

... tomorrow
Resource Man
Annual Report 1999
agement via In
ternet

PSI 

“We are a company with 30 years of tradition, and we are market leaders.”

PSI develops and distributes software solutions for Resource Management. As experts in the core processes of our customers, we detect futuristic trends early and realize them as innovative software. Thus, we build consistently on resource management via the internet.

- In the energy industry, PSI is market leader for software for energy management and deregulation; in our industrial sectors we show the way in production management for service companies in information logistics.
- For small to medium-sized industrial companies we develop and market our ERP software PSIPENTA, a standard solution for company resource management, which distinguishes itself by its future-oriented architecture.
- Furthermore we are especially active in consulting service companies for change processes.

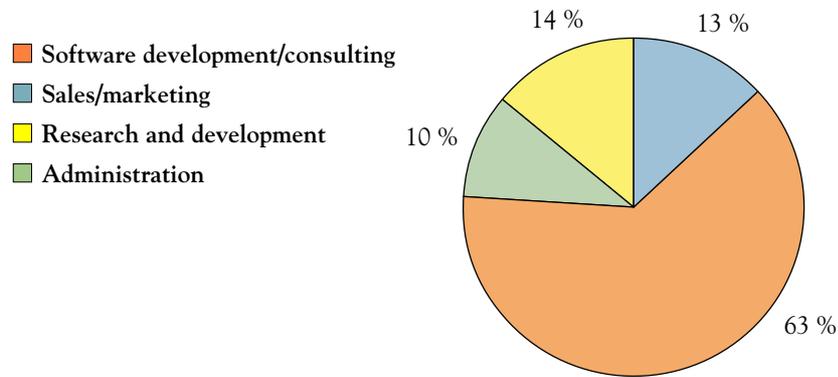
In 1999 with 1064 employees, PSI achieved sales of DM 242 million.

“We have maintained the investment tempo because we plan for the future.”

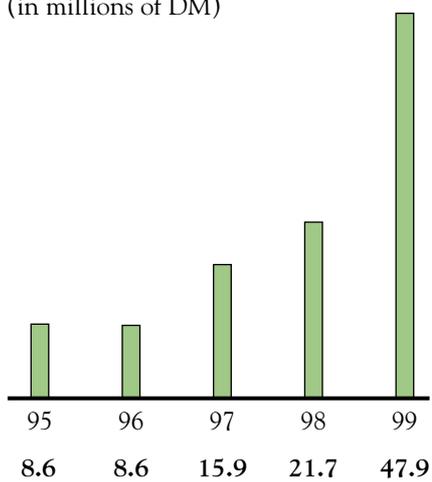
PSI-Group in figures (US-GAAP)
(in DM million)

	95	96	97	98	99
Sales revenue	110.5	111.7	128.8	186.2	242.0
Operating results	-1.6	-2.1	-4.2	1.0	-16.7
Result before tax	0.8	-2.6	-10.3	2.5	-16.4
Balance sheet total	116.2	118.1	140.9	215.4	223.2
Equity	26.3	26.4	23.8	108.6	102.3
Equity ratio (in %)	22.6	22.4	16.9	50.4	45.9
Investments	8.6	8.6	15.9	21.7	47.9
Employees as of 12/31	655	620	669	833	1064
Turnover/employee (in 000s DM)	169	180	193	224	227

Employees per department
(in %)



Investments
(in millions of DM)



*“In 1999
Research and
Development
was our
investment
focus.”*

“Today market leader for solutions for the energy industry, tomorrow for resource management via Internet.”

Content

Foreword by the Board of Directors	2
The PSI Stocks	4
The PSI Story	
Strength in the Energy Market	6
Strength in the Production and Distribution of Goods	10
Strength in eBusiness	14
Strength in Service	18
Group Report	22
Overall Economic Situation	22
Company Development	23
Outlook	32
Annual Report	33
Auditor's report	69
Report of the Supervisory Board	70
Executive Bodies	72

Dear Stockholders, Dear Ladies and Gentlemen,



1999 pointed the way for PSI. We are a company with 30 years of tradition and we are technological market leader. We have strengthened and built upon this position! Furthermore we have continued to develop our company strategy consistently and have repositioned ourselves in a growing market as an integrator for resource management and eBusiness.

The basis for eBusiness is resource management

As part of our repositioning we have refined our profile and we represent a future-oriented company. In this we have left the traditionally defined products and systems area and are relying on the pillars of eBusiness and resource management. This heavily influences the future business of PSI and that of our customers: no company will survive in the future without eBusiness, i.e. complete business processes will be carried out via internet. With resource management resources will be implemented and used that go beyond the borders of the company.

Our acquisitions in 1999 were already made under this premise. With them we wanted to strengthen the future position of PSI – in the deregulated energy market as well as in eBusiness. For eBusiness logistics is the key to success; only those who use the speed advantage of the internet in conducting business – flanked by adequate production and distribution processes – will succeed. PSI masters logistic chains and the internet.

We help our customers to integrate eBusiness into their systems in order to get the most out of them. We understand their problems in reference to the paradigm change and offer them consulting as well as future-oriented and profitable solutions.

Mastering deregulation: PSI is market leader in the energy industry

In 1999 in another distinct process of change we supported our customers in the energy industry. The deregulation of the European energy market has had similar results as the deregulation of the telecommunications industry. In order to make the change successfully, each energy company has to control their own networks and resources. In this area PSI is market leader. PSI also invested early in the new tasks of sales and transmission. The energy suppliers will develop into multi-utilities and thus into full-service companies. This has opened additional long-term attractive markets to PSI. These markets will also be heavily influenced by the internet and need the special competence of PSI in eBusiness.

Investments in ERP Software

In 1999 PSI once again increased investments in the ERP product PSIPENTA in order to further strengthen its attractiveness and to raise the value of this division. We also expanded our service capacity in order to be able to deliver the complete solutions increasingly demanded worldwide. We maintained this forward-looking strategy despite the subdued purchasing because of Y2K.

Results at the turning point

Due to the fact that growth in turnover did not keep pace with these investments, the product business had a clearly negative result of DM 35 million. This could also not be compensated for despite the significant increase in profits of the system business, so that the Group finished the year with a negative result of DM 16.7 million. Our fundamental basis is, however, nevertheless good: our increase in turnover to DM 242.0 million was clearly above market growth, and we have the highest order rate in the history of PSI.

Potential for increases in stock prices

In product business PSI suffered under the lack of new investments because of Y2K fears. This probably prevented potential increase in stock prices. For this reason the Board of Directors is also not satisfied with the development of the PSI stocks. By means of our repositioning and the strengthening of our investor relations, we want to actively support the stock price. The admission of all stocks to the Neuer Markt of the

Frankfurt Stock Exchange will increase the volume significantly and the attractiveness, especially for institutional investors.

Well prepared for new markets

PSI profits from the additional growth spurts arising from the deregulation of the energy market, complete supply chain management and eBusiness. We are especially well-prepared for these new markets – PSI has always participated actively in the structuring of future technologies. Today PSI delivers solutions for the deregulated European energy market, tomorrow resource management via internet. This will lead to growth in sales as well as profit, and qualitatively to the conquest of new markets. PSI wants to and will use these chances.

The market development supports our optimism. The software industry is expecting significant growth rates in the next years. Software will again be seen as a strategic investment for strengthening competitive position: the 21st century is the century of software.

The Board of Directors would like to thank all stockholders, customers, suppliers, and staff for their trust, which was sometimes shaken by critique. We are convinced that we will live up to the expectations of the company.

Berlin, March 2000



Dietrich Jaeschke for the Board of Directors

PSI Stocks on the Neu

With above average growth rates and a high degree of innovation PSI is well placed on the Neuer Markt of the Frankfurt Stock Exchange. The stock price rose by 94% since going public until the beginning of March 2000. We have been able to stop the long downward trend with consistent measures and active communication.

Y2K effect comes after a good start

Our start on the Neuer Markt was very successful. Until the beginning of February 1999 the PSI stocks rose consistently by over 300% to a high of Euro 101.40.

At the beginning of February a long lasting downward trend began affecting the entire Neuer Markt of the Frankfurt Stock Exchange. Software supplier listed there – like PSI – were especially hard hit because of fears of Y2K effects. PSI especially felt that the ERP market lagged behind expectations. This had a negative effect on the product business. The great potential of the system business and the improved efforts in the area of Investor Relations resulted in a stabilization of PSI stocks at a low level. On October 1, 1999 the stock price reached its lowest level for the year at Euro 31 and then began a long sideward trend. At the end of

the year, stock prices were at Euro 33.10 – an increase of 39.2% compared to the initial public offering of 16 months earlier.

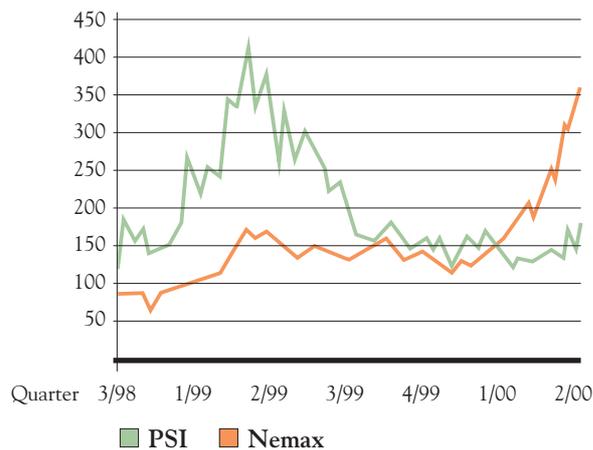
Since February 2000 the stock price has again shown a positive trend. On March 2, 2000 the PSI stock price was Euro 46, which was nearly twice as high as at emission.

Stockholder structure

Currently 90% of PSI stocks are ordinary stocks; the other stocks are held by the issuing company Gold-Zack AG as post-IPO participation. Over 400 PSI employees are included in the ordinary stockholders and hold together approximately 50% of all the total PSI stocks.

er Markt

Performance of the PSI stocks compared to the Nemax All Share Index
(in %)



PSI actively supports the stock price

In 1999 PSI implemented numerous middle and long-term measures to support the stock price. With the growth course which we have been on since going public we have been able to acquire additional market share in all relevant markets. The acquisitions as well as the high development costs of 1999 will have a positive effect on future business development.

With the creation of new Investor Relations department at the beginning of the year we have intensified and improved our communication with stockholders over the course of the year.

On October 20, 1999 the stocks that were not yet offered on the Neuer Markt at the time of the IPO were issued. This led to a 2.8-fold increase of PSI's weighting in the Neuer Markt Index and a clear stock structure developed. The necessary transformation of registered stocks which were held by current and former employees into ordinary common stocks led to the stocks being treated equally and thus to higher motivation amongst the employees.

Continued growth

PSI offers its stockholders a distinct advantage: the company can point to 30 years of success. In this time we have re-written technological history many times and have occupied the markets of the future early. This experience and the year-long business relationships to leading companies resulting from this are the basis for further growth and for our future success.

Further growth and increasing company worth are at the center of PSI's strategy. For this reason there will again be no dividend payments for the fiscal year 2000.

We are convinced that PSI's future development provides enough potential for stock price increases.

Strength in the Energy

PSI has been delivering complete solutions to the energy industry for 25 years for the production, transport and distribution of energy. In this attractive market we have achieved the leading position in Germany: all major energy suppliers use PSI software.

The deregulation of the energy industry led to dramatic changes in Europe in 1999. New players in the market compete with the traditional energy suppliers. Customers are becoming more and more demanding; at the same time prices are sinking under the increased competition. With the deregulation of the energy industry, a similar dynamic development can be observed in Germany as several years ago in the telecommunications industry.

In addition to price, customer loyalty will play a more and more important role in the future. The energy suppliers must adapt their processes to the needs of their customers.

Deregulation has created a large demand for new software for the transmission and sales of electricity and invoicing. In times of increasing pressure to cut prices and costs, the efficiency of network control systems will become a strategic success factor.

New chances for new solutions

Due to this great demand, the market for energy management systems relevant to us will double, as experiences in the USA illustrate. PSI has recognized this early. Based on many years of experience as a provider of energy control systems, we have developed new solutions. We have further complemented our own product spectrum through acquisitions.

New control systems for new structures

PSI has developed a new generation of open control systems. They offer network operators the possibility to combine them with other systems inexpensively. This allows for the construction of significantly larger control centers and therefore increased efficiency.

In such control centers all information necessary for network operation are collected and visualized. From here the use of all resources that are necessary for smooth operation are supervised and controlled.

Market

Transmitting and selling electricity: more efficient via internet

PSI solutions for transmitting and selling electricity have been developed on the basis of the state-of-the-art internet technology. PSI software covers all areas needed for transmitting and selling energy: this includes selling and distributing electricity as well as other types of energy. Our software offers the suppliers additional functions such as managing meter data and a billing interface.

Energy management: Planning power plant usage with PSI

With the acquisition of the Viennese company IRM, PSI has at its disposal an integrated software solution with which power plant usage and energy sales can be planned and optimized. This solution supports energy suppliers in the optimization of their own energy production under the conditions of the deregulated electricity market.

Network control via the internet

The technology for using the internet for network control applications represents a further innovation. It was developed by the new PSI subsidiary NENTEC. Information or data can be transferred over great distances within the electricity network using the internet. By using standard technology, network operators can save 60% of their costs compared to the traditional technology developed especially for process control.

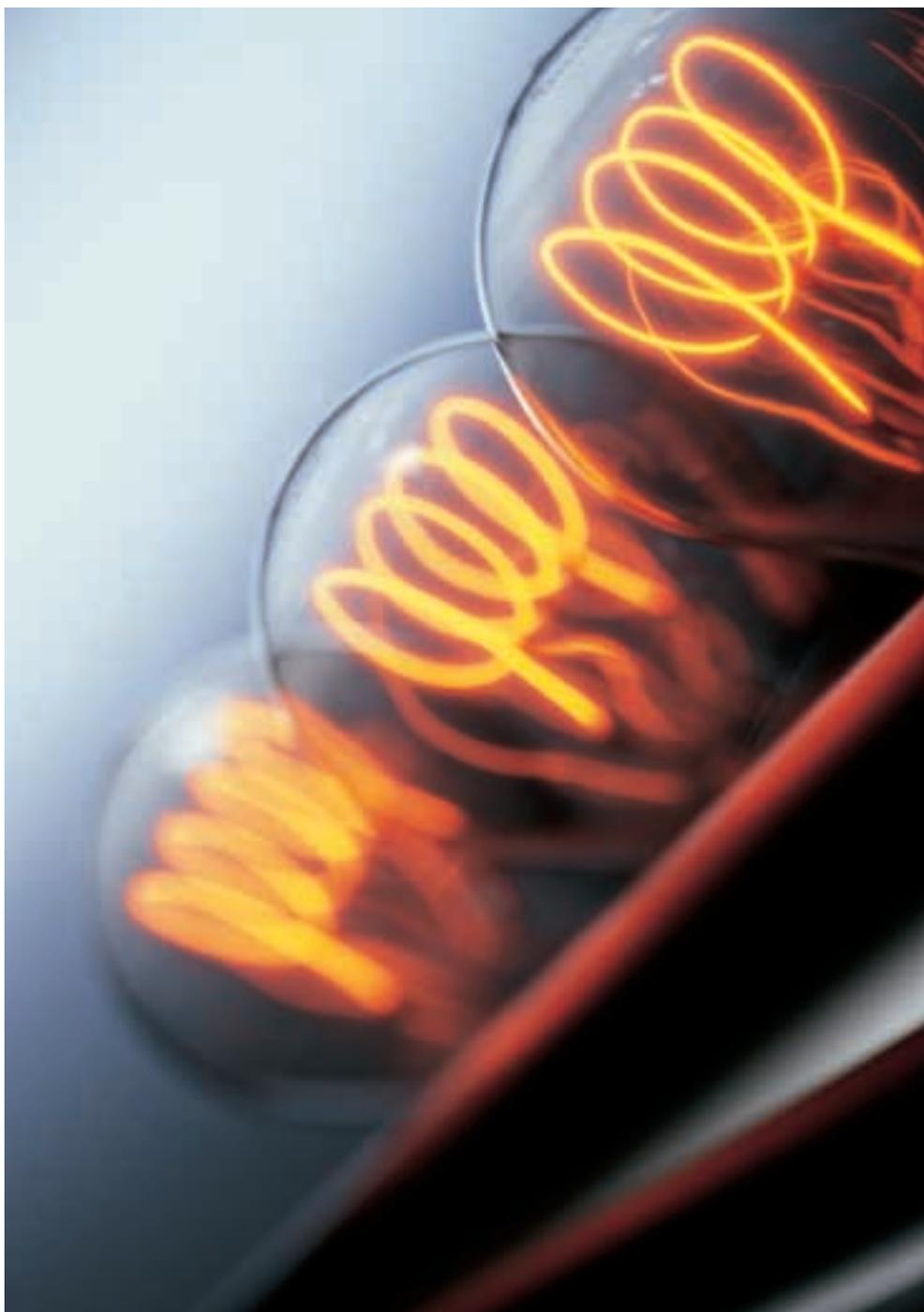
Leak detection in the transportation of gas and oil

PSI is also market leader for environmental-friendly distribution systems for the transportation of gas and oil. A special aspect of the PSI solutions are the integrated, patented procedures with which leaks can be detected and located. Their reliability was again attested by the four largest TÜV (DOT) organizations in early 2000. With the development of these systems and their use, PSI has made a practical contribution to cost-cutting and environmental protection.

*PSI – Number 1
in the market for
energy software*

All major energy providers work with PSI software

The innovative advantage of the PSI solutions for the energy industry has led to PSI having all major German companies amongst their customers. In 1999 the already high order volume of the previous year was increased again. Among the new orders there are numerous large strategic projects. Behind them are important customers for new solutions in the deregulated energy market. Especially noteworthy is the contract



Seven o'clock in the mo

from DB Netz AG for the delivery of two central switching stations for providing energy to the German railroad system. The new switching stations Berlin and Karlsruhe are part of the concept of DB Netz AG to successively reduce the number of switching stations from the current 25 to seven. Part of the agreement is an option for two more central switching stations in Leipzig and Duisburg. This contract does not only mean expanding our product spectrum to include "Provision of electricity to Train Systems". With a total volume of DM 27 million it is also the largest single contract in the history of PSI.

Efficiency via the internet

The increasing competitive pressure in the energy market will also lead to an increase in the meaning of internet-based solutions and products. In the future, complete business processes will be conducted over the internet. This will allow for complete management of all resources in the network. This includes switching equipment and network stations as well as service teams and their current location. Above all the internet will be the instrument for ensuring customer loyalty in the future. The spectrum will reach from customer information and billing sys-

tems in the internet to the creation of integrated multi-utility portals. This means customers will receive supply, waste removal and infrastructure services from a single source. In this manner companies will be able to distinguish themselves from their competitors.

PSI delivers complete solutions to energy suppliers for managing their resources via the internet. Additionally PSI offers its customers support in the development and realization of their own eCommerce solutions. Concrete examples are systems for electronic purchasing or process tracking on the internet. The use of electronic online advisors as intelligent agents – autonomous software components with knowledge about goals and wishes of customers – offers, especially in the energy sector, the possibility to make tailor-made offers to customers. We will use our technological advantage and will continue to profit over-proportionally from the dynamic development of the energy markets in the future.

With precise software solutions for energy suppliers, electricity will be delivered reliably from the power plant to your house.

arning, lights on . . .

Strength in the production

PSI develops refined solutions for industry and our software combines the individual components of the logistic chain into a whole. This ensures problem-free processes beyond company borders.

PSI has developed valuable experience over the last 30 years. Our know-how ranges from factory automation to strategic planning. Thus, it encompasses all resources in the entire supply chain – from suppliers to producers and on to customers. We support important core processes. Examples of these include distribution or material and production management; the spectrum includes controlling the complex transportation of goods beyond company and country borders.

In the industrial sector PSI concentrates on selected sectors in which the company has built up extensive know-how over years and has a leading market position.

PSIPENTA controls business processes flexibly and economically

The basis of these solutions is represented by the software product PSIPENTA. This efficient complete solution was developed for medium-sized production companies and autonomous units of larger companies. PSIPENTA is a lean system with a completely object-oriented component architecture and is therefore state of the art software

technology. Because of this it is superior to competitors' products in reference to flexibility and efficiency according to leading market analysts.

Functionally PSIPENTA covers the entire value added chain and includes components for eBusiness, order and customer management, production control, supply chain management – i.e. the management of all parties involved in the entire value added chain –, project management and accounting. PSIPENTA is completely compatible with the internet and supports the most important worldwide software standards.

The product was developed and is distributed by the PSI subsidiary PSIPENTA Software Systems GmbH. For machine and plant producers, automotive parts producers as well as tool and mold producers there are special PSIPENTA solutions available which are specific to these sectors. This also increases the efficiency of using PSIPENTA in medium-sized companies.

and distribution of goods

Leading companies already rely on the efficiency and flexibility of PSIPENTA, such as the large automobile manufacturers and market leaders in machine and plant production.

Individual solutions for special market sectors

For the metal, chemical and printing sectors PSI has developed individual solutions based on PSIPENTA for the core processes of these customers.

We help our customers remain competitive and to extend competitive advantages. In the metal industry, for example, costs can be cut by combining production steps. Our software makes more efficient supply chain management possible, i.e. management of the value added chain.

Our software is state of the art

A large news magazine was able to shorten the amount of time between the copy deadline and publication, thus being able to deliver more current information. The PSI solution for production management in the printing industry led not only to advantages in how current their information was, but also led to cost reductions.

Strength through cooperation

In order to strengthen our already strong position in these market sectors, PSI has entered into a joint venture with the German Steel Industry Association as of January 1, 2000. With this merger PSI is the market leader in Germany for resource management solutions in the metal and printing market sectors. In the chemical and pharmaceutical industries we also have a large customer base and renowned references. This new joint venture will develop solutions for these industries based on PSIPENTA and will use its strong position in Germany for the international expansion of its business.

PSI manages logistic chains

PSI has over 30 years of experience in logistics. From the beginning we have developed custom-made information systems for supply chain management and distribution. For example, our logistics software controls a distribution center which supplies 30,000 shops with coffee and consumer goods.

Above all the motor of growth is the fusion of individual business processes into continuous global supply chains and the success of eCommerce: This is only successful if the speed advantage of electronic orders is passed on and the goods reach the consumer faster than by traditional sales methods. In order to master this successfully, exceptional logistic management is a prerequisite.



Ten o'clock, with a coffee

PSI tackled this challenge early and has invested in the fusion of internet and logistics since going public under the term eLogistics. ECI, a subsidiary purchased at the end of 1998, has competitive standard software components for the construction of logistics solutions. PLANAR, acquired at the beginning of 2000, has important core competence in the integration of internet and logistics applications within the framework of complete supply chain management. With the takeover of PLANAR, PSI has also acquired entry into the attractive growth market of airport logistics.

Economy through eBusiness

PSI customers can conduct their core business processes – production and distribution – via internet, i.e. as eBusiness. This grants them significant potential for cutting costs and improving customer loyalty. They could, for example, globalize their product distribution without having to maintain their own distribution offices. We use the synergies between our own individual business areas and subsidiaries intensively in order to offer our customers efficient and complete solutions from one hand.

eBusiness sets new standards

The focus here will be on internet-based solutions for the future. They will allow for continuous resource management in production and distribution.

One of PSI's first eBusiness solutions for the metal industry completely fulfilled cost reduction and customer loyalty expectations. With this solution the customers have the possibility to call up products themselves directly from the warehouse via internet. Because of this, prices can be determined for specific customers and the path of the order can be traced.

The new version of the complete solution PSIPENTA was introduced at CeBIT 2000 and also runs based completely on the internet. It was expanded to include complete eBusiness functionality for business-to-business applications. This means that suppliers and customers have been smoothly integrated into the process chain.

In only a few years no company without eBusiness will be competitive as the prices and quick availability of internet-based products become standard. PSI, as an IT solution provider, therefore supports its customers in the conception and realization of entry into internet business. With this, PSI offers its customers solutions which ensure and strengthen their individual competitive advantages in the future.

How does the bean get to your morning coffee? Our software organizes its trip from abroad to processing all the way to the shelf – it controls the necessary processes and supply chains.

ee to the meeting . . .

Strength in eBusiness

In 1999 PSI mastered the change from a software supplier for the production of energy and goods to an eBusiness company and therefore has occupied important futuristic markets early.

Only those companies will remain competitive in the future who conduct large parts of their business over the internet, i.e. conduct eBusiness. The internet is setting new standards for prices and quick availability of products. The economic processes are speeding up tremendously; this means on the one hand that they are becoming more economical, but on the other hand the innovation cycles are becoming much shorter. At the same time not only the products will be a competitive factor, but also the service accompanying the product. eBusiness makes worldwide business activities possible even for small and medium-sized companies.

And: eBusiness is revolutionizing the company itself. They must be more open and seek joint ventures. Knowledge is available over the web from every office; monopolies on information have been lifted. Flat hierarchies are a necessary condition and the result. In this area there is a great need for consulting and for solutions. After the large corporations, medium-sized companies are also starting to recognize this.

PSI expanded its core business in 1999 to include eBusiness. We have oriented our software solutions towards eBusiness and have hired eBusiness specialists. Our internet strategy has also received new impulses through the newly acquired innovative subsidiaries.

New subsidiary UBIS combines eCompetence

At the center of our internet strategy is UBIS Consultants for Integrated Systems GmbH with its close relationships to research facilities and universities. It is a leading German consulting and software company with many years of experience in eBusiness. With its integration into the PSI Group UBIS has concentrated fully on this business area. It develops individual customer solutions by combining internet technology and business processes.

The company possesses extensive experience in the construction of e-commerce solutions, newsstand systems and portals for banks and retail companies. This includes solutions for the distribution of electronic devices via internet as well as personal online consultants for a large German department store group's entry into the internet. The software technology of intelligent agents used for this made personal one-to-one marketing on the internet possible.

PSI will use UBIS' know-how even more in the future to help our customers reach their customers in target markets. For this purpose we have entered into cooperations with leading providers of eCommerce platforms, including INTERSHOP and Catalog International.

PSI: Leader for solutions in dynamic eGovernment

PSI has a leading role in eBusiness in the government sector. Already in 1999 PSI was successful in developing software solutions based on the internet which brought public administration closer to the people and improved their standing as a service provider. Since the beginning of 2000 increasing dynamism can be observed in this sector. The number of orders placed in the first two weeks of this year amount to DM 4 million – compared to DM 11 million for all of the previous year. For this reason PSI is expecting a significant increase in demand for eGovernment solutions.

Competence in internet technology

In the fall of 1999 we took over NENTEC Network Technology GmbH which is active in the internet and telecommunications markets. With this we secured a technology not previously existing for our energy control technology. With this technology we can use the internet for network control applications: with a standardized infrastructure instead of special and expensive networks, information and data can be transmitted over great distances inside the electricity networks. NENTEC also supplements our competence in internet security and speech-data integration.

*eBusiness with
PSI software
improves
efficiency*



2 pm, research on the in

As the first German company, NENTEC has developed a worldwide standard for secure data encoding which was accepted by the Internet Engineering Task Force (IETF). Speech-data integration, which is the basis for internet telephony, is increasing in meaning for the providers of telecommunication services.

From this merger there are additional synergies in the area of telecommunication. PSI is already developing successful network management system solutions for telephone and cellular phone companies. With this, PSI is contributing to the build up and expansion of the necessary eBusiness infrastructure.

eBusiness is PSIPENTA.COM

A central component of PSI's eBusiness strategy in 1999 was the further development of the internet compatible complete business solution PSIPENTA.

The new PSIPENTA.COM version makes it easier for customers to enter eBusiness. The web-based user interface visualizes all relevant information simply and clearly. PSIPENTA.COM can be used regardless of location via the internet. This means that a company's worldwide business locations can be connected via the World Wide Web.

A further highlight of the new PSIPENTA version is the integrated eBusiness solution which make business-to-business transactions possible for both purchasing and sales.

With the development of the new PSIPENTA version PSI further expanded its technological advantage in 1999 as a provider of economic complete solutions for medium-sized companies.

PSI: Integrator for resource management and eBusiness

Our investments in new companies and new products ensure our competitive advantages and highlight PSI's position as an internet company. We will continue to build on this position in the future.

The internet simplifies logistics and creates continuous supply chains. PSI shows customers the way into eBusiness.

ternet . . .

Strength in Service

PSI has focussed on long-term customer relationships and the greatest possible proximity to customers since its founding. Because of this PSI has always been able to recognize market and technology trends early and to offer customers solutions for future developments.

Examples from the recent past include the deregulation of the energy market and the fusion of the internet and resource management into new business processes. In the energy sector PSI started developing solutions for the demands of deregulation two years ago.

PSI invested in the connection between internet technologies and business processes very early. With individual customer solutions for eBusiness, eGovernment and eLogistics, we have positioned ourselves in one of the most attractive growth markets.

Closeness to customers without compromise

The prerequisite for this strategy is the exact observation of market developments and, above all, the consultants' and developers' proximity to customers – without compromise. Because of this we have acquired a great understanding of our customers' core business processes over the past three decades – even demanding customer projects are a “home game” for us. Our solutions are very important for the core business and the success of our customers. For this reason quality plays a great role: PSI's quality management system has been certified according to ISO 9001 and ISO 9000-3 standards for software producers since June 1994. We also follow the stricter regulations of the ITQS for European companies.

High customer satisfaction

Long-term customer relationships over ten and more years are the rule at PSI and one of our most significant strengths. This is illustrated very impressively in the results of the survey conducted within the framework of the “Campaign for High Customer Satisfaction” among the customers of PSI AG: as the first German software company, PSI was awarded “Recognition for high customer satisfaction”.

*We listen
very carefully
and think ahead*

Motivated employees make PSI strong

The key to customer orientation and success are our employees. PSI believes that employees should participate in the success of the company: a profit sharing program was introduced in 1974 and until 1997 all PSI stocks were held exclusively by employees.

Even after going public the majority of the PSI workforce owns PSI's stocks – almost half of the capital equity is owned by employees. This results in a high level of motivation and identification with the company and thus promotes customer orientation. Currently a new profit sharing model is being worked out. Its effect on motivation will extend to include those employees who have joined the company since the IPO.

High standards through continued qualifications

In addition to the motivation of the employees, their qualification is also decisively important for the quality of our work and the satisfaction of our customers. The high number of exceptionally well-educated university graduates among the PSI employees guarantees flexibility and professionalism in customer projects. Especially since going public PSI is an attractive employer for management trainees with above average potential.



7 pm, caught the flight

PSI has always placed high value on personnel development. Programs are offered by PSI's own schooling center which successfully offers training and seminars for PSI customers, qualification programs for employees and for management trainees. This ensures the further growth of PSI and the high standard of our consulting, realization and project management for the future.

Through cooperation programs with universities, we invest early in future employees. Within the framework of the Cooperative Information Science Studies (KoSI), we participate in the education of students in Aschaffenburg. Information Science students at the University of Darmstadt receive scholarships, do internships and write theses in the company, thus involving them early in PSI.

PSI: a company with values

The basic values of our company culture can be described using the following triangle:

- **Technology**
A clear dedication to technological top performance as an incentive for exceptional solutions
- **Openness**
Openness in internal and external communication as well as openness of the systems realized by us
- **Success**
Success in your own work and the success of our customers as a motor for ensuring economic success

Winning motivated and highly qualified employees and the further development of management trainees into distinct personalities will continue to be at the top of our priority list in the future. Because distinct personalities think ahead and maintain customer relationships. They ensure PSI's future positive development.

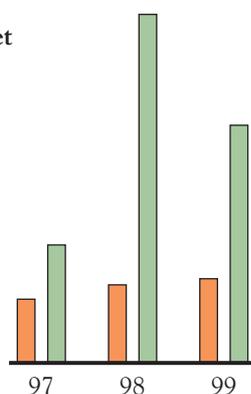
*With PSI software,
you get home on time.
The conveyor belt
runs with PSI software
and is part of our
airport logistics
solutions.*

home!

Group Report

In 1999 PSI grew faster than the market. System business experienced a boom due to the deregulation of the energy market. In comparison, the results in product business suffered under Y2K and high investments.

PSI grows faster than the market (Sales in %)



IT-market in Western Europe	+8.6	+10.1	+10.8
PSI	+15.3	+44.5	+30.0

Source: European Information Technology Observatory (EITO)

1999: Strong growth in relevant market segments in Germany and Western Europe (in %)

	Germany	Western Europe
Application software	+ 13.0	+ 12.9
IT-Consulting	+ 12.0	+ 16.9
Implementation	+ 16.5	+ 17.8

Source: European Information Technology Observatory (EITO)

Overall economic situation

The economic situation in Germany and Europe demonstrated weak growth in the first half of 1999, but recovered at the end of the year. With this year end spurt, Germany increased its GDP from an average of +1.5 % for the year to +2.3% in the last three months of 1999. In the European Union growth was +3.1% in the last three months compared to an average of +2.2% for the year.

Western Europe's IT sector is booming

Western Europe's market for information technology grew by 10.8% in 1999. In Germany growth was double-digit for the first time in several years at 10%.

The segments relevant to PSI, i.e. application software, IT consulting, and implementation grew even more than the overall market. They grew 17.8% in Western Europe and 16.5% in Germany.

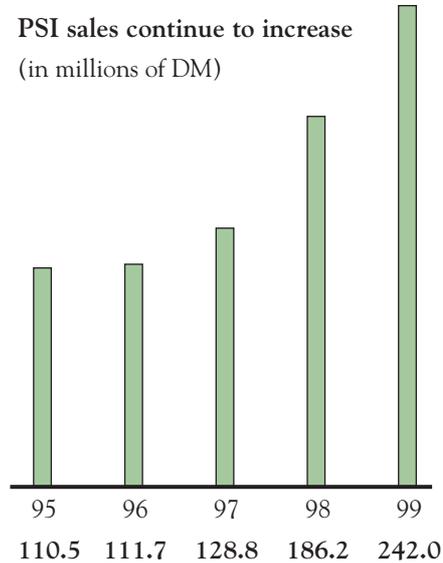
Y2K effect weakened the software market

A special influence on the IT industry in 1999 was the effect of changing to the year 2000: on the one hand the media painted a black picture of what would happen if older software quit working, on the other hand Y2K led to different investment behavior on the part of companies. Most investments were made to make standard software Y2K compatible, whereas strategic investments in new software was for the most part postponed. General investment stops in the second half of the year strengthened this trend which led to postponing investments for up to eight months and which therefore had an influence on PSI's product business.

Deregulation of the electricity markets

The deregulation of the European electricity markets created a change whose dynamism can be compared to what happened after the deregulation of telecommunications. The energy suppliers now face much stricter competition; they have to improve their business processes, and they have to solve new problems in sales and transmission. This all creates a great demand for software and consulting. Germany has now taken a leading role in the deregulation process.

PSI sales continue to increase (in millions of DM)



Company Development

PSI is growing faster than the market

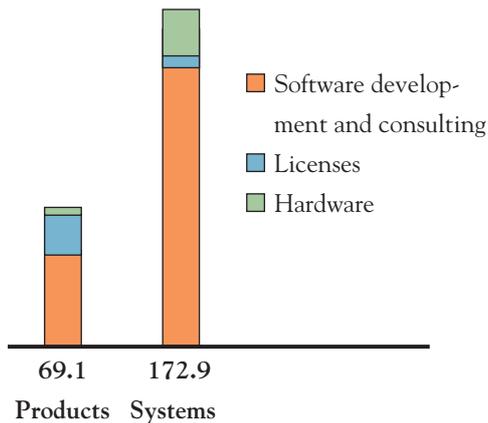
Even in 1999 PSI grew dynamically and by far outgrew the market with 30% growth in sales to DM 242 million. Despite this, however, the development of the products and systems segments were different.

Y2K affected product business

Product business saw an increase of 11%. This segment includes all activities in connection with the sales of our standard software PSIPENTA. This includes standard development, license sales, customer-specific adjustments, implementation as well as maintenance and care.

Software development and consulting was still the most important source of sales for PSI in 1999

(in millions of DM)



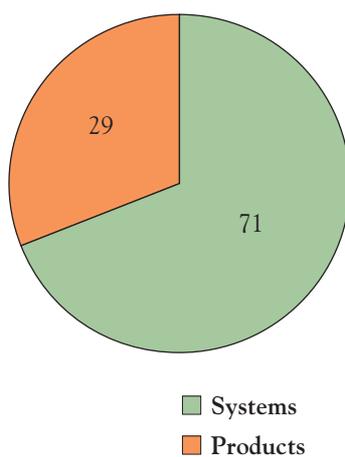
The 11% increase in sales for the product business was below expectations and below the values for the previous year. The reason for this is above all the low sales of licenses – many of our customers postponed their investment in standard software because of the Y2K problem. This effect could not be compensated for even with the growth of the service sector (software development and maintenance).

Even the operating results for product business sank from DM -10.6 million to DM -35 million compared to the previous year. The reason for this were the high investments in the development and marketing of PSIPENTA in anticipation of the expected stimulation of the market for operational software.

Systems business has made a big leap

Systems business is the largest part of sales

(Percentage of sales in %)



For the most part the systems segment includes the operational activities for the development, implementation as well as maintenance and care of customer-specific software solutions. In this sector sales increased by 40%. Due to the deregulation of the European energy market, PSI was able to win numerous large strategic projects and to successfully enter the market with new solutions for electricity transmission and sales.

By means of the significant growth in system business, the share of total sales for the individual sectors changed: system business increased its share slightly over last year from 66% to 71%.

The 40% increase in sales for system business was above expectations and above the 25.6% of the previous year. The operating results in this segment rose by 55% to DM +18.0 million thanks to the excellent market situation and the synergies resulting from it.

Group result is temporarily weakened

Under the negative influence of the products business result, the Group has an overall loss of DM -16.7 compared to DM +1 million for the previous year. For 2000, however, we again expect a positive Group operating result. The expected stimulation of the market for standard business software, the strategic investments made in 1999 and the high number of orders at the end of the year all lead us to this conviction.

New orders at record level

The number of new orders placed with the PSI Group reached a new record in 1999 of worth DM 220 million. This means an increase of 43% compared to the previous year and is therefore significantly above expectations. The number of orders as of January 1, 2000, valued at DM 180 million, was even 50% higher than at the beginning of 1999.

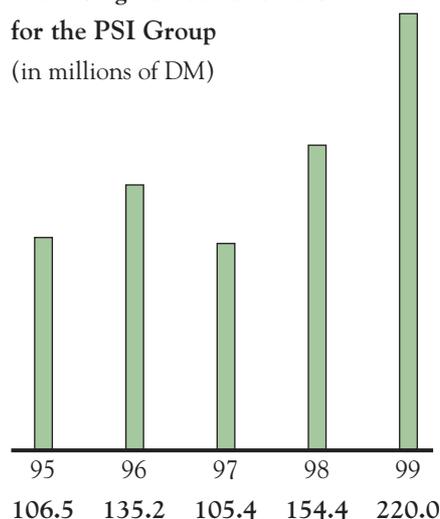
This is an exceptional starting point from which we can reach our goals for 2000. The high number of orders confirms the middle and long-term growth of PSI.

Financing

On May 27, 1999 we assumed a minority share of 15% in PSIPENTA Software Systems GmbH, which was held by previous senior management and staff. Within the framework of this, our share equity – switched to Euro in 1999 – versus contribution in kind of DM 1,215,700 (Euro 621,577.54) from authorized stock increased.

With the Board of Directors' resolutions of August 31, 1999 and October 13, 1999, the conversion of convertible profit participation capital into 437,372 ordinary stocks

Increasing number of orders for the PSI Group
(in millions of DM)



from authorized capital was approved. These have a par value of DM 2,186,860 (Euro 1,118,123.76).

Within the framework of the acquisition of NENTEC Netzwerktechnologie GmbH on October 5, 1999, the share capital versus contribution in kind was increased by DM 525,000 (Euro 268,428.23) from authorized capital. The capital increase was not yet registered in the Trade Registry on the balance sheet date.

Balance sheet structure

The balance sheet total increased by 3.6% to DM 223.2 million compared to the previous year.

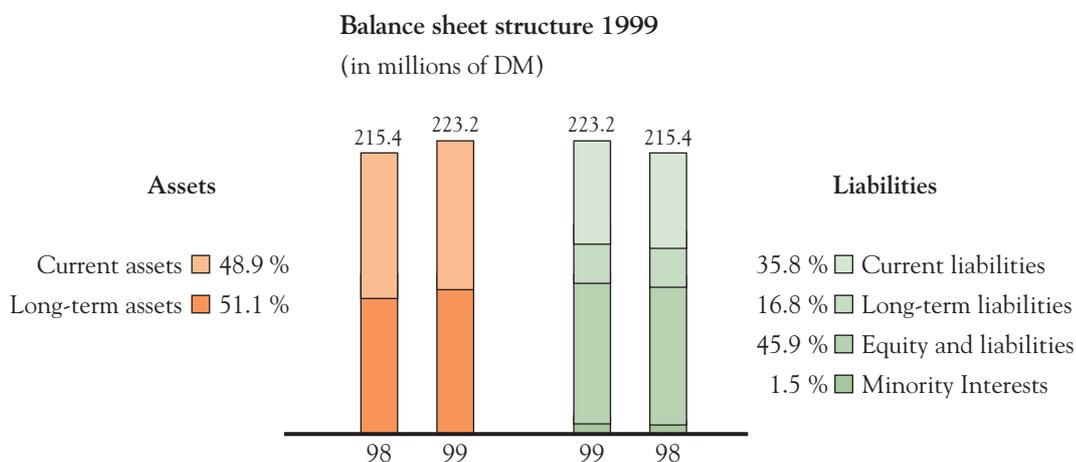
Current assets capital made up 48.9% of the balance sheet total in 1999 versus 65.6% for the previous year. The share of long-term assets grew from 34.4% to 51.1% in 1999. This shift is partly due to the high liquidity

resulting from the IPO at the end of 1998. Furthermore the net book worth for intangible assets increased by 83%. This is due to acquisitions in the reporting year and the high investments in software development.

The proportion of current liabilities in the balance sheet total rose minimally from 34.7% to 35.8%. Long-term liabilities also increased minimally from 14.6% to 16.8%. The equity ratio sank from 50.4% to 45.9% compared to the year before.

Liquidity

PSI's liquidity planning foresees a balanced cash flow from the operational business of the individual companies of the Group for 2000. Due to the acquisitions planned and/or carried out in 1999 the level of liquidity will improve. New acquisitions and strategic partnerships will only be carried out by using authorized stock capital (selling stocks). PSI also has credit lines at its banks.



Increased investments

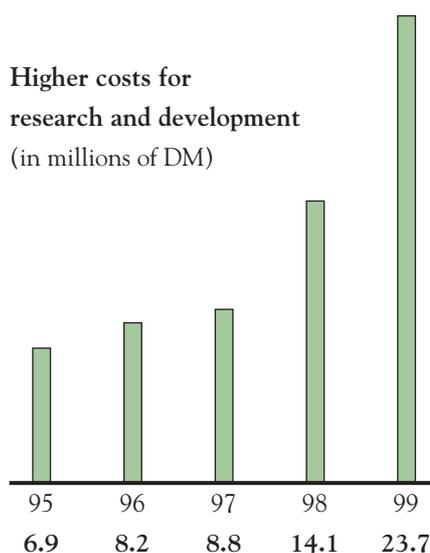
The PSI Group invested a total of DM 47.9 million in 1999. Of this, DM 18.1 million was for active software development costs and DM 17.3 million was for acquisitions.

High investments in research and development

The PSI Group invested 9.8% of sales in research and development, i.e. DM 23.7 million. This increase of 68% underlines the high value we place on innovation.

After spending more and more on research and development over the past years, we now see ourselves well prepared for future customer demands. We have developed numerous functions for internet business as well as functional sector expansions in the PSIPENTA product family. At CeBIT 2000 we presented these for the first time. Furthermore we have developed new software components for the deregulated energy markets and internet business and have already begun marketing these products. For the first time we have also invested specifically in solutions for telecommunications in order to gain additional market share in this area.

Higher costs for research and development (in millions of DM)



New risk management system

PSI is active in a very competitive and dynamic market which is characterized by high-speed technological development. Therefore, PSI faces economic risks which are inseparable from operative action. Above this, the general economic situation and especially the developments in PSI's home market of Europe are of importance. PSI will pay especially close attention to and analyze the further developments in Europe's liberalization. The tight market for qualified employees represents a further risk for PSI's continued growth.

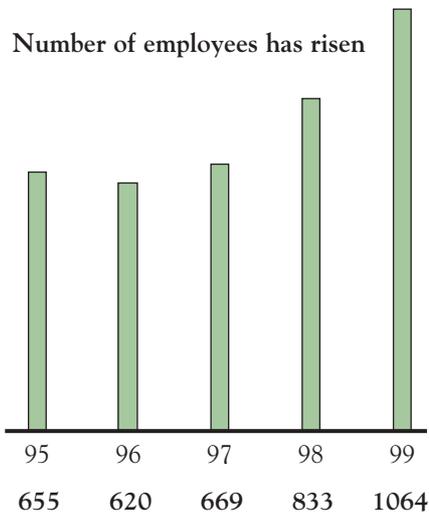
PSI AG financed the investments in PSIPENTA through loans given to the PSIPENTA Group. We expect positive results as of the year 2001 for the PSIPENTA Group's business. The future economic development of the PSIPENTA Group is of utmost importance for the development of the PSI Group.

In the past years PSI has achieved good financial results and high customer satisfaction through successful project management, especially in systems and project business. Within the framework of project management there are risks which could lead to a loss of reputation as well as claims for compensation or other financial risks.

In order to record and handle these existing risks we use effective control systems. These systems are currently being further developed into a risk management system which meets the requirements of KonTraG (the Law for Control and Transparency for Corporate Enterprises) and covers the risk areas of market and orders, employees, products, organization, environmental changes and finances. This system will enable the Board of Directors to recognize possible risks and to take measures to counteract them even earlier. In 2000 the documentation of the risk management system, investment controls and internal auditing will be improved.

Employees: PSI is attractive for IT experts

PSI's success and continued growth are dependent to a large degree on obtaining qualified and motivated new employees. The market for qualified IT specialists is very tight. In light of this it is a true achievement that we were able to increase our workforce by 231 to 1064. Of these 231 employees, 42% are new hires and 58% came via our acquisitions.



Of growing importance for acquiring new employees is our cooperation with universities. With the acquisition of a majority share of UBIS GmbH, a company that is especially active in innovative technologies for eCommer- ce and eBusiness, we have strengthened our ties to universities. Through projects such as the Cooperative Information Science Studies at the University of Darmstadt, the supervision of masters' theses and other papers written at our company, we have been able to commit students to us much earlier.

The internal and external continued training courses also serve to improve technical qualifications as well as improving knowledge about marketing and project management.

Modern personnel concepts such as variable, performance-based income, flexible working times, and a flat hierarchy have been constantly improved.

A notable sign of the motivation of the employees and their identification with the company is the increased number of stockholders amongst the staff since going public. Additional motivation will also be gained from a new employee profit sharing scheme which is still being worked on.

The Board of Directors would like to expressly thank all employees for the good job done this past year. This is even more true because years of growth are combined with extraordinary demands, especially in connection with the high speed of innovation, the organizational changes and the internal changes resulting from the IPO.

Special occurrences in 1999

Since March 1, 1999 Björn S. Eriksen has been a new member of the Board of Directors for Finance.

In May 1999 PSI celebrated its 30th anniversary. This was another milestone for the company the year after the IPO.

On August 30, 1999 5,205,060 registered stocks were transformed into ordinary common stocks and offered for trade on the Neuer Markt of the Frankfurt Stock Exchange. This increased PSI's share equity by a factor of 2.8.

On October 5, 1999 100% of NENTEC Netzwerktechnologie GmbH was acquired.

In order to strengthen our market position in the metal and chemicals sectors, we entered into a joint venture with the BFI-BT GmbH in November 1999, a subsidiary of the Association of the German Steel Industry, the Association of German Iron Processors (VDEh). The new PSI-BT Ltd. is the merger of BFI-BT GmbH with PSI's business area Production. PSI has a 58% share of the joint venture and BFI-BT has 42%.

Results after the balance sheet date

PSI-BT started business January 1, 2000. The business division Production became part of the new joint venture on this date.

PSI purchased 90% of the stocks of PLANAR GmbH on February 10, 2000. This system house integrates applications for internet and logistics into uniform supply chain management.

On April 30, 2000 Kurt Schmalz will step down from the Board of Directors for health reasons. His successor in the area of Personnel and Technology will be Ali Saghati, who was previously Director of Consulting and eBusiness.

PSI AG's subsidiaries and joint ventures

100%	PSIPENTA Software Systems GmbH, Berlin	100%	PSIPENTA USA Inc., Newton, MA/USA
100%	NENTEC Netzwerktechnologie GmbH, Karlsruhe	100%	PSIPENTA France S.a.r.l., Paris, France
90%	PLANAR GmbH, Dortmund	100%	integral datentechnik GmbH, Kaiserslautern
66%	UBIS GmbH, Berlin	78,4%	PSI AG, Schwerzenbach, Switzerland
58%	PSI-BT AG, Düsseldorf		
51%	GSI mbH, Berlin		
51%	iRM GmbH., Wien, Austria		
51%	ECI GmbH, Hamburg	100%	ECI Systems Ltd., London, England
28,5%	Schindler Technik AG, Berlin		
20%	Sigma A.S., Istanbul, Turkey		

The takeover of PLANAR GmbH occurred on February 10, 2000.

PSIPENTA: the expert for medium-sized companies

PSIPENTA Software Systems GmbH develops and markets the standard business software PSIPENTA. The foreign subsidiaries of this company in the USA, France and Switzerland are responsible for PSIPENTA business in their respective countries. In July PSIPENTA took over the Enterprise Resource Planning (ERP) supplier "integral datentechnik". PSIPENTA uses their know-how with smaller companies. For the 350 customers of the ERP software "indios" the transfer to the future compatible ERP-software PSIPENTA is ensured.

UBIS: Strength in eBusiness

UBIS GmbH strengthens the PSI Group's competence for innovative technologies in eCommerce and eBusiness. Furthermore UBIS has its own strong customer base in

the banking and retail sectors. With their close ties to universities PSI has been able to acquire new employees. This year UBIS could make black figures despite a loss of DM 8 million in 1998.

GSI: pushes development of human resources management software

GSI mbH, within the framework of their year long partnership with PSI, develops products for human resources management, manufacturing executive (MES) and project management. These are integrated into PSI's product PSIPENTA. The takeover will ensure the correct treatment of human resources management software and will guarantee further development.

ECI: the logistics specialist

With ECI GmbH, PSI has strengthened its position in the logistics sector. ECI develops standard software products for logistics and warehouse management. These are used in the product and the system business. ECI has excellent connections to the market via suppliers of warehouse and material flow technology.

iRM: optimized use of energy

iRM GmbH strengthens PSI's position in the energy market. It develops and markets products for the integration of energy use optimization and sales of energy. iRM also opens the Austrian market to PSI.

NENTEC: a pillar in telecommunications

The focus of NENTEC Netzwerktechnologie GmbH's activities is technological development for internet applications and telecommunications. With the takeover of this company, we have ensured a unique technology for energy transmission controls. With these we can use parts of the internet infrastructure for network control applications. NENTEC complements our know-how in the areas of internet security and speech-data integration, the basis for internet telephony.

PSI-BT: custom-made solutions for core industries

PSI-BT AG (founded January 1, 2000) strengthens PSI's position in the metal, chemical and printing sectors. It is a joint venture with the Association of the German Steel Industry. PSI-BT develops solutions for the metal, chemical and printing sectors and uses all products in the PSIPENTA family to do so.

PLANAR: Specialist for eBusiness and logistics

PLANAR GmbH, acquired in January 2000, is an eBusiness and logistics specialist. Its strength is in the connection of internet and logistics into continuous supply chains. PLANAR has a good customer base and opens the door for PSI to the growth market of airport logistics.

Schindler Technik: the network specialist

Schindler Technik AG consults, plans and implements computer and communication networks. PSI uses these services to meet complete customer demands.

Sigma: Turkish pillar

Sigma A.S. offers PSI software to the Turkish market.

Outlook

The highest number of orders in the history of PSI and the repositioning as an integrator for resource management and eBusiness promise a return to the profit zone.

A better export climate and thus economic improvement are expected for 2000. The growth rates should reach 2.7% for Germany and 2.8% for the European Union. This creates a positive investment climate, also or perhaps especially for software, in that this market will grow by over 10%. Because of the insecurity caused by Y2K, decisions that were postponed in 1999 will be made up for in 2000. PSI will also profit from impulses coming from the deregulation of the European energy market and eBusiness which will result in real business. In 1999 PSI fulfilled the prerequisites for being successful in this attractive market and will help influence the approaching processes of change. An important requirement for this is the high order volume of DM 220 million. It gives us the substance for the optimization of production and the necessary development plan. Our personnel capacity of over 1000 employees enables PSI to react flexibly to new market demands.

Furthermore, PSI has concentrated these areas of specialty in 1999. This concentration is strengthened even more by the entire Group being placed under the umbrella of Resource Management. This can mean resources necessary for power plants, machines, transportation or networks. With the systematic expansion of our know-how for future-oriented technologies for eBusiness,

PSI has achieved a convincing reputation and a technologically leading position as integrator for resource management and eBusiness.

With our clear profile and the necessary organizational structure in an attractive market, PSI expects to return to black figures. We will win market share by increasing sales. This will also affect stock prices positively. The expansion of our investor relations and public relations will further strengthen these tendencies.

Not only focussing on our own growth, PSI will continue to seek strategic alliances which could possibly even include equity exchanges. They should especially help to speed up the growth of the product business. PSI will also pursue partnerships internationally.

Our range of products was designed and complemented in such a manner as to support our customers' future business processes. Thus PSI is strengthening customer loyalty and at the same time reaching new markets. Our clear profile as a specialist for resource management via the internet ensures us an excellent position for the next years.

The Board of Directors

Consolidated Financial Statements

Group Balance Sheet	34
Group Statement of Income	36
Group Cash Flow Statement	37
Development of Fixed Assets	38
Notes	
Significant account and valuation principles	40
Consolidation Group	46
Explanatory comments	49
Auditor's Report	69
Supervisory Board Report	70
Executive Bodies	72

Group Balance Sheet

Assets

	Notes	12-31-99 DM 000	12-31-98 DM 000	12-31-97 DM 000
Current assets				
Cash and cash equivalents		8,575	66,914	9,160
Trade receivables	21	78,496	43,866	33,550
Inventories	22	8,995	23,577	39,359
Prepaid expenses		2,672	2,128	1,215
Deferred taxes		5,716	1,295	14
Other receivables	23	4,601	3,538	5,331
Total		109,055	141,318	88,629
Long-term assets				
Receivables		0	2,952	0
Financial assets	24	1,983	855	1,580
Property, plant and equipment	25	25,693	20,813	18,707
Intangible assets (net)	26	61,094	33,404	21,531
Deferred tax assets		25,375	16,052	10,465
Total		114,145	74,076	52,283
<hr/>				
Total assets		223,200	215,394	140,912

Equity and Liabilities

	Notes	12-31-99 DM 000	12-31-98 DM 000	12-31-97 DM 000
Current liabilities				
Current financial liabilities		1,106	431	1,125
Trade payables		23,144	13,388	15,599
Payments received on account of orders		6,775	31,416	46,421
Deferred income		7,365	1,908	1,159
Other accruals	27	17,882	12,689	6,852
Deferred income taxes		12,585	5,955	7,497
Other liabilities	28	11,141	8,978	9,530
Total current liabilities		79,998	74,765	88,183
Long-term liabilities				
Deferred tax liabilities		20,353	12,292	86
Long-term profit participation rights		32	454	481
Special items for investment grants	29	1,058	969	1,295
Long-term certificate of participating capital		1	3,500	3,438
Pension reserves	30	16,128	14,264	12,814
Financial liabilities		0	0	10,340
Total long-term liabilities		37,572	31,479	28,454
Equity				
	31			
Capital stock		44,921	41,000	12,321
Capital surplus		78,057	76,850	15,566
Revenue reserves		2,386	2,386	2,727
Contributions made for capital increase		6,000	0	0
Unrealised net profits from securities		5	2	11
Difference relating to currency translation		-257	-360	38
Net retained earnings		-28,801	-11,260	-6,818
Total equity		102,311	108,618	23,845
Minority interests	32	3,319	532	430
Total equity and liabilities		223,200	215,394	140,912

Group Statement of Income

	Notes	1999 DM 000	1998 DM 000	1997 DM 000
Net sales	34			
Software production and maintenance		188,007	145,872	101,558
Licenses		24,967	30,009	16,984
Hardware		29,044	10,330	10,244
		242,018	186,211	128,786
Cost of sales	34			
Software production and maintenance		149,474	117,030	85,440
Licenses		7,949	7,378	3,654
Hardware		25,263	9,051	8,333
		182,686	133,459	97,427
Gross profit on sales		59,332	52,752	31,359
Operating expenses				
Selling expenses		43,487	31,906	21,516
General and administrative expenses		18,546	16,164	10,313
Research and development costs		23,680	14,090	8,769
Capitalized research and development costs		-18,128	-10,470	-6,039
Depreciation of capitalized research and development costs		3,619	1,939	1,255
Other revenues or gains		4,847	-1,845	-274
		76,051	51,784	35,540
Operative result		-16,719	968	-4,181
Net interest, net investment income		283	1,581	-1,141
Extraordinary result		0	0	-4,966
Result before income tax		-16,436	2,549	-10,288
Taxes on income		-1,049	-5,391	248
Group net profit/loss		-17,485	-2,842	-10,040
Minority interests		-56	2,474	19
Profit/loss brought forward		-11,260	-6,818	3,203
Appropriation of results (prior year result PSI AG)		0	-4,074	0
Group retained earnings/accumulated deficit		-28,801	-11,260	-6,818
Result per share	38			
in DM per share (5-DM/share)		-1.97	-0.06	-4.23

Group Cash Flow Statement

	1999 DM 000	1998 DM 000	1997 DM 000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	-17,485	-2,842	-10,040
Adjustments to reconcile net income (loss) to net cash used in operating activities			
Depreciation of intangible assets and of property, plant and equipment	14,177	7,727	5,312
Net transfer to / release of pensions reserves	1,864	1,451	1,312
Net transfer to / release of deferred taxes	947	3,796	-619
Minority interests in result	-56	2,474	19
Change in assets			
Inventories	14,582	15,782	10,122
Long-term receivables	2,952	-2,952	0
Prepaid expenses	-544	-913	-766
Other receivable	-1,063	1,793	-4,185
Trade receivables	-34,630	-10,316	-9,926
Change in liabilities			
Trade payables	9,756	-2,211	5,758
Deferred income	5,457	749	483
Other reserves and accrued liabilities	5,193	5,837	3,352
Other liabilities	2,163	-552	752
Advance payments	-24,641	-15,005	-3,875
Cash flow from operating activities	-21,328	4,818	-2,301
INVESTING ACTIVITIES			
Additions to capitalized research and development costs	-18,128	-10,470	-6,039
Net additions to property, plant, equipment and other tangible assets	-11,330	-9,855	-9,870
Additions to goodwills	-10,082	-1,381	0
Purchase of financial assets	-1,128	0	0
Cash flow from investing activities	-40,668	-21,706	-15,909
FINANCING ACTIVITIES			
Minority interests	2,787	102	-269
Financial liabilities	675	-11,034	4,505
Other changes in equity	106	-407	-64
Special item for investment grants	89	-326	1,295
Issue of profit participating rights/profit part. certificate capital	0	35	3,788
Financial assets	0	725	566
issue of shares	0	85,547	8,214
Cash flow from financing activities	3,657	74,642	18,035
Increase (decrease) in cash and cash equivalents	-58,339	57,754	-175
Cash and cash equivalents at the beginning of the year	66,914	9,160	9,335
Cash and cash equivalents at the end of the year	8,575	66,914	9,160

Development of Fixed Assets

	Number of shares issued		subscribed stock	Additional paid-in capital	Revenue reserves
	2.500 DM	5 DM	DM 000	DM 000	DM 000
As of December 31, 1996	4,107	0	10,268	9,405	2,727
Group net loss					
Currency translation					
Issuance of shares	0	410,700	2,053	6,161	
Other changes in minority interests					
Unrealized gains on securities					
As of December 31, 1997	4,107	410,700	12,321	15,566	2,727
Group net loss					
Appropriation of result for the financial year 1997 of PSI AG					1,910
Appropriation of profit carry forwards of PSI AG					2,165
Conversion of capital stock in shares with par value	-4,107	2,053,500			
Issuance of shares					
Capital increase from company funds		3,696,300	18,482	-14,066	-4,416
Capital increase from cash contribution		2,039,500	10,197	84,639	
Offsetting of IPO costs				-9,289	
Change in minority interests					
Capital increase at PSIPENTA GmbH					
Other					
Currency translation					
Other changes					
As of December 31, 1998	0	8,200,000	41,000	76,850	2,386
Group net loss					
Currency translation					
Issuance of shares					
Conversion of convertible bonds		103,750	519	-104	
Contribution of 15% of shares to PSIPENTA Software Systems GmbH for issuance of shares		243,140	1,215		
Exercise of participation rights		437,372	2,187	1,311	
Change in minority interests					
Unrealized profit/loss from share certificates					
Other changes					
As of December 31, 1999	0	8,984,262	44,921	78,057	2,386

Retained earnings/ accumulated deficit	Unrealized gains on securities	Contributions made for Capital increase	Difference related to currency translation	Total equity	Minority interests
DM 000	DM 000	DM 000	DM 000	DM 000	DM 000
3,203	35	0	78	25,716	699
-10,021				-10,021	-19
			-40	-40	
				8,214	
				0	-250
	-24			-24	
-6,818	11	0	38	23,845	430
-368				-368	-2,474
-1,910				0	
-2,165				0	
				0	
				94,836	
				-9,289	
				0	1,800
				0	776
			-398	-398	
1	-9			-8	
-11,260	2	0	-360	108,618	532
-17,541				-17,541	56
			103	103	
				415	
				1,215	
				3,498	
					2,731
	3			3	
		6,000		6,000	
-28,801	5	6,000	-257	102,311	3,319

Notes

Summary of significant account and valuation principles

1. Description of business activities

The business operations of the Group comprise the production and distribution of IT products and systems, consulting and training in the area of data processing as well as the sale of electronic equipment and systems. The Company's headquarters are located in Berlin.

2. Accounting principles

The Company keeps commercial books according to German commercial code. All necessary adjustment entries were carried out for the preparation of the consolidated financial statements according to US accounting provisions ("United States Generally Accepted Accounting Principles" or "US-GAAP").

3. Consolidation principles

All major subsidiaries which are legally or factually controlled by PSI Aktiengesellschaft für Produkte und Systeme der Informationstechnologie AG (hereinafter: PSI AG) have been included in the consolidated financial statements. All material intercompany transactions have been eliminated for consolidation purposes.

4. Associated enterprises

Significant equity investments are consolidated using the equity method when the PSI group holds between 20 and 50% of the shares.

5. Currency translation

Currency translation is performed according to the Statement of Financial Accounting Standards ("SFAS") No. 52 'Foreign Currency Translation'. According to this standard the assets and liabilities of the subsidiaries are translated into German marks at the exchange rate prevailing on the balance sheet date and the income statement is translated using the annual average exchange rate. The equity of the investments is translated at the historical exchange rate. While held by the Group, currency differences resulting from the use of different rates are recorded without effect on income and shown as a separate item under equity.

Gains and losses from transactions in foreign currency are recorded with effect on income.

6. Revenue recognition

Revenue from licenses is recognized in accordance with the Statement of Position (SOP for short) 97-2 'Software Revenue Recognition' of the American Institute of Certified Public Accountants – AICPA for short), and applying the supplementary statements SOP 98-4 and SOP 98-9.

Under US-GAAP, revenue from licenses is recognized provided there is sufficient evidence that a contract has been concluded, delivery has been made, the license fee has been fixed or is determinable and receipt of payment is probable. Revenue from maintenance agreements is realized on a straight-line basis over the term of the agreement based on past experience. Income from consulting services and training is recognized as soon as the service has been rendered.

Revenues from long-term projects are recognized according to ARB 45 ('Accounting Research Bulletin' on 'Long Term Construction Type Contracts') and in accordance with SOP 97-2, which refers to ARB 45 for such revenues, and the principles of revenue recognition for long-term construction. For long-term construction type contracts which satisfy the conditions of the Percentage of Completion Method, revenue is recognized on the degree of completion. The recognized part profits are disclosed as non-invoiced receivables. Revenue from all other construction type contracts is recognized according to the 'Completed Contract Method' upon partial or final acceptance and billing of the project.

Project related hardware inventories, which were recorded as finished goods and merchandise in the previous financial year, were invoiced to the customer upon receipt due to a change in the invoicing procedure in the financial year 1999 and thus recorded as trade receivables.

7. Product-related expenses

Expenses for advertising and sales promotion as well as other sales-related expenses are recorded with effect on income as they are incurred. Accruals for warranties are established when the products are sold. Research and development is recorded as a normal expense – unless capitalization is required pursuant to SFAS 86 ('Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed').

8. Earnings per share

Earnings per share is computed in accordance with SFAS 128 (“Earnings per Share”) by dividing the group result by the weighted average number of shares in issue. The diluted result per share is computed by dividing the group result by the weighted number of shares issued and the number of rights convertible into shares as a result of options. Group earnings represent the earnings generated by the group as a whole during the year. For purposes of computing the earnings per PSI AG share the minority interests are deducted or added.

9. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, current bank balances as well as deposits that can be cashed at short notice with original terms of three months or less.

10. Inventories

Raw materials, consumables and supplies are valued at acquisition cost giving consideration to the lower of cost or market principle.

Completed projects and work in process for which revenues are recognized according to the percentage of completion method are valued at manufacturing cost plus capitalizable partial profits and are shown as a receivable. Manufacturing cost contains material direct costs and material overheads as well as special direct labor costs. Valuation allowances have been set up for risks related to diminished salability.

Finished project and work in process for which sales are recognized according to the Completed Contract Method are valued at manufacturing costs plus general and administrative costs. Valuation allowances have been set up for risks related to diminished salability.

11. Financial assets

Securities are stated in accordance with SFAS 115 ('Accounting for Certain Investments in Debt and Equity Securities') at current selling price ('fair value'). Unrealized gains and losses are shown in the equity section. In the case of a permanent impairment of value securities and equity investments are written down.

12. Property, plant and equipment (net)

Property, plant and equipment is stated at acquisition or manufacturing cost and depreciated using the straight-line method of depreciation over the useful life of the asset as follows:

	Useful life/ depreciation rate	Method
Buildings and land improvements	10-50 years	straight-line/declining balance
Leasehold improvements	3-15 years	straight-line/ term of rent agreement
Computers and accessories	3-4 years	straight-line
Office and factory equipment	5-10 years	straight-line
Low value assets, software up to DM 800	100%	in the year of acquisition

13. Intangible assets (net)

Intangible assets including goodwill are valued at acquisition cost and depreciated over the useful life generally used in the company of three to ten years. Goodwill is tested as to its net realizable value as of each balance sheet date on the basis of estimated future cash flows.

The cost of the development of new software products and of significant improvements to existing software products are offset as expense until they are technically marketable; costs incurred subsequently are capitalized in accordance with SFAS 86 ('Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed'). Costs incurred after the product is released for sale are recorded as expenses.

Capitalized software development costs are depreciated at the higher of the following two amounts:

- straight-line over the estimated useful life of the software (four to seven years) or
- in proportion of the current gross revenue from the sale of the software to the total amount of current and estimated future gross revenue from the sale of this software.

As of the balance sheet date the book value of the capitalized software developments is compared with the present value of the estimated future net sales revenue of the software. If the book value of the capitalized software development costs exceeds this present value, an appropriate valuation allowance is created.

Software developments acquired from third parties that are integrated as modules in existing products of the Company are capitalized in accordance with APB-Opinion 17 ('Accounting Principles Board Opinion 'Intangible Assets'). The acquired software developments are valued at acquisition cost and written off using the straight-line method over a useful life of three years. Capitalized third-party development costs are compared as of the balance sheet date with the present value of the estimated future net sales revenues. If the book value of the capitalized third party development costs exceeds this present value, an appropriate valuation allowance is created.

For simplification purposes, low value assets with acquisition costs up to DM 800 are fully expensed in the year of acquisition. The differences from the capitalization compared to scheduled depreciation are immaterial.

14. Deferred taxes

Deferred tax assets and liabilities are established and valued in accordance with SFAS No. 109 ('Accounting for Income Taxes') for temporary differences between the commercial balance sheet and the tax accounts. When determining the applicable tax rate the recommendations of the Emerging Issues Task Force of FASB on SFAS 109 are considered.

15. Use of estimates

When preparing the consolidated financial statements estimates have to be made to a certain extent and assumptions made which impact the assets, liabilities and contingent liabilities accounted for on the balance sheet date and the disclosure of income and expenses during the reporting period. The actual amounts may deviate from these estimates.

16. Exemptive consolidated financial statements pursuant to sec. 292 a (1) and (2) HGB (German Commercial Code)

The Company has made use of sec. 292 a (1) and (2) HGB (German Commercial Code) and has prepared exemptive financial statements according to US-GAAP (US generally accepted accounting principles). The differences compared to the balance sheet, valuation and consolidation methods prepared according to current German law mainly relate to the capitalization of self-produced intangible fixed assets, recognition of sales, the valuation of pension accruals and recognition of deferred taxes.

Consolidation Group

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

17. Subsidiaries

	Shares as %	Equity 12-31-99 DM 000	Annual result 1999 DM 000
Subsidiaries of PSI AG			
PSIPENTA Software Systems GmbH, Berlin	100.0	-29,446	-36,109
UBIS Unternehmensberatung für Integrierte Systeme GmbH, Berlin	66.0	2,424	1,224
NENTEC Netzwerktechnologie GmbH, Karlsruhe	100.0	288	239
ECI – Entwicklungsgesellschaft für computer-gestützte Industriesysteme mbH, Hamburg	51.0	-986	-1,000
ECI Systems Ltd., London, UK	51.0	117	-15
iRM Integriertes Ressourcen Management GmbH, Vienna, Austria	51.0	3,222	-514
PSI-BT Business Technology for Industries AG, Düsseldorf	58.0	96	-2
GSI Gesellschaft für Steuerungs- und Informationssysteme mbH, Berlin	51.0	1,060	144
Subsidiaries of PSIPENTA Software Systems GmbH			
PSI AG Produkte und Systeme der Informationstechnologie, Schwerzenbach, Switzerland	78.4	1,666	-821
integral datentechnik Kaiserslautern GmbH, Kaiserslautern	100.0	33	182
PSIPENTA USA Inc., Newton/Massachusetts, USA	100.0	-9,140	-4,988
PSIPENTA France S.a.r.l., Paris, France	100.0	-502	-308

The subsidiaries, UBK Unternehmensberatung Kühl & Partner GmbH, Aschaffenburg, and PSI Processturingen Informatiesystemen BV, Nieuwegein, Netherlands, are not fully consolidated, as they have discontinued active business operation and are of subordinate interest for the consolidated statements of PSI AG. They are consolidated 'at equity'.

The subsidiaries PSIPENTA USA Inc., Newton/Massachusetts, USA, and PSIPENTA France S.a.r.l., Paris, France, discontinued their active business operations in fiscal 1999. As the results of these companies are not of subordinate interest for the consolidated statements, both companies have been fully consolidated and included in the consolidated statements as of December 31, 1999.

18. Associated enterprises

	Shares as	Equity	Annual result
	%	12-31-98*	1998*
		DM 000	DM 000
PSI Otomasyon ve Bilgi Sistemleri			
Ticaret Anonim Sirketi, Istanbul, Turkey	20.0	k.A.	k.A.
Schindler & Partner GmbH, Berlin	38.0	875	385

* The final financial statements as of December 31, 1999 are not yet available.

19. Changes in the consolidation group

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

- On December 29, 1998, PSI AG acquired 66% of the shares (nominally: DM 792 million) of UBIS Unternehmensberatung für integrierte Systeme mbH (hereinafter 'UBIS') with economic effect as of January 1, 1999 at a purchase price of DM 6,534 million. UBIS was thus included in the consolidated financial statements of PSI for the first time in fiscal 1999. The business activities of UBIS include consulting services in the field of electronic business.
- On January 8, 1999, PSI AG acquired a further 12% of the shares in GSI Gesellschaft für Steuerungs- und Informationssysteme mbH (hereinafter 'GSI') at a purchase price of DM 486 million and increased capital stock by DM 15 millions plus a surplus of DM 750 millions. Furthermore, the shares in GSI held by PSI Aktiengesellschaft für Produkte und Systeme der Informationstechnologie, Schwerzenbach, Switzerland, (hereinafter 'PSI Switzerland') were acquired for a purchase price of DM 245 millions. The share of capital stock held by PSI AG thus rose to 51%. The business activities of GSI include software development and consulting. The company develops important software components of PSIPENTA-software.

- On March 17, 1999, PSI AG acquired 51% of the shares in iRM Integriertes Ressourcen Management, Vienna, Austria (hereinafter 'iRM') at a purchase price of DM 3,060 million. In fiscal 1999, the shareholders of iRM Integriertes Ressourcen Management, Vienna, Austria, paid in a total of DM 91 million to increase capital stock, and DM 3,002 million to increase the company's capital reserves. The business activities of the company consist in developing control and information systems for the power industry.
- By virtue of a notarized share purchase and capital contribution agreement of October 5, 1999, PSI AG acquired 100% of the shares in NENTEC Gesellschaft für Netzwerk-Technologie mbH (hereinafter 'NENTEC') in return for the issue of 105,000 no-par-value shares with an imputed par value of DM 5.00 of Conware Netzpartner Gesellschaft für Netzwerklösungen mbH. At the time of acquisition of the shares in NENTEC, the market price of the shares issued came to DM 6,000 million. The business activities of NENTEC consist of the development of network solutions.
- On November 10, 1999, PSI AG, together with BFI Betriebstechnik GmbH, a 100% subsidiary of the Verein der deutschen Eisenhütten- und Stahlwerke, founded PSI BT Technologies for Industry AG (hereinafter 'PSI BT'), with a capital stock of DM 98 million. PSI AG contributed 58% of the capital stock by a cash contribution, while BFI Betriebs-technik GmbH made a cash contribution of 42%. In an agreement of November 10, 1999, the shareholders of PSI BT resolved to increase non-cash capital as of January 1, 2000. In connection with this non-cash contribution, PSI AG has undertaken to spin off its PRO business division and contribute it to PSI BT. The non-cash contribution to be made by PSI AG comes to approx. DM 5,672 million. BFI Betriebstechnik GmbH will contribute all assets and liabilities to PSI BT. The non-cash contribution of assets and debts from BFI Betriebstechnik GmbH amounts to DM 4,107 million. The business activities of PSI BT include the production and sale of IT products and systems.
- By virtue of a notarized purchase agreement of September 23, 1999, PSIPENTA Software Systems GmbH (hereinafter 'PSIPENTA') acquired 100% of the shares in Integral Datentechnik Kaiserslautern GmbH (hereinafter 'INTEGRAL') in return for payment of a purchase price of DM 376 million. The acquisition of this company is closely connected commercially with the conclusion of a consulting agreement between Mr. Neuberger, a shareholder of Integral Datentechnik Kaiserslautern GmbH, and PSIPENTA Software Systems GmbH on March 30, 1999. The business activities of Integral Datentechnik Kaiserslautern GmbH include the maintenance and sale of Indios, a software product.

All the subsidiaries acquired in fiscal 1999 are insignificant for the overall picture of the PSI AG group, thus it is not necessary to provide any pro forma information.

20. Changes in the consolidation group following the balance sheet date

- Acquisition of shares in PLANAR Gesellschaft für technische Softwaresysteme mbH (hereinafter 'PLANAR')

By virtue of a notarized purchase agreement of February 10, 2000, PSI AG acquired 90% of the shares in PLANAR, in return for the issue of 42,000 non-par-value shares with an imputed par value of DM 5.00. At the time of acquisition, the market value of the PSI shares issued came to a total of DM 2,793 million. The business activities of PLANAR comprise development and sale of software systems for operating technical equipment and systems.

Explanatory Comments

21. Trade receivables

12-31-99	12-31-98
DM 000	DM 000
78,496	43,866

Unlike prior years, in which no valuation allowances were set up, valuation allowances totaling DM 1,113 million were set up for receivables for which default on payment is anticipated.

Of the receivables disclosed, DM 21,336 million (prior year: DM 6,818 million) is attributable to non-invoiced receivables in connection with revenue recognition according to the percentage of completion method.

22. Inventories

	12-31-99 DM 000	12-31-98 DM 000
Work in process	6,815	10,129
Finished goods and trading goods	1,049	10,512
Advance payments	1,131	2,936
	8,995	23,577

As of the balance sheet date, work in process includes capitalized, project-related expenses amounting to DM 6,396 million which apply to various projects. In addition, work in process contains capitalized manufacturing costs for projects whose sales are recognized according to the:

- completed contract method or
- software revenue recognition (SOP 97-2)

Project-related finished goods and trading goods disclosed in the prior year as inventories are disclosed in fiscal 1999 as not yet invoiced receivables.

Advance payments relate to goods that have not yet been delivered.

23. Other receivables

	12-31-99 DM 000	12-31-98 DM 000
Payments on account for contract services	1,683	742
Receivables due from tax authorities	1,078	685
Receivables from associated enterprises	613	0
Loans to employees	269	182
Receivables due to foreign taxation	142	304
Loans to sub-suppliers	0	350
Other	816	1,275
	4,601	3,538

Payments on account for outside services are the result of prepayments to third parties for development services.

The receivables due from the tax authorities mainly result from corporate income tax prepayments for financial year 1998.

The receivables from associated enterprises relate to loans to Schindler & Partner GmbH, with a maturity of less than one year.

24. Financial assets

	12-31-99 DM 000	12-31-98 DM 000
Securities stated at market value		
Securities held by foreign subsidiaries	1,423	593
Securities held by PSI AG and domestic subsidiaries	423	35
	1,864	628
Associated companies consolidated 'at equity'	137	227
	1,983	855

The acquisition costs and current selling values of the securities shown under financial assets break down as follows:

	12-31-99 DM 000	12-31-98 DM 000
Debt instruments from domestic and foreign banks		
Acquisition cost	1,841	626
Unrealized gains	5	2
Current selling value	1,846	628

Companies consolidated at equity include Schindler & Partner GmbH (DM 128 million) and PSI Otomasyon ve Bilgi Sistemleri Ticaret Anonim Sirketi, Istanbul, Türkiye (DM 9 million).

25. Property, plant and equipment (net)

	12-31-99 DM 000	12-31-98 DM 000
Acquisition cost		
Land and buildings	23,471	20,702
Computers and accessories	19,615	18,012
Office and factory equipment	7,004	4,730
	50,090	43,444
Accumulated depreciation	-24,397	-22,631
Total property, plant and equipment	25,693	20,813

In fiscal 1999, depreciation on property, plant and equipment of DM 6,565,707 million (prior year: DM 3,949,031 million) was recorded.

26. Intangible assets (net)

The intangible assets include other intangible assets, capitalized goodwill and capitalized software development costs.

The book values of the intangible assets have developed as follows:

	12-31-99 DM 000	12-31-98 DM 000
Acquisition and manufacturing cost		
Other intangible assets	14,191	15,500
Goodwill	18,806	1,498
Capitalized software development costs	44,473	26,345
	77,470	43,343
Accumulated depreciation		
Other intangible assets	-6,580	-5,661
Goodwill	-1,936	-36
Capitalized software development costs	-7,860	-4,242
	-16,376	-9,939
Book values		
Other intangible assets	7,611	9,839
Goodwill	16,870	1,462
Capitalized software development costs	36,613	22,103
	61,094	33,404

In fiscal 1999, depreciation on other intangible assets of DM 2,112 million (prior year: DM 1,827 million), on goodwill of DM 1,881 million (prior year: DM 12 million) and DM 3,619 million on capitalized software development costs (prior year: DM 1,939 million) was recorded.

Goodwill stated at book values is mostly a result of debit differences arising from the consolidation of NENTEC (DM 5,416 million), UBIS (DM 5,255 million) and PSIPENTA (DM 2,758 million).

The software development costs capitalized according to SFAS 86 pertain to the following licensed products:

	12-31-99 DM 000	12-31-98 DM 000
PSIPENTA Version 5,0	31,053	22,103
Network management system for the telecommunications industry	3,164	0
Order control system for the printing industry	1,205	0
System to optimize gas consumption	609	0
Warehouse management system	582	0
	36,613	22,103

In fiscal 1999 a detailed program design was developed for Version 5.0 of the PSIPENTA software. All development expenses incurred between completion of the program design and the achievement of marketability of the software have been capitalized. The capitalized software development costs for the PSIPENTA licensed product which include the development expenses for PSIPENTA 5.0 and earlier versions not yet amortized are written off over the usual useful life of seven years.

The network management system for the telecommunications industry, the order control system for the printing industry, the warehouse management system and the system to optimize gas consumption are new developments, that were developed into marketable licensed products in fiscal 1999. These licensed products are written down over an estimated useful life of four years.

27. Other accruals

	12-31-99 DM 000	12-31-98 DM 000
Services still to be performed	7,282	4,409
Vacation and overtime credits	3,205	2,586
Other	7,395	5,694
	17,882	12,689

28. Other liabilities

	12-31-99 DM 000	12-31-98 DM 000
Tax liabilities	5,609	5,214
Social security liabilities	1,859	1,617
Salary and wage liabilities	675	585
Liabilities to shareholders	102	0
Other	2,898	1,562
	11,141	8,978

29. Special item for investment grants

	12-31-99 DM 000	12-31-98 DM 000
Status as of January 1	969	1,295
Additions	413	0
Releases	-324	-326
Status as of December 31	1,058	969

PSI AG, PSIPENTA and GSI have received investment grants ("GA-Mittel"). The investment grants collected are released over the usual useful life of the plant that is the subject of the grant.

30. Pension accruals

The Company has made pension pledges (unfunded plan) to various employees. These payments are based on the length of service and agreements in the employment contracts. The valuation of pension obligations is based on the projected unit credit method in SFAS 87 "Employers' Accounting for Pensions". In the following the actuarially computed pension obligation and the obligation shown in the balance sheet is presented:

	12-31-99 DM 000	12-31-98 DM 000
Change in the actuarial present value of the pension obligation		
Actuarial present value at the beginning of the financial year	13,530	12,005
Reconciliation difference to the pension reserves under German Commercial Code	734	809
	14,264	12,814
Service cost (present value of the vested claims acquired during the financial year)	882	737
Mark-up of expected pension obligations	1,081	838
Amortization of losses in the period	42	0
Period expenses	2,005	1,575
Loss resulting from change in assumptions when computing pension reserves	2,098	1,949
Pension payments	-65	50
Amortization of the reconciliation difference to the pension reserves under German Commercial Code	-75	-75
Loss not considered resulting from change in assumptions when computing pension reserves	-2,098	-1,949
Actuarial present value at the end of the financial year	15,468	13,530
Reconciliation difference to the pension reserves under German Commercial Code at the end of the financial year	660	734
Pension obligations disclosed	16,128	14,264

To calculate the pension obligations in the financial year and the prior year, a discount of 7% and long-term salary increase rates of 1.5% were assumed.

The losses not considered in fiscal 1999 as a result of a change in assumptions when computing pension reserves mainly relate to the changed mortality tables (Heubeck's Mortality Tables 1998). The difference ascertained in fiscal 1998, totaling DM 75 million, will be transferred to the pension reserves in equal installments over a period of 12.9 years from fiscal 1999.

31. Equity

Common stock

Fully paid-in capital stock as filed in the commercial register amounts to Euro 21,849,777.33 (DM 42,734,450). It has been increased by the conversion of convertible participation rights by Euro 1,118,123.77 (DM 2,186,860) to Euro 22,967,901.10 (DM 44,921,130). The related change in the articles of association was passed by the Board of Supervisors on December 16, 1999 but has not yet been filed at the commercial register.

Taking the conversion of convertible participation rights into account, common stock is divided into 8,984,262 shares of no par value (and therefore each share has an imputed value of common stock of Euro 2.55646 = DM 5.00). Of these shares, 8,951,822 are bearer shares and the remaining 32,440 are registered in the name of the holder.

Capital increases and authorized capital

During the transition from DM to Euro (registered in the commercial register on May 28, 1999) authorized capital of Euro 2,660,635.13 (DM 5,203,705) was created pursuant to §7(1) of the articles of association, now called Authorized Capital I. On the basis of this authorization in the articles, the management board passed a resolution on May 27, 1999 with the approval of the supervisory board to utilize Euro 621,577.54 (DM 1,215,700). The shareholders' statutory right to subscription was excluded. Gold-Zack AG Mettmann, who was allowed to subscribe to the new shares made a contribution in kind rather than a cash contribution by contributing shares in PSIPENTA Software Systems GmbH, Berlin, of a total amount of DM 300,000.00. The increase in capital was filed with the commercial register on August 9, 1999. Since that date, Authorized Capital I stands at Euro 2,039,057.59 (DM 3,988,050).

By resolution of the annual general meeting on May 28, 1999, the management board were authorized subject to supervisory board approval to increase the Company's common stock by up to Euro 5,112,918.81 (DM 10,000,000) by one or several issues of shares without par value for cash contribution before April 30, 2003, while excluding the subscription rights of existing shareholders to fractional amounts. The authorization is now included in the articles under §7(2) (Authorized Capital II) and was filed at the commercial register on August 9, 1999.

By resolution of the annual general meeting on May 28, 1999, the management board were further authorized subject to supervisory board approval to increase the Company's common stock by up to Euro 2,045,167.52 (DM 4,000,000) by one or several issues of bearer shares in exchange for a contribution in kind for the purposes of acquiring companies and parts of companies or investing in companies before April 30, 2003, while simultaneously excluding the subscription rights of existing shareholders. The authorization is now included in the articles under §7(3) (Authorized Capital III) and also filed at the commercial register on August 9, 1999.

Pursuant to §6 (7) of the articles, common stock can be increased contingently by up to Euro 1,118,450.99 (DM 2,187,500) divided into up to 437,500 shares to cover the option rights held by the bearers of convertible profit participation rights. The contingent increase in capital was utilized in 1999 by Euro 1,118,123.77 (DM 2,186,860). It forms the basis of the resolution passed by the supervisory board on December 16, 1999. The contingent capital to cover the outstanding option rights held by the bearers of convertible profit participation rights to 128 shares now stands at Euro 327.22 (DM 640).

The remaining amounts as of December 31, 1999 are therefore Euro 2,039,057.59 (DM 3,988,050) in Authorized Capital I, Euro 5,112,918.81 (DM 10,000,000.00) in Authorized Capital II and Euro 2,045,167.52 (DM 4,000,000.00) in Authorized Capital III.

By contribution contract certified by public notary dated October 5, 1999, 100% of the shares in NENTEC Gesellschaft für Netzwerk-Technologie mbH, Karlsruhe were acquired by issue of 105,000 no par shares with an imputed par value of Euro 2.56 (DM 5.00). Since the increase in capital associated with the purchase had not been filed at the commercial register as at balance sheet date, the increase in common stock by Euro 268,428.24 (DM 525,000.00) and the associated premium of Euro 2,799,323.05 (DM 5,475,000.00) was reported under the item, "capital surplus".

Participating capital

On November 8, 1997, the general shareholders' meeting of PSI AG authorized the management board to issue once or several times convertible participation rights with a total par value of up to DM 3,500,000.00 to shareholders, employees, the legal representatives of the company and of affiliated enterprises, and to selected third parties. As of the balance sheet date, a total of DM 3,498,976 convertible profit participation rights has been converted into 437,372 no-par-value shares in PSI AG at an imputed par value of DM 5.00. The average share price of the shares at the time of conversion came to DM 125.20 per share, or DM 54,758,974.40 in total.

Convertible bonds

On June 7, 1997, the general shareholders' meeting of PSI AG authorized the management board to issue 83 convertible bonds made out to the bearer, with a total nominal value of DM 415,000.00. Conversion was performed in September 1998, taking advantage of the contingent capital increase of DM 518,750.00 at a ratio of 1:2.5, and entered in the Commercial Register on January 15, 1999. The 103,750 no-par-value shares issued in connection with the capital increase, with an imputed par value of DM 5.00, could be attributed a share price of DM 166,20 per share, or DM 17,243,250 in total.

Other profit participation rights

In accordance with a resolution of the general shareholders' meeting on May 20, 1995 profit participation rights were issued. There were two variations (type A and type B).

The type A profit participation right has an indefinite term. The statutory blocking period ends on December 31, 2000. The profit participation rights have a par value of DM 100.00. Participation rights totaling DM 29,000.00 were issued. The profit participation rights bear interest according to the value added return, and in the case of a negative value added return is at most -4% and in the case of a positive value added return at most 15%. The type A profit participation rights participate at a rate of 10% of par value in the loss of the Company and their claims are subordinate to those of other creditors.

Contrary to the type A profit participation right the statutory blocking period of the type B profit participation right ended as of June 30, 1997. In addition, they do not participate in the loss of the company. All other conditions apply by analogy to type A profit participation rights. Type B profit participation rights totaling DM 101,700.00 were issued. In fiscal years 1997 and 1998, DM 91,700.00 of type B profit participation rights were repaid or converted into convertible profit participation rights. In fiscal 1999, a further DM 7,000.00 of type B profit participation rights were repaid.

32. Minority interests

The minority interests disclosed at balance sheet date are allotted to the following subsidiaries:

	12-31-99 DM 000	12-31-98 DM 000
iRM Integriertes Ressourcen Management GmbH, Vienna, Austria	1,584	0
UBIS Unternehmensberatung für integrierte Systeme GmbH, Berlin	824	0
GSI Gesellschaft für Steuerungs- und Informationssysteme mbH, Berlin	516	0
PSI AG Produkte und Systeme der Informationstechnologie, Schwerzenbach, Switzerland	354	532
PSI-BT Business Technology for Industries AG, Düsseldorf	41	0
	3,319	532

In accordance with APB 16 no negative minority interests have been disclosed. If book negative minority interests have arisen as a result of net losses for the year, the corresponding shares in result have been debited from the group result. At balance sheet date, the following loss accounts of minority interests exist, which have contributed to the group result:

	12-31-99 DM 000	12-31-98 DM 000
ECI – Entwicklungsgesellschaft für computergestützte Industriesysteme mbH, Hamburg	-497	0
PSIPENTA Software Systems GmbH, Berlin	0	-1,092
	-497	-1,092

33. Obligations from rent and lease agreements and other financial commitments and contingent liabilities

Office equipment, data processing systems and other equipment have been rented on the basis of operating lease agreements. In 1999 leasing charges of DM 187 million (1998: DM 180 million) were incurred for office equipment and of DM 900 million (1998: DM 885 million) for the rented data processing systems and other equipment.

Future leasing payments from existing lease agreements (operating lease) amount to:

	DM 000
2000	3,400
2001 – 2003	4,600
2004 – 2006	3,100

In fiscal 1996 PSI AG entered into a rent agreement for an office building in Berlin. The rent agreement expires on March 31, 2012. Furthermore, PSIPENTA entered into a rent agreement for a further office building in Berlin in fiscal 1999. The rent payments from the rent agreement are as follows:

	DM 000
2000	5,423
2001 – 2003	17,053
2004 – 2006	18,116
2007 – 2012	36,240

PSI AG has issued sureties of DM 34,224 million.

34. Sales and other expenses

Sales and cost of sales

	1999 DM 000	1998 DM 000
Software production and maintenance		
Sales	188,007	145,872
Cost of sales	-149,474	-117,030
	38,533	28,842
Licenses		
Sales	24,967	30,009
Cost of sales	-7,949	-7,378
	17,018	22,631
Hardware		
Sales	29,044	10,330
Cost of sales	-25,263	-9,051
	3,781	1,279
Total		
Sales	242,018	186,211
Cost of sales	182,686	-133,459
Gross profit on sales	59,332	52,752

35. Taxes on income

German corporate income tax law uses the tax credit system when taxing companies and shareholders. Retained earnings are initially taxed at a corporate income tax rate of 45% plus a solidarity surcharge of 5.5% of the corporate income tax balance due. Accordingly, this means that the effective corporate income tax rate is 47.475%. In the case of dividends distributed to shareholders, the corporate income tax rate is reduced to 30% (plus a solidarity surcharge of 5.5%), with the amount previously paid in excess of the effective tax rate on dividends of 31.65% being refunded. When profits are distributed, shareholders liable to German taxation receive a tax credit note against personal income tax equivalent to the corporate income tax, but not the solidarity surcharge, previously paid by the company.

To calculate anticipated tax expense, in accordance with the recommendations of the Emerging Issues Task Force of the FASB concerning SFAS 109 ('Accounting for Income Taxes'), the effective corporate income tax rate for retained earnings is stated at 47.475% plus the effective rate of trade tax, taking into account a basis of assessment for own and corporate income tax of 8.625%. To calculate deferred taxes, a tax rate of 55% is applied.

As of December 31, 1999, the following corporate income tax loss carryforwards existed within the group for the German group companies:

	DM 000
PSI AG	
Tax loss 1998	2,355
Tax loss 1999	31,265
	<u>33,620</u>
PSIPENTA	
Loss carryforward 1997/1998	43,492
Tax loss 1999	51,246
	<u>94,738</u>
ECI	
Tax loss 1999	1,260
integral datentechnik Kaiserslautern GmbH	
Loss carryforward 1997 and previous years	182
	<u>129,800</u>

Trade tax loss carryforwards exceed the corporate income tax loss carryforwards.

According to SFAS 109, deferred taxes have to be capitalized for tax loss carryforwards which will in all probability be used up in the next few years. A 55% tax rate is also applied to these deferred taxes.

According to the tax result budget, complete utilization of the tax loss carryforwards accrued up to December 31, 1999 is not to be expected within the originally stated budget period. A valuation adjustment of DM 41,063 million has therefore been made for the deferred tax assets caption on the group companies' loss carryforwards.

Apart from the loss carryforwards and current tax losses of the German group companies, there are losses in fiscal year 1999 that can be offset against tax amounting to a total of DM 7,060 million at:

- PSI, Switzerland
- PSIPENTA USA Inc., Newton/Massachusetts, USA,
- PSIPENTA France S.a.r.l., Paris, France
- and iRM

The deferred tax assets and liabilities result from temporal accounting and valuation differences between the tax and the commercial balance sheets for the following balance sheet positions and from the tax loss carryforward, as is illustrated by the following table:

	12-31-99 DM 000	12-31-98 DM 000
Deferred tax assets resulting from the balance sheet positions:		
Other accruals	173	0
Special item for investment grants	548	532
Other	43	0
	764	532
Deferred tax liabilities resulting from the balance sheet positions:		
Capitalized software development costs	-20,138	-12,157
Current assets, payments on account and sales-related accruals	-12,585	-5,955
Pension reserves	-215	-135
	-32,938	-18,247
Deferred tax assets resulting from tax loss carry- forwards:	71,390	25,215
Valuation allowance for deferred tax assets resulting from tax loss carryforwards	-41,063	-8,400
	30,327	16,815
Net deferred tax assets/liabilities	1,847	-900

Of the deferred tax liabilities, DM 12,585 million have a term of less than one year as of the balance sheet date. Of the deferred tax assets, DM 5,716 million have a term of less than one year as of the balance sheet date. The remaining deferred tax liabilities and assets have a term of more than one year.

36. Segment reporting – sales by geographically defined area

The following table provides geographical information in respect of sales:

	Germany DM 000	Switzerland DM 000	Other DM 000	Total DM 000
1997				
Software production and maintenance	93,887	4,784	2,887	101,558
Licenses	12,593	4,301	90	16,984
Hardware	8,766	902	576	10,244
	115,246	9,987	3,553	128,786
1998				
Software production and maintenance	133,251	7,380	5,241	145,872
Licenses	25,075	4,361	573	30,009
Hardware	8,269	1,790	271	10,330
	166,595	13,531	6,085	186,211
1999				
Software production and maintenance	168,964	10,247	8,796	188,007
Licenses	21,692	2,549	726	24,967
Hardware	27,178	1,539	327	29,044
	217,834	14,335	9,849	242,018

37. Segment reporting according to systems and product business

	Systems business DM 000	Product business DM 000	PSI AG group DM 000
Sales			
Software production and maintenance	142,383	45,624	188,007
Licenses	4,875	20,092	24,967
Hardware	25,645	3,399	29,044
	172,903	69,115	242,018
Cost of sales			
Software production and maintenance	101,468	48,006	149,474
Licenses	3,440	4,509	7,949
Hardware	22,451	2,812	25,263
	127,359	55,327	182,686
Gross profit on sales	45,545	13,788	59,332
Operating expenses			
Selling expenses	16,357	27,130	43,487
General and administrative expenses	9,356	9,190	18,547
Research and development costs	5,672	18,008	23,680
Capitalized research and development costs	-5,356	-12,772	-18,128
Depreciation of capitalized research and development costs	378	3,240	3,618
Other revenues or gains	810	4,037	4,847
	27,218	48,833	76,051
Operating result	18,326	-35,045	-16,719
Net interest, net investment income	1,041	-758	283
Result before income tax	19,367	-35,803	-16,436
Taxes on income	9,861	-10,910	-1,049
Net profit/loss	29,228	-46,713	-17,485

Segment reporting for systems and product business was done on the basis of the income statements for the group companies included in comprehensive consolidation. The income statements were adjusted to eliminate group-internal effects.

The “systems business” segment mainly includes the economic activities of PSI AG, which mainly consist in the creation, introduction, maintenance and updating of customized software. In the financial year, there were no sales in which a single customer achieved a sales volume of more than 10% of total sales for the segment.

The “product business” segment includes the economic activities of PSIPENTA Software Systems GmbH and of the group companies allocated operatively to that company. In particular, product business comprises sales from the sale of the standard PSIPENTA software. In the financial year, there were no sales in which a single customer achieved a sales volume of more than 10% of total sales for the segment.

The non-current assets of PSI AG (consolidated) break down as follows by segment:

	Systems business DM 000	Product business DM 000	PSI AG group DM 000
Financial assets	1,983	0	1,983
Property, plant and equipment(net)	21,426	4,267	25,693
Intangible assets (net)	16,515	44,579	61,094
	39,924	48,846	88,770

38. Result per share

For fiscal years 1997 to 1999, result per share was calculated as follows:

	1999 thousands of share certificates	1998 thousands of share certificates	1997 thousands of share certificates
Shares at the beginning of the year	8,200	2,464	2,054
Option rights at the beginning of the year	541	214	0
Shares at the end of the year	8,984	8,200	2,464
Option rights at the end of the year	12	541	214
Average	8,853	5,709	2,366
Group result	-17,485	-2,842	-10,040
Minority interest share in result	-56	2,474	19
	-17,541	-368	-10,021
	1999 DM	1998 DM	1997 DM
Result per share	-1.97	-0.06	-4.23

39. Business and transactions with affiliated enterprises and related parties

In the 1999 financial year, there were various contractual arrangements between the companies in the PSI Group for supplies, services and financing. These relationships and intercompany profits were eliminated as at balance sheet date in the course of the consolidation of expenses and income. The following is a representation of material transactions with affiliated companies and related parties:

In the financial year, PSI AG bought back 15% of the shares in PSIPENTA which had been sold to the management of that company in 1998. The shares had been sold to Gold Zack AG, a major shareholder of PSI AG, by persons leaving the management of PSIPENTA in fiscal years 1998 and 1999. Gold Zack AG contributed to PSI AG the shares it had acquired in return for the issue of 243,140 no-par-value shares with an imputed par value of DM 5.00.

In the financial year, PSI AG sold 78.4% of its shares in PSI Schweiz, to PSIPENTA. The loss for PSI AG resulting from the sale has been eliminated as part of the consolidation of expenses and earnings.

In the 1999 fiscal year, PSI Schweiz sold 26% of its share in GSI to PSI AG. The gain for PSI Schweiz resulting from the sale has been eliminated as part of the consolidation of expenses and earnings.

By virtue of an agreement of October 11, 1999, PSIPENTA sold the exclusive rights to the licensed product PSIPENTA to BFI Betriebstechnik GmbH. By agreement of November 10, 1999 PSI BT, PSI AG and BFI Betriebstechnik GmbH agreed to perform a contribution in kind on January 1, 2000. BFI Betriebstechnik GmbH has undertaken to contribute, with economic effect from January 1, 2000, all its assets and liabilities – including the exclusive rights purchased from PSIPENTA – to PSI BT, in which PSI AG has a majority shareholding. The loss for PSI AG resulting from the sale has been eliminated as part of the consolidation of expenses and earnings.

40. Supplementary declarations pursuant to the German Commercial Code

The following information comprises supplementary declarations that are a mandatory part of the explanatory notes pursuant to the German Commercial Code:

Remuneration of the management board and supervisory board

The management board of PSI AG received remuneration of DM 1,187 million in the 1999 financial year. The supervisory board received remuneration of DM 157 million.

Members of the management board

Dietrich Jaeschke, Berlin

Björn S. Eriksen, Berlin (*since March 1, 1999*), Dipl.-commerce, Auditor

Kurt Schmaltz, Sailauf, Qualified engineer

Members of the supervisory board

Dr. André Warner, Berlin, Chairman, Dipl.-commerce

Kurt Kasch, Berlin, sDeputy Chairman, Consultant

Other supervisory boards: TRION Technology AG, CONDAT AG, RÖNTEC Holding AG, QUIB Telekom AG

Franz Niedermaier, Munich, Consultant

Other supervisory boards: bit by bit Software AG, GFT Technologies AG, IBIKUS AG

Dietrich Walther, Iserlohn, Entrepreneur

Other supervisory boards: ce Consumer Electronic AG, Gerry Weber International AG, Hunzinger Information AG, Kampa Haus AG, Mensch und Maschine Software AG, Porta Systems AG, Schleicher & Co, International AG

Wolfgang Fischer, Aschaffenburg*, Qualified Engineer

Siegfried Hartmann, Aschaffenburg*, Qualified Engineer

* Chosen employee representative

Number of employees

As at balance sheet date, the PSI group employed an average of 949 personnel during the year.

Resolution concerning loss appropriation

The management board of PSI AG has proposed to the shareholders of PSI AG that the net loss for the year according to the commercial statements of DM 31,706 million and the loss carry forward of DM 4,381 million be carried forward to new account.

Berlin, March 2000


Dietrich Jaeschke


Björn S. Eriksen


Kurt Schmaltz

Auditor's Report

We have audited the consolidated financial statements prepared by PSI Aktiengesellschaft für Produkte und Systeme der Informationstechnologie, Berlin, consisting of balance sheet, income statement, statement of changes in shareholders' equity, cash flow statement and notes to the financial statements for the fiscal year from January 1, 1999 to December 31, 1999. The preparation and the content of the consolidated financial statements are the responsibility of the Company's executive board. Our responsibility is to express an opinion whether the consolidated financial statements are in accordance with based on our audit.

We conducted our audit of the consolidated financial statements and the consolidated financial statements pursuant to German statutory regulations and in compliance with the generally accepted auditing principles set down by the Institut der Wirtschaftsprüfer (IDW). Those principles require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The scope of the audit was planned taking into account our understanding of business operations, the Group's economic and legal environment, and any potential errors anticipated. The evidence supporting the amounts and disclosures in the consolidated financial statements is examined on a test basis within the framework of the audit. The audit also includes assessing the accounting principles used and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements according to US GAAP present a true and fair picture of the PSI Group's net worth, financial position and earnings situation as well as its cash flows for the financial year. Our audit, which also extends to the group management report prepared by the executive board for the business year from January 1, 1999 to December 31, 1999, has not led to any reservations. In our opinion, on the whole the group management report provides a suitable understanding of the PSI Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from January 1, 1999 to December 31, 1999 satisfy the conditions required for the Company's exemption from its obligation to prepare consolidated financial statements and the group management report in accordance with German law. We conducted our audit of the required consistency of the Group accounting with the 7th EU Directive for the exemption from the requirement for consolidated accounting pursuant to German commercial law on the basis of the interpretation of the Directive by the European Commission's Contact Committee on Accounting Directives.

Berlin, March 23, 2000

ARTHUR ANDERSEN

Wirtschaftsprüfungsgesellschaft • Steuerberatungsgesellschaft

Plett
Wirtschaftsprüfer

Selter
Wirtschaftsprüfer

Report of the Supervisory Board



In 1999, the Supervisory Board exercised all of the tasks assigned to it by law and under the corporation's articles of incorporation, and it constantly supervised the corporate management of PSI AG. It reviewed all business transactions of significance for the corporation, and it consulted with the Board of Directors on important, individual transactions at a total of nine meetings.

Arthur Andersen Wirtschaftsprüfungs- und Steuerberatungs-Gesellschaft, Berlin was appointed as the corporation's auditors at the Annual Shareholders' Meeting on May 28, 1999. At the Supervisory Board's request, said company audited the Annual Financial Statements, the Consolidated Annual Financial Statements and the Report of the Board of Directors for the period January 1 to December 31, 1999 and subsequently rendered an unqualified auditor's opinion. The Supervisory Board also audited the Annual Financial Statements and the Report of the Board of Directors itself. It discussed them with the auditors and members of the Board of Directors present at the board meeting on March 23, 2000. Thereafter the Supervisory Board approved, and hence established, the Annual Financial Statements and the Report of the Board of Directors.

The Supervisory Board appointed Mr. Björn S. Eriksen to the Board of Directors as Chief Financial and Controlling Officer of PSI AG, effective March 1, 1999. No other changes were made on the Board of Directors or on the Supervisory Board in 1999.

By August 1, all of the corporation's holders of registered stocks, with few exceptions, had submitted their stocks to the corporation for conversion into bearer stocks. Deutsche Börse AG, Frankfurt approved the shares for regular trading on Germany's "New Market", and they will be held in a blocked securities custody account until July 31, 2000. All PSI AG stocks will be freely tradeable in the current fiscal year, thus achieving equality among all PSI AG stockholders.

The corporation focused on expanding business in the wake of our successful IPO in 1998. The Board of Directors and the Supervisory Board deliberated several times on acquiring holdings. PSI AG subsequently acquired majority holdings in the following companies: UBIS GmbH, Berlin, iRM GmbH, Vienna, NENTEC GmbH, Karlsruhe, and integral datentechnik GmbH, Kaiserslautern. All decisions in this regard were made at ordinary meetings of the Supervisory Board. The Supervisory Board's Investment Committee (Mr. Fischer, Mr. Kasch, and Mr. Warner) met twice in 1999, and its Human Resources Committee (Mr. Hartmann, Mr. Kasch, and Mr. Warner) met once in 1999.

The Board of Directors began establishing a risk management system (early warning system) for the corporation in 1999 within the scope of implementing “KonTraG”, the German law governing control and transparency in companies. Our preexisting accounting, controlling and quality management systems will be integrated into risk management. The Board of Directors presented a system model to the Supervisory Board, which subsequently approved it. The Supervisory Board is expecting the system to fully commence operation in the first half of 2000.

1999 was marked by an anti-cyclic development related to required Y2K conversion within the entire business economy. This had a negative impact on other, essential IT investments. The PSIPENTA business sector especially suffered from this development. The corporation was not able to achieve the economic results forecast for 1999, despite expanded sales. We are expecting a reduction in the “investment backlog” when this special development has drawn to a close, which will cause a perceptible recovery in PSIPENTA’s ERP business. The Board of Directors and the Supervisory Board increased their support of PSIPENTA’s business in mid 1999 in order to assure further positive development.

All the other lines of business at PSI AG experienced very positive developments in 1999. Energy management business especially achieved an excellent growth rate caused in part by deregulation of the electrical energy market. PSI AG recognized early on that all business processes involving the internet will convert at a rapid pace in coming years, and that the entire PSI corporation can subsequently realize an enormous expansion of business from this. PSI AG is consistently orientating itself toward this new market.

The Supervisory Board continues to fully support the Board of Directors’s course of consistent growth and sustained, mid-term improvement of corporate net earnings. One visible indication of this is the remuneration agreements with the Board of Directors. A considerable portion of remuneration is profit-oriented and equally weighted according to growth, profit, and development of the corporation’s stock price.

Berlin, March 2000

A handwritten signature in black ink, appearing to read "André Warner". The signature is fluid and cursive, with a long horizontal stroke at the end.

André Warner

Chairman of the Supervisory Board

Executive Bodies

Board of Directors

Dietrich Jaeschke is a co-founder of the company. Since 1969, he had been the managing shareholding partner of PSI GmbH in Berlin. Since 1994, he has been a member of the Board of Directors at PSI AG. Mr. Jaeschke is responsible for strategic orientation, marketing, and distribution. He is Chairman of the Supervisory Board at PSI-BT AG, Duesseldorf and a member of the Supervisory Board of BerliKomm Telekommunikationsgesellschaft mbH, Berlin.

Björn S. Eriksen has been on the Board of Directors as the company's Chief Financial Officer since March 1, 1999. Mr. Eriksen is a native of Copenhagen and holds an MBA degree. He was previously the Finance Director and CFO at the Cologne-based Cyklop Group from 1997 to the beginning of 1999.

Kurt Schmaltz, MSc Engineering, is the chief officer responsible for engineering and development within the corporation. He will depart from the Board of Directors on April 30, 2000. Mr. Schmaltz joined the Supervisory Board at PSI-BT AG, Duesseldorf on January 1, 2000.

Ali Saghati, MSc Engineering, has been in charge of the consulting business sector since 1974, and he played a major role in building up the company. Mr. Saghati will join the Board of Directors on April 1, 2000. His appointment to the board imparts added importance to future e-business technology, which is visibly being fortified at the board level. He bears responsibility as the chief officer for human resources and engineering.

Supervisory board

Dr. André Warner, Chairman,
Dipl.-commerce, Berlin

Kurt Kasch, Consultant,
sBoard of directors Deutsche Bank AG, Berlin,
sDeputy Chairman, Berlin
*Other supervisory boards: CONDAT AG,
TRION Technology AG, RÖNTEC Holding AG,
QUIB Telekom AG*

Franz Niedermaier, Consultant, Munich
*Other supervisory boards: bit by bit Software AG,
GFT Technologies AG, IBIKUS AG*

Dietrich Walther, Entrepreneur,
Board of Directors Gold-Zack AG,
Iserlohn
*Other supervisory boards: ce Consumer Electronic AG,
Gerry Weber International AG, Hunzinger Information AG,
Kampha Haus AG, Mensch und Maschine Software AG,
Porta Systems AG, Schleicher & Co. International AG*

Wolfgang Fischer, Qualified Engineer,
Chosen employee representative PSI AG,
Aschaffenburg

Siegfried Hartmann, Qualified Engineer,
Chosen employee representative PSI AG,
Aschaffenburg

*“Investor
Relations
is part of
our
strategy.”*



Your Investor Relations contact person:

Karsten Pierschke

Telephone: +49 30 2801-2727

Fax: +49 30 2801-1000

eMail: kpierschke@psi.de

We would be happy to include you on our distribution list for information for stockholders and to send you the PSI AG report.

Investor Relations Financial Dates 2000

Balance sheet press conference	March 27, 2000
Analyst conference	March 28, 2000
First quarter report	May 24, 2000
Annual General Meeting	May 26, 2000
Half year report	August 21, 2000
Third quarter report	November 20, 2000

Chronicles – 30 years PSI

- 1969 PSI Ltd. Company for Process Control and Information Systems is founded in Berlin
- 1974 PSI is the first company to introduce an employee profit sharing plan
- 1976 First successes as a provider of software for the energy industry
- 1986 Launch of the first standard software product in the area of Enterprise Resource Planning (ERP) under the name PIUSS-O
- 1994 Transformation of PSI into a public stock company; certification of the PSI Company as one of the first software companies in Europe according to ISO 9001 under observance of ISO 9000-3 for software producers under the strict regulations of ITQS
- 1996 PSIPENTA – first object-oriented ERP system in Europe
- 1998 PSI AG went public on the “New Market” on August 31 and initiated investments in the deregulated energy market
- 1999 PSI acquires the e-commerce provider UBIS and positions itself as specialist for internet business and resource management; staff number exceed 1000 for the first time
- 2000 PSI AG is the first German software company to receive the “Award for High Customer Satisfaction”

Future-oriented statements:

This Annual Report contains future-oriented statements, which are based on future estimates by the Board of Directors. Some factors are outside the control of the Company, such as changes in the general economic environment as well as the occurrence of individual risks or uncertain occurrences. These could result in the actual results varying significantly from the prognoses. PSI does not intend to continually update the future-oriented statements in this report.

Publication details

PSI Aktiengesellschaft
für Produkte und Systeme
der Informationstechnologie
Berlin

Concept and Design
HGB Hamburger Geschäftsberichte GmbH & Co.
Hamburg

Photography
Corporate Photo Jens Waldenmaier
Hamburg (pp. 8, 12, 16, 20)
Ralf Tooten,
Hamburg (pp. 2, 70, Jacket)



PSI Aktiengesellschaft für Produkte und Systeme der Informationstechnologie

Dirksenstrasse 42-44, D-10178 Berlin

Phone: +49/30/28 01-0

Fax: +49/30/28 01-10 00

eMail: ir@psi.de