



Report on the 3rd Quarter of 2005

Facing the Future with Innovations!

PSI 

PSI Group Data as per 30 September 2005 at a Glance (IFRS)

	1.1. - 30.9.05 in KEUR	1.1. - 30.9.04 in KEUR	Change in KEUR	Change in %
Revenues	84,690	84,505	+185	+0.2
Operating loss	102	-9,075	+9,177	+101.1
Result before income taxes	-837	-10,670	+9,833	+92.2
Net loss	-493	-10,515	+10,022	+95.3
Cash and cash equivalents	14,905	13,583	+1,322	+9.7
Employees on 30 September	1,047	1,131	-84	-7.4
Revenue/Employee	80.9	74.7	+6.2	+8.3

Business Development

The PSI Group had sales of 84.7 million euros in the first nine months of 2005. The EBIT for the first nine months increased to 0.1 million euros, the Group result to –0.5 million euros.

In the Network Management segment (Energy, Telecommunications, Traffic), sales in the first nine months increased by 4% to 46.6 million euros. The EBIT improved to 1.2 million euros.

The Production Management segment (Manufacturing, Logistics) was able to improve its sales in the first nine months by 8 % to 33.1 million euros. The EBIT improved compared to the same period of the previous year to 0.6 million euros.

The Information Management segment (Authorities, Service Providers) had sales of 5.0 million euros in the first nine months, the EBIT was –1.6 million euros. The poor market environment in the government and consulting business continued to deteriorate, which had a negative impact on the orders and earning situation in the segment.

New orders in the Group for the first nine months were at 79 million euros. In the Network Management segment a major order for 7 million euros, which was placed in September, was only booked in October as a result of the new, more rigid controlling guidelines that PSI has been using since 2004. The volume of orders on 30 September was, at 67 million euros, below that of the previous year.

With 14.9 million euros the liquidity on 30 September was above that of the same quarter for the previous year.

Personnel Development

On 30 September 2005, the PSI Group employed 1,047 persons (30 June 2004: 1,131).

Special Events in the 3rd Quarter

In the Network Management segment PSI established the prerequisites for further growth with the bundling and strengthening of the competence in the field of energy trading and sales systems. By increasing the share in the joint venture VATECH CNI there are good prospects for the expansion of the international activities in the Energy business.

The positive trend in Production Management has continued with new orders in Russia, Austria, Romania, China and Switzerland. In this segment the third quarter results include expenditures for the development of the new production control system for the steel market.

The Information Management segment suffered under the continuing extremely poor conditions in the government business and the weak market prices especially since the announcement of the advanced election to the German Parliament.

Outlook

Signs of a normalization of the investment climate in the gas market can be seen in the Network Management segment following the introduction of the new Energy Act on 12 July 2005.

Information Management will be concentrating to a greater extent on the future-oriented subjects of Professional Services Automation (PSA) as well as control systems for disaster and environmental protection. In addition, the know-how and capacities of Information Management are being consistently more often used in other business units. Compared to the previous year, the number of employees in Information Management has decreased by 16%.

Following a significant increase in new orders in October, the PSI management expects a traditionally strong fourth quarter and an adjustment of the group structure in Information Management.

Group Balance Sheet

from 1 January 2005 until 30 September 2005 according to IFRS

	9 Month Report 01.01.-30.09.05 KEUR	Annual Report 01.01.-31.12.04 KEUR
Assets		
Current assets		
Cash and cash equivalents	14,905	18,868
Trade accounts receivable, net	17,625	22,163
Receivables from long-term construction contracts	17,870	16,954
Inventories	3,097	2,809
Other current assets	5,097	4,954
	58,594	65,748
Non current assets		
Property, plant and equipment	8,012	8,495
Intangible assets	16,417	17,565
Investments in an associate accounted for by the equity method	690	663
Other financial assets	1,217	1,334
Deferred tax assets	2,977	2,977
	29,313	31,034
Total assets	87,907	96,782
Liabilities and shareholders' equity		
Current liabilities		
Short-term debt	1,242	2,317
Trade accounts payable	6,926	10,273
Liabilities from long-term construction contracts	7,552	12,339
Accrued expenses	2,043	2,048
Other current liabilities	15,534	19,099
	33,297	46,076
Non-current liabilities		
Long-term debt	0	0
Pension accrual	23,647	22,669
Deferred tax liability	2,990	3,397
	26,637	26,066
Shareholders' equity		
Share Capital, EUR 2,56 calculated par value	31,009	28,193
Additional paid-in capital	31,772	30,898
Other reserves	1,181	1,181
Treasury stock	0	-129
Other comprehensive loss	-2	-9
Accumulated deficit	-35,987	-35,494
Minority interest	0	0
	27,973	24,640
Total liabilities and shareholders' equity	87,907	96,782

Group Income Statement

from 1 January 2005 until 30 September 2005 according to IFRS

	Quarterly Report III		9-Month Report	
	01.07.05- 30.09.05 KEUR	01.07.04- 30.09.04 KEUR	01.01.05- 30.09.05 KEUR	01.01.04- 30.09.04 KEUR
Revenues	27,455	27,733	84,690	84,505
Other operating income	24	1,165	2,100	3,249
Changes in inventories of work in progress	17	-40	-143	-164
Cost of purchased materials and services	-4,555	-5,743	-15,385	-16,184
Personnel expenses	-16,454	-17,679	-52,612	-57,362
Depreciation and amortization	-848	-940	-2,678	-2,764
Impairment of goodwill	0	0	0	0
Other operating expenses	-5,617	-5,786	-15,870	-20,355
Operating result	22	-1,290	102	-9,075
Interest income, Income from investments	-303	-368	-966	-1,595
Share of profit of associate	0	0	27	0
Result before income taxes	-281	-1,658	-837	-10,670
Income tax	37	3	344	-72
Net result	-244	-1,655	-493	-10,742
Minority interest	0	-24	0	227
Net income/loss	-244	-1,679	-493	-10,515
Earnings per share (in Euro per share, basic)	-0.02	-0.15	-0.04	-0.96
Earnings per share (in Euro per share, diluted)	-0.02	-0.15	-0.04	-0.96
Weighted average shares outstanding (basic)	12,112,870	10,993,507	11,562,870	10,993,507
Weighted average shares outstanding (diluted)	12,112,870	10,993,507	11,562,870	10,993,507

Group Cash Flow Statement

from 1 January 2005 until 30 September 2005 according to IFRS

	9 Month Report 01.01.-30.09.05 KEUR	9 Month Report 01.01.-30.09.04 KEUR
CASHFLOW FROM OPERATING ACTIVITIES		
Result before income taxes	-493	-10,515
Adjustments to reconcile net loss to net cash used in operating activities		
Amortization on intangible assets	1,622	1,583
Depreciation of property, plant and equipment	1,056	1,181
Income / Expense from disposals	0	-89
Investment income	-27	-8
Interest income	-244	-191
Interest expense	1,210	760
Foreign exchange gains/losses	7	-8
Other income/expense without cash effect	-1,394	3,420
Minority interest	0	-227
	1,737	-4,094
Changes of working capital		
Inventories	-288	66
Trade receivables	3,609	12,491
Other current assets	598	-2,802
Accrued expenses	619	-1,406
Trade payables	-3,333	-4,526
Deferred tax liability	0	-10
Other current liabilities	-9,089	-2,493
	-7,884	1,320
Interest paid	-80	-760
Income taxes paid	-61	-82
Cash flow from operating activities	-6,288	-3,616
CASHFLOW FROM INVESTING ACTIVITIES		
Purchase of intangible assets	-1,655	-587
Purchase of property, plant and equipment	-573	-783
Purchase of financial assets	0	-1
Cash receipts from disposals of intangible assets	3	0
Cash receipts from disposals of property, plant and equipment	7	850
Cash receipts from disposals of financial assets	1,566	0
Interest received	244	191
Cash flow from investing activities	-408	-330
CASHFLOW FROM FINANCING ACTIVITIES		
Change in minority interest	0	-256
Change in share capital	2,816	0
Change in additional paid-in capital	874	0
Proceeds/repayments from/of borrowings	-1,075	902
Cash receipts from sale of treasury stocks	118	0
Acquisition of treasury stocks	0	-87
Cash flow from financing activities	2,733	559
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		
Changes in cash and cash equivalents	-3,963	-3,387
Cash and cash equivalents at beginning of the period	18,868	16,970
Cash and cash equivalents at the end of the period	14,905	13,583

Development of Fixed Assets

from 1 January 2005 until 30 September 2005 according to IFRS

	Number of shares issued	Share capital	Additional paid-in capital	Other reserves	Treasury Stock	Accumulated deficit	Accumulated other comprehensive result	Total
	Number	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
As of 31 Decembers 2004	11,012,870	28,193	30,898	1,181	-129	-35,494	-9	24,640
Issue of shares								
Capital increase from cash contribution	1,100,000	2,816	874					3,690
Group net income						-493		-493
Sale of capital stock					129			129
Currency translation							7	7
As of 30 September 2005	12,112,870	31,009	31,772	1,181	0	-35,987	-2	27,973

Shares and Options held by Management Board and Supervisory Board as of 30 September 2005

	Shares	Options
Management Board		
Dr. Harald Schrimpf	30,000	0
Armin Stein	4,000	0
Supervisory Board		
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 30 September 2005

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 core 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. Main locations with business activities are located in Berlin, Aschaffenburg, Barsinghausen, Essen, Dortmund, Duesseldorf, Karlsruhe, Hamburg, Munich and Neviiges.

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

2. Accounting and Valuation Principles

With regard to the principles of accounting and valuation and especially the conversion of the accounting from United States Generally Accepted Accounting Principles (US-GAAP) to International Financial Reporting Standards (IFRS) see the group consolidated financial statements for the financial year 2004.

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 %
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
Büsing & Buchwald Gesellschaft für Organisation und Datenverarbeitung mbH, 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

b) Description of changes

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

4. Selected Individual Items

Trade accounts receivable

	30 September 2005	31 December 2004
	KEUR	KEUR
Trade accounts receivable	17,893	22,463
Allowances for bad debts	-268	-300
	17,625	22,163

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 September 2005	31 December 2004
	KEUR	KEUR
Costs incurred on uncompleted contracts	33,716	34,239
Profit shares	5,970	3,427
Contract revenue	39,686	37,666
Payments on account	29,368	33,149
Receivables from long-term construction contracts	17,870	16,954
Liabilities from long-term construction contracts	7,552	12,339

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 2005 until 30 September 2005 according to IFRS

	Network Management		Production Management		Information Management		Reconciliation		PSI Group	
	30-09-2005 KEUR	30-09-2004 KEUR	30-09-2005 KEUR	30-09-2004 KEUR	30-09-2005 KEUR	30-09-2004 KEUR	30-09-2005 KEUR	30-09-2004 KEUR	30-09-2005 KEUR	30-09-2004 KEUR
Revenues										
Sales to external customers	46,636	44,968	33,100	30,458	4,954	9,082	0	-3	84,690	84,505
Inter-segment sales	65	146	1,146	1,103	1,327	1,693	-2,538	-2,942	0	0
Segment Revenues	46,701	45,114	34,246	31,561	6,281	10,775	-2,538	-2,945	84,690	84,505
Other operating income	3,358	4,677	1,906	1,498	728	857	-3,892	-3,783	2,100	3,249
Changes in inventories of work in progress	-75	-99	-52	-50	-16	-15	0	0	-143	-164
Cost of purchased services	-3,794	-4,751	-2,866	-3,083	-1,089	-2,156	1,863	1,263	-5,886	-8,727
Cost of purchased materials	-7,604	-6,659	-2,380	-1,428	-46	-156	531	786	-9,499	-7,457
Personnel expenses	-26,741	-28,538	-20,358	-21,881	-5,286	-6,659	-227	-284	-52,612	-57,362
Depreciation and amortization	-1,636	-1,854	-799	-857	-243	-326	0	273	-2,678	-2,764
Other operating expenses	-9,052	-10,188	-9,067	-8,484	-1,964	-6,010	4,213	4,327	-15,870	-20,355
Operating Result	1,157	-2,298	630	-2,724	-1,635	-3,690	-50	-363	102	-9,075
Interest income, Income from investments	-494	-396	-365	494	-107	-705	0	0	-966	-1,595
Income/loss from equity investments	10	0	0	0	0	0	17	0	27	0
Result before income taxes	673	-2,694	265	-3,218	-1,742	-4,395	-33	-363	-837	-10,670

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