



DIRECTION: EAST

Report on the 3rd Quarter of 2007



PSI 

PSI Group Data as per 30 September 2007 at a Glance (IFRS)

	01/01-30/09/07 in KEUR	01/01-30/09/06 in KEUR	Change in KEUR	Change in %
Revenues	87,734	86,051	+1,683	+2.0
Operating Result	2,569	15	+2,554	+17,026.7
Result before income taxes	1,686	-1,027	+2,713	+264.2
Net result	818	-945	+1,763	+186.6
Cash and cash equivalents	18,336	9,279	+9,057	+97.6
Employees on 30 September	1,014	1,046	-32	-3.1
Revenue/Employee	86.5	82.3	+4.2	+5.1

Interim Management Report

Business Development

Earnings

The PSI Group has achieved an operating result of 2.6 million euros in the first three-quarters of the current year (30 September 2006: 15 kEUR). The Group result, which in the previous year had been clearly negative, climbed to 0.8 million euros (30 September 2006: –0.9 million euros). Sales climbed slightly in the first nine months to 87.7 million euros (30 September 2006: 86.1 million euros). The third-quarter figures are the first which do not include government activities which were sold in the middle of the year. New orders for the first nine months of 103 million euros (30 September 2006: 100 million euros) were also higher than the value for the previous year, as was the order book volume, which, after adjustment for the activities sold was 85 million euros (30 September 2006: 81 million euros).

The Energy Management segment (electricity, gas, oil, heat, water) had sales of 38.2 million euros (30 September 2006: 38.3 million euros). At 1.6 million euros, the operating result was at about the same level as the previous year (30 September 2006: 1.6 million euros). This includes investments in a control system version for the Russian market and in new functions for the management of high voltage networks.

The Production Management segment (industry, logistics) increased sales to 37.5 million euros in the first nine months compared to the previous year (30 September 2006: 34.4 million euros). The operating result improved over the previous year to 0.8 million euros (30 September 2006: 0.3 million euros). In the third quarter new export orders were attained from Russia and other export markets primarily in the fields of steel and logistics.

In Infrastructure Management (traffic, security, telecommunications) sales decreased to 12.0 million euros in the first nine months as a result of one million less in hardware and the sale of the government activities EITCO and RISER (30 September 2006: 13.3 million euros). The operating result improved to 0.5 million euros, after having been clearly negative in the previous year (30 September 2006: –1.6 million euros). Important contracts were also obtained in the third quarter, particularly in the traffic sector. This then established the prerequisites for renewed growth and continued increases in profits in the segment.

Financial Position

The operating cash flow, which had been negative at the middle of the year, improved to 2.4 million euros (30 September 2006: –9.3 million euros), liquid funds increased 18.3 million euros (30 September 2006: 9.3 million euros).

Assets

Compared to 31 December 2006, there have not been any material changes in the Group's assets.

Personnel Development

The number of employees decreased as a result of the sale of the government business with 70 employees and about 40 new hires to 1,014 (30 September 2006: 1,046).

PSI-Shares

The PSI stock ended the 3rd quarter with a final price 5.56 euros, 25% above the final 2006 price of 4.46 euros. In the same period, the Prime Software Index, which includes all the software stocks in the Prime Standard of the German Stock Exchange, had an increase of 5.4%.

Special Events in the 3rd Quarter

On 5 July 2007, the PSI AG sold its subsidiary European IT Consultancy EITCO GmbH to a German investor group and therefore completed its concentration on the core business.

Risk Report

The estimate of the corporate risk has not changed since the Annual Report for 31 December 2006.

Outlook

As in previous years, the management expects strong business in the 4th quarter. The annual forecasts to date for the EBIT of 3 million euros are therefore being increased to 3.5 million euros and for new orders from 125 to 130 million euros.

Group Balance Sheet

from 1 January 2007 until 30 September 2007 according to IFRS

	9 Month Report 01/01-30/09/07 KEUR	Annual Report 01/01-31/12/06 KEUR
Assets		
Non current assets		
Property, plant and equipment	7,781	7,908
Intangible assets	15,395	16,426
Other financial assets	87	67
Deferred tax assets	3,428	4,302
	26,691	28,703
Current assets		
Inventories	1,969	1,737
Trade accounts receivable, net	16,216	18,530
Receivables from long-term development contracts	22,034	17,966
Other current assets	3,150	2,384
Cash and cash equivalents	18,336	15,340
	61,705	55,957
Total assets	88,396	84,660
Total Equity and Liabilities		
Equity		
Subscribed capital, EUR 2,56 calculated par value	31,009	31,009
Capital reserves	31,772	31,772
Retained earnings	1,181	1,181
Other reserves	45	32
Accumulated losses	-34,229	-35,047
	29,778	28,947
Non-current liabilities		
Pension provisions	25,319	25,157
Deferred tax liabilities	2,297	2,297
	27,616	27,454
Current liabilities		
Trade payables	8,968	8,412
Other current liabilities	13,335	11,885
Liabilities from long-term development contracts	7,386	6,069
Short-term debt	259	393
Provisions	1,054	1,500
	31,002	28,259
Total equity and liabilities	88,396	84,660

Group Income Statement

from 1 January 2007 until 30 September 2007 according to IFRS

	Quarterly Report II		6-Month Report	
	01/07/07- 30/09/07 KEUR	01/07/06- 30/09/06 KEUR	01/01/07- 30/09/07 KEUR	01/01/06- 30/09/06 KEUR
Revenues	27,191	29,581	87,734	86,051
Other operating income	1,250	597	2,737	2,096
Changes in inventories of work in progress	-98	24	-69	-3
Cost of materials	-5,181	-6,722	-15,426	-16,761
Personnel expenses	-16,925	-17,056	-53,612	-53,184
Depreciation and amortization	-836	-844	-2,382	-2,410
Other operating expenses	-4,675	-5,167	-16,413	-15,774
Operating result	726	413	2,569	15
Interest income	95	89	301	221
Interest expenses	-392	-433	-1,184	-1,263
Result before income taxes	429	69	1,686	-1,027
Income tax	-334	-58	-868	82
Net result	95	11	818	-945
Earnings per share (in Euro per share, basic)	0.01	0.00	0.07	-0.08
Earnings per share (in Euro per share, diluted)	0.01	0.00	0.07	-0.08
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 2007 until 30 September 2007 according to IFRS

	9 Month Report 01/01-30/09/07 KEUR	9 Month Report 01/01-30/09/06 KEUR
CASHFLOW FROM OPERATING ACTIVITIES		
Result after income taxes	818	-945
Adjustments for non-cash expenses		
Amortization on intangible assets	1,085	1,227
Depreciation of property, plant and equipment	1,157	1,183
Interest income	-301	-221
Interest expenses	1,184	1,263
Foreign exchange gains/losses	13	14
Other income/expense without cash effect	-745	-513
	3,211	2,008
Changes of working capital		
Inventories	-232	-205
Trade receivables	-3,208	-8,614
Other current assets	-557	-2,090
Provisions	-572	-57
Trade payables	708	-1,089
Other current liabilities	3,139	858
	-722	-11,197
Interest paid	-102	-49
Income taxes paid	-26	-87
Cash flow from operating activities	2,361	-9,325
CASHFLOW FROM INVESTING ACTIVITIES		
Additions to intangible assets	-128	-1,767
Additions to property, plant and equipment	-1,125	-1,125
Additions to financial assets	-20	0
Disposals of property, plant and equipment	26	0
Disposals of financial assets	2	1,259
Disposals of shares in affiliated companies, net of cash	1,563	0
Interest received	301	221
Cash flow from investing activities	619	-1,412
CASHFLOW FROM FINANCING ACTIVITIES		
Proceeds/repayments from/of borrowings	16	1,069
Cash receipts from sale of treasury stocks	0	0
Acquisition of treasury stocks	0	0
Cash flow from financing activities	16	1,069
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		
Changes in cash and cash equivalents	2,996	-9,668
Cash and cash equivalents at beginning of the period	15,340	18,947
Cash and cash equivalents at the end of the period	18,336	9,279

Development of Fixed Assets

from 1 January 2007 until 30 September 2007 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
As of 31 December 2006	12,112,870	31,009	31,772	1,181	-35,047	32	28,947
Group net result					818		818
Currency translation						13	13
As of 30 September 2007	12,112,870	31,009	31,772	1,181	-34,229	45	29,778

Shares and Options held by Management Board and Supervisory Board as of 30 September 2007

	Shares	Options
Management Board		
Dr. Harald Schrimpf	60,000	0
Armin Stein	10,000	0
Supervisory Board		
Dr. Ralf Becherer	268	0
Christian Brunke	5,000	0
Wolfgang Dedner	28,500	0
Barbara Simon	7,890	0
Karsten Trippel	98,500	0
Prof. Dr. Rolf Windmüller	1,120	0

The Management Board of PSI had earnings of EUR 469k in the first nine months of 2007.

Because Supervisory Board payments are made in the 4th quarter of the year, the Supervisory Board did not obtain any remuneration in the first nine months of 2007.

Notes on the consolidated financial statements as of 30 September 2007

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, logistics, telecommunications, safety and transport. 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 energy management, production management and infrastructure 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 utilities and manufacturing companies in Germany, Europe and Asia. 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.

The condensed interim consolidated financial statements for the period from 1 January 2007 to 30 September 2007 were released for publication by a decision of the management on 29 October 2007.

The condensed interim consolidated financial statements for the period from 1 January 2007 to 30 September 2007 were produced in compliance with IAS 34 "Interim Financial Reporting". The condensed interim consolidated financial statements do not contain all the data and notes prescribed for the annual financial statements and should be read in conjunction with the consolidated financial statements for 31 December 2006.

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 2006.

PSI AG applied the new standards IFRS 7 and IFRS 8 for the first time in the first quarter of 2007. No additional information resulted for the quarterly financial statements in connection with the first application of IFRS 7. PSI AG assumes that, for the end of the year, extended information on the financial instruments and financial debt will be included in the consolidated notes.

In the framework of the initial application of IFRS 8, PSI AG adapted the segment reporting. This also took into account the new strategic orientation of the individual operative areas of the PSI Group. For purposes of comparison with the previous year, an adaptation to the newly structured segments was also performed. Within the context of the new business segments, the restructuring was examined to determine if the new classification of the operative areas would result in an adjustment of assets. This examination determined that there was no adjustment of the assets shown in the operative areas. The management board of PSI AG assumes that the conversion of the segment reporting also stands in accordance with the regulations of the IAS 14.

3. Seasonal Influences on the Business Activities

Seasonal effects resulted in the PSI Group operations with regards to the receipt of maintenance revenues in the first quarter of the financial year (deferment of the influences on the result of corresponding incoming payments throughout the year) and significantly greater demand and project accounting in the fourth quarter of the financial year.

4. Changes in the Consolidation Group

The PSI Business Technology for Industries GmbH was merged into PSI Information Management GmbH on 20 April 2007 and renamed PSI Business Technology for Industries GmbH.

On 5 July 2007, the PSI AG sold its subsidiary European IT Consultancy EITCO GmbH to a German investor group and therefore completed its concentration on the core business.

5. Selected Individual Items

Cash and cash equivalents

	30 September 2007 KEUR	31 December 2006 KEUR
Bank balances	12,878	11,040
Fixed term deposits	5,446	4,285
Cash	12	15
	18,336	15,340

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 2007 KEUR	31 December 2006 KEUR
Costs incurred on uncompleted contracts	45,704	41,883
Profit shares	5,678	5,283
Contract revenue	51,382	47,166
Payments on account	30,967	27,825
Receivables from long-term construction contracts	22,034	17,966
Liabilities from long-term construction contracts	7,386	6,069

Taxes on income

The main components of the income tax expenditure shown in the group income statement are added as follows:

	30 September 2007 KEUR	31 December 2006 KEUR
Effective taxes expenses		
Effective tax expenses	-26	-253
Deferred taxes		
Emergence and reversal of temporary differences	-842	1,015
Tax expenses/income	-868	762

Segment Reporting

The PSI AG segment reporting was adapted in the context of the restructured strategic orientation of the PSI Group, and now occurs on a basis which deviates from the consolidated financial statements of 31 December 2006. The allocation to segments has changed as follows:

Segments in the Consolidated Financial Statements for 31 December 2006:

- Network Management: Intelligent systems for controlling and monitoring complex networks for energy supply, mobile telephones and the control of public transportation systems.
- Production Management: Software products and individual solutions for production planning, special tasks in production control and efficient logistics. Focuses are the optimisation of the use of resources and the increase of quality and profitability.
- Information Management: IT solutions for enhanced community and customer relations by providing secure and efficient support for the business processes of public authorities and service providers.

Segments after the Restructuring:

- Energy Management: Intelligent solutions for energy suppliers from the electricity, gas, oil and water markets. Focal points are reliable and economically sound solutions for the network management and trade and sales management in the liberalised energy market.
- Production Management: Software products and individual solutions for production planning, special tasks in production control and efficient logistics. Focuses are the optimisation of the use of resources and the increase of quality and profitability.

- **Infrastructure Management:** High-availability control system solutions designed for monitoring and economically sound operation of infrastructures in the telecommunications, transportation, public safety, environmental protection and disaster prevention areas.

In the course of the reallocation of the segments, individual operative areas were assigned to the segments in accordance with their strategic orientation. The following changes from the former segment allocation resulted:

- The activities in the fields of telecommunication and transport were taken out of Network Management and assigned to the segments Production Management (transport logistics from the transport business) and Infrastructure Management (telecommunications and other activities of the transport business). The segment was renamed Energy Management.
- The former segment Production Management was assigned the activities transport logistics and electronic registration information.
- The activities in the area of electronic registration information were taken out of Information Management and assigned to the segment Production Management. Furthermore, the activities in the field of telecommunications and the activities in the field of transport (without transport logistics) were also assigned to the segment. The segment was renamed Infrastructure Management.

The management board of PSI AG assumes that the newly structured segment reporting will, along with the new strategic orientation of the PSI Group, allow for an improved insight into the assets, finances and earnings situation of the Group.

Responsibility Statement

To the best of our knowledge, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the interim management report of the group includes a fair review of the group's development and performance of its position, together with a description of the principal opportunities and risks associated with the expected development of the group in the remaining months of the financial year, in accordance with German proper accounting principles of interim consolidated reporting.

Group Segment Reporting

from 1 January 2007 until 30 September 2007 according to IFRS

	Energy Management		Production Management		Infrastructure Management		Reconciliation		PSI Group	
	30/09/2007	30/09/2006	30/09/2007	30/09/2006	30/09/2007	30/09/2006	30/09/2007	30/09/2006	30/09/2007	30/09/2006
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Sales revenues										
Sales to external customers	38,222	38,259	37,495	34,444	12,017	13,348	0	0	87,734	86,051
Inter-segment sales	86	77	950	1,103	1,927	1,847	-2,963	-3,027	0	0
Segment revenues	38,308	38,336	38,445	35,547	13,944	15,195	-2,963	-3,027	87,734	86,051
Other operating income	3,150	2,646	2,087	2,433	1,904	935	-4,404	-3,918	2,737	2,096
Changes in inventories of work in progress	0	-98	-77	93	8	2	0	0	-69	-3
Cost of purchased services	-2,856	-2,223	-4,641	-3,757	-1,430	-1,428	1,596	1,185	-7,331	-6,223
Cost of purchased materials	-4,488	-5,820	-1,106	-1,034	-2,992	-4,434	491	750	-8,095	-10,538
Personnel expenses	-23,354	-21,926	-23,058	-22,990	-7,097	-8,303	-103	35	-53,612	-53,184
Depreciation and amortization	-1,125	-1,070	-708	-714	-551	-626	2	0	-2,382	-2,410
Other operating expenses	-8,084	-8,199	-10,141	-9,324	-3,283	-2,978	5,095	4,727	-16,413	-15,774
Operating result before interest, tax, depreciation and amortisation	2,676	2,716	1,509	968	1,054	-1,011	-288	-248	4,951	2,425
Operating result	1,551	1,646	801	254	503	-1,637	-286	-248	2,569	15
Interest income	-369	-284	-367	-403	-149	-358	2	3	-883	-1,042
Result before income taxes	1,182	1,362	434	-149	354	-1,995	-284	-245	1,686	-1,027
Segment assets	43,979	44,586	32,278	31,613	8,814	9,883	-103	-601	84,968	85,481
Segment liabilities	19,555	20,251	22,122	22,737	8,214	10,818	6,429	5,288	56,320	59,094
Segment investments	484	598	292	1,748	164	97	230	449	1,170	2,892

Financial Calendar

30 October 2007	Report on the 3 rd Quarter of 2007
14 November 2007	Analyst Presentation, German Equity Forum
13 March 2008	Publication Annual Result 2007
13 March 2008	Analyst Conference
24 April 2008	Report on the 1 st Quarter of 2008
25 April 2008	Annual General Meeting
29 July 2008	Report on the 1 st Six Months of 2008
28 October 2008	Report on the 3 rd Quarter of 2008

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