

# A core approach towards a new PSI

PSI 

**PSI Group Data as per 30 September 2003 at a Glance**

	1.1. - 30.9.03 in KEUR	1.1. - 30.9.02 in KEUR	Change in KEUR	Change in %
Revenues	98,773	109,193	-10,420	-9.5
Operating income	-1,766	-10,694	+8,928	+83.5
Result before income taxes	-1,607	-10,525	+8,918	+84.7
Net loss	-1,713	-11,090	+9,377	+84.6
Cash and cash equivalents	15,126	21,532	-6,406	-29.8
Employees on 30 September 2003	1,226	1,324	-98	-7.4
Revenue/ Employee	80.6	82.5	-1.9	-2.3

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

## **Business Development**

The PSI Group improved its EBIT in the first nine months by 8.9 million euros to –1.8 million euros compared to the same period in the previous year. The group result improved in the first nine months to –1.7 million euros. Sales decreased compared to the previous year by 9.5% to 98.8 million euros. This resulted from the decrease in hardware sales by 41% to 9.1 million euros, the deconsolidations of the previous year and the decrease in license sales to 2.9 million euros. The group's liquidity was 15.1 million Euro as of 30 September 2003.

The Network Management segment (energy, telecommunication, transportation) achieved sales of 53.0 million euros, whereby the own added value increased by 11.7% to 44.4 million euros. The poor earnings in the Telecommunication Business up to August placed a burden on the EBIT which was 2.1 million euros.

In Production Management (production, logistics) sales decreased slightly to 33.9 million euros, while the EBIT for the first nine months improved to –2.4 million euros. With that Production Management achieved a balanced result for the first time on a quarterly basis in the third quarter. Due to the fact that PSIPENTA has not yet completely reached the break-even point, a previously announced cost adjustment was put into effect. The GSI mbH clearly achieved the break-even point in the third quarter with the focus on MES.

Sales in Information Management (government, services) decreased in the first nine months to 11.9 million euros, the EBIT to –1.4 million euros. Here, the poor results of Public Management in the months July and August had a negative effect on the result. PSI Infrastruktur GmbH (merger with Schindler Technik AG) and PSI Solutions GmbH (insolvency in October 2002) were not consolidated in the current year.

New orders in the first nine months were, with 90 million euros, below the level of the previous year of 104 million euros. Following a halting Product and Consulting Business in July and August, business revived significantly starting in September, attributable, amongst other things, to a number of major acquisitions in the fields of energy, telecommunications and metals. The order backlog in the PSI Group on 30 September 2003 was 78 million euros.

### **Personnel Development**

The number of employees in the PSI Group was reduced according to planning by 98 since 30 September 2002 and by 68 since 31 December 2002 to 1,226.

### **Special Events in the 3<sup>rd</sup> Quarter**

In the third quarter investments were made in new *PSIpenta* variations for the project business (*PSIprofessional*) and for maintenance (*PSImaintenance*). The development and marketing launch costs of the new control systems for the manufacturing and steel industries are also contained in the group result.

### **Outlook**

Investments made at the start of the year in optimizing working processes throughout the group were continued again in the third quarter. Due to the halting business in July and August, as a precautionary measure, the forecasts for the year's EBIT have been reduced to 0 to 2 million euros; the sales forecasts remain unchanged.

**Group Income Statement**  
**from 1 January 2003 until 30 September 2003 according to US-GAAP**

	<b>Quarterly Report III</b>		<b>9 Month Report</b>	
	<b>01.07.03- 30.09.03 KEUR</b>	<b>01.07.02- 30.09.02 KEUR</b>	<b>01.01.03- 30.09.03 KEUR</b>	<b>01.01.02- 30.09.02 KEUR</b>
<b>Revenues</b>				
Software production and maintenance	29,226	25,706	86,700	87,805
Licenses	676	1,245	2,932	5,936
Hardware	3,031	4,996	9,141	15,452
	<b>32,933</b>	<b>31,947</b>	<b>98,773</b>	<b>109,193</b>
<b>Cost of Revenues</b>				
Software production and maintenance	23,367	26,668	68,118	73,346
Licenses	318	388	951	2,039
Hardware	2,238	4,063	7,710	12,994
	<b>25,923</b>	<b>31,119</b>	<b>76,779</b>	<b>88,379</b>
<b>Gross profit</b>	<b>7,010</b>	<b>828</b>	<b>21,994</b>	<b>20,814</b>
<b>Operating expenses</b>				
Selling and Marketing expenses	4,158	5,271	13,245	15,903
General and administrative expenses	1,747	2,270	5,338	6,959
Research and development	2,031	3,213	6,518	8,668
Capitalized research and development	-324	-41	-1,210	-416
Depreciation of capitalized research and development	144	179	414	439
Other income or expenses	-229	-14	-545	-45
<b>Operating income</b>	<b>-517</b>	<b>-10,050</b>	<b>-1,766</b>	<b>-10,694</b>
Interest income, income from investments	73	267	159	169
<b>Result before income taxes</b>	<b>-444</b>	<b>-9,783</b>	<b>-1,607</b>	<b>-10,525</b>
Income tax	-49	486	225	-515
<b>Result before minority interest</b>	<b>-493</b>	<b>-9,297</b>	<b>-1,382</b>	<b>-11,040</b>
Minority interest	-145	13	-331	-50
<b>Net income/ loss</b>	<b>-638</b>	<b>-9,284</b>	<b>-1,713</b>	<b>-11,090</b>
Earnings per share ( in Euro share, basic)	-0.06	-0.86	-0.16	-1.06
Earnings per share ( in Euro per share, diluted)	-0.06	-0.83	-0.16	-1.03
Weighted average shares outstanding (basic)	11,012,870	10,812,870	11,012,870	10,496,515
Weighted average shares outstanding (diluted)	11,012,870	11,130,420	11,012,870	10,728,915

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

	9 Month Report 01.01.-30.09.03 KEUR	9 Month Report 01.01.-31.09.02 KEUR
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net income/loss before tax	-1,607	-10,525
Net income/loss after tax	-1,382	-11,040
Adjustment to reconcile net loss to net cash used in operating activities		
Depreciation of intangible assets and property, plant and equipment	3,180	3,381
Impairment loss	44	0
Pension reserves	1,401	1,566
Deferred taxes	-173	389
Minority interests in result	331	50
Change in assets, which are not included in investing or financing activities	10,122	23,910
Change in liabilities, which are not included in investing or financing activities	-15,902	-3,994
<b>Net cash from operating activities</b>	<b>-2,379</b>	<b>14,262</b>
<b>INVESTING ACTIVITIES</b>		
Additions to capitalized research and development costs	-1,210	-415
Net additions to property, plant, equipment and other intangible assets	-2,025	-4,266
Net additions to goodwill (without liquid assets)	-133	-370
Purchase of financial assets	-228	-1,144
<b>Net cash from investing activities</b>	<b>-3,596</b>	<b>-6,195</b>
<b>FINANCING ACTIVITIES</b>		
Capital increase through cash payments	0	0
Minority interests	-331	-171
Financial liabilities	-97	501
Other changes in equity	0	598
Special item for investment grants	-34	-34
<b>Net cash from financing activities</b>	<b>-462</b>	<b>894</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>-6,406</b>	<b>8,944</b>
<b>Currency translation</b>	<b>31</b>	<b>-17</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>21,532</b>	<b>12,873</b>
<b>Cash and cash equivalents at end of period</b>	<b>15,126</b>	<b>21,817</b>
<b>Supplemental cash flow information</b>		
Cash paid for interests	193	300
Cash paid for taxes	166	239

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

	<b>9 Month Report 01.01.-30.09.03 KEUR</b>	<b>Annual Report 01.01.-31.12.02 KEUR</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	15,126	21,532
Trade accounts receivable net allowance for doubtful accounts of KEUR 363 (2002: KEUR 369)	20,296	29,938
Costs and estimated earnings in excess of billings on uncompleted contracts	35,867	36,723
Inventories	3,538	3,662
Deferred tax assets	0	0
Prepaid expenses	1,601	1,882
Other receivables	4,149	3,368
	<b>80,577</b>	<b>97,105</b>
<b>Long-term assets</b>		
Property, plant and equipment	9,339	10,296
Intangible assets	7,521	6,510
Investments	6,199	6,015
Goodwill	17,779	17,645
Deferred tax assets	0	0
	<b>40,838</b>	<b>40,466</b>
<b>Total assets</b>	<b>121,415</b>	<b>137,571</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Short term debt	5,487	3,540
Trade accounts payable	7,269	8,616
Advance payments received in excess of estimated earnings on uncompleted contracts	12,192	22,120
Other accrued expenses	11,906	14,724
Deferred revenues	4,699	6,499
Deferred taxes	761	934
Other current liabilities	4,425	6,381
	<b>46,739</b>	<b>62,814</b>
<b>Long-term liabilities</b>		
Long-term debt	425	522
Deferred taxes	0	0
Pension accruals	21,926	20,525
Other long-term liabilities	7	41
	<b>22,358</b>	<b>21,088</b>
<b>Shareholders' equity</b>		
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	-51,150	-49,437
Contributions made for capital increase	0	0
Cumulative translation adjustment	-626	-657
	<b>49,363</b>	<b>51,045</b>
<b>Minority interests</b>	<b>2,955</b>	<b>2,624</b>
<b>Total Liabilities and shareholders' equity</b>	<b>121,415</b>	<b>137,571</b>

**Development of Fixed Assets**  
from 1 January 2003 until 30 September 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 9 Month 2003						-1,713		-1,713
Others							31	31
As of 30.09.2003	11,012,870	28,154	71,765	1,220	0	-51,150	-626	49,363

**Shares and Options held by Management Board and Supervisory Board as of 30 September 2003**

	Shares	Options
<b>Management Board</b>		
Dr. Harald Schrimpf	10,000	0
Armin Stein	1,700	1,200
<b>Supervisory Board</b>		
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 September 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
PSI UBIS 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, Leonberg	75.00
PSI-BT Business Technologies for Industry AG, Düsseldorf	58.00

b) Description of changes

Compared to the prior quarter there were no changes in the consolidation group.

#### 4. Selected Individual Items

##### Trade receivables

	30.09.2003 KEUR	31.12.2002 KEUR
Accounts receivable, trade	20,654	30,307
Allowances for bad debts	-358	-369
	<b>20,296</b>	<b>29,938</b>

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:

	30.09.2003 KEUR	31.12.2002 KEUR
Costs incurred on uncompleted contracts	59,363	48,583
Estimated earnings	11,129	12,413
	<b>70,492</b>	<b>60,996</b>
Less billings	-46,817	-46,393
	<b>23,675</b>	<b>14,603</b>

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

	30.09.2003 KEUR	31.12.2002 KEUR
Costs and estimated earnings in excess of billings on uncompleted contracts	35,867	36,723
Billings in excess of costs and estimated earnings on uncompleted contracts	-12,192	-22,120
	<b>23,675</b>	<b>14,603</b>

## **Other accruals**

The other accruals essentially contain the following individual items:

	<b>30.09.2003</b> <b>KEUR</b>	<b>31.12.2002</b> <b>KEUR</b>
Services still to be performed	5,625	5,548
Vacation and overtime	3,034	5,770
Other	3,247	3,406
	<b>11,906</b>	<b>14,724</b>

## **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 1<sup>st</sup> nine 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 nine-month period ending 30 September 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 September 2003 according to US-GAAP

	Network Management		Production Management		Information Management		PSI-Group	
	30.09. 2003 KEUR	30.09. 2002 KEUR	30.09. 2003 KEUR	30.09. 2002 KEUR	30.09. 2003 KEUR	30.09. 2002 KEUR	30.09. 2003 KEUR	30.09. 2002 KEUR
<b>Revenues</b>								
Software production and maintenance	44,359	39,727	30,745	30,500	11,596	17,578	86,700	87,805
Licenses	652	1,744	1,982	3,480	298	712	2,932	5,936
Hardware	7,978	12,837	1,123	1,813	40	802	9,141	15,452
	<b>52,989</b>	<b>54,308</b>	<b>33,850</b>	<b>35,793</b>	<b>11,934</b>	<b>19,092</b>	<b>98,773</b>	<b>109,193</b>
<b>Cost of revenues</b>								
Software production and maintenance	33,939	28,647	23,553	28,258	10,626	16,441	68,118	73,346
Licenses	398	1,316	454	576	99	147	951	2,039
Hardware	6,727	10,721	954	1,511	29	762	7,710	12,994
	<b>41,064</b>	<b>40,684</b>	<b>24,961</b>	<b>30,345</b>	<b>10,754</b>	<b>17,350</b>	<b>76,779</b>	<b>88,379</b>
<b>Gross profit</b>	<b>11,925</b>	<b>13,624</b>	<b>8,889</b>	<b>5,448</b>	<b>1,180</b>	<b>1,742</b>	<b>21,994</b>	<b>20,814</b>
<b>Operating expenses</b>								
Selling and Marketing expenses	5,216	4,828	6,148	8,327	1,881	2,748	13,245	15,903
General and administrative expenses	1,929	1,668	2,803	4,450	606	841	5,338	6,959
Research and development	4,134	3,882	2,384	4,786	0	0	6,518	8,668
Capitalized research and development	-1,210	-366	0	0	0	-50	-1,210	-416
Depreciation of capitalized research and development	200	127	139	237	75	75	414	439
Other income or expenses	-394	117	-179	-50	28	-112	-545	-45
<b>Operating income</b>	<b>2,050</b>	<b>3,368</b>	<b>-2,406</b>	<b>-12,302</b>	<b>-1,410</b>	<b>-1,760</b>	<b>-1,766</b>	<b>-10,694</b>
Interest income, income from investments	71	257	146	-215	-58	127	159	169
<b>Result before income taxes</b>	<b>2,121</b>	<b>3,625</b>	<b>-2,260</b>	<b>-12,517</b>	<b>-1,468</b>	<b>-1,633</b>	<b>-1,607</b>	<b>-10,525</b>
Income tax	75	-825	18	491	132	-181	225	515
<b>Net income/loss</b>	<b>2,196</b>	<b>2,800</b>	<b>-2,242</b>	<b>-12,026</b>	<b>-1,336</b>	<b>-1,814</b>	<b>-1,382</b>	<b>-11,040</b>



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