DIRECTION: EAST

Annual Report 2006

PSI

As a leading supplier, the PSI Group develops and integrates software solutions for utility providers and industrial enterprises. Our high-end control systems for large and very large network infrastructures place us among the industry leaders. PSI was founded in 1969, thus being one of the most experienced German information technology corporations.

In the fiscal year 2006, PSI realized sales of € 117.0 million. The share of foreign sales increased from 14% to 17%, and new international orders increased even more to 26%. PSI offices are located at ten locations in Germany, and also in China, Poland, Russia, Great Britain, Austria and Switzerland.

PSI has been listed on the stock exchange since 1998, and is now listed in the Prime Standard of the German Stock Exchange.

THE PSI GROUP IN FIGURES in € millions

	IFRS				US-GAAP
	2006	**2005**	**2004**	**2003**	**2002**
Sales revenues	117.0	116.5	115.2	137.6	150.7
Operating result	1.0	0.2	–9.1	–1.0	–12.4
Earnings before tax	–0.3	–1.3	–12.3	–4.0	–19.0
Net Group result	0.4	0.02	–12.3	–4.8	–14.8
Shareholders' equity	28.9	28.5	24.6	39.4	51.0
Equity ratio (in %)	34.2	32.4	25.5	32.9	37.1
Investments*	3.5	1.6	4.8	5.6	7.7
Research & Development expenditure	10.7	10.8	10.8	8.8	11.5
Research & Development ratio (in %)	9.1	9.3	9.4	6.4	7.6
New orders	125	115	126	119	136
Employees at Dec 31 (number)	1,049	1,058	1,106	1,193	1,294

* Corporate takeovers, intangible assets, plant and equipment

PSI GROUP AS OF 2006

NETWORK MANAGEMENT

We develop intelligent software that controls and monitors complex networks for energy supplies, mobile phones and public transport systems.

Electricity, Gas, Oil
- Control systems for power, gas, oil, heating supply and contracting
- Operations and repair management solutions
- Planning, simulation and network utilization
- Energy sales and distribution
- Pipeline management systems
- Leakage detection and location

Transport and Traffic
- Operation control systems for passenger and freight traffic
- Depot management systems, passenger information systems
- Electronic railway control centers, automatic train dispatch
- Transport management and cargo logistics

Telecommunications
- Network management for mobile communications
- Identity and configuration management
- Fault and performance monitoring
- Service management

PRODUCTION MANAGEMENT

Software products and customized solutions for production planning, special production control tasks, and efficient logistics. This segment focuses on optimizing the utilization of resources, and enhancing quality and efficiency.

Metals and Process Industry
- Full range of specialized solutions for the metals industry, including process control, production planning and plant control systems
- Manufacturing execution systems and control systems for the chemicals and pharmaceuticals industries

Automobile Manufacturers and Automotive Suppliers
- Production planning and control
- Supply chain management and logistics
- Process control systems for industrial production

Mechanical Engineering and Plant Construction
- Production planning and control
- Enterprise resource planning
- Manufacturing execution systems

Logistics/Airports
- Warehouse management systems
- Solutions for managing logistics net-works: Supply chain execution, supply chain event management and virtual distribution centers
- Passenger, baggage and cargo handling solutions for airports

INFORMATION MANAGEMENT

PSI supplies IT solutions for enhanced community and customer relations by providing secure, efficient support for the business processes of public authorities and service companies.

Public Authorities
- Control systems for environmental protection and disaster prevention
- Control systems for security tasks
- Online solutions for registration and information services, electronic filing systems

Service Companies
- IT control systems
- Professional services automation
- Customer relationship management
- Portal and agent technology

PSI GROUP EFFECTIVE 2007

ENERGY MANAGEMENT

Intelligent solutions for utility providers in the electricity, gas, oil and water markets. Focal points are reliable and economically sound solutions for network management and trade and sales management in the liberalized energy market.

Electricity
- Network control technology
- Operational and failure management
- Energy data and network utilization management
- Combined energies control systems

Energy trade and sales
- Planning, analysis and optimization
- Consolidated electricity and gas trade and sales
- Invoicing systems

Gas, oil, water
- Gas management systems
- Planning, simulation and forecasting
- Pipeline management
- Leakage detection and localization

PRODUCTION MANAGEMENT

Software products and customized solutions for production planning, special production control tasks, and efficient logistics. This segment focuses on optimizing the utilization of resources, and enhancing quality and efficiency.

Metals and Process Industry
- Full range of specialized solutions for the metals industry, including process control, production planning and plant control systems
- Manufacturing execution systems and control systems for the chemicals and pharmaceuticals industries

Automobile Manufacturers and Automotive Suppliers
- Production planning and control
- Supply chain management and logistics
- Process control systems for industrial production

Mechanical Engineering and Plant Construction
- Production planning and control
- Enterprise resource planning
- Manufacturing execution systems

Logistics/Airports
- Warehouse management systems
- Solutions for managing logistics net-works: Supply chain execution, supply chain event management and virtual distribution centers
- Passenger, baggage and cargo handling solutions for airports
- Transportation management systems

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.

Telecommunications
- Network and service management
- Identity and configuration management
- Fault and performance management

Public Safety
- Control systems for safety-related tasks
- Control systems for environmental protection and disaster prevention
- Mobile security applications
- Railroad video management

Transportation
- Control systems for public transportation systems
- Depot management systems, passenger information systems
- Automatic train dispatch
- Control systems for traffic management

Government and service providers
- IT control system
- IT and process management consulting
- Project consulting and realization
- Qualification

Ladies and Gentlemen:

Realizing a well balanced result in the previous year, we entered the year 2006 under our new motto “GROW EAST”. We have founded distribution partnerships in Russia, Southeast Europe, Southeast Asia and India, thus increasing our foreign sales order volume to € 33 million.

We have also realized a strong increase of incoming orders with the group in 2006, increasing our order volume at the end of the year to € 10 million higher than at the end of the previous year – despite the fact that award of several contracts in the transportation and gas segments has been postponed into the first quarter of 2007.

The group’s total sales in the first half of the year suffered from generally slow sales in the information management segment. In the year after the general elections the investments made by government agencies recovered only in the course of the first six months of 2006. Even the traditionally strong fourth quarter performed slower than expected in terms of operating profit and total sales. As per the key date, the operative cash-flow was negative € –2 million. This resulted from the working capital expansion as well as slightly delayed final payments. However, final payments were collected in January, resulting in a bank account balance of € 18 million on January 31, 2007. The provision creating pension plan was discontinued, in order to remit fixed payments to a relief fund in the future. Our credit standing has continued to improve. It is now at a BB level. The launch of the Psipenta software within the PSI group is complete. It will improve transparency, capacity utilization and management efficiency, and is already speeding up quarterly and annual reports.

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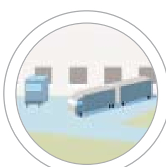
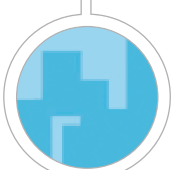

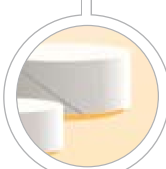

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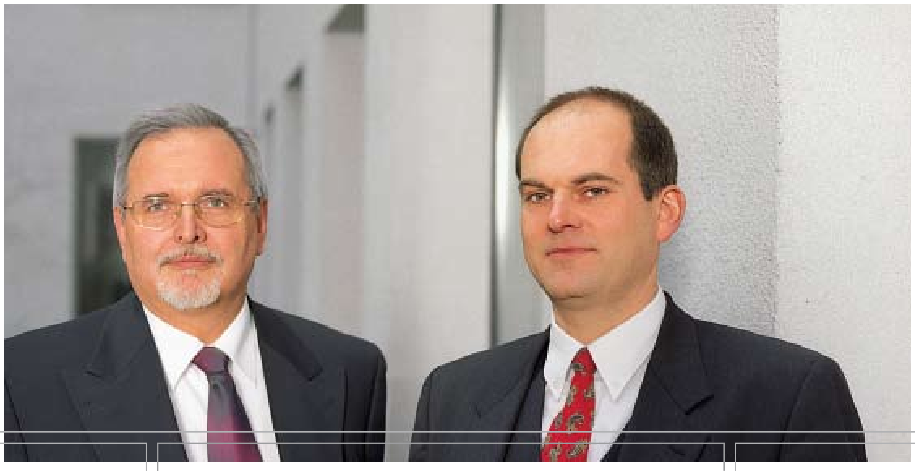


Armin Stein (55)
Since January 1st 2001 responsible for the executive board resorts finance, controlling and personnel

Dr. Harald Schrimpf (42)
Since July 2002 responsible for the executive board resorts marketing, sales and technology

The price of our shares increased to € 4.46 from € 4 (Frankfurt) throughout the year. Thus we closed the year with a plus of 11%. Therewith the PSI share developed better than the Prime Software Index and more weakly than the Technology All Share Index, wehrewith we cannot be satisfied.

In 2006, we consolidated our successful energy provider solutions for gas and electricity, thus providing accelerated development. Upon the end of the slow market phase caused by the laws regulating energy distributors, our energy sections gained well in 2006 – especially the gas section. The development of a highly scalable and market-defining software for extra high voltage distributors will position our electricity segment in a technological world leadership position as complete solution provider. The electronic railway control center segment has suffered from the railway's slow spending, but was made profitable with appropriate measures. Within the telecommunications segment, we have modified management and opened the field for mobile applications. In order to make the transportation and telecommunications segments suitable for possible partnerships, we have consolidated them into PSI Transcom GmbH, and enhanced them with the trend activities safety, disaster prevention and rescue.

We have assigned transportation logistics to our logistics subsidiary, in order to be able to offer a comprehensive system for logistics corporations. In the steel segment we have made significant progress with large orders placed from the Chinese market, and we have also made our market entrance in Russia. Development of the integrated personnel deployment and multi-project software by our subsidiary GSI has burdened us more than initially planned. However, PSIPENTA, concentrated on production control systems for plant construction, mechanical engineering and automotive engineering, has produced a positive result and has commenced amortization of loans received from the group.

Following the restructuring of the information management segment towards the end of the German Parliament election year, we had to tolerate excess expenditures of € 1.2 million in the first half of the year. Capacity utilization and daily rates improved notably in the second half of the year. We have integrated IT consultancy activities for government purchasers into the new European IT Consultancy GmbH, and are thoroughly investigating all possible options.

This will also provide a good opportunity to align the segment with the group's core activities. This segment will be renamed Infrastructure Management, and will be expanded with the aforementioned PSI Transcom. Network management, previously designed according to the multi-utility concept, will follow industry trends and concentrate on energy management.

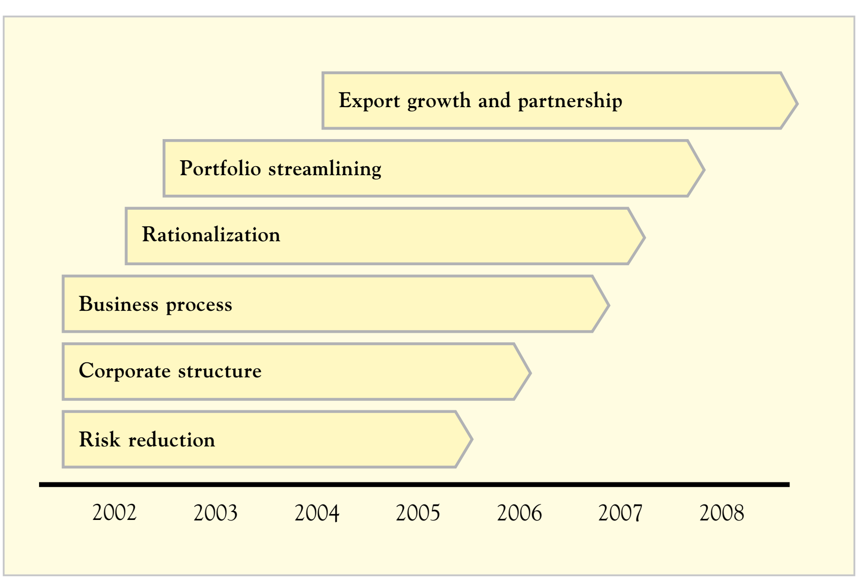
In 2006 we reduced € 0.9 million capitalized R & D expenditures to a remaining € 0.4 million, and have also leveraged a € 0.4 million loss caused by an insolvent customer. The ongoing discussion pertaining to ownership-unbundling in the European energy market constitutes risk and opportunity alike. Regardless of outcome, our export initiative will provide a second backbone if needed. Nevertheless, we are convinced that based on the improving economic environment in Germany and the upcoming markets of Eastern Europe and Asia opportunity will outweigh the risks. We will continue our long-term program of converging a wide technology spectrum to powerful mutual platforms. Resulting unit count effects are pivotal in the realization of the long-term goal of double-figure operating margins. Settled amortizations, increased efficiency in administration and ITC structures as well as concentration on our profitable core activities will afford us the momentum needed to further improve our results and to drive the price of our shares.

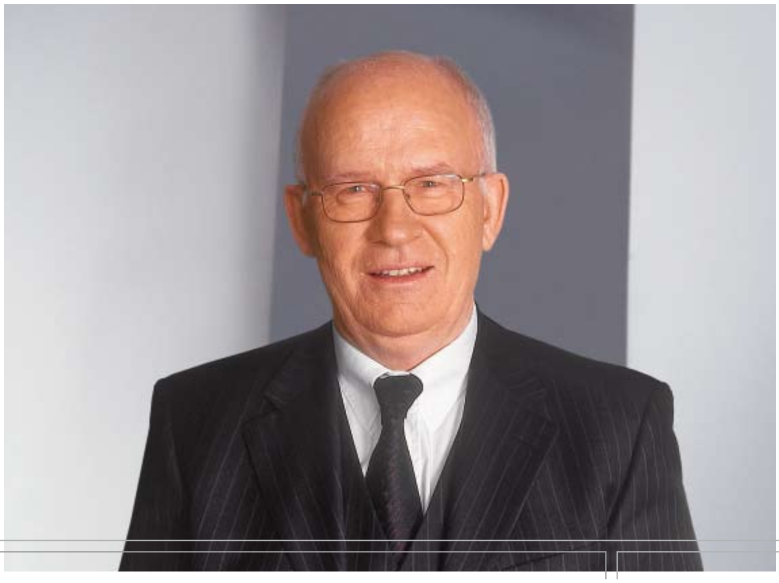
We thank our customers for their trust in our system solutions. We are pleased to be able to contribute to the highest technical and financial performance of our customers in the energy, industrial and infrastructure sectors. To our shareholders we express our gratitude for the trust, incitement and often patience afforded to us. For this export strategy, our employees have willingly accepted an additional burden. Their motivation and creativity instill gratitude, pride and confidence.

With our streamlined structure "Energy, Production, Infrastructure", we will start 2007 with order books well filled. We will not only further increase our profits, but under the motto "Direction: East" grasp our opportunities in the Eastern markets.

Berlin, February 2007 | Dr. Harald Schrimpf | Armin Stein

STRATEGY SHIFT
From securing to growing





Christian Brunke (65), Chairman of the Supervisory Board

**Valued PSI shareholders,
Dear friends and partners of our Company,**

Our main concern in the fiscal year 2006 was the continuous implementation of changes we had initiated in the previous years. It was our pleasure to fulfill tasks entrusted to us by the PSI shareholder-base, the law, our articles of incorporation, and the German corporate governance code. We have continuously counseled the Board of Directors and monitored its work. We have taken part in all fundamentally significant decision-making processes, and have given all aspects due consideration based on the reports submitted by the Board of Directors.

In 2006, the focal points of the Board of Director's and Supervisory Board's work was the export strategy, the entry into the new domestic market for security control technology and corporate structure modifications. In the information management segment, we have placed IT-Consulting into a newly founded subsidiary. At the end of the year, the transportation and telecommunication solutions were supplemented by the new topic security solutions and tied into the new segment infrastructure management. The previous net management was newly set up as energy management. In 2006, we won important contracts in the Russian market. Based on these achievements and the good prospects for the areas energy, steel, and logistics, we have opened a new representative office in Moscow.

We are convinced that, based on these changes, PSI will be structured to improve continuously foreign sales potential, customer satisfaction, and corporate performance.

Periodic meetings and resolutions of the Supervisory Board were concerned with the annual accounts, evaluation of corporate strategic alignment, measures concerning the corporate structure, current business development and monitoring of the board's own performance. Therefore, in the current year seven Supervisory Board meetings were held. Among these, one meeting was mainly dedicated to the discussion and appraisal of the annual accounts, one to strategy and one meeting was held as dedicated audit meeting. The personnel committee held two meetings in the fiscal year 2006, and the finance committee met three times. Aside from the Supervisory Board meetings, the chairman also maintained regular contact with the Board of Directors in order to stay informed of the business situation and significant business events.

As in previous years, the Board of Directors and Supervisory Board monitored the corporation's compliance with the regulations set forth in the German Corporate Governance code. At the annual audit, auditors found no indication of noncompliance with any part of the compliance statement.

A the general meeting held on May 12, 2006, auditors Ernst & Young AG were selected as annual auditors. The audit of annual accounts, consolidated group accounts and the management report for the period of January 1 to December 31, 2006 as ordered by the Supervisory Board resulted in the award of an unlimited audit certificate. The Supervisory Board audited the annual accounts, annual consolidated group accounts and management report and discussed and approved them in the presence of auditors and members of the Board of Directors at the Supervisory Board meeting held on February 26, 2007. The Annual Financial Statements and the Consolidated Financial Statements were thus adopted.

In 2006, PSI confirmed the turnaround of the previous year with a positive result of € 1.0 million, and at the same time realized significant endeavors concerning the development of international business activities. In front of this background, it was possible to win strategically important domestic and foreign contracts as well as to successfully conclude pilot projects attained in previous years. This mutual achievement by PSI's Board of Directors, management and employees deserves unlimited appreciation. Due to the improved order situation and the positive economic environment, PSI's market position for 2007 and the following years has continued to improve. Therefore, the Supervisory Board extends its gratitude for all the commitment and work performed to all those involved.

We also thank our customers for the trust placed in us in 2006. In 2007, we will yet again do everything possible to satisfy existing, and acquire new customers.

Christian Brunke
Chairman of the Supervisory Board

Berlin, March 2007

CORPORATE GOVERNANCE

Corporate governance defines responsible corporate leadership and management focused on creating long-term growth and value. Efficient cooperation of Board of Directors and the Supervisory Board, clear rules, safeguarding shareholder interests, and openness and transparency in all corporate communications are key factors of good corporate governance principles.

Declaration of compliance with the German Code of Corporate Governance. PSI is aligned with domestic and internationally recognized standards of responsible corporate management. A well defined corporate governance will keep and further increase confidence of shareholders, partners and employees in the future. PSI is wholeheartedly committed to the principles of the German Corporate Governance Code in its latest version dated June 12, 2006, and has implemented most of the recommendations expressed therein. On December 15, 2006, Supervisory Board and Board of Directors have executed the declaration of compliance in accordance with article 161 of the German stock corporation act, stating PSI's compliance with recommendations of the code with the following exceptions:

- The company has not appointed a spokesperson or chairman of the Board of Directors. There is no need for either spokesperson or chairman, as the Board consists of only two members.
- Publication of compensation provided to the board will merely state one total sum. Effective December 31, 2006, the financial closing date, individual compensation for each board member will be published categorized into fixed and variable compensation.
- Compensation of the Supervisory Board does not contain any performance-related components. Total compensation consists of base compensation, and a compensation component based on presence at meetings. The published compensation is the sum of both components.

Aside from this, PSI has adopted most recommendations of the code.

Good cooperation of Board of Directors and Supervisory Board. PSI's Board of Directors consists of only two members, making it exceptionally efficient. The Supervisory Board is comprised of two employee representatives and four independent shareholder representatives who are outstandingly committed to applying their expertise to serve the interests of the company and its shareholders. This configuration means that cooperation between the Board of Directors and the Supervisory Board is highly effective, extending beyond that required by law.There were no business transactions between the Board of Directors and the Supervisory Board in the year under review.

Director's remuneration and shareholdings. The Supervisory Board was remunerated € 117.000 in the fiscal year 2006. Total compensation consists of base compensation, and a compensation component based on presence at meetings. The two directors received the following compensation:

	Fixed compensation EUR K	Variable compensation EUR K	Total EUR K
Dr. Harald Schrimpf	190	78	268
Armin Stein	190	78	268
	380	**156**	**536**

Effective December 31st 2006, the members of executive and Supervisory Boards held the following amounts of PSI shares:

Board of Directors	
Dr. Harald Schrimpf	50,000
Armin Stein	8,000
Supervisory Board	
Christian Brunke	5,000
Wolfgang Dedner	26,500
Dr. Ralf Becherer	268
Barbara Simon	7,890
Karsten Trippel	84,000
Prof. Dr. Rolf Windmöller	1,120

At this time PSI has no stock option plan or similar incentive program in place. In the fiscal year 2006, 23 share transactions among board members were reported, and published on PSI's internet presence under Directors Dealings.

Active and open communication. The provision of transparent information to the capital market is something that PSI takes very seriously. Aside from the publications required by law, PSI continuously provides public information pertaining to business development in general and strategically important events. Such information is made available in print, at events and on the Internet at www.psi.de/ir. On this platform we also publish our finance calendar in order to inform about all significant events. Our Internet presence also provides access to expired previous declarations of compliance with the corporate governance code. Further, our IR department is available for phone, e-mail, and written shareholder and analyst enquiries.

Transparent accounting and auditing. The auditors and PSI have agreed that auditors will immediately advise the Supervisory Board of any conflict of interest or disqualifying events arising in the course of the audit. The same applies to discoveries and events occurring during the audit that could be of significance to the work of the Supervisory Board. Should the auditors detect noncompliance with the Corporate Governance Code, they shall inform the Board of Directors and the Supervisory Board.

PSI deploys a Risk Management System assisting us in recognizing opportunities and avoiding risks. Details are available in the section entitled "Risk Management" of the Consolidated Management Report (page 26).

Good corporate governance still a high priority. In 2007, good corporate governance will still be a high priority to the Board of Directors and the Supervisory Board. Among other issues, we will present our shareholders an improved service for order and powers assignment during the run-up of our annual shareholder meeting on April 26, 2007. Board of Directors and Supervisory Board will yet again leverage all significant business events sharing forces in a trustful cooperation.

PSI SHARES

Based on the positive development of the previous year, the interest of institutional investors in PSI has again increased in early 2006. This caused our share price to rise quickly. Due to our investment in the development of foreign markets the results of the second and third quarter were beneath our expectations and according to the small cap stock correction this caused a lateral movement of the share. Altogether we finished the year with a plus of 11%. Thanks to better results and rising new orders we expect medium term increases of our share performance.

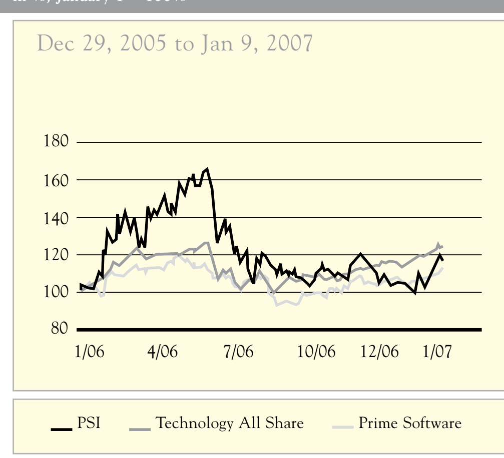
In 2006, the share initially developed better then the relevant industry indices. Starting from the previous year's closing price of € 4.01, the share price increased over 70% to about € 7 in early May. According to the general second tier stocks correction it moved lateral for a long time and ended the year with a final rate of € 4.46, a plus of 11%. Thereby the PSI share developed better then the Prime Software-Index, which gained 8% and weaker then the Technology All Share-Index which increased by 23% in 2006. The Prime Software-Index combines all software shares which are listed in the prime standard of the German Stock Exchange. In the broader composed Technology All Share-Index, all technology shares of the prime standard are combined.

Aside from the corrections to the small cap stocks, the results of the second and third quarter also had a depressing effect since performance was below market expectations. If, as expected, the company performance continues to improve the PSI share will gain value again.

In 2006, we yet again noticed vivid interest in our share by institutional investors. Aside from the undiminished high volume of enquiries, this fact is illustrated by the share of PSI's authorized capital held by the ten most important institutional PSI investors: Since 2005 this share grew from 28% to 32%.

EVERY THIRD SHARE HELD BY THE TOP TEN OF THE LARGE INVESTORS
in %

PSI SHARE PRICE BETWEEN TECHNOLOGY ALL SHARE- AND PRIME SOFTWARE-INDEX
in %, January 1 = 100%



As in the previous year, we communicated extensively with the investor community. We held two stock analyst conferences and several investor road shows at German and European financial centers. During these events, we frequently welcomed open exchange with financial and business journalists in interviews and in-depth discussion rounds. Among them were the dedicated German stock market radio broadcaster “Boersenradio” and several financial online portals.

In 2006, our investor community communications practice has yet again been recognized with an award. At the world’s largest annual report competition, the “World’s Best Annual Reports”, the PSI annual report was awarded gold winner status in the category Written Text, and received an honors award in the category Overall Annual Report.

In 2007, our attention will again be turned to the continuous focusing and internationalization of PSI. With these efforts, we will create a solid foundation for economically sound growth and improving group results. We expect that the stock market will duly recognize these efforts, resulting in continuously increasing share prices. Our goal is to be valued in a manner befitting the market position of one of Germany’s largest software concerns, since this would place us even closer to the center of the institutional investor community’s attention. Such attention would provide additional momentum to our share price development.

THE PSI SHARE IN NUMBERS

in €

	2006	2005
Earnings per share	0.04	0
Market capitalization at December 31	54,023,400	49,905,024
Yearly all time high price	7.15	4.88
Yearly all time low price	3.90	2.96
Number of shares at December 31	12,112,870	12,112,870

Stock exchange centers:	Xetra, Frankfurt/Main, Berlin-Bremen, Stuttgart, Duesseldorf, Hamburg, Munich
Stock exchange segment:	Prime Standard
Index affiliation:	Technology All Share, Prime All Share, Prime Software, Prime IG Software, CDAX
ISIN:	DE0006968225
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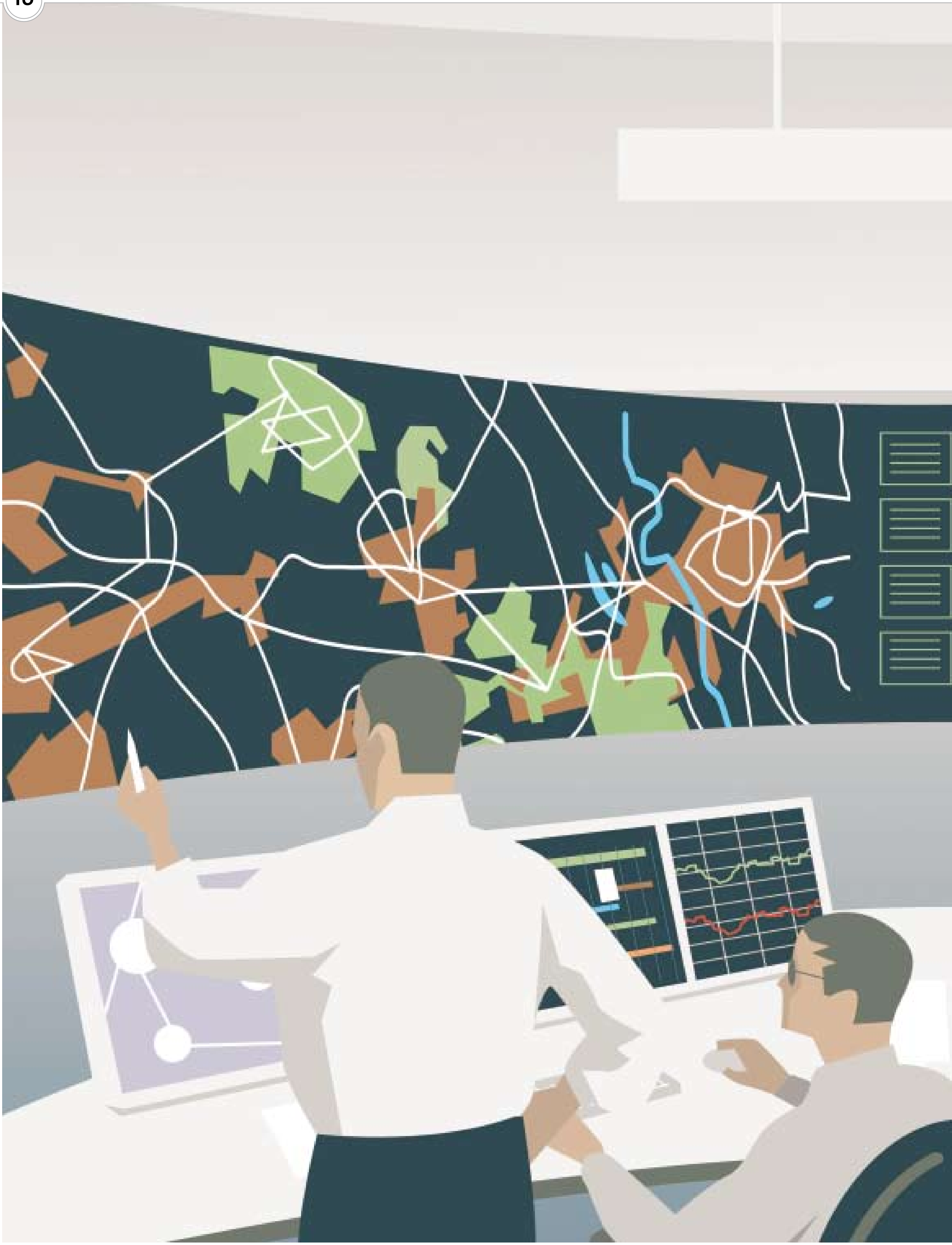
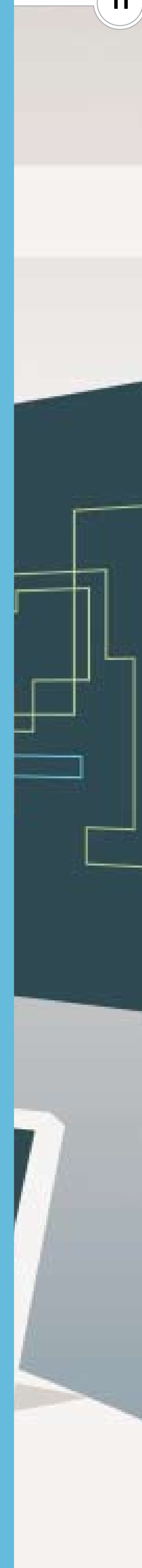
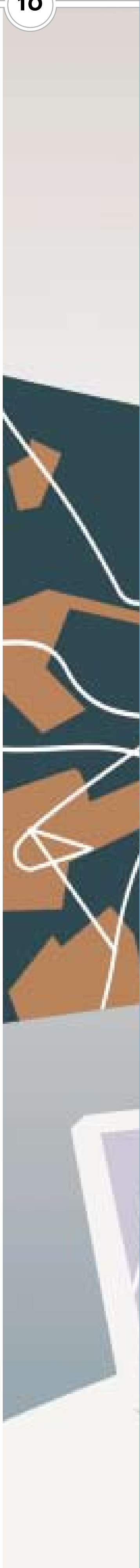
Stock exchange code:	PSA2



DIRECTION: EAST

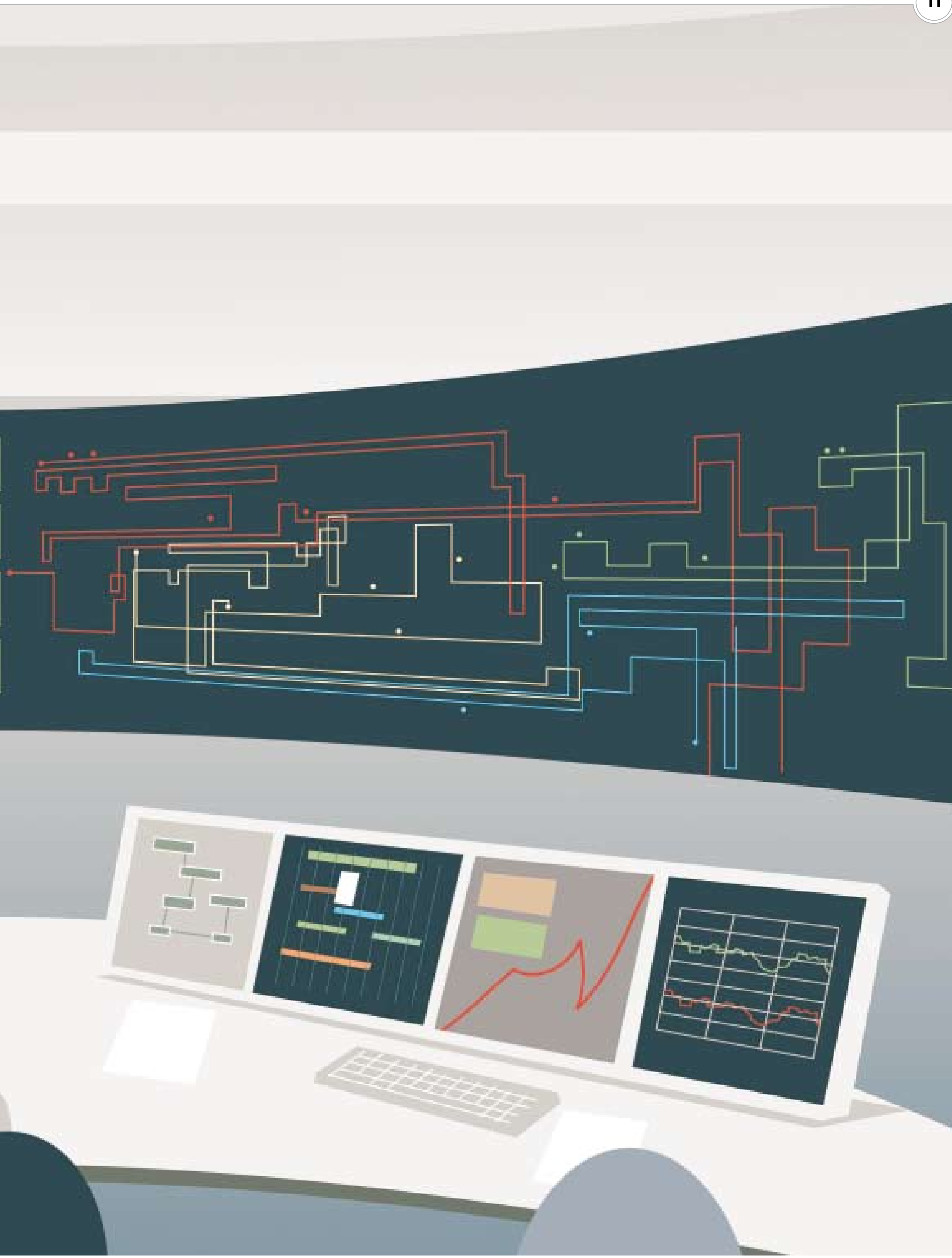
PSI'S CONTROL SYSTEMS are essential components in the many complex control and monitoring processes that modern technology relies on. Whether it's eco-friendly power supplies, powerful telecommunications and traffic infrastructure, efficient production and logistics tasks or the all-important issue of safety – our control system solutions are technological leaders all over the world. In Europe and Asia, many of the world's largest energy supply enterprises, steel producers and logistics service companies rely on software by PSI.





HIGH-END CONTROL SYSTEMS FOR MOST DEMANDING REQUIREMENTS – GLOBALLY

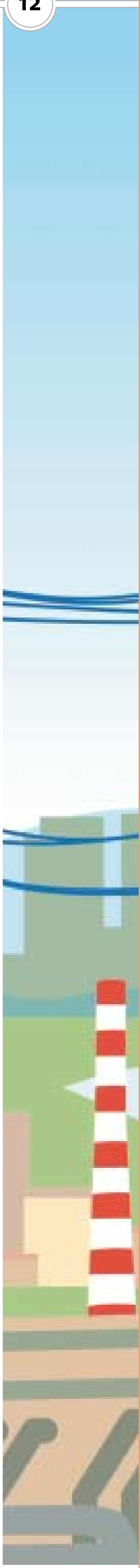
IN OUR GLOBALIZED AND NETWORKED WORLD we depend increasingly on control systems to ensure that things operate smoothly. For instance, monitoring large regions generates vast quantities of data which need to be processed and visualized in realtime. Cross-segment control systems must have the flexibility to adapt to specific conditions in a wide array of infrastructures and tasks. The rising demand for safety, environmental protection, and mobility make additional functions, such as operation planning and mobile alerting, more essential than ever. PSI solutions are designed to provide the very highest standards of performance, flexibility and dependability. This commitment to excellence has enabled us to expand successfully into new regions and areas of application over the past few years.




ASIAN STEEL
能量

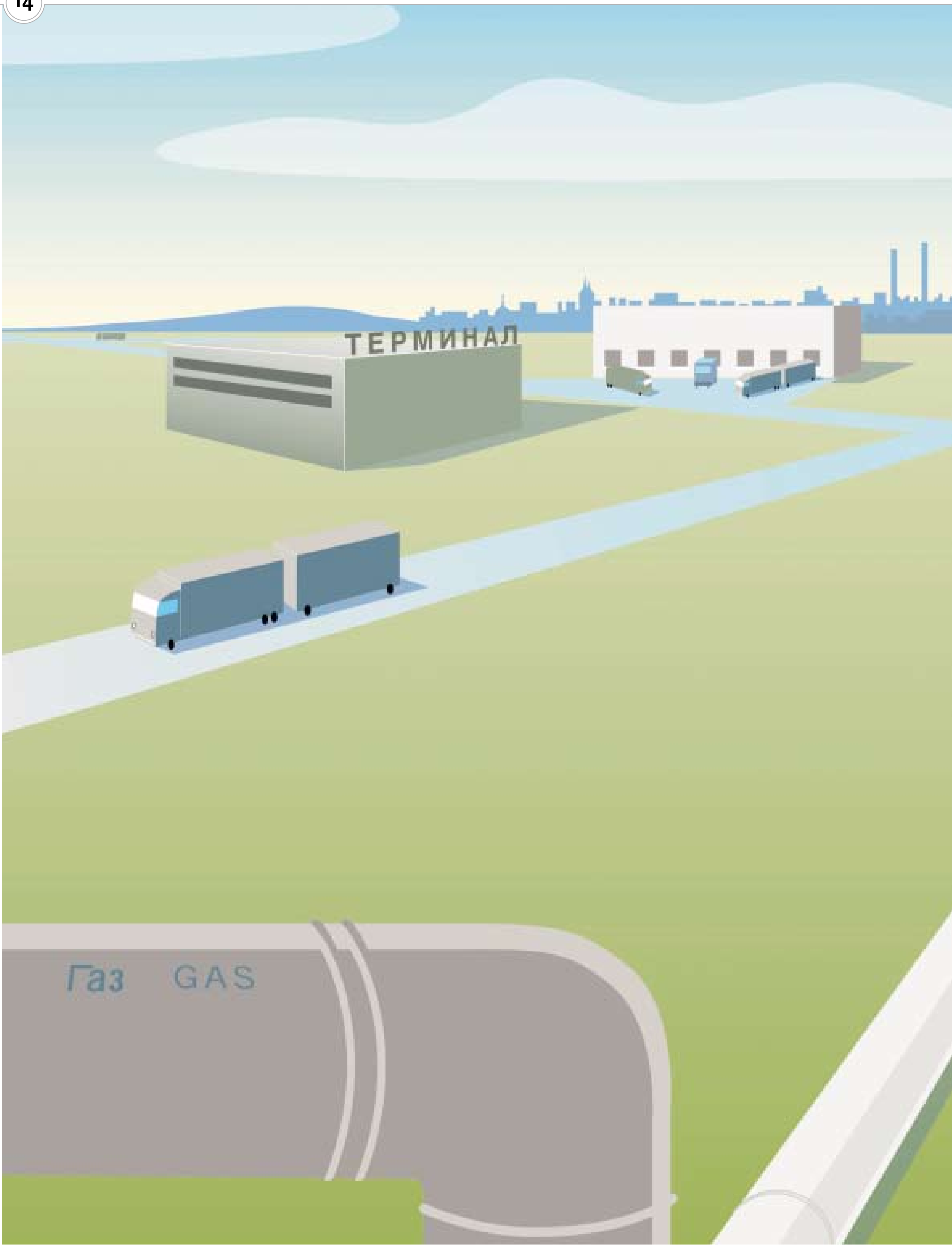
CHINA AND THE NATIONS OF SOUTH-EAST ASIA ARE CURRENTLY THE WORLD'S MOST IMPORTANT AND MOST DYNAMIC GROWTH REGION. In order to ensure that this growth continues, the region needs a strong steel industry and secure, efficient energy supplies. PSI set up a Chinese subsidiary in 2005. Since then, we have received several large orders from Chinese steel companies for our production management solutions; we successfully delivered and installed part of these solutions in 2006. Our energy management solutions for controlling and monitoring power networks are helping to provide dependable energy supplies throughout South-East Asia.

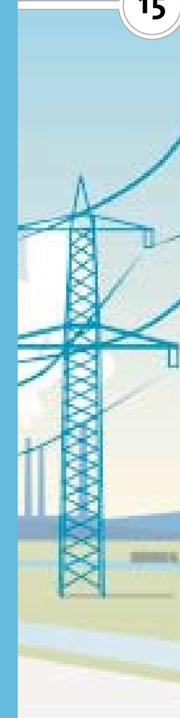
STEEL AND ENERGY FOR STRONG GROWTH



BENEFITING FROM THE CURRENT TREND WITH NEW PARTNERS

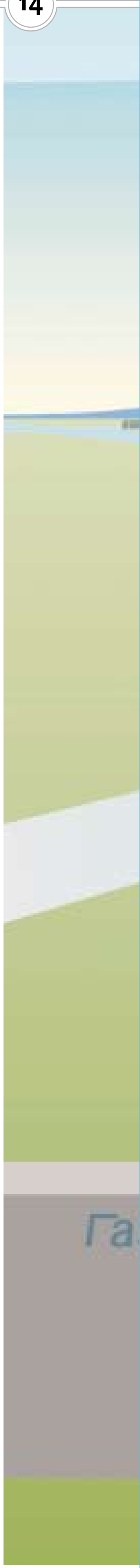
THE SUCCESS STORY OF THE ASIAN ECONOMIES is expected to continue for several years. We are anticipating a rise in demand for powerful process control solutions and took the appropriate steps by extending our network of partners and expanding our activities in China. With outstandingly good references and new partners in India and South-East Asia, we are excellently positioned to profit from the continuing boom.


ТЕРМИНАЛ
Газ
GAS



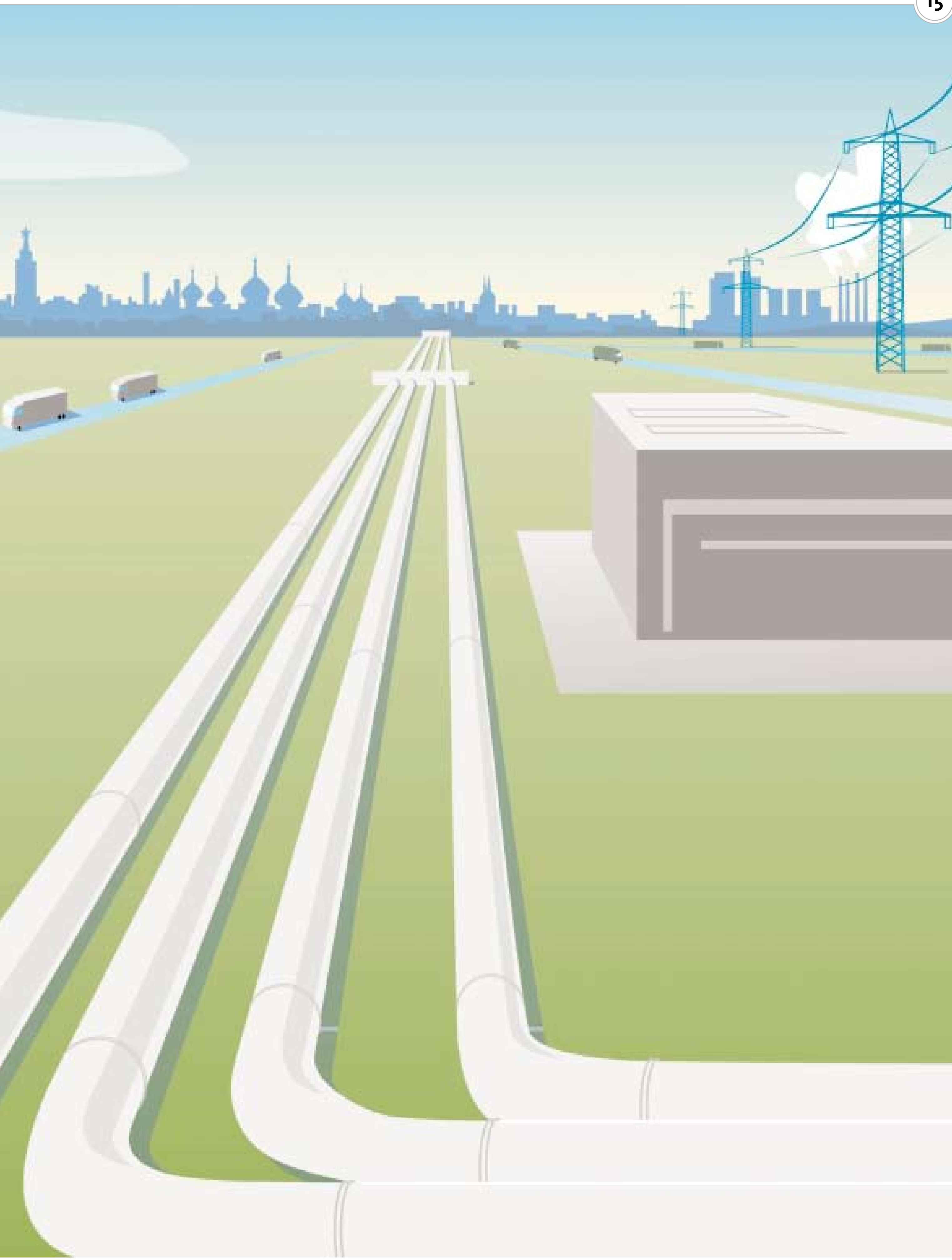
RUSSIA IS READY FOR NEW VENTURES

RUSSIA IS ONE OF THE WORLD'S KEY GROWTH ENGINES. The country's significance as a production location and attractive market is increasing steadily and Russia is also one of the world's top energy suppliers. In order to continue this growth, Russia needs powerful, efficient infrastructures. Over the past few years, PSI has established a presence on the Russian market as a leading supplier of solutions for controlling and monitoring gas and oil pipelines and managing logistics processes. PSI solutions are making a crucial contribution to the growth of the Russian economy.



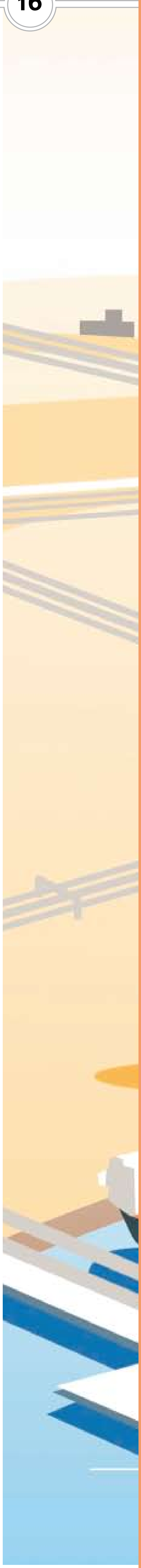
REGIONAL PRESENCE AND STRONG PARTNERSHIPS

AT THE BEGINNING OF 2007, WE OPENED A REPRESENTATIVE OFFICE IN MOSCOW. Aided by strong Russian distribution and service partners, we are now expanding into other key growth areas: we intend to exploit the growth potential of the Russian market with our leading control systems for energy supplies and steel production. Our solutions for gas, oil, and logistics have already established themselves on the market.



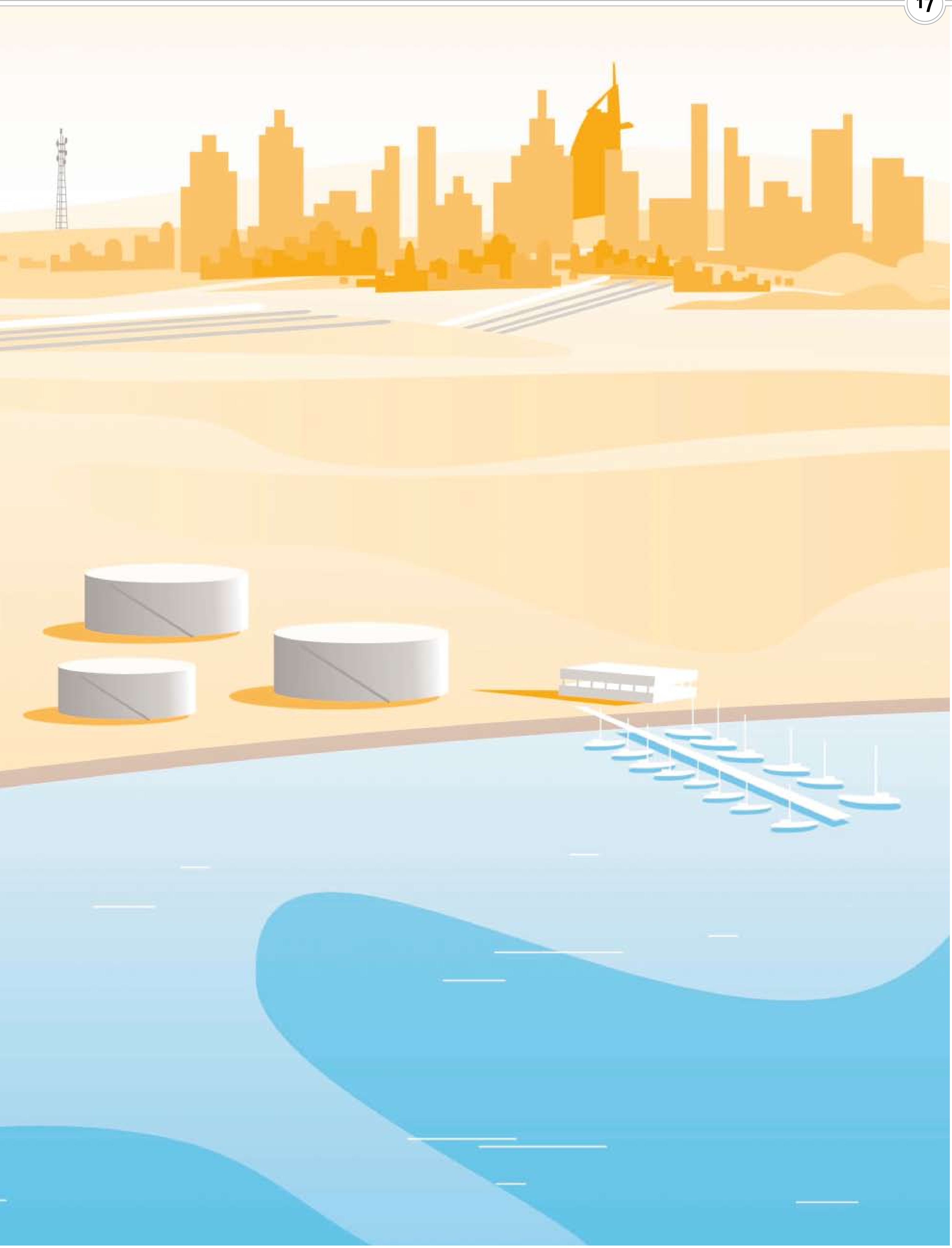
RISING ENERGY PRICES have given the Gulf States an unprecedented economic boom and triggered high investment in the region over the past years. The region's classic industries – oil production and oil transport – and its infrastructure have benefited from these investment activities. With a number of reference projects in pipeline control, energy supplies and telecommunications, PSI is already participating in this development.

OIL PRODUCTION POWERS MODERNIZATION



INVESTING IN THE REGIONS FUTURE

IN THE NEXT FEW YEARS, THE OIL-RICH NATIONS of the Middle East are set to invest heavily in traffic, tourism and communications infrastructures, thus driving forward the development of their economies and preparing for the post-oil boom era. These changes present excellent growth opportunities for PSI in the fields of energy, water and control systems for airports and other infrastructure tasks. To make this potential work for PSI, we plan to rapidly extend our network of partners in the region and strengthen our presence in this important market.

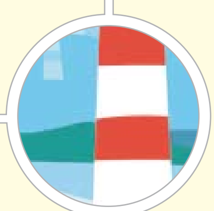


PSI IS IN DEMAND. GLOBALLY

In 2006, we were able to expand our international activities substantially, just as expected. We have received twice as many international orders compared to the previous year, and our new subsidiaries in China and Poland developed very well. We intend to continue this healthy and organic growth in developing regions of the world. In order to do so, we have expanded our partner network, and opened an additional representative office in Russia. Our products are uniquely suitable for international markets, and our unique strengths will provide us with the momentum needed to grow continuously in the eastern markets.

HIGH-END CONTROL SYSTEMS

Our control systems are designed to control large and major network infrastructures and complex production and logistics processes. Our highly-scalable systems use unique technologies to visualize and control our customers' business processes.

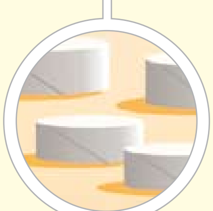


INDEPENDENT

Within our core activities, our innovative software places us among the leaders of the pertaining market. On this market, we are entirely independent from large manufacturers. This provides our customers with a high degree of technological independence and future proof investments.

DEEPLY INNOVATIVE

As industry experts, we foresee trends long before they break, and we develop solutions based on this first-hand insight. To accelerate the pace of innovation we merge the broad know-how of our corporate segments to create new products that are tested in cooperation with major pilot customers.



COMPLETE SYSTEMS

On the basis of our own standard products, we engineer and integrate advanced tailor-made solutions. Thus our customers receive future-proof systems from one provider, supporting and enhancing their unique market position. Therefore, these systems provide an excellent ROI.

2006 AT A GLANCE

Energy segment with international marketing success PSI has sucessfully developed the export of energy solutions with large orders from the Czech Republic, Malaysia, Russia, Denmark, and Kuwait.

New segment ties infrastructure solutions We opened the segment telecommunication for mobile applications and combined it with the activities transportation, safety, and disaster prevention.

Corporate structure allows for foreign market growth Our segment structure as of 2007 is based on products deployable in international markets and shared solution bases. Thus we are positioned well for additional export growth.

Process control system monitors traffic infrastructure An order was placed establishing our new process control system as means of monitoring the Austrian highway infrastructure.

First large projects in China concluded We successfully commissioned the first production and logistics control systems for Taiyuan Iron and Steel Group. We received additional orders from large Chinese steel corporations.

PSI logistics software sucessful in Russia and Belarus Our warehouse management systems are now successfully used in ten Russian and two Belarus locations.

New distribution partners in Eastern Europe and Asia New distribution partners in Russia, the Czech Republic, Malaysia, and India are part of our effort to increase foreign sales even further.

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CONSOLIDATED MANAGEMENT REPORT

Summary

In fiscal year 2006 PSI succeeded in improving on the balanced result of the previous year and reported an operating profit of € 1 million, thus continuing the Group's turnaround. The largest proportion of the Group's profit was generated by the Network Management segment, with operating results here rising to € 2.6 million. The Production Management segment displayed excellent growth, with the order volume rising by 50%. In Information Management losses were halved to €–1.6 million. Consolidated revenues were € 117 million, which is slightly higher than reported for the previous year. Incoming orders for the year were € 125 million, which is a 9% increase on 2005.

With new partners in Russia, Malaysia and India, a subsidiary in Moscow and strategically crucial orders from Eastern Europe and Asia, PSI continued to consolidate the Group's international business in 2006 and built a firm foundation for further growth.

At the beginning of 2007, we focused our traffic, telecommunications and safety solutions in a new segment, Infrastructure Management. As from 2007, Network Management will focus on energy solutions. These changes give the Group a new, more effective structure based on products which can be used throughout the world and which have shared solution cores.

In 2006, the Chinese enterprise Taiyuan Iron and Steel Group (TISCO) started producing with PSI production and logistics control systems. This order and other orders from major Chinese steel companies saw PSI significantly expanding the Group's activities on the Chinese market. We also gained other important international projects in Russia, the Czech Republic, Austria, Malaysia, and Kuwait.

Developments in the Business Environment and Industry

Continued growth in the European IT and software market

Growth in the European Union's IT market, which comprises the segments hardware, software and IT services, was slightly slower than in the previous year. Following 4.1% in 2005, growth in 2006 was 3.8%.

In Germany, growth slackened off slightly after the strong development of the previous year, dropping from 2.8% in 2005 to 2.5% in 2006. The software market, which is PSI's native market, continued to outstrip the overall development, displaying growth of 5.5% in Germany and 6.3% in Europe.

Continued domestic demand drives growth

In 2006, the German economy displayed its most healthy growth since 2000. Following 0.9% growth last year, the gross national product rose by 2.7%. Investment in equipment, the category to which computer software and intellectual property rights belong, increased by 5.9%, which is a further improvement on the preceding year's strong 4.7% growth.

The processing industry reported a steep rise in production figures, going from 2.6% in the previous year to 4.9% in 2006. Unlike in 2005, domestic demand contributed considerably to this growth, but export orders also continued to play an important role. The global steel market, for which PSI is one of the major suppliers of software, displayed dynamic growth, with demand rising by 8.8% in 2006. A further increase of around 5% is anticipated for 2007.

Business development

PSI's structure and strategy

The PSI Group's core business is developing IT process control systems. These control systems are tailor-made to match the requirements of specific industries:

- Network operators (energy, telecommunications, and transportation)
- Industry (steel industry, process industry, mechanical engineering and plant construction, automotive industry, logistics)
- Government agencies and service providers

In order to best serve the needs of these industries, we restructured the Group into three business segments in 2006: Network Management, Production Management and Information Management. As from 2007, PSI Group will be structured in the divisions Energy Management, Production Management and Infrastructure Management, and all financial reporting shall reflect this new structure.

With more than 1,000 employees, PSI is one of Germany's largest software companies. Specializing in high-end control systems, over the past years we have firmly established PSI as a leading software producer for energy suppliers and steel producers in the German-speaking market. This strong position gives the Group an excellent basis to become one of the leading international suppliers of system solutions, thus boosting our growth and profitability. At the same time, such a move would also reduce our dependency on the German domestic economy. In 2005, PSI established subsidiaries in China and Poland as part of this strategy, and 2006 saw these companies continue to expand. Throughout 2006, we continued to invest in expanding PSI's international business activities by opening a representative office in Moscow and setting up further partnerships in Russia, South-Eastern Europe and India.

The new segments, Energy Management, Production Management and Infrastructure Management, give PSI a modern structure which will further improve the fundamental requirements for further export growth and the cross-segment utilization of the Group's core products. All three segments focus clearly on solutions that are not limited to the domestic market and which can be exported to the growth markets of Eastern Europe and Asia. In Energy Management we will continue to drive forward the convergence of our control system cores as part of our enterprise-wide platform strategy. At the same time the appeal of the products has been enhanced by including functional extensions from our other segments which have been integrated into the control system cores.

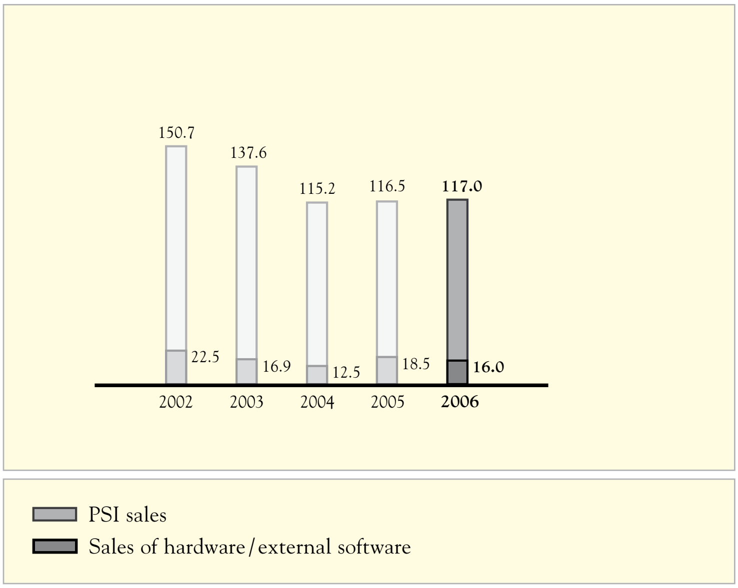
PSI Group is controlled by a value-oriented management information system. (For more information about PSI's Corporate Governances principles, please see page 6 of this report.) The key control parameters in this system are the ratio of operating result to revenue, earnings before tax, incoming orders and liquidity; generating profitable growth will remain a central target of our strategy for the coming years.

Profitability

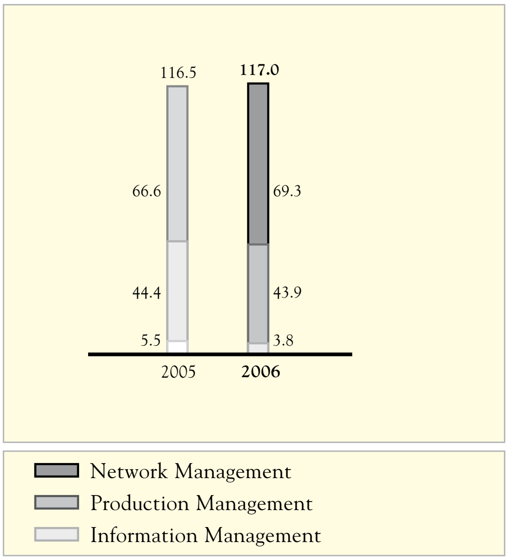
Consolidated profits increase

PSI's consolidated operating profit improved from €0.2 million in the previous year to €1.0 million in the year under review. Consolidated turnover also increased

PSI TURNOVER SLIGHTLY ON THE RISE
in € millions



CORE ACTIVITIES FURTHER EXPANDED
in € millions



€20,000 in 2005 to €0.4 million in 2006. Key contributions to these results came from the segments electrical energy, gas and oil, energy trading and the steel industry, while public sector services and telecommunications both left a dent in the Group's profitability.

Cost structure improves slightly
The cost of purchased goods and services went down by €0.9 million to €23.9 million as a result of specific projects. The rise in incoming orders meant that capacity utilization across the Group improved, which led to the cost of purchased services rising by €1.3 million. The cost of purchasing project-related hardware and licenses went down by €2.2 million. Personnel expenditure increased slightly to €70.8 million; this figure includes restructuring expenditure of €0.5 million.

Volume of incoming orders increases
In 2006, the volume of incoming orders rose by €10 million to €125 million. This 9% increase is primarily due to the marked rise in orders received by the segments Energy Management and Production Management. The year-end orders volume for 2006 was €74 million, which is an increase on the €70 million reported at the end of the preceding year.

Increased earnings per employee
Consolidated revenues in 2006 were €117 million, which is marginally above the previous year's figure of €116.5 million. The increase reported by the Network Management segment compensated for the further drop in revenues reported by Information Management. Earnings per employee went up from €110,00 (2005) to €112,000 in the year under review.

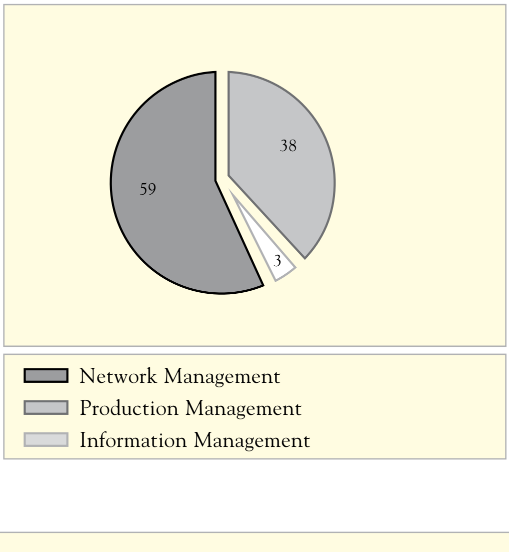
The proportion of revenues generated by exports rose from 14% in 2005 to 17% in 2006. International orders continued to rise, accounting for 26% of the Group's total orders volume. Maintenance revenues increased from 18% to 19%.

As in previous years, in 2006 PSI generated more than half the Group's consolidated revenues with Network Management products and services. The proportion of revenues contributed by this segment increased from 57% to 59%. The share contributed by Production Management remained stable at 38%, while the Information Management contribution decreased from 5% to 3% due to a further drop in sales.

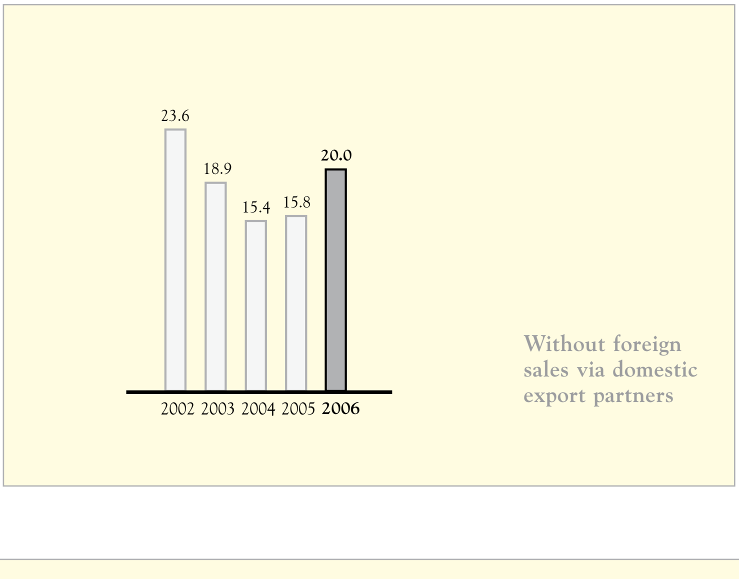
Network Management reports profits again
In Network Management we again succeeded in increasing revenues, by 4% to €69.3 million. This segment encompasses the energy, telecommunications and traffic markets. The operating result rose slightly from €2.4 million in the preceding year to €2.6 million. The gas and oil segment, which returned to profitability in the previous year, continued to perform very well. Telecommunications continued to suffer from restrained investment spending on infrastructure by network operators, thus impacting negatively on the profitability of this segment. In the traffic market, a major proportion of planned investments were postponed until 2007. Business development in the electrical energy market again displayed positive growth. PSI CNI, the Group's subsidiary responsible for the international energy market, reported gratifying growth, as did the new energy trading systems segment which was founded in 2005. Major orders from Russia, the Czech Republic, Scandinavia, Austria, Malaysia and the Middle East demonstrated the successful implementation of our export strategy for Network Management.

Production Management reports success in the steel and ERP markets
Revenues in Production Management in 2006 remained stable at €43.9 million. In this segment PSI develops solutions for planning and controlling production and logistics processes. As in the preceding year, this segment reported an operating profit: in 2006 this was €0.6 million which is slightly above the previous year's €0.4 million. The PSI steel subsidiary, PSI BT, reported particularly satisfactory business growth and succeeded in consolidating its position on the Chinese market.

SHARE OF NETWORK MANAGEMENT FURTHER INCREASED
in %



FOREIGN TURNOVER GROWN
in € millions



The ERP software supplier PSIPENTA maintained its positive trend and reported an operating profit. Weaker results than in 2005 were reported by both PSI Switzerland and our logistics segment, with the latter investing in product extensions for depot management and sequence planning and testing these in a number of pilot projects.

Information Management revenues drop

Information Management revenues declined again in 2006, dropping by 32% to €3.8 million. This was largely the result of muted investment spending by government authorities, which lasted for most of the first six months. This segment focuses on providing software solutions to support business processes in public authorities, government agencies and service companies. The segment succeeded in reducing its operating loss from €–3.0 million in 2005 to €–1.6 million in the year under review. Our IT consulting activities for public authorities were focused in a new subsidiary. We are presently considering our portfolio options with other market participants.

Financial position

The objective of PSI's liquidity planning is to secure adequate funding for the Group's operative business and investment spending. As part of our overall risk management strategy we use rolling monthly forecasting with a planning horizon of 12 months for all business segments and subsidiaries. This system enables us to minimize the amount of funds borrowed by the Group's affiliates.

Activities to be funded by revenues from our operative business

PSI's investment spending focuses on developing and converging our product base and driving forward our international expansion. To as great an extent as possible, we intend to fund these activities from revenues generated by our operative business. In order to drive the Group's internationalization and develop new products and functions, we employ major pilot projects and partnerships.

To finance current operations, PSI has mixed guarantees and credit lines totaling €44.8 million. Utilization was almost entirely restricted to mixed guarantees and totaled €33.5 million at December 31.

PSI has authorized capital amounting to €15.5 million which was approved by the shareholders at the Annual General Meeting held on May 19, 2005. No capital measures were implemented in fiscal year 2006.

Cash flow decreases as a result of more working capital

Our operative cash flow, which was €2.8 million in 2005, dropped to €–2.0 million in 2006 as a result of the expansion of our working capital to €6.3 million. The outflow of funds from investment activities decreased to €–1.9 million; in the previous year it was €–4.2 million as a result of a special item. Cash flow from financing activities went down to €0.3 million. In the preceding year, this figure was €1.4 million on account of a capital increase. Liquid funds as at December 31 were €15.3 million, which is lower that the previous year's €18.9 million. This is due to the fact that payments expected before the end of the year were not actually received until January 2007.

Assets

Asset structure: Investments

In 2006, the PSI Group invested €3.5 million in intangible assets and fixed assets, after €1.6 million in the previous year. These investments were largely for intangible assets and fixed assets purchased by third parties. As in the preceding year, internally developed software and internally acquired know-how were reported as current expenses.

In 2006, €0.5 million for capitalized software development costs from previous years were written down to a residual book value of €0.4 million. The book value of the goodwill increased by €1.4 million to €12.9 million.

Balance sheet structure: Equity ratio remains over 30%

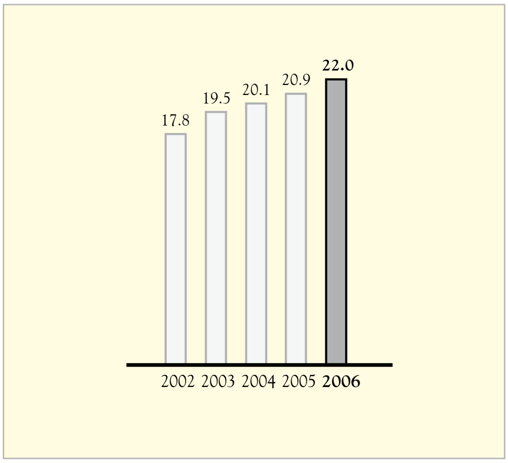
PSI's total assets went down by 4% to €84.7 million in 2006.

On the assets side, the proportion of current assets to total assets decreased slightly from 69% to 66%. Cash and cash equivalents decreased by €3.6 million, while trade receivables went up by €1.0 million. The proportion of non-current assets increased from 31% to 34% due to the increase of goodwill.

On the liabilities side, current liabilities decreased from 39% to 33%. The amount of long-term liabilities went up from 29% to 32% due to an increase in pension reserves. The Group's equity ratio went up to 34%.

MAINTENANCE REVENUES CONTINUOUSLY ON THE RISE

in € millions



Summary of PSI's assets, financial position and earnings situation

Overall, PSI's assets, financial position and earning situation continued to improve throughout fiscal 2006. The Group's profitability continued to display encouraging growth. The management team are expecting positive cash flow for 2007, meaning that liquid funds will increase again. These performance indicators show that the Group has a sound financial base from which to achieve our expansion targets over the next few years.

Research & Development

The ability to deliver innovative products and maintain a strong technological lead are crucial competitive advantages in the software market. Developing new products takes priority at PSI. In order to enjoy commercial success, products must be highly functional and modern, and the company must use shared development platforms and exchange new functions across the enterprise.

One of the key focuses of our research and development activities in 2006 was on the implementation of an enterprise-wide platform strategy. The convergence of our control systems core provides the basis required to further boost export growth and improve the utilization of core products across all corporate divisions.

Throughout the development of new products in 2006, we continued to work closely with leading pilot customers. This approach ensures that PSI products deliver outstanding customer-value from the very outset. In follow-on projects these products are continuously refined and developed to adapt them to requirements in our target markets. The resulting innovations – the product cores – are then released for general distribution and export.

Our platform strategy and internal technology transfers have helped to create a large number of new products since 2004, and these have been successively launched on the market.

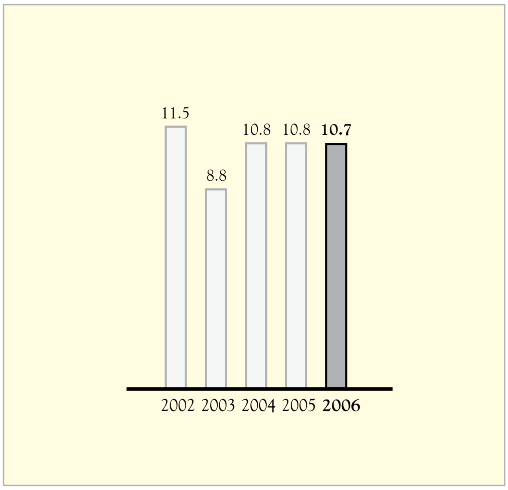
The most important measure of the success of our new products is their acceptance in the target markets. In 2006, we brought several important pilot projects to a successful conclusion, including our new IT control system, the new sequence planning system in logistics and the initial production and logistics control systems for the Chinese steel company TISCO.

In 2006, the PSI Group received €1.3 million in public funding. One of the objectives which was to be realized with the aid this funding was the development of a new platform to control intelligent logistics networks. The Group's total R&D expenditure in 2006 was €10.7 million.

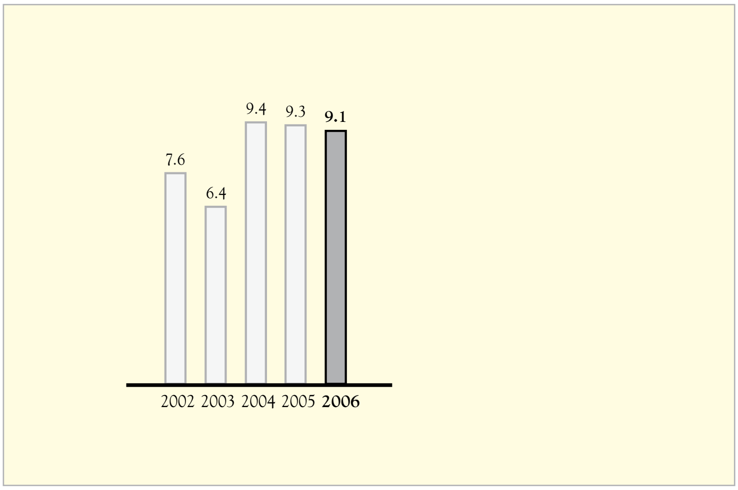
R&D highlights in 2006 included:

- The new energy control system for high voltage and supergrid voltage networks
- The integration of the product portfolios for gas and electricity trading
- The new version of PSIpenta specifically for automotive suppliers and automobile manufacturers
- The new project management system with integrated personnel planning
- The new extensions for depot management and sequencing in logistics.

R&D EXPENSES ALMOST STABLE
in € millions



SHARE OF TURNOVER ASSIGNED TO R&D
in %



Employees

For specialized software companies like PSI, employee qualifications and motivation are a crucial strategic and competitive advantage. What makes PSI stand out is the large proportion of academics amongst our workforce: more than 80% of our employees hold a university degree, predominantly in engineering.

In 2006, we continued to focus our internal qualifications and human resources development activities on training schemes to help our employees master the challenges of internationalization and on providing staff with the qualifications needed to operate in our expanding international network. Our inter-company workgroups on technology, infrastructure, maintenance, quality management, controlling and marketing were dedicated to standardizing processes across the Group and grouping general development topics.

Approximately 5.7% of shares in PSI Group were held by the employee shareholder pool in 2006. A considerable number of PSI shares are also held by individual employees.

In 2006 we reduced the number of staff employed in certain segments of the Group in response to market conditions. Staff reductions in Information Management and the telecommunications segment were balanced by the expansion of our subsidiaries in China and Poland. In total, the number of staff employed by the Group decreased by 9 to 1,049, of whom 508 are employed in the Network Management segment, 449 in Production Management, and 92 in Information Management.

Personnel expenditure increased marginally against the previous year to €70.8 million; this includes restructuring expenditure totaling €0.5 million. At the end of the year the Board of Directors and the corporate works council agreed that the employer-financed pension plan with reserves was to be frozen at the level as at December 31, 2006, and that a reinsured support fund or cash equivalent would be offered. This change means that all future benefits will be dependent on contributions, making them easier to calculate and liberating them from long-term risks associated with interest rate fluctuations and rising life expectancy. However, these benefits are balanced by an earlier outflow of funds.

Structure and Organization

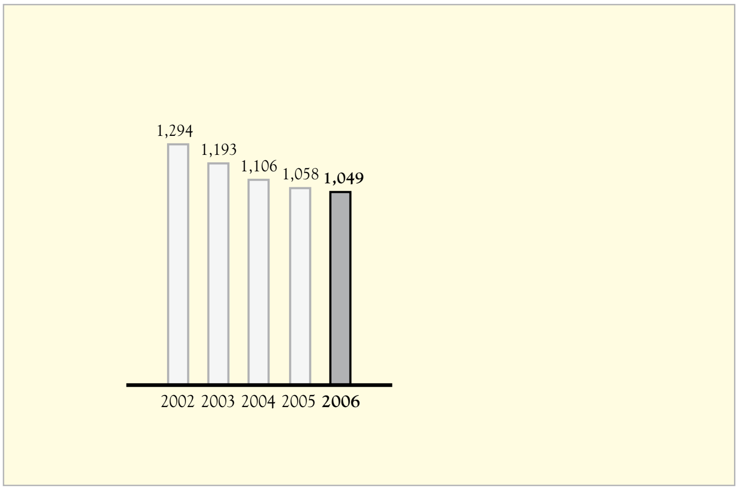
In 2006, we further streamlined PSI's structure. The traffic logistics activities of PSI Transportation GmbH were integrated in PSI Logistics GmbH with effect as of the end of 2006. This move gives PSI Logistics a fully comprehensive range of solutions for logistics companies, from the central office and distribution stations right through to customers' warehouses. Our previously seperated control systems activities in the segments traffic, telecommunications and safety, have now been merged in PSI Transportation GmbH, which was renamed PSI Transcom GmbH. These changes see PSI adapting to allow the Group to meet the new demands dictated by heightened security awareness in public transport as well as the increasing significance of mobile applications and services for traffic and security infrastructures.

In Information Management, our eGovernment and IT consulting activities were moved to our new subsidiary European IT Consultancy GmbH.

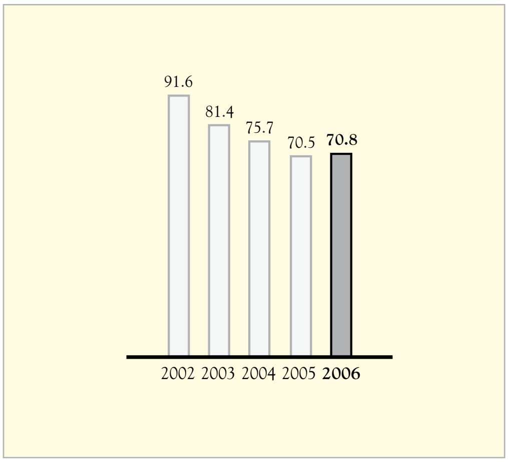
Special events during fiscal year 2006

The previously separate control system activities of the segments traffic, telecommunication and security were merged effective December 31, 2006, in PSI Transportation GmbH, which was then renamed PSI Transcom GmbH.

NUMBER OF EMPLOYEES OVER ONE THOUSAND



PERSONELL EXPENDITURES REMAIN STABLE
in € millions



The accreditation process for our representative office in Moscow was initiated at the beginning of the year and brought to a successful conclusion at the beginning of 2007. With the new office in Moscow, PSI intends to strengthen the Group's position and boost sales of systems for the oil and gas market, electricity supplies, logistics and the steel industry.

Events after the balance sheet date

No important events occurred after the balance sheet date.

Risk report

PSI's risk management systems are a crucial tool in helping us to enhance the Group's long-term value and achieve corporate and strategic targets.

The Group must be able to recognize and evaluate risks and opportunities at an early point, this enabling us to take the appropriate steps to avoid risks and seize opportunities.

PSI has identified major risks and integrated them in its early warning system:

- Market: too few incoming orders or an insufficient order portfolio
- Human resources: a shortage of employees with the necessary skills
- Liquidity: unfavorable payment terms and inadequate lines of credit
- Costs and revenues: variations from budgeted amounts, particularly with regard to project completion or development

Our risk management guidelines cover the following fields:

- Risk strategy: explicit guidelines in order to minimize the main risks and general principles of risk management
- Risk management organization: responsibilities at the appropriate executive levels, controllers and quality managers
- Risk detection, control and monitoring: tools for risk detection and for monitoring the relevant core performance indicators
- Risk management system: application of the cross-enterprise Professional Services Automation (PSA) solution

Since 2005, our risk management guidelines have been supplemented by a risk management guideline for projects. The new guideline controls the implementation of risk management within projects and details procedures for identifying, determining, analyzing, and assessing risks, and provides details of how to plan and implement measures to minimize the impact of risks within projects. In 2006, we systematized our escalation management guidelines.

The Professional Services Automation (PSA) solution has an integrated Management Information System (MIS) and it acts as a standard information and control tool across all levels of the company. Regular MIS reports, which are as a rule prepared on a monthly basis, deliver the key performance indicator figures defined in the guidelines from the areas:

- Development of incoming orders and capacity utilization
- Liquidity planning
- Development of the Group's assets and financial situation

GROUP STRUCTURE
as of Dec 1, 2006

NETWORK MANAGEMENT

PSI AG Electrical Energy Division Gas/Oil Division	
PSI Büsing & Buchwald GmbH	100%
PSI CNI GmbH	100%
Nentec GmbH	100%
PSI Transportation GmbH*	100%

PRODUCTION MANAGEMENT

PSI AG Manufacturing Division	
PSIPENTA GmbH	100%
PSI BT GmbH	100%
PSI Information Technology Co. Ltd. (China)	100%
PSI Logistics GmbH	100%
PSI AG (Switzerland)	100%
GSI mbH	100%

INFORMATION MANAGEMENT

PSI Information Management GmbH	100%
PSI Sp. z o.o. (Poland)	100%
European IT Consultancy GmbH	100%

* including the telecommunications unit

- Economic benchmark forecasting
- Sales projections, market development analyses
- Project controlling and contract management

Risk and opportunity analysis

In 2006, PSI's risk profile was primarily influenced by the general economic climate and steps taken to internationalize the Group.

Opportunity and risks by segment

In **Network Management** exposure to the risks of the German market was reduced by the Group's international sales success in the energy market. At the same time, PSI also succeeded in boosting orders for energy solutions on our domestic market. Internationally, the rising demand for dependable energy supplies in Eastern Europe and the growth markets of Asia represents strong opportunities for PSI. The international expansion of Germany's major energy supply companies represents further growth potential for PSI as Germany's leading control system company. At the same time, there is a greater need for preliminary financing and mixed guarantees in our international business activities.

The ongoing debate on whether the European energy markets should be further liberalized could potentially cause uncertainty among the market participants and delay investment plans. Due to the Group's continuing dependency on the German market, PSI could be especially affected by a weak market. On the other hand, there are strong signs that the market participants are willing to invest in an active, more liberal market.

The new partnerships set up by our Network Management division in Malaysia, India, Russia and the Czech Republic increase our sales reach and thus serve to boost our potential sales. However, these new alliances could create new dependencies.

In 2006, a number of measures were introduced across our telecommunications and traffic segments to realign the range of services provided and extend them to include security solutions. The commercial success of these segments depends to a large extent on the success of these new measures, but also on the investment activities of traffic and mobile network providers. An improvement of the general investment climate would open up fresh opportunities; However, if this does not occur then it exposes the Group to the risk of insufficient incoming orders.

In 2006, **Production Management** again profited from a high number of incoming orders due to the upswing in the global steel market and the Group's excellent position in this market. Our Chinese subsidiary, which was set up in 2005, has successfully established itself on the market and has received further orders from major Chinese steel companies. The new representative office in Moscow means that PSI will be fully present on the lucrative Russian market in 2007. Further growth in the demand for steel has been forecast for the next few years, which opens up fresh growth potential for PSI. At the same time, the company is exposed to the risk of the growth of the Chinese economy slowing down, as well as the risk of as yet inadequate skills and copyright protection legislation.

In 2006, the logistics segment benefited particularly from orders from Russia and Belarus, and growth across Eastern Europe. The ongoing trend for relocating specific sections of industrial value chains will ensure that the demand for logistics services continues to rise. The anticipated continuation of this trend presents additional business potential for PSI. Simultaneously, the competition has also increased as a result of the eastern expansion. The expansion of the airport segment in the growth market of cargo logistics also presents additional potential for PSI Logistics. However, the costs and risks associated with entering and developing this new market could cancel out any potential represented by this market.

Our ERP subsidiary, PSIPENTA, reported a substantial rise in orders for 2006 and a further improvement in its revenues. PSIPENTA benefited from the economic upswing in Germany and the rising number of orders from small and medium-sized production enterprises. Due to PSIPENTA's focus on SMEs, the company is particularly dependent on the prevalent investment climate in this sector and is exposed to the risk of insufficient orders should the domestic economy slow down again. Conversely, PSIPENTA would benefit particularly from the continuation of the present good economic development.

In **Information Management** a division was made in 2006 between the IT consulting and eGovernment activities and product-oriented activities. The consultancy services were focused in a new subsidiary in order to create the best possible organizational environment for the expansion of these services. The market showed distinct signs of recovery in the second half of the year under review, and this business unit made a return to profitability in the forth quarter. The development of the market for IT consulting will have a decisive impact on PSI's revenue growth, as will the planned portfolio adjustment and the success of the restructuring measures which have been put in place.

International expansion risks and opportunities

PSI's international expansion activities were continued in 2006. The aim of these activities is to reduce domestic market dependency and enable us to exploit the potential presented by the world's growth markets. PSI's main export markets are the eastern markets, as these markets display strong growth in the core areas of energy, industry and infrastructure. Headquartered in Berlin, PSI is ideally located to expand into the eastern markets. At the same time, international expansion exposes us to new risks, such as increased dependency on international partners, exchange rates and legal systems. We aim to spread opportunities and risks over a wider field by continuing to drive forward the expansion of our international activities.

The risks and opportunities of new products and technologies
In order to strengthen our competitive position, PSI invested further in developing new product variants and product extensions. At the same time, product platforms and components were merged in an enterprise-wide process of convergence in order to benefit from advantageous high-volume unit prices. The further growth of our earnings and cash flow situation depends to a large extent on the success of these new products and our ability to transform new technologies into appealing products and services.

Financial risks
To finance its operations, PSI utilizes financial instruments consisting primarily of trade accounts receivable, liquid assets, bank loans and bonds. The most important risks we face in this respect are default, liquidity, exchange-rate, and fair-value risks. Default and liquidity risks are controlled by using credit lines and monitoring procedures. PSI's default risk is not focused on specific contractual partners or one group of contractual partners. The Group's financial policies focus on maintaining sufficient liquidity and credit lines to enable it to satisfy its obligations.

Most of PSI's contracts are denominated in euro, making the exchange-rate risk negligible. In cases where the Group's financial instruments are not carried at fair value, the book value is very close to the fair value due to their short terms, meaning that we are exposed only to a slight fair-value risk.

Employees
The Group continues to attract qualified employees, integrate them and keep them in the company on a long-term basis. Our staff fluctuation rate is low. We aim to continue to structure our salary scheme on the basis of performance and results. The freeze of pension provisions means that all future benefits are direct salary components.

Future risks
PSI's strategy for the coming years will concentrate stringently on our core business and driving forward the Group's international expansion. If the Group does not succeed in achieving these targets then it will remain dependent to a high degree on the German economic climate and regulatory framework.

Outlook

PSI started the current year with a greatly improved starting position. As at December 31, 2006, our order volume was €74 million, which is a 6% increase on the previous year. We have successfully consolidated and expanded our position in Network Management and Production Management and the Group's revenue development was good. In 2007, we expect the good investment climate in Germany to stabilize and the economy in the growth markets of Asia and Eastern Europe to remain dynamic. Our core businesses, Network Management for large-scale infrastructures and Production Management for heavy industries, are particularly attractive for growth enterprises in these emerging economies. We intend to continue to profit from the need for investment in these regions and aim to increase the Group's export share to over 50% in the next few years. At the same time, we are anticipating moderate growth in our core business in Germany. All in all, the future prospects for PSI look very encouraging.

In order to grasp these opportunities PSI will continue the Group's strategy of an increased focus on core business and international expansion in the next years. We are confident that our new subsidiaries in China, Poland and Russia will report double-digit growth in the next few years. Our network of partners, which we successfully expanded in the preceding year, will continue to grow in 2007, thus ensuring us a regional presence in the growth markets of the world.

By harnessing international expansion and sales, we intend to sell more of our products. This positive effect will be further amplified by the ongoing convergence of our product platforms. Together with the elimination of write-downs and an increase in efficiency across the company, we are confident that we can create a sound financial basis which will enable to company to achieve the margins customary in our industry.

In Network Management and Production Management we expect the next two years to bring a further increase in revenues and sustained, organic growth. In Information Management we intend to use the stabilization of this segment, which set in at the end of 2006, to bring to a conclusion our portfolio adjustments. At the end of 2006, we merged and integrated the segments traffic, telecommunication and security. This move also increases our export capability and the Group's appeal for international partners.

All in all, our key targets for the next few years are to consolidate our profitable growth and boost the Group's profits. To achieve these goals we will continue to invest in our product base and the internationalization of our core business.

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

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CONSOLIDATED BALANCE SHEET
as of December 31, 2006 (IFRS)

ASSETS	Note	Dec 31, 2006 EUR K	Dec 31, 2005 EUR K
Non-current assets			
Property, plant and equipment	C. 1	7,908	7,992
Intangible assets	C. 1	16,426	15,971
Other financial assets	C. 2	67	186
Deferred tax assets	C. 13	4,302	2,970
		28,703	**27,119**
Current assets			
Inventories	C. 3	1,737	2,154
Trade receivables, net	C. 4	18,530	17,504
Receivables from long-term development contracts	C. 5	17,966	18,643
Other assets	C. 6	2,384	3,620
Cash and cash equivalents	C. 7	15,340	18,947
		84,660	**87,987**

TOTAL EQUITY AND LIABILITIES	Note	Dec 31, 2006 EUR K	Dec 31, 2005 EUR K
Equity			
Subscribed capital	C. 8	31,009	31,009
Capital reserves	C. 8	31,772	31,772
Retained earnings		1,181	1,181
Other reserves		32	–11
Accumulated losses		–35,047	–35,474
		28,947	**28,477**
Non-current liabilities			
Pension provisions	C. 9	25,157	23,637
Deferred tax liabilities	C. 13	2,297	1,980
		27,454	**25,617**
Current liabilities			
Trade payables		8,412	10,022
Other liabilities	C. 12	11,885	12,862
Liabilities from long-term development contracts	C. 5	6,069	8,720
Financial liabilities	C. 10	393	97
Provisions	C. 11	1,500	2,192
		28,259	**33,893**
		84,660	**87,987**

CONSOLIDATED INCOME STATEMENT
for 2006 (IFRS)

	Note	2006 EUR K	2005 EUR K
Sales revenues	D. 14	117,038	116,520
Other operating income		3,031	5,121
Increase/decrease in inventories and work in progress		–110	–407
Cost of materials	D. 15	–23,893	–24,795
Personnel expenses	D. 16	–70,831	–70,536
Amortization and depreciation	D. 17	–3,130	–3,665
Other operating expenses	D. 18	–21,057	–22,088
Operating profit		**1,048**	**150**
Interest income		318	396
Interest expenses		–1,701	–1,843
Gain/loss from associated companies		0	42
Profit before tax		**–335**	**–1,255**
Taxes on income		762	1,275
Net Group profit		**427**	**20**
Group profit per share (diluted and undiluted)	D. 19	**0.04**	**0.00**
Average number of shares in circulation (in thousands)	D. 19	**12,113**	**11,986**

CONSOLIDATED CASH FLOW STATEMENT

for the fiscal year from January 1 to December 31, 2006 (IFRS)

	2006 EUR K	2005 EUR K
1. Cash flow from operating activities		
Group net loss before tax	**–335**	**–1,255**
Adjustments for non-cash expenses		
Amortization of intangible assets	1,707	2,092
Depreciation of property, plant and equipment	1,409	1,535
Income from the disposal of assets	28	115
Income/losses from holdings in associated companies	0	–42
Interest income	–318	–396
Interest expense	1,701	1,843
Foreign exchange profit / loss	42	–2
Other non-cash income/expenses	0	–535
	4,234	**3,355**
Changes in working capital		
Changes in inventories	417	801
Changes in trade receivables	–349	5,409
Changes in other assets	–264	1,190
Changes in provisions	–775	–1,093
Changes in trade payables	–1,612	–841
Changes in other liabilities and deferred taxes	–3,325	–5,792
	–1,674	**3,029**
Interest paid	–98	–121
Income taxes paid	–253	–61
Cash flow from operating activities	**–2,025**	**2,847**
2. Cash flow from investment activities		
Additions to intangible assets	–2,172	–2,525
Additions to property, plant and equipment	–1,342	–1,115
Additions to financial assets	0	–2,542
Disposals of intangible assets	0	6
Disposals of property, plant and equipment	0	7
Disposals of financial assets	1,317	1,519
Cash acquired	0	97
Interest received	318	396
Cash flow from investment activities	**–1,879**	**–4,157**
3. Cash flow from financing activities		
Changes in paid-in share capital	0	2,816
Changes in capital reserve	0	874
Changes in own shares	297	–2,301
Cash flow from financing activity	**297**	**1,389**
4. Cash and cash equivalents at end of period		
Changes in cash and cash equivalents	–3,607	79
Cash and cash equivalents at beginning of period	18,947	18,868
Cash and cash equivalents at end of period	**15,340**	**18,947**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
in 2006 (IFRS)

	Subscribed capital EUR K	Capital reserve EUR K	Revenue reserve EUR K
Note	C. 8	C. 8	
Balance at December 31, 2004	**28,193**	**30,898**	**1,181**
Net Group profit for the year			
Purchase of own shares	2,816	874	
Issue of own shares			
Exchange rate gain/loss			
Balance at December 31, 2005	**31,009**	**31,772**	**1,181**
Net Group profit for the year			
Issue of new shares			
Exchange rate gain			
Balance at December 31, 2006	**31,009**	**31,772**	**1,181**

CONSOLIDATED SEGMENT REPORTING
2006 and 2005 (IFRS)

	Network Management		Production Management	
	Dec 31, 06 EUR K	Dec 31, 05 EUR K	Dec 31, 06 EUR K	Dec 31, 05 EUR K
REVENUES				
External revenues	69,341	66,612	43,941	44,379
Inter-segment revenues	201	272	1,780	1,278
Total revenues	**69,542**	**66,884**	**45,721**	**45,657**
Other income	4,585	4,886	3,099	3,814
Change in finished goods and work in progress	–157	–277	54	–109
Cost of materials	–18,341	–18,649	–6,457	–7,406
Personnel expenses	–36,502	–35,749	–29,499	–27,504
Amortization/depreciation of intangible assets and property, plant and equipment	–1,953	–2,341	–896	–1,012
Other operating expenses	–14,606	–12,401	–11,470	–13,059
Operating profit/loss by segment	**2,568**	**2,353**	**552**	**381**
Financial result	–748	–696	–402	–543
Profit/loss from equity investments	0	–20	0	0
Segment assets	**49,053**	**49,231**	**28,565**	**26,069**
Segment liabilities	**26,888**	**30,886**	**18,186**	**18,020**
Segment investments	**1,213**	**576**	**1,975**	**654**

Own shares EUR K	Other changes in balance sheet EUR K	Accumulated loss EUR K	Total EUR K
–129	**–9**	**–35,494**	**24,640**
		20	20
			3,690
129			129
	–2		–2
0	**–11**	**–35,474**	**28,477**
		427	427
	2		2
	41		41
0	**32**	**–35,047**	**28,947**

Information Management		Reconciliation		PSI Group	
Dec 31, 06 EUR K	Dec 31, 05 EUR K	Dec 31, 06 EUR K	Dec 31, 05 EUR K	Dec 31, 06 EUR K	Dec 31, 05 EUR K
3,756	5,529	0	0	117,038	116,520
2,606	2,009	–4,587	–3,559	0	0
6,362	**7,538**	**–4,587**	**–3,559**	**117,038**	**116,520**
475	847	–5,128	–4,426	3,031	5,121
–7	–21	0	0	–110	–407
–1,690	–1,334	2,595	2,594	–23,893	–24,795
–4,857	–7,054	27	–229	–70,831	–70,536
–255	–312	–26	0	–3,130	–3,665
–1,587	–2,625	6,606	5,997	–21,057	–22,088
–1,559	**–2,961**	**–513**	**377**	**1,048**	**150**
–233	–155	0	–53	–1,383	–1,447
0	0	0	62	0	42
3,327	**3,205**	**–587**	**6,512**	**80,358**	**85,017**
3,111	**2,464**	**5,109**	**6,160**	**53,294**	**57,530**
134	**86**	**192**	**332**	**3,514**	**1,648**

SCHEDULE OF MOVEMENTS IN NON-CURRENT ASSETS IN 2005
(IFRS)

	Cost of acquisition/production				
	Jan 1, 2005	Additions	Additions from acquisitions	Disposals*	Dec 31, 2005
	EUR K	EUR K	EUR K	EUR K	EUR K
I. Intangible assets					
1. Other intangible assets	19,265	363	0	889	18,739
2. Goodwill	32,043	138	0	18,357	13,824
3. Capitalized software development costs	25,478	0	0	21,388	4,090
	76,786	**501**	**0**	**40,634**	**36,653**
II. Property, plant and equipment					
1. Land and buildings	12,272	104	0	35	12,341
2. Computers and accessories	11,598	855	32	2,698	9,787
3. Office equipment	4,966	156	0	413	4,709
	28,836	**1,115**	**32**	**3,146**	**26,837**
	105,622	**1,616**	**32**	**43,780**	**63,490**

* Regarding the losses we refer to the details in the appendix under point C, 1 intangible asset values and fixed assets

SCHEDULE OF MOVEMENTS IN NON-CURRENT ASSETS IN 2006
(IFRS)

	Cost of acquisition/production				
	Jan 1, 2006	Additions	Additions from acquisitions	Disposals	Dec 31, 2006
	EUR K	EUR K	EUR K	EUR K	EUR K
I. Intangible assets					
1. Other intangible assets	18,739	822	0	8,086	11,475
2. Goodwill	13,824	1,350	0	0	15,174
3. Capitalized software development costs	4,090	0	0	0	4,090
	36,653	**2,172**	**0**	**8,086**	**30,739**
II. Property, plant and equipment					
1. Land and buildings	12,341	178	0	154	12,365
2. Computers and accessories	9,787	1,013	0	1,343	9,457
3. Office equipment	4,709	151	0	146	4,714
	26,837	**1,342**	**0**	**1,643**	**26,536**
	63,490	**3,514**	**0**	**9,729**	**57,275**

Accumulated amortization/depreciation				Net book value	
Jan 1, 2005	Additions	Disposals*	Dec 31, 2005	Dec 31, 2005	31.12.2004
EUR K	EUR K	EUR K	EUR K	EUR K	EUR K
14,651	1,471	886	15,236	3,503	4,614
20,615	0	18,357	2,258	11,566	11,428
23,955	621	21,388	3,188	902	1,523
59,221	**2,092**	**40,631**	**20,682**	**15,971**	**17,565**
5,820	340	30	6,130	6,211	6,452
10,456	900	2,642	8,714	1,073	1,142
4,065	295	359	4,001	708	901
20,341	**1,535**	**3,031**	**18,845**	**7,992**	**8,495**
79,562	**3,627**	**43,662**	**39,527**	**23,963**	**26,060**

Accumulated amortization/depreciation				Net book value	
Jan 1, 2006	Additions	Disposals	Dec 31, 2006	Dec 31, 2006	Dec 31, 2005
EUR K	EUR K	EUR K	EUR K	EUR K	EUR K
15,236	1,159	8,076	8,319	3,156	3,503
2,258	0	0	2,258	12,916	11,566
3,188	548	0	3,736	354	902
20,682	**1,707**	**8,076**	**14,313**	**16,426**	**15,971**
6,130	361	67	6,424	5,941	6,211
8,714	806	1,337	8,183	1,274	1,073
4,001	242	222	4,021	693	708
18,845	**1,409**	**1,626**	**18,628**	**7,908**	**7,992**
39,527	**3,116**	**9,702**	**32,941**	**24,334**	**23,963**

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENT

PSI Aktiengesellschaft for products and systems of the information technology, Berlin December 31, 2006

A. General company information

The holding company of the PSI Group is the PSI Aktiengesellschaft for products and systems in information technology (PSI AG), with registered offices at Dircksenstrasse 42–44, 10178 Berlin, Germany. The company is registered with the company registry of Berlin-Charlottenburg under the number HRB 51463.

The consolidated financial statements as of December 32, 2005 and the consolidated management report for the fiscal year 2005 have been drawn up by the Management Board on the December 31, 2006 and approved for presentation to the Supervisory Board on February 16, 2007.

The PSI Group's business comprises the production and sale of software systems and products to meet the specific needs and requirements of customers in a wide variety of industrial and service sectors, including energy, manufacturing, telecommunications, transport, public authorities, software technology, Internet applications and management consulting. In addition, the PSI Group provides a broad range of data management services, conducts trade in electronic equipment and manages data processing systems.

PSI is structured into three main business fields (segments): Network Management, Production Management, and Information Management. Contingent through the reorientation of the PSI company it is planned to customize the forthcoming segmentation in the fiscal year 2007.

The company is listed in the Prime Standard of the German Stock Exchange (Deutsche Börse AG) in Frankfurt.

B. Presentation of accounting and valuation principles

Reporting principles

The consolidated financial statements of the PSI Group are prepared on the basis of amortized cost. Financial assets available for sale are stated at fair value.

The consolidated financial statements of the PSI Group are prepared in accordance with International Financial Reporting Standards (IFRS) as applicable in the EU. The consolidated financial statements have been prepared in euros, all figures are in thousand euro (EUR k) except where otherwise noted.

Changes in accounting and valuation principles

The applied accounting and valuation principles correspond to the principles which were applied in the previous year. PSI used the new and revised standards which are considered to be binding for fiscal years starting after January 1, 2006 and are listed in the following. Essential changes for the current year – with the exception of additional information did not occur.

- IAS 19 Changes – services to employees
- IAS 39 Changes – Financial instruments: Inclusion and appraisal
- IFRIC 4 Determination if an agreement contains a leasing relationship
- IFRIC 6 Liabilities, which arise from the participation in a specific market- electronic and electronic old devices.

IAS 19 Services to employees

PSI used the changes from IAS 19 for the first time on January 1, 2006. Consequently additional statements, which contain information about the trends, were made in connection with the obligations from achievement-oriented plans and to the assumptions that are the basis of the use of achievement-oriented plans. The use of the new IAS 19 solely results in the additional statements for the fiscal years 2006 and 2005. It did not lead to a change of used balancing and assessment methods because the company had decided not to use the new option for the ascertainment of the statistical gains and losses outside of the earnings report.

IAS 39 Financial instruments: Inclusion and appraisal

Balancing of financial guarantees (published in August 2005) – changes of the application area of IAS 39. Financial guarantees which are not insurance contracts must be applied by the first inclusion with the enclosed current value and in the following years be assessed with the higher amount, from the according to IAS 37 "provisions, contingent debts, contingent demands" applied value and the value of goods received less the accumulated (in agreement with IAS 18 "yields") already successfully included amortization (continued initial costs). The application of this change has no effect on the consolidated financial statement.

Fair Value Option (published in June 2005) – A reorganisation of the IAS 39 restricts the possibility to assess each asset or each financial commitment effectively to the enclosed current value. Because PSI does not use the Fair Value option, this change has no effects on the consolidated accounts. Because PSI does not use the Fair Value option these changes had no effect on the consolidated financial statement.

IFRIC 4 determination if an agreement contains a leasing relationship.

PSI used IFRIC 4 for the first time on January 1, 2006. This interpretation contains guidelines to determine if an agreement contains a leasing relationship, to which the balancing regulations for leasing relationships must be applied. This change of the balancing and assessment methods had no essential effect on the assets , financial, and profitability situation of the company on December 31, 2006 and December 31, 2005.

IFRIC 6 liabilities, which arise from the participation in a specific market.

PSI used IFRIC 6 for the first time on January 1, 2006. This interpretation regulates the acquisition of a debt for the removal of electronic and electronic old appliances corresponding to the regulations of the EU guideline about electronic and electronic old appliances. The application of this EU guideline arose in the consolidated accounts on December 31, 2006 and on December 31, 2005 there were no effects on the asset and financial position.

Significant accounting policies

In applying the accounting and valuation principles the company has not encountered any discretionary decisions which essentially effect the amounts in the statements. The most important future contingent assumptions as well as other on the dead line existing essential causes of appraisal uncertainties because of which a considerable risk remains that within the next fiscal year an essential adjustment of the asset values or debts will be required will be subsequently described.

Value of Non-current assets. The PSI Group tests non-current assets for value impairment annually on the basis of IAS 36 procedures. The value impairment test is based on the future cash flows generated by individual assets or assets which have been grouped together for cash flow purposes. The main non-current assets which are tested annually for value impairment are the values for goodwill stated for consolidated companies. Additional details about the recoverability can be found in attachment C. 1. The asset value of the tested Non-current assets on December 31, 2006 amounted to EUR 12,916k (previous year: EUR 11,566k)

Project valuation. The PSI Group recognizes revenue on the basis of estimated project performance. Performance estimates are based on estimates of billable hours or contractually agreed milestones and are regularly updated. Additional details about the amounts realized from the projects but not yet deducted are listed in the attachment statement C. 5. On December 31, 2006 the amount of the realized partial gains was EUR 5,283k (previous year: EUR 3,992).

Deferred tax assets
Deferred tax assets will be collected for all non used taxable accumulated deficits as well as timely reservation differences to the extent in which it seems possible that a taxable income should be available for this purpose, so that the accumulated deficits actually can be used. Essential parts of the deferred tax assets have furthermore developed in the fiscal year 2005 and 2006 through company internal structures (asset deals). To determine the amount of the deferred tax assets an appraisal of the company management on the basis of the anticipated start time period and the amount of the income to be taxed in the future as well as the future tax plan strategy (timely onset of taxable results, consideration of taxable risks, etc.) is required. On December 31, 2006 the value of the active taxable losses was EUR 0 (2005: EUR 0) and the not activated taxable accumulated deficit was EUR 82,058k (2005: EUR 82,353). Additional details are listed in attachment C. 13.

Pensions and other services after the conclusion of the labor contract
The expense from competitive plans after the conclusion of the labor contract will be determined with statistical calculations. The statistical analysis takes place based upon assumptions regarding discount rates, expected retirement age, future wage and salary increases, mortality, and future pension increases. According to the long term development of these plans such appraisals are subject to essential insecurities. The provision for pensions and similar obligations on December 31, 2006 was EUR 25,157k (2005: EUR 23,637). Additional details about this can be found in attachment C. 9.

Development costs
For purposes to determine the amounts to be activated, the management must collect receipts above the amount of the expected future cash flow from asset values, the discount rates to be applied and the time period of the accrual of expected future cash flows which generate the asset values. According to the best possible estimation the book value of the activated development expenses on December 31, 2006 was EUR 354k (2005: EUR 902).

Application of IFRS in the fiscal year

PSI has not applied the IFRS und IFRIC interpretations which were published but not obligatory because it is expected that these standards and interpretations are not relevant for the business activity of PSI and/or no additional details will arise from it in the company appendix.

Principles of consolidation

a) Subsidiaries
The consolidated financial statements are prepared for PSI AG and companies over which it has a controlling influence. A controlling influence is normally considered to exist when PSI AG directly or indirectly holds 50% of the voting stock of a company and can influence the company's policy and business activities to its own advantage.

Company acquisitions are capitalized using the purchase method in accordance with IFRS 3. Companies which were acquired or sold during the course of the fiscal year are included in the consolidated statements from the time of acquistion or up to the time of disposal.

The excess of the purchase price for an acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired as of the date of the exchange transaction is known as goodwill and is capitalized as an asset. Capitalized identifiable assets and liabilities are stated with their fair value at the time of purchase. Minority shareholdings are held at the share of fair value allocated to minority shareholders.

In the fiscal year 2006 no essential changes in the area of the fully consolidated company occurred. Accordingly, besides PSI AG, PSIPENTA Software Systems GmbH, PSI Information Management GmbH ('PSI IM'), the Nentec company for network technology GmbH('Nentec') PSI Business Technology for Industries GmbH (('PSI BT'), PSI Transportation GmbH ('PSI Transportation'), PSI AG for products and systems of the information technology, Switzerland ('PSI AG/CH'), PSI Logistics GmbH ('PSI Logistics'), die PSI Büsing & Buchwald GmbH ('BuB' PSI CNI GmbH ('CNI') company for control systems of the information technology GmbH ('GSI'), EITC Europan IT Consultancy GmbH ('EITC'), as well as PSI Information Technology Shanghai Co. Ltd. ('PSI China') were included. PSI AG makes use of the right to vote, to no longer list declarations according to § 313 (4) HGB/ German law code (list of the share ownership) like in the previous fiscal years in the company attachment but now present them in a separate list at the commercial register.

On July 19, 2006 a closing agreement about the purchase price adjustment clause between PSI AG and BFI Betriebstechnik GmbH was concluded in the scope of the purchase of the minority portion of the PSI BT GmbH in 2004. According to the original purchase price this resulted in required purchase price payments for PSI AG in the amount of which could not be determined with sufficient exactness in the previous fiscal years. Accordingly, the required purchase price commitment to BFI Betriebstechnik GmbH in the previous fiscal years was included. EUR 1,350k stipulates with what all mutual claims are will be satisfied. For consolidation purposes the additional initial expenses for the company shares of PSI BT GmbH were completely assigned to the company value.

In the fiscal year 2005 no essential changes in the area of the fully consolidated companies occurred.

PSI AG had invested in VA TECH CNI Control, Networks and Informationsmanagement (subsequently 'CNI') with an equity share of 40%. Up to now, the shares were balanced at equity in the consolidated financial statement.

On December 15, 2005 an agreement was concluded with CNI partners about the transfer of 60% of the business shares of CNI for a purchase price of EUR 1. Furthermore it was agreed that the mutual co-operation agreement of CNI's partners would be dissolved. In the consolidated financial statement of PSI AG , CNI was fully consolidated for the first time on December 15, 2005 with the acceptance of the control of the economic activities.

In the scope of CNI's full consolidation the book values of CNI's balanced asset values under consideration of the processing agreement related to the co-operation agreements between the partners of CNI and the consolidated accounts was included. By the inclusion of the book values it was considered that the acquisition of the company's control should proceed step by step (acquisition of a business share of 40% in the fiscal year 2002 and acquisition of an additional business share of 60% in the fiscal year 2005). Hidden assets or charges as well as identifiable asset values or possible debts did not exist by CNI at the time of the control acceptance. The difference of EUR 1,011k resulting from the asset values and debt summation included for the first time in the consolidated accounts was collected in the amount of the acquired equity to CNI booked as income in the operating result.

An inclusion of CNI from the start of the fiscal year would not have led to an essential change of the sales and results of PSI so that a corresponding as if' note can be eliminated.

In the scope of the take over of the 60% business share on CNI liquid means of EUR 97k were acquired, the purchase price payments which should be accumulated against it amount to EUR 0k, so that the acquisition of the business shares altogether led to a positive cash flow (shown in the cash flow of from the investment activity) of EUR 97k.

The following table gives a preliminary overview of the acquisition costs incurred for assets and liabilities purchased at market value in the fiscal years 2005 and 2006:

	2006 EUR K	2005 EUR K	Straight-line amortization/ useful life
Intangible assets (customer base)	0	32	3–4 years
Positive difference	1,350	0	Unlimited
Current assets			
- Stocks	0	61	
- Trade receivables (from projects)	0	2,439	
- Other assets	0	82	
- Cash and cash equivalents	0	97	
	0	2,679	
Total assets purchased	**1,350**	**2,711**	
Negative difference	0	–1,011	
Liabilities			
- Provisions	0	–483	
- Financial liabilities	0	–81	
- Trade accounts payable	0	–590	
- Other liabilities	0	–546	
	0	–1,700	
Total liabilities purchased	**0**	**–2,711**	
Paid purchase prices	**1,350**	**0**	

c) Consolidation procedures and Group valuation policies

The financial statements of the subsidiaries and associates included in the consolidated financial statements are based on uniform accounting standards and reporting periods/balance sheet dates.

All balances and transactions between Group companies and the resulting profits and unrealized profits and losses between consolidated companies and associates have been fully eliminated. Unrealized losses were only eliminated if the transactions did not clearly show an impairment of value in the asset transferred.

Currency conversion

The PSI Group's consolidated financial statement is prepared in euros, the currency of the Group for all business and reporting purposes. Each company within the Group determines its own currency for business dealings. Valuations of assets and liabilities in the statememt of these companies are made in the chosen currency. Transactions denominated in foreign currency are initially converted from the foreign currency to the chosen business currency using the rate applicable on the day of the transaction. Monetary assets and liabilities denominated in foreign currency are converted into the business currency at the rate applicable on the balance sheet date. All currency gains and losses are included in the income statement for the reporting period.

The business currency for the foreign subsidiaries PSI AG/CH, PSI Poland, PSI BT China and PSI England is the local currency. The assets and liabilities of these subsidiaries are converted into the reporting currency of PSI AG (euro) at the rate applicable on the balance sheet date. Income and expenditure is converted at the weighted average rate of the fiscal year. All resulting exchange differences are classified separately within the capital account.

Non-current assets

a) Intangible assets

Intangible assets are valued at cost and are stated in the accounts when it is likely that the company will derive the future economic value from the asset and the cost of the asset can be reliably ascertained. For subsequent valuations, intangible assets are stated at cost, less accumulated amortization and accumulated provisions for value impairment (shown under amortizations). Intangible assets are amortized on a straight-line basis over their estimated useful life. The amortization period and method are reviewed at the end of each fiscal year.

Intangible assets include:

Goodwill

Goodwill arising from a company acquisition is initially stated at cost, which is defined as the excess of the purchase consideration of the company over the PSI Group's share of the fair value of the acquired assets, liabilities and contingent liabilities. Subsequently goodwill is valued at cost less accumulated provisions for value impairment. Goodwill is tested for value impairment at least once a year or whenever events or changed circumstances indicate that an impairment may have ocurred. The value impairment test requires that the goodwill arising from an acquisition be allocated to a cash-generating entity. If the market price for the cash-generating entity is below its book value, a value impairment must be stated.

Industrial rights and licenses

Amounts paid for industrial rights and licenses are capitalized and amortized on a straight-line basis over their estimated useful life (4–5 years).

Purchase costs of new software are capitalized and treated as intangible assets, to the extent that the costs are not an integral part of related hardware. Software is amortized on a straight-line basis over 3–4 years.

Costs incurred to restore or maintain the future economic value that the Company had originally anticipated are treated as current expenditure.

Capitalized development costs for internally developed software

Research costs are recorded as expenses in the period in which they are incurred. An intangible asset developed in the course of a single project is only recorded if the PSI Group can provide proof of the technical feasability of producing the intangible asset in order to deploy it internally or sell it and of the intention to produce and deploy or sell the asset. In addition, the Group must provide evidence that the asset can generate a future economic value, that resources are available for its production and that the Group is capable of determining reliably the development costs to be allocated to the asset. After initial capitalization of development costs the amortization method is applied, and the asset is stated at cost, less accumulated amortizations and accumulated provisions for value impairment. The activated development costs are amortized over the time period in which sales profits are expected from the respective project (straight-line amortization over 4 years). The capitalized development costs are reviewed for value impairment every year, or when the asset has not yet been deployed, or earlier whenever there are signs of value impairment.

b) Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated provisions for value impairment. When items of property, plant and equipment are sold or scrapped, their purchase costs and accumulated depreciation are cancelled and any profit or loss arising from the disposal is included in the income statement.

The acquisition costs of a tangible asset include the purchase price including the costs which are necessary to bring the tangible asset into a ready for use condition for its planned use. Subsequent expenditure, such as maintenance and repair work incurred after the asset has been put to use is reported as an expense in the period in which it is incurred. If it appears likely that the expenditure will increase the value of the asset to the Company beyond the value originally anticipated, then the expenditure is capitalized as additional cost.

Depreciation is calculated on a straight-line basis over the useful life of the asset assuming a residual value of EUR 0. If assets comprise several components with different useful lives, the components are depreciated individually over their respective useful lives. For certain categories of assets the useful lives have been set as follows:

Buildings and outside facilities	10 to 50 years
Computer hardware	3 to 4 years
Leasehold improvements	over remaining lease
Other office equipment	5 to 13 years

The useful life and the depreciation method for property, plant and equipment are annually reviewed to ensure that the methods and periods of depreciation conform to the expected value progression of the corresponding assets.

c) Impairment of non-current assets

Non-current assets are reviewed for value impairment if events or changes in circumstances suggest that the book value of an asset could not be recovered. The first step in an impairment test is to determine the recoverable amount attributable to an asset or a cash-generating entity. This is defined as the higher of fair value less costs to sell and value in use. The fair value less costs to sell is defined as the price which could be obtained by selling an asset or cash-generating entity in a transaction between two informed, consenting and independent business partners, less costs incurred through the sale. The value in use of an asset or a cash-generating entity is determined by the net present value of the future cash flows generated by its current use. In the fiscal years 2005 and 2006 no impairment of non-currents assets was recorded.

d) Financial assets

Financial assets are generally divided into the following categories:

- Extended loans and receivables owed to the Company
- Financial investments to be held to maturity
- Financial assets held for trading purposes
- Financial assets available for sale

On December 31, 2006 and December 31, 2005 PSI only had extended loans and demands and financial asset values available for disposal.

Extended loans and demands are not derived financial asset values with fixed or ascertainable payments which are not noted in an active market. The asset values will be assessed to continued initial costs using the effective interest method. Gains and losses will be included in the period result when the credits and demands are written off as well ass in the scope of amortizations.

Financial assets available for sale are those non-derivative financial assets which are classified as available for sale and do not belong to one of the previous three categories. When first recorded, financial assets available for sale are stated at fair value – profits and losses are recorded separately under the capital account. When financial investments are sold or a value impairment recognized, the accumulated profit or loss previously held in the capital account is transferred to the income statement. The fair value of financial investments traded on an organized exchange is determined by reference to the bid price recorded at the exchange on the balance sheet date. Market prices were determined for all financial assets available for sale held by the PSI Group on December 31, 2006 and December 31, 2005.

Financial assets are tested for impairment as of each balance sheet date. If it is likely that the Company will not be able to collect all amounts contractually due from loans, receivables or financial investments held to maturity that are carried at amortized cost, then an impairment loss or provision on receivables is recorded, with effect on income. An impairment loss recorded with effect on income is subsequently corrected, also with effect on income, if the subsequent recovery in value (or reduction of the impairment) can objectively be imputed to an event occurring after the original impairment. An increase in value is only recognized up to the amount that would have been reported on an amortized cost basis if the impairment had not ocurred.

The PSI Group does not use financial derivative instruments to hedge against currency or interest rate risks, for example.

e) Risk management of financial instruments

Besides delivery and service demands the company's essential financial instruments consist of liquid assets as well as bank liabilities. The financial instrument's goal is to finance the operative business. The essential risks result from break down liquidation, exchange rate, and current market value risks.

ea) Credit and liquidity risks

Credit risks, or the risk that a counterparty does not fulfill its payment obligations, are managed using lines of credit and control procedures. The Company procures collateral where appropriate. The PSI Group does not have a significant concentration of credit risk with a single counterparty or with a group of counterparties with common characteristics. The maximum credit risk is equal to the reported book value of the financial assets.

Liquidity risks arise from the possibility that a customer may not be capable of fulfilling its contractual obligations to the Company.

The PSI Group itself always aims to have sufficient cash or cash equivalents or lines of credit available to fulfill its future obligations.

eb) Exchange rate risks

As the Group companies conduct their business mainly in euros, there is no significant exchange rate risk. Hedging operations do not take place.

ec) Fair value risks

Financial instruments in the PSI Group not recorded at fair value mainly comprise cash and cash equivalents, trade receivables, other current assets, other non-current assets, trade payables and other liabilities.

The book value of cash holdings is practically equivalent to their fair value due to their high liquidity. For trade receivables and payables contracted on normal commercial terms the historical cost is also practically equivalent to fair value.

Current assets

a) Inventories

Inventories are appraised at initial costs and/or the lowest estimated net sales proceeds less still expected costs.

b) Cash and Cash Equivalents

Cash and cash equivalents include cash, fixed deposits, and sight deposits.

Equity

Equity includes capital subscribed, capital reserves, profit carried forward, own shares held, other capital inventories, accumulated profit or loss and minority shares.

The capital reserves includes premiums as defined in Section 150 of the Aktiengesetz (German Stock Corporation Act) and losses carried forward by shareholders' resolution.

Profits carried forward include net earnings as defined in Section 174 Aktiengesetz.

Purchases by the PSI Group of its own shares are deducted from common equity. The purchase, sale, issue or withdrawal of own shares has no effect on income.

Other capital reserves contain unrealized gains and losses from exchange rate conversion and mark-to-market valuation of securities available for sale. The other capital reserves underwent the following changes in the fiscal year.

	Dec 31, 2006 EUR K	**Changes 2006 EUR K**	**Dec 31, 2005 EUR K**
Currency conversion	32	41	–9
Unrealized losses from liquid securities	0	2	–2
	32	**43**	**–11**

Long-term liabilities/ Pension provisions

The PSI Group manages two defined-benefit pension and other defined-contribution plans. Neither of the defined-benefit plans are funded. Expenditure for benefits paid as part of the defined-benefit plans is calculated individually using the present value of entitlements method. Actuarial gains and losses are recorded with effect on income when the balance of accumulated, non-effective gains and losses for each individual plan exceeds 10% of the defined-benefit obligation at the end of the previous period. These gains and losses are realized over the expected average remaining working life of each beneficiary.

Current liabilities

a) Other provisions

Provisions are only made when the company has a current (statutory or factual) obligation based on a past occurrence, when the fulfillment of the obligation is likely to lead to a payment and an equivalent economic benefit and when a reliable estimate can be made of the amount of the obligation. Provisions are reviewed as of every balance sheet date and adjusted to current best estimates. If significant discounting is required, the amount provided for is equivalent to the net present value of the estimated expenditure necessary to fulfill the obligation. The increase in the provision over time as a result of discounting is recorded as a cost of borrowing.

b) Financial liabilities

Financial liabilities are divided into the following categories:

- Financial liabilities held for trading purposes
- Other financial liabilities

The financial liabilities recorded in the consolidated financial statements of the PSI Group have been classified as other financial liabilities.

When first recorded, financial liabilities are stated at cost, reflecting the fair value of the consideration given, including transaction costs. Financial liabilities from customary sales and purchases are accounted for on the day of trading.

Financial liabilities are no longer recorded when they have been discharged, i.e. when the contractual obligations have been paid, cancelled or have expired.

Public subsidies

Public subsidies are recorded when there is a reasonable assurance that the Company will fulfill the necessary conditions. Public subsidies are normally recorded with effect on income, and as rule in parallel to the expenses that they are intended to compensate. Subsidies received for the purchase of property, plant and equipment are recorded under other liabilities as deferred income. Income realized in connection with subsidies is recorded as other income from operations in the income statement.

The subsidies given to the Company as an investment grant by Investitionsbank Berlin are linked to the fulfillment of certain conditions. These mainly concern guarantees for staff numbers and restrictions on the resale of subsidized goods. Tax relief granted by the tax authorities is subject to restrictions on the resale of subsidized goods. On the basis of current planning, the PSI Group assumes that the conditions will be met in full.

In 2006 PSI received project subsidies from the European Union, amounting to EUR 1,291k (Previous year: EUR 378k). The project involves the development of a software application (e-government solution) by PSI AG and other members of a consortium. The project subsidies were received in 2006 with effect on income and have been reported as a reduction of the relevant costs. Apart from the obligation to provide evidence of the expenses covered by the subsidies, there are no further obligations or conditions attached to the projects.

Costs of borrowing

Costs of borrowing are reported as an expense in the period in which they are incurred.

Research and development costs

Research and development costs amounted to EUR 10,7 million in the fiscal year 2006. (2005: EUR 10,8 million).

Leasing

Whether an agreement qualifies as being or including a leasing agreement depends on the economic substance of the agreement and requires an assessment of whether fulfilling the agreement is dependent on the use of a particular asset or assets and whether the agreement gives a right to the use of those assets.

A leasing agreement is classified as an operating lease when essentially all of the risks and rewards associated with ownership remain with the lessor. Leasing payments made as part of an operating lease are recorded on a straight-line basis over the term of the agreement as an expense.

The PSI Group mainly has leasing agreements for vehicles and hardware (servers). These operating leases usually run for three to four years.

Revenue and income recognition

The PSI Group's sales revenues mostly derive from project business and from licenses purchased by end users for proprietary software products, both with and without customization. Revenues are also derived from the sale of third-party software, hardware and services, e.g. installation, consulting, training and maintenance.

a) Project business

For long-term projects which satisfy the criteria of the percentage-of-completion method, sales revenues from the development and sales of software systems and products are reported and recognized according to the percentage of completion of the project. The completion percentage is determined either on the basis of the number of hours worked in relation to the total number of hours planned, or according to milestones. Payments on account are set off against the corresponding receivables without effect on income. When the terms of the project change, the costs and revenues originally reported for individual projects may be adjusted. Adjustments are recorded in the period in which they are made – as a rule this occurs when the Company signs an agreement with the customer to that effect. In addition, provisions for potential losses from pending transactions are made in the period in which these losses are determined and set off against the project receivables.

b) Sale of licenses

The PSI Group recognizes its revenues on the basis of the underlying contract, as soon as the license has been delivered, the sales price has been or can be determined, no major obligations to the customer remain and collection of the receivable appears likely.

c) Maintenance

Income from maintenance contracts is recognized on a straight-line basis over the term of the contract, based on past experience. Income from consultancy and training is recognized as soon as the service has been provided.

d) Multiple-element arrangements

If a contract contains multiple elements, revenue is recognized according to IAS 18 (multiple-element arrangements). Individual contract elements are tested for compliance with the revenue recognition criteria applicable to each contract element. When the fair value (based on market pricing) can be determined for each element, revenue is recognized with the delivery of each one.

e) Recognition of interest income

Interest payments are recognized pro rata temporis to reflect the true yield on the asset.

Taxes on income

Recognized claims for tax refunds and tax liabilities for the current period and for prior periods are valued at the amount expected to be refunded or expected to be paid to the tax authorities. Calculations are made using the tax rates and tax legislation applicable on the balance sheet date or due to become applicable shortly afterwards.

Deferred taxes are calculated by applying the liability method to all temporary differences between the balance sheet valuation of an asset or liability and the fiscal valuation as of the balance sheet date. Deferred tax liabilities are calculated for all taxable temporary differences, with the following exceptions:

• A deferred tax liability may not be recorded if it arises from the initial recording of goodwill or of an asset or liability arising in the course of a business transaction which is not a merger and which has no influence on the net income for the period or the taxable income at the time of the transaction.

• A deferred tax liability may not be recorded if it arises from taxable temporary differences in connection with shareholdings in subsidiary companies, associates, and stakes in joint ventures, if the point at which the temporary differences are reversed can be controlled and it is likely that they will not be reversed in the forseeable future.

Deferred tax claims are recorded for all tax-deductible temporary differences, as yet unused tax-losses carried forward and unused tax credits to the extent that taxable income is likely to be available to set off against them. The following exceptions exist to this rule:

• Deferred tax claims may not be recorded if they arise from the initial recording of an asset or liability arising in the course of a business transaction which is not a merger and which has no influence on the net income for the period or the taxable income at the time of the transaction.

• Deferred tax claims arising from taxable temporary differences in connection with shareholdings in subsidiary companies, associates, and stakes in joint ventures, may only be recorded to the extent that the temporary differences are expected to be reversed in the forseeable future and sufficient taxable income is expected to be available against which to set the temporary differences.

The book value of deferred tax claims is reviewed as of each balance sheet date and written down in so far as it is no longer likely that sufficient taxable income will be available against which the tax claims can be at least partly offset. Deferred tax claims which have not previously been recorded are also reviewed as of each balance sheet date and are recorded to the extent that it has become likely that future taxable income will make it possible to make use of the deferred tax claim.

Deferred tax claims and liabilities are calculated on the basis of the expected tax rates for the period in which an asset is sold or a liability discharged. The expected tax rates (and tax legislation) are those which are applicable or have been announced as of the balance sheet date. Income taxes relating to equity are recorded directly in the capital account and not in the income statement.

Deferred tax claims and liabilities are set off against one another when the Group has an enforceable claim to set off recognized tax refunds against recognized tax liabilities and these both relate to income taxes owed by the same taxable entity and assessed by the same tax authority.

Sales tax

Sales revenues, expenditures, and assets will be included after the deduction of the sales tax with the exception of the following cases:

- When the accrued sales tax by the purchase of assets or services cannot be claimed by the tax revenue office, the sales tax will be included as part of the production costs of the assets and/or as part of the expenditures.

- Liabilities and debts are included together with the therein contained sales tax amount.

The sales tax amount which are refunded by the tax revenue office or deducted by it, will be included in the company financial statement under liabilities and/or debts.

Segment reporting

a) Business segments

For management purposes, the PSI Group is organized into three main business segments:

- Network Management
- Production Management
- Information Management

The divisions form the basis for the PSI Group's segment reporting. Financial information on the business segments and geographical segments is presented in note F and in a separate attachment to these notes to the consolidated financial statements.

b) Transactions between business segments

Segment revenues, segment expenditures and segment net income only contain minor transfers between business segments. These transfers are recorded at the same market prices charged to third-party clients for similar services. These transfers have been eliminated in the course of consolidation.

C. Notes to the consolidated balance sheet

Non-current assets

1 Intangible assets and property, plant and equipment

Changes in non-current assets in the fiscal year ending December 31, 2005 are detailed in the attached table of changes in non-current assets and property, plant and equipment (attachment to the notes to the consolidated financial statements).

In the attached notes to the consolidated financial statements, the following corrections were made in 2005 for equal amounts to historic acquisition and production costs and to accumulated amortization/depreciation:

- Corresponding to the declared company values on January 1, 2005 EUR 18,357k will be declared as loss of the historical acquisition and production costs as well as the accumulated write offs. This presentation means that as of December 31, 2005 only those provisions for goodwill impairment are reported which would have been shown under IFRS 3 and IAS 36 (revised 2003).

- EUR 21,388k are recorded as a write-off of historic acquisition and production costs and of accumulated amortization relating to capitalized software development costs reported as of January 1, 2005. In the course of changes made to reporting methods applicable to the capitalization of software development costs, the Management Board of the PSI Group has decided that the historic acquisition and production costs and accumulated amortization for software products which continue to be developed can be considered to be written off when the software product has undergone two full development release cycles following the complete write-off of a given release.

On December 31, 2006 and December 31, 2005 the PSI Group tested its non-current assets for value impairment. This test was performed on the book values for goodwill for the following cash-generating entities:

	Dec 31, 2005 EUR K	Access EUR K	Rebooking EUR K	Dec 31, 2006 EUR K
Net Management				
Electric energy division and Nentec of PSI AG	1,493			1,493
Gas and oil division of PSI AG	1,576			1,576
BuB	2,267			2,267
PSI Transportation	2,834		–482	2,352
CNI	0			0
	8,170		**–482**	**7,688**
Production Management				
PSIPENTA	574			574
PSI BT and PSI China	980	1,350		2,330
PSI Logistics	356		482	838
GSI	285			285
PSI AG/Switzerland	41			41
Area manufacturing of PSI AG	0			0
	2,236	**1,350**	**482**	**4,068**
Information Management				
PSI IM	1,160			1,160
EITC	0			0
PSI Poland	0			0
	1,160	**0**	**0**	**1,160**
	11,566	**1,350**	**0**	**12,916**

The impairment test is based on cash flow planning for the individual cash generating entities over a time period of 8 years on the basis of past values as well as expectations about the market development. The impairment test is based on cash flow planning for individual cash-generating entities over a period of eight years. No further cash flows are included after the end of the planning horizon. The estimated cash flows are derived from past experience. Consideration was also given to the greatly improved margins resulting from major development investment and restructuring activities carried out over recent years. Management's assumptions on development trends in the software industry coincide with those of industry experts and market analysts. A discount rate of 7.45% was applied to future cash flows.

2 Other financial assets

Cost of purchase and current market value of the securities available for sale shown under other financial assets are as follows:

	2006 EUR K	2005 EUR K
Initial costs	186	304
Sale	–121	–118
Unrealized gains/losses	2	0
Market value	**67**	**186**

Securities available for sale consist mainly of shares in a money-market fund.

Current assets

3 Inventories

	2006 EUR K	2005 EUR K
Work in progress	489	1,072
- at cost		
- at fair value		
Hardware and third-party licenses	1,198	1,080
- at cost		
- at fair value		
Payments on account to subcontractors	50	2
	1,737	**2,154**

4 Trade receivables, net

	2006 EUR K	2005 EUR K
Trade receivables, gross	18,615	17,769
Individual value adjustments	–85	–265
	18,530	**17,504**

5 Trade receivables from long-term development contracts

Trade receivables arise when revenues are recognized under the percentage-of completion method which cannot yet be invoiced under the terms of the contract. The amounts are calculated using various performance criteria such as milestones, the ratio of employee hours worked to hours budgeted, the completion of certain units or completion of the contract. The book values include the directly attributable costs (personnel costs and third-party expenses) and an appropriate share of overhead.

Receivables value under the percentage-of-completion method include the following components:

	2006 EUR K	2005 EUR K
Costs incurred	41,883	35,090
Profit share	5,283	3,992
Contract revenues	47,166	39,082
Payments received on account	–27,825	–22,185
Receivables from long-term development contracts	17,966	18,643
Liabilities from long-term development contracts	6,069	8,720

6 Other assets

	2006 EUR K	2005 EUR K
Prepaid expenses	1,120	1,068
Subsidies	311	63
Loans and advances to customers	275	201
Tax credit (sales tax)	342	664
Payments made on account	19	91
Recievables from sale of shareholding	0	1,115
Other	317	418
	2,384	**3,620**

Receivables from the sale of shareholdings include the consideration for the sales of shares in Varial AG and Schindler Technik AG owed by the buyers.

The prepaid expenses essentially contain limited deposits for maintenance within a year allowed as expenses.

7 Cash and cash equivalents

	2006 EUR K	2005 EUR K
Bank balances	11,040	10,673
Fixed term deposits	4,285	8,259
Cash	15	15
	15,340	**18,947**

8 Equity

Changes in shareholders' equity are shown in the consolidated table.

a) Subscribed capital

The share capital fully paid in and filed with the company registry amounts to EUR 31.008.947,20 (2005: EUR 31.008.947,20). The share capital is divided into 12.112.870 (2005: 12.112.870) shares with no par-value.

In the shareholders' meeting on May 12, 2006 the Management Board was authorized to buy back up to 10% (EUR 3,096k) of the company's outstanding shares. The authorization expires on November 18, 2007.

b) Contingent and authorized capital

The contingent and authorized capital has not changed in 2006.

	2006 EUR K	2005 EUR K
Authorized capital (AC)		
- AC I/2005 (until May 18, 2010)	15,504	15,504
	15,504	**15,504**
Contingent capital (CC)		
- CC II/2004 (until May 26, 2009)	10,240	10,240
	10,240	**10,240**
	25,744	**25,744**

c) Capital reserve

The capital inventorie contains the agio from capital increases.

d) Treasury shares

At PSI's the general meeting on May 12, 2006 the Board of Directors was authorized to buy back treasury shares of up to 10% of the stock capital (EUR 3.096k). The authorization expires on November 11, 2007. The existing authorization of the Board of Directors for the purchase of treasury shares according to the general assembly from May 19, 2005 was cancelled effective at the end of the day of the general assembly. On the balance sheet day there were no treasury shares.

Non-current liabilities

9 Pension provisions

Pension provisions are made for obligations (retirement pensions, invalidity pensions, widows' and orphans' annuities) arising from entitlements and from current payments to present and former members of staff of the PSI Group and their surviving dependents.

In PSI there are three different models of performance oriented pension benefits which grant employees care services dependent on the time of company affiliation and before reaching the care case's existing compensations. On December 5, 2006 PSI AG's Board of Directors and the corporate works council have incorporated a company agreement for the regulation of the company's old age benefits and compensation payments in PSI AG which includes all existing models of performance oriented pension benefits. The agreement between PSI's Board of Directors and the corporate works council thereby displaces as the entire corporate group agreement the existing individual agreements.

The content of this agreement is to modify the existing pension care benefits and prospectively change them into contribution benefits:

- The employee's earned vested rights up to December 31, 2006 were frozen as a fixed amount. This freezing has the result that the earned entitlement for an old age pension does not increase above the level reached on December 31, 2006 neither through future length of service nor through future salary increases.

- The freezing occurs in such a way that for each pension candidate a vested right for an old age pension will be determined starting at age 65. The vested right will be determined as if the employee has become 65 on December 31.

- As adjustment for the loss of the future increases of the company old age pensions (entitlement increases) there will be up to end of the work relationship at the longest to the end of age 65 either equally increasing amounts deposited into a reinsured cash box or the employee will be granted an increase in the gross benefits in the amount of an annually equally increasing one time payment. These compensation amounts are determined according to statistical principles.

- For the determination of the compensation amounts it is determined in the first step which constant annual premium would be paid to a fictitious insurer when he/she would have to earn the pension benefits of the previous pension plans by an unchanged continuation. The amount of the compensation payment to the employees in the first year is 70% of the thus determined equal annual premium of a fictitious insurer and then will annually advanced by a constant percentage rate. If an employee leaves the company and the amounts paid into the benevolent fund have not reached 100% of the employee's entitled compensation claim, PSI is not obligated to pay the difference in favor of the employee.

Projected pension obligations (net present value of future pension liabilities) were calculated using actuarial methods based on the following assumptions:

	2006 %	2005 %
Discount rate	4.40	4.25
Increase in salaries	1.00	1.00
Increase in pensions	1.00	1.00
Turnover	4.50	4.50

The increase in salaries includes expected future increases in salary levels based on yearly estimates of inflation and length of service.

On December 31, 2006 by the calculation of the pension obligations a retirement age of 64 (previous year: 62 years) was supposed. The advance of the retirement age is based on statistic elevation for retirement in PSI.

The net pension expenditures are set up as follows:

	2006 EUR K	2005 EUR K
Work time expenditure declared in personnel expenditure	893	687
Amortization of statistical net losses declared in personnel expenditure	672	0
Effects from freezing of the pension obligation declared in personnel expenditure	−931	0
Interest expense in the interest result	1,444	1,359
Period expenses	**2,078**	**2,046**

The classification of the effects from the freezing of the pension obligation to the personnel expenditure occurred before the background that the decreased amounts of the pension reserves can be attributed to the loss of components of the service expenditure.

The following overview shows the composition of the pension obligations:

	2006 EUR K	2005 EUR K
Defined-benefit pension obligations	30,416	33,493
Unrealized actuarial gain/loss	−5,259	−9,856
Curent pension obligation	**25,157**	**23,637**

The reduction of the present value of entitlements results from an increase of the discount factor, the adjustment of the average retirement age, as well as the freezing of the pension plans. The statistical losses which altogether exceed a value of 10% of the cash value, will be amortisized over the average life affecting a net profit.

The following overview shows the composition of the pension liabilities:

	2006 EUR K	2005 EUR K
Pension obligations, start of period	23,637	22,669
Pension payments	−558	−461
Reduction through mortality	0	−617
Expenses for the period	**2,078**	**2,046**
Pension obligations, end of period	**25,157**	**23,637**

Current liabilities

10 Financial liabilities

PSI uses bank overdrafts for short-term liabilities financing. The financial liabilities are cancelled monthly. The Group aims to refinance the short-term financial liabilities on an ongoing basis. The market value corresponds to the book value of the financial liabilities.

The expenditures for interest amounted to EUR 98k in the fiscal year 2006 (2005: EUR 121k).

11 Provisions

The provisions have developed as follows:

	Status Jan 1, 2006 EUR K	Demands EUR K	Interest share EUR K	Cancellation EUR K	Supply EUR K	Status Dec 31, 2006 EUR K
Personnel provisions	1,678	–712	159	–3	38	1,160
Other provisions	514	–241	0	–10	77	340
	2,192	**–953**	**159**	**–13**	**115**	**1,500**
Of which short-term	798					404
Of which long-term	1,394					1,096

Personnel provisions mainly contain provisions for phased retirement programs. Provisions are calculated based on the terms of individual employment contracts using a discount rate for related projected cash flows of 4.4%.

12 Other liabilities

	2006 EUR K	2005 EUR K
Deferred income	1,589	1,992
Personnel-related liabilities	5,400	2,772
Tax liabilities (Sales tax, income tax)	2,757	2,079
Liabilities from acquisitions	25	1,209
Other	2,114	4,810
	11,885	**12,862**

Personnel-related liabilities consist mainly of accrued vacation entitlement, overtime and bonuses. Deferred income payments (maintenance income paid in advance) will be booked to income within the year.

13 Deferred taxes/taxes on income

German municipal trade tax is payable on the taxable net income of the PSI Group, adjusted by excluding certain types of income not liable to trade tax and by adding certains types of expense which are not deductible for trade tax purposes. The effective rate of trade tax depends on the municipality of PSI Group's businesses. The average rate of trade tax in 2006 and 2005 was around 17.5%. Trade tax payments can be set off against corporation tax, which is set at 25%. An additional 'solidarity surcharge' is payable at the rate of 5.5% of the corporation tax payment.

The income taxes of the current fiscal year are added as follows:

	2006 EUR K	2005 EUR K
Effective tax expenses		
Current year	**–253**	**–135**
Deferred tax income		
Change of the immaterial asset values	586	–36
Changes in long-term development contracts	–504	356
Phased retirement programs	–115	325
Activation of self constructed software	215	212
Changes in pension provisions	1,098	374
Project-related provisions	–265	179
	1,015	**1,410**
Income from income taxes	**762**	**1,275**

The following overview shows the reconciliation of tax expense and income:

	2006 EUR K	2005 EUR K
Earnings before tax	–335	–1,255
Theoretical tax income (39.26%)	132	493
Non-deduction of tax losses and depreciation of tax losses carried forward from prior years	–121	–1,629
Reversal of valuation adjustments on deferred tax assets from temporary booking differences	0	1,793
Non controllable consolidation effects	–702	593
Utilization of tax losses	1,407	0
Non-taxable expenses/income	46	25
Effective tax income	**762**	**1,275**

The following table shows the deferred taxes as reported in the PSI Group balance sheet:

	2006 EUR K	Change EUR K	2005 EUR K
Latent taxes			
Pension reserves	1,987	1,098	889
Intangible assets	2,105	586	1,519
Phased retirement program	210	–115	325
Project-related provisions	–86	–265	179
Recievables from long term development contracts	–2,071	–504	–1,567
Activation of self constructed software	–140	215	–355
	2,005	**1,015**	**990**
thereof effective on income	1,015		1,410
thereof effective on equity	0		0
Balance sheet			
Deferred tax assets	4,302		2,970
Deferred liabilities	**–2,297**		**–1,980**

In total, the PSI Group has unused tax losses of EUR 82,058k, of which EUR 78,126k are derived from businesses in Germany. Tax losses do not usually expire in Germany.

D. Notes to the consolidated income statement

The income statement has been drawn up using the total expenditure format.

14 Revenues

	2006 EUR K	2005 EUR K
Software development and maintenance	93,254	92,433
License fees	5,793	5,379
Merchandise	17,991	18,708
	117,038	**116,520**

15 Cost of materials

	2006 EUR K	2005 EUR K
Cost of services	9,281	7,939
Cost of goods	14,612	16,856
	23,893	**24,795**

16 Personnel expenses

	2006 EUR K	2005 EUR K
Wages and salaries	59,504	59,197
Social security expenses, pensions and other benefits	11,327	11,339
	70,831	**70,536**

17 Amortization and depreciation

	2006 EUR K	2005 EUR K
Depreciation of fixed assets		
of intangible assets, property, plant	2,568	3,006
of capitalized development costs	548	621
	3,116	**3,627**
of current assets	14	38
	3,130	**3,665**

18 Other operating expenses

	2006 EUR K	2005 EUR K
Rents, leases and related costs of real estate	4,488	4,749
Travel expenses	4,014	3,669
Dataline, IT and telephone costs	2,213	2,537
Advertising and marketing	2,970	2,484
Equipment leasing	1,613	1,751
Legal and advisory fees	1,051	1,228
Project costs	557	1,631
Other	4,151	4,039
	21,057	**22,088**

19 Income per share

Undiluted income per share is calculated in accordance with IAS 33 as the consolidated net income divided by the weighted number of shares.

	2006	2005
Net income for the period (EUR k)	427	20
Number of weighted shares (in thousands)	12,113	11,986
Undiluted income per share (EUR/share)	**0.04**	**0.00**

For the purposes of calculating the diluted income per share, the net income for the period attributable to ordinary shareholders and the weighted average number of shares in circulation are adjusted for the dilution effect of stock options when exercised. Because the share option plans have expired in 2004, and no new ones were published, there were no dilution effects.

E. Notes to cash flow statement

The cash and cash equivalents as recorded are not subject to any restrictions by third parties. The PSI Group has made no payments for extraordinary transactions. Interest and income tax payments have been stated, a dividend was not paid.

F. Notes to the segment reporting

The PSI Group applies IAS 14 – Segment Reporting. This standard contains provisions for the disclosure of information regarding business segments and geographic segments.

The PSI Group is organized into three operational business segments – Network Management, Production Management and Information Management.

The segment reporting for business segments is included in an attachment to these notes to the consolidated financial statements.

Network Management

The segment Network Management mainly comprises the business activities in the fields of energy, gas/oil/water and telecommunications (business areas of PSI AG) and those of Büsing and Buchwald GmbH, PSI Transportation GmbH and Nentec GmbH, which are mainly made up of development, installation, service and maintenance of customized software for customers in the sectors energy, gas/oil/water, telecommunications and local public transport. During the fiscal year, no single customer contributed more than 10% to total revenues.

Production Management

The segment Production Management essentially contains the economic activities of PSI BT GmbH with solutions for the steel and chemistry industry, the PSI Logistics GmbH with products and solutions of the distribution logistics as well as PSIPENTA GmbH with products and solutions for the assembly industry. PSI AG Switzerland as well as the business unit PSI Manufacturing distribute additional branch related solutions in the production area.

Information Management

The segment Information Management essentially contains the economic activities of PSI Information Management GmbH and the spun off EITC GmbH. This segment focusses on the sale of software solutions to public authorities.

Reconciliation with segment assets and liabilities

Segment assets and liabilities are reconciled with gross assets and liabilities as follows:

	2006 EUR K	2005 EUR K
Gross assets per balance sheet	84,660	87,987
Deferred tax assets	–4,302	–2,970
Segment assets	**80,358**	**85,017**

	2006 EUR K	2005 EUR K
Gross liabilities per balance sheet	55,713	59,510
- Provisions for taxes	–122	0
- Deferred tax liabilities	–2,297	–1,980
Segment liabilities	**53,294**	**57,530**

Additional geographic notes

In 2006 in the segment Network Management EUR 9,629k and in the segment Production Management EUR 10,313k have been realized abroad. In the previous year, the 10% limit was not exceeded. The notes for the segment assets are omitted because the 10% limit was not exceeded.

G. Other notes

Other financial obligations and contingencies

Rental and leasing contracts

Operating lease contracts exist for office equipment, IT hardware and other equipment. In 2006 payments of EUR 160k (2005: EUR 133k) were made for office equipment leasing and payments of EUR 159k (2005: 299k) for IT and other equipment.

In 1996 PSI AG signed a rental contract for an office building in Berlin. The contract has a fixed term to March 31, 2012.

From this and additional rental and leasing contracts the following rental and leasing payments resulted:

	Rental payments EUR K	Leasing payments EUR K	Total EUR K
2007	3,511	608	4,119
2008	2,922	400	3,322
2009	2,608	187	2,795
2010	2,255	23	2,278
2011	1,937	4	1,941
2012 and later	490	0	490

Bank guarantees

Various insurance companies and banks have given guarantees for a total of EUR 33,515 (2004: EUR 31,633) on behalf of PSI AG.

Declarations of subordination and letters of comfort

PSI AG has issued declarations of subordination with regard to receivables owed by subsidiaries for a total of EUR 6.5 million (previous year: EUR 6.5 million). Letters of comfort were also given for a number of subsidiaries.

Employees

The average employee number in the PSI Group in the fiscal year was 1,049 (2005: 1,058 employees).

Auditing expenses

Auditing expenses for the audit of the financial statements of PSI AG, the consolidated financial statements of the PSI Group and all significant subsidiaries were EUR 159k (previous year: EUR 156k). Ernst & Young also provided tax advisory services in connection with the Chinese subsidiary for EUR 33k (previous year: EUR 66k). Other certification expenses amounted to EUR 0k (previous year: EUR 18k)

Related parties

Related parties are those companies or individuals which are capable of exerting a controlling influence over the PSI Group or of exercising significant influence on its financial and operational policies. When determining the signficant influence which related companies and individuals have on the financial and operational policies of the PSI Group, account was taken of existing rights of control as well as any fiduciary arrangements.

Related companies

The subsidiaries included in the consolidated financial statements are considered to be related companies. There are no further related companies.

Between PSI AG and it's subsidiaries there existed performance relationships in the scope of cash management, central management services as well as the presentation to customs personnel which was eliminated in the scope of consolidation.

Related individuals

The following persons are considered as related individuals:

PSI AG management members

Dr. Harald Schrimpf
Armin Stein

PSI AG governing body members

Christian Brunke
Wolfgang Dedner
Dirk Noß, until May 12, 2006
Barbara Simon
Karsten Trippel
Prof. Dr. Rolf Windmöller
Dr. Ralf Becherer, since May 12, 2006

On March 30, 2006 FINANCIERE DE L'ECHIQUIER 17, Avenue George V 75008 Paris, France, made an announcement according to § 21 section 1 WpHG stating that on March 9, 2006 she has exceeded the threshold of 5% and held 52% of the voting rights of PSI AG. The votes will be added to FINANCIERE DE L'ECHIQUIER according to § 22 section 1 WpHG.

On May 25, 2006 Fidelity International Limited reported according to § 21 section 1 WpHG that the votes on the proportion of voting rights of FMR Corp., 82 Devonshire Street, Boston, Massachusetts 02109, USA, has fallen below the threshold of 5% by PSI AG on May 24, 2006.

A consortium to which various employees of PSI AG belong for the purpose of exercising their voting rights in concert also held 5.67% and ENERGY Innovations Portfolio AG & Co. KGaA 5.18% of the voting rights of PSI AG as of the balance sheet date.

Transactions with related parties

In the previous year no transactions between the related persons and PSI Group occurred.

Supervisory Board

The following persons were members of the Supervisory Board in the fiscal year 2006:

Name	Profession	Location	Membership in the Supervisory Board of other companies
Members of the Supervisory Board			
Christian Brunke (Chairman)	Dipl.-Betriebswirt (Graduate in Economics)	Berlin	
Wolfgang Dedner (Deputy chairman)	Dipl.-Ing. (Graduate in Engineering)	Berlin	
Dirk Noß (Employee representative), until May 12, 2006	Dipl.-Ing. (Graduate in Engineering)	Aschaffenburg	
Barbara Simon (Employee representative)	Dipl.-Ing. (Graduate in Engineering)	Berlin	
Karsten Trippel	Businessman	Großbottwar	Berlina AG for assets East-West investment and property management AG
Prof. Dr. Rolf Windmöller	Business engineer	Ennepetal	ProDV Software AG, Dortmund (Chairman) SAG NE GmbH, Langen until August 25, 2006
Dr. Ralf Becherer (employee representative) since May 12, 2006	Business engineer	Aschaffenburg	

Compensations for management and executive bodies

The members of the Management Board received the following compensation in the fiscal year 2006 (2005: EUR 369k):

	Fixed compensation EUR K	Variable compensation EUR K	Total EUR K
Management Board			
Armin Stein	190	78	268
Dr. Harald Schrimpf	190	78	268
	380	**156**	**536**

Pension benefits do not exist for the Management Board.

For retired members of the management pension reserves in the amount of EUR 569k (2005: EUR 569k) were declared.

The Supervisory Board received compensations of EUR 117k (2005 EUR 127k).

Management and members of the Supervisory Board hold shares as follows:

	Shares Unit
Management	
Armin Stein	8,000
Dr. Harald Schrimpf	50,000
Members of the Supervisory Board	
Christian Brunke	5,000
Wolfgang Dedner	26,500
Barbara Simon	7,890
Karsten Trippel	84,000
Prof. Dr. Rolf Windmöller	1,120
Dr. Ralf Becherer	268

Notes to the German Corporate Governance Code

The declaration of compliance was made on December 15, 2006 and is permanently available to shareholders via the Internet homepage of PSI AG (www.psi.de) in the section Investor Relations.

Berlin, February 12, 2007

Dr. Harald Schrimpf　　Armin Stein

Auditor's Report

We have endorsed the group accounts and group report with the following audit certificate notes:

We have audited the consolidated financial statements of PSI Aktiengesellschaft für Produkte und Systeme der Informationstechnologie, of Berlin, consisting of the Balance Sheet, Income Statement, Cash Flow Statement, Statement of Changes in Shareholders' Equity, the Notes to the financial statements and the consolidated Management Report for the fiscal year from January 1, 2005 through December 31, 2006. Preparation of the consolidated financial statements and the consolidated Management Report in accordance with IFRS, as required by EU regulations, as well as compliance with the additional provisions of German commercial law, as stipulated in Article 315a of the HGB (German Commercial Code), are the responsibility of the Company's legal representatives. Our responsibility is to evaluate the consolidated financial statements and the group report, based on our audit.

We have performed our audit of the consolidated group accounts in accordance with Article 317 of the German Commercial Code, and following the guidelines of the Institut der Wirtschaftsprüfer (German Association of Chartered Accountants), thus complying with the German standard for financial audits. Determination of audit actions to be taken is based on knowledge of business activities and the economic and legal environment of the group, as well as anticipated possible errors. In the course of the audit, we examined the effectiveness of the internal accounting control system and tested the accuracy of the amounts and disclosures reported in the consolidated financial statements and the Management Report, primarily by taking random samples. The audit entailed evaluating the annual reports of the companies included in the consolidated financial statements, the defined scope of consolidation, the accounting and consolidation principles used and the major estimates made by the legal representatives, as well as assessing the overall presentation of the consolidated financial statements and the management report. We believe that our audit constitutes an adequate and sound basis for our assessment.

Our audit did not yield any information that would cause us to qualify our opinion.

In our opinion, based on the information obtained in the course of the audit, the consolidated financial statements comply with IFRS, as required by EU regulations, as well as the additional provisions of German commercial law, as stipulated in Article 315a of the German Commercial Code, and they convey a true and accurate view of the Company's assets, finances and earnings situation. The Management Report is consistent with the consolidated financial statements; overall, it presents an accurate picture of the Group's position and accurately describes the opportunities and risks associated with its future development.

Berlin, February 16, 2007

Ernst & Young AG • Auditors Tax accountants
Glöckner (Auditor) Wittan (Auditor)

Karsten Pierschke, Head of Investor Relations

"In 2006 we doubled our foreign order intake. This will provide us with the momentum necessary to improve results and share prices"

2007 Financial Calendar

Annual results publication	March 14, 2007
Analyst conference	March 14, 2007
Report on first-quarter results	April 25, 2007
General meeting	April 26, 2007
Report on second-quarter results	July 30, 2007
Report on third-quarter results	October 30, 2007
Analyst conference "Deutsches Eigenkapitalforum"	November 12 to 14, 2007

PSI Shares

Stock market segment:	Prime Standard
Exchange symbol:	PSA2
German Security Code:	696822
ISIN:	DE0006968225

We would be happy to add your name to our mailing list for shareholder information. Please also get in touch if you would like a copy of the Financial Statements of PSI AG.

For the latest investor news, please visit our website at **www.psi.de/ir**

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PUBLICATION DETAILS

Publisher
PSI Aktiengesellschaft für
Produkte und Systeme der
Informationstechnologie, Berlin

Concept and Design
HGB Hamburger Geschäftsberichte GmbH
& Co. KG

Illustrations
Marcus Langer

Photography
Thomas Rabsch
Claus Uhlendorf

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