



Report on the 1st Six Months of 2005

Facing the Future with Innovations!

PSI 

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

	1.1. - 30.6.05 in KEUR	1.1. - 30.6.04 in KEUR	Change in KEUR	Change in %
Revenues	57,235	56,772	+463	+0.8
Operating loss	80	-7,785	+7,865	+101.0
Result before income taxes	-556	-9,012	+8,456	+93.8
Net loss	-249	-9,087	+8,838	+97.3
Cash and cash equivalents	17,118	11,558	+5,560	+48.1
Employees on 30 June	1,054	1,144	-90	-7.9
Revenue/Employee	54.3	49.6	+4.7	+9.5

Business Development

For the first time since 2001, the PSI Group again increased IFRS sales in the first six months of 2005 to 57.2 million euros. The EBIT for the first six months improved to 0.1 million euros; the group result to –0.2 million euros. Last year the result of the second quarter contained a one-off burden of 4.2 million euros.

In the Network Management segment (energy, telecommunications, traffic) sales increased by 5% to 32.0 million euros in the first six months. The EBIT improved to 0.4 million euros.

Production Management (industry, logistics) again had a positive quarterly result so that the EBIT for the first six months improved to 0.7 million euros. Sales in Production Management increased by 10% to 21.7 million euros.

Information Management (government, services) had sales of 3.5 million euros in the first six months; the EBIT was –1.0 million euros. Here, the weak market in government and consulting again displayed a negative impact on the segment's orders.

The group had new orders totalling 57 million euros in the first six months. The order inventory on 30 June decreased slightly to 72 million euros compared to 31 December 2004.

With 17.1 million euros, the liquidity on 30 June 2005 was 5.5 million euros above the value of the same quarter of the previous year.

Personnel Development

On 30 June 2005 the PSI Group employed 1,054 persons (30 June 2004: 1,144).

Special Events in the 2nd Quarter

Production Management has had positive results for the last four quarters and won the first major order from a Chinese steel producer in the second quarter. PSI was awarded the contract by Taiyuan Iron and Steel Group (TISCO) over international competitors as a result of its leading market position and very good references in the steel industry. With TISCO, SAP and PSI will be working as a partnership in the Chinese market for the first time.

The field of Information Management suffered under a low volume of new orders and very weak market prices. In addition, the development costs for the new resident registration systems are completely contained in the segment's costs.

Outlook

Following the introduction of the new German Energy Industry Act on 12 July 2005 and initial orders, the Network Management segment expects a normalization of the investment climate in the gas market.

In Production Management all the early indications such as new orders and capacity indicate a continuation of the positive trend.

In Information Management, the PSI Board of Directors endorsed the transfer of product derivatives from successful business units and decide on short-time working so as to improve the costs situation and the market access in the short-term. The number of employees in this segment was decreased by 13 % compared to last year.

The investment climate in target markets important to PSI has improved noticeably since the beginning of June so that the management expects continued improvement in the result starting in the fourth quarter.

Group Balance Sheet

from 1 January 2005 until 30 June 2005 according to IFRS

	6 Month Report 01.01.-30.06.05 KEUR	Annual Report 01.01.-31.12.04 KEUR
Assets		
Current assets		
Cash and cash equivalents	17,118	18,868
Trade accounts receivable, net	19,242	22,163
Receivables from long-term construction contracts	17,592	16,954
Inventories	2,904	2,809
Other current assets	3,232	4,954
	60,088	65,748
Non current assets		
Property, plant and equipment	8,132	8,495
Intangible assets	16,709	17,565
Investments in an associate accounted for by the equity method	690	663
Other financial assets	1,267	1,334
Deferred tax assets	2,977	2,977
	29,775	31,034
Total assets	89,863	96,782
Liabilities and shareholders' equity		
Current liabilities		
Short-term debt	247	2,317
Trade accounts payable	9,195	10,273
Liabilities from long-tem construction contracts	7,696	12,339
Accrued expenses	2,066	2,048
Other current liabilities	16,044	19,099
	35,248	46,076
Non-current liabilities		
Long-term debt	0	0
Pension accrual	23,308	22,669
Deferred tax liability	3,090	3,397
	26,398	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	-35,743	-35,494
Minority interest	0	0
	28,217	24,640
Total liabilities and shareholders' equity	89,863	96,782

Group Income Statement

from 1 January 2005 until 30 June 2005 according to IFRS

	Quarterly Report II		6-Month Report	
	01.04.05- 30.06.05 KEUR	01.04.04- 30.06.04 KEUR	01.01.05- 30.06.05 KEUR	01.01.04- 30.06.04 KEUR
Revenues	28,842	26,835	57,235	56,772
Other operating income	1,278	944	2,076	2,084
Changes in inventories of work in progress	-37	-121	-160	-124
Cost of purchased materials and services	-6,784	-4,513	-10,830	-10,441
Personnel expenses	-17,842	-19,452	-36,158	-39,683
Depreciation and amortization	-915	-891	-1,830	-1,824
Impairment of goodwill	0	0	0	0
Other operating expenses	-4,636	-9,012	-10,253	-14,569
Operating result	-94	-6,210	80	-7,785
Interest income, Income from investments	-338	-888	-663	-1,227
Share of profit of associate	0	0	27	0
Result before income taxes	-432	-7,098	-556	-9,012
Income tax	171	3	307	-75
Net result	-261	-7,095	-249	-9,087
Minority interest	0	99	0	251
Net income/loss	-261	-6,996	-249	-8,836
Earnings per share (in Euro per share, basic)	-0.02	-0.64	-0.02	-0.80
Earnings per share (in Euro per share, diluted)	-0.02	-0.64	-0.02	-0.80
Weighted average shares outstanding (basic)	12,112,870	11,012,870	11,562,870	11,012,870
Weighted average shares outstanding (diluted)	12,112,870	11,012,870	11,562,870	11,012,870

Group Cash Flow Statement

from 1 January 2005 until 30 June 2005 according to IFRS

	6 Month Report 01.01.-30.06.05 KEUR	6 Month Report 01.01.-30.06.04 KEUR
CASHFLOW FROM OPERATING ACTIVITIES		
Result before income taxes	-249	-9,087
Adjustments to reconcile net loss to net cash used in operating activities		
Amortization on intangible assets	1,130	992
Depreciation of property, plant and equipment	700	832
Income / Expense from disposals	0	-8
Investment income	-27	-10
Interest income	-155	-117
Interest expense	818	1,344
Foreign exchange gains/losses	7	-7
Other income/expense without cash effect	-582	301
Minority interest	0	-251
	1,642	-6,011
Changes of working capital		
Inventories	-95	-189
Trade receivables	2,282	10,255
Other current assets	263	-1,424
Accrued expenses	189	415
Trade payables	-1,077	-6,026
Other current liabilities	-6,514	713
	-3,310	-2,267
Interest paid	-65	-661
Income taxes paid	0	96
Cash flow from operating activities	-3,375	-2,832
CASHFLOW FROM INVESTING ACTIVITIES		
Purchase of intangible assets	-1,456	-424
Purchase of property, plant and equipment	-337	-529
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	1,516	58
Interest received	155	117
Cash flow from investing activities	-112	-670
CASHFLOW FROM FINANCING ACTIVITIES		
Change in minority interest	0	-5
Change in share capital	2,816	0
Change in additional paid-in capital	874	0
Proceeds/repayments from/of borrowings	-2,071	-1,818
Cash receipts from sale of treasury stocks	118	0
Acquisition of treasury stocks	0	-87
Cash flow from financing activities	1,737	-1,910
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		
Changes in cash and cash equivalents	-1,750	-5,412
Cash and cash equivalents at beginning of the period	18,868	16,970
Cash and cash equivalents at the end of the period	17,118	11,558

Development of Fixed Assets

from 1 January 2005 until 30 June 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						-249		-249
Sale of capital stock					129			129
Currency translation							7	7
As of 30 June 2005	12,112,870	31,009	31,772	1,181	0	-35,743	-2	28,217

Shares and Options held by Management Board and Supervisory Board as of 30 June 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	80,000	0

Notes on the consolidated financial statements as of 30 June 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 June 2005 KEUR	31 December 2004 KEUR
Trade accounts receivable	19,468	22,463
Allowances for bad debts	-226	-300
	19,242	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 June 2005 KEUR	31 December 2004 KEUR
Costs incurred on uncompleted contracts	36,028	34,239
Profit shares	3,509	3,427
Contract revenue	39,537	37,666
Payments on account	29,641	33,149
Receivables from long-term construction contracts	17,592	16,954
Liabilities from long-term construction contracts	7,696	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 June 2005 according to IFRS

	Network Management		Production Management		Information Management		Reconciliation		PSI Group	
	30-06-2005 KEUR	30-06-2004 KEUR	30-06-2005 KEUR	30-06-2004 KEUR	30-06-2005 KEUR	30-06-2004 KEUR	30-06-2005 KEUR	30-06-2004 KEUR	30-06-2005 KEUR	30-06-2004 KEUR
Revenues										
Sales to external customers	32,012	30,508	21,675	19,727	3,548	6,537	0	0	57,235	56,772
Inter-segment sales	22	76	832	730	983	1,085	-1,837	-1,891	0	0
Segment Revenues	32,034	30,584	22,507	20,457	4,531	7,622	-1,837	-1,891	57,235	56,772
Other operating income	2,283	2,609	1,856	1,080	579	1,048	-2,642	-2,653	2,076	2,084
Changes in inventories of work in progress	-121	-79	4	-32	-11	-13	-32	0	-160	-124
Cost of purchased services	-3,051	-3,114	-1,556	-1,626	-777	-1,651	1,201	599	-4,183	-5,792
Cost of purchased materials	-5,315	-3,927	-1,610	-1,026	-46	-144	324	448	-6,647	-4,649
Personnel expenses	-18,382	-19,495	-14,112	-15,474	-3,727	-4,847	63	133	-36,158	-39,683
Depreciation and amortization	-1,121	-1,193	-529	-573	-180	-230	0	172	-1,830	-1,824
Other operating expenses	-5,901	-6,522	-5,873	-5,546	-1,349	-5,241	2,870	2,740	-10,253	-14,569
Operating Result	426	-1,137	687	-2,740	-980	-3,456	-53	-452	80	-7,785
Interest income, Income from investments	-349	-248	-252	-306	-62	-673	0	0	-663	-1,227
Income/loss from equity investments	10	0	0	0	0	0	17	0	27	0
Result before income taxes	87	-1,385	435	-3,046	-1,042	-4,129	-36	-452	-556	-9,012

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