



Report on the first six months of 1999

The business development during the first six months of 1999 supports the optimistic expectations and the clear expansion strategy of the PSI AG. This is especially the case with respect to orders in Systems which, with DM 140 million, exceed the planned sales for the entire year for this business. This ensures a long-term capacity utilisation and frees up productivity reserves. The group order intake of DM 94 million is also higher than the targeted goal for the first six months.

PSI Group Data for the first six months of 1999 at a glance

	1st 6 mo. '99 in mil DM	1st 6 mo. '98 in mil DM	Change in mil DM	Change in %
Earning from sales	107.3	65.5	+41.8	+63.8
Gross earnings	26.2	17.5	+8.7	+49.7
Operating expenses	31.0	23.2	+7.8	+33.6
Operating result	-4.8	-5.8	+1.0	+17.2
Pre-tax result	-4.5	-6.4	+1.9	+29.7
No. of employees on June 30	1016	724	+292	+40.3

Business Development

The group sales during the first six months of 1999 could be raised by almost 64% to DM 107.3 million compared to the previous year. Especially clear was the growth in Systems sales of 78%.

During the second quarter the group sales increased by 100% to DM 61.5 million. Sales in Products grew by 44% to DM 17.7 million continuing the trend to a larger portion of services. The growth in Systems to DM 43.9 million was even higher. Here acyclical influences due to large projects must be taken into consideration.

The gross result of the group sales rose from DM 17.5 million during the first six months of the previous year to DM 26.2 million during the same period of the present year, incorporating a slight decrease of the gross result in Products and a doubling of the gross result in Systems.

A comparison of the second quarter shows that the gross result of sales could be more than doubled from DM 8.4 million to DM 18.2 million, incorporating a slight gross result increase in Products and a significant increase in Systems.

The increase in operating expenses for Products (mainly PSIPENTA) is due to the measures taken for building up international distribution and marketing and for expanding the development capacity, so that the operating result for PSIPENTA has deteriorated in comparison with the previous year.

However, the operating result of Systems could be increased significantly.

The pre-tax result for the Group as a whole was improved despite higher investments into PSIPENTA during the first six months by a total of just under 30%. During the second quarter, a positive pre-tax result was achieved in the Group with +1 million DM.

A positive trend is expected for the second half of the year.

While the results of Systems usually develop continually, experience has shown that most orders in Licenses are acquired during the last third of a business year. In this branch sales experience their biggest increase during the fourth quarter which leads to a quarterly improvement of the operating results at proportionally less increasing cost of sales and operating expenses.

Taxes on Earnings

The total of DM 10.8 million in taxes on earnings are latent taxes which result from the difference between US GAAP valuation and German HGB valuation.

Shares held

In the second quarter of 1999, the minority participation of 15% of the PSIPENTA Software Systems GmbH held until then by former managers and employees was bought back by issuing new shares, as a result of which the PSI AG again has become the sole PSIPENTA share holder.

Human Resources Development

Group human resources increased to 1016 employees as of June 30, 1999 (6/98: 724). 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, distribution and marketing 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.

Outlook

The software industry will continue to grow worldwide and increase its economic importance. Additional growth spurts can be expected in the market segments of PSI's activities (e.g. deregulation of the European energy markets and the building up of complex supply chains). PSI will take these attractive growth rates as a guideline and clearly exceed this growth.

The emphasis in Systems is placed on a continuous improvement of results and the expansion of the range of services to accommodate the future needs of its own customers. These strategies are justified on the basis of the high volume of orders and the huge success in acquisitions.

In Products the strategy of continued investment in marketing, internationality and functionality of the product is pursued. These investments together with the large expansion in human resources will depress the year's result, so that a negative result must be expected for this branch in 1999.

At the threshold to the next millennium, 1999 is a special year also for the software industry. It is marked by the introduction of the EURO, the preparation for the turn of the year with the focus on "old" software, the deregulation of the European energy market, and the growing importance of the Internet. Especially the Y2K problem could lead to customers postponing their decision with regard to Products to the fourth quarter of 1999 or even to the first two quarters of 2000. Systems will be influenced by the above challenges in a rather positive way.

Despite the difficult situation on the employment market, PSI has prepared for the growth of the coming years also by an expansion in human resources to more than 1000 employees. This growth is directly supported and complemented by holding shares of companies which strengthen the attractiveness and range of services of PSI. Following the investments in the companies GSI, ECI, IRM and UBIS, further acquisitions are planned. The main focus is internationality, deregulation, logistics, and e-business.

PSI AKTIENGESELLSCHAFT FÜR PRODUKTE UND SYSTEME
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BERLIN

CONSOLIDATED INCOME STATEMENT US-GAAP 30/06/1999

	<u>01/01/99-30/06/99</u>	<u>01/01/98-30/06/98</u>
	<u>TDM</u>	<u>TDM</u>
<u>Net Sales:</u>		
Software production and maintenance	85,038	49,837
Licenses	12,066	12,655
Hardware and other	10.204	3,000
Total Sales	<u>107,308</u>	<u>65,492</u>
<u>Cost of sales:</u>		
Software production and maintenance	67,126	42,421
Licenses	4,410	4,013
Hardware and other	9,559	1,563
Total costs	<u>81,095</u>	<u>47,997</u>
Gross profit on sales	<u>26,213</u>	<u>17,495</u>
Gross margin %	24.4	26.7
<u>OPERATING EXPENSES</u>		
Selling Expenses	20,027	12,167
General and administrative expenses	8,404	5,599
Research and development costs	8,489	7,096
Capitalized research and development costs	-6,139	-2,270
Depreciation of capitalized research and development costs	1,579	998
Other revenues or gains	-1,327	-281
	<u>31,033</u>	<u>23,310</u>
Operative result	<u>-4,820</u>	<u>-5,815</u>
Net interest, net investment income	321	1,048
Extraordinary result	0	-1,668
Total	<u>321</u>	<u>-620</u>
Result before income tax	<u>-4,499</u>	<u>-6,435</u>
Taxes on income	-10,818	89
<u>GROUP NET PROFIT/LOSS</u>	<u>-15,317</u>	<u>-6,346</u>

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CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 1999

<u>ASSETS</u>	<u>30/06/1999</u>	<u>31/12/1998</u>	<u>LIABILITIES</u>	<u>30/06/1999</u>	<u>31/12/1998</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	28,756	66,914	Current financial liabilities	2,404	431
Trade receivables	68,407	43,866	Trade payables	17,373	13,388
Inventories	19,511	23,577	Payments received on account of orders	26,471	31,416
Prepaid expenses	2,075	2,128	Deferred income	5,914	1,908
Other receivables	6,560	3,538	Other accruals	13,323	12,689
Total current assets	<u>125,309</u>	<u>140,023</u>	Other liabilities	8,198	8,978
			Total current liabilities	<u>73,683</u>	<u>68,810</u>
			<u>LONG TERM PORTION OF OTHER PARTICIPATING RIGHTS</u>	<u>39</u>	<u>454</u>
<u>NON CURRENT ASSETS</u>	<u>0</u>	<u>2,952</u>	<u>SPECIAL RESERVES FROM INVESTMENT GRANTS</u>	<u>883</u>	<u>969</u>
<u>FINANCIAL ASSETS</u>	<u>1,205</u>	<u>855</u>	<u>LONG TERM PORTION OF PARTICIPATING CAPITAL</u>	<u>3,500</u>	<u>3,500</u>
<u>PROPERTY, PLANT AND EQUIPMENT (NET)</u>	<u>26,889</u>	<u>20,813</u>	<u>LONG TERM PORTION OF PENSION ACCRUALS</u>	<u>15,054</u>	<u>14,264</u>
<u>INTANGIBLE ASSETS (NET)</u>	<u>49,893</u>	<u>33,404</u>	<u>LONG TERM PORTION OF LIABILITIES</u>	<u>368</u>	<u>0</u>
<u>DEFERRED TAX ASSETS</u>	<u>0</u>	<u>0</u>	<u>DEFERRED TAXES</u>	<u>11,773</u>	<u>900</u>
			<u>EQUITY</u>		
			Capital stock	41,519	41,000
			Capital reserves	76,746	76,850
			Revenue reserves	2,386	2,386
			Paid in due to capital increases	1,216	0
			Unrealized gains on securities	2	2
			Difference relating to currency translation	-259	-360
			Minority interests	3,129	532
			Net accumulated deficit	-26,743	-11,260
			Total equity	<u>97,996</u>	<u>109,150</u>
<u>TOTAL ASSETS</u>	<u><u>203,296</u></u>	<u><u>198,047</u></u>	<u>TOTAL LIABILITIES AND EQUITY</u>	<u><u>203,296</u></u>	<u><u>198,047</u></u>

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KAPITALFLUSSRECHNUNG US-GAAP JUNE 30, 1999

	<u>30/06/1999</u>	<u>31/12/1998</u>
	TDM	TDM
Net income/loss:	-15,316	-2,842
Depreciation of intangible assets and of property, plant and equipment	6,313	7,727
Net reversal of/provision to deferred taxes	10,873	3,796
Net transfer to/release of pension reserves	791	1,415
Minority interests	-166	-2,474
<u>Operative cash flows</u>	<u>2,495</u>	<u>12,606</u>
Change in assets and liabilities:		
Decrease/increase in inventory	4,066	15,782
Decrease/increase in trade receivables	-24,541	-10,316
Decrease/increase in other assets	-3,022	1,793
Decrease/increase in non-current receivables	2,952	-2,952
Decrease/increase in prepaid expenses	53	-913
Increase/decrease in other accruals	634	5,837
Increase/decrease in trade payables	3,986	-2,211
Increase/decrease in payments received on account of orders	-4,945	-15,005
Increase/decrease in other liabilities	-780	-522
Increase/decrease in deferred income	4,006	749
<u>Cash flows from operating activities</u>	<u>-17,591</u>	<u>-7,788</u>
Additions to capitalized research and development costs	-6,139	-10,470
Net additions to property, plant, equipment and other Intangible assets	-11,431	-11,236
Increase of goodwill	-11,310	0
<u>Cash flows from investment activities</u>	<u>-28,880</u>	<u>-21,706</u>
Increase/decrease in financial liabilities	2,341	-11,034
Issue of profit participating rights/profit participation certificate capital	-415	35
Increase of equity capital due to conversion of profit participating rights	415	0
Paid in due to capital increases	1,216	0
Decrease in special item for investment grants	-86	-326
Increase/decrease in minority interests	2,597	102
Decrease/increase in financial assets	-350	725
Issue of shares	0	85,547
Other changes in equity	100	-407
<u>Cash flows from financing activities</u>	<u>5,818</u>	<u>74,642</u>
<u>Increase (decrease) in cash and cash equivalents</u>	<u>-38,158</u>	<u>57,754</u>
<u>Cash at the beginning of the year</u>	<u>66,914</u>	<u>9,160</u>
<u>Cash at the end of the period</u>	<u>28,756</u>	<u>66,914</u>

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SEGMENTBERICHTERSTATTUNG

US-GAAP FIRST SIX MONTHS 1999

	Products Q1+Q2 1999 Mill. DM	Products Q1+Q2 1998 Mill. DM	Systems Q1+Q2 1999 Mill. DM	Systems Q1+Q2 1998 Mill. DM	Group Q1+Q2 1999 Mill. DM	Group Q1+Q2 1998 Mill. DM
<u>Net sales:</u>						
Software production and maintenance	20.6	9.1	64.4	40.7	85.0	49.8
Licenses	10.2	12.0	1.9	0.7	12.1	12.7
Hardware and other	1.0	2.1	9.2	0.9	10.2	3.0
Total sales	31.8	23.2	75.5	42.3	107.3	65.5
<u>Cost of sales:</u>						
Software production and maintenance	22.5	11.2	44.6	31.2	67.1	42.4
Licenses	2.7	3.6	1.7	0.4	4.4	4.0
Hardware and other	0.9	1.3	8.7	0.3	9.6	1.6
Total costs	26.1	16.1	55.0	31.9	81.1	48.0
Gross profit on sales	5.7	7.1	20.5	10.4	26.2	17.5
Gross margin %	17.9	30.6	27.2	24.6	24.4	26.7
Operating expenses	19.9	16.0	11.1	7.3	31.0	23.3
Operative result	-14.2	-8.9	9.4	3.1	-4.8	-5.8
Net interest, net investment income	-0.1	-0.4	0.4	1.4	0.3	1.0
Extraordinary result	0.0	0.0	0.0	-1.6	0.0	-1.6
Total	-0.1	-0.4	0.4	-0.2	0.3	-0.6
Result before income tax	-14.3	-9.3	9.8	2.9	-4.5	-6.4
Taxes on income	-3.7	-0.3	-7.1	0.4	-10.8	0.1
<u>GROUP NET PROFIT/LOSS</u>	-18.0	-9.6	2.7	3.3	-15.3	-6.3