

ترقی کے بمقصد مشرق کی جانب

NACH OSTEN WACHSEN!

向东发展

東へ発展

GROW EAST!

Report on the 3rd 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 30 September 2006 at a Glance (IFRS)

	1.1. - 30.9.06 in KEUR	1.1. - 30.9.05 in KEUR	Change in KEUR	Change in %
Revenues	86,051	84,690	+1,361	+1.6
Operating Result	15	102	-87	-85.3
Result before income taxes	-1,027	-837	-250	-22.7
Net loss	-945	-493	-452	-91.7
Cash and cash equivalents	9,279	14,905	-5,626	-37.7
Employees on 30 September	1,046	1,047	-1	-0.1
Revenue/Employee	82.3	80.9	+1.4	1.7

Business Development

In the third quarter of 2006, the PSI Group had an EBIT of 0.4 million euros and a balanced consolidated result of 11 thousand euros. Sales for the third quarter increased by 8% to 29.6 million euros. With the strong third quarter the Group's sales increased slightly in the first nine months of the year to 86.1 million euros. With 15 thousand euros the EBIT for the first nine months was below the previous year as was the Group result with –0.9 million euros. The new orders in the third quarter increased compared to the previous year by 27% to 28 million euros, for the first nine months the new orders also increased by 27% to 100 million euros. The order backlog increased by 11 million euros to 81 million euros compared to 31 December 2005.

In Network Management (Energy, Telecommunications, Transport) sales increased by 8% to 50.4 million euros in the first nine months. The EBIT improved to 1.3 million euros. In Energy, the establishment of international sales and partnership structures continued to move forward.

Production Management (Industry, Logistics) had sales of 32.8 million euros in the first nine months. With 0.2 million euros the EBIT, which had been negative in the first six months, turned positive. As a result of the advance work invested in international projects in the first half year, it was still below the figure for last year. PSIPENTA GmbH had a clearly positive result in the third quarter and therefore contributed to the improvement of the result for the entire segment.

Information Management (Authorities, Service Providers) had sales of 2.9 million euros in the first nine months, the EBIT improved to –1.2 million euros compared to the previous year. This segment has been revitalized by the new orders since the middle of the third quarter, whereby the result in the third quarter had already improved over the first two quarters of the year. The Executive Board expects the positive trend to continue in the coming quarters.

Liquidity decreased on 30 September 2006 as a result of the expansion of the working capital in the high-export business units to 9.3 million euros.

Personnel Development

The number of employees remained almost constant at 1,046 (30 September 2005: 1,047), whereby with the complete takeover of PSI CNI and the expansion of sites in China and Poland, there were structural shifts toward the export business.

PSI Shares

With slow trading in the third quarter, PSI shares generally moved horizontally and thereby reflected, for the most part, the movements of the market. With a price of 4.61 euros at the start of the quarter, the price was 4.38 euros at the end of the quarter – a plus of 6 % compared to the previous year closing price of 4.12 euros.

Special Events in the 3rd Quarter

In the course of reorganizing Information Management the e-Government- and IT consulting activities were placed in a newly-founded, wholly-owned subsidiary EITC European IT Consultancy GmbH on 1 October 2006.

The Chinese Taiyuan Iron and Steel Group (TISCO) officially put production and logistics control systems based on the modular *PSI metals* solution into operation in the 3rd quarter. The successful operational start of the system in China represents an important milestone for PSI in the course of the international growth strategy.

Outlook

As in the previous years, management expects a very strong fourth quarter with additional increases in sales and profits. The order backlog of 81 million euros represents a very good basis for achieving this goal.

Group Balance Sheet

from 1 January 2006 until 30 September 2006 according to IFRS

	9 Month Report 01.01.-30.09.06 KEUR	Annual Report 01.01.-31.12.05 KEUR
Assets		
Current assets		
Cash and cash equivalents	9,279	18,947
Trade accounts receivable, net	18,376	17,504
Receivables from long-term construction contracts	26,385	18,643
Inventories	2,359	2,154
Other current assets	4,518	3,620
	60,917	60,868
Non current assets		
Property, plant and equipment	7,934	7,992
Intangible assets	16,511	15,971
Investments in an associate accounted for by the equity method	0	0
Other financial assets	119	186
Deferred tax assets	4,283	2,970
	28,847	27,119
Total assets	89,764	87,987
Liabilities and shareholders' equity		
Current liabilities		
Short-term debt	1,166	97
Trade accounts payable	8,934	10,022
Liabilities from long-tem construction contracts	8,851	8,720
Accrued expenses	1,598	2,192
Other current liabilities	13,157	12,862
	33,706	33,893
Non-current liabilities		
Long-term debt	0	0
Pension accrual	25,388	23,637
Deferred tax liability	3,124	1,980
	28,512	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	3	-11
Accumulated deficit	-36,419	-35,474
	27,546	28,477
Total liabilities and shareholders' equity	89,764	87,987

Group Income Statement

from 1 January 2006 until 30 September 2006 according to IFRS

	Quarterly Report III		9-Month Report	
	01.07.06- 30.09.06 KEUR	01.07.05- 30.09.05 KEUR	01.01.06- 30.09.06 KEUR	01.01.05- 30.09.05 KEUR
Revenues	29,581	27,455	86,051	84,690
Other operating income	597	24	2,096	2,100
Changes in inventories of work in progress	24	17	-3	-143
Cost of purchased materials and services	-6,722	-4,555	-16,761	-15,385
Personnel expenses	-17,056	-16,454	-53,184	-52,612
Depreciation and amortization	-844	-848	-2,410	-2,678
Impairment of goodwill	0	0	0	0
Other operating expenses	-5,167	-5,617	-15,774	-15,870
Operating result	413	22	15	102
Interest income, Income from investments	-344	-303	-1,042	-966
Share of profit of associate	0	0	0	27
Result before income taxes	69	-281	-1,027	-837
Income tax	-58	37	82	344
Net result	11	-244	-945	-493
Minority interest	0	0	0	0
Net income/loss	11	-244	-945	-493
Earnings per share (in Euro per share, basic)	0.00	-0.02	-0.08	-0.04
Earnings per share (in Euro per share, diluted)	0.00	-0.02	-0.08	-0.04
Weighted average shares outstanding (basic)	12,112,870	12,112,870	12,112,870	11,562,870
Weighted average shares outstanding (diluted)	12,112,870	12,112,870	12,112,870	11,562,870

Group Cash Flow Statement

from 1 January 2006 until 30 September 2006 according to IFRS

	9 Month Report 01.01.-30.09.06 KEUR	9 Month Report 01.01.-30.09.05 KEUR
CASHFLOW FROM OPERATING ACTIVITIES		
Result after income taxes	-945	-493
Adjustments to reconcile net loss to net cash used in operating activities		
Amortization on intangible assets	1,227	1,622
Depreciation of property, plant and equipment	1,183	1,056
Income / Expense from disposals	0	0
Investment income	0	-27
Interest income	-221	-244
Interest expense	1,263	1,210
Foreign exchange gains/losses	14	7
Other income/expense without cash effect	-513	-1,394
Minority interest	0	0
	2,008	1,737
Changes of working capital		
Inventories	-205	-288
Trade receivables	-8,614	3,609
Other current assets	-2,090	598
Accrued expenses	-57	619
Trade payables	-1,089	-3,333
Other current liabilities	858	-9,089
	-11,197	-7,884
Interest paid	-49	-80
Income taxes paid	-87	-61
Cash flow from operating activities	-9,325	-6,288
CASHFLOW FROM INVESTING ACTIVITIES		
Purchase of intangible assets	-1,767	-1,655
Purchase of property, plant and equipment	-1,125	-573
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	1,259	1,566
Interest received	221	244
Cash flow from investing activities	-1,412	-408
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	1,069	-1,075
Cash receipts from sale of treasury stocks	0	118
Acquisition of treasury stocks	0	0
Cash flow from financing activities	1,069	2,733
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		
Changes in cash and cash equivalents	-9,668	-3,963
Cash and cash equivalents at beginning of the period	18,947	18,868
Cash and cash equivalents at the end of the period	9,279	14,905

Development of Fixed Assets

from 1 January 2006 until 30 September 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					-945		-945
Currency translation						14	14
As of 30 September 2006	12,112,870	31,009	31,772	1,181	-36,419	3	27,546

Shares and Options held by Management Board and Supervisory Board as of 30 September 2006

	Aktien	Optionen
Management Board		
Dr. Harald Schrimpf	44,000	0
Armin Stein	7,000	0
Supervisory Board		
Dr. Ralf Becherer	268	0
Christian Brunke	5,000	0
Wolfgang Dedner	26,500	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 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, Duesseldorf	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 September 2006 KEUR	31 December 2005 KEUR
Trade accounts receivable	18,580	17,769
Allowances for bad debts	-204	-265
	18,376	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 September 2006 KEUR	31 December 2005 KEUR
Costs incurred on uncompleted contracts	46,119	35,090
Profit shares	7,439	3,992
Contract revenue	53,558	39,082
Payments on account	28,610	22,185
Receivables from long-term construction contracts	26,385	18,643
Liabilities from long-term construction contracts	8,851	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 September 2006 according to IFRS

	Network Management		Production Management		Information Management		Reconciliation		PSI Group	
	30-09- 2006 KEUR	30-09- 2005 KEUR	30-09- 2006 KEUR	30-09- 2005 KEUR	30-09- 2006 KEUR	30-09- 2005 KEUR	30-09- 2006 KEUR	30-09- 2005 KEUR	30-09- 2006 KEUR	30-09- 2005 KEUR
Revenues										
Sales to external customers	50,361	46,636	32,779	33,100	2,911	4,954	0	0	86,051	84,690
Inter-segment sales	164	65	993	1,146	1,596	1,327	-2,753	-2,538	0	0
Segment Revenues	50,525	46,701	33,772	34,246	4,507	6,281	-2,753	-2,538	86,051	84,690
Other operating income	3,389	3,358	2,298	1,906	327	728	-3,918	-3,892	2,096	2,100
Changes in inventories of work in progress	-117	-75	119	-52	-5	-16	0	0	-3	-143
Cost of purchased services	-2,877	-3,794	-3,189	-2,866	-1,072	-1,089	915	1,863	-6,223	-5,886
Cost of purchased materials	-10,243	-7,604	-1,031	-2,380	-9	-46	745	531	-10,538	-9,499
Personnel expenses	-27,492	-26,741	-22,000	-20,358	-3,727	-5,286	35	-227	-53,184	-52,612
Depreciation and amortization	-1,520	-1,636	-704	-799	-186	-243	0	0	-2,410	-2,678
Other operating expenses	-10,368	-9,052	-9,110	-9,067	-1,022	-1,964	4,726	4,213	-15,774	-15,870
Of it accrued expenses for projects	-269	-22	-553	-702	0	0	0	0	-822	-724
Operating Result	1,297	1,157	155	630	-1,187	-1,635	-250	-50	15	102
Interest income, Income from investments	-573	-494	-302	-365	-170	-107	3	0	-1,042	-966
Income/loss from equity investments	0	10	0	0	0	0	0	17	0	27
Result before income taxes	724	673	-147	265	-1,357	-1,742	-247	-33	-1,027	-837

Financial Calendar

2 November 2006	Report on the 3rd Quarter of 2006
28 November 2006	Analyst Presentation, German Equity Forum
14 March 2007	Publication Annual Result 2006
14 March 2007	Analyst Conference
26 April 2007	Report on the 1st Quarter of 2007
26 April 2007	Annual General Meeting
30 July 2007	Report on the 1st Six Months of 2007
30 October 2007	Report on the 3rd Quarter of 2007

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