

ترقی کے بمقصد مشرق کی جانب

**NACH OSTEN WACHSEN!**

**向东发展**

東へ発展

**GROW EAST!**

Report on the 3<sup>rd</sup> 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<br>in KEUR | 1.1. - 30.9.05<br>in KEUR | Change<br>in KEUR | Change<br>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 3<sup>rd</sup> 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<br>01.01.-30.09.06<br>KEUR | Annual Report<br>01.01.-31.12.05<br>KEUR |
|--|---|--|
| <b>Assets</b>  |   |  |
| <b>Current assets</b>  |   |  |
| 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                                    |
|  | <b>60,917</b>                             | <b>60,868</b>                            |
| <b>Non current assets</b>                                      |   |  |
| 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                                    |
|  | <b>28,847</b>                             | <b>27,119</b>                            |
| <b>Total assets</b>  | <b>89,764</b>                             | <b>87,987</b>                            |
| <b>Liabilities and shareholders' equity</b>                    |   |  |
| <b>Current liabilities</b>                                     |   |  |
| 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                                   |
|  | <b>33,706</b>                             | <b>33,893</b>                            |
| <b>Non-current liabilities</b>                                 |   |  |
| Long-term debt   | 0   | 0  |
| Pension accrual  | 25,388                                    | 23,637                                   |
| Deferred tax liability   | 3,124                                     | 1,980                                    |
|  | <b>28,512</b>                             | <b>25,617</b>                            |
| <b>Shareholders' equity</b>                                    |   |  |
| 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                                  |
|  | <b>27,546</b>                             | <b>28,477</b>                            |
| <b>Total liabilities and shareholders' equity</b>              | <b>89,764</b>                             | <b>87,987</b>                            |

# Group Income Statement

from 1 January 2006 until 30 September 2006 according to IFRS

|   | Quarterly Report III          |                               | 9-Month Report                |                               |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
|   | 01.07.06-<br>30.09.06<br>KEUR | 01.07.05-<br>30.09.05<br>KEUR | 01.01.06-<br>30.09.06<br>KEUR | 01.01.05-<br>30.09.05<br>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                       |
| <b>Operating result</b>                         | <b>413</b>                    | <b>22</b>                     | <b>15</b>                     | <b>102</b>                    |
| Interest income, Income from investments        | -344                          | -303                          | -1,042                        | -966                          |
| Share of profit of associate                    | 0                             | 0                             | 0                             | 27                            |
| <b>Result before income taxes</b>               | <b>69</b>                     | <b>-281</b>                   | <b>-1,027</b>                 | <b>-837</b>                   |
| Income tax                                      | -58                           | 37                            | 82                            | 344                           |
| <b>Net result</b>                               | <b>11</b>                     | <b>-244</b>                   | <b>-945</b>                   | <b>-493</b>                   |
| Minority interest                               | 0                             | 0                             | 0                             | 0                             |
| <b>Net income/loss</b>                          | <b>11</b>                     | <b>-244</b>                   | <b>-945</b>                   | <b>-493</b>                   |
| 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<br>01.01.-30.09.06<br>KEUR | 9 Month Report<br>01.01.-30.09.05<br>KEUR |
|---|---|---|
| <b>CASHFLOW FROM OPERATING ACTIVITIES</b>   |   |   |
| <b>Result after income taxes</b>  | <b>-945</b>                               | <b>-493</b>                               |
| <b>Adjustments to reconcile net loss to net cash used in operating activities</b> |   |   |
| 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   |
|   | <b>2,008</b>                              | <b>1,737</b>                              |
| <b>Changes of working capital</b>   |   |   |
| 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                                    |
|   | <b>-11,197</b>                            | <b>-7,884</b>                             |
| Interest paid   | -49                                       | -80                                       |
| Income taxes paid   | -87                                       | -61                                       |
| <b>Cash flow from operating activities</b>  | <b>-9,325</b>                             | <b>-6,288</b>                             |
| <b>CASHFLOW FROM INVESTING ACTIVITIES</b>   |   |   |
| 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                                       |
| <b>Cash flow from investing activities</b>  | <b>-1,412</b>                             | <b>-408</b>                               |
| <b>CASHFLOW FROM FINANCING ACTIVITIES</b>   |   |   |
| 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   |
| <b>Cash flow from financing activities</b>  | <b>1,069</b>                              | <b>2,733</b>                              |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>                         |   |   |
| <b>Changes in cash and cash equivalents</b>                                       | <b>-9,668</b>                             | <b>-3,963</b>                             |
| 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<br>shares issued | Share<br>capital | Additional<br>paid-in<br>capital | Revenue<br>reserve | Accumulated<br>deficit | Accumulated<br>other<br>comprehensive<br>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 |
|---------------------------|--------|----------|
| <b>Management Board</b>   |        |          |
| Dr. Harald Schrimpf       | 44,000 | 0        |
| Armin Stein               | 7,000  | 0        |
| <b>Supervisory Board</b>  |        |          |
| 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<br>% |
|---|-----------------|
| 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,<br>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 | 31 December 2005 |
|---------------------------|-------------------|------------------|
|                           | KEUR              | 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 | 31 December 2005 |
|---|-------------------|------------------|
|   | KEUR              | KEUR             |
| Costs incurred on uncompleted contracts           | 46,119            | 35,090           |
| Profit shares                                     | 7,439             | 3,992            |
| <b>Contract revenue</b>                           | <b>53,558</b>     | <b>39,082</b>    |
| 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<br>KEUR | 30-09-2005<br>KEUR | 30-09-2006<br>KEUR    | 30-09-2005<br>KEUR | 30-09-2006<br>KEUR     | 30-09-2005<br>KEUR | 30-09-2006<br>KEUR | 30-09-2005<br>KEUR | 30-09-2006<br>KEUR | 30-09-2005<br>KEUR |
| <b>Revenues</b>                            |                    |                    |                       |                    |                        |                    |                    |                    |                    |                    |
| 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                  |
| <b>Segment Revenues</b>                    | <b>50,525</b>      | <b>46,701</b>      | <b>33,772</b>         | <b>34,246</b>      | <b>4,507</b>           | <b>6,281</b>       | <b>-2,753</b>      | <b>-2,538</b>      | <b>86,051</b>      | <b>84,690</b>      |
| 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               |
| <b>Operating Result</b>                    | <b>1,297</b>       | <b>1,157</b>       | <b>155</b>            | <b>630</b>         | <b>-1,187</b>          | <b>-1,635</b>      | <b>-250</b>        | <b>-50</b>         | <b>15</b>          | <b>102</b>         |
| 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                 |
| <b>Result before income taxes</b>          | <b>724</b>         | <b>673</b>         | <b>-147</b>           | <b>265</b>         | <b>-1,357</b>          | <b>-1,742</b>      | <b>-247</b>        | <b>-33</b>         | <b>-1,027</b>      | <b>-837</b>        |

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

Please contact us should you require other information material.

For the latest IR information, please visit our website at [www.psiag.com/ir](http://www.psiag.com/ir).

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