



Report on the 1st Quarter of 2005

Facing the Future with Innovations!

PSI 

PSI Group Data as per 31 March 2005 at a Glance (IFRS)

	1.1. – 31.3.05 in KEUR	1.1. – 31.3.04 in KEUR	Change in KEUR	Change in %
Revenues	28,393	29,937	–1,544	–5.2
Operating loss	174	-1,575	+1,749	+111.0
Result before income taxes	–124	–1,914	+1,790	+93.5
Net loss	+12	-1,992	+2,004	+100.6
Cash and cash equivalents	24,300	14,057	+10,243	+72.9
Employees on 31 March	1,065	1,149	–84	–7.3
Revenue/Employee	26.7	26.1	+0.6	+2.3

Business Development

The PSI group closed the first quarter of 2005 as predicted with an EBIT of 0.2 million euros and a balanced group result. Sales for the first three months of the year were, at 28.4 million euros, slightly below the value of 29.9 million euros for last year.

In the Network Management segment (energy, telecommunication, traffic) the recovery continued in the first quarter. Sales decreased by 5% to 15.6 million euros; the EBIT improved by 0.4 million euros to 0.3 million euros.

The Production Management segment (industry, logistics), with 0.3 million euros, had the third positive quarter in a row. Sales in Production Management increased by 11% to 11.0 million euros.

In Information Management (government, services) sales decreased to 1.9 million euros and the EBIT to –0.5 million euros. This segment still contained PK Software Engineering, which has been sold off, in the figures for the same quarter of last year.

The volume of new orders in the group in the first three months was 32 million euros. The order inventory increased compared to 31 December 2004 by 4 million euros to 77 million euros.

The group's equity capital ratio increased as a result of the successfully completed capital increase from 25.5 to 29.6%. Liquidity on 31 March 2005 increased compared to the previous year by more than 10 million euros to 24.3 million euros after payment of the purchase of the minority shares of the steel software subsidiary PSI-BT.

Personnel Development

On 31 March 2005 the PSI Group employed 1,065 persons (31 March 2004: 1,149).

Special Events in the 1st Quarter

In February 2005, PSI AG accomplished an increase in capital from approved capital by 1.1 million shares of stock. The new shares of stock have been placed with renowned investors from Germany and Switzerland. The flow of funding serves to finance the takeover reported in December 2004 of the minority holding of the VDEh steel institute on the steel software subsidiary PSI-BT.

The founding of the PSI-BT subsidiary in Shanghai (China) was completed in the first quarter.

Outlook

The Board expects a further recovery of the Network Management segment and a continuation of the positive trend in Production Management. In Information Management there will be a decrease in the rental burden of 0.25 million euros in the second quarter. In this segment PSI is continuing the establishment of the new business "Control Systems for Environmental and Disaster Protection" and expects additional orders here.

By merging offices additional cost-savings will be accomplished in the course of the year. In the second quarter a number of decisions will be made concerning major contracts in all the segments, so that a continuation of the positive trend can be expected as a whole.

Group Balance Sheet

from 1 January 2005 until 31 March 2005 according to IFRS

	3 Month Report 01.01.-31.03.05 KEUR	Annual Report 01.01.-31.12.04 KEUR
Assets		
Current assets		
Cash and cash equivalents	24,300	18,868
Trade accounts receivable, net	18,049	22,163
Receivables from long-term construction contracts	16,945	16,954
Inventories	2,862	2,809
Other current assets	3,680	4,954
	65,836	65,748
Non current assets		
Property, plant and equipment	8,335	8,495
Intangible assets	17,049	17,565
Investments in an associate accounted for by the equity method	690	663
Other financial assets	1,334	1,334
Deferred tax assets	2,977	2,977
	30,385	31,034
Total assets	96,221	96,782
Liabilities and shareholders' equity		
Current liabilities		
Short-term debt	1,112	2,317
Trade accounts payable	9,727	10,273
Liabilities from long-term construction contracts	10,802	12,339
Accrued expenses	2,195	2,048
Other current liabilities	17,698	19,099
	41,534	46,076
Non-current liabilities		
Long-term debt	0	0
Pension accrual	22,955	22,669
Deferred tax liability	3,262	3,397
	26,217	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	-10	-9
Accumulated deficit	-35,482	-35,494
Minority interest	0	0
	28,470	24,640
Total liabilities and shareholders' equity	96,221	96,782

Group Income Statement

from 1 January 2005 until 31 March 2005 according to IFRS

	3 Month Report 01.01.-31.03.05 KEUR	3 Month Report 01.01.-31.03.04 KEUR
Revenues	28,393	29,937
Other operating income	798	1,140
Changes in inventories of work in progress	-123	-3
Cost of purchased materials and services	-4,046	-5,928
Personnel expenses	-18,316	-20,231
Depreciation and amortization	-915	-933
Impairment of goodwill	0	0
Other operating expenses	-5,617	-5,557
Operating result	174	-1,575
Interest income, Income from investments	-325	-339
Share of profit of associate	27	0
Result before income taxes	-124	-1,914
Income tax	136	-78
Net result	12	-1,992
Earnings per share (in Euro per share, basic)	0.00	-0.17
Earnings per share (in Euro per share, diluted)	0.00	-0.17
Weighted average shares outstanding (basic)	11,562,870	11,012,870
Weighted average shares outstanding (diluted)	11,562,870	11,012,870

Group Cash Flow Statement

from 1 January 2005 until 31 March 2005 according to IFRS

	3 Month Report 01.01.-31.03.05 KEUR	3 Month Report 01.01.-31.03.04 KEUR
CASHFLOW FROM OPERATING ACTIVITIES		
Result before income taxes	12	-1,992
Adjustments to reconcile net loss to net cash used in operating activities		
Amortization on intangible assets	565	520
Depreciation of property, plant and equipment	350	413
Income / Expense from disposals	0	-8
Investment income	-27	0
Interest income	-75	-40
Interest expense	400	379
Other income/expense without cash effect	-1	5
Foreign exchange gains/losses	-203	301
Minority interest	0	-152
	1,021	-574
Changes of working capital		
Inventories	-53	-57
Trade receivables	4,122	5,095
Other current assets	-185	-1,641
Accrued expenses	134	379
Trade payables	-545	-4,882
Other current liabilities	-4,142	746
	352	-934
Interest paid	-24	-38
Income taxes paid	0	55
Cash flow from operating activities	328	-917
CASHFLOW FROM INVESTING ACTIVITIES		
Purchase of intangible assets	-49	-381
Purchase of property, plant and equipment	-189	-101
Purchase of financial assets	0	-42
Cash receipts from disposals of intangible assets	3	70
Cash receipts from disposals of property, plant and equipment	7	80
Cash receipts from disposals of financial assets	1,449	0
Interest received	75	40
Cash flow from investing activities	1,296	-334
CASHFLOW FROM FINANCING ACTIVITIES		
Change in minority interest	0	152
Change in share capital	2,816	0
Change in additional paid-in capital	874	0
Proceeds/repayments from/of borrowings	0	-1,785
Cash receipts from sale of treasury stocks	118	0
Acquisition of treasury stocks	0	-29
Cash flow from financing activities	3,808	-1,662
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		
Changes in cash and cash equivalents	5,432	-2,913
Cash and cash equivalents at beginning of the period	18,868	16,970
Cash and cash equivalents at the end of the period	24,300	14,057

Development of Fixed Assets

from 1 January 2005 until 31 March 2005 according to IFRS

	Number of shares issued	Share capital	Additional paid-in capital	Treasury Stock	Accumulated deficit	Accumulated other comprehensive result	Minority interest	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						12		12
Sale of capital stock					129			129
Currency translation							-1	-1
As of 31 March 2005	12,112,870	31,009	31,772	1,181	0	-35,482	-10	28,470

Shares and Options held by Management Board and Supervisory Board as of 31 March 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
Klaus Linke	2,770	0
Dirk Noß	56	0
Barbara Simon	7,890	0
Karsten Trippel	78,118	0

Notes on the consolidated financial statements as of 31 March 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 Neviges.

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

	31 March 2005 KEUR	31 December 2004 KEUR
Trade accounts receivable	18,315	22,463
Allowances for bad debts	-266	-300
	18,049	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:

	31 March 2005 KEUR	31 December 2004 KEUR
Costs incurred on uncompleted contracts	39,042	34,239
Profit shares	4,141	3,427
Contract revenue	43,183	37,666
Payments on account	-37,040	33,149
Receivables from long-term construction contracts	16,945	16,954
Liabilities from long-term construction contracts	10,802	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 31 March 2005 according to IFRS

	Network Management		Production Management		Information Management		Reconciliation		PSI Group	
	31-03- 2005 KEUR	31-03- 2004 KEUR	31-03- 2005 KEUR	31-03- 2004 KEUR	31-03- 2005 KEUR	31-03- 2004 KEUR	31-03- 2005 KEUR	31-03- 2004 KEUR	31-03- 2005 KEUR	31-03- 2004 KEUR
Revenues										
Sales to external customers	15,551	16,385	10,951	9,856	1,891	3,705	0	-9	28,393	29,937
Inter-segment sales	3	33	332	296	403	636	-738	-965	0	0
Segment Revenues	15,554	16,418	11,283	10,152	2,294	4,341	-738	-974	28,393	29,937
Other operating income	1,010	1,022	738	603	318	354	-1,268	-839	798	1,140
Changes in inventories of work in progress	-80	-3	-4	-16	-7	16	-32	0	-123	-3
Cost of purchased services	-1,064	-1,686	-626	-780	-367	-677	287	320	-1,770	-2,823
Cost of purchased materials	-2,383	-2,833	-354	-623	-15	-93	476	444	-2,276	-3,105
Personnel expenses	-9,272	-9,574	-7,094	-7,896	-1,888	-2,666	-62	-95	-18,316	-20,231
Depreciation and amortization	-561	-566	-259	-285	-95	-155	0	73	-915	-933
Other operating expenses	-2,883	-2,842	-3,369	-2,714	-732	-998	1,367	997	-5,617	-5,557
Of it accrued expenses for projects	-93	0	-678	-62	-11	0	0	0	-782	-62
Operating Result	321	-64	315	-1,559	-492	122	30	-74	174	-1,575
Interest income, Income from investments	-167	-137	-132	-166	-28	-33	2	-3	-325	-339
Income/loss from equity investments	10	0	0	0	0	0	17	0	27	0
Result before income taxes	164	-201	183	-1,725	-520	89	49	-77	-124	-1,914

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

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