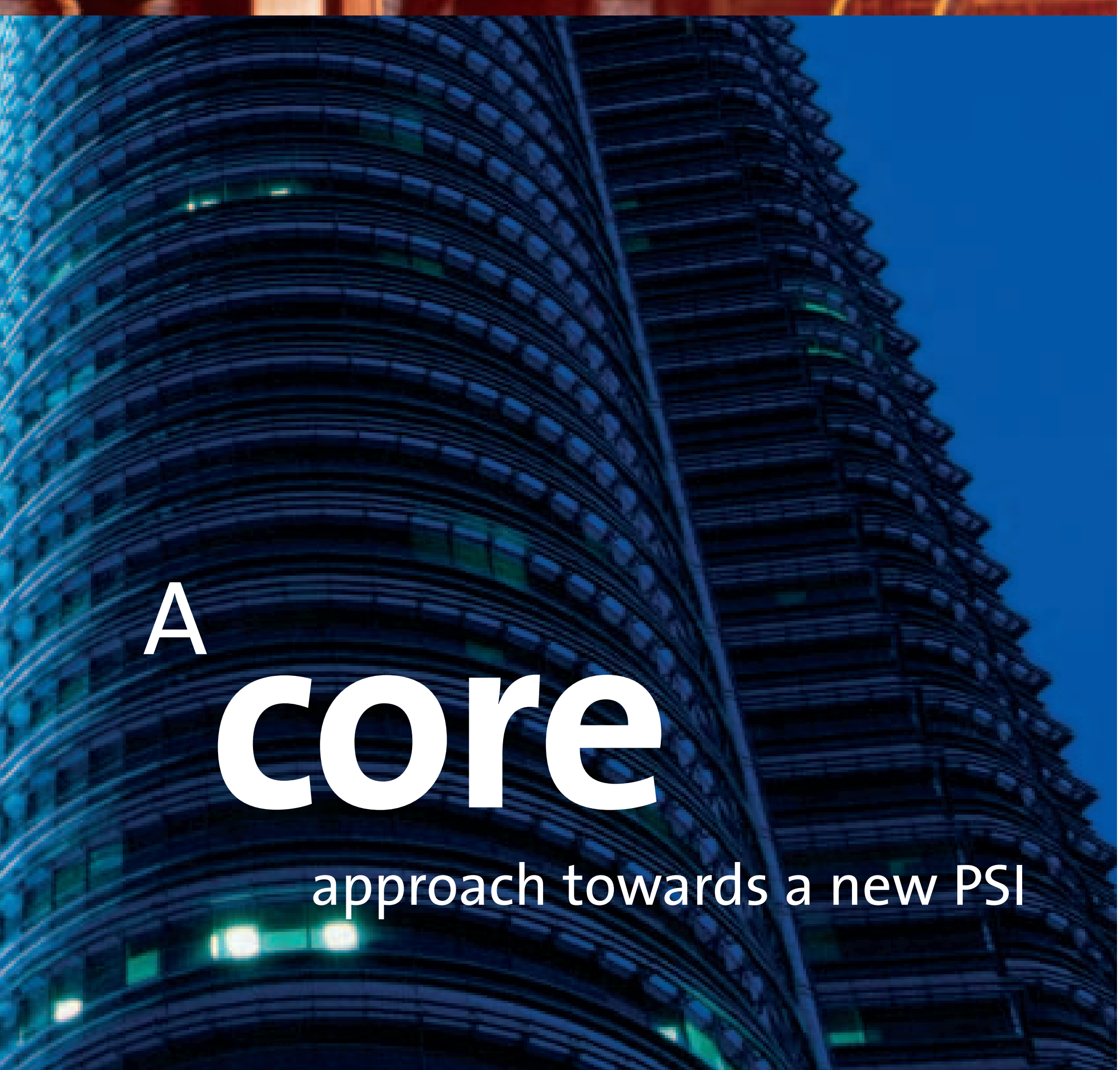
Annual Report 2002



A core approach towards a new PSI

PSI

The new PSI: a stringent focus on our core business, a rigorous profit orientation, and a drive towards internationalization. We aim to increase the Group's sustained earning power as swiftly as possible.

PSI uses special software, consultancy services and highly experienced staff to solve complex tasks.

- Network Management: we enable our customers to control complex networks – in energy, traffic, and telecommunications.
- Production Management: our software controls production in the steel and chemical industries, in mechanical engineering and plant construction, and in the automotive industry.
- Information Management: we optimize the flow and management of information in administrative processes for public authorities and service providers.

PSI Group in figures (US-GAAP)

In € million

	1998	1999	2000	2001	2002
Net sales	95.2	123.7	146.7	164.9	150.7
Operative result	0.5	–8.5	–13.4	–2.2	–12.4
Earnings before tax	1.3	–8.4	–13.2	–1.5	–19.0
Net group result	–0.2	–9.0	–14.8	–5.1	–14.8
Equity	55.5	52.3	65.2	65.6	51.0
Equity ratio (in %)	50.4	51.9	46.1	42.9	37.1
Investments	11.1	24.5	18.9	11.8	7.7
Research and development costs	7.2	12.1	9.1	10.3	11.5
Employees as at Dec. 31 (number)	833	1,064	1,362	1,405	1,294
Turnover per employee (in €'000)	115	116	108	117	117

Contents


Armin Stein
Dr Harald Schrimpf
2 members of the Board instead of 3

Dear Stockholders,
Dear Ladies and Gentlemen,

Many factors put pressure on the German economy in 2002: The war on terror, the unease caused by domestic and European economic policies and the burden placed on medium-sized enterprises in Germany by the introduction of numerous additional fiscal charges. After several years of rapid expansion, PSI has been hard hit by these changes. The collapse of the price of our stocks from eight euros to less than one euro was worse than the overall slump experienced by the Neuer Markt. This decline is a reflection of the reaction to our disappointing results for 2001, and of the withdrawal of our investor Goldzack and the knock-on effects of acquisitions financed by stocks.

The slowdown of our SME business, which started in the second quarter, resulted in monthly losses of €1 million in the operating divisions PSIPENTA and PSI logistics. Effective November 30, 2002, board members Dietrich Jaeschke and Ali-Akbar Alizadeh-Saghati terminated their contracts with the Group.

A new Supervisory Board was appointed at our Annual General Meeting in June.

The new board is combating losses resolutely

Since December 1, 2002, PSI has been headed by the two managing directors Dr Harald Schrimpf and Armin Stein. The following measures were immediately introduced in the two loss-incurring units:

- a substantial adjustment of capacities
- a concentration of product versions
- the restructuring into profit centers
- stabilization through business with major industrial enterprises
- the realignment of sales activities in both loss-making units

The objective of these measures was to reduce losses to around €0.3 million per month by the end of the year. Both units are expected to achieve breakeven in the second quarter of 2003, if necessary with the aid of further measures. In anticipation of the fruits of these measures, the Group's stock market valuation increased from its lowest point of €0.86 to €1.52 at the end of the year under review.

Dr Harald Schrimpf (38) has been on the PSI Executive Board, in charge of marketing, sales, and technology, since July 2002. He studied electrical engineering at Aachen RWTH, majoring in technical computer sciences. His doctoral thesis was on distributed real-time operating systems. In 1995, he joined DaimlerBenz Aerospace as technical head of military management software, where he was responsible for various major IT projects, first as department head and then as main department head. From 2001 onward, he was software center director at the Volkswagen subsidiary gedas in Berlin.

Armin Stein (51) has been a member of the Executive Board of PSI AG since January 1, 2001 and is in charge of finance, controlling, and personnel. He studied communications engineering at the Fachhochschule Gießen and business administration at university in Frankfurt/Main and Berlin. He began his professional career with AEG, where he worked as commercial director of several technical departments from 1979. In 1989, he was appointed commercial director of AEG Softwaretechnik GmbH in Berlin with full powers of representation and in 1994 his responsibilities increased with the addition of the Eastern region of AEG Anlagen- und Automatisierungstechnik. From 1997 to 2000, he was on the Executive Board of the repas AEG Group.

Network Management: international with strong partners

For many years PSI has been a highly successful provider of network management systems for energy supply companies. In 2002 we continued to build our market position in Germany. We set up a joint venture with a large, well-established partner, VA TECH, to expand our international activities. Fuelled by our high level of customer accessibility and our strong innovative drive we succeeded in 2002 in becoming market leader for GSM and UMTS network management solutions. We will be further consolidating this position by setting up an export partnership with Hewlett Packard. In traffic control systems we are grooming our computer-based operation control system for an international launch.

Radical changes in Production Management

As in previous years our Production Management segment failed to yield the results we had anticipated. The respective development of our PSIPENTA product, aimed at SMEs, and our logistics activities continued to be very disappointing. The new board immediately resolved to introduce a remedial package. Personnel capacity has been adjusted to meet the current level of demand. The further development of PSIPENTA will in future be driven by actual customer demand. In addition to this product, which presents enormous risks on account of its cyclical nature and high R&D costs, we will be concentrating on developing individual projects for major companies. In the fall we initiated a technology transfer with our Network Management division which will enable us to offer corporate customers a highly attractive production control system. The development of business with our solutions for the steel and process industries, where we were able to successfully expand our export business with major plant construction partners, was highly pleasing.

In our Information Management division we have set a strong course for profitability by implementing tighter integration of UBIS in our public administration business, and also through the merger of our infrastructure subsidiary and Schindler Technik AG.

Clear focus: win-win with high-end solutions

Over the next few years PSI will continue to channel the Group's strengths into becoming a focused provider of high-end solutions for the process control systems used by network operators and industrial customers. We have cut short the competitive race against SAP in the field of ERP systems (PSIPENTA). Our real-time distribution, production and service control systems now all have SAP interfaces; they are very well-positioned in our specialized markets and have proven their excellent export potential.

For 2003 our top-most priority lies in attaining sustainable profitability throughout all our divisions. After the rapid growth of recent years, we aim to invest around €2.5 million in consolidating internal structures and in making the company leaner and more efficient. If necessary, we are prepared to sever corporate units that have insufficient synergies to offer our core business.

Our stock market value merits critical appraisal

The lack of confidence with which the market views our company is displayed in our stock market capitalization of €15 million. The Group's stock market value in no way does justice to a company that has an annual value added of €140 million and software assets ("hidden reserves") worth more than one thousand employee years. There is every indication that the chronic undervaluation of technology enterprises in Germany, which started in 2002, will continue in 2003, and that it will lead to further shake-outs within the market, which will in turn yield new opportunities for PSI.

The Executive Board would like to express its gratitude to all customers, stockholders and staff for their continued faith in PSI in what was again a very difficult year. As the following pages will detail, we commenced 2003 with a new PSI. Secure in the knowledge of our company's strength, our competent staff, our long-term customer relationships and our will to focus whole-heartedly on PSI's core competencies, we believe we have every reason to look to the future with optimism.

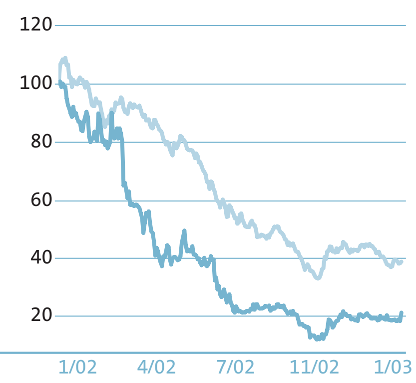
Berlin, March 2003
The Executive Board

Dr Harald Schrimpf   Armin Stein

The PSI Stocks

For the third consecutive year the stock markets displayed negative growth in 2002, continuing what is the greatest downswing since the 1920s. Again, the German stock market was particularly weak in 2002.

PSI performance 2002 compared to Nemax All Share
(in %, January 1 = 100%)



● PSI
● Nemax All Share

Shedding an alarming 40% of its value, the Dax was again one of the great losers of the world's standard indices. The lack of confidence in the Neuer Markt continued unabated, and with a fall in value of over 60%, its performance was even worse than in previous years.

A cellar with a view: PSI Stocks gain value

PSI stocks experienced their worst year since going public, losing 80% of their value over the course of the year. The publication of the 2001 financial statements, with results that were significantly below expectations, triggered a landslide in PSI stock prices. Declining stockholder confidence and the withdrawal of numerous institutional investors from the Neuer Markt took our stock prices to a record low of under one euro by October. Following the announcement of the new management team and the Group's new strategic alignment on October 11, PSI stocks recovered 40% of their value to finish the year at 1.52. In the final ten weeks of the year the performance of our stocks outstripped that of the Neuer Markt, but was, regrettably, not enough to neutralize their loss in value in the first nine months.

Our chief task for 2003: adding value

By the end of the first week of trading in 2003, PSI stocks were already 15% above their year-end price. Despite this gratifying development, we have little cause to be satisfied with the development of our stock prices or with the stock market evaluation of PSI, which is dramatically below the Group's intrinsic value. Our mission for 2003 is to continue to focus on pushing the Group's value up, and our corporate policies will reflect this objective. We want to return the Group to profitability and we will boost the earning power of all our corporate divisions.

Stock data	2002	2001
	€	€
Earnings per share	–1.40	–0.51
Market capitalization at year-end	16,739,566	96,198,520
Number of shares at year-end	11,012,870	10,126,160

Listings	Listings Xetra, Frankfurt/Main, Stuttgart, Berlin, Düsseldorf, Hamburg, Hannover
Indices	Nemax All Share, Nemax Software, FTSE eTX All Share
	ISIN: DE0006968225
	WKN: 696822

Investor relations: shining a spotlight on the company

As in previous years, we intend to keep up our sustained, active Investor Relations in order to communicate the success of the Group's corporate policies in a transparent and persuasive manner. In 2002, our Investor Relations gained us positive ratings in more than twenty financial and business publications, as well as several nominations in sample portfolios, including the 3Sat Stock Market Magazine portfolios. In the last few months of the year the changes we implemented generated increased media attention in PSI. Despite the lower research capacities of many banks and investment companies, nine analysts included PSI stocks in their ratings. In 2002, we gained a new place in the ratings list of a major international institute, ING. To strengthen our stock prices we presented PSI at two investment conferences last year and organized investor roadshows in five financial hubs.

Private investors have round-the-clock access to detailed information about all matters impacting on PSI stocks on our website at www.psi.de/ir. In addition to providing key data, financial reports, our corporate governance declaration, stock price charts, analysts' ratings and extracts from press coverage of the Group, this section of the website also includes an online registration service for the PSI stockholder information mailing list.

In June 2002, our Investor Relations activities received an honorable mention for credible financial communications at the German Financial Communications Award.

Prime Standard from the very beginning

The Neuer Markt will be closing at the end of 2003. At the end of 2002 PSI was admitted to the new Prime Standard by the German Stock Exchange, and has been listed in this segment since the new indice system was introduced. This, combined with our new, profits-oriented company policies, sets the course for a sustained increase in the Group's value – and with it a much healthier stock market year.

2.3 million people

33,000 volt

Our network control systems can compete with the best in the world. Leading energy supply companies in Germany and the rest of Europe have been relying on the innovative control systems PSI offers for many years now. And in the future, it will in fact be a PSI solution ensuring that the lights never go out in the highest building in the world, the Petronas Towers in Kuala Lumpur.

365 days a year,

24 hours a day

Network Management

The entire business world abounds with complex networks. They supply energy, enable us to communicate, and control public transport. To ensure that everything runs smoothly, it is essential to have dependable network infrastructures. For many years PSI has been providing the basis for secure networks.

Energy, communications, traffic – networks need management

Over the past three decades we have evolved into a key partner for the energy supply industry. We support our customers in all matters pertaining to the supervision and control of energy production, transportation and supply of electricity, gas and oil. Numerous major energy supply companies and network operators, including RWE, E.ON, Ruhrgas and Deutsche Bahn, depend on solutions provided by PSI, as do scores of large utilities and energy service providers. We solve standard network management tasks, and we help our customers deal with the new challenges presented by the deregulated markets. In addition to our control systems, we also deliver solutions for sales, trading and management of network utilization.

We have also made name for ourselves in the telecommunications market in recent years. In the dynamically expanding mobile communications market we are a sought-after partner for network vendors and operators. We were, for instance, awarded Germany's first order to develop a cross-platform network management system for GSM and UMTS. Many renowned wireless operators, including E-Plus and Vodafone, use PSI technology to support their business processes.

In recent years modern control systems have also become essential in public transport. Our new computer-aided operating systems utilize integrated Global Positioning Systems, thus enhancing the capacity of bus and train networks and greatly facilitating punctuality. Many important customers, including the Hamburg S-Bahn and GVB Amsterdam, rely on solutions developed by PSI to increase the appeal of their services for their passengers.

Groundbreaking Network Management

Since setting up our Network Management segment we have always gone that extra mile to listen to our customers' wishes and requirements. This commitment has enabled us time and time again to detect new demands and trends, and to react accordingly. In conjunction with our customers we have implemented many groundbreaking pilot projects and driven technological progress forward significantly. We are involved in defining industry standards as members of several important committees and industry associations, including the EDNA Initiative (Energy, Data, Norms & Automation), an association of more than fifty software manufacturers and IT service providers in the energy data management sector. We are driving forward the swift implementation of new standards for electronic data exchange and aim to harness the results to automate business processes and transactions between partners in the energy industry, which is one of the key objectives of the initiative. The areas we aim to facilitate include billing, remote meter readings, accounts and customer relations management.

We played a decisive role in defining a standard for cross-platform configuration management in wireless networks. Along with leading telecommunications providers and manufacturers we provided our expertise for a catalyst project organized by the Tele-Management Forum. The resulting PSI product set a new technological milestone and we now occupy a leading position in the German market.

Success can be transmitted – through internal technology transfer

Our Network Management division has outstanding expertise in control systems. At the end of the forth quarter we set up a technology transfer to make this expertise available to our Production Management segment. This move puts us in an unrivalled position to offer major industrial customers comprehensive control systems that can be used across multiple facilities and processes, thus bringing an entirely new level of transparency to their production processes.

752 km of pipeline

35 million tonnes of crude oil per year

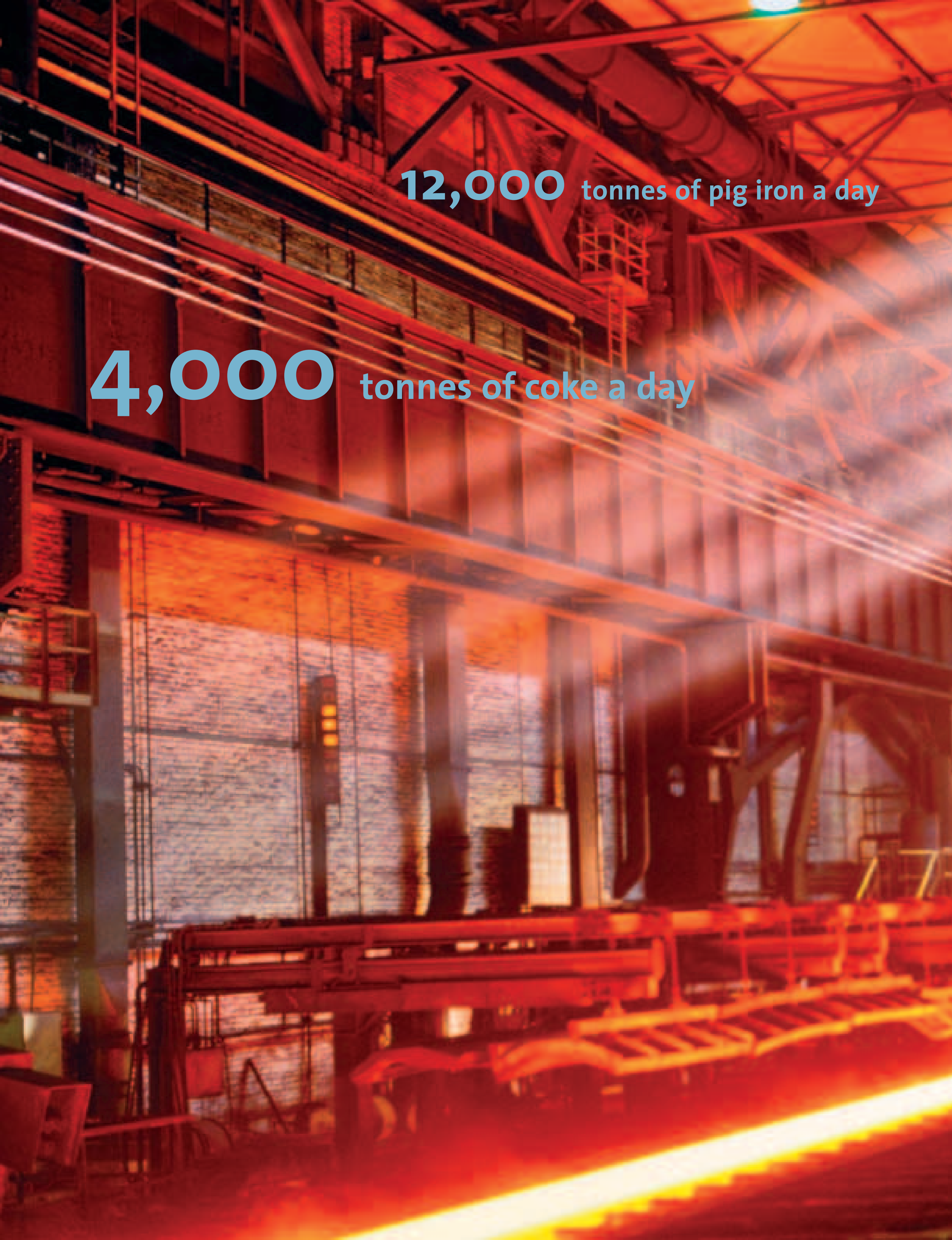
40 bar pressure

So far, the transalpine oil pipeline has transported almost 895 million tonnes of crude oil across the Alps safely and with respect for the environment. A modern pipeline control system from PSI ensures refineries and tank farms are supplied reliably and cost-efficiently, making an important contribution to the energy supply of Southern Germany and Austria.

We follow the markets – all around the world

The key focus of our strategy for the next few years will be firmly on presenting the achievements of our Network Management division to an international market. In gas and oil management we already occupy a leading position in Europe. Our customers include the Italian company Snam, and the Russian gas and oil companies Gazprom and Lukoil. In May 2002, we established a joint venture with the Austrian technology company VA TECH in order to market our control system for electricity networks. This move enables us to market our solutions through VA TECH's world-wide network. A first major order from Malaysia shows that we are firmly on course for success with this joint venture. At the beginning of 2003, we launched our joint venture in the United States, the world's most attractive marketplace for energy control systems.

In telecommunications we have also secured a strong international partner: Hewlett Packard started marketing our configuration management product for wireless networks in 2002. Under the terms of the agreement with Hewlett Packard our technology has been incorporated in TeMIP (**Te**lecommunications **M**anagement **I**nformation **P**latform), the world-wide solution for network and services management in the telecommunications sector. Furthermore, we are also preparing to launch our traffic control systems on the international market. These examples of our current activities show how assiduously we are pursuing the strategy of internationalization that we introduced in 2002, based on good judgment and cooperative ventures with major strategic partners. We intend to expand and continue this approach, as we are firmly convinced that it will open up tremendously promising market perspectives for our Network Management division in the years to come.


12,000 tonnes of pig iron a day
4,000 tonnes of coke a day

1,200° Celsius

A modern blast furnace produces 12,000 tonnes of pig iron a day. Today, well-known steel producers rely on solutions from PSI for the planning, control and monitoring of their production plants. Our solutions are thus ensuring cost-efficient, quality production and subsequent processing of steel in Germany and around the globe.

Production Management

In a networked global economy it is essential that production and logistics control systems are constantly optimized and made more intelligent. PSI's Production Management division delivers the necessary solutions.

This division has been highly successful in developing projects for the steel and process industry, while sales of the PSIPENTA product, aimed at SMEs, and logistics solutions continued to disappoint. 2002 became a year of change for Production Management.

A fresh start

In the forth quarter of the year under review we introduced a strategic realignment of our Production Management division, thus laying a fresh foundation which will enable us to assure the long-term success of this segment.

Our PSIPENTA activities have been split up into three profit centers: SME products, services and industrial solutions. This reduces PSIPENTA GmbH's dependency on the economic fluctuations experienced by SMEs. We have concentrated our product development activities in the SME profit centre. At the same time, the development of PSIPENTA has been aligned with customer demand and will take place on the basis of customer-oriented developments.

In our industrial solutions profit centre we create a very close working relationship with our customers by collaborating on projects. This has a positive impact on the development of our products and lowers the risk of misinvestments. The current transfer of technology from Network Management to Production Management is a concrete example of this new strategy. It allows us to combine our competence in control systems with the proven expertise in industrial processes that we have built over three decades. The results are uniquely powerful and effective solutions for production control in major industrial enterprises.

Sales and marketing activities in all areas of Production Management have been realigned and harmonized; this move lets us tap into fresh sales potential and increases our efficiency.

Personnel capacity has been qualitatively and quantitatively adjusted to the new structure and demand, which has led to a sustained reduction in costs.

Treading new paths with successful projects

Our rigorous concentration on delivering customized project solutions has brought us great success in the steel, process and automotive industry for many years. Customers such as ThyssenKrupp, BASF, and Volkswagen use PSI solutions to master complex production tasks. In the steel sector we were able to use our leading position in Germany as a springboard to enter the international markets in 2002. With ALSTOM and SMS Demag we have gained two leading global suppliers to the steel industry as sales partners for our industry solutions. International customers, including Shanghai Krupp Stainless and CORUS Aluminium, prove the effectiveness of this strategy.

In our logistics activities we have set up an alliance with Jungheinrich, another very strong partner, with whom we are cooperating on specific logistics projects. In 2002, major orders in this segment included an order from Wyeth, one of the world's largest pharmaceuticals companies, to supply a Warehouse Management System for a production facility in the United Kingdom.

A long journey – traveling the world with our partners

We will continue to pursue and expand our successful strategy of internationalization through major technology and plant manufacturing companies. This approach puts us in a position to decrease the Production Management segment's vulnerability to economic fluctuations, and it broadens the basis for ensuring lasting financial success. We expect additional operative growth opportunities to arise once restructuring has been successfully completed.

Information Management

Our Information Management division focuses on a very promising field: we optimize the flow of information in administration processes for public authorities and service providers.

We merge our consultancy competence and process expertise with our knowledge of how information flows to deliver solutions that give our customers a decisive leading edge.

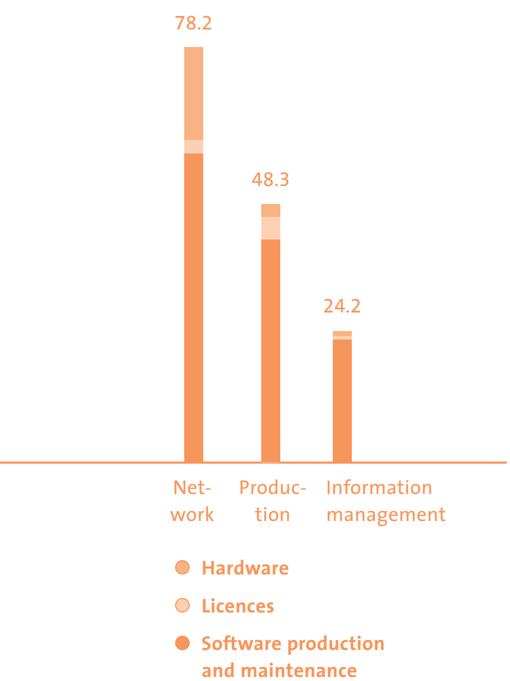
We are development partners of the German employers' liability insurance associations for the construction industry, civil engineering, catering and hotel trades. Our involvement in redeveloping the application systems resulted in a major new strategic contract from these liability associations. Our subsidiary UBIS was briefed by the Berlin Business Development Corporation to develop and operate the Business Location Centre, an information system for investors. The portal we developed was awarded the European E-City Award for the best municipal website for enterprises. As Microsoft's partner, we developed a new specialized application for the Corporate Medical Services in Hamburg which was awarded the Microsoft .NET Innovation Cup in the Government category in November 2002. For the regional citizens' registration office in Berlin, PSI played a decisive role in defining and developing the XMeld standard for the exchange of registration data.

There remains a great demand in public administration for innovative information management solutions to enhance process speed and efficiency, and provide better services for citizens. Forward-thinking local authorities harness the cost-saving benefits that these solutions offer to improve their budgetary situations. We are expecting this segment to exhibit a sound business in the next few years. The tighter integration of UBIS in PSI clears the way for improved results and boosted earnings.

Management Report and Financial Analysis

Management Report
and Financial Analysis

Software production & maintenance remain PSI's key revenue sources
(in EUR million)



Overall economic situation

Economic growth in Germany and Europe continued to deteriorate in 2002. Following 0.6% growth in 2001, the gross domestic product grew by only 0.2% in 2002, which is the lowest rate since 1993. Throughout the euro zone the growth rate was only 0.8%, which is half the growth of 2001.

The economic situation on the information technology market also continued its downslide in 2002. The Western European IT market fell 1.5% in 2002 after a rise of 1.3% in the previous year. In Germany, after years of double-digit growth, the IT market shrunk for the first time by 3.7%.

The segment that is relevant for PSI – software – again displayed a better development than the overall market, declining by only 0.8% in Germany and growing by 0.1% in western Europe. In comparison to last year's growth rate of 5.4% in Germany and 3.4% in western Europe, however, this is a continued decrease.

The ailing economy and its impact on investment behavior continued to be the main reason for this general downswing. Altered investment patterns were revealed in decelerated decision making and a focus on investments that offered an immediate return on investment. Particularly in sectors where medium-sized enterprises dominate, like mechanical engineering and plant construction, and in segments that have a strong dependency on the overall economy, such as logistics, these effects led to a substantial drop in the demand for software solutions.

Company development

For the first time after five years of continuous growth, PSI reported a decline in turnover for 2002, with turnover dropping by 8.6% to 150.7 million. The development of the company's three segments – Network Management, Production Management and Information Management – again displayed varying growth rates.

In our Network Management segment turnover increased slightly by 0.5% to 78.2 million. This segment comprises our Energy, Telecommunications and Traffic activities. The operating result even increased by 73.7% to €4.5 million. As in previous years Network Management continued to benefit especially from the outstanding position that PSI has in the German market for energy supply companies. This area was the focus of the Group's investment activities.

Our Production Management segment reported a decrease in turnover of 18.3% to €48.3 million. This division develops solutions for the control of production and logistics processes. The operating result deteriorated considerably from €–3.2 million to €–15 million. This was largely due to the losses incurred by PSIPENTA and PSI logistics which necessitated additional risk provisions, valuation reserves and restructuring expenditure in the fall of 2002.

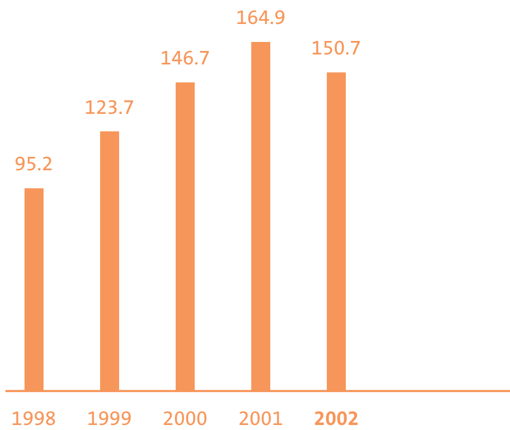
Sales in our Information Management dropped by 13.4% to €24.2 million. The primary focus of this segment is on supporting administrative processes in public authorities and service providers. The operating result declined by 22.2% to €–1.9 million. Key factors for this negative growth were a reluctance to invest on the part of the public authorities and the difficult situation in the financial services sector.

In keeping with the development of PSI's three segments outlined above, the proportion of sales contributed by the Network Management segment rose from 47% to 52%; the proportion of Production Management dropped from 35.8% to 32%; while Information Management dropped to 16%.

The consolidated operating result deteriorated by €10.2 million to €–12.4 million. This sum includes €8.7 million in risk provisions, valuation reserves and restructuring expenditure. The consolidated net operating result decreased by €9.7 million to €–14.8 million. This sum includes €5.4 million for extraordinary depreciation on goodwill and equity investments. Although we are expecting the industrial economy to remain weak in 2003, the restructuring measures put in place throughout the company will generate a reduction in costs, and we are confident that the Group's turnover for 2003 will remain on a par with that of 2002 and that our loss-generating segments will break even during the course of the year.

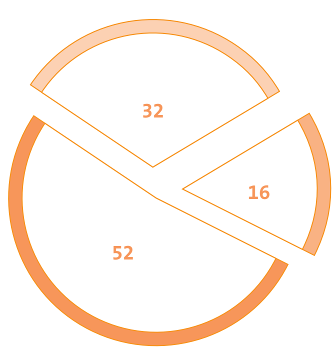
PSI sales

(in EUR million)



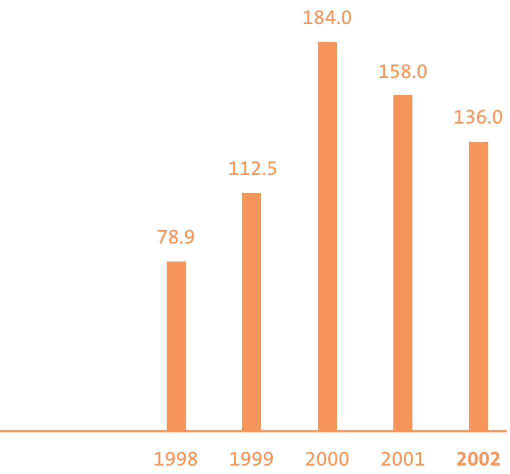
Network Management with over 50% share of turnover

(in %)



- Network Management
- Production Management
- Information Management

Order inflow at PSI remains high in 2002
(in EUR million)



In 2002, PSI Group received orders worth €136, which is significantly lower than in the last year but is the third-highest level in the Group's history. Taking into account spin-offs, customer insolvencies and cancelled orders in the year under review, in addition to stricter sales cut-off rules and the more stringent evaluation of maintenance contracts, the volume of orders received by PSI as at December 31, 2002, was valued at €85 million, which is a substantial volume.

Financing

PSI's share capital increased in 2002 from €25.8 million to €28.2 million as at December 31, 2002. This is partially the result of the registration of a capital increase again contributions in kind: in 2001 we increased our shares in UBIS AG and PSIPENTA Automotive GmbH. It is also due to the issuance of 200,000 new stocks under the framework of the acquisition of Büsing & Buchwald GmbH.

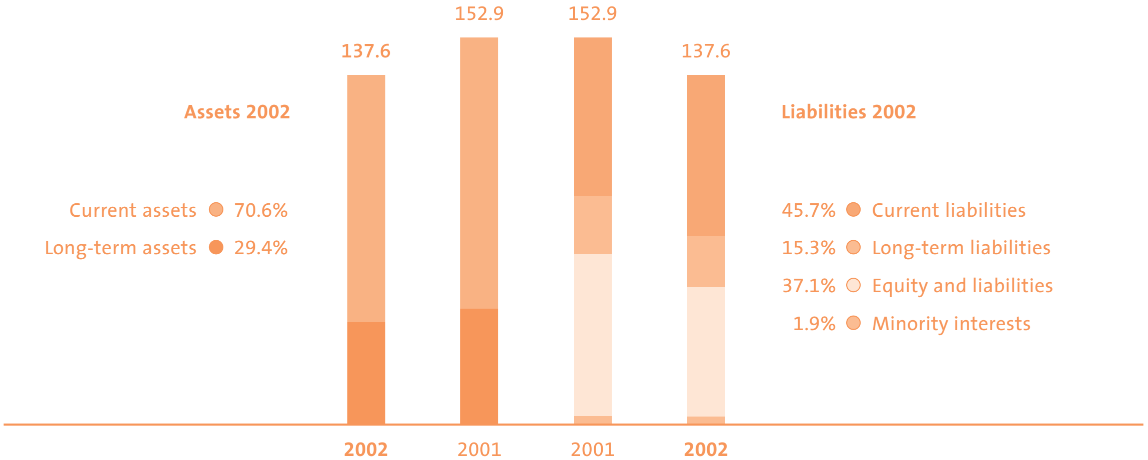
Balance sheet structure

The balance sheet total for 2002 decreased by 10% compared with the previous year to €137,571 million.

In the year under review current assets accounted for 70.6% of the balance sheet total, a slight increase on 70.1% in 2001. Trade receivables decreased significantly and liquidity increased. This is the result of a tougher approach to receivables management and the settlement of individual large-scale projects. The proportion of long-term assets decreased marginally from 29.9% to 29.4% in the year under review.

The share of current liabilities in the balance sheet rose from 41.4% to 45.7%, largely as the result of an increase in down-payments received by the Group. Bank overdrafts and

Balance sheet structure 2002
(in EUR million and %)



trade payables both decreased. The share of long-term liabilities rose from 13.8% to 15.3%. This is principally the result of an increase in pension reserves. The equity ratio went down from 42.9% to 37,1%.

Liquidity

As a result of the Group's greatly improved operative cash flow, liquidity increased from €12.9 million to €21.5 million. For 2003 we again anticipate a positive cash flow from the Group's operative business. PSI has sufficient lines of credit with the company's banks.

Investments

In 2002 PSI Group invested €7.7 million, inclusive of financial assets; this is a decrease of 35% compared to the €11.8 million invested in the previous year which was driven by the acquisitions made by the Group in 2001.

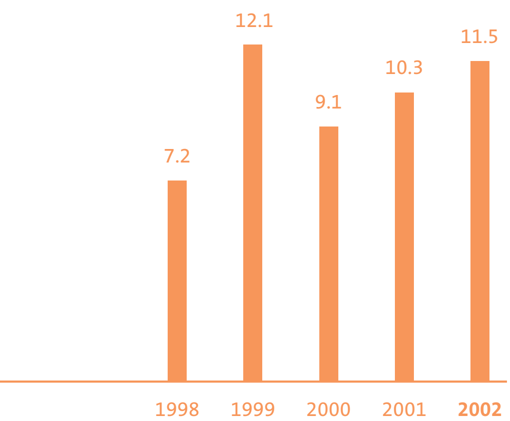
Expenditure for Research & Development was €11.5 million, 11.2% more than the previous year (2001: €10.3 million). Taking into account the drop in sales, this is an increase from 6.3% of sales to 7.6%. Research & Development expenditure in Network Management rose from €0.3 million to €5.3 million; the key focus was on developing a system for the operational control of maintenance work in the energy industry; a network management system for monitoring GSM and UMTS wireless networks; and the new computer based operations control system for public transport companies. In Production Management, Research & Development spending was reduced from €10 million to €6.3 million. This is part of the Group's new strategy of aligning development activities in this segment more to customer demand and specific projects.

The risks involved in the Group's future development

The development of PSI in 2002 made it clear that it was essential to initiate restructuring measures in order to acclimatize the Group to altered market conditions. These measures were specifically introduced in the Group's subsidiaries PSIPENTA Software Systems GmbH, PSI logistics GmbH and UBIS AG, and were for the most part completed in fiscal year 2002. The growth of the Group's income depends to a large part on how successful these cost-cutting measures are and to what extent the strategic goals of the restructuring plan can be attained.

In 2002 PSI Group continued to drive forward the internationalization of the Network Management segment. An increase in the international success of our Network Management products would lessen the Group's dependency on domestic customers. At the same time, the expansion of international activities has inherent risks (exchange rate risks, dependency on international partners).

Research & Development expenditure
(in EUR million)



PSI Group's financial and earnings situation could be decisively impacted by lawsuits with customers and other parties which were outstanding on the balance sheet date should the courts rule against PSI Group. The Executive Board of PSI AG regularly monitors the status of these lawsuits and is confident – as are the legal advisors retained by PSI Group – that these risks will not all materialize.

The consolidated assets of PSI Group include approximately €24 million in goodwill and other intangible assets. They result from the capitalization of software development costs or the identification of intangible assets during the acquisition of other companies. These items account for around 17.5% of the balance sheet total. Their future value depends on whether the cash flows from the units that report these intangible assets develop as planned.

Risk management

PSI Group's risk management system comprises the following elements:

- Reporting at segment level or at sub-department level
  - Regular monthly reports on the development of the Group's net worth, financial position and results of operations
  - Comparisons of performance to budget
  - Adjustment of budget figures to current developments
- Project controlling
  - Legal status of projects
  - Actual results status of projects
  - Status of staff input and capacities
  - Project risks, measures needed to reduce project risks
- Sales forecasts; monitoring the development of markets and the competition
- Centralized liquidity control for PSI Group
- Senior executives/executive board members of PSI Group are appointed to the supervisory boards/councils of subsidiaries in a controlling capacity

Throughout 2002 we adapted the key processes and documentation standards in segment reporting, at sub-department reporting level and in project controlling to bring these in line with PSI Group's general reporting standards. We plan to introduce an integrated IT-aided reporting tool to further harmonize project controlling and segment controlling which will enable these areas to provide more timely reports.

Employees

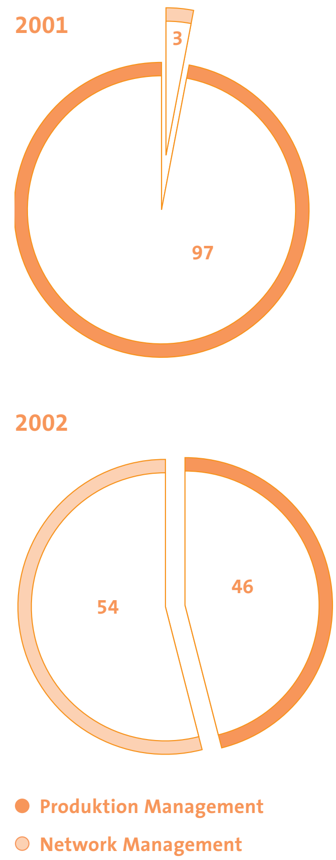
The success of PSI Group is greatly dependent on the skills and motivation of our employees. Hence, the large number of academics that work for PSI is a key advantage for us: around 85% of our employees hold a university degree.

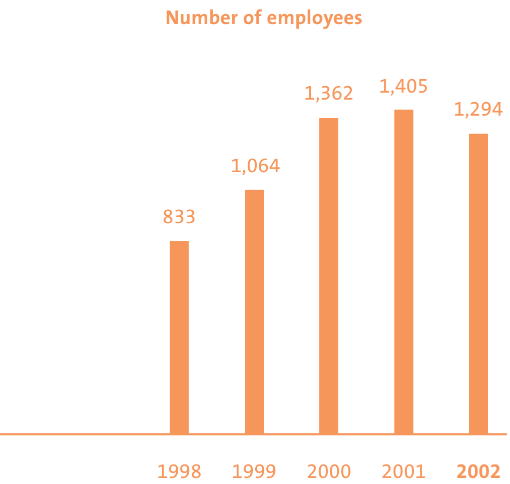
In 2002 we reduced the number of staff employed by the Group as part of our essential restructuring strategy to adapt the company to the current weak market conditions; headcount reductions were performed particularly in our PSIPENTA and PSI logistics divisions. At the same time we increased staff in Network Management. At the beginning of November we negotiated a reconciliation of interests with the PSIPENTA employees' council to cut back 55 obsolete jobs across all functional areas. In total, the number of employees in the Group went down to 1,294, a reduction of 111 compared to the previous year. Turnover per employee was €116,500, which is almost identical with last year's level. Once the restructuring measures have been completed PSI Group will have 1,250 employees.

We are fully committed to training and developing the skills of our employees by providing internal and external training programs. Since last year we have additionally focussed on the exchange of information and technology transfer between the individual business units in PSI Group. This unleashes synergies, which in turn enhances efficiency and quality in our development and sales activities. It also facilitates an even spread of capacities throughout the Group.

For many years now PSI has cooperated very successfully with universities and research institutes. This gives us swift access to emerging technological trends and standards, as well as having the additional benefit of attracting promising young academics to PSI at an early stage.

Research & Development expenditure by segments
(in %)





We will continue to develop and implement modern HR concepts, including our variable, performance-related salary system and flexible working hours, thus increasing the level of flexibility, efficiency and motivation in the company.

The motivation and identification of PSI staff with the company is underscored by the large number of employees who hold shares in the company. Around 30% of our ordinary stocks are held by employees, of which 7.1% are held by the employee stockholder pool.

The board would like to thank all employees for their valuable contribution in what has been a difficult year for the company and one that was again fraught with many changes.

Outstanding events in 2002

Dr Harald Schrimpf was appointed Chairman of the Executive Board on July 8, 2002. His responsibilities include Marketing, Sales and Technology. Dietrich Jaeschke and Ali-Akbar Alizadeh-Saghati resigned from the PSI Executive Board effective November 30, 2002.

On April 22, 2002, PSI acquired 100% of Büsing & Buchwald GmbH. This takeover rounds off the Group's range of services for the domestic and international energy markets, specifically in consultancy services with a focus on the gas sector.

On April 29, 2002, in conjunction with VA TECH, PSI set up VA TECH CNI, a joint venture for worldwide marketing of network control systems. VA TECH SAT has a 60% share of the venture, with PSI AG holding 40%.

In August 2002 PSI Infrastruktur Services GmbH and Schindler Technik AG merged. PSI holds a 37.2% stake in the new Schindler Technik AG. PSIPENTA Automotive GmbH was integrated into PSIPENTA Software Systems GmbH. Both mergers are part of the drive to simplify the Group's corporate structure.

On October 23, 2002, PSI Solutions GmbH filed for bankruptcy after PSI AG halted all further financial assistance to the Villingen-based subsidiary due to a lack of flexibility.

PSI's subsidiaries and holdings

PSI's subsidiaries and holdings are detailed in the Notes to the Financial Statements.

Corporate governance

For PSI good corporate governance plays an exceptionally important role. It is an elementary component in our corporate management strategy. In all we do we strive to maintain a high level of efficiency in the cooperation between Executive Board and Supervisory Board, to lay down clear rules, pay meticulous attention to creating shareholder value, and ensure that our corporate communications are both transparent and credible. Backed by these factors, PSI aims to ensure that our corporate management and control is fully geared to upholding and enhancing shareholder value. This will promote and build the confidence of our shareholders, business partners and staff in the company, now and in the future.

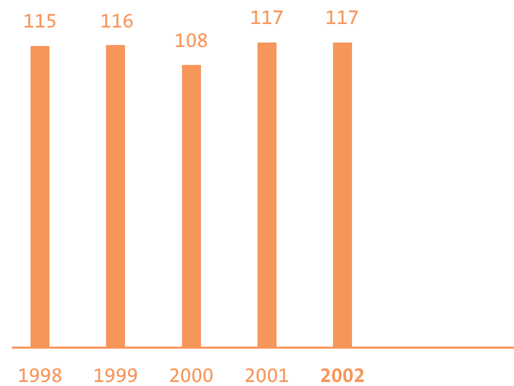
We are fully aware that committing to corporate governance is an important step to reestablishing investor trust in the capital markets, and we wholeheartedly welcome the recent developments in the field of corporate governance.

Transparency is very important at PSI. This is also proved by the awards for our annual reports. In 1999, 2000 and 2001, our reports received a Bronze and two Silver Awards at the world's largest annual report competition, the International ARC Awards, which are held in the United States. PSI also received a commendation for excellence in financial communications at the German Financial Communication Awards in 2002.

These awards motivate us to strive continuously to further improve the high standards of transparency and credibility in our corporate communications.

Turnover per employee

(in EUR '000)



Outlook

In 2002 the new PSI Executive Board took decisive measures to improve the Group's situation. Reinforced by PSI's fundamental strengths and strong corporate substance, these measures will pave the way for a sustained, enduring improvement in the Group's earnings situation in 2003 and the years to follow. Overall, 2003 will continue to be overshadowed by weak global economic development and the progressive retrenchment of the IT market.

Against this background, 2003 will be a further year of consolidation and streamlining for PSI. We will continue to focus rigorously on our core competencies and will persist in our target of making the company leaner. For the current year we expect to be able to report stable revenues and a return to profitability.

In our Network Management division we will be continuing the drive for internationalization that was started in 2002, specifically in our energy activities. In telecommunications the strategic alliance with Hewlett Packard that was set up in 2002 opens up additional potential for PSI. In our Production Management segment we will be bringing our far-reaching recovery measures to a successful conclusion in the first six months of 2003. We are also expecting our new range of solutions for production control systems for major companies to generate positive growth impulses. In Information Management we will continue to drive forward stronger integration and will be streamlining the individual business units in this division.

Over the next years PSI will become a fully focussed supplier of high-end process control solutions for network operators and industrial customers. Our optimism is based on the secure knowledge that PSI has a number of valuable core strengths, not least the competence of our staff and the high quality of our software products. In light of our company's exceptionally low stock market valuation, which reflects an unjustified lack of confidence in the company, we are positive that our stocks have great potential to increase substantially in value in 2003 and the coming years.

Consolidated Financial Statements
according to US GAAP

Consolidated Balance Sheet

Assets	Note	Dec. 31, 2002 EUR k	Dec. 31, 2001 EUR k
Current assets			
Cash and cash equivalents		21,532	12,873
Trade receivables net of allowances for doubtful accounts of EUR 369 k (2001: EUR 311 k)		29,938	44,789
Costs and estimated earnings in excess of billings on uncompleted contracts	4	36,723	35,423
Inventories	5	3,662	6,800
Prepaid expenses		1,882	1,068
Other receivables	6	3,368	6,268
Total current assets		**97,105**	**107,221**
Non-current assets			
Financial assets	7	6,015	6,118
Property, plant and equipment (net)	8	10,296	11,498
Intangible assets (net)	8	24,155	28,014
Total non-current assets		**40,466**	**45,630**
Total assets		**137,571**	**152,851**

Liabilities and shareholders' equity

	Note	Dec. 31, 2002 EUR k	Dec. 31, 2001 EUR k
Current liabilities			
Financial debts	9	3,540	4,948
Trade payables		8,616	15,367
Billings in excess of costs and estimated earnings on uncompleted contracts	4	22,120	14,962
Deferred income		6,499	4,183
Other current liabilities and accrued expenses	10	21,105	18,689
Deferred tax liabilities	15	934	5,109
Total current liabilities		**62,814**	**63,258**
Long-term liabilities			
Pension reserves	11	20,525	18,944
Financial debts	9	522	2,124
Other long-term liabilities		41	93
Total long-term liabilities		**21,088**	**21,161**
Minority interests		**2,624**	**2,877**
Commitments and contingencies	14		
Equity			
Subscribed capital; EUR 2.56 calculated par value; authorized shares 3,879,684 (2001: 4,766,394); issued and outstanding shares 11,012,870 (2001: 10,126,160)	12	28,154	25,887
Capital reserves		71,765	68,006
Revenue reserves		1,220	1,220
Contributions made for capital increase		0	5,428
Accumulated loss		–49,437	–34,627
Accumulated other comprehensive income	2	–657	–359
Total equity		**51,045**	**65,555**
Total equity and liabilities		**137,571**	**152,851**

Consolidated Statement of Income

	Note	2002 EUR k	2001 EUR k
Sales			
Software production and maintenance	16	122,689	124,522
Licenses	16	7,418	14,910
Hardware	16	20,608	25,427
		150,715	**164,859**
Cost of sales			
Software production and maintenance		99,755	97,736
Licenses		2,592	6,952
Hardware		17,563	20,502
		119,910	**125,190**
Gross profit		**30,805**	**39,669**
Operating expenses			
Selling expenses		21,232	21,164
General and administrative expenses		10,152	11,999
Research and development costs (net)		10,916	8,889
Depreciation of capitalized software development costs		713	1,561
Other income and expenses		226	–1,750
		43,239	**41,863**
Operating result		**–12,434**	**–2,194**
Interest and investment result		–1,136	716
Effect of change in accounting standards		–5,395	0
Income before income taxes and minority interests		**–18,965**	**–1,478**
Income taxes	15	4,073	–3,248
Minority interests		82	–360
Net Group loss for the year		**–14,810**	**–5,086**
Basic and diluted earnings per share in euro per share	17	–1,40	–0,51
Share basis for calculation of basic and diluted earnings per share (thousand of shares)		10,601	9,984

Consolidated Cash Flow Statement

	2002 EUR k	2001 EUR k
Cash flow from operating activities		
Net Group loss for the year before minority interests	–14,810	–5,086
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation of property, plant and equipment and amortization on intangible assets	5,399	7,239
Extraordinary amortization of goodwill	5,395	969
Write-downs of associated companies and other financial assets	1,530	206
Addition to pension reserves	1,581	1,670
Deferred taxes	–4,175	2,975
Minority interests	0	–360
Changes in assets		
Inventories	4,355	369
Prepaid expenses	–814	496
Other receivables	3,293	134
Trade receivables	15,105	–14,061
Costs and estimated earnings in excess of billings on uncompleted contracts	–1,300	–1,302
Changes in liabilities		
Short-term operational financial liabilities	–3,409	2,967
Trade payables	–6,825	3,769
Deferred income	2,315	–356
Other reserves and accrued liabilities	1,089	–1,967
Billings in excess of costs and estimated earnings on uncompleted contracts	5,792	892
	14,521	**–1,446**
Cash flow from investing activities		
Additions to capitalized software development costs	–628	–1,420
Additions to property, plant and equipment and other intangible assets	–4,516	–4,159
Additions to goodwill	0	–127
Cash paid for additions to financial assets (net of cash acquired)	–818	–1,300
	–5,962	**–7,006**
Cash flow from financing activities		
Capital increases through cash payments	0	250
Cash received from raising of bank loans	398	2,000
	398	**2,250**
Changes in cash and cash equivalents due to exchange rates and valuation	–298	–81
Changes in cash and cash equivalents	**8,659**	**–6,283**
Cash and cash equivalents at the beginning of the fiscal year	**12,873**	**19,156**
Cash and cash equivalents at the end of the fiscal year	**21,532**	**12,873**
Supplemental cash flow information		
Interest payments	1,136	216
Tax payments	203	84

Consolidated Statement of Changes in Shareholders' Equity

	Number of shares issued and outstanding (at calculated value of 2.56 EUR)	Common stock EUR k	Capital reserves EUR k
As of December 31, 2000	**9,587,825**	**24,511**	**55,233**
Net Group loss for the year			
Foreign currency translation			
Issuance of shares			
Capital increase from cash contribution	18,430	46	203
Conversion of profit participation rights	128	1	
Contribution of 21.6% of PSI AG/Switzerland for issuance of shares			
Contribution of 40% of Psipenta Automotive GmbH for issuance of shares			
Contribution of 25% of UBIS AG for issuance of shares			
Registration in the commercial register			
Registration of contribution of 9% of UBIS GmbH for issuance of shares	39,539	101	1,409
Registration of contribution of 100% of Repas AEG GmbH for issuance of shares	145,000	371	3,218
Registration of contribution of GMS debis for issuance of shares	335,238	857	7,943
Unrealized losses from financial investments			
As of December 31, 2001	**10,126,160**	**25,887**	**68,006**
Net Group loss for the year			
Foreign currency translation			
Issuance of shares			
Contribution of 100% of Buchwald & Büsing GmbH for issuance of shares	200,000	511	429
Registration in the commercial register			
Contribution of 40% of Psipenta Automotive GmbH for issuance of shares	161,710	414	1,365
Contribution of 25% of UBIS AG for issuance of shares	525,000	1,342	1,965
Waiver of capital increase (entry of the contribution of 21.6% of the shares in PSI AG/Switzerland)			
Unrealized losses from financial investments			
As of December 31, 2002	**11,012,870**	**28,154**	**71,765**

		Components of comprehensive income			
Contribution made for capital increase	Other revenue reserves	Retained earnings/ accumulated deficit	Accumulated other comprehensive loss	Total comprehensive loss	Total shareholders' equity
EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
13,899	**1,220**	**–29,541**	**–73**	**–29,614**	**65,249**
		–5,086		–5,086	–5,086
			–81	–81	–81
					249
					1
342					342
1,779					1,779
3,307					3,307
–1,510					0
–3,589					0
–8,800					0
			–205	–205	–205
5,428	**1,220**	**–34,627**	**–359**	**–5,372**	**65,555**
		–14,810		–14,810	–14,810
			–26	–26	–26
					940
–1,779					0
–3,307					0
–342					–342
			–272	–272	–272
0	**1,220**	**–49,437**	**–657**	**–15,108**	**51,045**

Consolidated Fixed Assets Movement Schedule

	Aquisition and production cost			
	Jan. 1, 2002	Additions	Disposals	Dec. 31, 2002
	EUR k	EUR k	EUR k	EUR k
Property, plant and equipment				
Land and buildings	12,186	76	0	12,262
Computers and accessories	13,600	1,019	731	13,888
Other equipment, factory and office equipment	4,738	785	128	5,395
	30,524	**1,880**	**859**	**31,545**
Intangible assets				
Other intangible assets	15,143	2,910	433	17,620
Goodwill	28,618	653	0	29,271
Capitalized software development costs	24,201	628	726	24,103
	67,962	**4,191**	**1,159**	**70,994**
	98,486	**6,071**	**2,018**	**102,539**

Segment Reporting

	Network Management	
	Dec. 31, 2002	Dec. 31, 2001
	EUR k	EUR k
Sales		
Software production and maintenance	58,633	49,531
Licenses	1,993	5,811
Hardware	17,573	22,436
	78,199	**77,778**
Gross profit	**18,995**	**14,671**
Operating expenses	14,491	9,511
of which research and development expenses	5,285	292
Result before income taxes and minority interests	4,442	3,138
Net loss / income for the year (before minority interests)	**8,182**	**776**
Other disclosures		
Depreciation and amortization (scheduled)	2,774	4,573
of which goodwill	0	1,598
Depreciation (extraordinary)	0	969
Non-current assets	29,432	26,742

	Accumulated Depreciation				Net book values	
	Jan. 1, 2002	Provisions	Reversals	Dec. 31, 2002	Dec. 31, 2002	Dec. 31, 2001
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
	4,789	352	0	5,141	7,121	7,397
	11,166	1,723	597	12,292	1,596	2,434
	3,071	863	118	3,816	1,579	1,667
	19,026	**2,938**	**715**	**21,249**	**10,296**	**11,498**
	11,365	1,748	307	12,806	4,814	3,778
	6,231	5,395	0	11,626	17,645	22,387
	22,352	713	658	22,407	1,696	1,849
	39,948	**7,856**	**965**	**46,839**	**24,155**	**28,014**
	58,974	**10,794**	**1,680**	**68,088**	**34,451**	**39,512**

	Production Management		Information Management		PSI Group	
	Dec. 31, 2002	Dec. 31, 2001	Dec. 31, 2002	Dec. 31, 2001	Dec. 31, 2002	Dec. 31, 2001
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
	41,480	48,938	22,576	26,053	122,689	124,522
	4,742	8,561	683	538	7,418	14,910
	2,071	1,603	964	1,388	20,608	25,427
	48,293	**59,102**	**24,223**	**27,979**	**150,715**	**164,859**
	9,562	**21,402**	**2,248**	**3,596**	**30,805**	**39,669**
	24,593	24,368	4,154	4,728	43,238	38,607
	6,260	10,017	0	0	11,545	10,309
	–17,823	–3,134	–5,583	–1,482	–18,964	–1,478
	–17,429	**–3,265**	**–5,645**	**–2,237**	**–14,892**	**–4,726**
	2,017	2,096	608	570	5,399	7,239
	0	262	0	427	0	2,287
	2,075	0	3,609	0	5,684	969
	8,009	12,028	3,025	6,860	40,466	45,630

Notes

to the Consolidated Financial Statements as of December 31, 2002

The company

1. Business activities and legal background

The business activities of PSI AG (hereinafter referred to as "Company" or "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 and business consulting

The PSI Group is divided into the main business lines (segments) network management, production management and information management.

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.

Main customers are utility, telecommunication and manufacturing companies in Germany and Europe.

The Company was founded as a limited liability company in 1969 and reorganized as a stock corporation in 1994. In 1998, the Company was floated on the Neuer Markt in Frankfurt am Main.

The Company has its headquarters 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, Aschaffenburg, Essen, Dortmund, Düsseldorf, Karlsruhe and Neviges.

2. Summary of significant accounting and valuation principles

Basis of presentation

The consolidated financial statements of PSI AG and its subsidiaries ("PSI AG" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP").

Consolidation principles

The assets, liabilities and results of operations of entities in which the Company has a controlling interest have been consolidated. All material intercompany accounts and transactions have been eliminated for consolidation purposes.

Use of estimates and assumptions

The preparation of the financial statements in compliance with generally accepted accounting principles calls for estimates and assumptions by the management board which have an effect on the amounts disclosed in the balance sheet, on the disclosure of contingent receivables and liabilities at closing date, and on the earnings and expenses disclosed during the reporting period. The actual result may deviate from these estimates and assumptions.

Associated enterprises

Investments in which the Company exercises significant influence but does not control (generally 20-50% ownership interest) are accounted for under the equity method of accounting.

Foreign currency translation adjustment

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 of the participations is translated at the historical exchange rate. Any differences arising from the application of different currency exchange rates are recorded for the period of affiliation without any effect on profit and reported separately in the equity section. Ongoing gains and losses on transactions in foreign currency are recorded in the operating statement.

Revenue recognition

The Company generates its revenues mainly from the licensing of the rights to use its software products to end users, both with and without customization. The Company also generates revenues from sales of third party software and hardware as well as other services, including installation, consulting, training and maintenance.

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 (collectively "SOP 97-2"). In accordance with SOP 97-2, revenue from licenses is recognized if there is sufficient evidence that a contractual agreement exists, delivery has occurred, the license fee is fixed or determinable and the collection of the fee 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. If a contract contains multiple elements revenue is recognized based on the customary pricing for the separate components.

Revenue from project business is recognized in accordance with SOP 97-2. 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 is deferred and recognized under the percentage of completion method of accounting as the project is performed. Percentage of completion is measured by the ratio of labor cost incurred to the total estimated labor cost or on a milestone basis. Payments received from customers on account of orders are offset against the corresponding receivables items without an effect on income. Revenue from short-term 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.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" ("SAB 101"). The accounting principles of PSI AG comply with the SEC position.

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 are expensed as incurred – unless capitalization is required pursuant to SFAS No. 86 "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed".

Net earnings (loss) per share

Basic earnings per share are computed in accordance with SFAS No. 128 "Earnings per Share" using income available to holders of common shares divided by the weighted average of common shares outstanding during the year. Diluted earnings per share are similar to basic earnings per share except that the weighted average of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares, such as options, had been issued. For all periods presented, no potentially dilutive securities have been included in the calculation of diluted loss per share as such amounts would be antidilutive in periods in which a loss has been reported.

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.

Inventories

Inventories comprise purchased hardware and licenses belonging to third parties that are to be sold, which are carried at acquisition cost, and work in progress, which is valued according to the completed contract method. Inventories are shown at the lower of cost or market. In fiscal 2002 valuation allowances were established totaling EUR 514k (EUR 0k in 2001).

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.

The Company classifies its existing marketable equity securities as available-for-sale and discloses them at market value. Unrealized gains and losses from available-for-sale securities are reported in other comprehensive income, net of income tax effects. The gains and losses realized are calculated for every sale and disclosed with an effect on income. The Company defines permanent impairment at each balance sheet date on the basis of various factors, including the length of time over which the market value of the securities was lower than their acquisition cost and a special analysis and valuation for each security.

Concentration of credit risks

The Company offers its services to a large number of customers, operating in various industries and geographical regions. The PSI Group grants credit to customers who qualify for it; this does not lead to any inappropriate concentration of risk.

Intercompany transactions

Transactions between companies in the PSI Group are carried out at market prices.

Long-lived assets

a) Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method of depreciation over the useful lives of the respective classes of assets as follows:

	Useful life/ depreciation rate	Method
Buildings and land improvements	10–50 years	Straight-line
Leasehold improvements	3–15 years	Straight-line/ term of rental agreement
Computers and accessories	3–4 years	Straight-line
Furniture and equipment	5–13 years	Straight-line

Cost includes major expenditures and replacements which extend useful lives or increase capacity and interest costs associated with significant capital additions. For all periods presented, the interest costs allocable to these projects are insignificant and thus not capitalized. When plant or equipment is sold or scrapped, its residual value after deducting accumulated depreciation from historical cost is written off. Gains and losses on the disposal of assets are posted to earnings. Maintenance and minor repairs are charged to operations as incurred, while expenses leading to a significant improvement or complete renewal are capitalized.

Leasehold improvements are amortized over the shorter of their estimated useful life or the life of the lease. Equipment covered by capital leases is depreciated over its estimated useful life. Useful lives are re-estimated regularly by management in order to determine recoverability in light of current technological conditions.

b) Intangible assets and goodwill

Intangible assets comprise goodwill, capitalized software development costs and other intangible assets (software and licenses).

Goodwill

Goodwill is the difference between the purchase price of a business less the fair value of the net tangible and separately identifiable intangible assets. Goodwill arising from acquisitions until June 30, 2001 was amortized over the estimated useful life of ten years. Goodwill arising from acquisitions after July 1, 2001 is not amortized.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires the purchase method to be applied to account for business combinations that were initiated after June 30, 2001. SFAS No. 141 further requires that intangible assets which meet the contractual-legal criterion or the separability criterion in the sense of being able to be sold or transferred individually or issued separately as collateral or as licenses are recognized separately in the balance sheet.

SFAS No. 142 requires that goodwill is no longer amortized on a straight-line basis over its useful life. Instead, it is subject to an impairment test if there is any indication of permanent impairment or at least once annually on balance sheet date.

In fiscal 2002, valuation allowances of EUR 5,395k were established for goodwill. These are related to the first-time application of SFAS No 142.

If the Company had applied SFAS at the beginning of fiscal year 2001, amortization of goodwill amounting to EUR 2,287k would not have been recognized, and a consolidated net deficit of EUR 2,799k would have been disclosed.

Capitalized software development costs

The Company accounts for internally generated software development costs for the development of new software products and of significant improvements to existing software products in accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed". Capitalization of software development costs begins upon the establishment of technological feasibility of the product, which the Company defines as the development of a working model and further defines as the completion of beta testing of the software. The establishment of technological feasibility and the ongoing assessment of the recoverability of these costs requires considerable judgment by management with respect to certain external factors, including, but not limited to, anticipated future gross product revenue, estimated economic life and changes in technology. 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.

Other intangible assets

Intangible assets are valued at cost less accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives of three to ten years.

Depreciation of long-lived assets

The Company has applied SFAS No. 144 "Accounting for the Impairment or Disposal of Long Lived Assets" and SFAS No. 142 with regard to the permanent impairment of goodwill effective January 1, 2002.

The Company reviews the carrying amount of long-lived assets (property, plant and equipment, intangible assets, financial assets and goodwill) if there is any indication that the carrying amount of the asset is impaired. The recoverability of long-lived assets other than goodwill is assessed by comparing the carrying amount of the respective asset with the expected discounted cash flows that can be generated from the asset. If the carrying amount is lower than the sum of undiscounted cash flow an impairment is recorded equal to the difference between the carrying amount and the discounted cash flow.

In fiscal years 2002 and 2001, valuation allowances of EUR 289k and EUR 969k were established for long-lived assets, exclusive of goodwill.

Due to the application of SFAS No. 142, the recoverability of goodwill is tested if there are any indications of a permanent impairment. An impairment test must be performed at least once a year. Pursuant to SFAS No. 142, the impairment test is conducted by referring to the implied fair value of the asset. Implied fair value is determined as the discounted cash flow. The impairment test required by SFAS No. 142 to test the recoverability of goodwill is performed in two steps:

In the first step, the implied fair value of the reporting unit is compared with its carrying amount. The reporting unit for such a test is defined as an operating segment or one level below an operating segment (as long as certain criteria are met). If the implied fair value of a reporting unit lies below the carrying amount, goodwill is impaired and the second step of the impairment test must be performed.

In the second step, the impairment of goodwill is calculated as the difference between the carrying amount of the goodwill of the reporting unit and its implied fair value. Implied fair value is calculated by deducting the fair value of all the assets and liabilities of the reporting unit (including unrecognized intangible assets) from the implied fair value of the goodwill. In this step, the goodwill of the reporting unit is allocated completely to the assets and liabilities of the reporting unit (hypothetical allocation of the purchase price).

Pursuant to SFAS No. 142, the impairment test must be performed once annually and also on the date of first time application of the standard. Impairment losses arising from the first-time application of SFAS No. 142 are treated as changes in accounting policies.

Deferred taxes

The Company accounts for taxes on income according to the liability method, in compliance with SFAS No. 109 "Accounting for Income Taxes". When applying the liability method, deferred taxes are defined on the basis of temporary valuation differences in the recognition of items in the consolidated financial statements and the tax accounts. In this case, the taxation rate to be applied is the one valid for the year in which the effect is reversed. Deferred tax assets are provided for tax-deductible net loss carryforwards. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that such assets will not be realized.

Stock based compensation

The Company accounts for stock-based compensation using the intrinsic value method prescribed in APB 25 "Accounting for Stock issued to Employees". Compensation cost for stock options 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. These costs are recognized as expenses in the period before the options are exercised. The Company's plans satisfy the criteria of a "fixed plan" pursuant to APB 25.

SFAS No. 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 as described above, and has adopted the disclosure requirements of SFAS No. 123.

Comprehensive income

Accumulated other comprehensive income as of December 31, 2002 consists of the following:

	Dez. 31, 2001 EUR k	Change 2002 EUR k	Dez. 31, 2002 EUR k
Foreign currency translation adjustment	–248	–26	–274
Unrealized loss on available-for-sale securities	–111	–272	–383
	–359	**–298**	**–657**

Recent accounting pronouncements

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. An entity shall measure changes in the liability for an asset retirement obligation due to passage of time by applying an interest method of allocation to the amount of the liability at the beginning of the period. The interest rate used to measure that change shall be the credit-adjusted risk-free rate that existed when the liability was initially measured. That amount shall be recognized as an increase in the carrying amount of the liability and as an expense classified as an operating item in the statement of income.

SFAS No. 143 shall be applied for the first time in fiscal periods beginning after June 15, 2002. The Company assumes that the first-time application of SFAS No. 143 has no material impact on the net worth, financial position and earnings of the Company.

FASB published SFAS No. 145 in April 2002. This statement changes SFAS No. 13 with regard to accounting for transactions which are similar to sale and lease back transactions. This particularly affects contracts that originally qualified as capital leases and which are now treated as capital leases. SFAS No. 145 applies to fiscal years that commence after May 15, 2002; FASB recommends introduction as early as possible. Currently the Company has no plans to change any leases. Thus, the application of SFAS No. 145 will have no significant effects on the net worth, financial position and results of operations of the Company.

In June 2002, FASB published SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 governs the treatment of certain costs that are related to closure, sale or restructuring activities that are currently accounted for pursuant to Emerging Issues Task Force ("EITF") 94-3, "Liability Recognition for Certain Employee Terminations Benefits and Other Costs to Exit an Activity".

SFAS No. 146 relates to expenses incurred due to the premature termination of any contracts other than capital leases and to the expenses associated with one-off severance payments for employees who are laid off. SFAS No. 146 applies to closure and sales activities initiated after December 31, 2002. The effects of applying SFAS No. 146 to the net worth and results of operations of the Company have not yet been determined.

In December 2002, the FASB approved SFAS No. 148 – “Accounting for Stock-Based Compensation – Transition and Disclosure”. SFAS No. 140 extends SFAS No. 123 to include alternative methods to ascertain the current cost of stock-based employee remuneration. SFAS No. 148 also extended the disclosure requirements of SFAS No. 123 to the extent that when the notes detail the general accounting and valuation principles used, they must disclose the influence that the choice of one accounting method for stock-based employee remuneration has on the annual result and earnings per share in the financial statements or interim financial statements. By contrast , SFAS No. 148 does not extend SFAS No. 123 with respect to the application of current cost models for stock-based employee remuneration. The disclosure requirements of SFAS No. 148 have to be complied with both by companies that account for stock-based employee remuneration on the basis of the current cost method pursuant to SFAS No. 123 and by companies that do so on the basis of the intrinsic value method pursuant to APB No. 25. The requirements of SFAS No. 148 have to be applied for the first time to fiscal years beginning after December 15, 2002. The Company is acting on the assumption that the first-time application of SFAF No. 148 will not have a significant influence on the Company’s net worth, financial position or the results of operations.

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

The consolidated financial statements of PSI AG as of December 31, 2002 were prepared as **exempting consolidated financial statements in accordance with § 292a HGB in conformity with US generally accepted accounting principles (“US GAAP”)** and on the basis of the German Accounting Standards No 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 US 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:

According to HGB, all items in the balance sheet and statement of income must follow the form and classification set out in Secs. 266 and 275 HGB. US GAAP requires a different presentation by which the balance sheet items are classified in order of liquidity. Under US GAAP current portions of non-current receivables and liabilities are stated in separate balance sheet items. The portion due within 12 months is considered to be current.

Compared with German accounting principles, the application of US GAAP results in differences in the area of foreign currency valuation, deferred taxes, leases, revenue recognition, capitalization of software development costs, and the calculation, scheduled and extraordinary amortization goodwill and stock option plans.

3. Changes in the consolidated group

Subsidiaries

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

	Shares %	Equity* as of Dec. 31, 2002 EUR k	Net income* 2002 EUR k
PSI-BT Business Technologies for Industry AG, Düsseldorf ("PSI-BT")	58.0	6,079	97
UBIS United Business Internet Solutions AG, Berlin ("UBIS")	100.0	1,575	–891
PSIPENTA Software Systems GmbH, Berlin ("PSIPENTA")	100.0	0	–1,760
PSI Transportation GmbH, Berlin ("Transportation")	100.0	799	–447
NENTEC Netzwerktechnologie GmbH, Karlsruhe ("Nentec")	100.0	26	0
PK Software Engineering GmbH, Leonberg ("PK Soft")	75.0	449	–69
PSI logistics GmbH, Berlin ("Logistics") – Group	94.0	0	1,307
PSI AG Produkte und Systeme der Informationstechnologie, Schwerzenbach, Schweiz ("PSI/CH")	100.0	42	845
Büsing und Buchwald Gesellschaft für Organisation und Datenverarbeitung mbH, Barsinghausen	100.0	754	302

* HGB values prior to consolidation entries; equity takes account of capital increases that have been resolved but not yet registered.

Acquisitions and similar transactions

a) Fiscal year 2002

On March 26, 2002, PSI AG sold 13,000 no-par registered shares in front2back AG for EUR 32,500. Its interest was thus reduced from 60% to 34%.

By virtue of a notarized deed dated April 11, 2002, PSI AG acquired 100% of the business shares in Büsing & Buchwald Gesellschaft für Organisation und Datenverarbeitung mbH. The purchase price was settled by a cash payment of EUR 2,045,000 and the issue of 200,000 shares. It was also agreed that if profit targets are achieved or the PSI AG share price develops in a certain way in fiscal years 2002 to 2004, further purchase price payments of a maximum of EUR 1,300,000 will become due.

By virtue of a notarial deed dated August 27, 2002, PSI Infrastruktur Services GmbH, a wholly owned subsidiary of PSI AG, was merged with Schindler Technik Aktiengesellschaft, an associated company of PSI AG. As counter-performance for the shares held in PSI Infrastruktur Services GmbH (nominal amount EUR 50,000), PSI AG was granted 23,968 no-par value shares in Schindler Technik Akktiengesellschaft, with profit participation rights from January 1, 2002. In addition, PSI AG was granted the right, within a two-year period following the merger, to acquire a further 23,488 no-par value shares in Schindler Technik Aktiengesellschaft for a cash consideration of EUR 63,997. In connection with the merger, the common stock of Schindler Technik Aktiengesellschaft was increased by EUR 47,936. As a result of the merger and the concomitant issue of shares, the share of PSI AG in the common stock of Schindler Technik Aktiengesellschaft rose to 34.7%. The merger was entered in the commercial register on October 30, 2002.

As a result of a decision dated December 2, 2002, insolvency proceedings were instituted against PSI Solutions GmbH, a wholly owned subsidiary of PSI AG.

b) Fiscal year 2001

The following table summarizes the acquisitions completed during 2001:

Company	UBIS	Automotive	PK Soft	PSI/CH	Solution
Acquisition date	**Sep. 11, 2001**	**July 11, 2001**	**August 15, 2001**	**June 8, 2001**	**June 20, 2001**
Shares acquired	25%	40%	75%	21.6%	100%
Consideration					
Number of shares issued	525,000	161,710	0	19,000	0
Fair value (EUR '000)	3,307	1,779	0	342	0
Cash paid (EUR '000)	0	0	375	0	256
	3,307	**1,779**	**375**	**342**	**256**

For acquisitions in fiscal year 2001, purchase prices totaling EUR 6,059k were paid. The acquisitions relate to the purchase of shares in UBIS, Automotive and PSI/CH, and thus to the purchase of outstanding minority interests in subsidiaries already included in full consolidation in the prior year. The fair value of the consideration in shares of PSI was assessed based on market values as of the effective date of the related acquisition.

Since the major transactions (acquisition of UBIS, Automotive and PSI/CH) relate to acquisition of minority shares of companies which have been considered in the prior year consolidated financial statements, no additional pro forma financial information is needed.

c) Summary

For acquisitions in fiscal year 2002, purchase prices totaling EUR 3,015k (prior year EUR 6,059k) were paid. The fair value of the consideration in shares of PSI was assessed based on market values as of the effective date of the related acquisition.

The following is a preliminary allocation of the purchase prices for the acquisitions to the fair value of the assets acquired and liabilities assumed:

	2002 EUR k	2001 EUR k	Straight-line amortization over a useful life of
IIntangible assets			
Customer list	1,300	0	10 years
Software and licenses	39	5	3–10 years
Property, plant and equipment	**235**	**8**	**3–4 years**
Goodwill			
Goodwill to be subject to scheduled amortization	0	342	10 years
Goodwill not to be subject to scheduled amortization	967	3,805	
Short-term assets			
Order backlog	1,216	252	
Receivables	254	355	
Other assets	392	130	
Cash and cash equivalents	1,227	719	
	5,630	**5,616**	
Liabilities			
Accruals	–763	–489	
Advance payments	–1,366	–9	
Trade payables	–74	–3	
Other liabilities	–412	–212	
		–713	
Minorities			
Additions of minorities	0	–125	
Disposal of minorities	0	1,281	
	3,015	**6,059**	

The allocation of purchase price is based on estimates of fair value and is subject to revision based upon finalization of management’s assessment of the fair value of net assets acquired.

The results of operations of the acquired entities have been included in the consolidated statement of operations since the related acquisition date.

As the major net worth, financial position and results of operations of Büsing und Buchwald GmbH are not material in comparison to the net worth, financial position and results of operations, there is no need to present any pro forma information (equally immaterial in the prior year).

Other transactions

a) Fiscal year 2002

By virtue of a notarial deed of August 16, 2002, PSI AG contributed the business shares held in PSIPENTA AUTOMOTIVE GmbH, worth a nominal EUR 10k (40% of the subscribed capital of PSIPENTA AUTOMOTIVE GmbH), to Psipenta Software Systems GmbH at book value. The contribution amount was contributed to the capital reserve of Psipenta Software Systems GmbH.

Also by virtue of a notarial deed dated August 16, 2002, PSIPENTA AUTOMOTIVE GmbH was merged with Psipenta Software Systems GmbH. Previously, Softsystems Scheufele & Happe GmbH, a wholly owned subsidiary of PSIPENTA AUTOMOTIVE GmbH had been merged with PSIPENTA AUTOMOTIVE GmbH. The mergers had no accounting effects on the consolidated financial statements of PSI AG. The merger of PSIPENTA AUTOMOTIVE GmbH with Psipenta Software Systems GmbH was filed with the Commercial Register on November 13, 2002.

b) Fiscal year 2001

During 2001 PSI AG founded the subsidiary PSI Infrastruktur Services GmbH. The newly founded company in which PSI AG holds 100% of the shares manages the infrastructure equipment for all companies of the PSI Group and renders its services to non-group companies as well.

In 2001, the merger between ECI-Entwicklungsgesellschaft für computergestützte Industriesysteme mbH, Planar Gesellschaft für technische Softwaresysteme mbH and the branch for logistics systems of PSI AG became effective. The new company is named **PSI logistics GmbH**. It was filed with the commercial register on October 2, 2001.

4. 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. These amounts are realized according to various performance criteria, such as the achievement of specific milestones, the ratio of scheduled to actual project hours of certain employees, the completion of certain units or the completion of the contract. The balance sheet item contains directly allocable direct costs (labor cost and cost of services provided by third parties) as well as the appropriate portion of overheads.

Costs and estimated earnings on uncompleted contracts and related amounts are billed as follows, using the percentage of completion method:

	Dec. 31, 2002 EUR k	Dec. 31, 2001 EUR k
Costs incurred on uncompleted contracts	48,583	54,151
Estimated earnings	12,413	34,102
	60,996	88,253
Less billings	–46,393	–67,792
	14,603	**20,461**

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

	Dec. 31, 2002 EUR k	Dec. 31, 2001 EUR k
Costs and estimated earnings in excess of billings on uncompleted contracts	36,723	35,423
Billings in excess of costs and estimated earnings on uncompleted contracts	–22,120	–14,962
	14,603	**20,461**

5. Inventories

	Dec. 31, 2002 EUR k	Dec. 31, 2001 EUR k
Work in progress	1,771	2,454
Hardware and third-party licenses	1,891	4,346
	3,662	**6,800**

6. Other receivables

	Dec. 31, 2002 EUR k	Dec. 31, 2001 EUR k
Receivables due from tax authorities	1,365	1,016
Advance payments	225	2,014
Receivables from reimbursements	0	1,212
Other	1,778	2,026
	3,368	**6,268**

7. Financial assets

	Dec. 31, 2002 EUR k	Dec. 31, 2001 EUR k
Marketable securities	3,875	4,206
Associated companies consolidated "at equity"	840	227
Investments valued at cost	1,300	1,685
	6,015	**6,118**

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

	Dec. 31, 2002 EUR k	Dec. 31, 2001 EUR k
Marketable securities		
Acquisition cost	4,258	4,317
Unrealized gains	0	0
Unrealized losses	–383	–111
Fair Value	**3,875**	**4,206**

The marketable securities mainly consist of shares of SZ-Cofonds (investment fund) which invests in German companies listed in the DAX 100 and other European debt securities. Investment income/loss from this investment fund (dividends paid, increase/decrease in market value) amounts to EUR –272k for 2002 and EUR –205k for 2001 respectively.

Associated companies consolidated "at equity" comprise the book values of the following companies:

	Share %	Dec. 31, 2002 EUR k	Dec. 31, 2001 EUR k
VA TECH CNI Control Networks & Information Management GmbH	40.0%	600	0
Integral Datentechnik Kaiserslautern GmbH	49.0%	0	96
Schindler Technik AG	34.7%	229	131
front2back AG	34.0%	11	0
GSI Gesellschaft für Steuerungs- und Informationssysteme mbH*	46.0%	0	0
		840	**227**

* Participation in 2001 to be disclosed as financial assets

The investments valued at cost comprise the net acquisition cost of the following shares:

	Share %	Dec. 31, 2002 EUR k	Dec. 31, 2001 EUR k
Varial GmbH	9.0%	1,300	1,300
GSI Gesellschaft für Steuerungs- und Informationssysteme mbH*	18.0%	0	385
		1,300	**1,685**

* Participation in 2002 to be disclosed as an associated enterprise

8. Property, plant and equipment and intangible assets

The development of the property, plant and equipment and intangible assets is shown in the fixed asset movement schedule.

9. Financial liabilities

	Dec. 31, 2002 EUR k	Dec. 31, 2001 EUR k
Current	3,540	4,948
Noncurrent	522	2,124
	4,062	**7,072**

PSI AG has taken out several bank loans with an original face value of EUR 2,626k (EUR 9,500k in 2001) in total to finance investments in property, plant and equipment and intangible assets. Additionally, several group companies use bank overdrafts for short-term financing. The loans carry an interest rate of 5.3% (2001: 5.3% per annum) and overdrafts carry an average interest rate of 8.25% per annum (2001: 8% per annum). Financial liabilities are repaid monthly.

The following table shows the planned repayment of noncurrent financial liabilities and current overdraft facilities:

Year	Repayment EUR k
2003	3,540
2004	522
	4,062

The current cash position of PSI group as of December 31, 2002 amounts to KEUR 21,532 (2001: KEUR 12,873). As of balance sheet date the following credit lines are available to PSI group:

	Guarantees EUR k	Mixed guarantees and credit lines EUR k
Credit lines	64,213	9,646
Usage of credit lines	–38,260	–3,398
Remaining credit lines	25,953	6,248

10. Other current liabilities and other accruals

Other current liabilities and accrued expenses break down as follows:

	Dec. 31, 2002 EUR k	Dec. 31, 2001 EUR k
Accrued project related costs	5,548	7,793
Accruals for personnel costs	5,770	3,963
Liabilities due to tax authorities	3,543	2,054
Liabilities for social security costs	1,472	1,237
Other	4,772	3,642
	21,105	**18,689**

11. 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. In line with common German practice, the pension plan is not secured by a pension fund. The pension accruals are calculated on the basis of an independent actuarial opinion. The valuation of pension obligations is based on the projected unit credit method in SFAS No. 87 "Employers' Accounting for Pensions".

Net pension expenses are composed as follows:

	2002 EUR k	2001 EUR k
Service cost	655	707
Interest cost	1,229	1,073
Actuarial loss (gain)	135	101
Settlement effects	0	–204
PExpenses for the period (net)	**2,019**	**1,677**

The following tables set forth changes in the benefit obligation:

	Dec. 31, 2002 EUR k	Dec. 31, 2001 EUR k
Benefit obligation, beginning	18,944	17,274
Service cost	655	707
Interest cost	1,229	1,073
Actuarial loss (gain)	135	101
Settlement effects	0	–204
Benefits paid	–266	–244
Amortization of differences	–40	–40
Transfers/acquisitions	–132	277
Benefit obligation, ending	**20,525**	**18,944**

The calculations prepared by an actuary relating to the pension accruals disclose a value of EUR 23,193k for the projected benefit obligation (PBO) for the fiscal year ending on December 31, 2002 (prior year: EUR 21,634k).

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.

12. Stockholders' equity

Common stock

The common stock entered in the commercial register, which has been fully paid in, stands at EUR 28,153,955.11 (2001: EUR 25,887,166.99). The capital stock is divided into 11,012,870 (2001: 10,126,160) no-par shares.

Capital increases

a) Fiscal year 2002

By virtue of a notarized purchase agreement of July 11, 2001, 40% of the shares in Psipenta Automotive GmbH, Gelsenkirchen, were acquired by issue of 161,710 no-par shares with an imputed value of EUR 2.56. That increase in capital (EUR 413,405.05) was filed with the commercial register on January 21, 2002.

By share purchase agreement dated June 8, 2001, 21.6% of the shares in PSI Aktiengesellschaft Produkte und Systeme der Informationstechnologie, Schwerzenbach, Switzerland, were acquired by issue of 19,000 no-par shares with an imputed value of EUR 2.56. The seller of the shares has assigned the right to issue of shares in Gontard & MetallBank AG i.L. for cash payment. The administrator of Gontard & MetallBank i.L. has declared to PSI

AG that he waives assumption of the shares for cash payment of an amount equivalent to the current price of the shares. Following this, PSI AG paid an amount of EUR 28,500 to the administrator.

By share purchase agreement certified by public notary dated September 11, 2001, 25% of the shares in UBIS United Business Internet Solutions AG, Berlin, were acquired by issue of 525,000 no-par shares with an imputed value of EUR 2.56. That increase in capital (EUR 1,342,141.19) was filed with the commercial register on June 20, 2002.

By virtue of a purchase agreement of April 11, 2002, 100% of the shares in Büsing & Buchwald Gesellschaft für Organisation und Datenverarbeitung mbH were acquired by issuing 200,000 no-par shares with an imputed EUR 2.56 share in capital stock and by payment of EUR 2,045k in cash. That increase in capital (EUR 511,291.88) was filed with the commercial register on November 27, 2002.

b) Fiscal year 2001

Through conversion of convertible debt the contingent capital was reduced by EUR 327.22. The capital increase (issuance of 128 shares) was filed with the commercial register on March 27, 2001.

By virtue of a notarized purchase agreement of April 19, 2002, 9% of the shares in UBIS United Business Internet Solutions AG, Berlin, were acquired by issuing 39,539 no-par shares with an imputed EUR 2.56 share in capital stock. That increase in capital (EUR 101,079.85) was filed with the commercial register on March 27, 2001.

On May 31, 2002, the gas management segment of debis Systemhaus GEI – Gesellschaft mbH, Aachen, was acquired by issuing 335,238 no-par shares with an imputed EUR 2.56 share in capital stock. The increase in capital (EUR 857,022.34) was filed with the commercial register on March 27, 2001.

By virtue of a notarized purchase agreement of October 25, 2000, 100% of the shares in repas AEG Software GmbH, Berlin, – now known as PSI Transportation GmbH – were acquired by issue of 145,000 no-par shares with an imputed value of EUR 2.56. The increase in capital (EUR 370,686.61) was filed with the commercial register on March 27, 2001.

In February 2001, in connection with the employee participation program, PSI AG offered its employees the Company's own shares at a special price. A total of 18,430 shares were issued to employees and the corresponding cash payments received. The increase in capital (EUR 47,115) was filed with the commercial register on February 8, 2001.

Authorized and contingent capital

Changes in authorized and contingent capital developed as follows:

	Dec. 31, 2002 EUR	Changes in 2002 EUR	Registration date	Dec. 31, 2001 EUR
Authorized capital (AC)				
AC I (until June 7, 2006)	2,585,000.00	0.00		2,585,000.00
AC II (until June 7, 2006)	4,823,911.07	–413,405.05	Jan. 21, 2002	7,090,749.19
		–1,342,141.19	June 20, 2002	
		–511,291.88	Nov. 27, 2002	
AC III (until May 25, 2005)	1,231,114.15	0.00		1,231,114.15
	8,640,025.22	**–2,266,838.12**		**10,906,863.34**
Contingent capital (CC)				
CC II (May 25, 2005)	1,278,229.70	0.00		1,278,229.70
	1,278,229.70	0.00		1,278,229.70
	9,918,254.92	**–2,266,838.12**		**12,185,093.04**

13. Stock option plans

As part of a stock option program, the Company has issued stock options to its employees. 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 for the first time after approximately two and a half years. No further conditions have been set up for exercising the option rights.

Under the 2001/2003 stock option plan (the “2001/2003 plan”) the Company has issued 121,400 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 17.79 and to vest such shares for the first time after approximately two years. No further conditions have been set up for exercising the option rights.

Under the 2002/2004 stock-option plan (the “2002/2004 plan”) the Company has issued 116,300 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 3.65 and to vest such shares for the first time after approximately two years. No further conditions have been set up for exercising the option rights.

The options had no positive intrinsic value at the grant date.

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

	2000/2003 plan share options	2001/2003 plan share options	2002/2004 plan share options
Options outstanding as of Dec. 31, 2000	**86,400**	**121,400**	**0**
Granted	0	0	0
Exercised	0	0	0
Forfeited	–2,950	–3,600	0
Options outstanding as of Dec. 31, 2001	**83,450**	**117,800**	**0**
Granted	0	0	116,300
Exercised	0	0	0
Forfeited	–10,400	–8,500	–6,800
Options outstanding as of Dec. 31, 2002	**73,050**	**109,300**	**109,500**

According to the calculation contained in SFAS No. 123, the fair value of options granted in November 2000 was approximately EUR 3.52 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%.

According to the calculation contained in SFAS No. 123, the fair value of options granted in July 2001 was approximately EUR 3.07 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 4.72% p.a., expected life of 24 months, expected dividend yield of zero percent and expected volatility of 15%.

According to the calculation contained in SFAS No. 123, the fair value of options granted in May 2002 was approximately EUR 0.85 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 4.46% p.a., expected life of 24 months, expected dividend yield of zero percent and expected volatility of 20%.

Had compensation costs for these grants been consistent with SFAS No. 123, "Accounting for Stock-Based Compensation", the Company's net loss would have been increased by approximately EUR 335,662 (2001: EUR 217,398). Earnings per share would have been approx. EUR 0.03 (2001: EUR 0.02) less.

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

Rental and lease agreements

Office equipment, data processing systems and other equipment have been rented on the basis of operating lease agreements. In 2001 leasing charges of EUR 2002k (2001: EUR 112k) were incurred for office equipment and of EUR 300k (2001: EUR 470k) for the rented data processing systems and other equipment.

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 rent agreements give rise to the following rent payments:

	Rental payments EUR k	Lease payments EUR k	Total EUR k
2003	4,846	1,472	6,318
2004	4,079	955	5,034
2005	4,079	955	5,034
2006	2,588	46	2,635
2007	2,588	46	2,635
2008 and thereafter	10,039	93	10,133

Bank sureties

Various insurance companies and banks has assumed bank sureties for EUR 38,260k (2001: EUR 44,053k) for PSI.

Existing legal disputes

There is a legal dispute with a customer resulting from a legal transaction concluded in fiscal year 1997. A claim for damages totaling EUR 3.3 million has been filed against the PSI Group (of which the court has decided that approx. EUR 0.7 million at most is enforceable), with a further claim for EUR 0.6 million still being pursued. The consolidated financial statements of the PSI Group disclose net claims of EUR 0.8 million against the customer and EUR 0.5 million accruals for litigation risks. The legal counsels entrusted with handling the legal dispute assume that the accounting presentation of the risks resulting from the litigation is sufficient.

Together with a contractual partner, the PSI Group is suing a customer for payment of EUR 4.4 million for work resulting from a transaction concluded in fiscal year 1997. The case was lost at the first hearing. The PSI Group has appealed against this decision. The consolidated financial statements of the PSI Group disclose net claims of EUR 3.6 million. The legal counsel of the PSI Group feel that the chances of asserting these claims in an appeal are good.

In connection with the dispute between the PSI Group and persons formerly related with the PSI Group, various claims totaling EUR 1.2 million are being asserted against the PSI Group. For its part, the PSI Group is asserting claims of EUR 0.3 million.

The PSI Group has taken a customer to court to claim a receivable of EUR 0.4 million resulting from a legal transaction concluded in 2000. The legal counsel of the PSI Group assumes that the amount of the receivable can be collected through the courts.

Tax field audit

In fiscal year 2002, a tax field audit was conducted for several companies of the PSI Group for fiscal years 1996 through 2000. A final report of the tax field audit had not yet been received when the consolidated financial statements were prepared. The results of the tax field audit – apart from issues that are currently still pending in terms of principle before the fiscal courts (approx. volume EUR 300k) – have been considered on the basis of the final meeting with tax authority staff.

15. Income taxes

	2002 EUR k	2001 EUR k
Current income tax expense	–102	–234
Deferred tax income / expenses	4,175	–3,014
	4,073	**–3,248**

A reconciliation of income taxes determined using the combined statutory rate of 38.9% is as follows:

	Dec. 31, 2002 EUR k	Dec. 31, 2001 EUR k
Loss before income taxes	**–18,965**	**–1,478**
Expected benefit for income taxes	7,376	575
Utilization of tax loss carryforwards	551	731
Depreciation of goodwill	–2,098	0
Consolidation effects	–822	–790
Valuation allowance on deferred tax assets	–601	–4,052
Other items	–333	288
	4,073	**–3,248**

Valuation allowances on deferred tax assets were considered if it is more likely than not that the related tax loss carryforwards will be used in the future.

Deferred tax assets and liabilities are summarized as follows:

	Dec. 31, 2002 EUR k	Dec. 31, 2001 EUR k
Short-term portion of tax liabilities (net)		
Deferred tax assets resulting from tax loss carryforwards	31,999	29,072
Valuation allowance for deferred tax assets resulting from tax loss carryforwards	–26,284	–25,686
Deferred tax assets (net)	5,715	3,386
Current assets, payments on account and sales-related accruals	–6,951	–7,866
Others	0	56
	–6,951	**–7,810**
Long-term portion of tax liabilities (net):		
Capitalized software development costs	–659	–792
Pension accruals	36	107
Others	925	0
	302	**–685**
Net deferred tax liabilities	**–934**	**–5,109**

16. Segment reporting

Segment reporting for network management, production management and information management was done on the basis of the statements of income for the group companies included in comprehensive consolidation. The income statements were adjusted to eliminate intragroup effects.

The Network Management segment mainly comprises the business activities of the Energy, Gas/Oil/Water and Telecommunications divisions (of PSI AG), Büsing & Buchwald GmbH, PSI Transportation GmbH and Nentec GmbH, which mainly involve the creation, introduction, service and maintenance of customer-specific software in the utilities, telecommunications and public transport spheres. 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 Production Management segment mainly comprises the business activities of PSI-BT AG, with solutions for the steel and chemicals industries, PSI logistics GmbH, with products and solutions for warehouse logistics, and Psipenta with products, and increasingly also solutions, for the manufacturing industry. PSI AG/Switzerland and PSI AG/UK exclusively sell the portfolio of PSI AG in these regions. In Austria and the Netherlands, the product portfolio of Psipenta GmbH is sold. 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 Information Management segment mainly comprises the business activities of the public management division (of PSI AG), of PK Software Engineering GmbH and of UBIS AG. The information management division mainly sells software solutions for public administration. 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.

Compared with the prior fiscal year, segment classification has been adjusted in fiscal year 2002 (disclosure of the systems and product business segments). This alteration was made in consideration of the intra-group realignment of development and sales strategy.

For segment reporting, we refer to page 36.

Segment reporting – sales by geographically defined area

The following table provides geographical information in respect of sales (sales to domestic customers and sales to international customers):

	Germany		Other countries		Total	
	2002 EUR k	2001 EUR k	2002 EUR k	2001 EUR k	2002 EUR k	2001 EUR k
Software production and maintenance	101,904	114,151	20,785	10,371	122,689	124,522
Licenses	5,457	12,929	1,961	1,981	7,418	14,910
Hardware	19,708	21,459	900	3,968	20,608	25,427
	127,069	**148,539**	**23,646**	**16,320**	**150,715**	**164,859**

Sales to other geographical regions mainly relate to sales to Switzerland (EUR 5,023k for 2002 and EUR 7,202k for 2001 respectively).

17. Net earnings (loss) per share

For fiscal years 2002 and 2001, earnings per share were calculated as follows:

	2002 thousand no-par value shares	**2001 thousand no-par value shares**
Shares at the beginning of the year	10,126	9,588
Option rights at the beginning of the year	0	98
Shares at the end of the year	11,013	10,126
Option rights at the end of the year	0	0
Average	10,601	9,984
Net loss in EUR k	**–14,810**	**–5,086**

	2002 EUR/share	**2001 EUR/share**
Net earnings (loss) per share	**–1.40**	**–0.51**

18. Reorganization and restructuring expense

In fiscal year 2002, various reorganization and restructuring measures were carried out. These measures, which are intended to bring about a major reduction in operative expenses and sales costs in following years, led to expenses totaling EUR 8,730k (prior year: EUR 0k), which worsened the operating result for 2002. The reorganization and restructuring measures mainly applied to the production and information management segments and to the corporate departments whose costs are allocated to all segments.

19. Corporate Governance

PSI AG has declared its compliance with the recommendations of the German Corporate Governance Code pursuant to Sec. 161 AktG and Sec. 15 EGAktG. Shareholders can access this declaration of compliance at all times.

20. Major shareholders

In fiscal year 2003, a consortium in which various employees of PSI AG hold their shares for the purpose of voting in common issued an updated report, pursuant to Sec. 21 WpHG, stating that 7.1% of the voting rights in PSI AG are held by the consortium. There were no other reports pursuant to Sec. 21 WpHG or Sec. 20 AktG.

21. Supplementary declarations pursuant to HG

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

Remuneration of the management board and supervisory board

In fiscal year 2002, the management board of PSI AG received remuneration of EUR 1,240k (2001: EUR 644k). Of this amount, EUR 1,001k (current remuneration EUR 351k, severance pay EUR 650k) related to retired members of the management board. The supervisory board received remuneration amounting to EUR 115k (2001: EUR 90k).

The following persons were members of the management board in 2002:

Name	Profession	City	Member since/until
Dietrich Jaeschke	Businessman	Berlin	Until Nov 30, 2002
Ali-Akbar Alizadeh-Saghati	Graduate engineer	Berlin	Until Nov 30, 2002
Armin Stein	Graduate Businessman/ Graduate engineer	Berlin	Since Jan. 1, 2001
Dr Harald Schrimpf	Graduate engineer	Berlin	Since July 8, 2002

The following persons were members of the **supervisory board** in 2002:

Name/period of office	Profession	City	Membership in other supervisory boards of listed companies
Retired members of the supervisory board			
Dr André Warner (Chairman) Until June 7, 2002	Graduate Businessman	Berlin	
Kurt Kasch (Deputy Chairman) Until June 7, 2002	Consultant	Berlin	
Franz Niedermaier Until June 7, 2002	Consultant	Munich	
Dietrich Walther Until June 7, 2002	Entrepreneur	Iserlohn	
Members of the supervisory board			
Christian Brunke (Chairman) Since June 7, 2002	Business economics graduate	Berlin	
Wolfgang Dedner (Deputy Chairman) Since June 7, 2002	Graduate engineer	Berlin	
Klaus Linke Since June 7, 2002	Graduate engineer	Werne	

Name/period of office	Profession	City	Membership in other supervisory boards of listed companies
Members of the supervisory board			
Karsten Trippel Since June 7, 2002	Businessman	Grossbottwar	Berlin AG für Anlagenwerte Ost-West Beteiligungs- und Grundstücksverwaltungs AG
Wolfgang Fischer (Employee representative)	Graduate engineer (FH)	Aschaffenburg	
Siegfried Hartmann (Employee representative)	Graduate engineer	Aschaffenburg	

Number of employees

As at balance sheet date, the PSI Group employed an average of 1,338 personnel (2001: 1,390 personnel) during the year.

Material and personnel expenses

	2002 EUR k	2001 EUR k
Cost of materials		
Purchased merchandise and services	40,412	42,408
	40,412	**42,408**
Personnel expenses		
Wages and salaries	80,319	80,289
Social security and pensions	12,626	12,950
	92,945	**93,239**

Profit appropriation

The net consolidated loss for 2002 of EUR 14,810k and the consolidated loss carryforward of EUR 34,627k will be carried forward to new account.

Berlin, March 5, 2003

Dr Harald Schrimpf
Board of Directors

Armin Stein
Board of Directors

Auditor's Report

for the exempting consolidated financial statements in accordance with § 292a HGB

We have audited the consolidated financial statements of PSI Aktiengesellschaft für Produkte und Systeme der Informationstechnologie, Berlin, from January 1, 2002 to December 31, 2002, including the consolidated balance sheet and the related consolidated statement of income, cash flows, changes in shareholders' equity and notes for the year then ended. The legal representatives of the Company are responsible for the preparation and content of the consolidated financial statements. Our responsibility is to express an opinion, based on our audit, whether these consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (US GAAP).

We conducted our audit in accordance with the German Auditing Rules and in compliance with the general accepted standards of auditing prescribed by the German Institute of Certified Public Accountants (Institut der Wirtschaftsprüfer). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. In establishing the audit procedures we considered our knowledge about the group's business operations, its economic and legal environment, and expectations of possible errors. An audit includes examining the effectiveness of the internal accounting control system, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. 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 present a true and fair view of the Group's net assets, financial position and results of operations in accordance with United States generally accepted accounting principles.

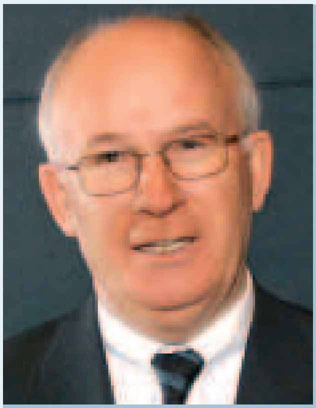
Our audit, which also includes the management report for the fiscal period from January 1, 2002 to December 31, 2002 and which is the responsibility of the Company's management, has not given rise to any reservations. In our opinion the management report and the additional disclosures in the consolidated financial statements conveys a suitable presentation of the situation of the PSI Group taken as a whole and presents the risks to its future developments adequately. Additionally, we confirm that the consolidated financial statements and the Group's management report for the fiscal period from January 1, 2001 to December 31, 2002 meet the requirements for an exemption to prepare consolidated financial statements and the Group's management report in accordance with the rules and regulations of the German Commercial Code. An audit of the requirements for the consolidated financial statements to be in accordance with the 7th EC Directive in order to be exempted from German rules and regulations is based on the interpretation of the Directive by GAS 1 "Exempting Consolidated Financial Statements in accordance with Sec. 292a of the German Commercial Code" issued by the German Accounting Standards Committee.

Berlin, March 10, 2003

Ernst & Young
Revisions- und Treuhandgesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft mbH

Selter	Glöckner
Wirtschaftsprüfer	Wirtschaftsprüfer

Report of the Supervisory Board



Christian Brunke,
Chairman of the Supervisory Board

The Supervisory Board performed its legal and statutory responsibilities during fiscal year 2002, duly and regularly supervising the management of PSI AG. It examined all business matters of importance to the corporation and discussed the most significant individual transactions with the Management Board at a total of 12 meetings.

The 2002 Annual General Meeting of Stockholders passed a resolution confirming its formal approval of the actions of all the members of the Supervisory Board in fiscal year 2001 with the exception of Mr. Dietrich Walther. The election of Supervisory Board members at this General Meeting of Stockholders led to some changes in the composition of the Supervisory Board. As from the date of the meeting, the representatives of the stockholders are Christian Brunke, Wolfgang Dedner, Klaus Linke and Karsten Trippel. Christian Brunke was elected Chairman of the Supervisory Board. The new Supervisory Board, consisting of stockholders' representatives and two employees' representatives, Wolfgang Fischer and Siegfried Hartmann, held five meetings in 2002.

Dr Harald Schrimpf took up his duties as a member of the Management Board on July 8, 2002. Dietrich Jaeschke and Ali-Akbar Alizadeh-Saghati left the corporation on November 30, 2002.

The parent company's financial statements, the consolidated financial statements and the management report for the period from January 1 to December 31, 2002 have been examined at the Supervisory Board's request by Ernst & Young Revisions- und Treuhand GmbH, Wirtschaftsprüfungsgesellschaft – the successor firm to the auditors Arthur Andersen Wirtschaftsprüfungs- und Steuerberatungs-Gesellschaft, Berlin appointed by the Stockholders' General Meeting on June 7, 2002. The auditors issued an unqualified opinion. The Supervisory Board approved the parent company's financial statements, the consolidated financial statements and the management report after discussing them with the auditors and the members of the Management Board at the Supervisory Board meeting on March 18, 2003. The parent company's and consolidated financial statements and the report are thereby adopted.

The Management Board and the Supervisory Board paid special attention to the following subjects during 2002:

- Drastic reorientation to the changed market environment at the subsidiaries PSIPENTA Software Systems GmbH and PSI logistics GmbH, which was identified as the key activity of the new Management Board.
- Slimming of the corporate structure by merging PSI Infrastruktur Services GmbH with Schindler Technik AG, and PSIPENTA Automotive GmbH with PSIPENTA Software Systems GmbH.
- Formation of a joint venture with VA TECH SAT with the objective of achieving stronger internationalization of the energy business in the future.
- Broadening the range of services offered in the gas and oil sector by the acquisition of Büsing & Buchwald GmbH.

The necessary decisions relating to these matters were taken at the routine meetings of the Supervisory Board.

In addition to the routine Supervisory Board meetings, the Human Resources Committee met once and the Balance Sheet Committee twice. The Capital Expenditure Committee did not meet during 2002.

Further developments were made to the risk management system. The group's compliance with the rules of the German Corporate Governance Codex was verified and the necessary amendments were made to the group's internal regulations. The Supervisory Board and the Management Board have issued a Declaration of Conformity.

Contrary to expectations, the information technology market continued to weaken during 2002. Business declined particularly sharply in market segments like small and medium-sized companies and the logistics sector, which are extremely sensitive to general economic trends. The Supervisory Board and the Management Board are expecting the market environment to remain difficult during 2003 and are planning to counter this by having the relevant corporate units adopt a flexible approach.

The Supervisory Board expects the Management Board to continue the process of reorganization already initiated, to complete the process of consolidation quickly and to press ahead with the group's further development.

The Supervisory Board first of all wishes to thank the PSI Group's customers for the confidence they have shown in a difficult economic environment.

The Supervisory Board also thanks the Management Board, the other members of the management and the employees for their work and their dedication.

Berlin, March 2003

Christian Brunke
Supervisory Board Chairman

PSI has a substantial value and an excellent position in important key markets.

"Basis for a profitable 2003"

DZ Bank Research

"Network Management is showing very positive development"

Bankhaus Lampe

"New alignment for Production Management business segment"

Baden-Württembergische Bank

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Investor Relations: Financial Calendar 2003

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DVFA Analyst Presentation	March 17, 2003
Annual General Meeting	June 12, 2003

PSI Stocks

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Stock market symbol	PSA2
Geman Securities Code (WKN)	696 822
ISIN	DE0006968225

We will be happy to include you in our distribution list for stockholder information. Please contact us should you require a copy of the AG Report.

For the latest IR information, please visit our website at www.psi.de/ir

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