

INDUSTRIAL INTELLIGENCE



REPORT ON THE 1ST QUARTER OF 2018

PSI 

PSI Group Data as per 31 March 2018 at a Glance (IFRS)

| | 01/01-31/03/18 in KEUR | 01/01-31/03/17 in KEUR | Change in KEUR | Change in % |
|----------------------------|---------------------------|---------------------------|-------------------|----------------|
| Revenues | 45,745 | 43,784 | +1,961 | +4.5 |
| Operating Result | 2,786 | 2,607 | +179 | +6.9 |
| Result before income taxes | 2,640 | 2,511 | +129 | +5.1 |
| Net result | 1,921 | 1,775 | +146 | +8.2 |
| Cash and cash equivalents | 42,563 | 42,197 | +366 | +0.9 |
| Employees on 31 March | 1,701 | 1,613 | +88 | +5.5 |
| Revenue/Employee | 26.9 | 27.1 | -0.3 | -0.9 |

Interim Management Report

Business Development

Earnings

PSI Group increased new orders in the first quarter of 2018 by 19 % to the record value of 93 million euros (31 March 2017: 78 million euros). The order book volume on 31 March 2018 was, with 174 million euros, about 7 % above the value for the previous year (31 March 2017: 163 million euros). Group sales improved primarily thanks to the growth in the field of electrical grids by just about 5 % to 45.7 million euros (31 March 2017: 43.8 million euros). The EBIT increased by 7 % to 2.8 million euros (31 March 2017: 2.6 million euros), the Group Net Result improved by 8 % to 1.9 million euros (31 March 2017: 1.8 million euros).

Energy Management, which, as of the first quarter of 2018 consists of the areas energy grids, energy trading, public transportation and the South-Asian business, achieved 11 % higher sales of 22.4 million euros (31 March 2017: 20.2 million euros) in the first quarter. The EBIT for the business improved compared to the previous year to 1.1 million euros (31 March 2017: 0.9 million euros). Electrical grids showed a strong increase in new orders, in particular due to the rollout of the GLDPM module (Generation and Load Data Provision Methodology), which, with the data exchange between the distribution grid operators and the transmission grid operators, also provides the basis for distribution grid autopilots. The gas and oil business saw a drop in the backlog of demand in the oil-producing countries following the increase in the price of oil. In Russia, however, the awarding of some contracts for gas networks and metals production has been delayed as a result of sanctions. In Southeast Asia, PSI had a significant recovery of both sales and profits. In the public transportation business, PSI won an important contract from the operator of the Berlin underground, BVG.

Sales in Production Management (raw materials, industry, logistics), which as of the first quarter also includes the Polish business, were, with 23.3 million euros, just slightly below the figure for the previous year (31 March 2017: 23.5 million euros). The market launch of PSIpenta ERP and POM (Production Order Management), that have also been migrated to the PSI Java Platform, and MES (Manufacturing Execution System) that has been recently reimplemented based on group standard modules still requires resources. This business should be heading for growth with regular customers as well as new customers starting in the summer. The EBIT for the segment was improved by 4 % to 2.1 million euros (31 March 2017: 2.0 million euros).

The metals industry business significantly increased its volume of new orders in the USA, in the automobile industry PSI obtained an important contract for completing a production suite in electrical vehicle production. Above all, artificial intelligence, metals and logistics contributed to the increase in profits. The integrated production and logistic process in the production of electrical vehicles as well as comprehensive practical examples from the industrial application of artificial intelligence are currently being presented at the 2018 Hannover Trade Fair.

Financial Position

The cash flow from operating activities was characterized by changes in working capital and improved significantly to 6.3 million euros (31 March 2017: -0.2 million euros). Liquidity, which increased slightly to 42.6 million euros (31 March 2017: 42.2 million euros), will be used for the proposed dividend payment, sales financing in the seasonal business and for the financing of targeted acquisitions.

Assets

Compared to 31 December 2017, there have not been any material changes in the Group's assets.

Personnel Development

The number of employees in the Group increased to 1,701 as of 31 March 2018 (31 March 2017: 1,613). The focus of new recruiting was once again in Germany and other industrial countries in Europe and North America.

PSI-Shares

The PSI stock ended the 1st quarter of 2017 with a final price of 17.25 euros 6.8 % below the final 2017 price of 18.51 euros. In the same period the technology index TecDAX declined by 1.4 %.

Risk Report

The estimate of the corporate risk has not changed since the Annual Report for 31 December 2017.

Outlook

In the upcoming quarters, PSI expects to continue the positive trend in orders in industrialized countries and will therefore double its capacity in the USA to 50 employees. In the raw materials exporting countries the backlog in demand will continue to be reduced; in Germany, PSI expects new orders to continue to increase in the energy sector in advance of the coming regulatory base years.

PSI will increase maintenance earnings, upgrade and cloud sales to over 60 million euros in 2018. Overall, the PSI management continues to forecast growth in the upper single-digit range for 2018. In view of the current general conditions, the management now expects an EBIT with double-digit growth to over 15 million euros.

Group Balance Sheet

from 1 January 2018 until 31 March 2018 according to IFRS

| Assets | 3 Month Report 01/01-31/03/18 KEUR | Annual Report 01/01-31/12/17 KEUR |
|--|--|---|
| Non current assets | | |
| Property, plant and equipment | 12,734 | 12,531 |
| Intangible assets | 56,851 | 56,489 |
| Investments in associates | 150 | 150 |
| Deferred tax assets | 8,639 | 8,377 |
| | 78,374 | 77,547 |
| Current assets | | |
| Inventories | 8,756 | 7,823 |
| Trade accounts receivable, net | 27,902 | 31,611 |
| Receivables from long-term development contracts | 34,739 | 33,118 |
| Other current assets | 9,593 | 5,779 |
| Cash and cash equivalents | 42,563 | 38,132 |
| | 123,553 | 116,463 |
| Total assets | 201,927 | 194,010 |
| Total Equity and Liabilities | | |
| Equity | | |
| Subscribed capital | 40,185 | 40,185 |
| Capital reserves | 35,137 | 35,137 |
| Reserve for own stock | -542 | -328 |
| Other reserves | -18,642 | -18,823 |
| Net retained profits | 26,047 | 24,126 |
| | 82,185 | 80,297 |
| Non-current liabilities | | |
| Pension provisions and similar obligations | 50,271 | 50,540 |
| Deferred tax liabilities | 4,194 | 3,494 |
| | 54,465 | 54,034 |
| Current liabilities | | |
| Trade payables | 12,579 | 14,564 |
| Other current liabilities | 37,162 | 29,206 |
| Liabilities from long-term development contracts | 13,399 | 13,287 |
| Short-term financial liabilities | 2,137 | 2,622 |
| | 65,277 | 59,679 |
| Total equity and liabilities | 201,927 | 194,010 |

Group Income Statement

from 1 January 2018 until 31 March 2018 according to IFRS

| | 3 Month Report 01/01-31/03/18 KEUR | 3 Month Report 01/01-31/03/17 KEUR |
|---|--|--|
| Sales revenues | 45,745 | 43,784 |
| Other operating income | 1,622 | 1,687 |
| Cost of materials | -5,669 | -5,123 |
| Personnel expenses | -29,944 | -28,640 |
| Depreciation and amortization | -1,066 | -1,035 |
| Other operating expenses | -7,902 | -8,066 |
| Operating result | 2,786 | 2,607 |
| Net finance result | -146 | -96 |
| Result before income taxes | 2,640 | 2,511 |
| Income tax | -719 | -736 |
| Net result | 1,921 | 1,775 |
| Earnings per share (in Euro per share, basic) | 0.12 | 0.11 |
| Earnings per share (in Euro per share, diluted) | 0.12 | 0.11 |
| Weighted average shares outstanding (basic) | 15,657,864 | 15,642,922 |
| Weighted average shares outstanding (diluted) | 15,657,864 | 15,642,922 |

Group comprehensive Income Statement

from 1 January 2018 until 31 March 2018 according to IFRS

| | 3 Month Report 01/01-31/03/18 KEUR | 3 Month Report 01/01-31/03/17 KEUR |
|---|--|--|
| Net result | 1,921 | 1,775 |
| Currency translation foreign operations | 181 | -186 |
| Net losses from cash flows hedges | 0 | 0 |
| Income tax effects | 0 | 0 |
| Group comprehensive result | 2,102 | 1,589 |

Group Cash Flow Statement

from 1 January 2018 until 31 March 2018 according to IFRS

| | 3 Month Report 01/01-31/03/18 KEUR | 3 Month Report 01/01-31/03/17 KEUR |
|--|--|--|
| CASHFLOW FROM OPERATING ACTIVITIES | | |
| Result before income taxes | 2,640 | 2,511 |
| Adjustments for non-cash expenses | | |
| Amortisation on intangible assets | 426 | 429 |
| Depreciation of property, plant and equipment | 640 | 607 |
| Interest income | -25 | -51 |
| Interest expenses | 253 | 213 |
| | 3,934 | 3,709 |
| Changes of working capital | | |
| Inventories | -852 | -1,457 |
| Trade receivables and receivables from long-term development contracts | 1,909 | -3,819 |
| Other current assets | -3,478 | -4,694 |
| Provisions | -591 | -548 |
| Trade payables | -1,811 | 271 |
| Other current liabilities | 7,410 | 6,392 |
| | 6,521 | -146 |
| Interest paid | -41 | -11 |
| Income taxes paid | -205 | -36 |
| Cash flow from operating activities | 6,275 | -193 |
| CASHFLOW FROM INVESTING ACTIVITIES | | |
| Additions to intangible assets | -410 | -81 |
| Additions to property, plant and equipment | -843 | -655 |
| Interest received | 25 | 51 |
| Cash flow from investing activities | -1,228 | -685 |
| CASHFLOW FROM FINANCING ACTIVITIES | | |
| Proceeds/repayments from/of borrowings | -485 | 452 |
| Outflows for share buybacks | -214 | -297 |
| Cash flow from financing activities | -699 | 155 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD | | |
| Changes in cash and cash equivalents | 4,348 | -723 |
| Valuation-related changes in cash and cash equivalents | 83 | -88 |
| Cash and cash equivalents at beginning of the period | 38,132 | 43,008 |
| Cash and cash equivalents at the end of the period | 42,563 | 42,197 |

Statement of Changes in Equity

from 1 January 2018 until 31 March 2018 according to IFRS

| | Number of shares issued | Share capital | Additional paid-in capital | Reserve for treasury stock | Other reserves | Accumulated results | Total |
|---|----------------------------|---------------|----------------------------------|----------------------------------|-------------------|------------------------|--------|
| | Number | KEUR | KEUR | KEUR | KEUR | KEUR | KEUR |
| As of 1 January 2017 | 15,656,016 | 40,185 | 35,137 | -528 | -17,588 | 18,068 | 75,274 |
| Group comprehensive result after tax | | | | | -1,235 | 9,497 | 8,262 |
| Share buybacks | -24,885 | | | -297 | | | -297 |
| Issue of own shares | 28,889 | | | 497 | | | 497 |
| Dividends paid | | | | | | -3,439 | -3,439 |
| As of 1 January 2018 | 15,660,020 | 40,185 | 35,137 | -328 | -18,823 | 24,126 | 80,297 |
| Group comprehensive result after tax | | | | | 181 | 1,921 | 2,102 |
| Share buybacks | -14,611 | | | -214 | | | -214 |
| As of 30 September 2017 | 15,645,409 | 40,185 | 35,137 | -542 | -18,642 | 26,047 | 82,185 |

Shares and Options held by Management Board and Supervisory Board as of 31 March 2018

| | Shares | Options |
|--------------------------|---------|---------|
| Management Board | | |
| Harald Fuchs | 6,023 | 0 |
| Dr. Harald Schrimpf | 67,000 | 0 |
| Supervisory Board | | |
| Andreas Böwing | 0 | 0 |
| Elena Günzler | 1,739 | 0 |
| Prof. Dr. Uwe Hack | 600 | 0 |
| Prof. Dr. Wilhelm Jaroni | 0 | 0 |
| Uwe Seidel | 100 | 0 |
| Karsten Trippel | 111,322 | 0 |

Remuneration for the Management Board and Supervisory Board

| | Fixed remuneration KEUR | Variable remuneration KEUR | Total remuneration KEUR |
|--------------------------|----------------------------|-------------------------------|----------------------------|
| Harald Fuchs | 79 | 25 | 104 |
| Dr. Harald Schrimpf | 95 | 50 | 145 |
| Management Board – total | 174 | 75 | 249 |

As the Supervisory Board payments for the current year are made in the 4th quarter, the Supervisory Board did not obtain any remuneration in the first three months of 2018.

Notes on the consolidated financial statements as of 31 March 2018

The Company

1. Business Activities and Legal Background

The business activities of PSI Software 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, logistics and transportation. In addition, the Group provides services of all kinds in the field of data processing, sells electronic devices and operates data processing systems.

The PSI Group is divided into the core business segments energy management and production management. The company is listed in the Prime Standard segment of the Frankfurt stock exchange.

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, organisational changes and the cooperation with strategic partners.

The condensed interim consolidated financial statements for the period from 1 January 2018 to 31 March 2018 were released for publication by a decision of the management on 23 April 2018.

The condensed interim consolidated financial statements for the period from 1 January 2018 to 31 March 2018 were produced in compliance with IAS 34 "Interim Financial Reporting". The condensed interim consolidated financial statements do not contain all the data and notes prescribed for the annual financial statements and should be read in conjunction with the consolidated financial statements for 31 December 2017.

2. Accounting and Valuation Principles

With regard to the principles of accounting and valuation and especially the application of International Financial Reporting Standards (IFRS) see the group consolidated financial statements for the financial year 2016.

3. Seasonal Influences on the Business Activities

Seasonal effects resulted in the PSI Group operations with regards to the receipt of maintenance revenues in the first quarter of the financial year (deferment of the influences on the result of corresponding incoming payments throughout the year) and significantly greater demand and project accounting in the fourth quarter of the financial year.

4. Changes in the Consolidation Group

Compared to 31 December 2017 there were no changes in the consolidation group.

5. Selected Individual Items

Cash and cash equivalents

| | 31 March 2018 KEUR | 31 December 2017 KEUR |
|---------------------|-----------------------|--------------------------|
| Bank balances | 39,193 | 34,742 |
| Fixed term deposits | 3,345 | 3,366 |
| Cash | 25 | 24 |
| | 42,563 | 38,132 |

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 (labour cost and cost of services provided by third parties) as well as the appropriate portion of overheads including pro rata administrative expenses.

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

| | 31 March 2018 KEUR | 31 December 2017 KEUR |
|---|-----------------------|--------------------------|
| Costs incurred on uncompleted contracts | 92,340 | 88,768 |
| Profit shares | 16,592 | 15,028 |
| Contract revenue | 108,932 | 103,796 |
| Payments on account | -87,592 | -83,965 |
| Set off against contract revenue | -74,193 | -70,678 |
| Receivables from long-term construction contracts | 34,739 | 33,118 |
| Liabilities from long-term construction contracts | 13,399 | 13,287 |

Sales revenues

The sales revenues reported in the group income statement break down as follows:

| | 31 March 2018 KEUR | 31 March 2017 KEUR |
|----------------------|-----------------------|-----------------------|
| Software development | 25,010 | 24,140 |
| Maintenance | 13,959 | 13,080 |
| License fees | 4,326 | 3,521 |
| Merchandise | 2,450 | 3,043 |
| | 45,745 | 43,784 |

Taxes on income

The main components of the income tax expenditure shown in the group income statement are added as follows:

| | 31 March 2018 KEUR | 31 March 2017 KEUR |
|---|-----------------------|-----------------------|
| Effective taxes expenses | | |
| Effective tax expenses | -282 | -174 |
| Deferred taxes | | |
| Emergence and reversal of temporary differences | -437 | -562 |
| Tax expenses | -719 | -736 |

Segment Reporting

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

Segments of the PSI Group:

- **Energy Management:** Intelligent solutions for energy suppliers from the electricity, gas, oil and district heating markets and for public transportation. Focal points are reliable and economically sound control system solutions for intelligent energy grid management and the safe operation of traffic infrastructures as well as trade and sales management in the liberalised energy market.
- **Production Management:** Software products and solutions for production planning, special tasks in production control and efficient logistics. Focuses are the optimisation of the use of resources and the increase of efficiency, quality and profitability.

In the first quarter of 2018, segment reporting was changed by the split of the Infrastructure Management segment. The PSI Incontrol Group allocated to the former Infrastructure Management segment until 31 December 2017 and PSI Transcom GmbH were re-allocated to the Energy Management segment. PSI Polska Sp. z o.o., which was allocated to the former Infrastructure Management segment until 31 December 2017, was re-allocated to the Production Management segment.

Responsibility Statement

To the best of our knowledge, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the interim management report of the group includes a fair review of the group's development and performance of its position, together with a description of the principal opportunities and risks associated with the expected development of the group in the remaining months of the financial year, in accordance with proper accounting principles of interim consolidated reporting.

Group Segment Reporting

from 1 January 2018 until 31 March 2018 according to IFRS

| | Energy Management | | Production Management | | Reconciliation | | PSI Group | |
|--|--------------------|---------------------|-----------------------|---------------------|--------------------|---------------------|--------------------|--------------------|
| | 31/03/2018 TEUR | 31/03/2017* TEUR | 31/03/2018 TEUR | 31/03/2017* TEUR | 31/03/2018 TEUR | 31/03/2017* TEUR | 31/03/2018 TEUR | 31/03/2017 TEUR |
| Sales revenues | | | | | | | | |
| Sales to external customers | 22,412 | 20,242 | 23,333 | 23,542 | 0 | 0 | 45,745 | 43,784 |
| Inter-segment sales | 558 | 52 | 2,106 | 1,624 | -2,664 | -1,676 | 0 | 0 |
| Segment revenues | 22,970 | 20,294 | 25,439 | 25,166 | -2,664 | -1,676 | 45,745 | 43,784 |
| Operating result before interest, tax, depreciation and amortisation | 1,679 | 1,450 | 2,596 | 2,497 | -424 | -305 | 3,851 | 3,642 |
| Operating result before depreciation and amortisation resulting from purchase price allocation | 1,139 | 939 | 2,230 | 2,145 | -442 | -325 | 2,927 | 2,759 |
| Depreciation and amortisation resulting from purchase price allocation | -10 | -21 | -131 | -131 | 0 | 0 | -141 | -152 |
| Operating result | 1,129 | 918 | 2,099 | 2,014 | -442 | -325 | 2,786 | 2,607 |
| Net finance result | -91 | -9 | -55 | -87 | 0 | 0 | -146 | -96 |
| Result before income taxes | 1,038 | 909 | 2,044 | 1,927 | -442 | -325 | 2,640 | 2,511 |

* The figures shown for 2017 differ from those in the report on the first quarter of 2017 due to changes made to the segment reporting (see Notes, page 11, Segment Reporting).

Financial Calendar

| | |
|------------------------|--|
| 22 March 2018 | Publication of Annual Result 2017 |
| 22 March 2018 | Analyst Conference |
| 26 April 2018 | Report on the 1 st Quarter of 2018 |
| 16 May 2018 | Annual General Meeting |
| 26 July 2018 | Report on the 1 st Six Months of 2018 |
| 31 October 2018 | Report on the 3 rd Quarter of 2018 |
| 26 to 28 November 2018 | German Equity Forum, Analyst Presentation |

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We will be happy to include you in our distribution list for stockholder information.

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