	-1,361
Cash flow from operating activities	-936	-1,010
Cash flow from investing activities	-912	-1,226
Net result for the period	-1,874	-1,306
Earnings per share (in EUR)	-0.35	-0.24
Quota of equity	76%	83%
Number of persons employed (at end of period)	120	155

## 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 six months of the current financial year, the LS telcom group obtained total revenues of EUR 4,891 thousand (year-before period 5,013). Revenue in the second quarter was EUR 2,518 thousand (year-before 2,009) and thus 25% higher than in the same quarter the year before. This helped to compensate the 21% lack in total revenues reported in Q1 to a still remaining difference of -2.5% to the previous year.

The following table presents sales trends by business segments:

## SALES PER SEGMENT

in TEUR	Sales 6 months report 2003-10-01 - 2004-03-31	Sales 6 months report 2002-10-01 - 2003-03-31	Change	EBIT 6 months report 2003-10-01 - 2004-03-31	EBIT 6 months report 2002-10-01 - 2003-03-31
Software for Network Operators	1,838	1,839	0%	393	-131
Software for Regulatory Authorities	2,121	1,667	27%	-1,351	-864
Software in total	3,959	3,506	13%	-958	-995
Services	932	1,507	-38%	-1,077	-581
Total	4,891	5,013	-2%	-2,035	-1,576

During the current period, sales booked outside Germany remains almost unchanged at 86%, with sales inside Europe contributing to 51%, and sales in other regions amounting to 35%.

Total output of EUR 5,889 thousand shows a slight decrease of 3% to the year-before period (EUR 6,068 thousand). This is also due to the reduction in head count and subsequently EUR 115 thousand lower capitalized development costs.

The major share in revenues was contributed by the segment Software for Regulatory Authorities. This segment grew at cost of the Services segment due to an increased activity of Spectrocan in this particular field.

The EBIT of the segments Software for Regulatory Authorities and Services 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 particular concerning mobile wireless business.

## HUMAN RESOURCES

On March 31<sup>st</sup> 2004, the worldwide payroll of the LS telcom group came to 120 employees (year-before period 155). The already implemented restructuring measures will cause a further short-term decrease in head-count down to 96.

## ORDER BOOK AND TARGETS

The present order volume secured by contract amounts to EUR 7.1 million. EUR 4,8 million hereof are allotted to the next 12 months (year-before period EUR 6.6 million).

The contract mentioned below in section "Outlook for the next months" is not included in these figures.

## NET RESULT

The EBIT of EUR -2,035 thousand is considerably below the year-before value of EUR -1,576 thousand, which is mainly due to high one-time restructuring costs of a total of EUR 872 thousand that need to be considered in this reporting period.

Despite slightly decreased revenues, partly because of positive changes in work-in-progress of EUR 154 thousand in comparison to the year-before, partly because of further reduced expenditures and depreciations, the EBIT before extraordinary effects is EUR -1,163 thousand and thus higher than that of the year before (EUR -1.576 thousand).

For the reported period a deficit of EUR -1.874 thousand (year-before period EUR -1.306 thousand) is recorded.

Loss per share thus comes to EUR -0.35 (year-before period EUR -0.24), where one-time restructuring costs contained herein correspond to EUR -0.16 per share.

## 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, 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 six months of the financial year 2003/2004, a total of EUR 918 thousand (year-before period EUR 1.033 thousand) was invested in capitalized development costs, as well as EUR 56 thousand in property, plant and equipment.

## CASH BALANCES

As on March 31<sup>st</sup> 2004, LS telcom held cash and cash balances of EUR 5,718 thousand or EUR 1.07 per share. Cash was partly needed for restructuring measures. Besides, a payment of EUR 403 thousand was delayed until April 1<sup>st</sup>, 2004 and thus could just not be considered in this report.

## 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.

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

## NUMBER OF STOCK OPTIONS

Number of stock options	2004-03-31	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

The exercise period for the first tranche of 90.700 stock options, that was granted to senior staff and executive board, ended January 31<sup>st</sup>, 2004. Of the EUR 203,000 volume, authorized at November 27<sup>th</sup>, 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 27<sup>th</sup>, 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.

Within the next 18-24 months, LS telcom will profit from a large contract, awarded by the Canadian government to a consortium including Spectrocan, who will have a significant share in the scope of supplies. We expect revenues in a range of EUR 3 millions from this undertaking.

Business with mobile operators has further improved according to our expectations due to the ongoing optimization in GSM networks and implementation of UMTS networks. Own consulting staff is fully booked until the end of this financial year.

We still expect augmenting business in software and planning services for the field of radio broadcasting from June, i.e. after the end of the current radio conference on new digital frequency plan for Europe, Africa and the Middle East..

Lichtenau, May 2004

LS telcom AG

The Board of Management

## BALANCE, PURSUANT TO IAS

### Assets

In TEUR	6 months report 2003-10-01 - 2004-03-31	Annual report per 2003-09-30
CURRENT ASSETS:		
Cash and cash equivalents	2,342	5,680
Short-term investments/marketable securities	3,376	1,885
Trade accounts receivable	2,228	1,592
Account receivable due from related parties	0	0
Inventories	517	470
Deferred tax asset	0	0
Prepaid expenses and other current assets	348	355
OTHERS	0	0
<b>Total current assets</b>	<b>8,811</b>	<b>9,982</b>
NON CURRENT ASSETS:		
Property, plant and equipment	1,028	1,159
Intangible assets	4,326	4,926
Goodwill	654	689
Financial assets	0	0
Shares in associated companies	0	0
Loans to associated companies	62	121
Deferred taxes	686	691
Other assets	0	0
OTHERS	0	0
<b>Total non current assets</b>	<b>6,756</b>	<b>7,586</b>
<b>Total assets</b>	<b>15,567</b>	<b>17,568</b>

## Shareholders' equity and liabilities

In TEUR	6 months report 2003-10-01 - 2004-03-31	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	10	0
Trade accounts payable	433	487
Advance payments received	4	0
Accrued expenses	952	860
Deferred revenues	354	446
Income tax payable	0	0
Deferred taxes	0	0
Other current liabilities	408	251
OTHERS	0	0
<b>Total current liabilities</b>	<b>2,161</b>	<b>2,044</b>
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	1,289	1,426
Pension accrual	0	0
OTHERS	0	0
<b>Total non current liabilities</b>	<b>1,563</b>	<b>1,796</b>
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	-11,897	-10,012
Accumulated other comprehensive income/loss	0	0
OTHERS	0	0
<b>Total shareholders' equity</b>	<b>11,843</b>	<b>13,728</b>
<b>Total shareholders' equity and liabilities</b>	<b>15,567</b>	<b>17,568</b>

## Profit and Loss Account

In TEUR	Q2 2003/2004 2004-01-01 - 2004-03-31	Q2 2002/2003 2003-01-01 - 2003-03-31	6 months report 2003-10-01 - 2004-03-31	6 months report 2002-10-01 - 2003-03-31
Revenues	2,518	2,009	4,891	5,013
Other operating income	17	27	31	127
Changes in inventories of finished goods and work in progress	-431	-7	49	-105
Production of own fixed assets capitalised	486	841	918	1,033
Cost of purchased materials and services	536	159	730	412
Personnel expenses	2,371	2,248	4,315	4,331
Amortisation/depreciation	1,027	767	1,702	1,479
Amortisation (and impairment) of goodwill	11	26	24	37
Other operating expenses	484	684	1,153	1,385
OTHERS	0	0	0	0
Operating income/loss	-1,839	-1,014	-2,035	-1,576
Interest income and expenditure	13	64	24	215
Income from investments and participations	0	0	0	0
Income/expense from associated companies	0	0	0	0
Foreign currency exchange gains/losses	0	0	0	0
Other income/expense	0	0	0	0
Result before income taxes (and minority interest)	-1,826	-950	-2,011	-1,361
Income tax	-111	101	-137	-46
Extraordinary income/expense	0	0	0	0
Result before minority interest	-1,715	-1,051	-1,874	-1,315
Minority interest	0	2	0	9
Net income/loss	-1,715	-1,049	-1,874	-1,306
Net income/loss per share (basic) in EUR	-0.32	-0.20	-0.35	-0.24
Net income/loss per share (diluted) in EUR	-0.32	-0.20	-0.35	-0.24
Weighted average shares outstanding (basic) in thousands	5,335	5,335	5,335	5,335
Weighted average shares outstanding (diluted) in thousands	5,335	5,335	5,335	5,335



## Cash-flow statement

In TEUR	6 months report 2003-10-01 - 2004-03-31	6 months report 2002-10-01 - 2003-03-31
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income/loss (before tax)	-2,011	-1,361
ADJUSTMENTS:		
Minority interests	0	0
Amortisation/depreciation	1,726	1,516
Tax expenditure	137	47
CHANGES IN ASSETS AND LIABILITIES:		
Decrease/increase in trade accounts receivable and other assets	-624	-1,156
Changes in inventories	-47	105
Decrease/increase in trade payables and other liabilities	-117	-160
<b>Net cash from operating activities</b>	<b>-936</b>	<b>-1,010</b>
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	-905	-1,195
Investments in property	-56	20
Investments in financial assets	60	-15
Exchange rate differences (settled)	-11	-36
<b>Net cash from investing activities</b>	<b>-912</b>	<b>-1,226</b>
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
<b>Net cash from financing activities</b>	<b>0</b>	<b>0</b>
Net effect of currency translation in cash and cash equivalents		
<b>Decrease/increase in cash and cash equivalents</b>	<b>-1,848</b>	<b>-2,236</b>
Cash and cash equivalents at the beginning of the period	7,565	10,705
<b>Cash and cash equivalents at the end of the period</b>	<b>5,717</b>	<b>8,469</b>

## 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
IPO on 2001-03-05	1,700	19,550			21,250
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	3,020	26,760
Status as on 2001-10-01	5,335	18,373	32	3,020	26,760
Exchange rate differences				-96	-96
Net group result				-8,046	-8,046
Status as on 2002-09-30	5,335	18,373	32	-5,122	18,618
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				-11	-11
Net group result				-1,874	-1,874
Status as on 2004-03-31	5,335	18,373	32	-11,897	11,843

## FINANCIAL CALENDAR

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

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