



PSI Group data at a glance

		1 January - 31 March		Change
		1999	1998	
Earning from sales	Million DM	45.8	36.2	+9.6
Gross earnings	Million DM	8.0	9.1	-1.1
Operating expenses	Million DM	13.7	12.6	+1.1
Operating result	Million DM	-5.7	-3.5	-2.2
Pre-tax result	Million DM	-5.5	-3.7	-1.8
Employees	Number	975	686	+289

Business Development

The development of the business was marked by continued growth. The consolidated sales earnings grew by DM 9.6 million compared to the same period for the previous year. This corresponds to an increase of 26.5 %. The growth rate for Systems was 23% and in Products 34 %.

There was a significant shift from licenses to services in Products; in Systems the business remained the same. It is worth noting that Systems has more than DM 140 million in orders, the highest level in the history of the company.

The decrease in sales of licenses in Products could not be completely compensated by the increased sales of services, resulting in a direct impact on the margins. The reason for this is the shift of investment decisions for ERP Systems, for which the implementation will stretch into 2000.

Development of Results

The gross result of sales in Systems increased from DM 5.7 to DM 7.1 million. The decrease in license sales had a negative impact on Products and led to a drop in the gross result from DM 3.4 million to DM 0.9 million.

This led to an overall decrease of the Group gross result from DM 9.1 million to DM 8.0 million.

Operating expenses in Systems increased from DM 4.1 million to DM 4.9 million in 1999 as a consequence of the expansion of marketing and distribution investments. Operating expenses in Products increased from DM 8.5 million to DM 8.8 million. The increases were again a result of the expansion of marketing and distribution and the expansion of development capacity.

Group operating expenses therefore increased from DM 12.6 million to DM 13.7 million.

The operating result in Systems grew from DM 1.6 million to DM 2.2 million. The continuing investments and the expansion of personnel capacity in Products led to a decrease in the operating result of DM -7.9 million (1998: DM -5.1 million). The Group operating result therefore decreased from DM -33.5 million to DM -5.7 million.

Taxes on Earnings

The total of DM 4.0 million (Systems: DM 2.5 million, Products: DM 1.5 million) are latent taxes which result from the difference between US GAAP valuation and German HGB valuation.

Balance Sheet Conditions

The US GAAP Group balance sheet changes especially in connection with the capital activities performed for the IPO.

At the General Meeting on 1 August 1998 capital stock from corporate assets was increased from DM 12.321 million by DM 18.481 million to DM 30.803 million through conversion of capital and profit reserves. After the capital increase of DM 41 million realized from the IPO, the items equity and liquid funds in particular rose. Trade accounts payable and long-term financial obligations were simultaneously reduced.

The percentage of the equity in the balance sheet total improved from 17% on 31 March 1998 to 51 % on 31 March 1999. A solid basis for continued growth has thus been set.

Investments

Investments in Products development and marketing continued to be made in the first quarter of 1999.

In addition, various strategic investments were made. These were the majority holding in UBIS GmbH (66 %), the GSI mbH (51 %) and the iRM Ges.m.b.H. The objective of these participations is to round out the PSI range of know-how and software components for e-commerce (use in Products and Systems), process control, personnel management (use in Products and Systems), and energy-use optimization (Systems).

Human Resources Development

Group human resources increased to 975 employees as of 31 March 1999 (3/98: 686). Approximately 50 % of the increase in personnel is attributable to recruitment and approximately 50 % to acquisitions since the IPO. Primarily it was the expansion of software development, marketing and distribution which accounted for the recruitment. Despite the difficult situation with regard to the employment market PSI was able to continue its expansion strategy as planned.

Personnel Changes in the Management Board

Mr. Björn S. Eriksen was named to the PSI Financial Management Board as per 1 March 1999. Kurt Schmaltz served temporarily as the Head of Finances.

Outlook

The positive development in Systems has continued into 1999. The conditions for this are very good with orders of more than DM 140 million. Additional stimuli for growth result primarily from the deregulation of the energy markets and the increasing complexity of the supply chains. With the majority holding in iRM Ges.m.b.H. PSI becomes the market leader and reinforced their engineering advantage in this new market segment. As the first provider in Germany, PSI engineers software for electricity sales and electricity transmission, the basis of which has already been implemented in several projects.

In Products, the licensing business is expected to recover by 2000 at the latest, which is why we continue to invest in products and services in this sector. The emphasis is being placed on the improvement of efficiency in services and the expansion of distribution through joint ventures and acquisitions. A distribution agreement, for instance, was reached with Ditec AG at the CeBit '99 at the end of the first quarter.

With the acquisition of UBIS GmbH, PSI obtains know-how in e-commerce which will be used in Products as well as Systems. E-commerce is one of the fastest-growing markets in information technology, which is why sales and earnings are expected to grow immensely in the future.

The demanding goals for staff development will be attained despite the tight market for qualified personnel.

PSI AKTIENGESELLSCHAFT FÜR PRODUKTE UND SYSTEME
DER INFORMATIONSTECHNOLOGIE
BERLIN

CONSOLIDATED INCOME STATEMENT US-GAAP 31/03/1999

	<u>01/01/99-31/03/99</u>	<u>01/01/98-31/03/98</u>
	<u>TDM</u>	<u>TDM</u>
<u>Net Sales:</u>		
Software production and maintenance	36,266	28,579
Licenses	4,709	6,677
Hardware and other	4,865	1,023
Total Sales	<u>45,840</u>	<u>36,279</u>
<u>Cost of sales:</u>		
Software production and maintenance	32,093	25,233
Licenses	1,613	1,639
Hardware and other	4,158	272
Total costs	<u>37,864</u>	<u>27,145</u>
Gross profit on sales	<u>7,976</u>	<u>9,134</u>
Gross margin %	17.4	25.2
<u>OPERATING EXPENSES</u>		
Selling Expenses	8,688	6,904
General and administrative expenses	4,254	3,261
Research and development costs	3,825	3,084
Capitalized research and development costs	-3,132	-801
Depreciation of capitalized research and development costs	789	485
Other revenues or gains	-731	-338
	<u>13,693</u>	<u>12,595</u>
Operative result	<u>-5,717</u>	<u>-3,461</u>
Net interest, net investment income	197	-133
Extraordinary result	0	-81
Total	<u>197</u>	<u>-214</u>
Result before income tax	<u>-5,520</u>	<u>-3,675</u>
Taxes on income	-4,034	2,172
<u>GROUP NET PROFIT/LOSS</u>	<u>-9,554</u>	<u>-1,503</u>

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CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 1999

<u>ASSETS</u>	<u>31/03/1999</u>	<u>31/03/1998</u>	<u>LIABILITIES</u>	<u>31.03.1999</u>	<u>31.03.1998</u>
	<u>TDM</u>	<u>TDM</u>		<u>TDM</u>	<u>TDM</u>
<u>CURRENT ASSETS</u>			<u>CURRENT LIABILITIES</u>		
Cash or cash equivalents	42,663	7,290	Current financial liabilities	2,960	928
Trade receivables	53,741	33,683	Trade payables	10,097	12,574
Inventories	20,360	38,282	Payments received on account of orders	33,818	43,295
Prepaid expenses	1,763	964	Deferred income	4,428	3,160
Other receivables	7,325	2,974	Other accruals	14,363	12,221
Total current assets	<u>125,852</u>	<u>83,193</u>	Other liabilities	7,714	7,037
			Total current liabilities	<u>73,380</u>	<u>79,215</u>
<u>NON CURRENT ASSETS</u>	<u>2,925</u>	<u>0</u>	<u>DEFERRED TAXES</u>	<u>4,900</u>	<u>0</u>
<u>FINANCIAL ASSETS</u>	<u>3,202</u>	<u>1,597</u>	<u>LONG TERM PORTION OF OTHER PARTICIPATING RIGHTS</u>	<u>454</u>	<u>473</u>
<u>PROPERTY, PLANT AND EQUIPMENT (NET)</u>	<u>23,499</u>	<u>19,088</u>	<u>SPECIAL RESERVES FROM INVESTMENT GRANTS</u>	<u>969</u>	<u>1,214</u>
<u>INTANGIBLE ASSETS (NET)</u>	<u>44,823</u>	<u>21,887</u>	<u>LONG TERM PORTION OF PARTICIPATING CAPITAL</u>	<u>3,500</u>	<u>3,500</u>
<u>DEFERRED TAX ASSETS</u>	<u>0</u>	<u>5,075</u>	<u>LONG TERM PORTION OF PENSION ACCRUALS</u>	<u>14,658</u>	<u>13,220</u>
			<u>LONG TERM PORTION OF LIABILITIES</u>	<u>463</u>	<u>10,422</u>
			<u>EQUITY</u>		
			Capital stock	41,000	12,321
			Capital reserves	76,850	15,566
			Revenue reserves	2,386	2,727
			Unrealized gains on securities	2	11
			Difference relating to currency translation	-243	53
			Minority interests	2,796	439
			Profit/loss brought forward	-11,260	-6.818
			Group net profit/loss	-9,554	-1.503
			Total equity	<u>101,977</u>	<u>22,796</u>
<u>TOTAL ASSETS</u>	<u><u>200,301</u></u>	<u><u>130,840</u></u>	<u>TOTAL LIABILITIES AND EQUITY</u>	<u><u>200,301</u></u>	<u><u>130,840</u></u>

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STATEMENT OF CASH FLOW US-GAAP 31/03/1999

	31.03.1999	31.03.1998
	TDM	TDM
Net income/loss:	-9,554	-1,503
Adjustments to reconcile net income to net cash		
Depreciation of intangible assets and of property, plant and equipment	2,446	2,311
Depreciation of special item for investment allowance	0	-81
Net reversal of/provision to deferred taxes	4,000	-2,179
Net transfer to/release of pension reserves	394	406
Minority interests	37	-34
<u>Operative cash flows</u>	<u>-2,677</u>	<u>-1,080</u>
Change in assets and liabilities:		
Decrease/increase in inventory	3,217	1,077
Decrease/increase in trade receivables	-9,875	-133
Decrease/increase in other assets	-3,787	2,357
Decrease/increase in non-current receivables	27	0
Decrease/increase in prepaid expenses	365	251
Increase/decrease in other accruals	1,674	5,369
Increase/decrease in trade payables	-3,291	-3,025
Increase/decrease in payments received on account of orders	2,402	-3,126
Increase/decrease in other liabilities	-1,264	-2,493
Increase/decrease in deferred income	2,520	2,001
<u>Cash flows from operating activities</u>	<u>-8,012</u>	<u>2,278</u>
Additions to capitalized research and development costs	-3,132	-800
Net additions to property, plant, equipment and other Intangible assets	-13,419	-2,247
<u>Cash flows from investment activities</u>	<u>-16,551</u>	<u>-3,047</u>
Increase/decrease in financial liabilities	2,992	-115
Issue of profit participating rights/profit participation certificate capital	0	54
Increase/decrease in minority interests	2,227	42
Decrease/increase in financial assets	-2,347	-17
Other changes in equity	117	15
<u>Cash flows from financing activities</u>	<u>2,989</u>	<u>-21</u>
<u>Increase (decrease) in cash and cash equivalents</u>	<u>-24,251</u>	<u>-1,870</u>
<u>Cash at the beginning of the year</u>	<u>66,914</u>	<u>9,160</u>
<u>Cash on 31/03/99</u>	<u>42,663</u>	<u>7,290</u>

Segment Reporting

US-GAAP First Quarter 1999

	Products Q1-1999 Mill. DM	Products Q1-1998 Mill. DM	Systems Q1-1999 Mill. DM	Systems Q1-1998 Mill. DM	Group Q1-1999 Mill. DM	Group Q1-1998 Mill. DM
<u>Net sales:</u>						
Software production and maintenance	9.1	4.2	27.2	24.4	36.3	28.6
Licenses	4.5	5.8	0.2	0.8	4.7	6.6
Hardware and other	0.6	0.6	4.2	0.4	4.8	1.0
Total sales	14.2	10.6	31.6	25.6	45.8	36.2
<u>Cost of sales:</u>						
Software production and maintenance	11.2	5.4	20.9	19.8	32.1	25.2
Licenses	1.5	1.6	0.1	0.0	1.6	1.6
Hardware and other	0.6	0.2	3.5	0.1	4.1	0.3
Total costs	13.3	7.2	24.5	19.9	37.8	27.1
Gross profit on sales	0.9	3.4	7.1	5.7	8.0	9.1
Gross margin %	6.2	32.1	22.5	22.3	17.5	25.2
Operating expenses	8.8	8.5	4.9	4.1	13.7	12.6
Operative result	-7.9	-5.1	2.2	1.6	-5.7	-3.5
Net interest, net investment income	0.0	-0.1	0.2	0.0	0.2	-0.1
Extraordinary result	0.0	0.0	0.0	-0.1	0.0	-0.1
Total	0.0	-0.1	0.2	-0.1	0.2	-0.2
Result before income tax	-7.9	-5.2	2.4	1.5	-5.5	-3.7
Taxes on income	-1.5	0.0	-2.5	0.0	-4.0	2.2
<u>GROUP NET PROFIT/LOSS</u>	-9.4	-5.2	-0.1	1.5	-9.5	-1.5