

ترقی کے بمقصد مشرق کی جانب

NACH OSTEN WACHSEN!

向东发展

東へ発展

GROW EAST!

Report on the 1st Six Months 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 30 June 2006 at a Glance (IFRS)

	1.1. - 30.6.06 in KEUR	1.1. - 30.6.05 in KEUR	Change in KEUR	Change in %
Revenues	56,470	57,235	-765	-1.3
Operating Result	-398	80	-478	-597.5
Result before income taxes	-1,096	-556	-540	-97.1
Net loss	-956	-249	-707	-283.9
Cash and cash equivalents	13,832	17,118	-3,286	-19.2
Employees on 30 June	1,037	1,054	-17	-1.6
Revenue/Employee	54.5	54.3	+0.2	+0.4

Business Development

The PSI Group realized turnover of 56.5 million euros in the first half of 2006. The operating result at –0.4 million euros was slightly below the result of the previous year. Consequent to the increased expenditures for the establishment of international sales, the share of exports in new orders doubled from 15% in 2005 to over 30%. In the middle term, PSI wants to increase the export share to 50% and become less vulnerable to the fluctuations of the German market. New orders received in the first half of the year rose in total by 26% to 72 million euros. The order backlog increased by 13 million euros to 83 million euros compared to 31 December 2005.

In the segment Network Management (energy, telecommunications, transport), turnover in the first half of the year rose by 2% to 32.7 million euros. The operating result improved to 0.8 million euros. Expenditures for the international sales in Eastern Europe and Asia are contained in the results for the division Energy in particular.

The segment Production Management (manufacturing, logistics) realized turnover of 21.8 million euros in the first six months. The operating result declined in comparison with the same period last year owing to groundwork in international projects to –36k euros. The establishment of steel business in China was continued during the first half of the year, and it was possible to gain an additional partner in Eastern Europe for the Logistics division.

The turnover in Information Management (government, service providers) fell to 2.0 million euros in the first six months, and the operating result was once again at –1.0 million euros. The PSI Management Board has decided to create an independent technology centre for service-oriented architectures (SOA) in this segment which will make its capacities available to the entire PSI Group. By making this decision, the Management Board keeps all of its options open for the further reorganization of the segment.

The expansion of the working capital caused liquidity as per 30 June 2006 to decline to 13.8 million euros.

Personnel Development

The number of employees fell slightly due to the reduction in information management to 1,037 (30 June 2005: 1,054), whereby there were structural shifts favouring the successful business units Energy and Steel as well as the export business.

PSI Shares

PSI shares developed positively with the market at the beginning of the second quarter and reached its yearly highest level of 7,15 euros on 8 May. Starting from the middle of May the shares could not isolate themselves from the negative market trend and fell due to profit-takings to 4.77 euros by 30 June - a plus of 16% in relation to the previous year closing price of 4,12 euros.

Special Events in the 2nd Quarter

PSI received important export orders also in the 2nd quarter. Among these were orders from China, Austria, the Czech republic and the gulf region.

Outlook

Following the increased investments in international sales in the first half, the positive trend in new orders continued at the beginning of the third quarter. In the second half of the year, the priority for PSI will be on increasing turnover and the operating results, and the order backlog, which has risen to 83 million euros, represents an excellent basis for achieving this goal. The order cost structure of the group will improve as of 2007 due to the increasing shift of integration tasks to local personnel and partners in the target regions.

Group Balance Sheet

from 1 January 2006 until 30 June 2006 according to IFRS

	6 Month Report 01.01.-30.06.06 KEUR	Annual Report 01.01.-31.12.05 KEUR
Assets		
Current assets		
Cash and cash equivalents	13,832	18,947
Trade accounts receivable, net	19,191	17,504
Receivables from long-term construction contracts	23,277	18,643
Inventories	2,042	2,154
Other current assets	4,864	3,620
	63,206	60,868
Non current assets		
Property, plant and equipment	8,054	7,992
Intangible assets	15,216	15,971
Investments in an associate accounted for by the equity method	0	0
Other financial assets	186	186
Deferred tax assets	4,725	2,970
	28,181	27,119
Total assets	91,387	87,987
Liabilities and shareholders' equity		
Current liabilities		
Short-term debt	1,331	97
Trade accounts payable	8,865	10,022
Liabilities from long-term construction contracts	8,329	8,720
Accrued expenses	1,690	2,192
Other current liabilities	15,271	12,862
	35,486	33,893
Non-current liabilities		
Long-term debt	0	0
Pension accrual	24,842	23,637
Deferred tax liability	3,526	1,980
	28,368	25,617
Shareholders' equity		
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	1	-11
Accumulated deficit	-36,430	-35,474
	27,533	28,477
Total liabilities and shareholders' equity	91,387	87,987

Group Income Statement

from 1 January 2006 until 30 June 2006 according to IFRS

	Quarterly Report II		6-Month Report	
	01.04.06- 30.06.06 KEUR	01.04.05- 30.06.05 KEUR	01.01.06- 30.06.06 KEUR	01.01.05- 30.06.05 KEUR
Revenues	28.071	28.842	56.470	57.235
Other operating income	285	1.278	1.499	2.076
Changes in inventories of work in progress	-107	-37	-27	-160
Cost of purchased materials and services	-5.081	-6.784	-10.039	-10.830
Personnel expenses	-17.312	-17.842	-36.128	-36.158
Depreciation and amortization	-780	-915	-1.566	-1.830
Impairment of goodwill	0	0	0	0
Other operating expenses	-5.482	-4.636	-10.607	-10.253
Operating result	-406	-94	-398	80
Interest income, Income from investments	-339	-338	-698	-663
Share of profit of associate	0	0	0	27
Result before income taxes	-745	-432	-1.096	-556
Income tax	8	171	140	307
Net result	-737	-261	-956	-249
Minority interest	0	0	0	0
Net income/loss	-737	-261	-956	-249
Earnings per share (in Euro per share, basic)	-0,06	-0,02	-0,08	-0,02
Earnings per share (in Euro per share, diluted)	-0,06	-0,02	-0,08	-0,02
Weighted average shares outstanding (basic)	12.112.870	12.112.870	12.112.870	12.112.870
Weighted average shares outstanding (diluted)	12.112.870	12.112.870	12.112.870	12.112.870

Group Cash Flow Statement

from 1 January 2006 until 30 June 2006 according to IFRS

	6 Month Report 01.01.-30.06.06 KEUR	6 Month Report 01.01.-30.06.05 KEUR
CASHFLOW FROM OPERATING ACTIVITIES		
Result after income taxes	-956	-249
Adjustments to reconcile net loss to net cash used in operating activities		
Amortization on intangible assets	781	1,130
Depreciation of property, plant and equipment	785	700
Income / Expense from disposals	0	0
Investment income	0	-27
Interest income	-132	-155
Interest expense	830	818
Foreign exchange gains/losses	12	7
Other income/expense without cash effect	-403	-582
Minority interest	0	0
	917	1,642
Changes of working capital		
Inventories	112	-95
Trade receivables	-6,321	2,282
Other current assets	-2,359	263
Accrued expenses	-111	189
Trade payables	-1,158	-1,077
Other current liabilities	2,282	-6,514
	-6,638	-3,310
Interest paid	-16	-65
Income taxes paid	-69	0
Cash flow from operating activities	-6,723	-3,375
CASHFLOW FROM INVESTING ACTIVITIES		
Purchase of intangible assets	-26	-1,456
Purchase of property, plant and equipment	-847	-337
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	1,115	1,516
Interest received	132	155
Cash flow from investing activities	374	-112
CASHFLOW FROM FINANCING ACTIVITIES		
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	1,234	-2,071
Cash receipts from sale of treasury stocks	0	118
Acquisition of treasury stocks	0	0
Cash flow from financing activities	1,234	1,737
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		
Changes in cash and cash equivalents	-5,115	-1,750
Cash and cash equivalents at beginning of the period	18,947	18,868
Cash and cash equivalents at the end of the period	13,832	17,118

Development of Fixed Assets

from 1 January 2006 until 30 June 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					-956		-956
Currency translation						12	12
As of 30 June 2006	12,112,870	31,009	31,772	1,181	-36,430	1	27,533

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

	Aktien	Optionen
Management Board		
Dr. Harald Schrimpf	41,000	0
Armin Stein	7,000	0
Supervisory Board		
Dr. Ralf Becherer	268	0
Christian Brunke	5,000	0
Wolfgang Dedner	25,300	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 June 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.

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 2005.

3. 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 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 31 December 2005 there were no changes in the consolidation group.

4. Selected Individual Items

Trade accounts receivable

	30 June 2006 KEUR	31 December 2005 KEUR
Trade accounts receivable	19,417	17,769
Allowances for bad debts	-226	-265
	19,191	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:

	30 June 2006 KEUR	31 December 2005 KEUR
Costs incurred on uncompleted contracts	43,120	35,090
Profit shares	8,106	3,992
Contract revenue	51,226	39,082
Payments on account	27,750	22,185
Receivables from long-term construction contracts	23,277	18,643
Liabilities from long-term construction contracts	8,329	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 30 June 2006 according to IFRS

	Network Management		Production Management		Information Management		Reconciliation		PSI Group	
	30-06- 2006 KEUR	30-06- 2005 KEUR	30-06- 2006 KEUR	30-06- 2005 KEUR	30-06- 2006 KEUR	30-06- 2005 KEUR	30-06- 2006 KEUR	30-06- 2005 KEUR	30-06- 2006 KEUR	30-06- 2005 KEUR
Revenues										
Sales to external customers	32,653	32,012	21,835	21,675	1,982	3,548	0	0	56,470	57,235
Inter-segment sales	107	22	552	832	999	983	-1,658	-1,837	0	0
Segment Revenues	32,760	32,034	22,387	22,507	2,981	4,531	-1,658	-1,837	56,470	57,235
Other operating income	2,259	2,283	1,418	1,856	266	579	-2,444	-2,642	1,499	2,076
Changes in inventories of work in progress	-78	-121	55	4	-4	-11	0	-32	-27	-160
Cost of purchased services	-1,496	-3,051	-2,238	-1,556	-660	-777	452	1,201	-3,942	-4,183
Cost of purchased materials	-5,901	-5,315	-703	-1,610	-40	-46	511	324	-6,097	-6,647
Personnel expenses	-18,574	-18,382	-14,995	-14,112	-2,706	-3,727	147	63	-36,128	-36,158
Depreciation and amortization	-978	-1,121	-465	-529	-123	-180	0	0	-1,566	-1,830
Other operating expenses	-7,148	-5,901	-5,495	-5,873	-735	-1,349	2,771	2,870	-10,607	-10,253
Of it accrued expenses for projects	-292	0	-77	-490	0	0	0	0	-369	-490
Operating Result	844	426	-36	687	-985	-980	-221	-53	-398	80
Interest income, Income from investments	-378	-349	-218	-252	-102	-62	0	0	-698	-663
Income/loss from equity investments	0	10	0	0	0	0	0	17	0	27
Result before income taxes	466	87	-254	435	-1,087	-1,042	-221	-36	-1,096	-556

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

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