

# Accelerate into the future!



Report on the 1<sup>st</sup> Quarter of 2004

PSI 

**PSI Group Data as per 31 March 2004 at a Glance**

	1.1. - 31.3.04 in KEUR	1.1. - 31.3.03 in KEUR	Change in KEUR	Change in %
Revenues	29,954	33,991	-4,037	-11.9
Operating income	-1,988	-973	-1,015	-104.3
Result before income taxes	-1,985	-928	-1,057	-113.9
Net loss	-1,906	-1025	-881	-86.0
Equity	14,057	21,027	-6970	33.1
Employees on 31 March 2003	1,149	1,245	-96	-7.7
Revenue/ Employee	26.1	27.3	-1.2	-4.4

## **Business Development**

After a slow start in financial year 2004, PSI has attained the highest volume of new orders in the first quarter in three years. Sales in the first three months of financial year 2004 decreased compared to the first three months of the previous year by 12% to 30 million euros. The EBIT was EUR –1,988 k, whereby 0.7 million euros are attributable to a change in the provisions practices and 0.6 million euros to non-recurring personnel expenses. The group result as of 31 March 2004 was –1.91 million euros

In the Network Management Segment (energy, telecommunications, traffic) sales decreased in the first three months by 12% to 16.5million euros. The Network Management EBIT decreased to –0.4 million euros as a result of postponed licensing business in the field of telecommunications and delays in the awarding of contracts in the energy field.

In the Production Management segment (industry, logistics) sales decreased by 9% to 9.7 million euros. The EBIT improved by 0.1 million euros to –1.6 million euros.

In Information Management (authorities, service providers) sales decreased by 20% to 3.8 million euros, while the EBIT improved by 0.1 million euros to 0 million euros.

With 39 million euros the new orders reached the highest level for the first three months since 2001 and were 5% above the first quarter of 2003. The volume of orders increased by to 74 million euros compared to 31 December 2003. With the order from the Saxony State Office for Environment and Geology PSI has attained its first order for control technology from a government office. In the field of energy additional important international orders for PSI control systems were attained.

The group's equity ratio on 31 March was more than 39%. The long-term and short-term financial obligations were reduced by 2.7 million euros to 3.1 million euros compared to the end of the previous year. Liquidity was at 14.1 million euros on 31 March 2004.

## **Personnel Development**

The number of employees on 31 March 2004 was 1,149, a reduction of 96 compared to the previous year.

## **Special Events in the 1<sup>st</sup> Quarter**

In the framework of concentrating on the core business PSI has sold its PK Software Engineering GmbH business operations to PROSOZ Herten GmbH on 29 March 2004.

As announced, PSI continued investments in new product variations for service providers, maintenance and in control systems for information management in the first quarter and attained initial successes with these products. The new PSIpenta-Version 7, which was developed in conjunction with reference customers, will be launched in June.

## **Outlook**

To take advantage of the opportunities being offered by the EU expansion, the entry into the Polish market is being prepared. PSI will provide solutions in the new countries on the basis of competitive cost structures.

Despite the weak first quarter and the poor economic development, the Executive Board adheres to the targets for the year published in autumn of 2003.

# Group Income Statement

From 1 January 2004 until 31 March 2004 according to US-GAAP

	3 Month Report 01.01.-31.03.04 KEUR	3 Month Report 01.01.-31.03.03 KEUR
<b>Revenues</b>		
Software production and maintenance	25,665	28,692
Licenses	948	1,452
Hardware	3,341	3,847
	<b>29,945</b>	<b>33,991</b>
<b>Cost of Revenues</b>		
Software production and maintenance	20,296	22,277
Licenses	359	531
Hardware	2,522	3,493
	<b>23,177</b>	<b>26,301</b>
<b>Gross profit</b>	<b>6,777</b>	<b>7,690</b>
<b>Operating expenses</b>		
Selling and Marketing expenses	3,859	4,579
General and administrative expenses	1,909	1,781
Research and development	2,737	2,337
Capitalized research and development	0	-166
Depreciation of capitalized research and development	204	130
Other income or expenses	56	2
<b>Operating income</b>	<b>-1,988</b>	<b>-973</b>
Interest income, income from investments	3	45
<b>Result before income taxes</b>	<b>-1,985</b>	<b>-928</b>
Income tax	-79	-30
<b>Result before minority interest</b>	<b>-2,064</b>	<b>-958</b>
Minority interest	-158	-67
<b>Net income/ loss</b>	<b>-1,906</b>	<b>-1,025</b>
Earnings per share ( in Euro per share, basic)	-0,17	-0,09
Earnings per share (in Euro per share, diluted)	-0,17	-0,09
Weighted average shares outstanding (basic)	11,012,870	10,012,870
Weighted average shares outstanding (diluted)	11,012,870	10,012,870

# Group Cash Flow Statement

from 1 January 2004 until 31 March 2004 according to US-GAAP

	3 Month Report 01.01.-31.03.04 KEUR	3 Month Report 01.01.-31.03.03 KEUR
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net income/loss before tax	-1,985	-927
Net income/loss after tax	-2,064	-958
Adjustment to reconcile net loss to net cash used in operating activities		
Depreciation of intangible assets and property, plant and equipment	1,049	1,023
Impairment loss	0	0
Other non cash-related changes	301	0
Pension reserves	418	463
Deferred taxes	23	8
Minority interests in result	-158	67
Change in assets, which are not included in investing or financing activities	2,795	2,572
Change in liabilities, which are not included in investing or financing activities	-3,252	-3,007
<b>Net cash from operating activities</b>	<b>-888</b>	<b>168</b>
<b>INVESTING ACTIVITIES</b>		
Additions to capitalized research and development costs	0	-166
Net additions to property, plant, equipment and other intangible assets	-332	-461
Net additions to goodwills (without liquid assets)	0	0
Purchase of financial assets	-42	0
<b>Net cash from investing activities</b>	<b>-374</b>	<b>-627</b>
<b>FINANCING ACTIVITIES</b>		
Capital increase through cash payments	0	0
Minority interests	158	-67
Financial liabilities	-1,785	0
Acquisition of treasury stock	-29	0
Other changes in equity	0	0
Special item for investment grants	0	-11
<b>Net cash from financing activities</b>	<b>-1,656</b>	<b>-78</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>-2,913</b>	<b>-505</b>
<b>Currency translation</b>	<b>5</b>	<b>32</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>16,970</b>	<b>21,532</b>
<b>Cash and cash equivalents at end of period</b>	<b>14,057</b>	<b>21,027</b>
<b>Supplemental cash flow information</b>		
Cash paid for interests	38	38
Cash paid for taxes	57	22

# Group Balance Sheet

from 1 January 2004 until 31 March 2004 according to US-GAAP

	3 Month Report 01.01.-31.03.04 KEUR	Annual Report 01.01.-31.12.03 KEUR
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	14,057	16,970
Trade accounts receivable net allowance for doubtful accounts of KEUR 446 (2003: KEUR 330)	23,019	29,535
Costs and estimated earnings in excess of billings on uncompleted contracts	32,358	31,640
Inventories	2,844	2,787
Deferred tax assets	0	0
Prepaid expenses	2,146	1,709
Other receivables	4,915	2,406
	<b>79,339</b>	<b>85,047</b>
<b>Long-term assets</b>		
Property, plant and equipment	9,242	9,291
Intangible assets	6,642	7,611
Investments	5,893	5,851
Goodwill	17,945	18,246
Deferred tax assets	0	0
	<b>39,722</b>	<b>40,999</b>
<b>Total assets</b>	<b>119,061</b>	<b>126,046</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Short term debt	2,710	5,360
Trade accounts payable	4,935	8,469
Advance payments received in excess of estimated earnings on uncompleted contracts	11,579	11,812
Other accrued expenses	14,139	15,287
Deferred revenues	7,501	5,649
Deferred taxes	702	679
Other current liabilities	5,597	5,190
	<b>47,163</b>	<b>52,446</b>
<b>Long-term liabilities</b>		
Long-term debt	361	393
Deferred taxes	0	0
Pension accruals	22,152	21,734
Other long-term liabilities	0	0
	<b>22,513</b>	<b>22,127</b>
<b>Shareholders' equity</b>		
Share capital, EUR 2.56 calculated par value	28,193	28,193
Additional paid-in capital	30,898	30,898
Revenue surplus	1,181	1,181
Accumulated deficit	-13,004	-11,098
Treasury stock	-102	-73
Cumulative translation adjustment	-604	-609
	<b>46,562</b>	<b>48,492</b>
<b>Minority interests</b>	<b>2,823</b>	<b>2,981</b>
<b>Total Liabilities and shareholders' equity</b>	<b>119,061</b>	<b>120,046</b>

## Development of Fixed Assets

from 1 January 2004 until 31 March 2004

	Number of shares issued	Sub- scribed stock	Addition. paid-in capital	Revenue reserves	Treasury stock	Accu- mulated deficit	Others	Total
		KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
As of 31.12.2003	11,012,870	28,193	30,898	1,818	-73	-11,098	-609	48,492
Group net loss for 3 Month 2004						-1,906		-1,906
Purchase of capital stock					-29			-29
Others							5	5
As of 31.03.2004	11,012,870	28,193	30,898	1,818	-102	-13,004	-604	46,562

## Shares and Options held by Management Board and Supervisory Board as of 31 March 2003

	Shares	Options
<b>Management Board</b>		
Dr. Harald Schrimpf	15,000	0
Armin Stein	3,000	1,200
<b>Supervisory Board</b>		
Christian Brunke	0	0
Wolfgang Dedner	25,300	0
Klaus Linke	2,770	0
Dirk Noß	56	800
Barbara Simon	7,890	0
Karsten Trippel	60,000	0



# Notes on the consolidated financial statements as of 31 March 2003

## The Company

### 1. Business Activities and Legal Background

The business activities of PSI AG and its subsidiaries 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, traffic, authorities, software technology, internet applications and business consulting. In addition, the PSI Group offers data processing services and distributes electronic devices.

The PSI Group is divided into the main business lines 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 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. 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 2003.

## 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, Schweiz	100,00
Nentec Netzwerktechnologie GmbH, Karlsruhe	100,00
PSI Transportation GmbH, Berlin	100,00
Büsing & Buchwald Gesellschaft für Organisation und Datenverarbeitung mbH, Barsinghausen	100,00
PSI UBIS United Business Internet Solutions AG, Berlin	100,00
PSI Logistics GmbH, Berlin (Gruppe)	100,00
PK Software Engineering GmbH	100,00
GSI Gesellschaft für Steuerungs- und Informationssysteme mbH, Berlin	100,00
PSI-BT Business Technologies for Industries AG, Düsseldorf	58,00

### b) Description of changes

Compared to the prior quarter there were no changes in the consolidation group.

#### 4. Selected Individual Items

##### Trade receivables

	31.03.2004 KEUR	31.12.2003 KEUR
Accounts receivable, trade	23,465	29,865
Allowances for bad debts	-446	-330
	<b>23,019</b>	<b>29,535</b>

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:

	31.03.2004 KEUR	31.12.2003 KEUR
Costs incurred on uncompleted contracts	49,523	48,337
Estimated earnings	8,989	9,450
	<b>58,512</b>	<b>57,787</b>
Less billings	-37,733	-37,959
	<b>20,779</b>	<b>19,828</b>

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

	31. 03. 2004 KEUR	31.12. 2003 KEUR
Costs and estimated earnings in excess of billings on uncompleted contracts	32,358	31,640
Billings in excess of costs and estimated earnings on uncompleted contracts	-11,579	-11,812
	<b>20,779</b>	<b>19,828</b>

## Other accruals

The other accruals essentially contain the following individual items:

	31. 03. 2004 KEUR	31. 12. 2003 KEUR
Services still to be performed	6,236	7,284
Vacation and overtime	5,528	5,070
Other	2,375	2,933
	<b>14,139</b>	<b>15,287</b>

## 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.

In the first quarter of 2004, the Company acquired 6,835 shares in several instalments for a total purchase price of EUR 29k. The Company accounts for treasury stock using the cost method and is shown as a reduction of equity.

## 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 three-month period ending 31 March 2004 beyond the data reported in the interim report for the period in accordance with APB 28 (Interim Reporting).

# Group Segment Reporting

from 1 January 2004 until 31 March 2004 according to US-GAAP

	Network Management		Production Management		Information Management		PSI-Group	
	31.03. 2004 KEUR	31.03. 2003 KEUR	31.03. 2004 KEUR	31.03. 2003 KEUR	31.03. 2004 KEUR	31.03. 2003 KEUR	31.03. 2004 KEUR	31.03. 2003 KEUR
<b>Revenues</b>								
Software production and maintenance	13,087	14,490	8,817	9,706	3,761	4,496	25,665	28,692
Licenses	412	464	536	755	0	233	948	1452
Hardware	2,955	3,661	379	186	7	0	3,341	3,847
	<b>16,454</b>	<b>18,615</b>	<b>9,732</b>	<b>10,647</b>	<b>3,768</b>	<b>4,729</b>	<b>29,954</b>	<b>33,991</b>
<b>Cost of revenues</b>								
Software production and maintenance	10,129	10,407	6,992	7,893	3,175	3,977	20,296	22,277
Licenses	217	218	142	231	0	82	359	531
Hardware	2,484	3,294	33	190	5	9	2,522	3,493
	<b>12,830</b>	<b>13,919</b>	<b>7,167</b>	<b>8,314</b>	<b>3,180</b>	<b>4,068</b>	<b>23,177</b>	<b>26,301</b>
<b>Gross profit</b>	<b>3,624</b>	<b>4,696</b>	<b>2,565</b>	<b>2,333</b>	<b>588</b>	<b>661</b>	<b>6,777</b>	<b>7,690</b>
<b>Operating expenses</b>								
Selling and Marketing expenses	1,283	1,869	2,202	2,082	374	628	3,859	4,579
General and administrative expenses	744	615	973	973	192	193	1,909	1,781
Research and development	1,831	1,471	906	866	0	0	2,737	2,337
Capitalized research and development	0	-167	0	1	0	0	0	-166
Depreciation of capitalized research and development	132	65	47	40	25	25	204	130
Other income or expenses	31	40	28	41	-3	-79	56	2
<b>Operating income</b>	<b>-397</b>	<b>803</b>	<b>-1,591</b>	<b>-1,670</b>	<b>0</b>	<b>-106</b>	<b>-1,988</b>	<b>-973</b>
Interest income, income from investments	41	13	-33	29	-5	3	3	45
<b>Result before income taxes</b>	<b>-356</b>	<b>816</b>	<b>-1,624</b>	<b>-1,641</b>	<b>-5</b>	<b>-103</b>	<b>-1,985</b>	<b>-928</b>
Income tax	-11	17	-74	-94	6	47	-79	-30
<b>Net income/loss</b>	<b>-367</b>	<b>833</b>	<b>-1,698</b>	<b>-1,735</b>	<b>1</b>	<b>-56</b>	<b>-2,064</b>	<b>-958</b>



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