Annual Report 2000

PSI

“PSI is the ‘first mover’ in Resource Management.”

PSI develops and distributes software solutions for Resource Management, which is playing an increasingly important role in securing a competitive edge in international markets. As experts in our customer’s core processes we help to strengthen their competitive position. We are a strong partner in the energy, goods and information sectors.

- In the energy market PSI is the market leader for software for energy management and deregulation for electricity, gas and oil. We provide control systems and solutions for network utilization, energy trading and energy sales.
- In the goods sector we offer solutions for production logistics, distribution logistics and supply chain management. We develop and market our ERP software PSIPENTA, which is addressed at middle-sized industrial manufacturers; we also develop customized solutions for the steel and chemicals industries. Our logistics solutions are used in warehousing, transportation and airport logistics.
- As a specialist for eBusiness and information management, our solutions forge a crucial link between our customers’ traditional business and the latest, most advanced Internet technology. With our solutions for the management of digital telecommunications networks we are also helping to create the necessary infrastructure.

In 2000 PSI achieved sales of EUR 146.7 million with 1,362 employees.

“On track for continued growth.”

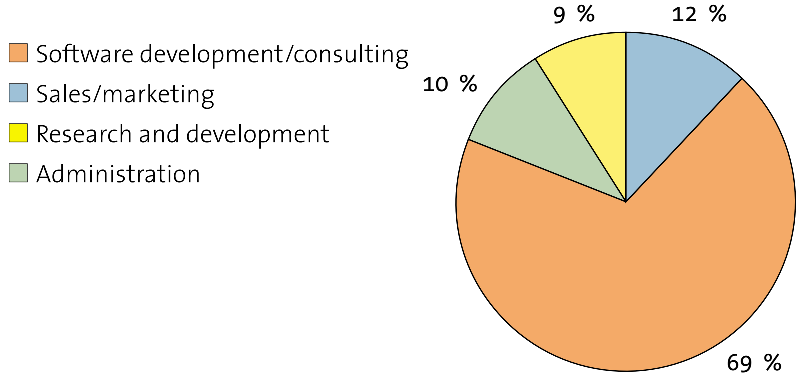
PSI Group in figures (U.S. GAAP)

(in EUR million)

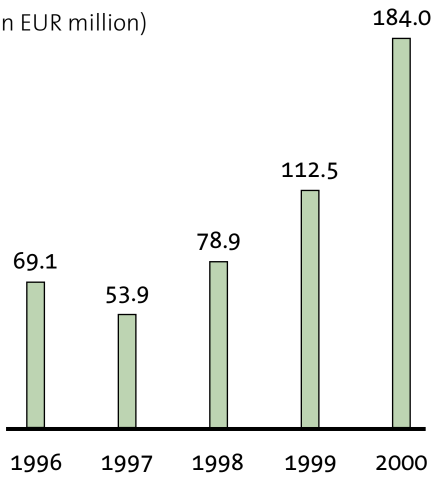
	1996	1997	1998	1999	2000
Net sales	57.1	65.8	95.2	123.7	146.7
Operative result before write offs*	-1.1	-2.1	0.5	-7.6	4.0
Operative result after write offs*	-1.1	-2.1	0.5	-8.5	-13.4
Balance sheet total	-1.3	-5.3	1.3	-8.4	-13.2
Equity	13.5	12.2	55.5	52.3	65.2
Equity ratio (in %)	22.4	16.9	50.4	51.9	46.1
Investments	4.4	8.1	11.1	24.5	18.9
Employees as of 12/31 (number)	620	669	833	1,064	1,362
Turnovers/employee (in KEUR)	92	99	115	116	108

*Goodwill amortization and impairment loss

Employees per department
(in %)



Volume of orders
(in EUR million)

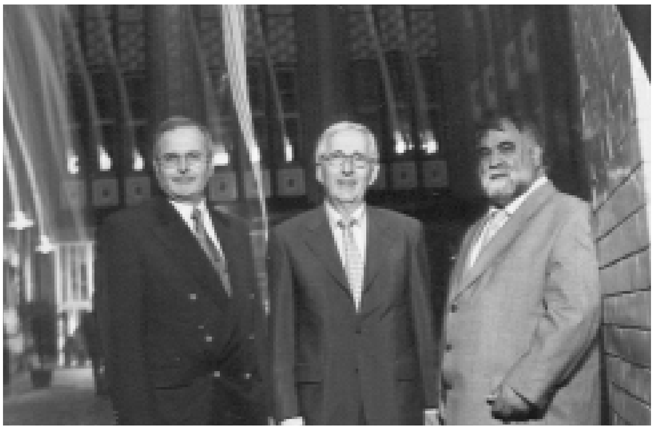


"PSI is a service company. With individual solutions for energy management, logistics and eBusiness."

"We are a European player in energy solutions."

Contents

Dear Stockholders, Dear Ladies and Gentlemen,



f. l. t. r.:
Armin Stein,
Dietrich Jaeschke
and Ali-Akbar
Alizadeh-Saghati

PSI is pleased to announce that the company's operative business has returned to the profit zone. However, even with such good results to show, investors are, unfortunately, still holding back; this is largely the result of the turbulence of the stock markets in the past months and its dramatic impact on the prices of high-tech stocks. Despite this tendency, it is becoming clear that investors are again looking for companies which have consistently notched up sustainable successes and address attractive markets.

For us this is a very satisfactory development, because it means that our solid performance over the past 30 years, which has always been greatly valued by our customers, is precisely what shareholders are looking for. We have the power and dynamism to guide our customers' processes of change into profitable channels. The increased free float makes PSI attractive for major investors. We expect that all of the above factors, coupled with our good results, will boost our stock price.

In the past year we made a profit of EUR 4.0 million from our ordinary business activities and were able to significantly improve PSI's business core in all areas. The special depreciation of activated research and development expenses for our product business is in line with the current development of the capital markets and the ERP market. This investment will have a positive impact on PSI's results as from fiscal year 2001. We have strengthened our market position through a series of targeted acquisitions.

Our repositioning in 2000 played a considerable role in ensuring our success. As a solutions provider, PSI has a unique profile that makes us attractive for both our customers and our investors. In Resource Management PSI is seen by the market as being the "first mover". In this sector we focus on solutions for energy management, logistics and eBusiness.

Energy markets enter new dimensions

We have continued to strengthen and expand our excellent position in the market for energy supplies. Our acquisition of the debis gas management division enabled us to extend our leadership in the market for electricity, gas and oil to all of Europe.

New dimensions are emerging for PSI in the energy management market: energy suppliers are evolving into multi-service providers, and PSI software supports and optimizes their new business processes. With the recent deregulation measures, water has also become a new and attractive field of activity for us.

eBusiness drives logistics

Although the market for standard ERP software is going through a phase of stagnation, PSIPENTA was able to more than halve its operative loss. PSI will be continuing this positive trend in 2001. The measures we have put in place to ensure that this objective is attained are underpinned by consistent investment. At the CeBIT, PSI has unveiled PSIPENTA.COM, a highly attractive product which opens up the potential for eBusiness. PSIPENTA intends to focus its future activities on the upper spectrum of medium-sized companies, where full solutions play a very important role. By spinning off our logistics activities into a new subsidiary we aim to become a leading partner for the support of comprehensive logistics chains.

Information: a valuable commodity

Our third key corporate pillar is eBusiness. It is handled by our subsidiary UBIS AG, which specializes in eBusiness and agent technology. UBIS also supplies these core technologies to our other corporate divisions.

Our key focus in eBusiness lies in CRM (Customer Relationship Management). It helps to maintain and strengthen relations between businesses and their customers, which is an area with a very high value potential. Aspects covered include markets, portals and accessible public administration. We have grouped all our telecommunications activities in a new division. PSI has excellent prospects in the UMTS market, as we were one of the initial key players responsible for designing and standardizing this new mobile telecommunications standard.

The board knows that you need a past in order to have a future. Which is why for us the 30 years that PSI has been in the business and our intensive customer relations are just as important as the new upward trend reported in our results for 2000.

We are committed to accelerating this positive trend. In 2001 we intend to systematically drive our expansion with the aid of strategic alliances. We will be bridging functional gaps and strengthening our international focus. We are building a network which will enable virtual and real integration. Last year's success, the further enhancement of PSI's profile and our power to change and thrust forward into increasingly dynamic markets leaves us fully confident that 2001 will be a good year for the company.

The Board of Directors would like to express its gratitude to all customers, shareholders and staff for their continued faith in PSI.

Berlin, March 2001

Dietrich Jaeschke

Ali-Akbar Alizadeh-Saghati

Armin Stein

The PSI Stocks

As a high growth technology company, PSI has been quoted on the Neuer Markt stock market in Frankfurt since August, 1998. In 2000 we experienced all the dramatic ups and downs of the stock year. Despite the overall turbulence, we successfully stabilized PSI stocks in this very difficult situation thanks to the effective repositioning of PSI. In addition to the improvement of our core data, we believe that a key role was also played by our active and candid financial communications.

Stable stock price development in a difficult environment

At the beginning of 2000, the Neuer Markt was in the grip of a dizzying spell of explosive growth and skyrocketing prices, largely caused by Internet euphoria. Between January and March the Nemax All Share index rose by more than 80 % to 8,500 points. After a difficult year in 1999, PSI only partially profited from the good climate on the stock market. PSI stock started the year at EUR 33.60 and peaked at EUR 46.00 on March 2.

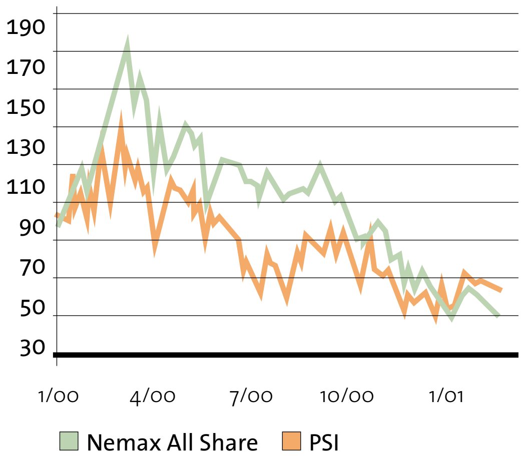
In the course of the long downswing which started in mid-March the Neuer Markt lost almost 70 % of its value, hitting a low point at 2,650 at the end of December. Given these exceptionally difficult circumstances, the price of PSI stock has been able to hold its own ground fairly well. While the Neuer Markt fell by more than 50 % in the second half of the year, the PSI stock only dropped by 26 % within this period, to its lowest price of EUR 16.50 on December 27, 2000.

The upswing had already started a few days later, with PSI stock standing at EUR 21.05 at the end of the year – 36 % lower than the year before. At the beginning of 2001 the development of PSI stock continues to outstrip the overall performance of the market: on January 19, 2001, PSI stock was quoted at EUR 23.50, 12 % above the year-end price.

Stockholder structure

Since the deadline for former PSI registered stocks expired on July 31, 2000, we have been able to trade 100 % of PSI stocks on the Neuer Markt. Accounting for 10.5 % of the company's equity capital, the PSI employee stockholder pool is the largest individual investor, followed by Gold-Zack AG with 8.5 %. The employee stockholder pool was formed with the aim of actively driving

Performance of PSI stocks compared to the Nemax All Share Index
(in %)



the positive development of PSI stocks. Additionally, a relevant share of the 81 % of ordinary stocks are held by staff and managers of the PSI Group. This structure has a positive effect on the motivation and shareholder value consciousness of the group's employees. In order to continue to promote shareholder value orientation and to create a bond between the company and new employees, we introduced a stock option program in 2000 and issued stock to the group's employees.

More banks are recommending PSI

Over the past year there have been three factors that have had a positive impact on stockholders and analysts: from the middle of the year on PSI's business activities displayed a distinct positive trend; the repositioning program significantly improved the company's prospects; and we further intensified our communication efforts. Throughout the course of last year our stock was covered by Bankgesellschaft Berlin, Deutsche Bank, DG Bank, Dresdner Kleinwort Benson, Hypo-Vereinsbank, Bankhaus Lampe, Independent Research and Value Research. In the second half of the year all the above institutes and many renowned stock market and financial media recommended buying PSI stock.

We are expecting PSI to develop well in future and anticipate above average growth and profitability in our target markets energy management, logistics and eBusiness. The new market shares we have gained since our floatation and our investment in the markets of the future form a firm basis for excellent growth. We will also be continuously expanding our communication efforts and thus giving PSI's profile in the financial community greater prominence.

Growth and stability

The year 2000 demonstrated that even growth companies need a firm basis in order to enjoy long-term success on the stock markets.

PSI looks back on more than 30 years of experience and an outstanding technological position in our own target markets. Over the years we have established meaningful and mutually beneficial relationships with our customers in leading companies, thus paving the path for further growth and success. We are convinced that our strategy will considerably increase the company's value.

Developments such as these open up a vast potential for increases in the value of PSI stock.


UP

Optimism rules

When it comes to defining our direction, there's only way we know, and that's up! Always upward bound; always taking the next step forward in terms of our position, our technology and expanding our business activities. We may be older than 30, but that doesn't stop us from actively driving change. Quite the opposite: in our fast-moving business our experience is a great asset.

In 2000 we further developed and expanded PSI's core competence as a Resource Management provider for energy, goods and information. Our repositioning has released new potential and it has led to an increased focus on our traditional strengths. Today, PSI is a service company which offers its customers tailor-made solutions for energy management, logistics and eBusiness based on our own technology.

To be able to provide solutions that enhance your customers' long-term competitive edge and enable them to expand, you have to be familiar with your customer's business. We have always maintained close, long-lasting relationships with our customers, and this has enabled us to build up unique expertise in their core business and requirements. We combine this detailed knowledge with the latest technology, developed by ourselves, to create software and systems which make our customers stronger. Because their success is our success.

With this philosophy we have advanced to become the market leader for energy management software and a key player for production and distribution logistics software. We are strong in growth markets as a service provider for the integration of Resource Management and eBusiness. We provide groundbreaking solutions, including network management for mobile telecommunications networks, eGovernment for public administration, and agent technology for online customer support.

PSI will continue to grow over the coming years. Our key focus will be on international growth, new deregulated markets, and facilitating the union between Old and New Economy.

Growth through internationalization

Internationally, PSI intends to concentrate even more on strategic alliances. We already have partnerships with a number of leading global companies, including Oracle, Intershop, ALSTOM and Compaq. We plan to expand these alliances and will also be setting up new cooperations.

Growth through deregulation

The increasing deregulation of European markets will increase the demand for software that is designed specifically for segments such as traffic control and public services. PSI will be further strengthening and expanding the company's position as a provider of full solutions. European integration opens up a whole host of new opportunities. The planned alignment of standards for energy management systems will increase demand throughout Europe for the kind of powerful solutions that PSI delivers.

Growth through the integration of Old and New Economy

The merging of traditional industries with the Internet business – the integration of Old and New Economy – will also lead to a rise in the demand for PSI's solutions and services. One of our many advantages is that we are high-tech company and established supplier of the Old Economy in one, meaning that we unite both worlds with our comprehensive solutions. We accompany and guide our Old Economy customers into the New Economy, and at the same time we are an important partner for new Internet service providers and infrastructure developers.

Service company

Traditional industries are the true beneficiaries of the Internet. We help our customers to get there. Our highly qualified employees provide customer satisfaction.

PSI's eBusiness activities are set to grow faster than any of the company's other business segments. eBusiness will become an important growth engine for the entire group.

Success through quality management ...

Because PSI solutions are essential for our customers' core business and success, quality and service are key factors in everything we do. As early as 1994 our Quality Management system was certified in accordance with ISO 9001 and ISO 9000-3 for software producers; we also comply with the more stringent ITQS regulations for European IT companies.

... and through satisfied customers

Maintaining long-term customer relationships is one of the keys to business success. At the beginning of 2000 we participated in the Steinbeis Foundation's "Campaign for High Customer Satisfaction". PSI customers were interviewed – with the result that we were awarded the "Certificate of High Customer Satisfaction".

Customer satisfaction through motivated, qualified employees

Motivated employees are the key to our high level of customer satisfaction and the quality of our service. PSI has enabled employees to participate in the company's success since 1974. Even after our IPO most of our employees hold PSI stocks. The employee stockholder pool, which was formed on August 1, 2000, holds more than 10 % of our total share equity, making it the largest individual stockholder. In 2000 we also introduced a stock option plan and a program to issue employee stocks was put in place, thus offering a further incentive to employees who joined PSI after our floatation.

The success of our work and the satisfaction of our customers depends to a large degree on the qualifications of our employees. The PSI Group employs more than 1,360 personalities who think as entrepreneurs and who not only want to actively shape technological and organizational innovation, but also have the necessary skills to do it. The majority have technical training, and with it extensive expert insight into their customers' core business.

The high proportion of exceptionally well educated academics at PSI guarantees the necessary degree of professionalism and flexibility in handling complex, demanding customer projects.

PSI is a learning organization: we are committed to enhancing the development and qualifications of our employees. A broad palette of internal programs and measures is available, including strategically oriented career development and ongoing qualification provided by external training partners and our own training division, a successful service provider in its own right. Our strong growth since the floatation and our excellent future prospects make PSI an attractive employer for the next generation of high-potential professionals.

Driving the speed of change

At the beginning of the new millennium it is obvious that most branches and sectors of industry are experiencing a change, the speed of which is impacted by software and globalization. PSI is helping to shape this change. Our input is securing our future success – for our customers, stockholders and employees.

Energy for warm feet

Without PSI the cold, dark season would be truly lacking in comfort and cheer. Our software solutions make sure that even the coldest nights are bright and cosy. We help the electricity to reach your socket, and the gas or oil to fuel up your heater. Many renowned energy suppliers throughout Europe work with strategic solutions from PSI.

In 2000 PSI again profited greatly from the dynamic development of the European energy markets. As planned, we utilized our technological advantage to further expand our market position and guide our energy customers on their way into the future.

The continuous process of deregulation throughout 2000 has triggered further change on the energy markets. The subdivision into energy generation, energy transport and energy distribution has led to the creation of completely new organizational structures. New markets, such as electricity trading and transmission, demand new solutions. As alliances are formed between energy suppliers, new strategic decisions are being taken as to which control system to use. Suppliers are evolving from electricity suppliers into multi-utilities who offer their customers a broad range of services. Following in the footsteps of the electricity market, the deregulation of the gas market has now also begun.

Throughout this process PSI is a loyal partner of the industry. With more than 25 years of experience we are in a unique position to offer our customers advanced solutions for all aspects of electricity, gas, oil and multi-utilities.

Large orders for strategic control systems

2000 saw PSI continuing the success of the past few years in the electricity sector. Our dedication and commitment was rewarded with several major orders placed by renowned customers.

The large majority of this business was again generated by PSI network control systems, for which the company received numerous orders. The first big order of the year came from Switzerland, from the Bern BKW FMB Energie AG; in Germany RWE Net AG decided to use PSI software for all their high and medium voltage networks. Following their substantial orders of last year, Germany's largest electricity supplier placed three additional orders with PSI in 2000 amounting to a total volume of EUR 15 million.

PSI network control systems control very large networks, such as those created by

Faster, faster . . .

. . . is the motto of the energy sector. We are excellently equipped to go along with: thanks to PSI, electricity suppliers can give their customers additional services. Electricity transmission and trading require specific systems. PSI has developed them.

systematic reorganization and rationalization. Our network systems enable the ergonomic visualization of all data that are relevant for network control processes. Staff in the network control centres can monitor their networks on monitors or large screens and have full access to geographic data at all times.

A technology developed by PSI subsidiary NENTEC which utilizes digital data transmission technology for network control systems is proving highly popular with our customers. Our process control system for electricity networks uses the same standard technology that is used for Internet and office applications. This enables customers to cut costs by up to 60 % compared with conventional technology.

Innovations in the electricity retail market bring major new customers

In 1999 PSI began marketing new systems for electricity transmission, sales of electricity and electricity distribution. In 2000 we achieved a breakthrough with these new systems. One of the most important new customers of the year in this segment is the Berlin electricity supplier BEWAG.

Our transmission system manages network usage; the retail system supports all aspects of energy trading and sales, including trading floor and back office support, contract administration and risk management.

PSI has the competitive advantage in Europe for gas and oil control systems

For many years PSI has also occupied a leading position in Germany for control systems for gas networks and oil pipelines.

Our solutions provide countless special functions, including our patented, software-aided leak detection and localization. In 2000 our system was the only one of its kind to pass the stringent tests and requirements of the German TÜV organizations for pipeline operators. This gives us a decisive competitive advantage on the European markets.

The liberalization of the gas markets started in 2000. At the beginning of the year PSI defined a comprehensive range of solutions for the gas market which unite technical and commercial information systems to deliver an advanced, powerful overall solution.

Internationalization of the oil and gas business brings major orders

In May 2000 PSI acquired the gas management systems division of debis Systems. We successfully integrated this new division in our organization and have now become Germany's leading supplier of gas management systems and pipeline control systems. This step has also made us a truly international player in the gas and oil business. As Europe's leading supplier, PSI has customers in Italy, France, Scandinavia, Eastern Europe and Germany. The strengthening of the gas and oil segment has had a positive effect on the number of new orders we have received. In 2000 we successfully expanded our market position for gas management systems and received strategic major orders from Ruhrgas and Gazprom.

PSI Internet portals: added value for customers in the energy industry

While PSI electricity trading systems already utilize the Internet, Web-based customer service applications are on the brink of a great breakthrough. In conjunction with our successful eBusiness subsidiary UBIS, PSI offers customers in the electricity and gas industry tomorrow's solutions today. These Web-based applications help companies to support and streamline their business processes through the Internet.

The key is a multi-utility portal: these portals are Websites for specific interest groups which give users direct access to all the information they want, as well as a range of useful tools. PSI and UBIS have the joint expertise required to design and implement solutions such as this, which in the coming years will occupy an increasingly important position.

Deregulation and internationalization shape the future of the energy market

PSI will continue to drive the development of Internet-based applications that support business processes. In the next few years we will also be stepping up our efforts to make our company truly international. We can exploit the continuous process of liberalization in Europe to achieve further growth. We will be focusing strongly on entering into cooperations with international partners.


Coca Cola 0.2 DM 2.60
Fanta. Sprite 0.2 DM 2.60
Cappy 0.2 DM 3.50
Johannisbeer 0.2 DM 3.50
Selters 0.25 DM 2.50
Apfelsaft 0.2 DM 3.00
Schweppes 0.2 DM 2.50
Milch DM 2.50
Tasse Kaffee DM 2.30
Tasse Tee DM 2.30
Gr. Kakao DM 2.50
Kl. Kakao DM 2.00
Holsten Bier 0.33 DM 3.50
Flensburger 0.33 DM 3.80
Warsteiner 0.33 DM 3.80
Malzbier 0.33 DM 3.50

Logistics drives growth

To ensure that Christmas presents are delivered on time and not at Easter you need good logistics. With the burst of new Internet-related activities, the logistics market is booming and our logistics divisions are profiting. We have not only consolidated our strong German position, but also driven our targeted internationalization a considerable step forward.

In 2000 the logistics market developed a new dynamism, which was primarily driven by the merger of individual business processes to global logistic chains, and the triumph of the Internet. The success of eBusiness in particular poses new logistical challenges which conventional systems simply cannot handle. PSI continued to invest strongly in eLogistics in 2000.

Repositioning strengthens PSIPENTA

One of PSI's investment focuses was on our standard business software PSIPENTA, which is aimed at medium-sized industrial manufacturers. At the CeBIT 2000 a new Internet-capable version of PSIPENTA was unveiled. It delivers components for Internet-based electronic procurement, electronic sales and customer support – eProcurement and eSales. The eSupply Chain Management component enables entire value chains to be controlled through the Internet.

These new Internet functions make the product ideal for the requirements of medium-sized industrial companies, and they have greatly enhanced the product's appeal. The eponymous company PSIPENTA with its broad, loyal customer base repositioned itself as a solutions provider with a full range of services and comprehensive customer support. The administrative splitting of development and service puts us in a position to exploit the synergies within the group to the full. PSI swiftly reacted to the changes taking place in the market for ERP software (Enterprise Resource Planning).

PSIPENTA now available for automotive suppliers

PSIPENTA focuses on solutions in machine and plant engineering, tool and component construction within the automotive supply industry. To increase our automotive competence we acquired our development partner SOFTSYSTEMS Scheufele & Happe in June 2000. With the formation of

PSIPENTA Automotive GmbH we have created an industry-specific competence centre for the automotive supply industry.

As a specialist for the process industry the PSI subsidiary PSI-BT AG develops industry-specific solutions based on PSIPENTA. On January 1, 2000, PSI-BT was founded as a joint venture with the German Steel Industry Association. Only one year after its foundation the company has become the leading German supplier of process industry logistics solutions for the steel and chemicals industries. Our products cover all logistical core processes, from procurement to consistent, uninterrupted supply chain management for global logistics chains. During the course of the year PSI-BT developed and implemented strategic projects for renowned customers, including Thyssen Krupp Steel, Salzgitter AG, Schering or Grünenthal, and thus consolidated the company's strong market position. Using this solid foundation as a springboard, in 2000 the company in conjunction with its partner ALSTOM started building on its leading position in the German metal industry to create an international customer base in this business segment.

New orders in distribution logistics

At the beginning of the year PSI acquired the Dortmund-based company PLANAR GmbH, a move which enabled us to significantly consolidate our position in the market for distribution logistics. The eLogistics specialist has close ties with universities and crucial core competencies in the development of systems solutions for the integration of Internet applications for controlling logistical processes. These products enable order-based corporate networks which closely link procurement, production and sales. The acquisition of PLANAR also gives PSI access to the growth market for airport logistics.

Logistics subsidiaries grouped under one roof as PSI logistics GmbH

To proactively drive the company's continued growth with logistics solutions PSI decided to group the logistics subsidiaries ECI and PLANAR into the PSI division Logistics in September 2000. The new consolidated, logistics service company, PSI logistics GmbH, unites all the strengths of the individual subsidiaries. The result is a highly efficient company with a unique set of skills:

- our own standard software for controlling and optimizing logistical processes
- an international sales network
- sound eLogistics expertise
- over 30 years of experience in project development and implementation, and an excellent customer base.

In addition to securing market shares in Germany, PSI logistics will in the next few years be focusing on taking the company international. ECI's international sales structure and renowned customers in Europe and the U.S. give the company an excellent footing for this undertaking. In November 2000 we acquired our first major logistics customer in Eastern Asia, the Taiwanese logistics service provider Jvan An Logistics.

Separate business processes are fusing, even across borders, thanks to the Internet. PSI has used its leading position in the process industry to drive the internationalization of our logistics business.

Internationalization

PSI expands service and product range for traffic control systems

The acquisition in October 2000 of repas AEG Software GmbH has enabled PSI to further strengthen the company's logistics activities. The core competencies of this subsidiary, which has operated as PSI Transportation GmbH since January 1, 2001, lie in the development of logistics and traffic control systems. This extends our logistics services into the transport market, and it also gives us a firm footing in the market for traffic control systems. The demand for traffic control systems generated by the deregulation of the traffic markets is expected to be of a magnitude similar to that of the energy markets.

The increasing competitive pressure and the fusion of separate business processes to form single value chains will continue to create an increasing demand for a new generation of logistics solutions. In the past logistics processes were controlled with central software architectures; in future companies will use flexible eLogistics solutions to enhance their market position and give them essential competitive leverage. The result are holistic solutions for the management of all resources – throughout the entire logistics chain.

The future: more complete, more international

We will use our technological lead to provide our customers with increasingly comprehensive solutions for their core logistics processes, which will put us in a position to benefit greatly from the current logistics boom. We will also use our strong position in the German market to expand our international business. In addition to utilizing our own resources to achieve this aim, we will also be focusing on further alliances with international players.

Information is crucial

Not every fish caught in the net will automatically lead to success. For instance, if you don't have the right information or tools in a crucial situation it can undo the even the most painstaking strategy. PSI leads its customers to fertile fishing grounds. Because at the end of the day we want you to be satisfied with your catch.

Throughout 2000 the Internet continued its conquest of all aspects of our lives. The World Wide Web has helped new business models to break through. Centralized structures are being replaced by comprehensive, global value chains. Information has become our most important resource in the global marketplace; the Internet has evolved into a key infrastructure for businesses.

PSI helps customers to take off in the New Economy

Against this background, in 2000 PSI actively evolved into a specialist for Internet-based resource management. We combine our extensive expertise of the industries we are active in with the vast technological potential of the Internet, and based on this we create new business models and processes. In 2000 we helped many of our long-established Old Economy customers to a successful start in the world of electronic business, while at the same time opening up new target markets for our solutions.

Our input for the new wireless communications standard

Powerful telecommunications networks are essential for the success of the Internet and eBusiness. PSI played a key role in helping to set up the second generation of mobile telecommunications networks by providing advanced network management solutions. One of our projects in 1999 was the development of a network management system for the point-to-point system in the Mannesmann Mobilfunk D2 network.

PSI has been an active participant in the mobile telecommunications standardization project since mid-2000. This project unites three independent systems companies, the key mobile telecommunications providers and network providers. The aim of the project is to define and test a uniform, manufacturer-independent standard for the third generation of mobile telecommunications networks. The standard will integrate the technology of the first and second generations, as well as the equipment of various manufacturers. The substantial investment required to set up these third-generation UMTS networks will create a new market in the coming few years. PSI is already set to profit from the new boom.

New eBusiness subsidiary UBIS enjoys outstanding success

In 2000 UBIS, a PSI subsidiary that specializes in eBusiness, established itself as Germany's leading eBusiness service provider. The company's focus is on the integration of Old and New Economy with the aid of customized eBusiness solutions. These solutions are oriented to the customer's specific business processes and they play a significant role in optimizing processes and workflows. The solutions developed by UBIS are based on leading applications developed by PSI partners. These applications are perfected by the addition of UBIS's proprietary intelligent agents, which are learning software components that can provide online help and advice. Intelligent agents can make individual suggestions to online customers and even sell complex products over the Internet. UBIS' most outstanding projects in 2000 were the new Web portal for the German Handicrafts Association; the development of intelligent online agents for KarstadtQuelle; and the delivery of intelligent information brokers for a large German bank. Over the coming year UBIS' growth will be further accelerated and the company's technological lead in the development of intelligent agent technology will be secured and extended.

First eGovernment orders and promising cooperations

Over the past years PSI has made a name for itself as a supplier of innovative software solutions for public administrations. Since the beginning of 2000 this sector has been gripped by a mounting dynamism. Public administration is increasingly investing in Internet-based software solutions in order to be more accessible for their customers, the citizens, and simplify administrative workflows. With this as its aim, federal government pledged in September 2000 to make all services provided by federal administration available online by the year 2005 as part of the eGovernment initiative "BundOnline 2005".

PSI was one of the early starters in eGovernment solutions and as such holds an excellent position in this important market of the future. We have been developing Internet-based software solutions for public administration since 1999. We implemented the newly designed citizens' administration program for the municipal authorities of Cologne and Berlin, enabling these authorities to offer greatly simplified data processing workflows which in turn will allow residents to apply for passports and access similar services via the Internet.

PSI will be cooperating with strong international partners to deliver advanced eGovernment solutions. In November we signed an agreement with Compaq and we shall in future be working closely together to enable IT-aided case processing in the federal ministries and all subordinate offices.

Internal service company now spun off as independent subsidiary

In our customer projects we aim to cover the value chain as fully as possible. That is why on January 1, 2001, we spun off our own internal Internet service providing division into an independent company. The newly formed front2back AG had previously internally developed and maintained the PSI Website, in addition to offering its services on the open market and implementing online solutions for PSI and UBIS customers. front2back is a creative and dynamic start-up and it ideally complements the PSI and UBIS core range of services and products.

Fundamental eBusiness pillars assure future success

In 2000 PSI focused on developing a clearly structured range of services for information management and eBusiness. Throughout this task, we always focused on our traditional target markets. The main pillars that support our service program for Resource and Information Management are our eBusiness subsidiary UBIS, the eGovernment segment and our alliances with leading technology suppliers. The dynamic development of UBIS puts PSI in a position to profit greatly from the rapid growth of eBusiness. We have secured an additional competitive advantage by rounding off our range of services through the formation of front2back AG and our lead in intelligent agent technology. We will in future continue to exploit this lead for the benefit of our customers and harness it to drive the continued positive development of PSI.

We guide even eBusiness novices safely to the New Economy. We provide essential, clearly structured services for companies and public administrations.

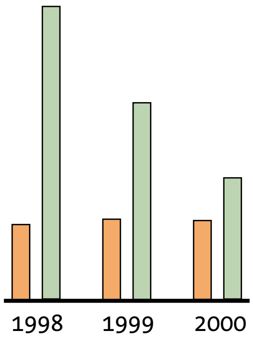
eBusiness for all

Management Report

The great demand throughout 2000 for complex solutions took PSI's systems sales to even greater heights. In product sales a noticeable shift in revenues occurred from licenses to software design and maintenance.

PSI continues to grow faster than the market

(Turnover growth in %)



	1998	1999	2000
IT-market in Western Europe	+10.1	+10.8	+10.6
PSI	+44.5	+30.0	+18.6

Source: European Information Technology Observatory (EITO)

Overall economic situation

Economic growth in Germany and Europe picked up again in 2000. Despite a slight downswing towards the end of the year, Germany's gross national product in 2000 grew by 3.1 %, hitting its highest level since 1991. At 3.4 %, growth in the Euro zone was even higher.

Continuing boom in the IT sector

In Western Europe the market for information technology grew in 2000 by 10.6 %. Growth in Germany kept pace at 10.6 %.

Again, it was Software Products and Professional Service – the segments PSI is active in – that displayed healthier growth rates than the overall market. Growth in Western Europe for these segments was 13.7 % and 14.6 % respectively, while in Germany it was 13.4 % and 13.8 %.

Increasing demand for solutions is altering the face of the software market

Increasing complexity and shorter innovation cycles for software products has led to a rapid increase in demand for support and services. For software suppliers this has meant a shift in focus from software products to full solutions capable of helping customers to face the challenges of an evolving marketplace. PSI has profited from this trend, with our systems business benefiting in particular.

Liberalization and the Internet are changing traditional industries

The Internet has played a key role in driving the booming demand for these products. While traditional sectors of industry, such as manufacturing, have joined the growing trend for Internet-based sales, customer service and procurement solutions, the success of eBusiness has also led to the creation of new organizational and business models. These in turn have generated a vast demand for new solutions capable of tackling core business processes, such as production and distribution.

Progressive liberalization of the European energy markets has again pushed energy suppliers' demand for solutions that can efficiently support both existing processes and new functions.

Company development

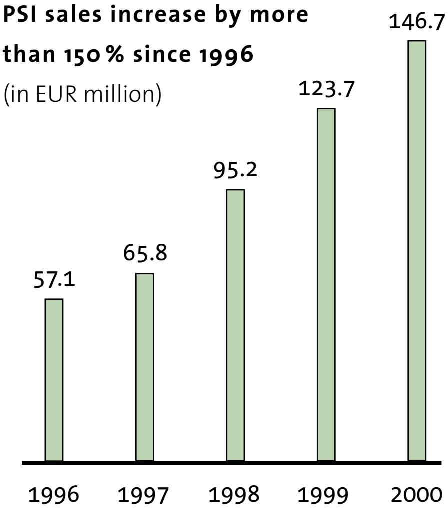
Growth again above market average

In 2000 PSI's turnover again grew faster than the overall market, rising by 18.6 % to EUR 146.7 million. The Products and Systems segments displayed different growth rates.

Product activities undergoing change

Product sales rose by 1.3 %. This division primarily controls all business activities associated with selling our standard software PSIPENTA, including standard development, license sales, customer-specific modifications, introduction, maintenance and support.

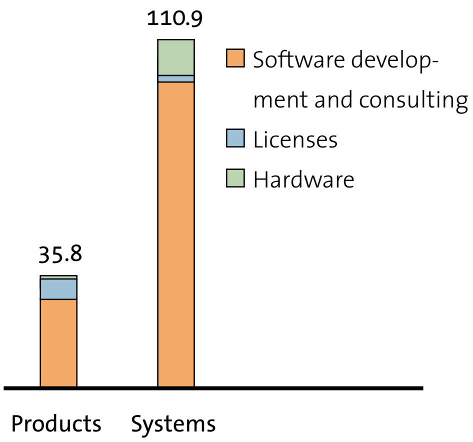
PSI sales increase by more than 150 % since 1996
(in EUR million)



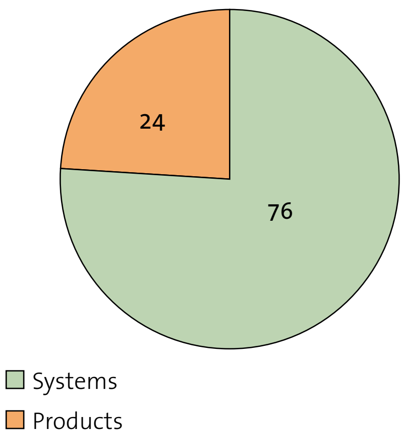
The marginal increase of product sales reflects the shift towards solutions. While the revenues generated by licenses dropped slightly, sales of services (software development and maintenance) rose by a satisfactory 19.5 %.

The growth of our service segment and effective cost management improved our operating result by EUR 8.8 million to EUR -9.1 million before special depreciation of capitalized research and development costs and goodwill write-downs. The special depreciation of research and development costs capitalized in 1998 and 1999 in the product division saw PSI responding to the changing market conditions. This measure also underpins the positioning of this

Software development and support remain PSI's key revenue sources in 2000
(in EUR million)



Systems account for more than three-quarters of turnover
(Turnover in %)



product division as a solution provider and will have a positive effect on the company's future write-downs. After goodwill and special depreciation the depreciation has yielded an operating result of EUR -24.6 million.

Systems sales continue positive growth

The systems segment comprises all business activities relating to the development, integration, maintenance and support of customer-specific software solutions. Our sales in this segment leapt by 25.5 % to EUR 110.9 million. In 2000, the energy sector and our sales of eBusiness solutions contributed greatly to this positive development.

The operating result of our systems business developed even better than sales. Thanks to our excellent market position and the synergies resulting from it, sales increased by 27 % to EUR 13.1 million without goodwill depreciation. After goodwill depreciation our operating result was EUR 11.2 million.

The differing development of the segments products and systems led to an increase in the proportion of total sales contributed by systems from 71 % last year to 76 % in 2000. The decreasing share of products and the stronger focus in this segment on solutions will be reflected in our new segment reporting as from 2001. PSI will be focusing on the target markets Energy Management, Logistics and eBusiness and thus creating an enhanced level of transparency.

Special depreciation impacts the Group's result

In 2000 PSI's ordinary activities made a profit, but the special depreciation of capitalized research and development costs in our product business had a negative impact and resulted in an operating result for the Group of EUR -13.4 million. Without taking the special depreciation into account this is an improvement of EUR 10.6 million compared with last year's result of Euro -8.5 million. For 2001 we are confident that the Group will generate a positive operating result. This forecast is based on the reorganization measures which were introduced in our product division and the greater number of orders than in the previous year.

64 % more orders – a new record

The inflow of orders registered by the PSI Group hit a new record of EUR 184 million in 2000. This is an increase of 64 % compared with the previous year and it is considerably above our projections. As at January 1, 2001, the volume of orders received by PSI was EUR 123 million, 33 % higher than at the beginning of 2000. This gives PSI a greatly improved chance of attaining its medium-term expansion targets. At the same time the large volume of orders the company is receiving clearly demonstrates the faith that PSI's customers have in the company and its future growth.

Financing

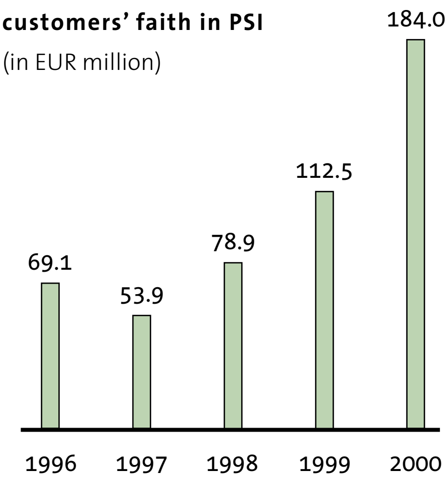
On February 10, 2000, we acquired 90 % of the shares in PLANAR GmbH. In this purchase our share equity was increased against a non-cash capital contribution by EUR 107,371.30 from authorized capital.

On May 25 we implemented a cash equity increase of EUR 1,167,184.78 from authorized capital. The capital increase was successfully concluded by the purchase of all 456,563 young shares.

We also increased our stake in UBIS from 66 % to 75 % by increasing our share equity against a non-cash capital contribution by EUR 101,079.85 from authorized capital.

With the take-over of the debis Systems gas management systems division on May 30, 2000, the share equity was increased against

Large volume of orders demonstrates customers' faith in PSI
(in EUR million)



a non-cash capital contribution by EUR 857,022.34 from authorized capital.

On 25 October, 2000, we acquired 100 % of repas AEG Software GmbH. Here the share equity was increased against a non-cash capital contribution by EUR 370,686.61 from authorized capital.

The capital increases which took place in connection with the increase of our UBIS stake and the acquisitions of the debis gas management systems division and repas AEG Software had not yet been registered in the Trade Registry on the balance sheet date.

Balance sheet structure

The balance sheet total for 2000 increased by 40.4 % to EUR 141.5 million compared with the previous year. In the year under review short-term assets accounted for 69.0 % of the balance sheet total, following 48.9 % in the previous year. The share of long-term assets decreased from 51.1 % to 31.0 % in 2000. This shift is partly accounted for by increased liquidity. Furthermore, there has been an increase in non-invoiced receivables in connection with revenue recognition according to the percentage of completion method.

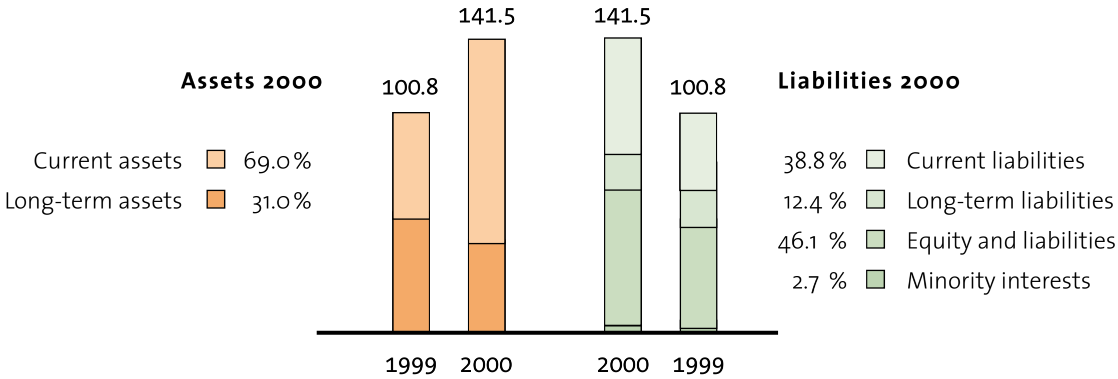
The share of short-term liabilities in the balance sheet rose marginally from 37.7 % to 38.8 %. Long-term liabilities went up from 8.7 % to 12.4 %. The equity ratio decreased from 51.9 % to 46.1 %.

Higher liquidity

Liquidity increased in the year under review from EUR 4.4 million to EUR 19.2 million. A positive cash flow from the Group's operative business is anticipated for 2001. New acquisitions will only be made with authorized capital. PSI also has credit lines with the company's banks.

Balance sheet structure 2000

(in EUR million)



Considerable investments

In 2000 the PSI Group invested EUR 18.9 million (previous year: EUR 24.5 million). This decrease is the result of the altered capitalization policies for R&D costs.

Expenditure for research and development in the year under review was EUR 9.1 million, which equals 6.2 % of sales. In 1999 R&D expenditure was EUR 12.1 million, or 9.8 % of sales. This drop is largely the result of our stronger focus on solutions business in which research and development costs are not explicitly itemized. The activation of research and development costs was reduced to EUR 0.5 million from EUR 8.8 million in the previous year. This alteration in PSI's activation policy sees the company responding to increasingly fast innovation cycles and market changes in the ERP market.

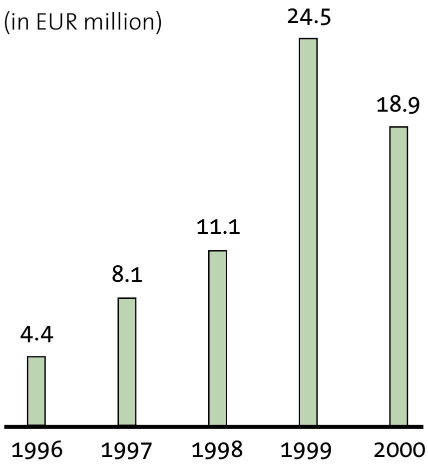
Research and development in 2000 focused on the new Internet-capable PSIPENTA.COM version and on providing solutions to meet the demands of the deregulated energy market.

Risk factors

The market for PSI's products and services will continue to grow over the coming years. Nonetheless, economic cycles and technological breakthroughs can have an impact on PSI's business. The following factors present specific risks for PSI's operations:

Investments

(in EUR million)



- Considerable efforts are required to ensure the structural and cultural integration of new investments
- The evolutionary process of becoming a leading company active in the sectors Energy, Goods and Information requires far-reaching organizational changes
- Successful product business with PSIPENTA depends largely on our ability to win new customers with a relevant license volume
- In specific cases the critical situation of the human resources market could jeopardize our growth targets
- Strategic alliances, and especially those set up in connection with our targeted internationalization drive, can lead to mutual dependencies
- The development of high-tech prices – specifically those of PSI – on the stock market can restrict our financial scope and impact our image and market status.

Risk management

We use effective control systems to monitor and deal with these existing risks. Our present risk management system, which complies with KonTraG regulations (the Law for Control and Transparency for Corporate Enterprises), is currently being tested in a pilot phase. This system primarily covers corporate controlling. In 2001 the system will be extended to cover strategic risks.

Motivated employees

Qualified and motivated employees are essential for our success and continued growth. In this context we are very pleased to announce that in 2000 we were able to increase the total number of staff employed by PSI by 298 to 1,362.

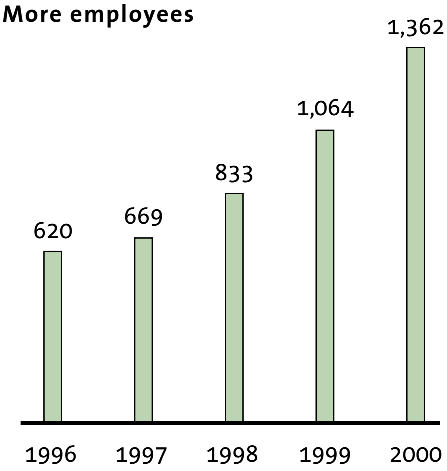
In order to recruit new employees it is important that we cooperate closely with universities. Projects such as the cooperative computer sciences graduate course offered at Darmstadt Polytechnic College; the use of our product PSIPENTA in teaching at the University of Bremen; the financial support of students and the supervision of internships and dissertations all serve to create a close bond between promising young academics and PSI.

PSI is a learning organization, and we are committed to ensuring that not only do new employees have the requisite skills, but also that the development and qualification of our existing staff is promoted consistently. Our measures include strategy-oriented career development and ongoing qualification through internal and external seminars and training. The current focus of our internal training is on methodical training, Internet and eBusiness consulting and in development.

We have invested considerable effort in driving our advanced Human Resources programs forward, utilizing tools such as modern human resources concepts, a variable, partially performance-related salary system, flexible working times and flat hierarchies.

The exceptional motivation and identification of PSI staff is underscored by the large number of employees who hold shares in the company. The employee stockholder pool formed on August 1, 2000, holds over 10 %

More employees



of stocks, making it PSI's largest single stockholder. A considerable proportion of our ordinary stocks are held by employees. To further increase our employees' motivation and shareholder value-orientation we introduced a stock-option plan and a scheme to issue employee stocks was put in place. These measures considerably enhance the appeal of PSI for high-potential employees.

The board would like to thank all employees for their excellent efforts over the past year. We are fully aware that the permanent process of change that both PSI and our markets have undergone during this period have presented a great challenge for our employees.

Outstanding events in 2000

On 10 February, 2000, PSI acquired a 90 % stake in PLANAR GmbH, giving the company crucial expertise for the integration of the Internet and logistics processes to form a holistic management of supply chains.

Ali-Akbar Alizadeh-Saghati was appointed to the Board of Directors on April 1, 2000, where he is in charge of Personnel and Technology.

On May 30, 2000, PSI took over the gas management systems division of debis Systems. This move has consolidated PSI's market leadership in the sector for gas and pipeline management solutions in Germany, making PSI a key European player in this industry.

To strengthen the PSI product portfolio the company sold its 51 % stake in the Viennese company iRM Ges.m.b.H. to HTA Beteiligungs-Invest AG, Vienna, on June 28, 2000.

On October 25, 2000, PSI AG purchased 100 % of the stock in repas AEG Software GmbH. On January 1, 2001, this company started operating as PSI Transportation GmbH. The core competencies are the development of logistics and traffic control systems based on the company's own standard solutions.

Results after December 31, 2000

On January 1, 2001, PSI grouped its logistics activities in one company which unites the PSI subsidiaries ECI GmbH, PLANAR GmbH and the PSI Logistics division under one roof.

PSI's former Internet service department was spun off into the newly formed front2back AG on January 1, 2001.

Armin Stein was appointed to the Board of Directors on January 1, 2001, and is in charge of finances. The former financial director, Björn S. Eriksen, will be retiring from the PSI Board of Directors effective March 31, 2001, due to personal reasons.

PSI AG's subsidiaries and joint ventures

100 %	PSIPENTA Software Systems GmbH, Berlin
100 %	NENTEC Netzwerktechnologie GmbH, Karlsruhe
100 %	PSI Transportation GmbH, Berlin
91.5 %	PSI logistics GmbH, Berlin
75 %	UBIS AG, Berlin
60 %	front2back AG, Berlin
58 %	PSI-BT AG, Düsseldorf
51 %	GSI mbH, Berlin
28.5 %	Schindler Technik AG, Berlin
20 %	Sigma A.S., Istanbul, Turkey

100 %	PSIPENTA USA Inc., Newton, MA, USA
100 %	PSIPENTA France S.a.r.l., Paris, France
100 %	integral datentechnik GmbH, Kaiserslautern
78.4 %	PSI AG, Schwerzenbach, Switzerland
60 %	PSIPENTA Automot. GmbH, Gelsenkirchen
100 %	SOFTSYSTEMS GmbH, Bochum

As of March 1, 2001

PSIPENTA: the expert for medium-sized businesses

PSIPENTA Software Systems GmbH develops and markets the standard business software PSIPENTA. The company's international subsidiaries are in charge of PSIPENTA activities in their respective territories. PSI subsidiary integral daten-technik markets PSIPENTA to smaller medium-sized industrial enterprises. PSIPENTA Automotive GmbH, which was formed in June 2000, and SOFTSYSTEMS Scheufele & Happe GmbH give PSIPENTA an additional competence centre for the automotive supply industry.

UBIS: strong in eBusiness

UBIS AG is one of the first major German solution providers specializing in eBusiness. The company provides Internet solutions that are closely aligned to industry processes and which utilize UBIS's own innovative developments and leading technological products. UBIS is also the leading "Technology Driver" in the use of intelligent agents and has an excellent customer base in the banking and retail sectors.

GSI: specialists for Human Resources Management software

As part of a long-standing alliance with PSI, GSI mbH develops products for Human Resources Management, Manufacturing Executive (MES) and Project Management, all of which are also integrated in the PSI product PSIPENTA.

PSI logistics: the logistics specialist

Effective January 1, 2001, PSI's logistics expertise was retroactively grouped under the banner of PSI logistics GmbH, a company comprising ECI, PLANAR and the logistics division of PSI AG. The company's core strengths lie in the integration of applications for the Internet and logistics to form holistic eLogistics solutions, as well as in the field of airport logistics.

NENTEC: experts for communication

The focus of the activities of NENTEC Netzwerktechnologie GmbH is on the development of technologies for Internet applications and telecommunications. The technology developed by NENTEC allows digital transmission technology to be used for network control applications, thus enabling the same standard technology that is used for the Internet and office applications to be used for process control through electricity networks.

front2back: the Web specialists

front2back AG delivers a full array of Internet-based solutions, from the creation of a single Web page right through to the complete integration of existing software infrastructures. The company was spun off from PSI's former Internet services division.

PSI-BT: customized solutions for core industries

PSI-BT AG develops customized solutions for Resource Management in the metal and chemicals industries. The company is a joint venture between PSI and the Association of the German Steel Industry. PSI-BT develops solutions based on the PSIPENTA suite of products.

PSI Transportation: solutions for transport and traffic

PSI Transportation GmbH develops logistics and traffic control systems based on the company's own standard solutions. The new PSI subsidiary extends the Group's logistics solutions by the addition of transport services and gives PSI a footing in the growth market for traffic control systems.

Schindler Technik: the network specialist

Schindler Technik AG consults, plans and implements computer and communications networks. PSI utilizes these services to offer customers full solutions for all their requirements.

Sigma: representative in Turkey

Sigma A.S. markets a range of products, including PSI software products, on the Turkish market.

Outlook

The upward swing in our operative business in 2000 forms a solid foundation for the continuation of PSI's positive development, which will be further driven by our anticipated market growth of more than 10 % in 2001. PSI intends to exploit this potential with the aid of clear-cut expansion strategies which will be primarily based on the acquisition of further market shares. A key step in this direction is the expansion of our capacity which has been enabled by a recruitment drive, taking the company's total number of employees to 1,362.

We are also expecting additional impulses through the accelerating deregulation of the European energy markets. Sales and transmission of energy present new business potential which we fully intend to develop. PSI started tackling these new developments at a very early stage and this is now paying off: we are in a position to offer our customers that all-important "extra leverage" to boost their competitive edge, and thus also consolidate our own market leadership.

In all sectors of industry cross-company logistics chains are swiftly gaining in importance, as these are the only remaining relevant seams of productivity reserves. By grouping all logistics activities into one division and integrating eBusiness and logistics PSI will establish itself as a strong strategic partner.

In the eBusiness sector PSI will continue to market the agent technology which we developed in 2000, both independently and in combination with other services. Agents are a key technology for the sales of complex products over the Internet. PSI is a significant step ahead of the competition in this market.

These services are grouped together as Resource Management, which covers the management of resources across corporate and national borders. Additionally, PSI will be further honing its image as a service and solutions company. Resource Management and Service Company summarize our clear corporate focus.

We will use this clear profile and the operative turning point we reached in 2000 in order to systematically boost our profitability and market shares even further. Our very high order volume, worth EUR 184 million, also prepares the ground for this objective. We view our long-term customer relationships and the many renowned companies that we service as a key asset. Our Resource Management service sees us ideally prepared to tackle all the new tasks our customers set us.

Consolidated Financial Statements

U.S. GAAP

Group Statement of Income

	Notes	2000 KEUR	1999 (reclassified) KEUR	1999 KEUR
Net sales	41			
Software production and maintenance		124,784	96,127	96,127
Licenses		9,439	12,765	12,765
Hardware		12,482	14,850	14,850
		146,705	**123,742**	**123,742**
Cost of sales	41			
Software production and maintenance		91,371	76,425	76,425
Licenses		2,364	4,064	4,064
Hardware		10,067	12,917	12,917
		103,802	**93,406**	**93,406**
Gross profit on sales	41	**42,903**	**30,336**	**30,336**
Operating expenses				
Selling expenses		20,743	22,235	22,235
General and administrative expenses		9,793	9,482	9,482
Research and development costs		9,082	12,107	12,107
Capitalized research and development costs		-486	-9,268	-9,268
Depreciation of capitalized research and development costs		2,528	1,850	1,850
Other gains or losses		-2,741	1,517	2,479
		38,919	**37,923**	**38,885**
Operating result before goodwill amortization and impairment loss		**3,984**	**-7,587**	**-8,549**
Goodwill amortization		-1,856	-962	0
Impairment loss		-15,532	0	0
Operating result		**-13,404**	**-8,549**	**-8,549**
Net interest, net investment income		215	145	145
Result before income tax and minority interests		**-13,189**	**-8,404**	**-8,404**
Taxes on income		-1,622	-536	-536
Minority interests		-4	-29	-29
Group net loss		**-14,815**	**-8,969**	**-8,969**
Basic and diluted earnings per share in Euro per share	46	-1.59	-1.01	-1.01

Group Cash Flow Statement

	Notes	2000 KEUR	1999 (reclassified) KEUR	1999 KEUR
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss		**-14,811**	**-8,940**	**-8,940**
Adjustment to reconcile net loss to net cash used in operating activities				
Depreciation of intangible assets and of property, plant and equipment	32, 33	9,012	7,249	7,249
Impairment loss	33	15,532	0	0
Pensions reserves	36	1,356	953	953
Deferred taxes		1,190	484	484
Minority interests in result		-4	-29	-29
Change in assets				
Inventories	29	-2,570	7,456	7,456
Long-term receivables		0	1,509	1,509
Prepaid expenses		-197	-278	-278
Other receivables		-2,634	-544	-544
Trade receivables		-1,502	-11,319	-17,706
Costs and estimated earnings in excess of billings on uncompleted contracts		-23,212	-6,387	0
Change in liabilities				
Trade payables		-236	4,988	4,988
Deferred income		927	2,790	2,790
Other reserves and accrued liabilities	34	5,478	2,655	2,655
Other liabilities		108	1,106	1,106
Billings in excess of costs and estimated earnings on uncompleted contracts		10,606	-12,598	-12,598
Cash flow from operating activities		**-957**	**-10,905**	**-10,905**
INVESTING ACTIVITIES				
Additions to capitalized research and development costs		-486	-9,268	-9,268
Net additions to property, plant, equipment and other tangible assets		-2,780	-5,793	-5,793
Net additions from acquisitions (net of cash acquired)		2,831	-5,155	-5,155
Purchase of financial assets		0	-577	-577
Cash flow from investing activities		**-435**	**-20,793**	**-20,793**
FINANCING ACTIVITIES				
Capital increase through cash payments		13,606	0	0
Minority interests		2,087	1,425	1,425
Financial liabilities		650	345	345
Other changes in equity		56	54	54
Special item for investment grants	35	-234	46	46
Issue of profit participating rights/ profit participation certificate capital		-1	0	0
Cash flow from financing activities		**16,164**	**1,870**	**1,870**
Increase (decrease) in cash and cash equivalents		**14,772**	**-29,828**	**-29,828**
Cash and cash equivalents at the beginning of the year		**4,384**	**34,212**	**34,212**
Cash and cash equivalents at the end of the year		**19,156**	**4,384**	**4,384**
Supplemental cash flow information				
Cash paid for interest		250	287	287
Cash paid for taxes		270	146	146

Group Balance

Assets

	Notes	31.12.2000 KEUR	31.12.1999 (reclassified) KEUR	31.12.1999 KEUR
Current assets				
Cash and cash equivalents	9	19,156	4,384	4,384
Trade receivables net of allowance for doubtful accounts of KEUR 206 (1999: KEUR 569)	27	30,728	29,225	40,134
Costs and estimated earnings in excess of billings on uncompleted contracts	28	34,121	10,909	-
Inventories	10, 29	7,169	4,599	4,599
Prepaid expenses		1,564	1,366	1,366
Deferred taxes		0	0	2,923
Other receivables	30	4,894	2,353	2,353
		97,632	**52,836**	**55,759**
Long-term assets				
Marketable securities	11, 31	4,399	1,014	1,014
Property, plant and equipment (net)	14, 32	12,739	13,136	13,136
Intangible assets (net)	15, 33	26,769	31,237	31,237
Deferred tax assets		0	2,568	12,974
		43,907	**47,955**	**58,361**
Total assets		**141,539**	**100,791**	**114,120**

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Sheet

Equity and liabilities

	Notes	31.12.2000 KEUR	31.12.1999 (reclassified) KEUR	31.12.1999 KEUR
Current liabilities				
Bank overdrafts		1,981	565	565
Trade payables		11,598	11,833	11,833
Billings in excess of costs and estimated earnings on uncompleted contracts	28	14,070	3,464	3,464
Deferred income		4,693	3,766	3,766
Other accruals	34	14,621	9,143	9,143
Deferred income taxes	16, 43	2,134	3,512	6,435
Other current liabilities		5,804	5,696	5,696
		54,901	**37,979**	**40,902**
Long-term liabilities				
Deferred tax liabilities		0	0	10,406
Long-term profit participation rights		15	16	16
Special items for investment grants	35	307	541	541
Long-term certificate of participating capital		1	1	1
Pension reserves	36	17,274	8,246	8,246
Financial liabilities		12	0	0
		17,609	**8,804**	**19,210**
Equity				
Capital stock, EUR 2.55 calculated par value; authorized shares 4,944,175; issued and outstanding shares 9,573,815	37	24,511	22,967	22,968
Capital surplus		55,233	39,910	39,910
Revenue surplus		1,220	1,220	1,220
Contributions made for capital increase		13,899	3,068	3,068
Unrealized net profits from securities		94	3	3
Cumulative translation adjustment		-167	-131	-131
Net retained earnings		-29,541	-14,726	-14,726
		65,249	**52,311**	**52,311**
Minority interests	39	**3,780**	**1,697**	**1,697**
Total equity and liabilities		**141,539**	**100,791**	**114,120**

Development of Fixed Assets

	Number of shares issued (at calculated value of EUR 2.556)	Subscribed stock KEUR	Additional paid-in capital KEUR	Contributions made for capital increase KEUR
As of December 31, 1998	**8,200,000**	**20,963**	**39,293**	**0**
Group net loss				
Currency translation				
Issuance of shares				
Conversion of convertible bonds	103,750	265	-53	
Contribution of 15 % of shares to PSIPENTA Software Systems GmbH for issuance of shares	243,140	621		
Exercise of participation rights	437,372	1,118	670	
Unrealized profit from share certificates				
Other changes				3,068
As of December 31, 1999	**8,984,262**	**22,967**	**39,910**	**3,068**
Group net loss				
Currency translation				
Issuance of shares				
Capital increase from cash contribution	456,563	1,167	11,617	
Contribution of 90 % of PLANAR GmbH for issuance of shares	42,000	107	907	
Contribution of 100 % of NENTEC GmbH for issuance of shares	105,000	269	2,799	-3,068
Contribution of 9 % of UBIS Aktiengesellschaft for issuance of shares				1,510
Contribution of 100 % of repas AEG GmbH for issuance of shares				3,589
Contribution of GMS debis for issuance of shares				8,800
Unrealized profit from share certificates				
As of December 31, 2000	**9,587,825**	**24,511**	**55,233**	**13,899**

The accompanying notes to the consolidated financial statements are an integral part of these statements.

for the fiscal years ended December 31, 1999 and 2000

	Components of the comprehensive income				
Revenue reserves	Retained earnings/ accumulated deficit	Unrealized gains on securities	Cumulative translation adjustments	Comprehensive income (total)	Total shareholders equity
KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
1,220	**-5,757**	**1**	**-184**	**-5,940**	**55,536**
	-8,969			-8,969	-8,969
			53	53	53
					212
					621
					1,788
		2		2	2
					3,068
1,220	**-14,726**	**3**	**-131**	**-14,854**	**52,311**
	-14,815			-14,815	-14,815
			-36	-36	-36
					12,784
					1,014
					0
					1,510
					3,589
					8,800
		91		92	91
1,220	**-29,541**	**94**	**-167**	**-29,614**	**65,249**

Notes

Notes to the consolidated financial statements as of December 31, 2000

The Company

1. Business activities and legal background

The business activities of PSI AG and its subsidiaries (hereinafter referred to as 'PSI Group') 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 service lines:

- utilities
- manufacturing
- telecommunications
- software technology
- internet applications
- business consulting

The PSI Group is diveded into three main business lines:

- Energy
- Goods
- Information

The Company is exposed to a wide range of risks that are similar to other companies active in the dynamic technology sector. Major risks for the development of the PSI Group lie in the success with which it markets its software systems and products, competition from larger companies, the ability to generate sufficient cash flows for future business development as well as in 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 Neuer Markt.

The Company has its headquarter in Berlin where it has been registered at the commercial register, department B under no. HRB 51463.

Main locations with business activities are located in Berlin, Essen, Aschaffenburg, Hamburg, Karlsruhe, Dortmund and Düsseldorf.

Summary of significant accounting and valuation principles

2. Accounting principles

The Company keeps commercial books according to German commercial code. All necessary adjustment entries were carried out for the preparation of the consolidated financial statements according to U.S. accounting provisions ('United States Generally Accepted Accounting Principles' or 'U.S. GAAP').

3. Consolidation principles

All major subsidiaries which are legally or factually controlled by PSI Aktiengesellschaft für Produkte und Systeme der Informationstechnologie (hereinafter: PSI AG) have been included in the consolidated financial statements. All material intercompany transactions have been eliminated for consolidation purposes.

4. Associated enterprises

Significant equity investments are consolidated using the equity method when the PSI Group holds between 20 and 50 % of the shares.

5. Currency translation

Currency translation is performed according to the Statement of Financial Accounting Standards ('SFAS') No. 52 'Foreign Currency Translation'. According to this standard the assets and liabilities of the subsidiaries are translated into Euro at the exchange rate prevailing on the balance sheet date and the income statement is translated using the annual average exchange rate. Equity is translated at the historical exchange rate. Currency differences resulting from the use of different rates are recorded without effect on income and shown as a separate item under equity. Gains and losses from transactions in foreign currency are recorded with effect on income.

6. Revenue recognition

Revenue from licenses is recognized in accordance with the Statement of Position ('SOP') 97-2 'Software Revenue Recognition' of the American Institute of Certified Public Accountants – AICPA for short), and applying the supplementary statements SOP 98-4 and SOP 98-9.

Under U.S. GAAP, revenue from licenses is recognized if there is sufficient evidence that a contract has been concluded, delivery has been made, the license fee has been fixed or is determinable and receipt of payment is probable. Revenue from maintenance agreements is realized on a straight-line basis over the term of the agreement based on past experience. Income from consulting services and training is recognized as soon as the service has been rendered.

Revenues from long-term projects are recognized in accordance with SOP 97-2 ('Software Revenue Recognition'). SOP 97-2 requires arrangements to deliver software systems to be accounted for in conformity with Accounting Research Bulletin (ARB) No. 45 'Long-Term Construction Type Contracts' using the relevant guidance therein, and in SOP 81-1 'Accounting for Performance of Construction Type and Certain Production Type Contracts' if significant modification or customization is involved.

For long-term construction type contracts which meet the criteria of the percentage of completion method, revenues from the development and sale of software systems and products are deferred and recognized under the percentage of completion method of accounting as the project is performed. Percentage of completion is measured by the labor cost incurred to the total estimated labor cost or on a milestone basis. Billings issued to and cash payments received from customers are not shown as sales revenue but deducted without effect on income from cost and estimated earnings in excess of billings on uncompleted contracts or added to billings in excess of cost and estimated earnings on uncompleted contracts. Revenue from all other construction type contracts is recognized according to the Completed Contract Method upon partial or final acceptance and billing of the project.

Changes in project conditions may result in revisions to previously recorded costs and revenues for a particular project. These changes are recognized in the period in which the revisions are determined; this generally occurs when formal change orders are signed between the Company and the customer. Furthermore, provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

7. Product-related expenses

Expenses for advertising and sales promotion as well as other sales-related expenses are recorded with effect on income as they are incurred. Accruals for warranties are established when the products are sold. Research and development is recorded as a normal expense – unless capitalization is required pursuant to SFAS 86 ('Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed').

8. Earnings per share

Basic earnings per share is computed in accordance with SFAS 128 (‘Earnings per Share’) by dividing the group result by the weighted average number of shares in issue. The diluted result per share is computed by dividing the group result by the weighted number of shares issued and the number of rights convertible into shares as a result of options. Group earnings represent the earnings generated by the group as a whole during the year. For purposes of computing the earnings per PSI AG share the minority interests are deducted or added.

9. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, current bank balances as well as deposits that can be cashed at short notice with original terms of three months or less.

10. Inventories

Raw materials, consumables and supplies are valued at acquisition cost giving consideration to the lower of cost or market principle.

Finished project and work in process for which sales are recognized according to the Completed Contract Method are valued at manufacturing costs plus general and administrative costs. Valuation allowances have been set up for risks related to diminished salability.

11. Financial assets

Available-for-sale securities are stated in accordance with SFAS 115 (‘Accounting for Certain Investments in Debt and Equity Securities’) at current selling price (‘fair value’). Unrealized gains and losses are shown in the equity section. In the case of a diminution of value of other than temporary duration securities and equity investments are written down.

12. Concentration of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable. The Company performs ongoing credit evaluations of its customer’s financial condition and the risk with respect to trade receivables is further mitigated by the fact that the Company’s customer base is diversified.

13. Fair value of financial instruments

The carrying amounts of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and long-term debt approximate their fair values.

All balances within accounts receivable are due within one year.

Marketable securities designated as available for sale are recorded at market with any unrealized gain or loss being recorded in the shareholders' equity section of the balance sheet.

14. Property, plant and equipment

Property, plant and equipment is stated at acquisition or manufacturing cost and depreciated using the straight-line method of depreciation over the useful life of the asset as follows:

	Useful life/ depreciation rate	Method
Buildings and land improvements	10-50 years	Straight-line/ declining balance
Leasehold improvements	3-15 years	Straight-line/period of the rent agreement
Computers and accessories	3-4 years	Straight-line
Office and factory equipment	5-10 years	Straight-line

15. Intangible assets (net)

Intangible assets including goodwill are valued at acquisition cost and depreciated over the useful life generally used in the company of three to ten years. Goodwill is tested as to its net realizable value as of each balance sheet date on the basis of estimated future cash flows.

The cost of the development of new software products and of significant improvements to existing software products are recorded as expense until they are technically feasible; costs incurred subsequently are capitalized in accordance with SFAS 86 ('Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed').

Capitalized software development costs are depreciated at the higher of the following two amounts:

- straight-line over the estimated useful life of the software (four years) or

- in proportion of the current gross revenue from the sale of the software to the total amount of current and estimated future gross revenue from the sale of this software.

As of the balance sheet date the book value of the capitalized software developments is compared with the present value of the estimated future net sales revenue of the software. If the book value of the capitalized software development costs exceeds this present value, an appropriate valuation allowance is created.

Software developments acquired from third parties that are integrated as modules in existing products of the Company are capitalized in accordance with APB-Opinion 17 ('Accounting Principles Board Opinion', 'Intangible Assets'). The acquired software developments are valued at acquisition cost and written off using the straight-line method over a useful life of three years. Capitalized third-party development costs are compared as of the balance sheet date with the present value of the estimated future net sales revenues. If the book value of the capitalized third party development costs exceeds this present value, an appropriate valuation allowance is created.

16. Deferred taxes

The Company utilizes the liability method of accounting for income taxes in accordance with SFAS 109, Accounting for Income Taxes. Under the liability method, deferred taxes are determined based on the differences between the financial reporting and tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. Deferred tax assets are provided for tax deductible net loss carryforward. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that such assets will not be realized. When determining the applicable tax rate the recommendations of the Emerging Issues Task Force of FASB on SFAS 109 are considered.

17. Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of balance sheet dates, and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates.

18. Impairment of long-lived assets

At the end of each fiscal year, the Company reviews the recoverability of the stated values of its long-lived assets pursuant to SFAS 121 ('Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of'). Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Company will compare undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. When these undiscounted cash flows are less than the carrying amounts of the assets, the Company will record impairment losses to write the asset down to fair value, measured by the discounted estimated net future cash flows expected to generated from the assets.

19. Advertising costs

Advertising costs are expensed as incurred. Advertising expenses of KEUR 1,569 and KEUR 1,262 were included with sales and marketing expenses for 1999 and 2000, respectively.

20. Stock based compensation

The Company account for stock-based compensation using the intrinsic value method prescribed in APB 25 ('Accounting for Stock issued to Employees'). Compensation cost for stock option is measured as the excess of the quoted market price of the Company's stock on the measurement date over the amount an employee must pay to acquire the stock and is recognized over the vesting period. The intrinsic value of the options is measured on the basis of the current market value of the Company's stock at the end of each period. The plan meets criterias of a 'fixed plan' due to APB 25.

SFAS 123 ('Accounting for Stock-Based Compensation') established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. The Company has elected to retain the method of accounting in compliance with APB 25 as described above, and has adopted the disclosure requirements of SFAS 123.

21. Reclassifications

Certain amounts in the prior years' financial statements have been reclassified to conform to the current year presentation.

22. Recent accounting pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS 133, 'Accounting for Derivative Instruments and Hedging Activities,' which requires companies to record derivative financial instruments on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The key criterion for hedge accounting is that the hedging relationship must be highly effective in achieving offsetting changes in fair value or cash flows. In June 1999, the FASB issued SFAS 137, 'Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statements 133', which amends SFAS 133 to be effective for all fiscal quarters of all fiscal years beginning after June 15, 2000 (or January 1, 2001 for the Company). In June 2000, the FASB issued Statement 138, 'Accounting for Certain Derivative Instruments and Certain Hedging Activities – an Amendment of FASB Statement 133.' SFAS 138 amends SFAS 133 to (a) exclude from the scope of SFAS 133 nonfinancial assets that will be delivered in quantities expected to be used or sold by a company over a reasonable period in the normal course of business and for which physical delivery is probable, (b) permit hedging of a benchmark interest rate, (c) allow hedging of foreign-currency-denominated assets and liabilities and (d) allow for limited hedging of net foreign currency exposures. The Company has no derivative financial and commodity instruments, forward contracts or hedging arrangements in cash and cash equivalents. These statements should not have a material impact on the current financial condition or results of the Company's operations.

23. Comprehensive Income

In June 1997, the Financial Accounting Standards Board issued SFAS 130, 'Reporting Comprehensive Income', which the Company adopted beginning on January 1, 2000. SFAS 130 establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. The objective of SFAS 130 is to report a measure of all changes in equity of an enterprise that results from transactions and other economic events of the period other than transactions with shareholders ('comprehensive income'). Comprehensive income is the total of net income (loss) and all other non-owner changes in shareholders' equity.

Accumulated other comprehensive income consists of the following:

	Dec. 31, 2000	Changes 2000	Dec. 31, 1999
	KEUR	KEUR	KEUR
Foreign currency translation adjustment	-167	-36	-131
Unrealized gain on available-for-sale-securities	94	91	3
	-73	55	-128

24. Exemptive consolidated financial statements pursuant to sec. 292 a (1) and (2) HGB (German Commercial Code)

General

The consolidated financial statements of PSI AG as of December 31, 2000 were prepared as exempting consolidated financial statements in accordance with § 292a of the German Commercial Code (HGB) in conformity with U.S. generally accepted accounting principles ('U.S. GAAP') and on the basis of the German Accounting Standards 1 (DRS 1) from the German Standardization Committee (Deutscher Standardisierungsrat DRSC e.V.). The provisions of the German Commercial Code (HGB) and German Stock Corporation Law (AktG) differ from U.S. GAAP in certain significant respects. The main differences that may be relevant to an evaluation of the net worth, financial position, and the results of the Company are described below: Pursuant to HGB, all items in the balance sheet and income statement must be set out in the form and order laid down in §§ 266, 275 HGB. U.S. GAAP requires a different presentation, in which the balance sheet items are presented with more liquid items first. According to U.S. GAAP, the short-term portions of long-term receivables and liabilities are shown in a separate balance sheet item. The portion that falls due in less than one year is treated as short-term. According to U.S. GAAP, cost to develop software to be sold, leased, or otherwise marketed can be capitalized and amortized over its estimated economic life. According to HGB, internally developed software forming part of fixed assets cannot be capitalized.

Deferred taxes on loss carryforwards

According to HGB, deferred tax refund claims arising from loss carryforwards may not be shown on the balance sheet as expected future tax savings are deemed to be not yet realized. According to U.S. GAAP, these types of future tax reduction claims are to be capitalized. Their value depends upon the probability of the loss carryforwards being utilized within the required period. The Company has recorded a valuation allowance for its deferred tax asset due to uncertainties regarding the realization of the asset.

Employee stock options

According to U.S. GAAP, stock-based compensation issued to employees may be accounted for in two ways. Under one method, the 'fair value' of stock-based compensation may be determined and recorded as an expense over the vesting period of the option or other equity instrument. Alternatively, only the difference between the exercise price of the option and the fair market value of the underlying security on the date of grant are recognized as an expense over the vesting period. Under this method, the pro forma impact on net income of accounting for stock-based compensation using the first method must be disclosed in the financial statements. In line with currently accepted accounting rules, no expense would occur in the income statement pursuant to HGB.

Revenue recognition

In accordance with U.S. GAAP, sales revenue is recognized in compliance with American Institute of Public Accountants' Statement of Position (SOP) 97-2, 'Software Revenue Recognition', and related interpretations. There is no general difference to HGB with regard to proceeds from licensing. U.S. GAAP requires accounting for work in process on service transactions to be performed according to the 'percentage of completion method', whereby the progress of each project leads to revenue recognition on a pro-rata basis. Service revenue would only be taken into account upon completion of work according to HGB.

Costs associated with certain equity transactions

According to U.S. GAAP, costs associated with certain equity transactions (for example, public offerings of stock), net of any related income tax effects, are treated as a reduction of the proceeds from the transaction. According to HGB, these costs represent extraordinary income or expense.

Foreign currency transactions

Under U.S. GAAP, foreign currency transactions (for example, foreign currency denominated trade receivables or payables) are valued at the current rate on the balance sheet date with the corresponding gain or loss recorded in the income statement. Under HGB, at each balance sheet date revaluation losses are recognized, while gains are only recognized when realized (for example, upon payment of a foreign currency liability).

Acquisitions

Under U.S. GAAP, there are two mutually exclusive methods of accounting for business combinations – purchase accounting and pooling-of-interests. Pooling-of-interest accounting is done by simply combining the historical accounts of the parties both retroactively and prospectively. No fair value adjustments are made. The pooling-of-interests method must be used if certain conditions exist. These conditions are very complex and restrictive. Under purchase accounting, the valuation is based on fair market values of the net assets at the time of combination. The difference between the fair market values of the net assets acquired and the consideration given represents goodwill, which is amortized over its estimated useful life. Income of the acquired company is reflected only from the acquisition date forward. Under HGB, only the purchase method is used, and, in certain circumstances, the income of the acquired company may be retroactively reflected.

Changes in Consolidation Group

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

25. Subsidiaries

	Shares as %	Equity as of Dec. 31, 2000 KEUR	Annual result* 2000 KEUR
PSIPENTA Software Systems GmbH, Berlin	100.00	1,352	16,408
UBIS Unternehmensberatung für integrierte Systeme mbH, Berlin	75.00	4,590	964
NENTEC Netzwerktechnologie GmbH, Karlsruhe	100.00	582	435
ECI – Entwicklungsgesellschaft für computergestützte Industriesysteme mbH, Hamburg (Group)	51.00	-395	19
PSI-BT Business Technologies for Industry AG, Düsseldorf	58.00	5,749	132
GSI Gesellschaft für Steuerungs- und Informationssysteme mbH, Berlin	51.00	293	-249
PLANAR Gesellschaft für technische Softwaresysteme mbH, Dortmund	90.00	-140	-246
PSI Transportation GmbH, Berlin	100.00	530	144
front2back Aktiengesellschaft i.G., Berlin	60.00	44	-6
PSI AG Produkte und Systeme der Informationstechnologie, Schwerzenbach, Switzerland	78.40	-228	-1,122
integral Datentechnik Kaiserslautern GmbH, Kaiserslautern	100.00	51	34
PSIPENTA USA Inc., Newton/MA, USA	100.00	-4,643	37
PSIPENTA France S.a.r.l., Paris, France	100.00	-287	-31
PSIPENTA Automotive GmbH, Gelsenkirchen (Group)	60.00	253	-32

*before consolidation adjustments

26. Description of changes

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

- On April 19, 2000, PSI AG acquired a further 9 % of the shares (nominally: KEUR 55) in UBIS Unternehmensberatung für integrierte Systeme GmbH – now UBIS United Business Internet Solutions Aktiengesellschaft – (hereinafter 'UBIS') with economic effect as of January 1, 2000 at a purchase price of KEUR 1,510, that has been paid in shares of PSI AG. The share of capital stock held by PSI AG thus rose to 75 %.

- On May 31, 2000, PSI AG acquired the gas-systems-operation of debis Systemhaus GEI – Gesellschaft, Aachen (hereinafter 'GMS debis') at a purchase price of KEUR 8,800, that has been paid in shares of PSI AG. Since GMS debis is no legal entity no subsidiary is shown in the consolidation group schedule.

- On June 8, 2000, PSIPENTA Software Systems GmbH, Berlin (hereinafter: PSIPENTA) and the shareholders of SOFTSYSTEMS Scheufele & Happe GmbH, Bochum (hereinafter 'SOFTSYSTEMS') founded PSIPENTA Automotive GmbH, Gelsenkirchen (hereinafter 'PSIPENTA Automotive') with a capital stock of KEUR 25. PSIPENTA contributed 60 % of the capital stock by cash contribution. Furthermore PSIPENTA was committed to contribute an amount of KEUR 143 as additional paid-in capital. The business activities of PSIPENTA Automotive consist of the development and sale of software solutions for automotive companies and holding the share capital of SOFTSYSTEMS.

- On June 8, 2000, PSIPENTA Automotive acquired 100 % of the shares in SOFTSYSTEMS with economic effect as of January 1, 2000 at a purchase price of KEUR 256, that has been paid in cash. The business activities of SOFTSYSTEMS consist of the development and sale of software solutions for automotive companies.

- On June 28, 2000, PSI AG sold all its shares – acquired in fiscal 1999 – in iRM Integriertes Ressourcen Management Ges.m.b.H., Vienna, Austria (hereinafter 'iRM') to HTA Beteiligungs-Invest AG, Vienna, Austria, at a purchase price of KEUR 3,129.

- By virtue of a notarized purchase agreement of October 25, 2000, PSI AG acquired 100 % of the shares in repas AEG Software GmbH, Berlin, – now PSI Transportation GmbH – (hereinafter 'PSI Transportation') at a purchase price of KEUR 3,589, that has been paid in shares of PSI AG. The business activities of PSI Transportation consist of the development and sale of software solutions for traffic guidance and routing systems.

- By virtue of a notarized purchase agreement of November 30, 2000, PSI AG and employees of PSI AG founded front2back Aktiengesellschaft, Berlin (hereinafter 'front2back') with a capital stock of KEUR 50. PSI AG contributed 60 % of the capital stock by cash contribution. Since it is a newly founded company no goodwill did arise from this transaction. The business activities of front2back consist of the development/sale of Internet-based software solutions and communication systems as well as business consulting in that area.

All the subsidiaries acquired in fiscal 2000 are insignificant for the overall picture of the PSI AG Group, thus it is not necessary to provide any pro forma information.

Explanatory comments

27. Trade receivables

	Dec. 31, 2000 KEUR	Dec. 31, 1999 KEUR
Accounts receivable, trade	31,052	40,703
Allowances for bad debts	-324	-569
	30,728	**40,134**

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.

Of the receivables disclosed in fiscal 1999 KEUR 10,909 is attributable to non-invoiced receivables in connection with revenue recognition according to the percentage of completion method.

28. 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:

	Dec. 31, 2000
	KEUR
Costs incurred on uncompleted contracts	54,728
Estimated earnings	22,632
	77,361
Less billings	-57,310
	20,051

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

	Dec. 31, 2000
	KEUR
Costs and estimated earnings in excess of billings on uncompleted contracts	34,121
Billings in excess of costs and estimated earnings on uncompleted contracts	-14,070
	20,051

29. Inventories

	Dec. 31, 2000	Dec. 31, 1999
	KEUR	KEUR
Work in process	3,244	3,484
Finished goods and trading goods	2,767	536
Advance payments	1,159	578
	7,169	**4,599**

As of the balance sheet date, work in process includes capitalized, project-related expenses amounting to KEUR 2,759 which apply to various projects. In addition, work in process contains capitalized manufacturing costs for projects whose sales are recognized according to the:

- completed contract method or
- software revenue recognition (SOP 97-2).

Advance payments relate to projects or goods that have not been delivered yet.

30. Other receivables

	Dec. 31, 2000 KEUR	Dec. 31, 1999 KEUR
Prepaid expenses	1,922	861
Receivables due from tax authorities	991	624
Receivables from associated enterprises	260	313
Loans to employees	226	138
Other	1,495	417
	4,894	**2,353**

31. Financial assets

	Dec. 31, 2000 KEUR	Dec. 31, 1999 KEUR
Securities stated at market value		
Securities held by foreign subsidiaries	0	728
Securities held by PSI AG and domestic subsidiaries	4,347	216
	4,347	**944**
Associated companies consolidated 'at equity'	52	70
	4,399	**1,014**

The acquisition costs and current selling values of the securities shown under financial assets break down as follows:

	Dec. 31, 2000 KEUR	Dec. 31, 1999 KEUR
Debt instruments from domestic and foreign banks		
Acquisition cost	4,252	941
Unrealized gains/losses	95	3
Fair value	**4,347**	**944**

Companies consolidated at equity include Schindler Technik AG (KEUR 51) and PSI Otomasyon ve Bilgi Sistemleri Ticaret Anonim Sirketi, Istanbul, Turkey (KEUR 0).

32. Property, plant and equipment (net)

	Dec. 31, 2000 KEUR	Dec. 31, 1999 KEUR
Acquisition cost		
Land and buildings	12,090	12,001
Computers and accessories	11,165	10,029
Office and factory equipment	4,079	3,580
	27,334	**25,610**
Accumulated depreciation	-14,595	-12,474
Total property, plant and equipment	**12,739**	**13,136**

In fiscal 2000, depreciation on property, plant and equipment of KEUR 3,463 (prior year: KEUR 3,357) was recorded.

33. Intangible assets (net)

The intangible assets include other intangible assets, capitalized goodwill and capitalized software development costs.

The book values of the intangible assets have developed as follows:

	Dec. 31, 2000 KEUR	Dec. 31, 1999 KEUR
Acquisition and manufacturing cost		
Other intangible assets	7,263	7,256
Goodwill	24,912	9,615
Capitalized software development costs	23,224	22,739
	55,399	**39,610**
Accumulated depreciation		
Other intangible assets	-3,705	-3,364
Goodwill	-4,100	-990
Capitalized software development costs	-20,825	-4,019
	-28,630	**-8,373**
Book values		
Other intangible assets	3,558	3,892
Goodwill	20,812	8,625
Capitalized software development costs	2,399	18,720
	26,769	**31,237**

In fiscal 2000, depreciation on other intangible assets of KEUR 1,164 (prior year: KEUR 1,080), on goodwill of KEUR 1,856 (prior year: KEUR 962) and KEUR 2,528 on capitalized software development costs (prior year: KEUR 1,850) was recorded.

In fiscal year 2000 an impairment loss of KEUR 14,278 was charged on capitalized software development costs on PSIPENTA Version 5.0. The revenue targets set up in prior years have not been met in fiscal 2000. The management believes that the Company can not realize sufficient cash flows to amortize the capitalized software development costs on PSIPENTA Version 5.0. To reduce risk and relieve future periods of depreciation, management determined that the capitalized software development costs related to PSIPENTA Version 5.0 was impaired and wrote off the remaining balance of in the fiscal year 2000.

In the fiscal year 2000 an impairment loss of KEUR 1,254 was charged on goodwill related to PSIPENTA GmbH. Against projections made in prior years PSIPENTA GmbH did not reach break even in fiscal year 2000. Furthermore the revised plan does not show significant profits within the next years.

The software development costs capitalized (net of amortization) according to SFAS 86 pertain to the following licensed products:

	Dec. 31, 2000 KEUR	Dec. 31, 1999 KEUR
PSIPENTA Version 5.0	0	15,877
Network management system for the telecommunications industry	1,186	1,618
Order control system for the printing industry	452	616
Warehouse management system	349	298
System to optimize gas consumption	222	311
Control system for production processes	190	0
	2,399	**18,720**

The licensed products are written down over an estimated useful life of four years.

34. Other accruals

	Dec. 31, 2000 KEUR	Dec. 31, 1999 KEUR
Services still to be performed	7,546	3,723
Vacation and overtime	2,488	1,639
Other	4,587	3,781
	14,621	**9,143**

35. Special item for investment grants

	Dec. 31, 2000 KEUR	Dec. 31, 1999 KEUR
Status as of January 1	541	495
Additions	0	211
Releases	-234	-165
Status as of December 31	**307**	**541**

PSI AG, PSIPENTA and GSI have received investment grants (GA-Mittel). The investment grants collected are released over the useful life of the respective asset that is the subject of the grant.

36. Pension accruals

The Company has made pension pledges (unfunded plan) to various employees. These payments are based on the length of service and agreements in the employment contracts. The valuation of pension obligations is based on the projected unit credit method in SFAS 87 'Employers' Accounting for Pensions'. In the following the actuarially computed pension obligation and the obligation shown in the balance sheet is presented:

	Dec. 31, 2000 KEUR	Dec. 31, 1999 KEUR
Change in the actuarial present value of the pension obligation		
Actuarial present value at the beginning of the financial year	7,909	6,917
Addition regarding the acquisition of PSI-BT AG, as of January 1, 2000	3,938	0
Addition regarding the acquisition of PSI Transportation GmbH as of September 30, 2000	3,732	0
Reconciliation difference to the pension reserves under German Commercial Code	337	375
	15,918	**7,292**
Service cost (present value of the vested claims acquired during the fiscal year)	707	451
Mark-up of expected pension obligation	934	553
Amortization of losses in the period	19	21
Period expenses		
Loss resulting from change in assumptions when computing pension reserves	2,878	1,073
Pension payments	-266	-33
Amortization of the reconciliation difference to the pension reserves under German Commercial Code	-38	-38
Loss not considered resulting from change in assumption when computing pension reserves	-2,878	-1,073
Actuarial present value at the end of the fiscal year	16,975	7,909
Reconciliation difference to the pension reserves under German Commercial Code at the end of the fiscal year	299	337
	1,660	**1,025**
Pension obligations disclosed	**17,274**	**8,246**

To calculate the pension obligations in the fiscal year and the prior year, a discount of 6.5 % and long-term salary increase rates of 1.5 % were assumed.

The losses not considered in fiscal 2000 as a result of a change in assumptions when computing pension reserves mainly relate to the changed mortality tables (Heubeck's Mortality Tables 1998). The difference ascertained in fiscal 1998 will be transferred to the pension reserves in equal installments of KEUR 38 over a period of 12.9 years from fiscal 1999.

37. Equity

Common stock

Fully paid-in capital stock as filed in the commercial register amounts to EUR 24,510,885. Common stock is divided into 9,587,825 shares of non-par-value (and therefore each share has an imputed value of common stock of EUR 2.55646). Of these shares, 9,555,385 are bearer shares and the remaining 32,440 are registered in the name of the holder.

Capital increases and authorized capital

Equity has been increased by cash contribution of EUR 1,167,185 through contributions in kind of EUR 375,800 to EUR 24,510,885. The increase in capital was filed with the commercial register on April 5, 2000.

During the transition from DM to Euro (registered in the commercial register on May 28, 1999) authorized capital of EUR 2,660,635 was created pursuant to § 7 (1) of the articles of association, now called Authorized Capital I. As of December 31, 1999, Authorized Capital I amounted to EUR 2,039,058.

By contribution contract certified by public notary dated October 5, 1999, 100 % of the shares in NENTEC Netzwerktechnologie GmbH, Karlsruhe were acquired by issue of 105,000 non-par-value shares with an imputed par value of EUR 2.56. The increase in capital was filed with the commercial register on April 5, 2000.

By virtue of a notarized purchase agreement of February 10, 2000, 90 % of the shares in PLANAR Gesellschaft für technische Softwaresysteme mbH, Dortmund, were acquired by issue of 42,000 non-par-value shares with an imputed par value of EUR 2.56. That increase in capital EUR 107,371 was filed with the commercial register on April 5, 2000.

As of December 31, 2000, the Authorized Capital I amounts to EUR 1,663,258.

By resolution of the annual general meeting on May 28, 1999, the Board of Directors was authorized subject to Supervisory Board approval to increase the Company's common stock by up to EUR 5,112,919 by one or several issues of shares without par value for cash contribution before April 30, 2003, while excluding the subscription rights of existing shareholders to fractional amounts. The authorization was filed with the commercial register on August 9, 1999.

By resolution of the Board of Directors of PSI AG and the required approval of the Supervisory Board the common stock of PSI AG was increased by cash contributions of EUR 1,167,185. Accordingly the Authorized capital II was decreased. The increase in capital was filed with the commercial register on April 5, 2000.

As of December 31, 2000, Authorized Capital II amounts to EUR 3,945,734.

By resolution of the annual general meeting on May 28, 1999, the Board of Directors was further authorized subject to Supervisory Board approval to increase the Company's common stock by up to EUR 2,045,168 by one or several issues of bearer shares in exchange for a contribution in kind for the purposes of acquiring companies and parts of companies or investing in companies before April 30, 2003, while simultaneously excluding the subscription rights of existing shareholders (Authorized Capital III). The authorization was filed with the commercial register on August 9, 1999.

By resolution of the annual general meeting on May 26, 2000, the Board of Directors was authorized subject to Supervisory Board approval to increase the Company's common stock by up to EUR 2.428.636 by one or several issues of bearer shares in exchange for cash contribution or contribution in kind, while simultaneously excluding the subscription rights of existing shareholders (Authorized Capital IV).

By resolution of the annual general meeting on May 26, 2000, the Board of Directors was authorized subject to Supervisory Board approval to increase the Company's common stock by up to EUR 1,278,230 by one or several issues of bearer shares far the purpose of issuing shares to employees before May 25, 2005, while simultaneously excluding the subscription rights of existing shareholders (Authorized Capital V).

Contingent capital

In fiscal year 1999 common stock has been increased by EUR 1,118,124 by conversion of profit participation rights using Contingent Capital I of EUR 1,118,451 which was created by resolution of the annual general meeting on August 1, 1998.

As of December 31, 2000, Contingent Capital I amounts to EUR 327.

By resolution of the annual general meeting on May 26, 2000, the Company's common stock has been increased by EUR 1,278,230 Contingent Capital II for issuance of stock options to employees (Contingent Capital II).

The increase (Contingent Capital II) as well as the remaining amount (Contingent Capital I) were filed with the commercial register on April 5, 2000.

Capital increases not yet filed with the commercial register

On April 19, 2000, further 9 % of the shares (nominally: KEUR 55) in UBIS with economic effect as of January 1, 2000 were acquired by issue of 39,539 non-par-value shares with an imputed par value of EUR 2.56. Since the increase in capital associated with the purchase had not been filed at the commercial register as at balance sheet date yet, the increase in common stock by EUR 101,080 and the associated premium of EUR 7,942,236 was reported under the item ‘capital surplus’.

By virtue of a notarized purchase agreement of October 25, 2000, 100 % of the shares in repas AEG Software GmbH, Berlin – now PSI Transportation GmbH – were acquired by issue of 145,000 non-par-value shares with an imputed par value of EUR 2.56. Since the increase in capital associated with the purchase had not been filed at the commercial register as at balance sheet date yet, the increase in common stock by EUR 370,687 and the associated premium of EUR 1,409,310 was reported under the item ‘capital surplus’.

On May 31, 2000, GMS debis was acquired by issue of 335,238 non-par-value shares with an imputed par value of EUR 2.56. Since the increase in capital associated with the purchase had not been filed at the commercial register as at balance sheet date yet, the increase in common stock by EUR 857,763 and the associated premium of EUR 7,942,236 was reported under the item ‘capital surplus’.

38. Stock option plan

The Company has introduced a stock option program to employees of the Company. The objective of this program is to attract and retain personnel and promote the success of the Company by providing employees the opportunity to acquire common stock.

The Company is authorized to issue 500,000 option rights for the subscription of PSI AG shares to employees of PSI AG and its affiliated companies until May 25, 2005.

Under the 2000/2003 stock option plan (the '2000/2003 plan') the Company has issued 86,400 option rights for the subscription of PSI shares to employees of PSI AG. The option rights entitle the bearer to purchase shares in the Company at a price of EUR 24.13 and to vest such shares in one installment approximately after two and a half years. No further conditions have been set up for exercising the option rights.

The status of the Company's stock plan is summarized as follows:

	2000/2003 plan option rights
Outstanding at December 31, 1999	0
Granted	86,400
Exercised	0
Forfeited	0
Outstanding at December 31, 2000	86,400

None of the outstanding options as of December 31, 2000, are exercisable. All options vest in July 2003. The options had no positive intrinsic value at the grant-date.

The fair value of options granted in November 2000 was according to the SFAS 123 calculation approximately EUR 3.92 per share. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used:

- risk free interest rate at 5.29 % p.a.,
- expected life of 32 months,
- expected dividend yield of zero percent and
- expected volatility of 15 %.

Had compensation costs for these grants been consistent with SFAS 123, 'Accounting for Stock-Based Compensation', the Company's net loss would have been decreased by approximately EUR 10,574. Loss per share would have been decreased by less than EUR 0.01 for the basic earnings since the Company has a number of 9,587,825 outstanding.

39. Minority interests

The minority interests disclosed at balance sheet date are allotted to the following subsidiaries:

	Dec. 31, 2000 KEUR	Dec. 31, 1999 KEUR
PSI-BT AG, Düsseldorf	2,372	21
UBIS AG, Berlin	1,148	421
GSI mbH, Berlin	142	264
PSI AG, Schwerzenbach, Switzerland	0	181
PSIPENTA Automotive GmbH, Gelsenkirchen	101	0
front2back AG, Berlin	17	0
PLANAR GmbH, Dortmund	0	10
iRM Ges.m.b.H., Vienna, Austria	0	810
	3,780	**1,697**

40. Obligations from rent and lease agreements and other financial commitments and contingent liabilities

Office equipment, data processing systems and other equipment have been rented on the basis of operating lease agreements. In 2000 leasing charges of KEUR 109 (1999: KEUR 96) were incurred for office equipment and of KEUR 466 (1999: KEUR 460) for the rented data processing systems and other equipment.

Future leasing payments from existing lease agreements (operating lease) amount to:

	KEUR
2001	1,636
2002 – 2004	2,301
2005 – 2007	1,483

In fiscal 1996 PSI AG entered into a rent agreement for an office building in Berlin. The rent agreement expires on March 31, 2012. Furthermore, PSIPENTA entered into a rent agreement for a further office building in Berlin in fiscal 1999. The rental payments from the rent agreement are as follows:

	KEUR
2001	4,235
2002 – 2004	11,404
2005 – 2007	6,610
2008 – 2013	8,106

PSI AG has issued securities of KEUR 32,419.

41. Sales and other expenses

Sales and cost of sales

	2000 KEUR	1999 KEUR
Software production and maintenance		
Sales	124,784	96,127
Cost of sales	-91,371	-76,425
	33,413	**19,702**
Licenses		
Sales	9,439	12,765
Cost of sales	-2,364	-4,064
	7,075	**8,701**
Hardware		
Sales	12,482	14,850
Cost of sales	-10,067	-12,917
	2,415	**1,933**
Total		
Sales	146,705	123,742
Cost of sales	-103,802	-93,406
Gross profit on sales	**42,903**	**30,336**

42. Concentration of financial risks

Pursuant to SFAS Number 105 ('Disclosure of Information About Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentration of Credit Risk') all financial risks not included in the balance sheet are to be disclosed. In the PSI Group there are no major credit risks not included in the balance sheet that might arise, for example, from contracts in foreign currency, options or other hedging instruments.

43. Taxes on income

The Company provides for income taxes in accordance with SFAS 109 ('Accounting for Income Taxes'). SFAS 109 requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. Taxes are provided at the undistributed tax rate, and a deferred tax benefit is recorded in the period when the Company obtains a tax credit upon distribution of the related income to shareholders. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

Prior to fiscal year 2001 German corporate tax law applied a split-rate computation with regard to the taxation of the income of a corporation and its shareholders. In accordance with the tax law in effect for the periods 1999 and 2000, retained corporate income is initially subject to a federal corporate tax rate of 40 % plus surcharges of 5.5 % on federal taxes payable. Including the impact of the surcharges the federal corporate tax rate amounts to 42.2 %. In the case of dividend distribution to shareholders, the corporate income tax rate is reduced to 30 % (plus a solidarity surcharge of 5.5 %), with the amount previously paid in excess of the effective tax rate on dividends of 31.65 % being refunded. When profits are distributed, shareholders liable to German taxation receive a tax credit note against personal income tax equivalent to the corporate income tax, but not the solidarity surcharge, previously paid by the Company.

For fiscal years beginning after January 1, 2001, a federal corporate tax rate of 25 % plus surcharges of 5.5 % on federal taxes payable has to be applied for the taxation of the income of a corporation. Including the impact of the surcharges the federal corporate tax rate amounts to 26.4 %. Those changes had been enacted in October 2000, thus the effects on computation of deferred taxes have been recorded in fiscal 2000.

To calculate anticipated tax expense, in accordance with the recommendations of the Emerging Issues Task Force of the FASB concerning SFAS 109 ('Accounting for Income Taxes'), the effective corporate income tax rate – including the impact of solidarity surcharges – is stated at 26.4 % plus a federal tax rate for trade taxes which is deductible from the corporate tax basis resulting in a combined statutory rate of 38.9 % for fiscal years beginning after January 1, 2001. Since those changes had been enacted in October 2000, the effects on computation of deferred taxes have been recorded in fiscal 2000.

As of December 31, 2000, the following corporate income tax loss carryforwards existed within the group for the German group companies:

	Tax losses of fiscal years			Loss carryforward as of Dec. 31, 2000
	until 1998	**1999**	**2000**	**Total**
	KEUR	**KEUR**	**KEUR**	**KEUR**
PSI AG	1,204	15,985	16,967	34,156
PSIPENTA	22,237	26,202	0	23,138
ECI-Group	-	644	394	1,038
PLANAR	-	-	610	610
Other group companies	9,544	-	237	9,781
	32,985	**42,831**	**18,208**	**68,723**

Trade tax loss carryforwards exceed the corporate income tax loss carryforwards.

The Company has provided valuation allowances on the portion of deferred tax assets for which it is more likely than not that such assets will not be realized until the end of the tax planning period which corresponds to the year of the deferral.

The deferred tax assets and liabilities result from temporal accounting and valuation differences between the tax and the commercial balance sheets for the following balance sheet positions and from the tax loss carryforward, as is illustrated by the following table:

	Dec. 31, 2000 KEUR	Dec. 31, 1999 KEUR
Short-term portion of tax liabilities (net)		
Deferred tax assets resulting from tax loss carryforwards	26,733	36,501
Valuation allowance for deferred tax assets resulting from tax loss carryforwards	-20,897	-20,995
Deferred tax assets (net)	5,836	*15,505
Current assets, payments on account and sales-related accruals	-7,170	-6,435
Other	-17	110
	-1,351	**9,182**
Long-term portion of tax liabilities (net)		
Capitalized software development costs	-933	-10,296
Pension reserves	30	-110
Special items for investment grants	120	**280
	-783	**-10,126**
Net deferred tax liabilities	**-2,134**	**-944**

* thereof KEUR 2,531 disclosed as short-term portion of deferred tax assets in 1999 and KEUR 12,974 disclosed as bug-term portion of deferred tax assets in 1999

** disclosed as short-term portion of deferred tax asset in 1999

44. Segment reporting – sales by geographically defined area

The following table provides geographical information in respect of sales:

	Germany KEUR	Switzerland KEUR	Other KEUR	Total KEUR
1999				
Software production and maintenance	86,390	5,239	4,498	96,127
Licenses	11,091	1,303	371	12,765
Hardware	13,896	787	167	14,850
	111,377	**7,329**	**5,036**	**123,742**
2000				
Software production and maintenance	117,673	4,123	2,979	124,784
Licenses	8,358	477	604	9.439
Hardware	12,033	344	106	12,483
	138,064	**4,953**	**3,689**	**146,706**

45. Segment reporting according to systems and product business

	System business		Product business		PSI AG Group	
	2000	1999	2000	1999	2000	1999
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
SALES						
Software production and maintenance	96,913	72,800	27,871	23,327	124,784	96,127
Licenses	2,617	2,492	6,822	10,273	9,439	12,765
Hardware	11,383	13,112	1,099	1,738	12,482	14,850
	110,913	**88,404**	**35,792**	**35,338**	**146,705**	**123,742**
COST OF SALES						
Software production and maintenance	69,971	51,880	21,400	24,545	91,371	76,425
Licenses	1,470	1,759	894	2,305	2,364	4,064
Hardware	9,307	11,479	760	1,438	10,067	12,917
	80,748	**65,118**	**23,054**	**28,288**	**103,802**	**93,406**
Gross profit on sales	**30,165**	**23,286**	**12,738**	**7,050**	**42,903**	**30,336**
OPERATING EXPENSES						
Selling expenses	11,580	8,364	9,163	13,871	20,743	22,235
General and administrative expenses	7,013	4,783	2,780	4,699	9,793	9,482
Research and development costs	329	2,900	8,753	9,207	9,082	12,107
Capitalized research and development costs	0	-2,738	-486	-6,530	-486	-9,268
Depreciation of capitalized research and development costs	684	193	1,844	1,657	2,528	1,850
Other revenues or expenses or gains	-2,538	*-533	-203	*2,050	-2,741	*1,517
	17,068	***12,969**	**21,851**	***24,954**	**38,919**	**37,923**
Operating result before goodwill amortization and impairment loss	13,097	*10,317	-9,113	*-17,904	3,984	*-7,587
Goodwill amortization	-1,842	*-948	-14	*-14	-1,856	*-962
Impairment loss	-102	0	-15,430	0	-15,532	0
Operating result	11,153	9,369	-24,557	-17,918	-13,404	-8,549
Net interest, net investment income	383	532	-168	-388	215	145
Result before income tax	11,536	9,902	-24,725	-18,306	-13,189	-8,404
Taxes on income	-6,180	5,042	4,558	-5,578	-1,622	-536
NET PROFIT/LOSS	**5,356**	**14,944**	**-20,167**	**-23,884**	**-14,811**	**-8,940**

* pursuant to reclassified prior year version

Segment reporting for systems and product business was done on the basis of the income statements for the group companies included in comprehensive consolidation. The income statements were adjusted to eliminate group-internal effects.

The 'systems business' segment mainly includes the economic activities of PSI AG, which mainly consist in the creation, introduction, maintenance and updating of customized software. In the fiscal year, there were no sales in which a single customer achieved a sales volume of more than 10 % of total sales for the segment.

The 'product business' segment mainly includes the economic activities of PSIPENTA Software Systems GmbH and of the group companies allocated operatively to that company. In particular, product business comprises sales from the sale of the standard PSIPENTA software. In the fiscal year, there were no sales in which a single customer achieved a sales volume of more than 10 % of total sales for the segment.

The non-current assets of PSI AG (consolidated) break down as follows by segment:

	Systems business KEUR	Product business KEUR	PSI AG Group KEUR
1999			
Financial assets	806	0	1,014
Property, plant and equipment (net)	10,955	2,181	13,136
Intangible assets (net)	8,444	22,793	31,237
	20,205	**24,974**	**45,387**
2000			
Financial assets	4,399	0	4,399
Property, plant and equipment (net)	11,364	1,375	12,739
Intangible assets (net)	24,227	2,542	26,769
	39,990	**3,917**	**43,907**

46. Earnings per share

For fiscal years 2000 and 1999, earnings per share were calculated as follows:

	2000 thousand of share certificates	1999 thousand of share certificates
Shares at the beginning of the year	8,984	8,200
Option rights at the beginning of the year	12	541
Shares at the end of the year	9,574	8,984
Option rights at the year	98	12
Average	9,334	8,853
Net loss	-14,815	-8,969

	2000 EUR/share	1999 EUR/share
Basic and diluted loss per share	-1.59	-1.01

47. Business and transactions with affiliated enterprises and related parties

In the 2000 fiscal year, there were various contractual arrangements between the companies in the PSI Group for supplies, services and financing. These relationships and intercompany profits were eliminated as at balance sheet date in the course of the consolidation of expenses and income.

48. Subsequent events

In connection with the stock-option plan the PSI AG offered their employees in February 2001 the acquisition of Company's stock at a special price of EUR 13.58. The special price corresponds with 70 % of a fixed price of EUR 19.40. In total 18,430 shares have been subscribed.

The Board of Directors exercised the authorization according to § 7 (5) the articles of association for increase in Company's common stock from Authorized Capital V under Supervisory Board approval and increased the capital by EUR 47,115. The increase was filed with the commercial register on March 2001.

49. Supplementary declarations pursuant to the German Commercial Code and the requirements of the Neuer Markt

The following information comprises supplementary declarations that are a mandatory part of the explanatory notes pursuant to the German Commercial Code:

Remuneration of the Board of Directors and Supervisory Board

The Board of Directors of PSI AG received regular remuneration of KEUR 590 as well as a single payment of KEUR 281 in the 2000 fiscal year. The Supervisory Board received remuneration of KEUR 90.

Members of the Board of Directors

Dietrich Jaeschke, Berlin
Björn S. Eriksen, Berlin, Dipl.-commerce
Kurt Schmaltz, Sailauf (until April 30, 2000), Qualified Engineer
Ali-Akbar Alizadeh-Saghati, Berlin (since April 1, 2000), Qualified Engineer
Armin Stein, Berlin (since January 1, 2001), Dipl.-commerce, Qualified Engineer

Members of the Supervisory Board

Dr. André Warner, Berlin, Chairman, Dipl.-commerce
Kurt Kasch, Berlin, Deputy Chairman, Consultant
Other supervisory boards: CONDAT AG, RÖNTEC Holding AG
Franz Niedermaier, Munich, Consultant
Other supervisory boards: bit by bit Software AG, GFT Technology AG, IBIKUS AG
Dietrich Walther, Iserlohn, Entrepreneur
Other supervisory boards: ce Consumer Electronic AG, Hunzinger Information AG, Kampa Haus AG, Porta Systems AG, Schleicher & Co. International AG
Wolfgang Fischer, Aschaffenburg* (since May 16, 1998), Qualified Engineer
Siegfried Hartmann, Aschaffenburg* (since May 16, 1998), Qualified Engineer

* chosen employee representative

Number of employees

As at balance sheet date, the PSI Group employed an average of 1,213 personnel during the year.

Material and personnel expenses

	KEUR
Material expenses	
Raw material	0
Services	26,852
	26,852
Personnel expenses	
Wages and salaries	78,012
Social security and pensions	1,616
	79,628

Resolution concerning loss appropriation

The Board of Directors of PSI AG has proposed to the shareholders of PSI AG that the net loss for the year according to the financial statements of KEUR 21,578 and the loss carryforward of KEUR 18,451 be carried forward to new account.

Berlin, March 15, 2000

Dietrich Jaeschke

Ali-Akbar Alizadeh-Saghati

Björn S. Eriksen

Armin Stein

Auditor's Report

Auditor's Report on the exemptive consolidated financial statements prepared pursuant to sec. 292 a HGB

We have audited the consolidated financial statements comprised of balance sheet, income statement, statement of shareholders' equity, cash flow statement and explanations to the financial statements prepared by PSI Aktiengesellschaft für Produkte und Systeme der Informationstechnologie, Berlin (PSI), for the fiscal year from January 1, 2000 to December 31, 2000. Accounting and preparation of the consolidated financial statements are the responsibility of the Management Board of the Company. Our responsibility is to express an opinion, based on our audit, on whether the consolidated financial statements are in accordance with Generally Accepted Accounting Principles (U.S. GAAP).

We conducted our audit of the financial statements in accordance with German auditing principles and the German generally accepted auditing principles set down by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. The scope of the audit was planned taking into account our understanding of business operations, the Group's economic and legal environment, and any potential errors anticipated. The evidence supporting the amounts and disclosures made have been verified, mainly on the basis of spot checks. The audit also includes assessing the accounting principles used and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements of the Company are in compliance with U.S. GAAP and present a true and fair view of the net worth, financial position and results of operations of the Group, as well as of the cash flows during the fiscal year.

Our audit, which also covered the group management report for the fiscal year from January 1, 2000 to December 31, 2000, did not give any cause for qualification. In our opinion, the group management report together with the other disclosures in the consolidated financial statements accurately present the situation of the Group and the risks arising from future developments in all material respects. We also confirm that the consolidated financial statements and the group management report for the fiscal year from January 1, 2000 to December 31, 2000 fulfill the German law requirements for releasing the Company from preparing consolidated financial statements and a group management report. We have reviewed the compliance of the group accounting with the 7th EC Directive, required for release from the group accounting obligation under commercial law, on the basis of the interpretation of the directive by the Contact Committee on Accounting Directives of the European Commission.

ARTHUR ANDERSEN
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft mbH

Plett
Wirtschaftsprüfer

Selter
Wirtschaftsprüfer

Berlin, March 16, 2000

Report of the Supervisory Board

The Supervisory Board has fulfilled the duties incumbent on it by law and under the Company's statutes and regularly supervised and advised the management of PSI AG. The Supervisory Board monitored all important business transactions and convened ten times to discuss the most important transactions with the Board of Directors.

The Company's annual accounts, the consolidated financial statements, and the group situation report for the period from January 1 to December 31, 2000, have been examined by Arthur Andersen Wirtschaftsprüfungs- und Steuerberatungs-Gesellschaft, Berlin, the auditor appointed at the annual general meeting held on May 26, 2000, and an unqualified certificate of approval has been issued by the auditor. The Supervisory Board itself also examined the annual accounts and group situation report. In the Balance Sheet Committee meeting held on March 16 and the Supervisory Board meeting held on March 20, 2001, at which the auditors and members of the Board of Directors were present, the annual accounts were discussed and approved by the Supervisory Board.

Kurt Schmaltz, Director of Technology, Organization and Personnel, retired from the Board of Directors on April 30, 2000. Mr Schmaltz worked for PSI AG for over 25 years in a number of different management positions, including several years as a member of the Board of Directors. His contribution to PSI throughout these years has been of inestimable value. The Supervisory Board wishes to express its sincere gratitude to Mr Schmaltz for his work and to wish him all the very best for the future.

On April 1, 2000, the Supervisory Board appointed Ali-Akbar Alizadeh-Saghati as successor to Mr Schmaltz. Mr Saghati has also been with the Company for over 25 years; he was responsible for expanding the consulting division of PSI AG to its present size and successfully managed it for 11 years. The Supervisory Board would like to wish Mr Saghati much success in his new position.

The Supervisory Board appointed Armin Stein as new director of finances and controlling on January 1, 2001. The Board would also like to wish him much success in his new position. The former CFO, Björn S. Eriksen, will be retiring from the Board of Directors on March 31, 2001, at his own request due to personal reasons. The Supervisory Board thanks him for the two years that he has dedicated to PSI AG, and in particular for his valuable work in establishing a uniform controlling system for the entire group. There were no further changes to the Board of Directors and the Supervisory Board in 2000.

The Board of Directors and the Supervisory Board met on several occasions in 2000 to discuss investments. The following resolutions were approved:

- the acquisition of PLANAR GmbH;
- the merger of BFI Betriebstechnik GmbH of VDEh with the PSI production department to form the new company PSI-BT AG;
- the purchase of the gas management systems division of debis Systems and its integration in the PSI AG Gas and Oil division;
- the purchase of repas AEG Software GmbH and its integration into the Group as PSI Transportation GmbH;
- the profitable sale of iRM Ges.m.b.H.

All resolutions were passed in ordinary supervisory board meetings. The Supervisory Board's Investment Committee and the Personnel Committee did not convene in 2000. The newly formed Balance Sheet Committee of the Supervisory Board (consisting of Mr Fischer, Mr Kasch and Mr Warner) convened for the first time on March 16, 2001.

Throughout 2000 the Board of Directors and the Supervisory Board examined in detail the activities of PSIPENTA GmbH and its subordinate companies. A series of measures were put in place which drove the positive development of this segment of the Group. The Supervisory Board expects PSIPENTA to achieve a balanced result in 2001.

Nearly all PSI's divisions displayed continued positive development in 2000. The Energy Management division has considerably improved its market position and results in both the Electricity and the Gas and Oil segments.

The Supervisory Board concurs with the Board of Directors that it is necessary to invest further efforts in vigorously increasing the Group's growth and profitability. As the stock markets appear to be returning to the "old values" it is to be expected that only those companies in the IT sector which generate regular and above-average profits will be able to create a positive impact. The Supervisory Board will continue to bring its influence to bear on the Board of Directors to ensure that these objectives are rigorously adhered to.

Berlin, March 2001

Dr. André Warner
Chairman of the Supervisory Board

“Our expertise is a key advantage for everyone.”

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We would be happy to include you on our distribution list for information for stockholders and to send you the PSI AG report.

“PSI is the clear market leader in Germany for software solutions for the energy market”
HypoVereinsbank Research

“We expect the company to continue performing well”
DG Bank Research

“Confidence in PSI’s own targets raised”
Bankgesellschaft Berlin

“First mover in Resource Management via Internet”
Dresdner Kleinwort Benson Research

“Excellent position in the energy supply market”
Deutsche Bank Equity Research

“Fundamentally very well aligned company”
Independent Research

“The European market leader for gas management solutions”
Value Research

“System business displays stable growth”
Bankhaus Lampe Research

The key events in 2000 undertaken to increase our stock price

- Repositioned as a service company for Resource Management
- Investor Relations strengthened; positive coverage in more than 20 business, finance and stock market media
- Newly included in Deutsche Bank and Bankgesellschaft Berlin research coverage; recommendations to buy issued by ten banks and research firms
- Investor roadshows held in Frankfurt am Main, Munich, Düsseldorf, Vienna, Zurich, Brussels, Paris, Edinburgh, London
- Participated in four investment conferences and investor forums
- Analyst conference with special focus on energy held in PSI site Aschaffenburg
- More investor information available for stockholders on the PSI homepage at http://www.psi.de

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Investor Relations: Financial Calendar 2001

Balance Sheet Press Conference	March 21, 2001
DVFA Analyst Conference	March 21, 2001
First Quarter Report	May 21, 2001
Annual General Meeting	June 8, 2001
Half Year Report	August 20, 2001
Third Quarter Report	November 19, 2001

THE BOARD OF DIRECTORS

Dietrich Jaeschke is one of the co-founders of PSI. He was managing shareholder of PSI GmbH in Berlin from 1969 on. When the company converted into a plc in 1994 he became a member of the Board of Directors. He is in charge of strategic alignment, marketing and distribution. After gaining a degree in mathematics from the University of Hamburg he joined AEG, where he was involved in establishing the Institute of Automation, until leaving to form PSI.

Ali-Akbar Alizadeh-Saghati has been with PSI since 1974 and has held a number of management positions in the company. He was appointed head of the consulting division in 1987 and was responsible for setting up PSI's regulation business and the successful integration of UBIS in the PSI Group. As a member of the Board of Directors, he has been in charge of personnel and the technology division since April 1, 2000. He studied electrical engineering and computer sciences at the Technical University of Berlin. Before joining PSI he worked for SEL in Stuttgart.

Armin Stein was appointed managing director of PSI Transportation GmbH on October 1, 2000, and has been a member of the PSI AG Board of Directors since January 1, 2001. He studied telecommunications and business management. At AEG he was the commercial manager of several departments from 1979 on, and later managed two AEG subsidiaries. In 1995 he was appointed managing director of AEG Softwaretechnik GmbH, and from 1997 to 2000 he held this position in the repas AEG Group.

PSI

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