



Report on 3rd Quarter 1999

With an increase of sales of 44 % for same period over the previous year, PSI has grown faster than the market in both segments for the first nine months of this year, and therefore gained market share. The System Business, in which PSI develops special solutions for specific customers for the purpose of strengthening their competitive position, contributed a disproportionately high percentage. The volume of new orders in this field, with more than DM 110 million, and the orders on hand of DM 160 million are both well above the plans for the entire year.

PSI Group data for 30 September 1999 at a glance

| | 1/1 – 30/9/99 in million DM | 1/1 – 30/9/99 in million DM | 1/1 – 30/9/99 in million DM | Change in % |
|------------------------------------|--|--|--|------------------------|
| Earning from sales | 167.3 | 115.8 | +51.5 | +44.5 |
| Gross earnings | 39.6 | 31.4 | +8.2 | +26.1 |
| Operating expenses | 53.6 | 37.9 | +15.7 | +41.4 |
| Operating result | -14.0 | -6.5 | -7.5 | -115.4 |
| Pre-tax result | -13.6 | -5.6 | -8.0 | -142.9 |
| No. of employees on June 30 | 1038 | 772 | +266 | +34.5 |

Business Development

Group sales increased in the first nine months of 1999 by 44 % to DM 167.3 million compared to the same period of the previous year.

The Product Business, where PSI is a part of the highly competitive ERP (Enterprise Resource Planning) market, was not able to keep up with the developments in the System Business. Despite the decrease in investments resulting from the Y2K, sales increased in this segment by 29 % to DM 48.9 million.

The System Business continues to develop positively. It grew by 52 % to DM 118.4 million in the first nine months of the year, attaining a 71 % share of Group sales.

Sales in the Product Business remained below predictions, which were based on an aggressive expansion strategy. As a consequence of the substantial investments in development and marketing, as prerequisites for a disproportionately high growth in the next few years, the operating result was DM -25.7 million.

The exceptionally good earnings in the System Business with a growth in the operating result of DM 11.7 million, an increase of 166 % compared to last year, could not completely compensate for this, and the operating Group result is therefore DM -14.0 million.

The delay in ERP investment decisions, resulting from the Y2K problem, continued in the 3rd quarter, making itself particularly noticeable in the decrease in licensing revenues of about 11 %. The prospects in this field will improve starting in 2000 when the investment backlog begins to be resolved.

The prospects in the System Business have improved at a high level in the last few months, in particular as a result of the deregulation of the European energy market. The numerous major contracts attained in the 3rd quarter, amongst others from STEWEAG, DB Netz AG, Thyssen Krupp Stahl AG and Mainkraftwerke, represent a further catalyst for growth, which will reach well into the year 2001.

While the System Business result generally develops in a continuous manner, the 4th quarter is usually particularly significant for the annual result in the Licensing Business. As a result of the Y2K issue, it is possible that we will witness some further shifts this year.

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.

Conversion of previously registered shares with limited transferability

On 30 August 1999 a total of 5,205,060 registered shares were converted into bearer shares and released for trade on the Neue Markt at the Frankfurt stock exchange. All the newly registered shares are subject to an immobilization period up to 31 July 2000 and will be administered in a joint, blocked deposit. The goal of the conversion and listing of the former registered shares is to increase the currently authorized capital of 3,066,250 individual shares up to over 8 million individual shares. The admission of the new bearer shares will increase the market capitalization and therefore the weight of PSI AG by up to 170 %.

Human Resources development

The number of employees in the Group as of 30 September 1999 had increased to 1,038 (9/98: 772). About fifty percent of the increase in personnel is the result of new hires and about fifty percent is due to acquisitions made since the IPO. In the cases of the new hires, the primary objectives were to expand the software development and sales and marketing, and the expansion of the System Business. Despite the tight situation in the employment market, PSI was able to continue the expansion strategy within the framework of the planning.

Outlook

The software branch will continue to grow world-wide and its economic importance will increase. According to EITO (European Information Technology Observatory), the market growth in western Europe for the year 2000 will be 13-18 % for software products and individual software. Additional growth can be expected in PSI's market segments due to the deregulation of the European energy markets and the expansion of holistic supply chains.

As a consequence of the third quarter results, the Management Board has introduced measures to correct the imbalance between sales and costs in the Product Business within the next six months. Simultaneously, it is intended to expand the System Business to a greater degree than previously planned.

The System Business achieved additional impetus as a result of strategic alliances and participations. The PSI Business Technology for Industries (PSI-BT) AG, founded jointly with the VDEh (Verein Deutscher Eisenhüttenleute), effective 1 January 2000, is particularly important in this regard. This joint venture, of which PSI holds a 58 % share, bundles the resources of the two companies to become a market leader for logistics systems for the chemical and steel industries in Germany. In addition, acquisition of international market share in the future is of essential importance for the joint venture; the ERP product PSIPENTA will provide the necessary basis. PSI-BT AG will attain sales of over DM 40 million in the year 2000.

In October another important step was taken in the field of energy management solutions with the acquisition of 100 % of the Karlsruhe NENTEC GmbH. This provides PSI with exclusive rights to a product that allows for the use of communication networks for network control applications and therefore combines energy supply with telecommunication. Together with the e-business solutions specialist UBIS GmbH, PSI can provide customers with solutions for trading and Customer Relationship Management (CRM) over the Internet. As a result of the deregulation of the energy markets, such solutions will become extremely important for energy suppliers in the future.

PSI will use the new participations and market leadership in Germany to gain new market share on the European market.

PSI AKTIENGESELLSCHAFT FÜR PRODUKTE UND SYSTEME
DER INFORMATIONSTECHNOLOGIE
BERLIN

CONSOLIDATED INCOME STATEMENT US-GAAP 30/09/1999

| | <u>01/01/99-30/09/99</u> | <u>01/01/98-30/09/98</u> |
|---|--------------------------|--------------------------|
| | <u>TDM</u> | <u>TDM</u> |
| <u>Net Sales:</u> | | |
| Software production and maintenance | 128,825 | 89,730 |
| Licenses | 17,836 | 20,003 |
| Hardware and other | 20,631 | 6,128 |
| Total Sales | <u>167,292</u> | <u>115,861</u> |
| <u>Cost of sales:</u> | | |
| Software production and maintenance | 103,916 | 75,529 |
| Licenses | 5,706 | 4,931 |
| Hardware and other | 18,093 | 3,936 |
| Total costs | <u>127,715</u> | <u>84,396</u> |
| Gross profit on sales | <u>39,577</u> | <u>31,465</u> |
| Gross margin % | 23.7 | 27.2 |
| <u>OPERATING EXPENSES</u> | | |
| Selling Expenses | 31,202 | 20,660 |
| General and administrative expenses | 13,743 | 11,306 |
| Research and development costs | 11,676 | 10,169 |
| Capitalized research and development costs | -9,171 | -4,997 |
| Depreciation of capitalized research and development costs | 2,368 | 1,529 |
| Other revenues or gains | 3,748 | -767 |
| | <u>53,566</u> | <u>37,900</u> |
| Operative result | <u>-13,989</u> | <u>-6,435</u> |
| Net interest, net investment income | 402 | 913 |
| Extraordinary result | 0 | 0 |
| Total | <u>402</u> | <u>913</u> |
| Result before income tax | <u>-13,587</u> | <u>-5,522</u> |
| Taxes on income | -10,777 | -2,068 |
| <u>GROUP NET PROFIT/LOSS</u> | <u>-24,364</u> | <u>-7,590</u> |

PSI AKTIENGESELLSCHAFT FÜR PRODUKTE UND SYSTEME
DER INFORMATIONSTECHNOLOGIE
BERLIN

CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 1999

| <u>ASSETS</u> | <u>30/09/1999</u> | <u>31/12/1998</u> | <u>LIABILITIES</u> | <u>30/09/1999</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 | 13,843 | 66,914 | Current financial liabilities | 2,784 | 431 |
| Trade receivables | 76,133 | 43,866 | Trade payables | 14,984 | 13,388 |
| Inventories | 14,574 | 23,577 | Payments received on account of orders | 26,765 | 31,416 |
| Prepaid expenses | 1,979 | 2,128 | Deferred income | 3,880 | 1,908 |
| Other receivables | 6,791 | 3,538 | Other accruals | 13,630 | 12,689 |
| Total current assets | <u>113,320</u> | <u>140,023</u> | Other liabilities | 8,133 | 8,978 |
| | | | Total current liabilities | <u>70,176</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>795</u> | <u>969</u> |
| <u>FINANCIAL ASSETS</u> | <u>2,321</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>26,840</u> | <u>20,813</u> | <u>LONG TERM PORTION OF PENSION ACCRUALS</u> | <u>15,450</u> | <u>14,264</u> |
| <u>INTANGIBLE ASSETS (NET)</u> | <u>48,855</u> | <u>33,404</u> | <u>LONG TERM PORTION OF LIABILITIES</u> | <u>33</u> | <u>0</u> |
| <u>DEFERRED TAX ASSETS</u> | <u>0</u> | <u>0</u> | <u>DEFERRED TAXES</u> | <u>11,710</u> | <u>900</u> |
| | | | <u>EQUITY</u> | | |
| | | | Capital stock | 42,734 | 41,000 |
| | | | Capital reserves | 76,746 | 76,850 |
| | | | Revenue reserves | 2,682 | 2,386 |
| | | | Unrealized gains on securities | 2 | 2 |
| | | | Difference relating to currency translation | -136 | -360 |
| | | | Minority interests | 3,124 | 532 |
| | | | Net accumulated deficit | -35,519 | -11,260 |
| | | | Total equity | <u>89,633</u> | <u>109,150</u> |
| <u>TOTAL ASSETS</u> | <u><u>191,336</u></u> | <u><u>198,047</u></u> | <u>TOTAL LIABILITIES AND EQUITY</u> | <u><u>191,336</u></u> | <u><u>198,047</u></u> |

PSI AKTIENGESELLSCHAFT FÜR PRODUKTE UND SYSTEME
DER INFORMATIONSTECHNOLOGIE
BERLIN

STATEMENT OF CASH FLOW US-GAAP SEPTEMBER 30, 1999

| | <u>30/09/1999</u> <u>TDM</u> | <u>31/12/1998</u> <u>TDM</u> |
|--|---------------------------------|---------------------------------|
| Net income/loss: | -24,364 | -2,842 |
| Depreciation of intangible assets and of property, plant and equipment | 11,580 | 7,727 |
| Net reversal of/provision to deferred taxes | 10,810 | 3,796 |
| Net transfer to/release of pension reserves | 1,186 | 1,415 |
| Minority interests | 105 | 2,474 |
| <u>Operative cash flows</u> | <u>-683</u> | <u>12,606</u> |
| Change in assets and liabilities: | | |
| Decrease/increase in inventory | 9,003 | 15,782 |
| Decrease/increase in trade receivables | -32,267 | -10,316 |
| Decrease/increase in other assets | -3,253 | 1,793 |
| Decrease/increase in non-current receivables | 2,952 | -2,952 |
| Decrease/increase in prepaid expenses | 149 | -913 |
| Increase/decrease in other accruals | 941 | 5,837 |
| Increase/decrease in trade payables | 1,596 | -2,211 |
| Increase/decrease in payments received on account of orders | -4,651 | -15,005 |
| Increase/decrease in other liabilities | -845 | -522 |
| Increase/decrease in deferred income | 1,972 | 749 |
| <u>Cash flows from operating activities</u> | <u>-24,403</u> | <u>-7,788</u> |
| Additions to capitalized research and development costs | -9,171 | -10,470 |
| Net additions to property, plant, equipment and other Intangible assets | -12,620 | -11,236 |
| Increase of goodwill | -11,267 | 0 |
| <u>Cash flows from investment activities</u> | <u>-33,058</u> | <u>-21,706</u> |
| Increase/decrease in financial liabilities | 2,386 | -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 |
| Decrease in special item for investment grants | -174 | -326 |
| Increase/decrease in minority interests | 2,592 | 102 |
| Decrease/increase in financial assets | -1,466 | 725 |
| Issue of shares | 1,215 | 85,547 |
| Other changes in equity | 520 | -407 |
| <u>Cash flows from financing activities</u> | <u>5,073</u> | <u>74,642</u> |
| <u>Increase (decrease) in cash and cash equivalents</u> | <u>-53,071</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>13,843</u> | <u>66,914</u> |

PSI AKTIENGESELLSCHAFT FÜR PRODUKTE UND SYSTEME
DER INFORMATIONSTECHNOLOGIE
BERLIN

SEGMENT REPORTING

US-GAAP FIRST NINE MONTHS 1999

| | Products 30/09/ 1999 Mill. DM | Products 30/09/ 1998 Mill. DM | Systems 30/09/ 1999 Mill. DM | Systems 30/09/ 1998 Mill. DM | Group 30/09/ 1999 Mill. DM | Group 30/09/ 1998 Mill. DM |
|--|--|--|---|---|---|---|
| <u>Net sales:</u> | | | | | | |
| Software production and maintenance | 31.9 | 15.1 | 96.9 | 74.6 | 128.8 | 89.7 |
| Licenses | 15.3 | 19.8 | 2.5 | 0.2 | 17.8 | 20.0 |
| Hardware and other | 1.7 | 3.0 | 19.0 | 3.1 | 20.7 | 6.1 |
| Total sales | <u>48.9</u> | <u>37.9</u> | <u>118.4</u> | <u>77.9</u> | <u>167.3</u> | <u>115.8</u> |
| <u>Cost of sales:</u> | | | | | | |
| Software production and maintenance | 35.0 | 19.0 | 68.9 | 56.5 | 103.9 | 75.5 |
| Licenses | 3.7 | 4.5 | 2.0 | 0.4 | 5.7 | 4.9 |
| Hardware and other | 1.1 | 2.1 | 17.0 | 1.9 | 18.1 | 4.0 |
| Total costs | <u>39.8</u> | <u>25.6</u> | <u>87.9</u> | <u>58.8</u> | <u>127.7</u> | <u>84.4</u> |
| Gross profit on sales | <u>9.1</u> | <u>12.3</u> | <u>30.5</u> | <u>19.1</u> | <u>39.6</u> | <u>31.4</u> |
| Gross margin % | 18.6 | 32.5 | 25.8 | 24.5 | 23.7 | 27.1 |
| Operating expenses | <u>34.8</u> | <u>23.2</u> | <u>18.8</u> | <u>14.7</u> | <u>53.6</u> | <u>37.9</u> |
| Operative result | <u>-25.7</u> | <u>-10.9</u> | <u>11.7</u> | <u>4.4</u> | <u>-14.0</u> | <u>-6.5</u> |
| Net interest, net investment income | <u>0.2</u> | <u>-0.5</u> | <u>0.2</u> | <u>1.4</u> | <u>0.4</u> | <u>0.9</u> |
| Result before income tax | <u>-25.5</u> | <u>-11.4</u> | <u>11.9</u> | <u>5.8</u> | <u>-13.6</u> | <u>-5.6</u> |
| Taxes on income | -4.9 | -0.2 | -5.9 | -1.8 | -10.8 | -2.0 |
| <u>GROUP NET PROFIT/LOSS</u> | <u>-30.4</u> | <u>-11.6</u> | <u>6.0</u> | <u>4.0</u> | <u>-24.4</u> | <u>-7.6</u> |