



Report on the
1st Six Months of 2003

A core approach towards a new PSI

PSI 

PSI Group Data as per 30 June 2003 at a Glance

	1.1. - 30.6.03 in KEUR	1.1. - 30.6.02 in KEUR	Change in KEUR	Change in %
Revenues	65,840	77,246	-11,406	-14.8
Operating income	-1,249	-644	-605	-93.9
Result before income taxes	-1,163	-742	-421	-56.7
Net loss	-1,075	-1,806	+731	+40.5
Cash and cash equivalents	20,437	17,970	+2,467	+13.7
Employees on 31 March 2003	1,242	1,356	-114	-8.4
Revenue/ Employee	53.0	57.0	-4.0	-7.0

The financial statements of the period for 30 June 2003 were subjected to a limited review by Ernst & Young AG Wirtschaftsprüfungsgesellschaft with respect to individual questions and issues.

Business Development

As expected PSI improved its operative results (EBIT) by 71.6% compared to the first quarter and by 76% compared to the same quarter of the previous year. At -1.25 million Euro, the operative result of the first six months was within the projected range. The group result improved to -50,000 Euro in the second quarter and to -1.1 million Euro in the first six months. Sales went down in the first half-year by 14.8% to 65.84 million Euro. This was particularly due to the 42% decrease in hardware sales, the spin-off of PSI Infrastructure from the year before and licenses revenues, which decreased to 2.3 million Euro. The group's cash was 20.4 million Euro as of 30 June 2003.

The network management segment (energy, telecommunications, transport) had sales of 35.2 million Euro in the first half-year and an operative result of 1.6 million Euro. In the second quarter network management was strongly influenced by investment in the future MCCM technology for integrating GSM and UMTS mobile telecommunication standards.

In production management (production, logistics) sales dropped to 22.3 million Euro, while the operative result improved to -2.4 million Euro. This includes the development costs of the new manufacturing control systems. At the same time there was a positive impact from the improvement in PSIPENTA's earnings and the fact that the subsidiaries PSI logistics and PSI Switzerland broke even. New business processes were implemented to refinance PSIPENTA product innovations and will lead to further improvement in results.

Sales in information management (public sector, service providers) decreased to 8.4 million Euro in the first half-year and the operative result dropped to -0.5 million Euro. Political developments effecting unemployment and social welfare had a negative impact on PK Software orders. PSI Infrastruktur GmbH was not consolidated over the course of this year due to its merger with Schindler Technik AG.

At 64 million Euro, orders received in the first half-year were below the 68 million Euro of the previous year. This primarily was the result of the breakdown of a large energy contract into partial contracts. The energy segment currently has orders spanning far beyond a year. After a decrease in the months of April and May the number of incoming orders has again stabilized since June. The overall order backlog at the PSI group was 84 million Euro as of 30 June 2003.

Personnel Development

The number of employees in the PSI Group was reduced according to planning by 114 compared to the first half year of 2002 and by 52 since 31 December 2002 to 1,242.

Special Events in the 2nd Quarter

The PSI AG increased its share in the GSI mbH to 100%. The share in the PSI logistics GmbH was increased to 100%.

The structure of the group was further streamlined through the consolidation of the Internet subsidiary front2back with UBIS and the elimination of minority holdings.

Outlook

Investments made at the start of the year in optimizing working processes throughout the group were continued in the second quarter. Further administrative adjustments will be undertaken through the end of the year. In light of the measures implemented to improve cost structures, synergies between business units and the positive developments in the product management segment, the managing board of PSI foresees meeting the projected profit target with an annual revenue of at least 130 million Euro.

Group Income Statement
From 1 January 2003 until 30 June 2003 according to US-GAAP

	Quarterly Report II		6 Month Report	
	01.04.03- 30.06.03 KEUR	01.04.02- 30.06.02 KEUR	01.01.03- 30.06.03 KEUR	01.01.02- 30.06.02 KEUR
Revenues				
Software production and maintenance	28,782	32,993	57,474	62,099
Licenses	804	1,873	2,256	4,691
Hardware	2,263	6,447	6,110	10,456
	31,849	41,313	65,840	77,246
Cost of Revenues				
Software production and maintenance	22,474	25,062	44,751	46,678
Licenses	102	325	633	1,651
Hardware	1,979	6,046	5,472	8,931
	24,555	31,433	50,856	57,260
Gross profit	7,294	9,880	14,984	19,986
Operating expenses				
Selling and Marketing expenses	4,508	5,575	9,087	10,632
General and administrative expenses	1,810	2,877	3,591	4,689
Research and development	2,150	2,693	4,487	5,455
Capitalized research and development	-720	-175	-886	-375
Depreciation of capitalized research and development	140	131	270	260
Other income or expenses	-318	-72	-316	-31
Operating income	-276	-1,149	-1,249	-644
Interest income, income from investments	41	-155	86	-98
Result before income taxes	-235	-1,304	-1,163	-742
Income tax	304	193	274	-1,001
Result before minority interest	69	-1,111	-889	-1,743
Minority interest	-119	-12	-186	-63
Net income/ loss	-50	-1,123	-1,075	-1,806
Earnings per share (in Euro share, basic)	-0.01	-0.10	-0.10	-0.17
Earnings per share (in Euro per share, diluted)	-0.01	-0.10	-0.10	-0.17
Weighted average shares outstanding (basic)	11,012,870	10,550,370	11,012,870	10,496,515
Weighted average shares outstanding (diluted)	11,012,870	10,809,770	11,012,870	10,728,915

Group Cash Flow Statement
from 1 January 2003 until 30 June 2003 according to US-GAAP

	6 Month Report 01.01.-30.06.03 KEUR	6 Month Report 01.01.-31.06.02 KEUR
CASH FLOW FROM OPERATING ACTIVITIES		
Net income/loss before tax	-1,163	-742
Net income/loss after tax	-889	-1,743
Adjustment to reconcile net loss to net cash used in operating activities		
Depreciation of intangible assets and property, plant and equipment	2,079	2,207
Impairment loss	0	0
Pension reserves	939	1,229
Deferred taxes	-106	848
Minority interests in result	186	63
Change in assets, which are not included in investing or financing activities	-4,341	17,281
Change in liabilities, which are not included in investing or financing activities	3,409	-10,790
Net cash from operating activities	1,277	9,095
INVESTING ACTIVITIES		
Additions to capitalized research and development costs	-886	-375
Net additions to property, plant, equipment and other intangible assets	-1,242	-3,502
Net additions to goodwill (without liquid assets)	0	0
Purchase of financial assets	0	-1,112
Net cash from investing activities	-2,128	-4,989
FINANCING ACTIVITIES		
Capital increase through cash payments	0	0
Minority interests	-186	-171
Financial liabilities	-65	260
Other changes in equity	0	940
Special item for investment grants	-23	-23
Net cash from financing activities	-274	1,006
Increase (decrease) in cash and cash equivalents	-1,095	5,097
Currency translation	30	-15
Cash and cash equivalents at beginning of period	21,532	12,873
Cash and cash equivalents at end of period	20,437	17,970
Supplemental cash flow information		
Cash paid for interests	108	221
Cash paid for taxes	41	210

Group Balance Sheet
from 1 January 2003 until 30 June 2003 according to US-GAAP

	6 Month Report 01.01.-30.06.03 KEUR	Annual Report 01.01.-31.12.02 KEUR
Assets		
Current Assets		
Cash and cash equivalents	20,437	21,532
Trade accounts receivable net allowance for doubtful accounts of KEUR 363 (2002: KEUR 369)	20,816	29,938
Costs and estimated earnings in excess of billings on uncompleted contracts	50,424	36,723
Inventories	3,501	3,662
Deferred tax assets	0	0
Prepaid expenses	2,128	1,882
Other receivables	3,045	3,368
	100,351	97,105
Long-term assets		
Property, plant and equipment	9,680	10,296
Intangible assets	7,112	6,510
Investments	6,081	6,015
Goodwill	17,645	17,645
Deferred tax assets	0	0
	40,518	40,466
Total assets	140,869	137,571
Liabilities and shareholders' equity		
Current liabilities		
Short term debt	5,165	3,540
Trade accounts payable	5,613	8,616
Advance payments received in excess of estimated earnings on uncompleted contracts	29,643	22,120
Other accrued expenses	12,763	14,724
Deferred revenues	6,326	6,499
Deferred taxes	828	934
Other current liabilities	5,778	6,381
	66,116	62,814
Long-term liabilities		
Long-term debt	457	522
Deferred taxes	0	0
Pension accruals	21,464	20,525
Other long-term liabilities	19	41
	21,940	21,088
Shareholders' equity		
Share capital, EUR 2.56 calculated par value	28,154	28,154
Additional paid-in capital	71,765	71,765
Revenue surplus	1,220	1,220
Accumulated deficit	-50,512	-49,437
Contributions made for capital increase	0	0
Cumulative translation adjustment	-624	-657
	50,003	51,045
Minority interests	2,810	2,624
Total Liabilities and shareholders' equity	140,869	137,571

Development of Fixed Assets
from 1 January 2003 until 30 June 2003

	Number of shares issued	Subscribed stock	Addition. paid-in capital	Revenue reserves	Contributions made for capital increase	Accumulated deficit	Others	Total
		KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
As of 31.12.2002	11,012,870	28,154	71,765	1,220	0	-49,437	-657	51,045
Group net loss for 3 Month 2003						-1,075		-1,075
Others							33	33
As of 30.06.2003	11,012,870	28,154	71,765	1,220	0	-50,512	-624	50,003

Shareholders' structure as of 30 June 2003

	Shares	Options
Management Board		
Dr. Harald Schrimpf	10,000	0
Armin Stein	1,700	2,400
Supervisory Board		
Christian Brunke	5,000	0
Wolfgang Dedner	16,800	0
Klaus Linke	2,770	0
Dirk Noß	56	800
Barbara Simon	7.890	0
Karsten Trippel	59,000	0

**Notes on the consolidated financial statements as
of 30 Juni 2003**

The Company

1. Business Activities and Legal Background

The business activities of PSI AG relate to the development and sale of software systems and products fulfilling the specific needs and requirements of its customers, particularly in the following industries and services lines: utilities, manufacturing, telecommunications, software technology, Internet applications and business consulting.

The PSI Group is divided into the main business lines Network Management, Production Management and Information Management.

The Company is exposed to a number of risks that are similar to other companies active in the dynamic technology sector. Major risks for the development of the PSI Group are the successful marketing of its software systems and products, competition from larger companies, the ability to generate sufficient funding for future business development as well as individual risks regarding the integration of subsidiaries, organizational changes and the cooperation with strategic partners.

The Company was founded in 1969 and was converted from a limited liability company into a stock corporation in 1994. In 1998 the company went public on the Frankfurt Stock Exchange. The company has its headquarter in Berlin, where it has been registered at the commercial register, section B under the number HRB 51463. Main locations with business activities are located in Berlin, Aschaffenburg, Essen, Hamburg, Düsseldorf, Munich and Neviges.

2. Accounting and Valuation Principles

With regard to the principles of accounting and valuation and especially the differences between the German commercial regulations and the United States Generally Accepted Accounting Principles ('US-GAAP') see the group consolidated financial statement for the financial year 2002.

3. Changes in the Consolidation Group

The following companies are included in the consolidated financial statements as subsidiaries:

a) Subsidiaries

	Shares in %
PSIPENTA Software Systems GmbH, Berlin	100.00
PSI AG Produkte und Systeme der Informationstechnologie, Glattzentrum, Switzerland	100.00
Nentec Netzwerktechnologie GmbH, Karlsruhe	100.00
PSI Transportation GmbH, Berlin	100.00
Büsing & Buchwald Gesellschaft für Organisation und Datenverarbeitung mbH, Barsinghausen	100.00
UBIS United Business Internet Solutions Aktiengesellschaft, Berlin	100.00
PSI logistics GmbH, Berlin (Group)	100.00
GSI Gesellschaft für Steuerungs- und Informationssysteme mbH, Berlin	100.00
PK Software Engineering GmbH	75.00
PSI-BT Business Technologies for Industry AG, Düsseldorf	58.00

b) Description of changes

Compared to prior quarters the companies included in consolidation changed as follows:

The PSI AG increased its share in the GSI mbH to 100%. The share in the PSI logistics GmbH was increased to 100%.

4. Selected Individual Items

Trade receivables

	30.06.2003 KEUR	30.06.2002 KEUR
Accounts receivable, trade	21,176	30,307
Allowances for bad debts	-360	-369
	20,816	29,938

Allowances for bad debts are created when it is probable that the Company will be unable to collect all amounts due. The amount of the allowance for bad debts is based on management's best estimate of the expected future cash flows based on reasonable assumptions and projections.

Costs and estimated earnings in excess of billings on uncompleted contracts

Costs and estimated earnings in excess of billings on uncompleted contracts arise when revenues have been recorded but the amounts cannot be billed under the terms of the contracts. Such amounts are recoverable from customers upon various measures of performance, including achievement of certain milestones, completion of specified units or completion of the contract. Costs and estimated earnings contain directly allocable costs (labor cost and cost of services provided by third parties) as well as the appropriate portion of overheads including pro rata administrative expenses.

Costs and estimated earnings on uncompleted contracts and related amounts are billed as follows:

	30.06.2003 KEUR	30.06.2002 KEUR
Costs incurred on uncompleted contracts	51,913	48,583
Estimated earnings	12,707	12,413
	64,620	60,996
Less billings	-43,839	-46,393
	20,781	14,603

Such amounts are included in the accompanying consolidated balance sheets under the following captions:

	30.06.2003 KEUR	30.06.2002 KEUR
Costs and estimated earnings in excess of billings on uncompleted contracts	50,424	36,723
Billings in excess of costs and estimated earnings on uncompleted contracts	-29,643	-22,120
	20,781	14,603

Other accruals

The other accruals essentially contain the following individual items:

	30.06.2003 KEUR	30.06.2002 KEUR
Services still to be performed	6,410	5,548
Vacation and overtime	3,178	5,770
Other	3,175	3,406
	12,763	14,724

Taxes on income

The taxes determined are essentially defined deferred taxes, on the valuation allowance for deferred tax assets and on time-based booking differences between the individual tax balance sheet values of the individual group companies and the values determined in accordance with US-GAAP.

Equity

The development of equity is shown in the representation of the development of Fixed Assets.

There were not any issues requiring explanation with additional announcements as per Article 160, Sec. 1 AktG (Stock Company Act) in the 1st six month of 2003.

Segment reporting according to Network Management, Production Management and Information Management

The development of the segment results can be found in the Group segment reporting.

Notes for the Completeness of Data

There are no other notes for the six-month period ending 30 June 2003 beyond the data reported in the interim report for the period in accordance with APB 28 (Interim Reporting).

Group Segment Reporting

from 1 January 2003 until 30 June 2003 according to US-GAAP

	Network Management		Production Management		Information Management		PSI-Group	
	30.06. 2003 KEUR	30.06. 2002 KEUR	30.06. 2003 KEUR	30.06. 2002 KEUR	30.06. 2003 KEUR	30.06. 2002 KEUR	30.06. 2003 KEUR	30.06. 2002 KEUR
Revenues								
Software production and maintenance	29,119	27,937	20,217	21,964	8,138	12,198	57,474	62,099
Licenses	464	1,415	1,559	2,785	233	491	2,256	4,691
Hardware	5,614	8,409	489	1,362	7	685	6,110	10,456
	35,197	37,761	22,265	26,111	8,378	13,374	65,840	77,246
Cost of revenues								
Software production and maintenance	21,803	19,925	15,866	16,761	7,082	9,992	44,751	46,678
Licenses	218	1,137	333	462	82	52	633	1,651
Hardware	5,083	7,235	379	1,064	10	632	5,472	8,931
	27,104	28,297	16,578	18,287	7,174	10,676	50,856	57,260
Gross profit	8,093	9,464	5,687	7,824	1,204	2,698	14,984	19,986
Operating expenses								
Selling and Marketing expenses	3,504	3,447	4,339	5,156	1,244	2,029	9,087	10,632
General and administrative expenses	1,167	932	2,028	3,118	396	639	3,591	4,689
Research and development	2,839	2,186	1,648	3,269	0	0	4,487	5,455
Capitalized research and development	-886	-325	0	0	0	-50	-886	-375
Depreciation of capitalized research and development	130	84	90	126	50	50	270	260
Other income or expenses	-271	132	-11	-104	-34	-59	-316	-31
Operating income	1,610	3,008	-2,407	-3,741	-452	89	-1,249	-644
Interest income, income from investments	47	166	35	-304	4	40	86	-98
Result before income taxes	1,657	3,174	-2,372	-4,045	-448	129	-1,163	-742
Income tax	136	-876	71	-8	67	-117	274	-1,001
Net income/loss	1,793	2,298	-2,301	-4,053	-381	12	-889	-1,743

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