

ترقی کے بمقصد مشرق کی جانب

**NACH OSTEN WACHSEN!**

**向东发展**

東へ発展

**GROW EAST!**

Report on the 1<sup>st</sup> Quarter of 2006

На Восток!

**BERKEMBANG  
KE ARAH TIMUR**

Alla conquista dell'est

*Extensión hacia el Este*

**NA WSCHÓD**

*Grandir à l'est*

النمو شرقا

**TILLVÄXT I ÖST**

**PSI** 

**PSI Group Data as per 31 March 2006 at a Glance (IFRS)**

	1.1. - 31.3.06 in KEUR	1.1. - 31.3.05 in KEUR	Change in KEUR	Change in %
Revenues	28,399	28,393	+6	+0.02
Operating Result	8	174	-166	-95.4
Result before income taxes	-351	-124	-227	-183.1
Net loss	-219	+12	-231	-1,925.0
Cash and cash equivalents	15,591	24,300	-8,709	-35.8
Employees on 31 March	1,049	1,065	-16	-1.5
Revenue/Employee	27.1	26.7	+0.4	+1.5

## **Business Development**

The PSI Group increased its volume of new orders in the first quarter of 2006 by 31% to 42 million euros. The EBIT, at 8 TEUR, was once again balanced, sales were with 28.4 million euros at the same level as the previous year. The new orders in the areas of gas, electrical energy and heavy industry were especially positive, whereby the German market and exports contributed equally to the increase. The volume of orders increased by 11 million euros to 81 million euros compared to 31 December 2005.

In the Network Management segment (energy, telecommunication, traffic), sales increased by 3% to 16.0 million euros in the first three months. The EBIT improved to 0.4 million euros. In this segment the new orders increased in particular in the business units of gas/oil and electrical energy.

The segment Production Management (industry, logistics) increased sales by 4% to 11.4 million euros in the first three months. The EBIT decreased slightly compared to the same period for the previous year to 0.2 million euros. This figure contains additional expenditures for the expansion of the export business.

In Information Management (government, service providers) sales decreased to 1.0 million euros in the first three months, the EBIT was at -0.4 million euros. Compared with the previous year the number of employees in this segment has been reduced by 24%. PSI is negotiating with strategic investors for one individual activity of Information Management. The new environmental control station, which was developed on the basis of PSI energy control technology, proved itself in the recent flooding of the river Elbe so that increased requests for this can be expected.

The group's equity capital ratio was 33.2% on 31 March 2006. Liquidity decreased to 15.6 million euros.

## **Personnel Development**

On 31 March the PSI Group employed 1,049 persons (31 March 2005: 1,065).

## **PSI Shares**

PSI shares outperformed the market in the first three months. Our share price started the year with 4.12 euros and gained 44% in the first quarter to 5.95 euros. Throughout the first quarter the interest of institutional investors in PSI continued to grow.

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

PSI received important export orders in the first three months. Among these were orders from Russia, Kuwait, Austria, Sweden and Malaysia.

Cooperation agreements with Höft & Wessel AG and Peek Traffic B.V. have been signed in the traffic system business.

## **Outlook**

The strong tendency of orders in the first quarter continued in April. With that the basis for sales and earnings increases has been established for the next quarters. In the last weeks the workload has increased significantly in all of the PSI business units.

# Group Balance Sheet

from 1 January 2006 until 31 March 2006 according to IFRS

	3 Month Report 01.01.-31.03.06 KEUR	Annual Report 01.01.-31.12.05 KEUR
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	15,591	18,947
Trade accounts receivable, net	15,026	17,504
Receivables from long-term construction contracts	21,659	18,643
Inventories	2,038	2,154
Other current assets	4,149	3,620
	<b>58,463</b>	<b>60,868</b>
<b>Non current assets</b>		
Property, plant and equipment	8,066	7,992
Intangible assets	15,603	15,971
Investments in an associate accounted for by the equity method	0	0
Other financial assets	186	186
Deferred tax assets	2,803	2,970
	<b>26,658</b>	<b>27,119</b>
<b>Total assets</b>	<b>85,121</b>	<b>87,987</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Short-term debt	318	97
Trade accounts payable	7,125	10,022
Liabilities from long-term construction contracts	6,587	8,720
Accrued expenses	1,838	2,192
Other current liabilities	15,052	12,862
	<b>30,920</b>	<b>33,893</b>
<b>Non-current liabilities</b>		
Long-term debt	0	0
Pension accrual	24,240	23,637
Deferred tax liability	1,698	1,980
	<b>25,938</b>	<b>25,617</b>
<b>Shareholders' equity</b>		
Share Capital, EUR 2,56 calculated par value	31,009	31,009
Additional paid-in capital	31,772	31,772
Other reserves	1,181	1,181
Other comprehensive result	-6	-11
Accumulated deficit	-35,693	-35,474
	<b>28,263</b>	<b>28,477</b>
<b>Total liabilities and shareholders' equity</b>	<b>85,121</b>	<b>87,987</b>

# Group Income Statement

from 1 January 2006 until 31 March 2006 according to IFRS

	3 Month Report 01.01.-31.03.06 KEUR	3 Month Report 01.01.-31.03.05 KEUR
Revenues	28,399	28,393
Other operating income	1,214	798
Changes in inventories of work in progress	80	-123
Cost of purchased materials and services	-4,958	-4,046
Personnel expenses	-18,816	-18,316
Depreciation and amortization	-786	-915
Impairment of goodwill	0	0
Other operating expenses	-5,125	-5,617
<b>Operating result</b>	<b>8</b>	<b>174</b>
Interest income, Income from investments	-359	-325
Share of profit of associate	0	27
<b>Result before income taxes</b>	<b>-351</b>	<b>-124</b>
Income tax	132	136
<b>Net result before minority interest</b>	<b>-219</b>	<b>12</b>
Minority interest	0	0
<b>Net result</b>	<b>-219</b>	<b>12</b>
Earnings per share (in Euro per share, basic)	-0.02	0.00
Earnings per share (in Euro per share, diluted)	-0.02	0.00
Weighted average shares outstanding (basic)	12,112,870	11,562,870
Weighted average shares outstanding (diluted)	12,112,870	11,562,870

# Group Cash Flow Statement

from 1 January 2006 until 31 March 2006 according to IFRS

	3 Month Report 01.01.-31.03.06 KEUR	3 Month Report 01.01.-31.03.05 KEUR
<b>CASHFLOW FROM OPERATING ACTIVITIES</b>		
Result after income taxes	-219	12
Adjustments to reconcile net loss to net cash used in operating activities		
Amortization on intangible assets	393	565
Depreciation of property, plant and equipment	393	350
Income / Expense from disposals	0	0
Investment income	0	-27
Interest income	-51	-75
Interest expense	409	400
Other income/expense without cash effect	5	-1
Foreign exchange gains/losses	-282	-203
Minority interest	0	0
	<b>648</b>	<b>1,021</b>
<b>Changes of working capital</b>		
Inventories	116	-53
Trade receivables	-538	4,122
Other current assets	-1,579	-185
Accrued expenses	-156	134
Trade payables	-2,898	-545
Other current liabilities	207	-4,142
	<b>-4,199</b>	<b>352</b>
Interest paid	-3	-24
Income taxes paid	16	0
<b>Cash flow from operating activities</b>	<b>-4,186</b>	<b>328</b>
<b>CASHFLOW FROM INVESTING ACTIVITIES</b>		
Purchase of intangible assets	-25	-49
Purchase of property, plant and equipment	-467	-189
Purchase of financial assets	0	0
Cash receipts from disposals of intangible assets	0	3
Cash receipts from disposals of property, plant and equipment	0	7
Cash receipts from disposals of financial assets	1,050	1,449
Interest received	51	75
<b>Cash flow from investing activities</b>	<b>609</b>	<b>1,296</b>
<b>CASHFLOW FROM FINANCING ACTIVITIES</b>		
Change in minority interest	0	0
Change in share capital	0	2,816
Change in additional paid-in capital	0	874
Proceeds/repayments from/of borrowings	221	0
Cash receipts from sale of treasury stocks	0	118
Acquisition of treasury stocks	0	0
<b>Cash flow from financing activities</b>	<b>221</b>	<b>3,808</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>		
Changes in cash and cash equivalents	-3,356	5,432
Cash and cash equivalents at beginning of the period	18,947	18,868
Cash and cash equivalents at the end of the period	15,591	24,300

## Development of Fixed Assets

from 1 January 2006 until 31 March 2006 according to IFRS

	Number of shares issued	Share capital	Additional paid-in capital	Revenue reserve	Accumulated deficit	Accumulated other comprehensive result	Total
	Number	KEUR	KEUR	TEUR	KEUR	KEUR	KEUR
As of 31 December 2005	12,112,870	31,009	31,772	1,181	-35,474	-11	28,477
Group net result					-219		-219
Currency translation						5	5
As of 31 March 2006	12,112,870	31,009	31,772	1,181	-35,693	-6	28,263

## Shares and Options held by Management Board and Supervisory Board as of 31 March 2005

	Aktien	Optionen
<b>Management Board</b>		
Dr. Harald Schrimpf	35,800	0
Armin Stein	6,000	0
<b>Supervisory Board</b>		
Christian Brunke	5,000	0
Wolfgang Dedner	25,300	0
Dirk Noß	56	0
Barbara Simon	7,890	0
Karsten Trippel	80,000	0
Prof. Dr. Rolf Windmüller	0	0



# Notes on the consolidated financial statements as of 31 March 2006

## 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, transport, government authorities, software technology, internet applications and business consulting. 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 three core business segments 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. Main locations with business activities are located in Berlin, Aschaffenburg, Barsinghausen, Essen, Dortmund, Duesseldorf, Karlsruhe, Hamburg, Munich and Stuttgart.

The Company is listed in the Prime Standard segment of the Frankfurt stock exchange.

## 1. 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 2005.

## 2. Changes in the Consolidation Group

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

### a) Subsidiaries

	Anteile in %
PSI BT Business Technology for Industries GmbH, Düsseldorf	100,00
PSI Information Management GmbH, Berlin	100,00
PSI Logistics GmbH, Berlin	100,00
PSIPENTA Software Systems GmbH, Berlin	100,00
PSI Transportation GmbH, Berlin	100,00
PSI AG Produkte und Systeme der Informationstechnologie, Glattzentrum, Switzerland	100,00
PSI Büsing & Buchwald GmbH, Barsinghausen	100,00
GSI Gesellschaft für Steuerungs- und Informationssysteme mbH, Berlin	100,00
Nentec Netzwerktechnologie GmbH, Karlsruhe	100,00
PSI Produkty i Systemy Sp. z o.o., Poznan, Poland	100,00
PSI CNI GmbH, Wels, Austria	100,00

### b) Description of changes

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

### 3. Selected Individual Items

#### Trade accounts receivable

	31 March 2006	31 December 2005
	KEUR	KEUR
Trade accounts receivable	15,291	17,769
Allowances for bad debts	-265	-265
	15,026	17,504

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

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

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

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

	31 March 2006	31 December 2005
	KEUR	KEUR
Costs incurred on uncompleted contracts	43,124	35,090
Profit shares	3,363	3,992
<b>Contract revenue</b>	<b>46,487</b>	<b>39,082</b>
Payments on account	29,719	22,185
Receivables from long-term construction contracts	21,659	18,643
Liabilities from long-term construction contracts	6,587	8,720

## **Equity**

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

## **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.

# Group Segment Reporting

from 1 January 2006 until 31 March 2006 according to IFRS

	Network Management		Production Management		Information Management		Reconciliation		PSI Group	
	31-03-2006 KEUR	31-03-2005 KEUR	31-03-2006 KEUR	31-03-2005 KEUR	31-03-2006 KEUR	31-03-2005 KEUR	31-03-2006 KEUR	31-03-2005 KEUR	31-03-2006 KEUR	31-03-2005 KEUR
<b>Revenues</b>										
Sales to external customers	15,989	15,551	11,389	10,951	1,021	1,891	0	0	28,399	28,393
Inter-segment sales	75	3	260	332	460	403	-795	-738	0	0
<b>Segment Revenues</b>	<b>16,064</b>	<b>15,554</b>	<b>11,649</b>	<b>11,283</b>	<b>1,481</b>	<b>2,294</b>	<b>-795</b>	<b>-738</b>	<b>28,399</b>	<b>28,393</b>
Other operating income	1,322	1,010	1,015	738	228	318	-1,351	-1,268	1,214	798
Changes in inventories of work in progress	75	-80	7	-4	-2	-7	0	-32	80	-123
Cost of purchased services	-833	-1,064	-996	-626	-216	-367	339	287	-1,706	-1,770
Cost of purchased materials	-2,809	-2,383	-443	-354	0	-15	0	476	-3,252	-2,276
Personnel expenses	-9,459	-9,272	-7,814	-7,094	-1,461	-1,888	-82	-62	-18,816	-18,316
Depreciation and amortization	-487	-561	-237	-259	-62	-95	0	0	-786	-915
Other operating expenses	-3,491	-2,883	-3,010	-3,369	-363	-732	1,739	1,367	-5,125	-5,617
Of it accrued expenses for projects	-11	-93	-14	-678	-22	-11	0	0	-47	-782
<b>Operating Result</b>	<b>382</b>	<b>321</b>	<b>171</b>	<b>315</b>	<b>-395</b>	<b>-492</b>	<b>-150</b>	<b>30</b>	<b>8</b>	<b>174</b>
Interest income, Income from investments	-187	-167	-122	-132	-50	-28	0	2	-359	-325
Income/loss from equity investments	0	10	0	0	0	0	0	17	0	27
<b>Result before income taxes</b>	<b>195</b>	<b>164</b>	<b>49</b>	<b>183</b>	<b>-445</b>	<b>-520</b>	<b>-150</b>	<b>49</b>	<b>-351</b>	<b>-124</b>



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