

50
YEARS PSI SOFTWARE

PLATFORM FOR INDUSTRIAL INTELLIGENCE

REPORT ON THE 1ST SIX MONTHS OF 2019

PSI 

PSI Group Data as per 30 June 2019 at a Glance (IFRS)

	01/01-30/06/19 in KEUR	01/01-30/06/18 in KEUR	Change in KEUR	Change in %
Revenues	106,632	94,571	+12,061	+12.8
Operating Result	6,478	6,153	+325	+5.3
Result before income taxes	6,044	5,992	+52	+0.9
Net result	4,384	4,277	+107	+2.5
Cash and cash equivalents	31,399	35,790	-4,391	-12.3
Employees on 30 June	1,947	1,722	+225	+13.1
Revenue/Employee	54.8	54.9	-0.1	-0.2

Interim Management Report

Business Development

Earnings

PSI Group increased new orders by 5 % to the new record value of 142 million euros in the first six months of 2019 (30 June 2018: 135 million euros). The order book volume on 30 June 2019 was, at 171 million euros, 4 % above the figure for the previous year (30 June 2018: 165 million euros). Group sales improved by just about 13 % to EUR 106.6 million thanks primarily to organic growth in the Production segment and the takeover in the Energy segment (30 June 2018: 94.6 million euros). The EBIT increased by 5 % to 6.5 million euros (30 June 2018: 6.2 million euros), the group net result improved only slightly to 4.4 million euros due to a lower financial result as a result of the application of IFRS 16 (30 June 2018: 4.3 million euros).

Energy management (energy grids, energy trading, public transportation) attained 13 % higher sales of 53.2 million euros (30 June 2018: 46.9 million euros) and a constant EBIT of 2.5 million euros in the first six months. The BTC Smart Grid division in Germany, which was taken over on 1 January 2019, contributed incoming orders of 5.9 million euros in the first six months, including 3.2 million euros in annual maintenance extensions, external sales of 3.3 million euros and a burden of -1.8 million euros (-1.1 million euros in the first quarter, -0.7 million euros in the second quarter) due to underutilization and integration costs. In view of the somewhat higher integration burden than planned, the Executive Board brought forward the second stage of integration in the second quarter, in which the previously unutilized employees were not only assigned to project work, but were now also disciplinarily assigned to the responsible profit centers. While the first quarter was still characterized by extensions of maintenance orders, customer confidence stabilized and led to important new and follow-up orders, which mainly will be booked in the third quarter. For the third quarter, the Management Board expects integration costs of a few hundred thousand euros. This special charge was offset by better results with PSI control systems for gas and electricity networks in the first six months. In the gas network business PSI increased incoming orders, sales and earnings due to the further rollout of the upgrade subscription business and the further recovery of the Russian business. The public transport business continues to benefit from emission-related investments in electric buses. On the other hand, energy trading and the Asian business burdened the result.

At 53.4 million euros, sales in production management (raw materials, metals, industry, logistics) in the first six months were 12 % over the figure for the previous year (30 June 2018: 47.6 million euros). The business' EBIT of 4.5 million euros was 6 % above the figure for the previous year (30 June 2018: 4.2 million euros). The metals business continues to feel uncertainty among European customers about US customs duties, imports, energy costs and the CO2 discussion. By contrast, demand is rising in North America, China and Russia. The Automotive, Industry and Logistics businesses continued the strong development in incoming orders, sales and earnings based on the products for Industry 4.0, electric vehicle production and Internet logistics migrated to the Group platform. Brexit is also driving industry and trade to make additional investments in logistics. As announced, PSI Poland took over the Polish Smart Grid division of BTC AG with 29 employees on 1 May 2019.

Financial Position

Cash flow from operating activities decreased to -1.4 million euros (30 June 2018: 5.0 million euros) due to an increase of working capital. Cash and cash equivalents decreased to 31.4 million euros (30. June 2018: 35.8 million euros), also due to increased investments in the acquired business, and will be used for sales financing in the seasonal course.

Assets

The development of assets in the first six months of 2019 was influenced by the introduction of IFRS 16, which increased property, plant and equipment by 21.4 million euros.

Personnel Development

The number of employees in the group increased to 1,947 (30 June 2018: 1,722), due to new hires and the acquisition of the BTC smart grid business.

PSI-Shares

The PSI stock ended the 1st six months of 2019 with a final price of 17.85 euros 14 % above the final 2018 price of 15.65 euros. In the same period, the technology index TecDAX rose by 17 %.

Risk Report

The estimate of the corporate risk has not changed since the Annual Report for 31 December 2018.

Outlook

PSI continues to record strong demand, particularly for control technology for electricity and gas grids as well as in the logistics and automotive sectors, and therefore expects further increases in the high-margin license, maintenance, upgrade and cloud business in the coming quarters. Despite the deteriorating economic forecasts in Germany and the integration burden, the PSI Executive Board continues to expect sales growth of 10 % to 220 million euros and an increase in the operating result to around 17 million euros for 2019.

Group Balance Sheet

from 1 January 2019 until 30 June 2019 according to IFRS

	6 Month Report 01/01-30/06/19 KEUR	Annual Report 01/01-31/12/18 KEUR
Assets		
Non current assets		
Property, plant and equipment	35,898	13,592
Intangible assets	63,594	58,885
Investments in associates	440	440
Deferred tax assets	8,142	7,967
	108,074	80,884
Current assets		
Inventories	9,642	8,712
Trade accounts receivable, net	35,158	34,407
Receivables from long-term development contracts	45,085	34,367
Other current assets	9,009	5,722
Cash and cash equivalents	31,399	44,579
	130,293	127,787
Total assets	238,367	208,671
Total Equity and Liabilities		
Equity		
Subscribed capital	40,185	40,185
Capital reserves	35,137	35,137
Reserve for own stock	-128	-88
Other reserves	-19,613	-19,719
Net retained profits	31,580	31,115
	87,161	86,630
Non-current liabilities		
Pension provisions and similar obligations	50,638	51,284
Deferred tax liabilities	5,934	4,797
Liabilities from leases	21,698	0
	78,270	56,081
Current liabilities		
Trade payables	13,492	16,440
Other current liabilities	40,619	31,194
Liabilities from long-term development contracts	17,036	16,531
Short-term financial liabilities	1,789	1,795
	72,936	65,960
Total equity and liabilities	238,367	208,671

Group Income Statement

from 1 January 2019 until 30 June 2019 according to IFRS

	Quarterly Report II		6 Month Report	
	01/04/19- 30/06/19 KEUR	01/04/18- 30/06/18 KEUR	01/01/19- 30/06/19 KEUR	01/01/18- 30/06/18 KEUR
Sales Revenues	54,639	48,826	106,632	94,571
Other operating income	1,598	1,926	4,664	3,548
Cost of materials	-8,356	-8,116	-14,515	-13,785
Personnel expenses	-34,622	-30,288	-69,059	-60,232
Depreciation and amortisation	-2,571	-1,074	-4,931	-2,140
Other operating expenses	-7,162	-7,907	-16,313	-15,809
Operating result	3,526	3,367	6,478	6,153
Net finance result	-225	-15	-434	-161
Result before income taxes	3,301	3,352	6,044	5,992
Income tax	-916	-996	-1,660	-1,715
Net result	2,385	2,356	4,384	4,277
Earnings per share (in Euro per share, basic)	0.15	0.15	0.28	0.27
Earnings per share (in Euro per share, diluted)	0.15	0.15	0.28	0.27
Weighted average shares outstanding (basic)	15,675,806	15,646,653	15,675,806	15,646,653
Weighted average shares outstanding (diluted)	15,675,806	15,646,653	15,675,806	15,646,653

Group comprehensive Income Statement

from 1 January 2019 until 30 June 2019 according to IFRS

	01/04/19- 30/06/19 KEUR	01/04/18- 30/06/18 KEUR	01/01/19- 30/06/19 KEUR	01/01/18- 30/06/18 KEUR
Net result	2,385	2,356	4,384	4,277
Currency translation foreign operations	-850	300	106	481
Net losses from cash flows hedges	0	0	0	0
Income tax effects	0	0	0	0
Group comprehensive result	1,535	2,656	4,490	4,758

Group Cash Flow Statement

from 1 January 2019 until 30 June 2019 according to IFRS

	6 Month Report 01/01-30/06/19 KEUR	6 Month Report 01/01-30/06/18 KEUR
CASHFLOW FROM OPERATING ACTIVITIES		
Result before income taxes	6,044	5,992
Adjustments for non-cash expenses		
Amortisation on intangible assets	1,164	866
Depreciation of property, plant and equipment	1,501	1,274
Depreciation of right-of-use assets under leases (IFRS 16)	2,266	-
Earnings from Investments in associated companies	0	-134
Interest income	-44	-84
Interest expenses	770	481
	11,701	8,395
Changes of working capital		
Inventories	-928	-762
Trade receivables and receivables from long-term development contracts	-9,671	-1,445
Other current assets	-3,425	-4,698
Provisions	-1,015	-875
Trade payables	-3,077	-1,490
Other current liabilities	5,858	6,256
	-557	5,381
Interest paid	-94	-60
Income taxes paid	-703	-355
Cash flow from operating activities	-1,354	4,966
CASHFLOW FROM INVESTING ACTIVITIES		
Additions to intangible assets	-507	-547
Additions to property, plant and equipment	-2,085	-1,657
Additions to investments in subsidiaries	-3,152	0
Interest received	44	84
Cash flow from investing activities	-5,700	-2,120
CASHFLOW FROM FINANCING ACTIVITIES		
Dividends paid	-3,919	-3,596
Proceeds/repayments from/of borrowings	-6	-1,248
Payments for the principal portion of lease liabilities (IFRS 16)	-1,910	-
Interest paid in connection with leases (IFRS 16)	-253	-
Outflows for share buybacks	-40	-422
Cash flow from financing activities	-6,128	-5,266
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		
Changes in cash and cash equivalents	-13,182	-2,420
Valuation-related changes in cash and cash equivalents	2	78
Cash and cash equivalents at beginning of the period	44,579	38,132
Cash and cash equivalents at the end of the period	31,399	35,790

Statement of Changes in Equity

from 1 January 2019 until 30 June 2019 according to IFRS

	Number of shares issued	Share capital	Additional paid-in capital	Reserve for treasury stock	Other reserves	Accumulated results	Total
	Number	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
As of 1 January 2018	15,660,020	40,185	35,137	-328	-18,823	24,126	80,297
Group comprehensive result after tax					-896	10,585	9,689
Share buybacks	-25,000			-422			-422
Issue of own shares	42,276			662			662
Dividends paid						-3,596	-3,596
As of 1 January 2019	15,677,296	40,185	35,137	-88	-19,719	31,115	86,630
Group comprehensive result after tax					106	4,384	4,490
Share buybacks	-2,507			-40			-40
Dividends paid						-3,919	-3,919
As of 30 June 2019	15,674,789	40,185	35,137	-128	-19,613	31,580	87,161

Shares held by Management Board and Supervisory Board as of 30 June 2019

	Shares on 30/06/19	Shares on 30/06/18
Management Board		
Harald Fuchs	7,023	7,023
Dr. Harald Schrimpf	67,000	67,000
Supervisory Board		
Andreas Böwing	0	0
Elena Günzler	1,905	1,739
Prof. Dr. Uwe Hack	600	600
Prof. Dr. Wilhelm Jaroni	0	0
Uwe Seidel	415	300
Karsten Trippel	111,322	111,322

Remuneration for the Management Board and Supervisory Board

The remuneration system for the Management Board is described in detail in the Remuneration Report as of 31 December 2018.

	Fixed remuneration KEUR	Variable remuneration KEUR	Long-term remuneration KEUR	Total remuneration KEUR
Harald Fuchs	158	50	63	271
Dr. Harald Schrimpf	231	162	83	476
Total	389	212	146	747

As the Supervisory Board payments for the current year are made in the 4th quarter, the Supervisory Board did not obtain any remuneration in the first six months of 2019.

Notes on the consolidated financial statements as of 30 June 2019

The Company

1. Business Activities and Legal Background

The business activities of PSI Software 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 and transportation. 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 segments energy management and production management. The company is listed in the Prime Standard segment of the Frankfurt stock exchange.

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, organisational changes and the cooperation with strategic partners.

The condensed interim consolidated financial statements for the period from 1 January 2019 to 30 June 2019 were released for publication by a decision of the management on 24 July 2019. The condensed interim consolidated financial statements for the period from 1 January 2019 to 30 June 2019 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 2018.

2. Accounting and Valuation Principles

Since 1 January 2019, the PSI Group has applied the new standard IFRS 16 "Leases". The first-time application of the new standard is based on the modified retrospective approach; the comparative period was not adjusted with regard to IFRS 16.

As a result of the first-time application, the real estate leased by the PSI Group in particular qualified as a leasing contract in the sense of IFRS 16. Most of the leased movables relate to motor vehicles. Due to this classification, the respective minimum lease payments are already reported today as discounted financial liabilities in the balance sheet. On the assets side of the balance sheet, the corresponding rights of use in the same amount were capitalized as property, plant and equipment as of 1 January 2019. As a result of this effect, total assets increased by 23 million euros as of 1 January 2019.

In the income statement, the minimum lease expenses are no longer recognised directly in full as expenses, but the individual lease instalments are divided into interest expenses and a principal portion. While the interest expenses, which decrease over the term of the respective lease agreement, burdens the financial result, the principal portion, which increases continually over the term, is no longer reflected in the income statement. The consolidated result is therefore no longer impacted directly by the amount of the principal portion of the lease payment. Instead, the consolidated result is reduced by a constant (straight-line) depreciation of the capitalized right of use over the term of the respective lease agreement. Although the total of the continuously rising principal portions is identical to the total of the straight-line depreciation amounts over the entire term of the individual lease agreement, the surplus of the straight-line depreciation over the initially lower repayment portions has a negative impact on the consolidated result in the first periods of the lease term. For this reason, the consolidated result will be reduced accordingly with the introduction of IFRS 16 in 2019.

The following are selected details from the application of IFRS 16:

	30 June 2019
Balance Sheet	KEUR
Right-of-use assets under leases	21,431
Lease liabilities	21,698
	1 January 2019 until 30 June 2019
Impact on the Group Income Statement	KEUR
No longer included in other operating expenses	2.258
Depreciation of rights of use IFRS 16	-2.266
Interest portion from leases	-253

The lease payments are also no longer directly included in full in the cash flow from operating activities in the cash flow statement. Instead, the interest and principal portions are reported in cash flow from financing activities. This change in the allocation of the lease payments thus leads to a corresponding improvement in cash flow from operating activities and to significantly higher cash outflows from financing activities. By contrast, cash flow from investing activities remains unaffected by IFRS 16.

For further details, please refer to our comments in the section "Effects of new accounting standards that were not yet required to be applied in the financial year" in the notes to the 2018 consolidated financial statements.

With regard to the other 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 2016.

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. Significant Events

By agreement dated 10 December 2018, PSI Software AG acquired the assets and liabilities of the "PRINS and GridAgent network control software" division of BTC Business Technology Consulting AG, Oldenburg, with effect from 1 January 2019. The acquisition represents an acquisition in accordance with IFRS 3. At the time of the acquisition, the company reported assets of 1,911 KEUR and liabilities of 2,894 KEUR. The net liabilities (at book values) amounted to 983 KEUR. The cash purchase price part 1 amounts to 3,900 KEUR, the purchase price part 2 is determined on the basis of the spin-off balance sheet. The value of purchase price part 2 reduces purchase price part 1. Net liabilities were compared with acquisition costs as part of the purchase price allocation. The resulting difference is attributable to intangible assets with a finite useful life and goodwill. The intangible assets result from the valuation of the "PRINS" software product developed by BTC itself and a customer base. The goodwill reflects the position of the "PRINS and GridAgent network control software" in the market.

By agreement dated 6 May 2019 and effective 1 May 2019, 100 % of the shares in BTC Business Technology Consulting Sp. Z o.o., based in Poznan, Poland, were acquired. The acquisition represents an acquisition in accordance with IFRS 3. At the time of the acquisition, the company reported assets of 698 KEUR and liabilities of 484 KEUR. The cash purchase price part 1 amounts to 730 KEUR, the purchase price part 2 is still determined on the basis of the effective date balance sheet. The preliminary net assets (at book values) amounted to 214 KEUR. As part of the purchase price allocation, these net assets were compared with the acquisition costs (cash purchase price 1: 730 KEUR).

The resulting difference is attributable to intangible assets with a finite useful life and goodwill. This purchase agreement was part of the agreement dated 10 December 2018 with BTC Business Technology Consulting AG, Oldenburg. If the newly acquired subsidiary had already been included in the consolidated financial statements of PSI AG as of 1 January 2019, consolidated sales would have been 107,520 KEUR and consolidated net income 4,423 KEUR.

The following table provides the preliminary fair values of the acquired assets and liabilities at the acquisition date:

	Agreement dated 10 December 2018: fair values after the acquisition in KEUR	Agreement dated 6 May 2019: fair values after the acquisition in KEUR
Non-current assets		
Property, plant and equipment	280	11
Other intangible assets	672	18
Current assets		
Inventories	0	13
Trade accounts receivable	0	313
Receivables from long-term development contracts	1.624	0
Liabilities		
Provisions	0	116
Trade payables	0	93
Other liabilities	3.154	260
Liabilities from long-term development contracts	764	0
Deferred income	0	15
Total identifiable net assets at fair value	-1.342	214
Goodwill resulting from the acquisition of the company	4.032	516
Compensation	2.690	730

5. Selected Individual Items

Cash and cash equivalents

	30 June 2019 KEUR	31 December 2018 KEUR
Bank balances	30,354	42,517
Fixed term deposits	1,022	2,039
Cash	23	23
	31,399	44,579

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 (labour 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 2019 KEUR	31 December 2018 KEUR
Receivables from long-term development contracts (gross)	126,960	103,048
Payments on account	-81,875	-68,681
Receivables from long-term development contracts	45,085	34,367
Payments on account (gross)	98,911	-85,212
Set off against contract revenue	-81,875	-68,681
Liabilities from long-term development contracts	17,036	16,531

Sales revenues

The sales revenues reported in the group income statement break down as follows:

	30 June 2019 KEUR	30 June 2018 KEUR
Software development	52,006	50,671
Maintenance	36,500	30,130
License fees	8,565	6,826
Merchandise	9,561	6,944
	106,632	94,571

Taxes on income

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

	30 June 2019 KEUR	30 June 2018 KEUR
Effective taxes expenses		
Effective tax expenses	-698	-397
Deferred taxes		
Emergence and reversal of temporary differences	-962	-1,318
Tax expenses	-1,660	-1,715

Segment Reporting

The development of the segment results can be found in the Group segment reporting.

Segments of the PSI Group:

- Energy Management: Intelligent solutions for energy suppliers from the electricity, gas, oil and district heating markets and for public transportation. Focal points are reliable and economically sound control system solutions for intelligent energy grid management and the safe operation of traffic infrastructures as well as trade and sales management in the liberalised energy market.
- Production Management: Software products and 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 efficiency, quality and profitability.

Group Segment Reporting

from 1 January 2019 until 30 June 2019 according to IFRS

	Energy Management		Production Management		Reconciliation		PSI Group	
	30/06/2019 TEUR	30/06/2018 TEUR	30/06/2019 TEUR	30/06/2018 TEUR	30/06/2019 TEUR	30/06/2018 TEUR	30/06/2019 TEUR	30/06/2018 TEUR
Sales revenues								
Sales to external customers	53,212	46,922	53,420	47,649	0	0	106,632	94,571
Inter-segment sales	1,443	1,301	4,810	4,209	-6,253	-5,510	0	0
Segment revenues	54,655	48,223	58,230	51,858	-6,253	-5,510	106,632	94,571
Operating result before interest, tax, depreciation and amortisation	4,910	3,553	6,874	5,261	-375	-521	11,409	8,293
Operating result before depreciation and amortisation resulting from purchase price allocation	2,647	2,481	4,716	4,506	-507	-559	6,856	6,428
Depreciation and amortisation resulting from purchase price allocation	-147	-15	-231	-260	0	0	-378	-275
Operating result	2,500	2,466	4,485	4,246	-507	-559	6,478	6,153
Net finance result	-144	-90	-290	-71	0	0	-434	-161
Result before income taxes	2,356	2,376	4,195	4,175	-507	-559	6,044	5,992

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 proper accounting principles of interim consolidated reporting.

Financial Calendar

26 March 2019	Publication of Annual Result 2018
26 March 2019	Analyst Conference
29 April 2019	Report on the 1 st Quarter of 2019
16 May 2019	Annual General Meeting
26 July 2019	Report on the 1 st Six Months of 2019
30 October 2019	Report on the 3 rd Quarter of 2019
25 to 27 November 2019	German Equity Forum, Analyst Presentation

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