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Strong and flexible

Report on the
3rd Quarter of 2002

PSI 

PSI Group Data as per 30 September 2002 at a Glance

	1.1. - 30.9.02 in KEUR	1.1. - 30.9.01 in KEUR	Change In KEUR	Change in %
Revenues	109,193	121,212	-12,019	-9.9
Operating Income	-10,694	721	-11,415	-1583.2
Result before income tax	-10,525	1,221	-11,746	-962.0
Net loss	-11,090	-1,021	-10,069	-986,2
Equity	21,817	13,167	+8,650	+65,7
Employees on 30 September 2002	1,324	1,407	-83	-5.9

The PSI Group obtained sales of 109.19 million euros in the first nine months of financial year 2002, 9.9 % less than the previous year (2001: 121.21 million). The EBIT decreased to -10.69 million euros (2001: 0.72 million euros), whereby this figure includes 6.9 million euros in risk provisions, value adjustments and restructuring costs. The group result on 30 September was -11.01 million euros (2001: -1.19 million euros). The operative cash-flow improved in the nine months of 2002 to 14.26 million euros (2001: -5.04 million euros). Cash increased compared to the previous years quarter by 8.65 million euros and compared to 31 December 2001 by 8.94 million euros to 21.82 million euros. The order backlog on 30 September remained at a high level with 114 million euros.

Business Development

In the Network Management segment (energy, telecommunications, transportation) sales in the first nine months decreased by 3.3% to 54.31 million euros (2001: 56.14 million euros). This is primarily attributable to the basis effect of external licenses in the previous year's quarter. The EBIT in Network Management improved by 100% to 3.37 million euros (2001: 1.68 million euros).

In the Production Management segment (industry, logistics) sales decreased by 18.6% to 35.79 million euros (2001: 43.97 million euros) and the EBIT by 11.91 million euros to -12.30 million euros (2001: -0.4 million euros).

In Information Management (government, services) sales decreased by 9.5% to 19.09 million euros (2001: 21.10 million euros) and the EBIT by 1.19 million euros to -1.76 million euros (2001: -0.57 million euros).

The noticeably positive operative cash-flow in the first nine months lead to an increase in liquidity compared to 31 December 2001 of 8.94 million euros to 21,82 million euros.

New orders in the first nine months were 104 million, the volume of orders on 30 September was 114 million euros.

Personnel Development

The number of employees decreased compared to the second quarter of 2001 by 83 and compared to the end of the year by 81 to 1,324.

Special Events in the 3rd Quarter

In the 3rd quarter the merger of PSI Infrastruktur GmbH with the network specialists Schindler Technik AG and the merger of the minority interests of GSI mbH and integral datentechnik GmbH were concluded.

PSIPENTA Automotive GmbH was integrated into PSIPENTA Software Systems GmbH on 18 September.

Outlook

At the beginning of November an agreement was reached with the work's council of the PSIPENTA GmbH to cut 50 jobs from throughout the organization where the capacity is not required. The severance pay and restructuring costs will equal 0.8 million euros, the annual cost savings 2.5 million euros. After completing this and additional restructuring activities PSI will employ approximately 1,250 persons.

At the same time the new Management Board has repositioned the Production Management business. Along with targeting medium-sized companies in this sector, PSI will increasingly offer tailor-made solutions for the support of complex manufacturing processes in large industrial organizations. PSIPENTA GmbH will, to this end, be divided into three profit centers, SME products, service and industrial solutions. For the first time PSI will conduct a technology transfer from the Network segment to the Production Management segment so as to create a new performance class of Manufacturing Execution Systems (MES).

As previously announced the PSI Management Board continues to expect 15% lower sales in 2002 compared to the previous year and an EBIT of –12 million euros.

For 2003 PSI plans, assuming that the economy remains weak and a positive effect from the restructuring measures, that sales will remain stable, a positive EBIT of 2-4 million euros and a balanced group result.

Group Income Statement
from 1 January 2002 until 30 September 2002 according to US-GAAP

	Quarterly Report III		9 Month Report	
	01.07.02- 30.09.02 KEUR	01.07.01- 30.09.01 KEUR	01.01.02- 30.09.02 KEUR	01.01.01- 30.09.01 KEUR
Revenues				
Software production and maintenance	25,706	31,258	87,805	94,093
Licenses	1,245	6,258	5,936	11,287
Hardware	4,996	4,124	15,452	15,832
	31,947	41,640	109,193	121,212
Cost of Revenues				
Software production and maintenance	26,668	24,711	73,346	70,466
Licenses	388	4,677	2,039	5,757
Hardware	4,063	3,232	12,994	13,021
	31,119	32,620	88,379	89,244
Gross profit	828	9,020	20,814	31,968
Operating expenses				
Selling and Marketing expenses	5,271	5,543	15,903	15,973
General and administrative expenses	2,270	1,796	6,959	7,459
Research and development	3,213	2,548	8,668	6,437
Capitalized research and development	-41	-1,565	-416	-1,780
Depreciation of capitalized research and development	179	97	439	507
Other income or expenses	-14	-175	-45	-42
Goodwill amortization	0	578	0	1,724
Impairment loss	0	969	0	969
Operating income	-10,050	-771	-10,694	721
Interest income, income from investments	267	17	169	500
Result before income taxes	-9,783	-754	-10,525	1,221
Income tax	486	-278	-515	-2,242
Result before minority interest	-9,297	-1,032	-11,040	-1,021
Minority interest	13	-181	-50	-169
Net income/ loss	-9,284	-1,213	-11,090	-1,190
Earnings per share (in Euro share, basic)	-0,86	-0,12	-1,06	-0,12
Earnings per share (in Euro per share, diluted)	-0,83	-0,12	-1,03	-0,12
Weighted average shares outstanding (basic)	10,812,870	10,126,160	10,496,515	9,857,993
Weighted average shares outstanding (diluted)	11,130,420	10,229,260	10,728,915	9,960,093

Group Cash Flow Statement
From 1 January 2002 until 30 September 2002 according to US-GAAP

	9 Month Report 01.01.-30.09.02 KEUR	9 Month Report 01.01.-30.09.01 KEUR
CASH FLOW FROM OPERATING ACTIVITIES		
Net income/loss before tax	-10,525	1,222
Net income/loss after tax	-11,040	-1,021
Adjustment to reconcile net loss to net cash used in operating activities		
Depreciation of intangible assets and property, plant and equipment	3,381	5,570
Impairment loss	0	969
Pension reserves	1,566	1,044
Deferred taxes	389	2,112
Minority interests in result	50	169
Changes in assets, which are not included in investing or financing activities	23,910	-12,433
Changes in liabilities, which are not included in investing or financing activities	-3,994	-1,449
Net cash from investing activities	14,262	-5,039
INVESTING ACTIVITIES		
Additions to capitalized research and development costs	-415	-1,781
Net additions to property, plant, equipment and other intangible assets	-4,266	-2,342
Net additions to goodwills (without liquid assets)	-370	-205
Purchase of financial assets	-1,144	122
Net cash from investing activities	-6,195	-4,206
FINANCING ACTIVITIES		
Capital increase through cash payment	0	461
Minority interests	-171	24
Financial Liabilities	501	2,996
Other changes in equity	598	0
Special item for investment grants	-34	-158
Net cash from financial activities	894	3,323
Increase (decrease) in cash and cash equivalents	8,944	-5,989
Currency translation	-17	-67
Cash and cash equivalents at beginning of period	12,873	19,156
Cash and cash equivalents at end of period	21,817	13,167
Supplemental cash flow information		
Cash paid for interest	300	238
Cash paid for taxes	239	132

Group Balance Sheet
From 1 January 2002 until 30 September 2002 according to US-GAAP

	9 Month Report 01.01.-30.09.02 KEUR	Annual Report 01.01.-31.12.01 KEUR
Assets		
Current Assets		
Cash and cash equivalents	21,817	12,873
Trade accounts receivable net allowance for doubtful accounts of KEUR 211 (2001: KEUR 311)	23,504	44,789
Costs and estimated earnings in excess of billings on uncompleted contracts	37,087	35,423
Inventories	5,468	6,800
Deferred tax assets	0	0
Prepaid expenses	1,948	1,068
Other receivables	2,435	6,268
	92,259	107,221
Long-term assets		
Property, plant and equipment	10,923	11,498
Intangible assets	7,502	5,627
Investments	7,566	6,118
Goodwill	22,387	22,387
Deferred tax assets	0	0
	48,378	45,630
Total assets	140,637	152,851
Liabilities and shareholders' equity		
Current Liabilities		
Short term debt	2,731	4,948
Trade accounts payable	6,864	15,367
Advance payments received in excess of estimated earnings on uncompleted contracts	22,013	14,962
Other accrued expenses	14,457	14,036
Deferred revenues	4,755	4,183
Deferred taxes	5,487	5,109
Other current liabilities	3,336	4,653
	59,643	63,258
Long-term liabilities		
Long-term debt	2,625	2,124
Deferred taxes	0	0
Pension accruals	20,511	18,944
Other long-term liabilities	56	93
	23,192	21,161
Shareholders' equity		
Share capital, EUR 2.55 calculated par value	27,643	25,887
Additional paid-in capital	71,337	68,006
Revenue surplus	1,220	1,220
Accumulated deficit	-45,716	-34,627
Contributions made for capital increase	940	5,428
Cumulative translation adjustment	-378	-359
	55,046	65,555
Minority interests	2,756	2,877
Total Liabilities and shareholders' equity	140,637	152,851

Development of Fixed Assets from 1 January 2002 until 30 September 2002

	Number of shares issued	Sub- scribed stock	Addition. paid-in capital	Revenue reserves	Contributions made for capital increase	Accu- mulated deficit	Others	Total
		KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
As of 31. 12.2001	10,126,160	25,887	68,006	1,220	5,428	-34,627	-359	65,555
Issue of shares								
Contribution of 40% of Psipenta Automotive GmbH for issue of shares	161,710	414	1,365		-1,779			0
Contribution of 25% of UBIS AG for issue of shares	525,000	1,342	1,965		-3,307			0
Contribution of 100% of Büsing & Buchwald GmbH for issue of shares					940			940
Contribution of 21.6% of PSI AG (Switzerland) Transformation of contract instead of issue of shares					-342			-342
Group net loss for 9 Months 2002						-11.090		-11.090
Others							-17	-17
As of 30.09.2002	10,812,870	27,643	71,336	1,220	940	-45,717	-376	55,046

Shares and Options held by Management Board and Supervisory Board as of 30 September 2002

	Shares	Options
Management Board		
Ali-Akbar Alizadeh-Saghati	38,938	3,600
Dietrich Jaeschke	56,385	3,600
Dr. Harald Schrimpf	1,000	0
Armin Stein	700	2,400
Supervisory Board		
Christian Brunke	0	0
Wolfgang Dedner	15,600	0
Wolfgang Fischer	1,049	800
Siegfried Hartmann	1,313	2,400
Klaus Linke	0	0
Karsten Trippel	43,000	0

Notes on the consolidated financial statements as of 30 September 2002

The Company

1. Business Activities and Legal Background

The business activities of PSI AG 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 services lines: utilities, manufacturing, telecommunications, traffic, software technology, Internet applications and business consulting.

The PSI Group is divided into the main business lines Network Management, Production Management and Information Management.

The Company is exposed to a number of risks that are similar to other companies active in the dynamic technology sector. Major risks for the development of the PSI Group are the successful marketing of its software systems and products, competition from larger companies, the ability to generate sufficient funding for future business development as well as individual risks regarding the integration of subsidiaries, organizational changes and the cooperation with strategic partners.

The Company was founded in 1969 and was converted from a limited liability company into a stock corporation in 1994. In 1998 the company went public on the Neuer Markt. The company has its headquarter in Berlin, where it has been registered at the commercial register, section B under the number HRB 51463. Main locations with business activities are located in Berlin, Aschaffenburg, Essen, Dortmund, Düsseldorf, Hamburg, Karlsruhe and Neviges.

2. Accounting and Valuation Principles

With regard to the principles of accounting and valuation and especially the differences between the German commercial regulations and the United States Generally Accepted Accounting Principles ('US-GAAP') see the group consolidated financial statement for the financial year 2001.

3. Changes in the Consolidation Group

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

a) Subsidiaries

	Shares in %
PSIPENTA Software Systems GmbH, Berlin	100.00
PSI AG Produkte und Systeme der Informationstechnologie, Schwerzenbach, Switzerland	100.00
Nentec Gesellschaft für Netzwerktechnologie mbH, Karlsruhe	100.00
PSI Transportation GmbH, Berlin	100.00
PSI Infrastruktur Services GmbH, Berlin	100.00
UBIS United Business Internet Solutions Aktiengesellschaft, Berlin	100.00
Büsing & Buchwald GmbH, Barsinghausen	100.00
PSI logistics GmbH, Berlin (Group)	91.50
PK Software Engineering GmbH, Leonberg	75.00
PSI-BT Technologies for Industry AG, Düsseldorf	58.00

b) Description of changes

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

PSIPENTA Automotive GmbH has been integrated in the PSIPENTA Software Systems GmbH effective 18 September.

Effective 23 October PSI Solutions GmbH has filed for bankruptcy.

4. Selected Individual Items

Trade receivables

	30.09.2002 KEUR	31.12.2001 KEUR
Accounts receivable, trade	23,724	45,100
Allowances for bad debts	-220	-311
	23,504	44,789

Allowances for bad debts are created when it is probable that the Company will be unable to collect all amounts due. The amount of the allowance for bad debts is based on management's best estimate of the expected future cash flows based on reasonable assumptions and projections.

Costs and estimated earnings in excess of billings on uncompleted contracts

Costs and estimated earnings in excess of billings on uncompleted contracts arise when revenues have been recorded but the amounts cannot be billed under the terms of the contracts. Such amounts are recoverable from customers upon various measures of performance, including achievement of certain milestones, completion of specified units or completion of the contract. Costs and estimated earnings contain directly allocable costs (labor cost and cost of services provided by third parties) as well as the appropriate portion of overheads including pro rata administrative expenses.

Costs and estimated earnings on uncompleted contracts and related amounts are billed as follows:

	30.09.2002 KEUR	31.12.2001 KEUR
Costs incurred on uncompleted contracts	53,589	54,151
Estimated earnings	32,197	34,102
	85,786	88,253
Less billings	-70,712	-67,792
	15,074	20,461

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

	30.09.2002 KEUR	31.12.2001 KEUR
Costs and estimated earnings in excess of billings on uncompleted contracts	37,087	35,423
Billings in excess of costs and estimated earnings on uncompleted contracts	-22,013	-14,962
	15,074	20,461

Other accruals

The other accruals essentially contain the following individual items:

	30.09.2002	31.12.2001
	KEUR	KEUR
Services still to be performed	6,348	7,793
Vacation and overtime	5,505	3,963
Other	2,604	2,280
	14,457	14,036

Taxes on income

The taxes determined are essentially defined deferred taxes, on the valuation allowance for deferred tax assets and on time-based booking differences between the individual tax balance sheet values of the individual group companies and the values determined in accordance with US-GAAP.

Equity

The development of equity is shown in the representation of the development of Fixed Assets.

There were not any issues requiring explanation with additional announcements as per Article 160, Sec. 1 AktG (Stock Company Act) in the 1st nine months.

Segment reporting according to Network Management, Production Management and Information Management

The development of the segment results can be found in the Group segment reporting.

Notes for the Completeness of Data

There are no other notes for the nine-month period ending 30 September 2002 beyond the data reported in the interim report for the period in accordance with APB 28 (Interim Reporting).

Group Segment Reporting

from 1 January 2002 until 30 September 2002 according to US-GAAP

	Network Management		Production Management		Information Management		PSI-Group	
	30.09. 2002 KEUR	30.09. 2001 KEUR	30.09. 2002 KEUR	30.09. 2001 KEUR	30.09. 2002 KEUR	30.09. 2001 KEUR	30.09. 2002 KEUR	30.09. 2001 KEUR
Revenues								
Software production and maintenance	39,727	35,948	30,500	37,553	17,578	20,592	87,805	94,093
Licenses	1,744	5,696	3,480	5,457	712	134	5,936	11,287
Hardware	12,837	14,495	1,813	964	802	373	15,452	15,832
	54,308	56,139	35,793	43,974	19,092	21,099	109,193	121,212
Cost of revenues								
Software production and maintenance	28,647	27,957	28,258	26,144	16,441	16,365	73,346	70,466
Licenses	1,316	4,740	576	896	147	121	2,093	5,757
Hardware	10,721	11,806	1,511	716	762	499	12,994	13,021
	40,684	44,503	30,345	27,756	17,350	16,985	88,379	89,244
Gross profit	13,624	11,636	5,448	16,218	1,742	4,114	20,814	31,968
Operating expenses								
Selling and Marketing expenses	4,828	4,943	8,327	7,207	2,748	3,823	15,903	15,973
General and administrative expenses	1,668	2,450	4,450	3,664	841	1,345	6,959	7,459
Research and development	3,882	163	4,786	6,274	0	0	8,668	6,437
Capitalized research and development	-366	-155	0	-1,282	-50	-343	-416	-1,780
Depreciation of capitalized research and development	127	283	237	224	75	0	439	507
Other income or expenses	117	105	-50	319	-112	-466	-45	-42
Amortisation of goodwill	0	1,196	0	207	0	321	0	1,724
Impairment loss	0	969	0	0	0	0	0	969
Operating income	3,368	1,682	-12,302	-395	-1,760	-566	-10,694	721
Interest income, income from investments	257	405	-215	16	127	79	169	500
Result before income taxes	3,625	2,087	-12,517	-379	-1,633	-487	-10,525	1,221
Income tax	-825	-1,099	491	-817	-181	-326	-515	-2,242
Net income/loss	2,800	988	-12,026	-1,196	-1,814	-813	-11,040	-1,021

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