

# Accelerate into the future!



Report on the 1<sup>st</sup> Six Months of 2004

PSI 

**PSI Group Data as per 30 June 2004 at a Glance**

	1.1. - 30.6.04 in KEUR	1.1. - 30.6.03 in KEUR	Change in KEUR	Change in %
Revenues	57,221	65,840	-8,619	-13.1
Operating income	-8,592	-1,249	-7,543	-603.9
Result before income taxes	-9,135	-1,163	-7,972	-685.5
Net loss	-8,948	-1,075	-7,873	-732.4
Equity	11,558	20,437	-8,879	-43.4
Employees on 30 June	1,144	1,242	-98	-7.9
Revenue/ Employee	50.0	53.0	-3.0	-5.7

## **Business Development**

The PSI Group had sales of 57.2 million euros in the first half of 2004. The EBIT was –8.6 million euros in the first six months. The consolidated result for 30 June 2004 was –8.9 million euros. These include a one-off burden of 4.2 million euros from a lawsuit from 2000 and the loss of expected licensing income of 1.2 million euros in the telecommunications business.

The segment Network Management (energy, telecommunication, traffic) suffered once again under the delayed investments in the expansion of the UMTS infrastructure and continuing uncertainties about the regulation of the gas market. The Electrical Energy business again developed very positively. The sales in Network Management decreased in the first six months by 13.6% to 30.4 million euros and the EBIT decreased to –1.9 million euros.

In the Production Management segment (industry, logistics) sales decreased by 10.7% to 19.9 million euros. The EBIT decreased by 0.4 million euros to –2.8 million euros.

In Information Management (authorities, service providers) sales decreased by 17.2% to 6.9 million euros, while the EBIT decreased by 3.3 million euros to –3.8 million euros. Without the effect from the lawsuit this corresponds to an improvement on –0.3 million euros.

New orders increased significantly in June again following slow months in April and May and reached 61 million euros in the first six months. The positive trend of the previous month stabilized itself in the beginning of the third quarter. In July, normally a slow month, new orders totaled 9 million euros, about 20 % above the same period for 2003. With 68 million euros, the order books on 30 June were about one million above the same day last year.

The Group equity capitalization on 30 June 2004 was 36%. The liquidity of 11.6 million euros on 30 June 2004 (2003: 20.4 million euros) will increase in the course of the second half of the year.

## **Personnel Development**

The number of employees on 30 June 2004 was 1,144, a reduction of 98 compared to the previous year.

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

To utilize synergy effects in Information Management, all the activities of the segment have been merged into one business unit. In the second quarter as well PSI continued to expand the control systems business in Information Management and continued to demonstrate progress.

In the lawsuit between PSI AG and the State of Berlin concerning the Basis II Project (social welfare software), the Circuit Court of Berlin has ruled in favor of the State of Berlin. The ruling in this appeal means that PSI had to perform a value adjustment of 4.2 million euros.

The new PSIpenta version 7 will be launched in the 3rd quarter. With the successful conclusion of the first projects on the basis of the new network management products for the mobile communications and gas markets at the end of the second quarter, the prerequisites for an improved business in the fields of telecommunication and gas have been established.

## **Outlook**

PSI will increase the efforts toward the improvement of the sales and cost structure in the course of the structural improvement program. The aim of this program is to increase the maintenance percentage of sales to 20 %, the increase of export sales and flexibilization of personnel costs. For the entire year the Management Board therefore expects sales of 120 million euros and a positive result in the fourth quarter at the latest.

# Group Income Statement

From 1 January 2004 until 30 June 2004 according to US-GAAP

	Quarterly Report II		6 Month Report	
	01.04.04- 30.06.04 KEUR	01.04.03- 30.06.03 KEUR	01.01.04- 30.06.04 KEUR	01.01.03- 30.06.03 KEUR
<b>Revenues</b>				
Software production and maintenance	25,159	28,782	50,824	57,474
Licenses	836	804	1,784	2,256
Hardware	1,272	2,263	4,613	6,110
	<b>27,267</b>	<b>31,849</b>	<b>57,221</b>	<b>65,840</b>
<b>Cost of Revenues</b>				
Software production and maintenance	20,978	22,474	41,274	44,751
Licenses	240	102	599	633
Hardware	1,039	1,979	3,561	5,472
	<b>22,257</b>	<b>24,555</b>	<b>45,434</b>	<b>50,856</b>
<b>Gross profit</b>	<b>5,010</b>	<b>7,294</b>	<b>11,787</b>	<b>14,984</b>
<b>Operating expenses</b>				
Selling and Marketing expenses	4,307	4,508	8,166	9,087
General and administrative expenses	1,602	1,810	3,511	3,591
Research and development	2,489	2,150	5,226	4,487
Capitalized research and development	0	-720	0	-886
Depreciation of capitalized research and development	206	140	410	270
Other income or expenses	3,010	-318	3,066	-316
<b>Operating income</b>	<b>-6,604</b>	<b>-276</b>	<b>-8,592</b>	<b>-1,249</b>
Interest income, income from investments	-546	41	-543	86
<b>Result before income taxes</b>	<b>-7,150</b>	<b>-235</b>	<b>-9,135</b>	<b>-1,163</b>
Income tax	2	304	-77	274
<b>Result before minority interest</b>	<b>-7,148</b>	<b>69</b>	<b>-9,212</b>	<b>-889</b>
Minority interest	106	-119	264	-186
<b>Net income/ loss</b>	<b>-7,042</b>	<b>-50</b>	<b>-8,948</b>	<b>-1,075</b>
Earnings per share ( in Euro share, basic)	-0.64	-0.01	-0.81	-0.10
Earnings per share ( in Euro per share, diluted)	-0.64	-0.01	-0.81	-0.10
Weighted average shares outstanding (basic)	10,993,507	11,012,870	10,993,507	11,012,870
Weighted average shares outstanding (diluted)	10,993,507	11,012,870	10,993,507	11,012,870

# Group Cash Flow Statement

from 1 January 2004 until 30 June 2004 according to US-GAAP

	6 Month Report 01.01.-30.06.04 KEUR	6 Month Report 01.01.-30.06.03 KEUR
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
<b>Net income/loss before tax</b>	-9,135	-1,163
<b>Net income/loss after tax</b>	-9,212	-889
Adjustment to reconcile net loss to net cash used in operating activities		
Depreciation of intangible assets and property, plant and equipment	2,112	2,079
Impairment loss	0	0
Other non cash-related changes	301	0
Pension reserves	828	939
Deferred taxes	-19	-106
Minority interests in result	-520	186
Change in assets, which are not included in investing or financing activities	8,148	-4,341
Change in liabilities, which are not included in investing or financing activities	-4,615	3,409
<b>Net cash from operating activities</b>	<b>-2,977</b>	<b>1,277</b>
<b>INVESTING ACTIVITIES</b>		
Additions to capitalized research and development costs	0	-886
Net additions to property, plant, equipment and other intangible assets	-803	-1,242
Net additions to goodwills (without liquid assets)	0	0
Purchase of financial assets	16	0
<b>Net cash from investing activities</b>	<b>-787</b>	<b>-2,128</b>
<b>FINANCING ACTIVITIES</b>		
Capital increase through cash payments	0	0
Minority interests	264	-186
Financial liabilities	-1,818	-65
Acquisition of treasury stock	-87	0
Other changes in equity	0	0
Special item for investment grants	0	-23
<b>Net cash from financing activities</b>	<b>-1,641</b>	<b>-274</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>-7</b>	<b>30</b>
<b>Currency translation</b>	<b>-5,412</b>	<b>-1,095</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>16,970</b>	<b>21,532</b>
<b>Cash and cash equivalents at end of period</b>	<b>11,558</b>	<b>20,437</b>
<b>Supplemental cash flow information</b>		
Cash paid for interests	661	108
Cash paid for taxes	96	41

# Group Balance Sheet

from 1 January 2004 until 30 June 2004 according to US-GAAP

	6 Month Report 01.01.-30.06.04 KEUR	Annual Report 01.01.-31.12.03 KEUR
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	11,558	16,970
Trade accounts receivable net allowance for doubtful accounts of KEUR 446 (2003: KEUR 330)	21,588	29,535
Costs and estimated earnings in excess of billings on uncompleted contracts	28,655	31,640
Inventories	2,976	2,787
Deferred tax assets	0	0
Prepaid expenses	2,533	1,709
Other receivables	4,177	2,406
	<b>71,487</b>	<b>85,047</b>
<b>Long-term assets</b>		
Property, plant and equipment	9,050	9,291
Intangible assets	6,232	7,611
Investments	5,845	5,851
Goodwill	17,945	18,246
Deferred tax assets	0	0
	<b>39,072</b>	<b>40,999</b>
<b>Total assets</b>	<b>110,559</b>	<b>126,046</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Short term debt	5,210	5,360
Trade accounts payable	4,413	8,469
Advance payments received in excess of estimated earnings on uncompleted contracts	10,106	11,812
Other accrued expenses	13,414	15,287
Deferred revenues	6,825	5,649
Deferred taxes	660	679
Other current liabilities	5,130	5,190
	<b>45,758</b>	<b>52,446</b>
<b>Long-term liabilities</b>		
Long-term debt	328	393
Deferred taxes	0	0
Pension accruals	22,562	21,734
Other long-term liabilities	0	0
	<b>22,890</b>	<b>22,127</b>
<b>Shareholders' equity</b>		
Share capital, EUR 2.56 calculated par value	28,193	28,193
Additional paid-in capital	30,898	30,898
Revenue surplus	1,181	1,181
Accumulated deficit	-20,046	-11,098
Treasury stock	-160	-73
Cumulative translation adjustment	-615	-609
	<b>39,451</b>	<b>48,492</b>
<b>Minority interests</b>	<b>2,460</b>	<b>2,981</b>
<b>Total Liabilities and shareholders' equity</b>	<b>110,559</b>	<b>120,046</b>

## Development of Fixed Assets

from 1 January 2004 until 30 June 2004

	Number of shares issued	Sub- scribed stock	Addition. paid-in capital	Revenue reserves	Treasury stock	Accu- mulated deficit	Others	Total
		KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
As of 31.12.2003	11,012,870	28,193	30,898	1,181	-73	-11,098	-609	48,492
Group net loss for 6 Month 2004						-8,948		-8,948
Purchase of capital stock					-87			-87
Others							-6	-6
As of 30.06.2004	11,012,870	28,193	30,898	1,181	-160	-20,046	-615	39,451

## Shares and Options held by Management Board and Supervisory Board as of 30 June 2004

	Shares	Options
<b>Management Board</b>		
Dr. Harald Schrimpf	17,000	0
Armin Stein	4,000	1,200
<b>Supervisory Board</b>		
Christian Brunke	5,000	0
Wolfgang Dedner	25,300	0
Klaus Linke	2,770	0
Dirk Noß	56	800
Barbara Simon	7,890	0
Karsten Trippel	60,000	0



# Notes on the consolidated financial statements as of 30 June 2004

## The Company

### 1. Business Activities and Legal Background

The business activities of PSI AG and its subsidiaries relate to the development and sale of software systems and products fulfilling the specific needs and requirements of its customers, particularly in the following industries and service lines: utilities, manufacturing, telecommunications, traffic, authorities, software technology, internet applications and business consulting. In addition, the PSI Group offers data processing services and distributes electronic devices.

The PSI Group is divided into the main business lines network management, production management and information management.

The Company is exposed to a wide range of risks that are similar to other companies active in the dynamic technology sector. Major risks for the development of the PSI Group lie in the success with which it markets its software systems and products, competition from larger companies, the ability to generate sufficient cash flows for future business development as well as in individual risks regarding the integration of subsidiaries, organizational changes and the cooperation with strategic partners.

Main customers are utility, telecommunication and manufacturing companies in Germany and Europe. The Company has its headquarters in Berlin where it has been registered at the commercial register, department B under No. HRB 51463.

Main locations with business activities are located in Berlin, Aschaffenburg, Essen, Dortmund, Düsseldorf, Karlsruhe and Neviges.

## 2. Accounting and Valuation Principles

With regard to the principles of accounting and valuation and especially the differences between the German commercial regulations and the United States Generally Accepted Accounting Principles ('US-GAAP') see the group consolidated financial statement for the financial year 2003.

## 3. Changes in the Consolidation Group

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

### a) Subsidiaries

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

### b) Description of changes

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

#### 4. Selected Individual Items

##### Trade receivables

	30.06.2004 KEUR	31.12.2003 KEUR
Accounts receivable, trade	22,093	29,865
Allowances for bad debts	-505	-330
	<b>21,588</b>	<b>29,535</b>

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

##### Costs and estimated earnings in excess of billings on uncompleted contracts

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

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

	30.06.2004 KEUR	31.12.2003 KEUR
Costs incurred on uncompleted contracts	44,645	48,337
Estimated earnings	9,529	9,450
	<b>54,174</b>	<b>57,787</b>
Less billings	-35,625	-37,959
	<b>18,549</b>	<b>19,828</b>

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

	30.06.2004 KEUR	31.12.2003 KEUR
Costs and estimated earnings in excess of billings on uncompleted contracts	28,655	31,640
Billings in excess of costs and estimated earnings on uncompleted contracts	-10,106	-11,812
	<b>18,549</b>	<b>19,828</b>

## Other accruals

The other accruals essentially contain the following individual items:

	30.06.2004 KEUR	31.12.2003 KEUR
Services still to be performed	4,953	7,284
Vacation and overtime	5,188	5,070
Other	3,273	2,933
	<b>13,414</b>	<b>15,287</b>

## Taxes on income

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

## Equity

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

In the first six months of 2004, the Company acquired 20,807 shares in several instalments for a total purchase price of EUR 87k. The Company accounts for treasury stock using the cost method and is shown as a reduction of equity.

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

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

## Notes for the Completeness of Data

There are no other notes for the three-month period ending 30 June 2004 beyond the data reported in the interim report for the period in accordance with APB 28 (Interim Reporting).

# Group Segment Reporting

from 1 January 2004 until 30 June 2004 according to US-GAAP

	Network Management		Production Management		Information Management		PSI-Group	
	30.06. 2004 KEUR	30.06. 2003 KEUR	30.06. 2004 KEUR	30.06. 2003 KEUR	30.06. 2004 KEUR	30.06. 2003 KEUR	30.06. 2004 KEUR	30.06. 2003 KEUR
<b>Revenues</b>								
Software production and maintenance	25,741	29,119	18,218	20,217	6,865	8,138	50,824	57,474
Licenses	542	464	1,184	1,559	58	233	1,784	2,256
Hardware	4,132	5,614	471	489	10	7	4,613	6,110
	<b>30,415</b>	<b>35,197</b>	<b>19,873</b>	<b>22,265</b>	<b>6,933</b>	<b>8,378</b>	<b>57,221</b>	<b>65,840</b>
<b>Cost of revenues</b>								
Software production and maintenance	20,110	21,803	14,477	15,866	6,687	7,082	41,274	44,751
Licenses	258	218	290	333	51	82	599	633
Hardware	3,167	5,083	391	379	3	10	3,561	5,472
	<b>23,535</b>	<b>27,104</b>	<b>15,158</b>	<b>16,578</b>	<b>6,741</b>	<b>7,174</b>	<b>11,787</b>	<b>14,984</b>
<b>Gross profit</b>	<b>6,880</b>	<b>8,093</b>	<b>4,715</b>	<b>5,687</b>	<b>192</b>	<b>1,204</b>	<b>11,787</b>	<b>14,984</b>
<b>Operating expenses</b>								
Selling and Marketing expenses	3,166	3,504	4,311	4,339	689	1,244	8,166	9,087
General and administrative expenses	1,370	1,167	1,807	2,028	334	396	3,511	3,591
Research and development	3,847	2,839	1,379	1,648	0	0	5,226	4,487
Capitalized research and development	0	-886	0	0	0	0	0	-886
Depreciation of capitalized research and development	264	130	96	90	50	50	410	270
Other income or expenses	182	-271	-33	-11	2,917	-34	3,066	-316
<b>Operating income</b>	<b>-1,949</b>	<b>1,610</b>	<b>-2,845</b>	<b>-2,407</b>	<b>-3,798</b>	<b>-452</b>	<b>-8,592</b>	<b>-1,249</b>
Interest income, income from investments	121	47	-30	35	-634	4	-543	86
<b>Result before income taxes</b>	<b>-1,828</b>	<b>1,657</b>	<b>-2,875</b>	<b>-2,372</b>	<b>-4,432</b>	<b>-448</b>	<b>-9,135</b>	<b>-1,163</b>
Income tax	-78	136	-32	71	33	67	-77	274
<b>Net income/loss</b>	<b>-1,906</b>	<b>1,793</b>	<b>-2,907</b>	<b>-2,301</b>	<b>-4,399</b>	<b>-381</b>	<b>-9,212</b>	<b>-889</b>



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