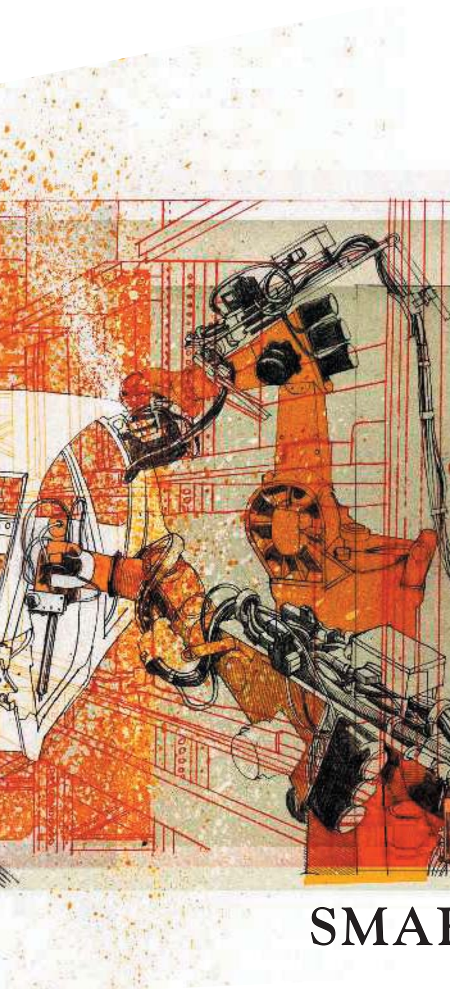
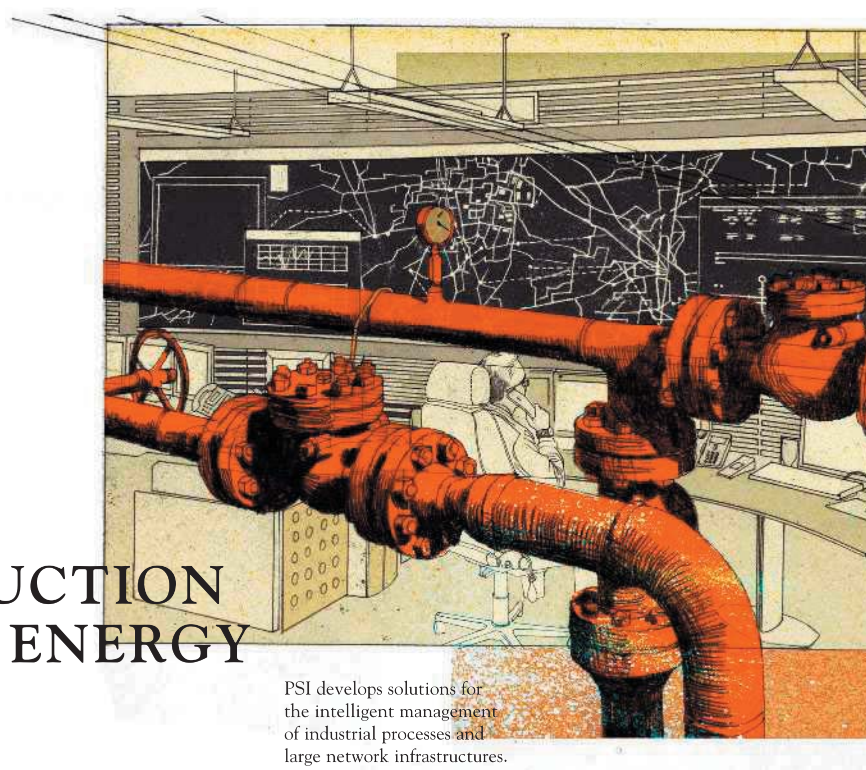


Annual Report 2007



SMART PRODUCTION
SMART ENERGY

PSI develops solutions for the intelligent management of industrial processes and large network infrastructures. In Europe and worldwide.

PSI

PSI AG is a leading supplier of software solutions and complete systems for process control for utilities, industry and infrastructure operators. With our innovative control software solutions, we are one of the industry leaders both nationally and internationally. PSI was founded in 1969 and is thus one of the most experienced German information technology companies.

In the 2007 fiscal year, the PSI Group generated revenue of € 123.2 million. The proportion of international revenue was increased from 17 % to 21 % and international incoming orders was the same as last year, 26 %. PSI is represented at ten locations in Germany and also has its own offices in Poland, Russia, China, Great Britain, Austria and Switzerland.

PSI AG has been a listed company since 1998 and is now listed in the Prime Standard of the German Stock Exchange.

The PSI Group in figures in € millions

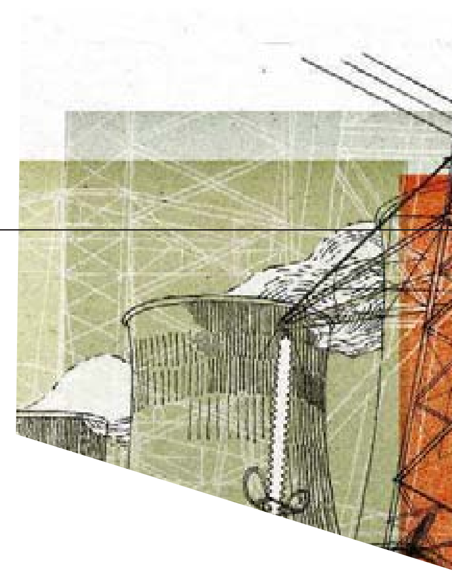
	IFRS				
	2007	2006	2005	2004	2003
Sales revenues	123.2	117.0	116.5	115.2	137.6
Operating result	3.8	1.0	0.2	–9.1	–1.0
Earnings before tax	2.7	–0.3	–1.3	–12.3	–4.0
Net group result	1.7	0.4	0.02	–12.3	–4.8
Shareholders‘ equity	30.7	28.9	28.5	24.6	39.4
Equity ratio (in %)	34.1	34.2	32.4	25.5	32.9
Investments*	1.6	3.5	1.6	4.8	5.6
Research & Development expenditure	10.4	10.7	10.8	10.8	8.8
Research & Development ratio (in %)	8.4	9.1	9.3	9.4	6.4
New orders	132	125	115	126	119
Employees at Dec 31 (number)	1,016	1,049	1,058	1,106	1,193

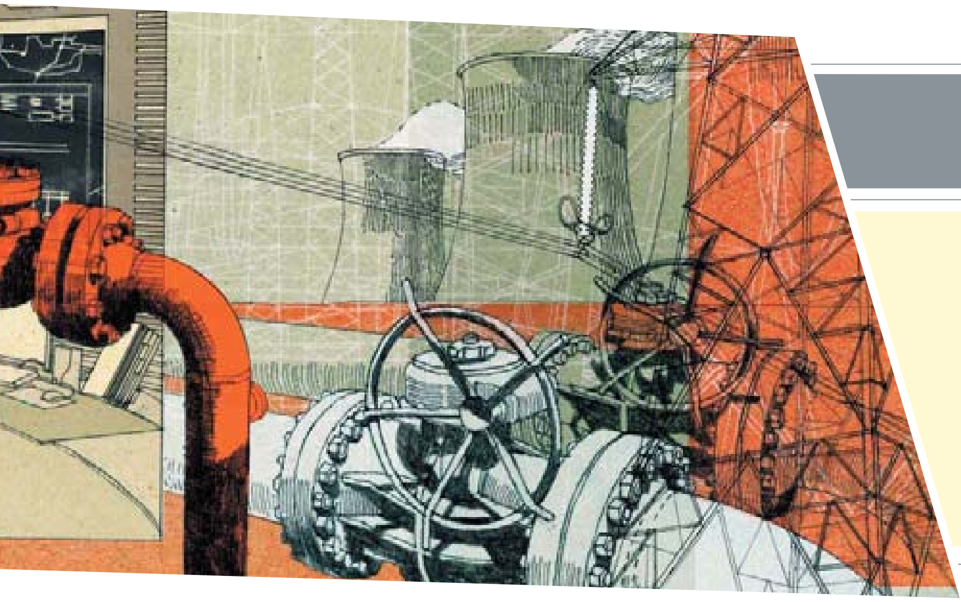
* Corporate takeovers, intangible assets, plant and equipment

SMART PRODUCTION, SMART ENERGY

PSI AG continues to expand into the growth regions of Eastern Europe and Asia. Our solutions help our customers in heavy industry and the energy industry to utilize work, energy and raw materials in an efficient, socially responsible and environmentally friendly way.

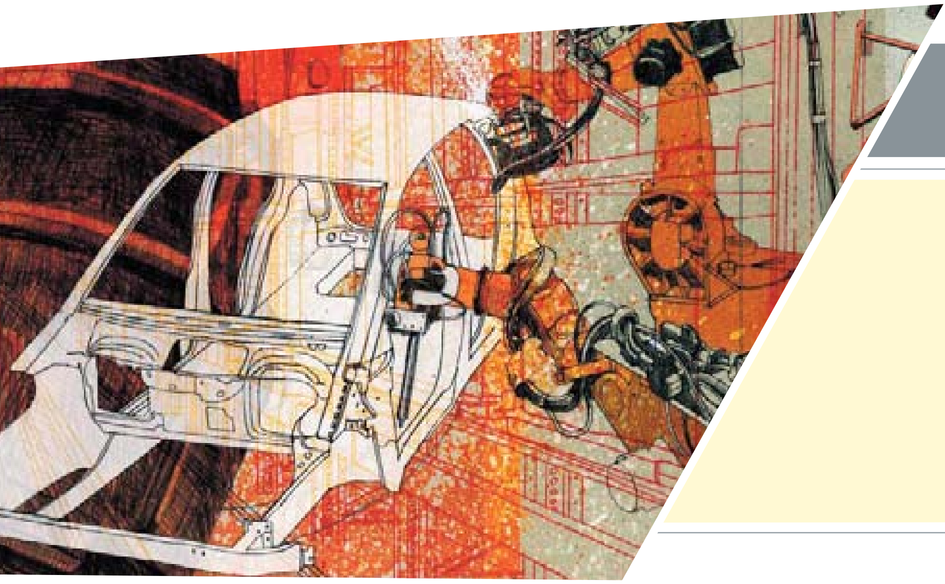
CONTENTS





Energiemanagement

Strom
- Netzleittechnik
- Betriebs- und Störungsmanagement
- Energiedaten- und Netznutzungsmanagement
- Querverbund-Leitsysteme



Produktionsmanagement

Metals
- Produktionsplanung und -optimierung
- Fertigungs- und Prozesssteuerung
- Materiallogistik und Energiemanagement
- Manager Cockpit für die Unternehmensleitebene

Infrastrukturmanagement

Telekommunikation
- Netz- und Servicemanagement
- Identity- und Konfigurationsmanagement
- Fehler- und Performancemanagement

Intelligente Lösungen für Energieversorger der Sparten Strom, Gas, Öl, Wasser und Fernwärme. Schwerpunkte sind zuverlässige und wirtschaftliche Lösungen für die Netzführung sowie für Handel und Vertrieb im liberalisierten Energiemarkt.

Gas, Öl, Wasser
- Gasmanagementsystem
- Planung, Simulation und Prognose
- Pipelinemanagement
- Leckerkennung und Leckortung

Energiehandel und -vertrieb
- Planung, Analyse und Optimierung
- Integrierter Strom- und Gashandel und -vertrieb
- Abrechnungssysteme

Softwareprodukte und Individuallösungen für die Produktionsplanung, besondere Aufgaben der Produktionssteuerung und effiziente Logistik. Schwerpunkte sind die Optimierung des Ressourceneinsatzes und die Erhöhung von Qualität und Wirtschaftlichkeit.

Maschinen- und Anlagenbau
- Produktionsplanung und -steuerung
- Enterprise Resource Planning
- Manufacturing Execution Systems

Automobilhersteller und -zulieferer
- Produktionsplanung und -steuerung
- Supply Chain Management und Logistik
- Prozessleitsystem für die industrielle Produktion

Logistik/Airport
- Lagerverwaltungssysteme
- Lösungen für das Management logistischer Netzwerke:
  Supply Chain Execution, Supply Chain Event Management und virtuelle Zentrallager
- Passagier-, Baggage- und Cargo-Handling für Flughäfen
- Transportmanagementsysteme

Hochverfügbare leittechnische Lösungen für die Überwachung und den wirtschaftlichen Betrieb von Infrastrukturen in den Bereichen Telekommunikation, Verkehr, öffentliche Sicherheit, Umwelt- und Katastrophenschutz.

Verkehr
- Betriebsleittechnik für ÖPNV und Schienenverkehr
- Betriebshofmanagement, Fahrgastinformationssysteme
- Automatische Zugabfertigung
- Leitsysteme für den Straßenverkehr

Öffentliche Sicherheit
- Leitsysteme für Sicherheitsaufgaben
- Leitsysteme für Umwelt- und Katastrophenschutz
- Mobile Sicherheitsanwendungen
- Videomanagement im Schienenverkehr

ARMIN STEIN (56)
Since January 1st 2001 responsible for the executive board resorts finance, controlling and personnel

DR. HARALD SCHRIMPF (43)
Since July 2002 responsible for the executive board resorts marketing, sales and technology.

Dear ladies and gentlemen,

Our most important goals in 2007 remained improving our result and expanding our exports. We further increased incoming orders to € 132 million, of which 26 % was generated in exports with particular focus on markets in the east.

We achieved the concentration on software products for utilities, industry and infrastructure operators by selling the public sector services. With the growth of the core business we increased consolidated revenue from € 117 million to € 123 million, despite this adjustment of the portfolio.

We further improved our productivity by continuing the platform convergence and expanding the production of our own software in the export markets. We almost quadrupled the operating result of € 3.8 million. The group result after deferred taxes (€ 0.9 million) increased to € 1.7 million. In 2007 we had to re-value the deferred taxes on the assets side posted in 2006 with the new and reduced tax rate, creating a one-off deferred tax expense of € 0.5 million. In 2007 income taxes paid amounted to € 0.13 million. With the improvement in the result we increased the operating cash flow to € 3 million and thus the group's cash to € 19 million.

The price of the PSI share rose from € 4.50 to € 5.90 over the year which equates to an increase of 31 %. Stock exchange capitalization of € 70 million cannot satisfy a profitable and growing software company with revenue of over € 120 million.

In 2007 in **Energy Management**, we invested in the convergence of gas and electricity trading solutions, new functions for the management of high voltage networks and a Russian control system version, which had a temporary impact on the result of this segment. This enabled us to extend our leading technological position and acquire two leading utilities as new customers, the French company EDF and the Russian company UES.

The **Production Management** area of business increased revenue and earnings considerably despite the expenditure for the expansion of international business. We won export contracts from China, Russia and other export markets, preponderantly in the areas of steel and logistics. In mechanical engineering, plant construction and automotive engineering, PSIPENTA further increased the positive succession of results. From 2008 we bundled together our products from Manufacturing Execution Systems (GSI) and process control technology into the company PSI Production in order to process major orders more efficiently and to enhance further the product portfolio.

In **Infrastructure Management**, we increased revenue despite the sale of public sector services, achieved a positive result and generated substantial incoming orders. With the concentration on solutions for transport and traffic, safety and telecommunications we created the requirements for renewed growth and improvements in results. The Telecommunications segment has been revitalized with new management and substantial growth and depreciated the recent capitalized research and development costs according to schedule.

With our export focus in the east we are well positioned to grow and increase our earnings despite the economy calming in Germany and the current exchange rate situation. We are rigorously pursuing our long-term program to bring our technology together on a powerful shared platform. We want to expand the excellent development of our teams in the target markets of China, Russia and Poland and to consolidate the good network of export partners. For this reason we are increasing both the quantities of our products and the proportion of licenses in the export business in order to generate double-digit returns in the medium term.

Despite this increase in investments we are aiming to achieve an operating result in excess of € 5 million in 2008. We believe this improvement in key data and new developments in terms of prospects will also enable us to get through a difficult stock market environment on a sustainable basis.

We wish to extend our thanks to our customers for their trust in our products and system solutions. We will continue to support them with innovative products and efficient project implementation to use work, energy and raw materials in a way which is economic, socially responsible and environmentally friendly, and in this way to develop an economic competitive advantage. We thank the shareholders for their trust and active participation in the continued development of PSI. The outstanding commitment and creative power of our employees fill us with gratitude, pride and confidence. With our export strategy they have accepted and successfully coped with additional challenges.

We are starting 2008 with a record high in terms of order book volume per employee and a clear structure with the "Energy, Production and Infrastructure" segments. We will further increase further revenue and profits and under the motto "Smart Production, Smart Energy" will push ahead with the development of PSI into a global software supplier.

Berlin, March 2008 Dr. Harald Schrimpf Armin Stein

CHRISTIAN BRUNKE (66)
Chairman of the Supervisory Board

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

Our main concern in the 2007 financial year was to further improve the performance of the company. In the past year we also exercised on your behalf, the shareholders, the responsibilities incumbent on us by law, the charter and bylaws as well as the German Corporate Governance Code. We have acted in an advisory capacity to the Board of Directors in their management of the company and have monitored its activities on a regular basis. We were closely involved in all decisions of fundamental importance and discussed these in detail on the basis of the Board of Directors' reports.

In 2007, the work of the Board of Directors and Supervisory Board focused on four main areas:

- further sustainable improvement of the result,
- continuing exports with the emphasis on Russia and China,
- preparing PSI to enter a new growth phase,
- discontinuing involvement of the group in public sector services.

We thus focused the group on software products for utilities, industry and infrastructure operators. In Russia, we also succeeded in entering the market in the steel and electrical energy segments. We are convinced that the PSI Group with its current structure is in a good starting position to enter a phase of profitable growth with its excellent customer base and motivated employees.

The objectives of the regular advice and resolutions of the Supervisory Board were the Annual Financial Statements, examination of the further strategic development of the group, the disposal of the suboperations RISER and EITCO GmbH, current business development, preparing the new election of the Supervisory Board and auditing its own work. Seven ordinary meetings of the Supervisory Board were held over the year to examine these areas. These included a meeting mainly devoted to discussing and preparing the annual financial statements, a strategy meeting, a planning meeting and an audit meeting. The Personnel Committee and Audit Committee also met three times in the 2007 fiscal year. The Chairman of the Supervisory Board was in regular contact with the Board of Directors outside the Supervisory Board meetings as well and was kept informed regularly of the business situation and important transactions.

As in previous years, the Board of Directors and Supervisory Board checked that the group complied with the regulations of the German Corporate Governance Code. The audit revealed no indications of non-compliance with respect to the points contained in the Declaration of Conformity.

At the Annual General Meeting on April 26, 2007, the accounting company Ernst & Young AG was appointed at the auditor. It audited the Annual Financial Statements, Consolidated Financial Statements and Management Report for the period January 1 to December 31, 2007 on behalf of the Supervisory Board and issued an unqualified audit certificate. The Supervisory Board examined the Annual Financial Statements, Consolidated Financial Statements and Management Report. They were discussed in detail with the auditors and members of the Board of Directors in the Supervisory Board meeting held on February 26, 2008 and subsequently endorsed. The Annual Financial Statements and Consolidated Financial Statements are thus approved.

We are continuing the succession of positive results and investing at the same time in both the expansion of international business and the appeal of our products. We acquired further strategically important orders both inside Germany and internationally and successfully concluded ambitious pilot projects. This joint accomplishment by the Board of Directors, management and employees of PSI deserves particular recognition. The Supervisory Board would like to express its gratitude to all concerned for the outstanding commitment and work carried out.

We would also like to thank our customers for the trust they have shown in 2007. We will do our utmost in 2008 to do justice to them and at the same time acquire new customers.

Berlin, March 2008 Christian Brunke

CORPORATE GOVERNANCE

At PSI, a good and responsible management and control of the Company is of great significance. Efficient cooperation between the Board of Directors and the Supervisory Board, clear rules, respecting shareholders interests, openness and transparency of corporate communication are key elements of Company management. We are thus committed to the German Corporate Governance Code in its latest version dated June 14, 2007. Its recommendations were implemented with three exceptions.

Declaration of compliance to the German Corporate Governance Code.

On November 23, 2007, the Board of Directors and the Supervisory Board submitted the declaration of compliance in line with Article 161 German Stock Corporation Act, according to which PSI had fulfilled the recommendations of the Code with the following exceptions:

- The Company has not appointed a spokesperson or chairperson for the Board of Directors. There is no need for either spokesperson or chairperson as the Board only consists of two members.
- The Supervisory Board has not formed a Nomination Committee as all four members of shareholders representatives in the Supervisory Board are involved in proposing a candidate at the Annual General Meeting.
- The remuneration of the Supervisory Board does not contain performance-related components. The remuneration is made up of a basic component and another component based on presence at meetings.

Aside from this, PSI has complied with most recommendations of the Code.

Good cooperation between Board of Directors and Supervisory Board.

The Board of Directors of PSI comprises two members, who work exceptionally effectively together. The Supervisory Board is made up of two employee representatives and four independent members, who deploy their qualifications in the interest of the Company and shareholders in a committed manner. The Board of Directors informs the Supervisory Board regularly, promptly and comprehensively regarding all relevant questions pertaining to planning, business development and risk management of the Company, exceeding the requirements by law. In the reporting year, no business transactions took place between related parties and the PSI Group.

Director‘s remuneration and shareholdings.

In the 2007 fiscal year, the Supervisory Board received remuneration totaling € 116 k, in the following allocations:

	Total EUR K
Christian Brunke	33
Wolfgang Dedner	23
Dr. Ralf Becherer	15
Barbara Simon	15
Karsten Trippel	12
Prof. Dr. Rolf Windmöller	18
	116

Both members of the Board of Director received the following remuneration:

	Fixed remuneration EUR K	Variable remuneration EUR K	Total EUR K
Dr. Harald Schrimpf	190	105	295
Armin Stein	190	105	295
	380	**210**	**590**

As of December 31, 2007, members of the Board of Directors and Supervisory Board held the following number of PSI shares:

	2007 Amount	2006 Amount
Board of Directors		
Dr. Harald Schrimpf	61,000	50,000
Armin Stein	12,000	8,000
Supervisory Board		
Christian Brunke	5,000	5,000
Wolfgang Dedner	28,500	26,500
Dr. Ralf Becherer	1,268	268
Barbara Simon	7,890	7,890
Karsten Trippel	103,500	84,000
Prof. Dr. Rolf Windmöller	1,120	1,120

At this time, PSI has no stock option program or comparable incentive system in place. In the year 2007, 26 share transactions among board members were reported and published on the PSI website under Directors' Dealings.

Active and open communication.

Uniform and prompt provision of information to all capital market participants is valued highly at PSI. In addition to the publications required by law, we regularly report on the business development and strategically important events in the Company – in print, at presentations as well as on the Internet at www.psi.de/ir. On that platform, we also publish our yearly document in line with Article 10 of the Securities Prospectus Act. It contains an overview of all publications required by law in the previous years. Our financial calendar provides key dates. The declarations of compliance to the Corporate Governance Code can also be assessed on the Internet. Furthermore, our IR department is available for phone, written and email enquiries from shareholders and analysts.

Transparent accounting and auditing.

The auditors and PSI have agreed that the Supervisory Board will be advised immediately if possible disqualifying events or conflict of interests arise in the course of the audit. The same applies to discoveries and events during the audit that could be of significance to the work of the Supervisory Board. Should the auditors determine that there are deviations from the Code, they will inform the Board of Directors and the Supervisory Board.

PSI deploys a risk management system which aids in recognizing opportunities and avoiding risks. Details can be found in the section titled Risk Report of the Consolidated Management Report (page 21).

Good Corporate Governance remains in focus.

In 2008, good Corporate Governance remains a central concern of the Board of Directors and the Supervisory Board. At the Annual General Meeting on April 25, 2008, we will again offer our shareholders a service to grant power of attorney and issue instructions. In the current fiscal year, the Board of Directors and Supervisory Board will again work together in cooperation to handle all significant business events in a trusting manner.

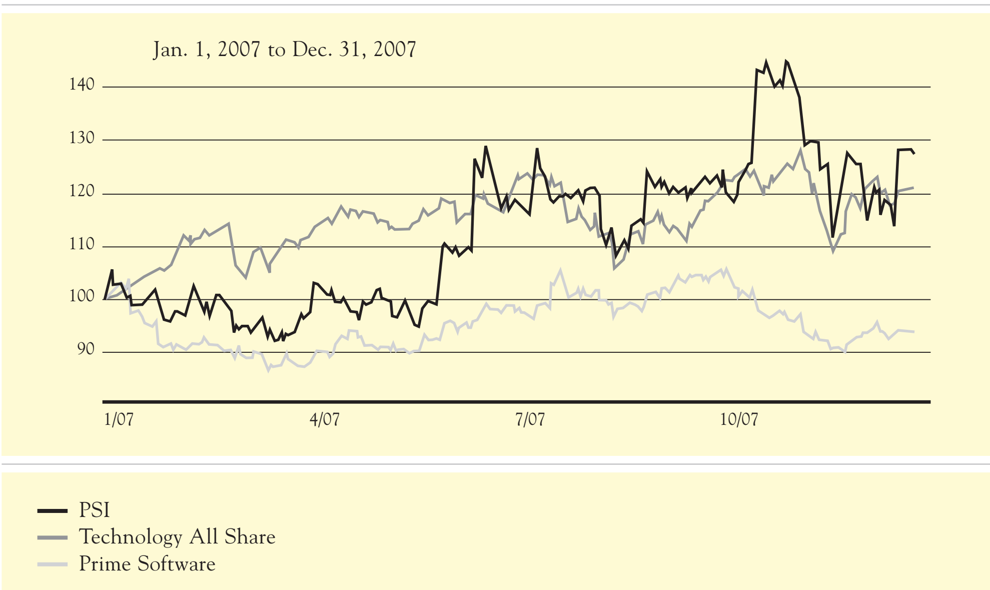
PSI SHARES

Our conspicuous success in exports and the improvement of the company performance led to increased interest from institutional investors in 2007. This resulted in a pleasing increase in the share price. After the end of Q3, we increased our original annual forecast for the operating result from € 3 million to € 3.5 million and we exceeded even this figure. The development of the share was consistently very positive until autumn, with the result that despite the general correction at the end of the year it concluded with an increase of over 30 %.

The PSI share moved sideways in the first 4 months of the year. After the publication of figures for Q1 our share outperformed the overall market. Starting the year valued at € 4.50, the share increased until the start of November by almost 50 % to € 6.70. The subprime crisis and the fears of a recession that it triggered substantial losses on the stock exchanges from which PSI was unable to emerge unscathed. With a closing price at the end of the year of € 5.90, our shares posted an increase over the year of 31 %. It thus developed better than the Prime Software Index, which fell by 5.3 %, and the Technology All Share Index, which increased by 23.1 % in 2006. The Prime Software Index includes all software shares listed in the Prime Standard of the Deutsche Börse. The Technology All Share Index throws the net wider and includes all the technology shares in the Prime Standard.

The general weakness of the financial markets persisted at the start of 2008, although we are optimistic about the development of the PSI share: With further improvements in results and good growth prospects it has a clear potential to increase in price.

PSI share price outperforms Technology All Share and Prime Software Index in 2007
in %, January 1 = 100%



As in 2006, a good deal of interest was shown in our share by institutional investors. With Highclere Investment Managers, Ratio Asset Management and FiveT Capital, three further institutions reported the acquisition of more than 3 % of PSI shares. Overall the number of shares held by investors with an obligation to report increased to 20.0 % compared with 15.2 % in 2006.

As in previous years, we communicated intensively with the capital market. We held three analysts' conferences and several investor road shows in German and European financial centers. In addition, we were available on a regular basis for question and answer sessions in interviews and briefings with financial and economic journalists, including stock exchange radio and investor television. Moreover, we responded to queries from several hundred institutional and private investors.

Our financial communication received a special accolade in 2007. The PSI Annual Report was given a gold award as the best report by a software company in the world's largest annual report competition entitled World's Best Annual Reports. In addition, it was awarded silver and bronze awards in the text and design categories.

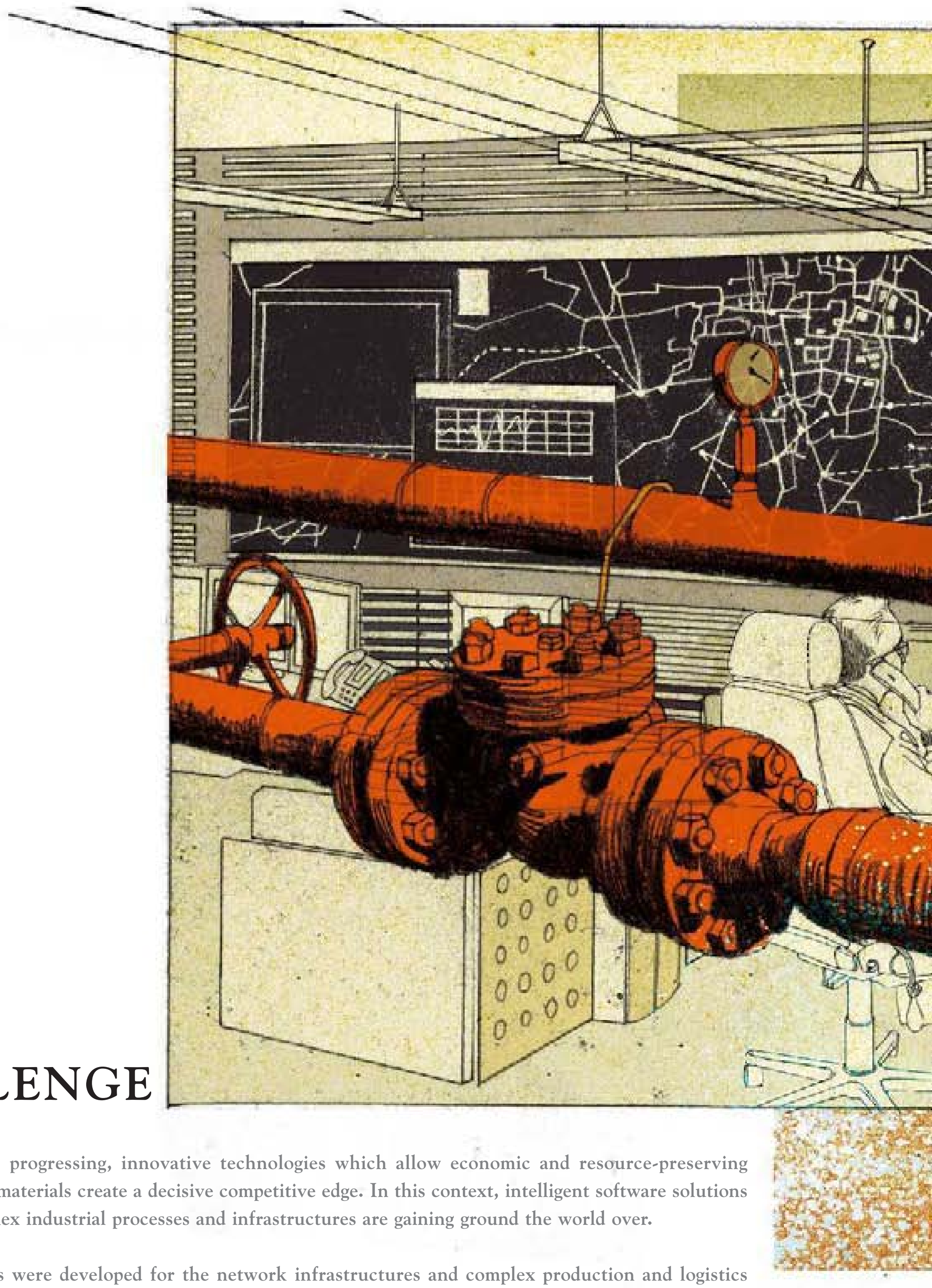
Our primary attention in 2008 also is on further internationalizing our business and increasing revenue and income, thus laying the foundation for a growth phase spanning many years. Our additional intention with this positive development is to get through a difficult stock exchange environment on a sustainable basis. Our goal is an assessment which reflects our market position as one of the largest software companies in Germany and one which corresponds to a profitable growth company. To this end we will shift the focus onto further institutional investors and analyst, which will give our share price additional momentum.

The PSI Share in numbers
in €

	2007	2006
Earnings per share	0.14	0.04
Market capitalization at December 31	71,495,433	54,023,400
Yearly all time high price	6.90	7.15
Yearly all time low price	4.17	3.90
Number of shares at December 31	12,112,870	12,112,870

The PSI Share

Stock exchanges	Xetra, Frankfurt, 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
Security Identification Number	696822
Stock exchange code	PSA2

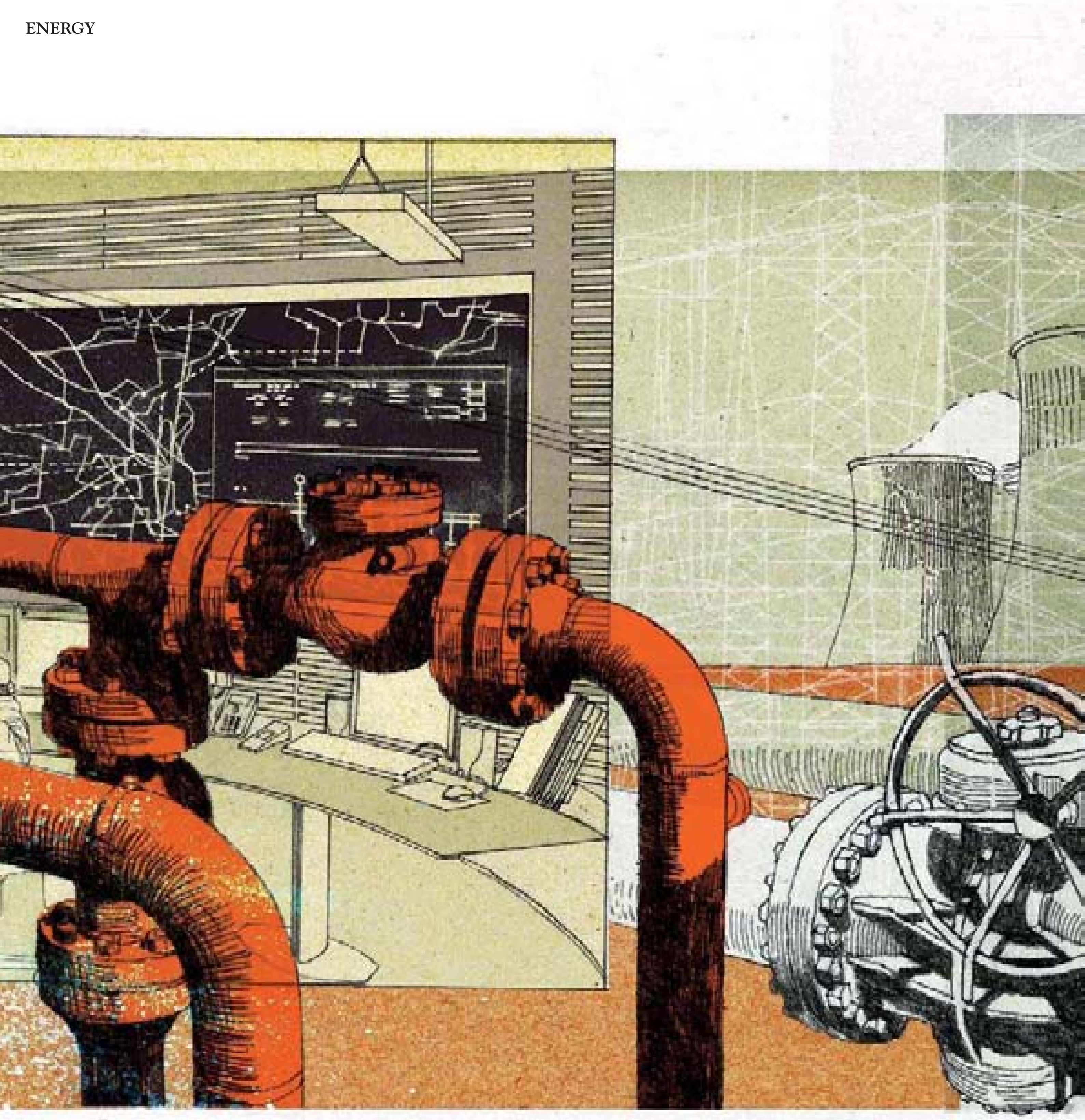


THE CHALLENGE

In a period when globalization is progressing, innovative technologies which allow economic and resource-preserving handling of work, energy and raw materials create a decisive competitive edge. In this context, intelligent software solutions for managing and optimizing complex industrial processes and infrastructures are gaining ground the world over.

PSI process management solutions were developed for the network infrastructures and complex production and logistics processes. As a result of many years of work in partnership with renowned German groups and the special features of the German market, important focal points of our systems are the efficient handling of resources and energy and taking advantage of economies of scale.

With these unique selling propositions and the focus on the energy and heavy industries, we are an attractive partner for customers in the strongly growing economies of Eastern Europe and Asia. The successful entry onto the Chinese steel market and initial projects in the Russian steel and electricity industries demonstrate the success of our commitment in the markets in the East that we will further extend over the next years. Therefore, PSI solutions make an important contribution to the intelligent use of resources today and in the future.

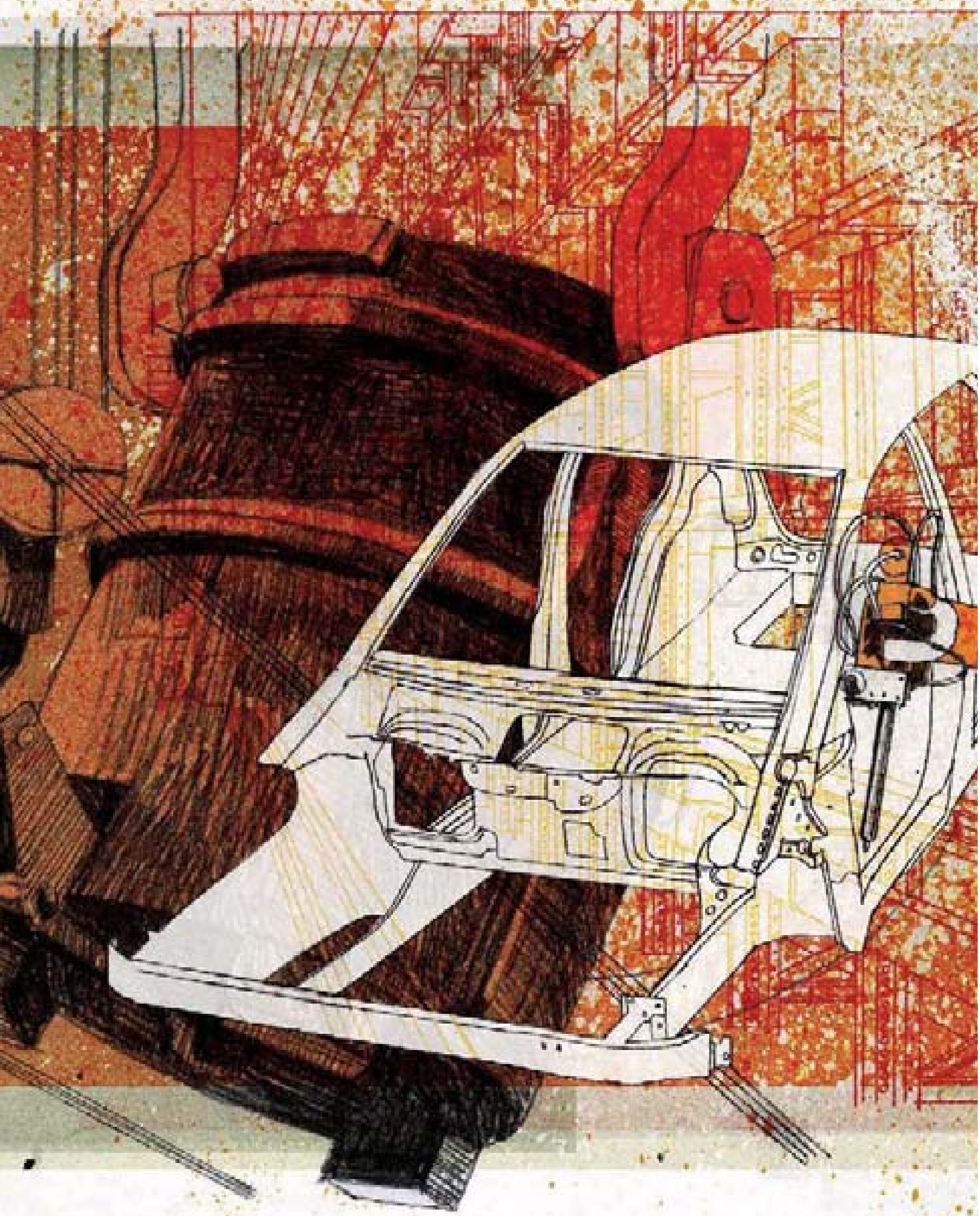


Control systems for Gazprom

For several years, PSI has been supplying the Russian company Gazprom with control systems with which the world's largest natural gas extraction company controls its gas pipelines. In 2007, PSI received a further order for supplying five process control systems for Kubangazprom in Krasnodar. Thus, for the second time since 2006, PSI was given an order as the main contractor directly from the Gazprom Group.

PSI energy control systems

PSI energy control systems allow optimum management of energy transportation and distribution in the electricity, gas, oil and heat segments. With their high levels of operating security and scalability, our systems are also suitable for the most demanding tasks. The deployment of state-of-the-art IT standards and independence from manufacturers guarantee the flexibility and future use of the solutions.

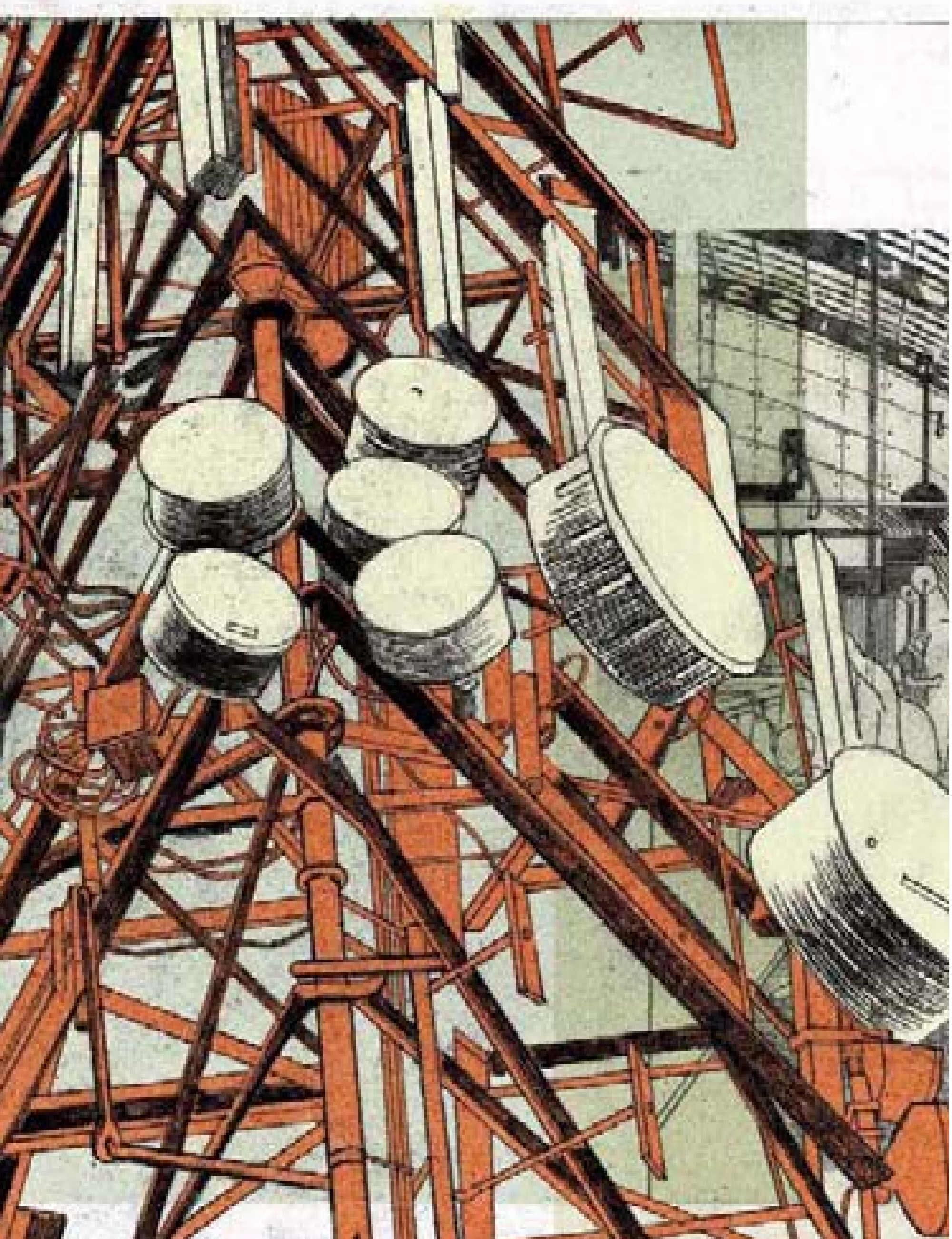


Production software at TISCO

Since 2006, the Chinese Taiyuan Iron and Steel Group (TISCO) has been using PSI production and logistics control systems for managing its steel plants. In the process, PSI carried out the planning of the plants, production control and material flow monitoring. In addition, PSI integrated its solution with the SAP system using certificated interfaces. In 2007, our Chinese subsidiary received further orders from TISCO as well as an initial order from the Chinese aluminum industry.

PSI solutions for Production Management

PSI offers a broad application portfolio for the management and holistic optimization of industrial value chains. From order management to process control, from company planning to Energy Management – our solutions guarantee economic planning and control of production and logistics processes in the metals, automotive, mechanical engineering and logistics sectors.



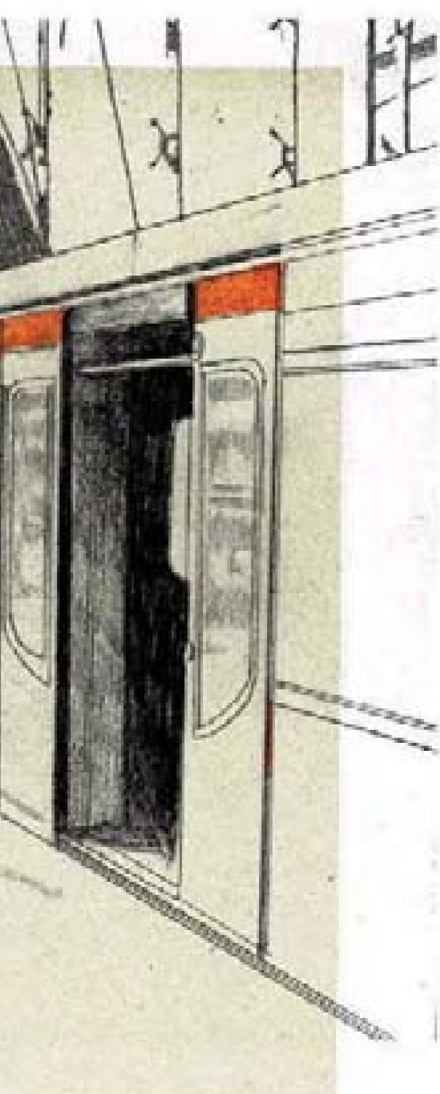
Operating control system for Rotterdam

Two large Dutch public transportation companies have already opted for PSI's computer-assisted operating control system. After GVB from Amsterdam, RET Rotterdamse Elektrische Tram followed in 2007. The project covers equipping buses and trams with mobile control technology and introducing a depot management system at the RET depots.

Innovative control systems for infrastructure operators

For infrastructure operators in the telecommunication, transportation and security sectors, PSI develops innovative control systems designed on the basis of event-driven and object-oriented technologies. Our solutions display a high level of scalability and reliability and ensure more cost-effectiveness and efficiency in control systems.

SMART PRODUCTION
SMART ENERGY



North America

In North America, as in previous years, we were benefiting from the positive development of the steel industry and our good market position in this area. We took advantage of our strong partnerships with plant construction companies as well as our good references worldwide and obtained orders from both the USA and Canada. We also received orders from Dofasco, a company which is part of the ArcelorMittal Group, to supply a management system for steel logistics.

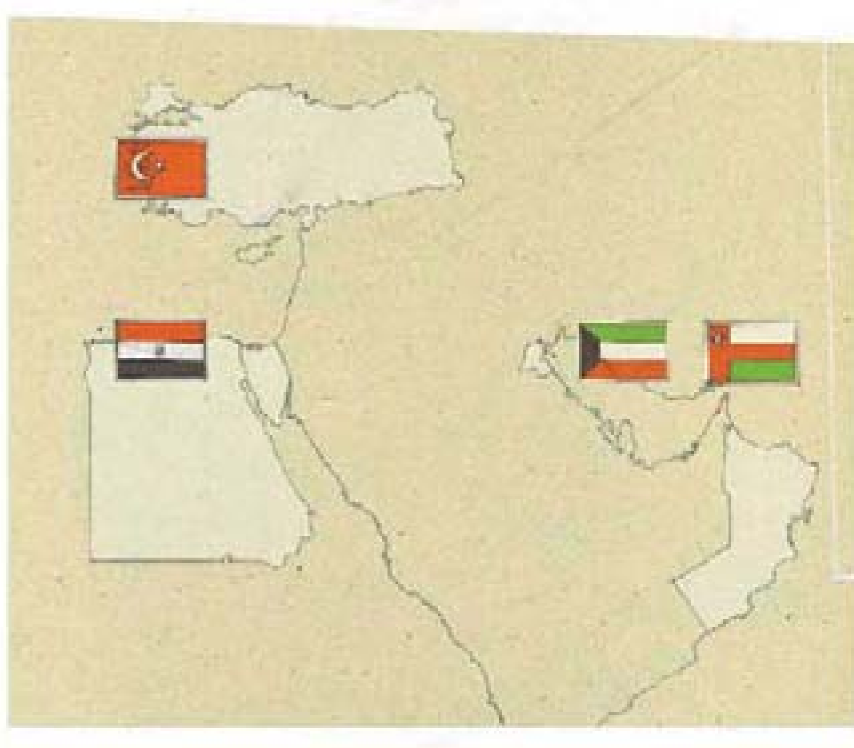
Central and Western Europe

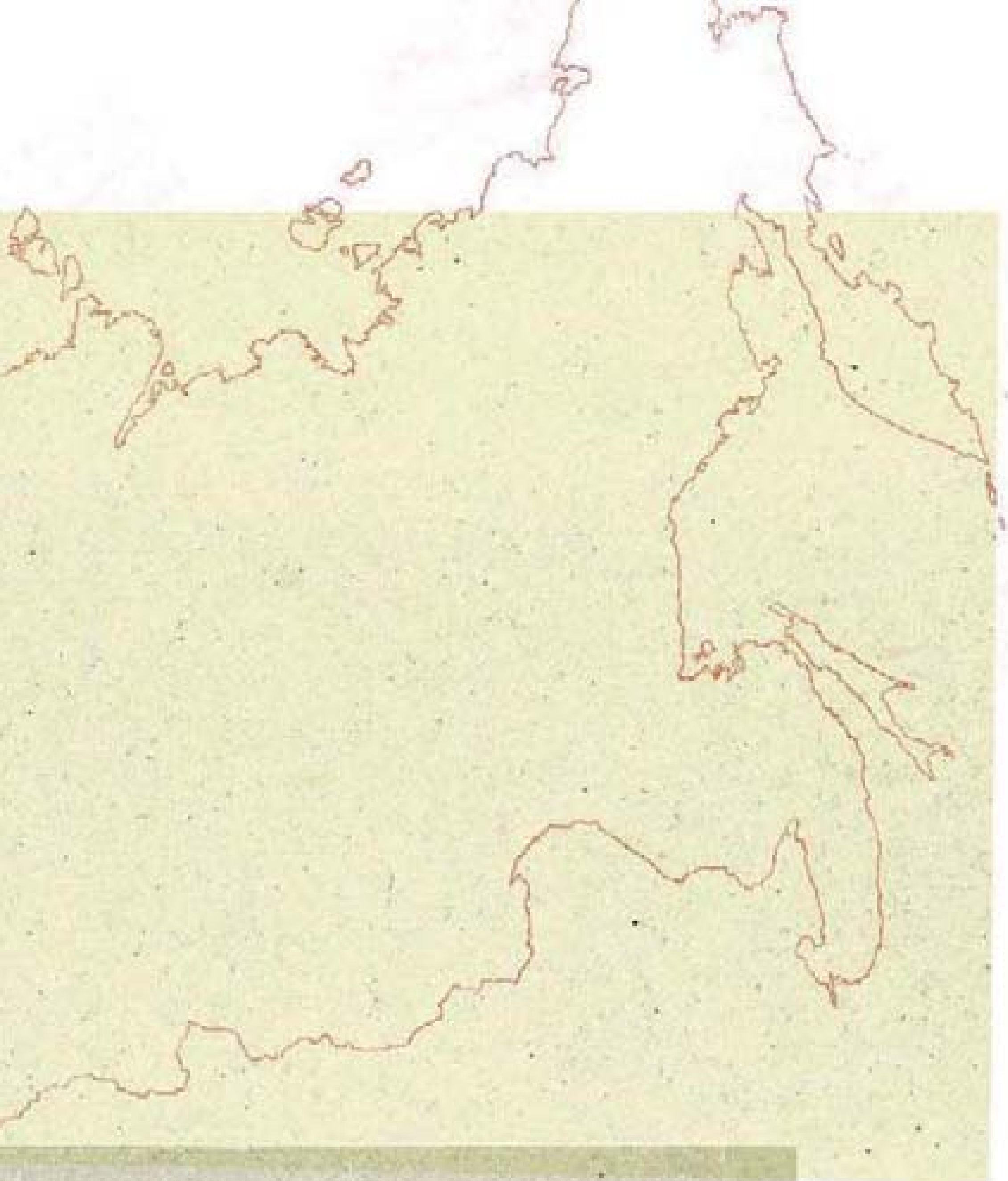
On our European domestic market, we have been successful with PSI solutions for all our target industries for many years. The German-speaking countries form a regional focus. In addition, PSI also has its own locations in Poland and Great Britain. In recent years, we have entered the market with our electricity control systems in Eastern Europe particularly, but also in Scandinavia and France. In Southern Europe, we are represented primarily in the steel industry. Over the next years, we are anticipating high demand for our industry, logistics and energy supply solutions from the new EU member states in Eastern Europe.

Russia, Middle East and Southeast Asia

PSI has been represented for several years in Russia with several solutions for monitoring and controlling gas and oil pipelines and managing logistics processes. Since 2007, our systems have also been used in Russian electricity supply and steel generation. With an office in Moscow and powerful partners, we are very well placed to continue benefiting from the dynamic development of Russia.

We have been represented in the Persian Gulf for several years with our energy control systems. Further growth opportunities will result in the future from the high investments being made by the oil-rich states in their infrastructures. In Turkey and Egypt, our solutions are being deployed in the steel industry. In Malaysia, PSI control systems manage the supply of electricity across the whole Malaysian peninsular.





China and Korea

In the Chinese market, PSI is represented with its own subsidiary operating from Shanghai and Beijing. In addition to the largest Chinese steel groups, from 2007 our customers include Asia Aluminum, one of the world's largest aluminum manufacturers. In South Korea, the steel manufacturer Pohang Iron & Steel Company (POSCO) uses our software for coking plant automation. With its Chinese subsidiary, over the last few years PSI has successfully entered the largest and most rapidly growing steel market in the world.

2007 AT A GLANCE

Energy segment continues on international success path

In the energy segment, PSI received considerable follow-up orders in the Russian gas market and obtained two important new customers with the major electricity providers in France and Russia. Large international energy groups decided in favor of using the PSI gas planning system throughout Europe.

Expansion of activities in Russia

In 2007, we increased our presence in the Russian market with the establishment of a branch and further partnerships. Follow-up orders from the Russian logistics and gas industries underline the successs of this strategy and the successful market penetrations into the Russian steel and electricity industry.

Successful start for newly created infrastructure segment

In Infrastructure Management, we obtained numerous significant orders including a video monitoring system for traffic and solutions for public transport networks in Germany and Europe.

Focus on core business completed

With the sale of the public authority activities, PSI concentrated on software products for energy providers, industry and infrastructure operators. By streamlining the Group, we have improved our capacity for export and partnership.

Process control system for raw materials production

Following the successful completion of a pilot development, we received the first order for producing a control system for efficiently controlling coal mining. The system is based on our process control system which has proven itself over decades in the energy industry.

Order from the Chinese aluminum industry

After successfully penetrating the steel industry in 2007, the Chinese PSI subsidiary also entered the fast-growing Chinese aluminum industry.

Prize-winning software products

In the serial production category, the ERP solution PSIpenta was chosen as the "ERP-System of the Year" by the Center for Enterprise Research. The EuroAsian Logistic Association awarded PSI the best logistics software provider in Russia.

CONSOLIDATED MANAGEMENT REPORT

CONSOLIDATED MANAGEMENT REPORT

SUMMARY

In the 2007 fiscal year, the PSI Group continued the positive trend of previous years and increased its operating result to € 3.8 million. As in the previous year, the largest contribution to the result was made by Energy Management with € 2.6 million, even though capital expenditure in export versions and new functionalities temporarily impacted on this segment. The Production Management segment generated a 12 % increase in revenue. The segment's result improved by more than 300 %. Infrastructure Management doubled its incoming orders and achieved a positive operating result with € 0.5 million. Group revenue rose to € 123.2 million, exceeding the previous year's figure. Incoming orders increased by 6 % to € 132 million.

In 2007, PSI further expanded its international business with important orders from Russia, China, Europe and North America. The main focus of our export activities was Russia, where we entered into new partnerships and obtained new orders in the gas, logistics, steel and electricity segments.

With the sale of IT consulting and public sector activities, PSI concentrated on its key business, thus creating the conditions for entering a growth phase.

DEVELOPMENT OF ENVIRONMENT AND INDUSTRY

European IT and software market further increases
Growth in the IT market in the EU, which comprises the hardware, software and IT services segments, accelerated in 2007. Growth amounted to 5.4 % after 3.6 % in the previous year.

In Germany, economic activity on the IT market also increased significantly – after 2.8 % growth in 2007 was 5.1 %. At 5 %, growth in the software market segment, which is important to PSI, was somewhat weaker in Germany than the overall market and, at 5.9 % in Europe better than the overall market.

Continued domestic demand drives growth
In 2007, the growth of the German economy was rather less than in the previous year – gross domestic product increased by 2.5 % following 2.9 %. Capital expenditure in other assets including computer software and copyrights increased by 6.5 %, a weaker increase than the 6.7 % achieved in the previous year.

At 5.2 %, growth in the manufacturing industry was similar to the previous year in which growth amounted to 5.3 %. In 2007, the global steel market, in which PSI is one of the most important software providers, also developed dynamically with an increase in demand of 6.8 %. A further 7 % increase is expected for 2008.

BUSINESS DEVELOPMENT

PSI's structure and strategy

The PSI Group's core business is process control and information systems tailored to the following industries:

- Utilities (electricity, gas, oil, water and long-distance heating)
- Industry (steel industry, mechanical engineering, automotive, logistics)
- Infrastructure operators (transport and traffic, safety, telecommunications)

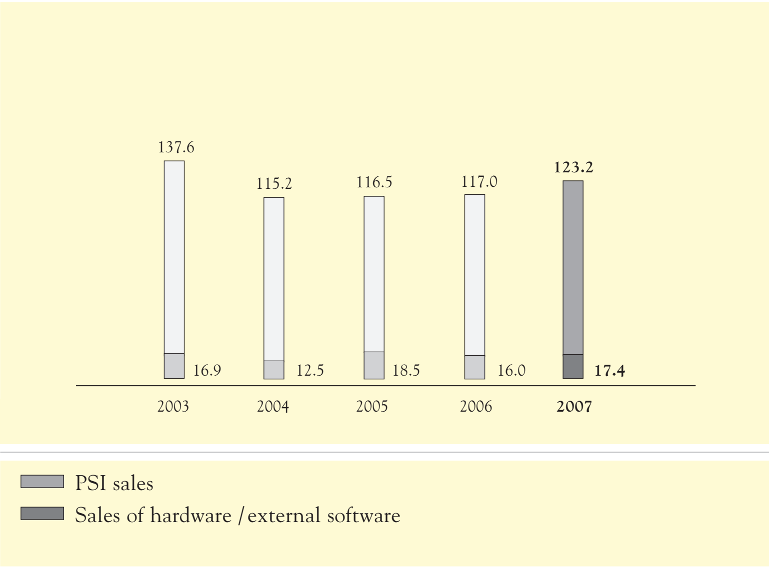
In line with these industries, the Group has been structured into three segments since 2007: Energy Management, Production Management and Infrastructure Management. Consulting and public sector services was part of Infrastructure Management until the former was sold.

With more than 1,000 employees, PSI is one of Germany's largest software manufacturers. As a specialist for high-end control systems, PSI plays a leading role in the German market, particularly for utilities and steel manufacturers. As a result, the group is well positioned to gain international market share as well as to increase growth and profitability. This also reduces the dependence on the domestic economy in Germany. Since 2005, PSI has established and expanded subsidiaries to this end in China and Poland. In 2007, PSI's export activities concentrated mainly on further opening up the Russian market. The Moscow branch, opened in 2006, was further expanded during the past year, as was the Russian partner network.

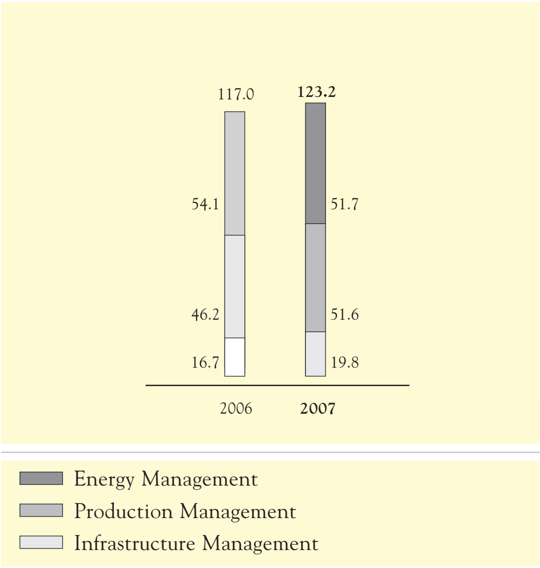
Globalization demands that companies both concentrate and internationalize their portfolios. By selling the consultation and public sector services in mid-2007, PSI completed its concentration on software products for utilities, industry and infrastructure operators. With the adjusted portfolio, PSI created a base from which to enter a new growth phase. All three segments are now clearly aligned to solutions which are not limited only to the German market. They can also be exported to the growth markets of Eastern Europe and Asia. As part of the group-wide platform strategy, PSI intends to push further ahead with the convergence of its core products. This will lead to increased efficiency in research, development and project processing. At the same time, the exchange of unique functional selling points between the segments also increases the appeal of the products.

The PSI Group is controlled using a value-oriented management information system. The most important control parameters are the operating result in relation to value added, earnings before taxes, incoming orders and liquidity as our strategy in coming years will continue to focus on profitable growth.

PSI Turnover slightly on the rise
in € millions



Revenue breakdown by segment
in € millions



Profitability

Group generates higher income

The group's operating income improved from € 1 million in the previous year to € 3.8 million. The group result increased from € 0.4 million in the previous year to € 1.7 million. The electrical energy, gas and oil segments, the steel industry, logistics and PSIPENTA contributed in particular to the result.

Slight increase in costs due to expansion of business

Expenditure for acquired goods and services increased by € 1.8 million to € 25.6 million as the result of projects. Due to the increase in incoming orders, utilization within the group increased, which also led to an increase of € 0.6 million in costs of purchased services. Expenditure for project-based acquisition of hardware and licenses rose by € 1.2 million. At € 72.0 million, employee costs were slightly higher than in the previous year.

Increase in incoming orders

In 2007, incoming orders increased by € 7 million to € 132 million. The 6 % upturn is due mainly to considerably higher order levels in Infrastructure Management. Orders in hand at the end of the year increased over the previous year from € 74 million to € 78 million.

Revenue per employee increased

At € 123.2 million, group revenue was higher than the previous year's figure of € 117.0 million, an increase of 5 %. The increase in Production Management compensated for the investment-based decline in revenue in Energy Management. Revenue per employee improved over the previous year by 9 % to € 121k.

Slight change in revenue breakdown

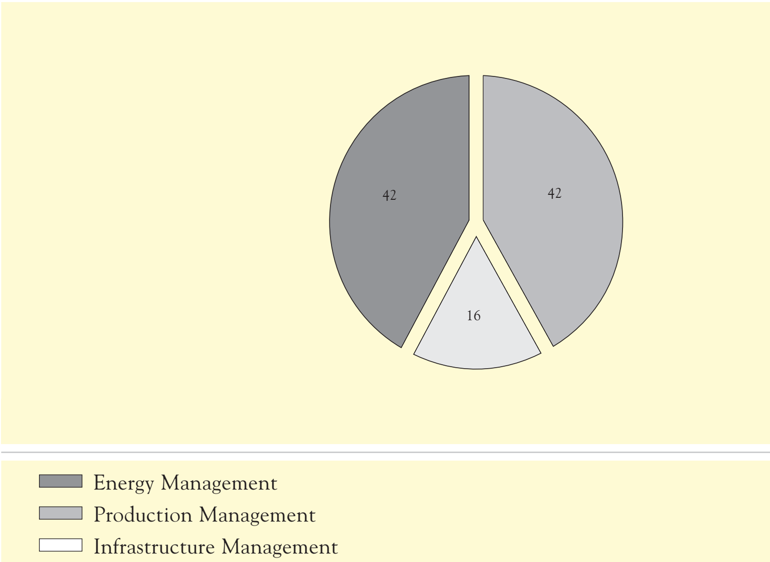
Revenue generated with exports increased from € 20.0 million in the previous year to € 26.1 million. This corresponds to an increase in the export share from 17 % to 21 %. As in the previous year, international orders accounted for 26 % of incoming orders. Maintenance revenue rose from € 22.0 million to € 22.8 million.

In 2007, the highest share of revenue was contributed by Energy Management. This segment contributed 42 % of revenue after 46 % in the previous year. The contribution of Production Management rose from 40 % to 42 %, that of Infrastructure Management from 14 % to 16 %.

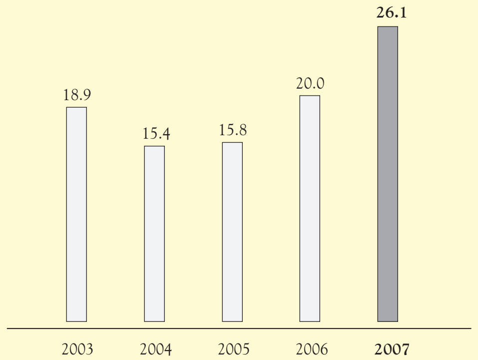
Energy Management segment pushes ahead with internationalization

In 2007, Energy Management was impacted by capital expenditure. As a result of this and the lower ratio of purchased services, revenue declined by 4 % to € 51.7 million. This segment includes electrical energy, gas, oil, heat, water and energy trading. At € 2.6 million, the operating result was slightly below the previous year's value of € 2.7 million. The electrical energy segment invested in a Russian control system version and new functions for the management of high-voltage networks. The segment gained important new customers in France and Russia. The gas and oil segment continued the

Energy- and Production Management largest segments
in %



Foreign turnover grown
in € millions



Without foreign sales via domestic export partners positive development of previous years and obtained important follow-up orders from the Gazprom Group. PSI received the order from an RWE regional company to replace the central control technology for gas and electricity. This will be based on a uniform system platform for both divisions. The energy trading systems segment also invested in the complete integration of solutions for electricity and gas within the scope of a pilot project. As a result, PSI is excellently positioned as a solutions supplier for the increasing liberalization of the energy market.

Production Management with double-digit growth

Revenue in Production Management increased by 12% to € 51.6 million in 2007. In this segment, PSI developed solutions for planning and managing production and logistics processes. The operating result increased over the previous year from € 0.4 million to € 1.7 million. Business development in PSI BT, which has concentrated in recent years on the steel industry, was again positive, with the market position being further consolidated, particularly on an international level. The ERP software provider PSIPENTA further improved the positive result of the previous year. Logistics again generated a strong result following the integration of Transport Management. Under new management, PSI again made a positive contribution to the group result.

Infrastructure Management achieves turnaround

In 2007, Infrastructure Management generated a 19% increase in revenue to € 19.8 million despite the sale of the consulting and public sector activities. Above all, the transport systems segment contributed to this development with very high incoming orders. Telecommunications solutions, however, also reported a positive trend at the end of the year under new management. All in all, the segment generated a positive operating result of € 0.5 million including the sales proceeds, following a negative result of € –1.5 million in the previous year.

Financial position

The monthly liquidity planning of PSI and the resulting measures secure the financial requirement for the operating business and capital expenditure. A monthly rolling forecast with a planning horizon of 12 months including all companies is carried out by means of risk management. This minimizes the acceptance of bank loans by the individual group companies.

Financing wherever possible from the operating business

PSI focuses investment on the further development of products as well as further internationalization. Both should be financed as far as possible from the operating business. Here, PSI focuses on major pilot customers and partnerships in the development of new products and functionalities.

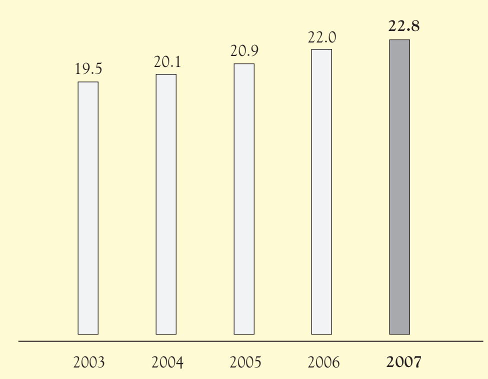
As at December 31, 2007, PSI had guarantee and bank cash lines of € 57.2 million to finance ongoing business. Utilization was mainly for the guarantee credit line and amounted to € 28.7 million on the balance sheet date. In 2007, the group was always in a position to fulfill its payment obligations.

PSI has authorized capital of € 15.5 million created by resolution of the Annual General Meeting on May 19, 2005. In the 2007 fiscal year, no capital measures were carried out. At the Annual General Meeting of PSI AG on April 26, 2007, the Board of Directors was authorized to buy back shares amounting to up to 10 % of the share capital. The authorization expires on October 25, 2008.

Cash flow positive again in 2007

Cash flow from ongoing operations, negative at € –2.0 million in the previous year, improved considerably and was again positive at € 3.0 million. Cash flow from investing activities increased to € 0.5 million due to the sale of the public sector services. This amounted to € –1.9 million in the previous year. Cash flow from financing activities decreased from € 0.3 million in the previous year to € 0.1 million. The liquid funds at year-end increased on the basis of the positive cash flow from € 15.3 million to € 18.9 million.

Maintenance revenues continously on the rise
in € millions



Assets

Assets structure: Intangible assets

In 2007, the PSI Group invested € 1.6 million in intangible assets and property, plant and equipment, following € 3.5 million in the previous year. The capital expenditure concern intangible assets and plant, property and equipment acquired from third parties. Software developed by the group and expertise it has acquired were recorded in the previous year as ongoing expenses.

In 2007, the remaining € 0.4 million capitalized software costs from previous years were amortized as scheduled. As in the previous year, the carrying amount for goodwill was € 12.9 million.

Balance sheet structure: Equity ratio again above 30 %

Total assets of the PSI Group increased in 2007 by 6 % to € 90.0 million.

On the assets side, the proportion of current assets in total assets rose from 66 % to 71 %. Cash increased by € 3.6 million and trade receivables by € 3.8 million. The proportion of non-current assets decreased from 34 % to 29 % due mainly to the decline in intangible assets.

On the liabilities side, the proportion of current liabilities rose from 33 % to 35 %. The proportion of non-current liabilities fell slightly from 32 % to 31 %. The equity ratio was constant at 34 %.

As at December 31, 2007, the company's share capital amounted to € 31,008,947.20 and was divided into 12,112,870 no-par shares with a nominal value of € 2.56 per share. Every share entitles its holder one vote. The shareholders exercise their voting rights at the Annual General Meeting in accordance with the legal regulations and the articles of association. There are no restrictions with respect to voting rights or the transfer of shares.

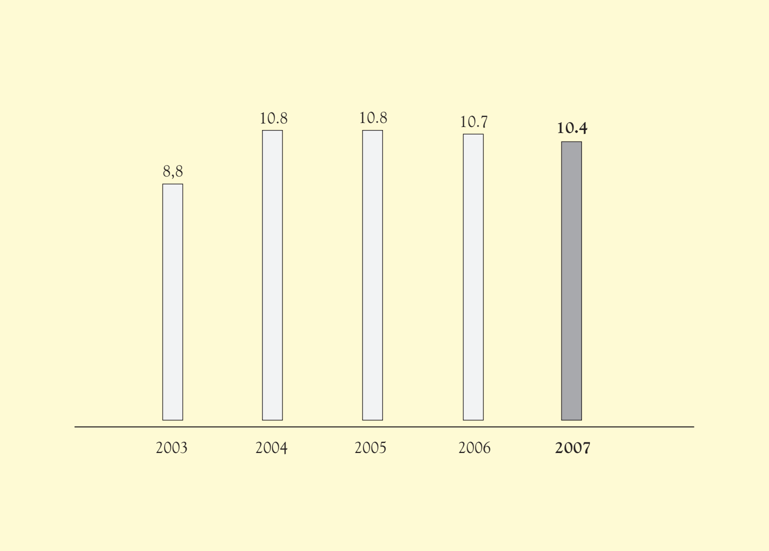
Overall assessment of the results of operations, financial position and net assets

During the 2007 fiscal year, the results of operations, financial position and net assets continued to improve, also with the sale of the consulting and public sector services. Development was particularly positive with regard to the results of operations and cash flow. For 2008, the management is again expecting positive cash flow, so that the group will be in the necessary financial position to implement its planned growth.

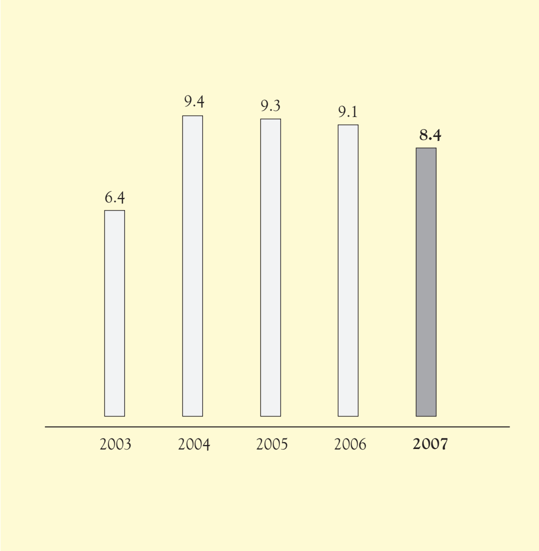
Research and Development

Innovative products and maintaining the technical lead are among the key competitive advantages in the software market. For this reason, it is extremely important that PSI develops new products. The functionality and modernity of the products are just as critical to economic success as the use of joint development platforms and the exchange of new functionalities within the group.

R & D expenses almost stable
in %



Share of turnover assigned to R & D
in %



Therefore, a key focus of development activities in 2007 was the implementation of the group-wide platform strategy. With the convergence of the system cores, the conditions for further export growth and the use of core products in all business units are improved.

As in previous years, in 2007 we collaborated closely on the development of new products pilot customers which are leaders in their industries. This collaboration guarantees the customer benefits of our products right from the start. In follow-up projects, these are further developed on an ongoing basis and adapted to the changing requirements in our target markets. The resulting product cores form the basis for the wide distribution and export of the innovations.

With our platform strategy and internal technology transfer, we developed and launched new products in recent years. We evaluate their success on the basis of the pilot projects and acceptance by the target markets in question. We also concluded important pilot projects in 2007, including the cross-segment energy trading system for management of high-voltage networks and the industry software for the automotive industry.

In 2007, the PSI Group received € 1.7 million in public subsidies. The subsidies were granted for platforms for managing intelligent logistics networks and real-time logistics systems. At € 10.4 million, total group expenditure for research and development in 2007 was slightly below the previous year's value of € 10.7 million. This did not contain any relevant purchased services.

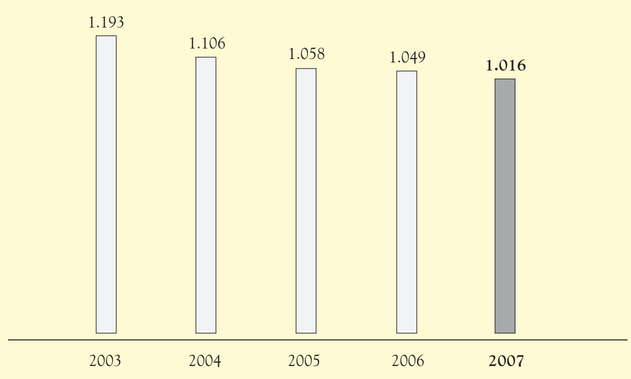
Particular focuses of development in 2007 were:

- The new energy control system for management of high-voltage and supergrid voltage networks
- The Russian version of the control system for electrical networks
- The integration of the product portfolio for gas and electricity trading
- The new PSIpenta industry functions for the automotive industry
- The new version of the transport management system in logistics
- The new configuration management for telecommunications terrestrial networks
- The group-wide standardization of user interfaces and system components.

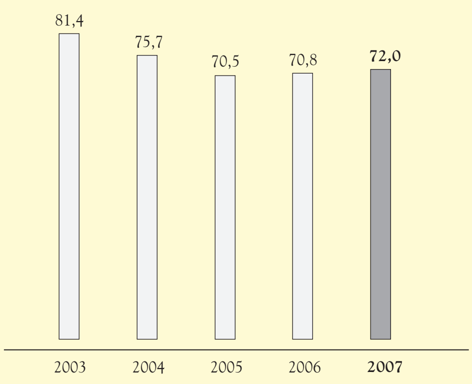
EMPLOYEES

For a specialist software provider like PSI, the qualifications and motivation of its employees are a strategic competitive advantage. For this reason, PSI has employed a particularly high number of academics with specialist industry knowledge for a number of years. In 2007, the number of employees with a university qualification was higher than 80 %. The majority of these have an engineering qualification.

Number of employees over one thousand



Personell expenditures slightly on the rise
in € millions



The main focal points of personnel development and qualification in 2007 were again the qualification of employees for internationalizing PSI and the specialist training of new employees at the international locations. When selecting new employees, PSI pays particular attention to language knowledge with respect to expanding the export business. Standardization in the group and the bundling of general development topics were further advanced in group-wide workgroups on the topics of technology, infrastructure, maintenance, quality management, controlling and marketing.

5.2 % of PSI AG's shares were bundled in the employee-shareholder pool during the fiscal year. Moreover, a relevant proportion of the shares in the free float were held by our employees.

In 2007, the number of employees decreased by 70 as a result of the sale of the public sector services. This was countered by expansion of the subsidiaries in China and Poland. We also increased our capacity in other areas where market development was positive. Overall, the number of employees in the group declined compared to the previous year by 33 to 1,016 as a result of these counter-effects. 432 are employed in the Energy Management segment, 463 in Production Management and 121 in Infrastructure Management.

At € 72.0 million, employee costs were slightly higher than the previous year's figure of € 70.8 million. With increasing production in the export target countries of China, Poland and Russia, the average employee costs are close to the industry mean.

Structure and organization

The structure of the PSI Group was simplified again in 2007. With a merger agreement dated December 21, 2006, PSI Business Technology for Industries GmbH was merged with PSI Information Management GmbH and renamed PSI Business Technology for Industries GmbH. The consulting and public sector services were sold in mid-2007.

In accordance with Article 8 of the charter and bylaws, the Supervisory Board appoints the members of the Board of Directors and their number. All other details of appointment and termination are regulated by Articles 84f. German Stock Corporation Act.

The annual remuneration of the members of the Board of Directors comprises non-performance-related, performance-related and long-term performance-related components. The long-term performance-related remuneration of the Board of Directors is linked to a sustained increase in PSI AG's market capitalization. The level of the performance-related components is specified by the Supervisory Board on the basis of the company's business development according to due discretion. In the case of exceptional performance, the Supervisory Board may also agree a reasonable special payment.

The remuneration of the Supervisory Board does not contain a performance-related component. It comprises a basic remuneration component and a component which is linked to attendance of meetings.

In accordance with Article 11 of the charter and bylaws, the Supervisory Board is entitled to make changes and amendments to the charter and bylaws which only affect the version. Otherwise, in accordance with Article 179

Group structure
as of Dec. 31, 2007

Energy Management		Production Management		Infrastructure Management	
PSI AG Electrical Energy Division Gas/Oil Division		PSI Production GmbH	100 %	PSI Transcom GmbH	100 %
PSI Büsing & Buchwald GmbH	100 %	PSIPENTA GmbH	100 %	PSI S. z o.o. (Poland)	100 %
PSI CNI GmbH	100 %	PSI BT GmbH	100 %		
Nentec GmbH	100 %	PSI Information Technology Co. Ltd. (China)	100 %		
		PSI Logistics GmbH	100 %		
		PSI AG (Switzerland)	100 %		

German Stock Corporation Act, the charter and bylaws are agreed by the Annual General Meeting with a majority of at least three quarters of the share capital represented when the resolution is passed.

The company has no significant agreements which are subject to a change of control resulting from a takeover bid. The company has concluded no compensation agreements with members of the Board of Directors or employees in the event of a takeover bid. The legal regulations apply.

Special events during the fiscal year

At the beginning of 2007, the accreditation process for a representative office in Moscow was concluded. With the branch in the Russian capital, PSI is strengthening particularly the sales of systems for the oil and gas market, the electricity supply, logistics and the steel industry in Russia. The consulting and public sector activities were sold in mid-2007.

As at the end of the year, the merger of the PSI Manufacturing segment and the Aschaffenburg segment of PSI Transcom GmbH with GSI mbH was resolved. Both segments were acquired by GSI mbH effective December 31, 2007, which is to trade in future under the new name of PSI Production Gesellschaft für Steuerungs- und Informationssysteme mbH. This combines the solutions for maintenance, manufacturing execution systems (MES) as well as control technology for production and logistics in an extended portfolio.

EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events following the balance sheet date.

RISK REPORT

The purpose of PSI's risk report is to increase the company's value in the long term and to achieve the planned values.

To do this, the company must recognize and assess risks at an early stage. Suitable measures are to be taken by means of which PSI can avoid risk and take advantage of opportunities.

PSI has identified significant risks which it has integrated into its early warning system:

- Market: Incoming orders or orders in hand too low
- Employees: Too little availability of the necessary qualifications
- Liquidity: Adverse payment conditions and inadequate credit lines
- Costs and income: Deviation from planned values particularly in project processing and development

The guideline for risk management regulates the areas of

- Risk strategy: Explicit principles for minimizing the main risk and general guidelines of risk management
- Risk management organization: Responsibilities of the management levels and controllers involved
- Risk recognition, control and monitoring: Instruments for risk detection and key ratios used for monitoring
- Risk management system: Application of the group-wide Professional Services Automation (PSA) solution

Since 2005, this specification has been supplemented by a guideline on risk management in projects. It regulates the implementation of risk management in the project, the identification, recording, analysis and evaluation of risks as well as planning, specifying and monitoring measures for minimizing risks connected with projects. In particular this relates to measures for limiting advance financing in projects.

The Professional Services Automation (PSA) solution has an integrated Management Information System (MIS) and is a standardized information and control instrument for all levels of the group. Regular MIS reports, which are generally created monthly, provide defined key ratios in the guideline system from the areas of:

- Development of the order situation and capacity utilization
- Liquidity planning
- Development of the assets and financial situation
- Forecast of key economic ratios
- Sales forecast and market development
- Project controlling and contract management

Risk and opportunity analysis

In 2007, the risk profile of PSI was improved primarily due to the development of the economy in Germany and the group's steps towards internationalization.

Opportunities and risks by segment

In **Energy Management**, dependency on the German market declined due to further international sales successes, including initial contracts with very large utilities in France and Russia. On the domestic market, PSI consolidated its excellent position with major contracts from existing customers. In international terms, the growing requirement for reliable and efficient energy infrastructures in East Europe and Asia in particular offered PSI further growth opportunities. Additional potential is coming from the international expansion of the major German utilities, which for many years have relied successfully on control system solutions from PSI. At the same time, the requirement for advance financing and guarantees is on the increase in international business.

The ongoing discussion regarding the further liberalization of the European energy markets can lead to uncertainty on the part of market participants and thus to delays in capital expenditure. PSI would be especially affected by a market weakness of this sort due to the high dependency of the German market which still exists. On the other hand, the convergence of the electricity and gas markets in Europe and the capital expenditure required for this means new opportunities for PSI.

The new partnerships in Malaysia, India, the Czech Republic and Russia concluded at the end of 2006 increase the scope for sales and thus the sales opportunities of PSI. They also bring new dependencies.

In **Production Management**, PSI achieved very good progress in the internationalization of the business, primarily in the steel segment. After successfully entering the Chinese steel market, PSI also entered the Russian steel industry market in 2007. PSI received other important orders from the Chinese aluminum industry and Canada. Further growth is expected worldwide in the steel industry over the next few years, resulting in further opportunities for the future. PSI has excellent references here. Leadership of the world market is expected to accentuated with additional major orders and acquisitions. PSI would also be impacted by a decline in the global steel industry, although dependency on the development of individual growth regions has been reduced compared with last year. There is a further risk in East Asia in particular, as it is here that adequate expertise and brand protection is still not guaranteed.

In 2007, the logistics segment also profited from growth in Eastern Europe, with further orders from Russia. The ongoing trend to relocate sub-segments of industrial value chains will also increase logistics requirements. The resulting opportunities for PSI come with intensified competitive pressure which has increased due to the expansion of the EU towards the East.

There are additional opportunities for PSI Logistics due to the expansion of the airport segment on the growth market of air cargo logistics. At the same time, these opportunities are to be seen alongside the costs and risks of market development.

The ERP subsidiary PSIPENTA further improved its result in 2007 and benefited from its clear industry focus. It also benefited from the increased investment in manufacturing enterprises in the course of the economic upturn. With its SME business, PSISPENTA is particularly dependent on the prevailing investment climate. It is for this reason there is the risk of fewer incoming orders if the domestic economy cools off substantially. PSIPENTA is consolidating its position in the market for automotive companies with long-term projects in the automotive sector.

In **Infrastructure Management**, the transport and traffic systems segment developed very well with numerous orders from Germany and neighboring countries in 2007. Over the next few years we expect further investment in the modernization of public transport infrastructure resulting in opportunities for profitable growth. At the same time, there is also the risk of a decline in capital expenditure if the financial position of public transportation services deteriorates. Political decision-making also repeatedly results in investments being pushed back.

In the telecommunications segment, we are expecting further capital expenditure by network operators in solutions for configuration management due to increased network utilization. With new infrastructure-related applications such as message routing, PSI is also addressing the segment of mobile data services in which the network operators are investing heavily. The outsourcing of the network operation brings with it both opportunities and risks for PSI.

Opportunities and risks of internationalization
The expansion of international activities was pushed ahead in 2007 and focused on Russia. This decreased the dependency on the domestic market and at the same time brought additional opportunities for PSI in the growth markets. PSI concentrates on exports to markets in the East because this is the location of particular growth in the core areas of energy, industry and infrastructure. With its company headquarters in Berlin, PSI is particularly suited for exports to markets in the East. This brings with it new risks such as dependency of international partners, exchange rates and legal systems. However, opportunities and risks are distributed over a wider area due to the continued expansion of international activities.

Opportunities and risks of new products and technologies
In order to consolidate its competitive position, PSI also invested in new product variants and supplements in 2007. At the same time, product platforms and components are being merged in a PSI-wide convergence process in order to profit from high numbers of units. The future development of income and liquidity of the PSI Group depends primarily on the market success of the new products and the mastering of newly developed technology.

Financial risks
To finance the operating business, PSI uses instruments which primarily comprise trade receivables, liquid funds, liabilities to banks and guarantees. The most important risks in this respect are default risks, liquidity risks and market value risks. Default risks and liquidity risks are managed using credit lines and control procedures. For PSI, there is no concentration of the default risk with individual groups or a group of contractual partners. The group endeavors to have sufficient liquidity and credit lines to fulfill its obligations.

There is no appreciable exchange rate risk as the PSI Group carries out its transactions predominantly in euro. With the export target countries in the markets in the East, upward exchange rate pressure is taken into account. In the case of the group's financial instruments not recognized in the balance sheet at market value, the carrying amount is very close to the market value due to the short term. As a result the market value risk is very small.

Employees
With technically demanding tasks we are successful in employing qualified employees, integrating them and keeping them at our company for a long time. Our fluctuation rate is low. We will continue to expand the alignment of our remuneration structure to performance and results. With the freezing of the freezing of pension provisions at the end of 2006, all future payments are stipulated and direct salary components.

Future risks
The central focus of PSI strategy for the next few years is the further internationalization of the group. Should this not succeed as planned, PSI would continue to be dependent to a high degree on the development of the economy and the regulatory framework in Germany.

OUTLOOK

The conditions for further profitable growth are good: Incoming orders for the PSI Group in 2007 were € 132 million, 7 % in excess of the annual revenue. Orders in hand increased to the end of the year to € 78 million. The development of income for the group was extremely positive. The operating result of € 3.8 million was above the annual forecast. The market positions in energy and production management were further expanded both nationally and internationally. We continue to expect a good IT investment climate in Germany for 2008 and a continued dynamic development of the strong growth countries of Asia and Eastern Europe. Our specialized solutions for heavy industry and the management of large network infrastructures are especially attractive for these economies. We also want to continue to profit from these and in the next five years to increase the proportion of international business to 50 %. At the same time, we also expect a moderate increase in our core business in Germany. The overall prospects for PSI are good.

To take advantage of these opportunities, we want to continue our strategy based on focus and internationalization. We expect double-digit growth rates in our locations in China, Poland and Russia over the next few years. We have also expanded our network of partners in 2007 and thus consolidated our regional presence in the growth regions. With the streamlining of the group, we have already improved our ability to export and act in partnership.

We want to use internationalization to increase units sales for our products and the proportion of licenses compared with national business. We will also increase this positive effect by investing in the convergence of our product platforms. We will supplement our portfolio systematically and further increase our efficiency. In this way we are creating the foundation on which we can generate double-digit margins.

Over the next two years, we expect further growth momentum for revenue and income, particularly in the energy management and production management sectors. In infrastructure management we also expect organic growth and further increases in income after streamlining the conditions. The growth in consolidated sales approximately mirrors the increase in incoming orders of the past year. In particular, we are targeting company acquisitions in the export target countries. On the back of increasing incoming orders, we want to increase operating margin to at least 10 % over the next five years. To do so, we will make further investments in our product base and the internationalization of our core business.

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

Consolidated Balance Sheet as of December 31, 2007 (IFRS)

ASSETS	Note	Jan 1 – Dec 31, 2007 EUR K	Jan 1 – Dec 31, 2006 EUR K
Non-current assets			
Property, plant and equipment	C.1	7,745	7,908
Intangible assets	C. 1	15,030	16,426
Other financial assets	C. 2	20	67
Deferred tax assets	C. 13	3,093	4,302
		25,888	**28,703**
Current assets			
Inventories	C. 3	990	1,737
Trade receivables, net	C. 4	22,255	18,530
Receivables from long-term development contracts	C. 5	19,130	17,966
Other assets	C. 6	2,790	2,384
Cash and cash equivalents	C. 7	18,948	15,340
		64,113	**55,957**
		90,001	84,660

TOTAL EQUITY AND LIABILITIES	Note	Jan 1 – Dec 31, 2007 EUR K	Jan 1 – Dec 31, 2006 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		95	32
Accumulated losses		–33,338	–35,047
		30,719	**28,947**
Non-current liabilities			
Pension provisions	C. 9	25,550	25,157
Deferred tax liabilities	C. 13	1,990	2,297
		27,540	**27,454**
Current liabilities			
Trade payables		9,386	8,412
Other liabilities	C. 12	14,291	11,885
Liabilities from long-term development contracts	C. 5	6,685	6,069
Financial liabilities	C. 10	305	393
Provisions	C. 11	1,075	1,500
		31,742	**28,259**
		90,001	**84,660**

Consolidated Income Statement for 2007 (IFRS)

	Note	2007 EUR K	2006 EUR K
Sales Revenues	D. 14	123,184	117,038
Other operating income		3,183	3,031
Increase/decrease in inventories and work in progress		–72	–110
Cost of materials	D. 15	–25,646	–23,893
Personnel expenses	D. 16	–71,970	–70,831
Amortization and depreciation	D. 17	–3,119	–3,130
Other operating expenses	D. 18	–21,720	–21,057
Operating profit		**3,840**	**1,048**
Interest income		459	318
Interest expense		–1,583	–1,701
Profit before taxes		**2,716**	**–335**
Taxes on income		–1,007	762
Net Group profit		**1,709**	**427**
Group profit per share in EUR (basic and diluted)	D. 19	**0,14**	**0,04**
Average number of shares in circulation (in thousands)	D. 19	**12,113**	**12,113**

Consolidated Cash Flow Statement for the period from January 1 to December 31, 2007 (IFRS)

	2007 EUR K	2006 EUR K
1. Cash flow from operating activities		
Group net loss before tax	**2,716**	**–335**
Adjustment for non-cash expenses		
Amortization of intangible assets	1,498	1,707
Depreciation of property, plant and equipment	1,458	1,409
Income/losses from the disposal of assets	22	28
Interest income	– 459	–318
Interest expense	1,583	1,701
Foreign exchange profit/loss	63	42
Other non-cash income/expenses	–1,336	0
	5,545	**4,234**
Change in working capital		
Changes in inventories	747	417
Changes in trade receivables	– 5,587	–349
Changes in other assets	–1,203	–264
Changes in provisions	–765	–775
Changes in trade payables	1,058	–1,612
Changes in other liabilities and deferred taxes	3,478	–3,325
	3,273	**–1,674**
Interest paid	– 96	–98
Income taxes paid	–137	–253
Cash flow from operating activities	**3,040**	**–2,025**
2. Cash flow from investment activities		
Additions to intangible assets	–176	–2,172
Additions to property, plant and equipment	–1,415	–1,342
Additions to financial assets	–20	0
Disposals of subsidiaries, minus cash disposed	1,563	0
Disposals of property, plant and equipment	28	0
Disposals of financial assets	69	1,317
Interest received	457	318
Cash flow from investment activities	**506**	**–1,879**
3. Cash flow from financing activities		
Change in current financial liabilities	62	297
Cash flow from financing activities	**62**	**297**
4. Cash and cash equivalents at end of period		
Change in cash and cash equivalents	3,608	–3,607
Cash and cash equivalents at beginning of period	15,340	18,947
Cash and cash equivalents at end of period	**18,948**	**15,340**

Statement of Changes in Equity for 2007 (IFRS)

	Subscribed capital EUR K	Capital reserve EUR K
Note	C. 8	C. 8
Balance at December 31, 2005	**31,009**	**31,772**
Net Group profit for the year		
Issue of new shares		
Exchange rate gain/loss		
Balance at December 31, 2006	**31,009**	**31,772**
Net Group profit for the year		
Exchange rate gain/loss		
Balance at December 31, 2007	**31,009**	**31,772**

Group Segment Reporting 2007 and 2006 (IFRS)

	Energy Management		Production Management	
	Dec 31, 2007 EUR K	Dec 31, 2006 EUR K	Dec 31, 2007 EUR K	Dec 31, 2006 EUR K
Revenues				
External revenues	51,745	54,119	51,609	46,221
Inter-segment revenues	326	113	1,449	1,951
Total revenues	**52,071**	**54,232**	**53,058**	**48,172**
Other income	3,861	3,698	3,496	3,334
Changes in finished goods and work in progress	0	–134	– 80	80
Cost of purchased services	–2,989	–3,755	– 6,197	–5,870
Costs of purchased goods	–7,277	–8,757	–1,991	–1,523
Personnel expenses	–31,700	–29,334	–30,975	–30,779
Depreciation and amortization	–1,390	–1,379	–985	–926
Other operating expenses	–10,017	–11,824	–14,635	–12,129
Operating profit/loss before depreciation and amortization	**3,949**	**4,126**	**2,676**	**1,285**
Operating profit/loss by segment	**2,559**	**2,747**	**1,691**	**359**
Financial result	–423	–378	–466	–559
Segment result	**2,136**	**2,369**	**1,225**	**–200**
Segment assets	**42,199**	**39,579**	**33,436**	**30,806**
Segment liabilities	**18,392**	**18,100**	**22,331**	**19,911**
Segment investments	**616**	**1,213**	**381**	**1,975**

Revenue reserve EUR K	Other changes in balance sheet EUR K	Accumulated loss EUR K	Total EUR K
1,181	**–11**	**–35,474**	**28,477**
		427	427
	2		2
	41		41
1,181	**32**	**–35,047**	**28,947**
		1,709	1,709
	63		63
1,181	**95**	**–33,338**	**30,719**

Infrastructure Management		Reconciliation		PSI Group	
Dec 31, 2007 EUR K	Dec 31, 2006 EUR K	Dec 31, 2007 EUR K	Dec 31, 2006 EUR K	Dec 31, 2007 EUR K	Dec 31, 2006 EUR K
19,830	16,698	0	0	123,184	117,038
2,196	3,087	–3,971	–5,151	0	0
22,026	**19,785**	**–3,971**	**–5,151**	**123,184**	**117,038**
2,046	1,128	–6,220	–5,129	3,183	3,031
8	–56	0	0	–72	–110
–2,074	–2,099	1,407	2,443	–9,853	–9,281
–7,639	–5,051	1,114	719	–15,793	–14,612
–9,262	–10,745	–33	27	–71,970	–70,831
–724	–799	–20	– 26	–3,119	–3,130
–3,873	–3,708	6,805	6,604	–21,720	–21,057
1,232	**–746**	**–898**	**– 487**	**6,959**	**4,178**
508	**–1,545**	**–918**	**–513**	**3,840**	**1,048**
–235	– 446	0	0	–1,124	–1,383
273	**–1,991**	**–918**	**–513**	**2,716**	**–335**
10,966	**11,305**	**307**	**–1,332**	**86,908**	**80,358**
9,903	**10,174**	**6,582**	**5,109**	**57,208**	**53,294**
207	**134**	**387**	**192**	**1,591**	**3,514**

Schedule of Movements in Non-current Assets in 2006 (IFRS)

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

Schedule of Movements in Non-current Assets in 2007 (IFRS)

	Costs of acquisition/production				
	Jan 1, 2007 EUR K	Additions EUR K	Disposals EUR K	Disposal from sale of a subsidiary EUR K	Dec 31, 2007 EUR K
I. Intangible assets					
1. Other intangible assets	11,475	176	1,800	39	9,812
2. Goodwill	15,174	0	0	0	15,174
3. Capitalized software development costs	4,090	0	2,267	127	1,696
	30,739	**176**	**4,067**	**166**	**26,682**
II. Property, plant and equipment					
1. Land and buildings	12,365	125	0	0	12,490
2. Computers and accessories	9,457	1,043	1,389	80	9,031
3. Office equipment	4,714	247	173	17	4,771
	26,536	**1,415**	**1,562**	**97**	**26,292**
	57,275	**1,591**	**5,629**	**263**	**52,974**

Accumulated amortization/depreciation				Net book value	
Jan 1, 2006 EUR K	Additions EUR K	Disposals EUR K	Dec 31, 2006 EUR K	Dec 31, 2006 EUR K	Dec 31, 2005 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**

Accumulated amortization/depreciation					Net book value	
Jan 1, 2007 EUR K	Additions EUR K	Disposals EUR K	Disposal from sale of a subsidiary EUR K	Dec 31, 2007 EUR K	Dec 31, 2007 EUR K	Dec 31, 2006 EUR K
8,319	1,196	1,800	17	7,698	2,114	3,156
2,258	0	0	0	2,258	12,916	12,916
3,736	302	2,267	75	1,696	0	354
14,313	**1,498**	**4,067**	**92**	**11,652**	**15,030**	**16,426**
6,424	366	0	0	6,790	5,700	5,941
8,183	858	1,356	23	7,662	1,369	1,274
4,021	234	155	5	4,095	676	693
18,628	**1,458**	**1,511**	**28**	**18,547**	**7,745**	**7,908**
32,941	**2,956**	**5,578**	**120**	**30,199**	**22,775**	**24,334**

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

PSI AKTIENGESELLSCHAFT FOR PRODUCTS AND SYSTEMS OF THE INFORMATION TECHNOLOGY, BERLIN, AT DECEMBER 31, 2007

A. GENERAL COMPANY INFORMATION

The parent of the PSI Group is PSI Aktiengesellschaft for products and systems of information technology (PSI AG), headquartered at Dircksenstraße 42-44 in 10178 Berlin, Germany. It is entered in the commercial register of Berlin-Charlottenburg under the number HRB 51463.

The Board of Directors prepared the consolidated financial statements to December 31, 2007 and the Consolidated Management Report for the 2007 financial year on February 11, 2008 and on February 15, 2008 released them to the Supervisory Board for its approval.

The operations of the PSI Group encompass the design and operation of software systems and products which fulfill the special needs and requirements of customers operating primarily in the following industries and service sectors: energy supply, production, telecommunications, transportation, public authorities, software technology, internet applications, and corporate consultancy. The PSI Group continues to provide all types of services in the field of data processing, distributes electronic equipment and operates data processing systems.

The PSI Group is divided into three main areas of business (segment): Energy Management, Production Management and Infrastructure Management. Please refer to F. regarding the changes to segment reporting.

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

B. PRESENTATION OF THE ACCOUNTING AND VALUATION PRINCIPLES AND THE METHODS USED FOR FINANCIAL RISK MANAGEMENT

Reporting principles

The consolidated financial statements of the PSI Group are prepared on the basis of historical costs. Exceptions to this are financial assets which are available for sale and which are carried at fair value.

The consolidated financial statements of the PSI Group are prepared in accordance with the International Financial Reporting Standards (IFRS), as they are to be applied in the EU. The consolidated financial statements were prepared in euro. All amounts are in EUR k unless otherwise indicated.

Changes in accounting and valuation principles

The accounting policies applied are the same as last year with the following exceptions. The PSI Group has applied the new and revised standards, which are obligatory for financial years starting on or after January 1, 2007 and these are listed below. The application of these standards has in some cases resulted in additional details in the group notes and has had no other impact on the group's net assets, financial position and results of operations.

- IFRS 7 Financial instruments: disclosures
- Change to IAS 1 Presentation of financial statements
- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of embedded derivatives
- IFRIC 10 Interim financial reporting and impairment

In addition, the group has applied ahead of schedule IFRS 8 Operating segments and IFRIC 11 (objective scope of IFRS 2). The application of this standard and its interpretation has not impacted the group's net assets, financial position and results of operations. However, the application of IFRS 8 has resulted in additional disclosures.

IFRS 7 Financial instruments: disclosures

This standard requires disclosures that enable users of the financial statements to assess the significance of the financial instruments for the financial position and performance of the group as well as the type and extent of these financial instruments. The new disclosures resulting from this pervade the financial statements in their entirety. The application of this standard has not impacted the group's net assets, financial position and results of operations. The comparative information in question was adapted.

IAS 1 Presentation of financial statements

This change resulted in new disclosures which enable users of the financial statements to assess the objectives, methods and processes of the group in terms of capital management. The new disclosures are shown in the notes under "Objective and methods of financial risk management".

IFRIC 8 Scope of IFRS 2

This interpretation requires the application of IFRS 2 for all transactions with which a contractor cannot identify specifically some or all of the goods or services involved. The application of this standard has not impacted the group's net assets, financial position and results of operations.

IFRIC 11 Scope of IFRS 2

In accordance with this interpretation, agreements which grant employees rights to the equity instruments of a company are recognized as share-based payment transactions with settlement by means of equity instrument if the company acquires the instruments from a third party or if the shareholders provide the required equity instruments. This interpretation has not impacted the group's net assets, financial position and results of operations.

IFRIC 9 Reassessment of embedded derivatives

In accordance with IFRIC 9, the company must always reappraise a structured instrument at the time the agreement is concluded with regard to whether an embedded derivative is involved. A reappraisal is only permissible in the case of a substantial change in the contractual conditions if this results in a significant change to the cash flows. This interpretation has not impacted the group's net assets, financial position and results of operations.

IFRIC 10 Interim financial reporting and impairment

IFRIC 10 contains a regulation that an impairment loss recognized within the framework of interim financial reporting for goodwill or for equity instruments or financial assets held, and is recognized at costs of purchase, may not be reversed for the financial statements for periods following initial disclosure. This interpretation has not impacted the group's net assets, financial position and results of operations.

IFRS 8 Operating segments
This standard requires the disclosure of information regarding the group's business segments and replaces the obligation to specify primary (business segments) and secondary (geographic segments) segment reporting formats for the group. After appraisal of the group, the business segments identified in the group in accordance with IFRS 8 do not coincide with the previously identified business segments in accordance with IAS 14 Segment reporting. Additional disclosures regarding the respective segments are contained in note F. together with adapted comparative information.

Effects of new accounting standards that are still to be applied

The IASB and the IFRIC have adopted the following standards and interpretations which are not yet compulsory for the 2007 fiscal year, nor have they been applied voluntarily ahead of schedule:

- Revision of IFRS 1 Presentation of financial statements
- Change to IAS 23 Borrowing costs
- IFRIC 12 Service concession agreements
- IFRIC 13 Customer loyalty program
- IFRIC 14 IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

The revision of the IAS 1 and the change to IAS 23 comes into force on January 1, 2009. IFRIC 12 and 14 take effect from January 1, 2008 and IFRIC 13 from July 1, 2008.

The change to IAS 23 affects the deletion of the option to record directly as an expense those borrowing costs which can be related to the acquisition, construction or production of a qualifying asset. A qualifying asset in this context exists if a substantial period of time is required to get ready for its intended use or sale. The company will ascertain the effects these changes to the standards will have for the net assets, results of operations and notes, no material impact is expected.

Statements by the IFRIC and the revision of IAS 1 are not expected to have any effect on the consolidated financial statements.

Application of IFRS in the fiscal year

The PSI Group has – with the exception of IFRS 8 Operating segments and IFRIC 11 – not applied the IFRS and IFRIC interpretations which have been published but not yet made compulsory. This is because these standards and interpretations are not expected to be relevant for the business activities of the PSI Group or they will not result in the need for any additional disclosures in the Group notes.

Important judgments and estimates

When applying the accounting methods, the management has made no judgments which have a fundamentally effect on the amounts in the financial statements. The most important forward-looking assumptions and any fundamental causes of uncertainty relating to estimates existing on the reporting date, due to which there is a considerable risk that during the next reporting period a substantial adjustment of the carrying amounts of assets or liabilities will be required, are explained below.

Impairment of non-current assets
The PSI Group tests on an annual basis the impairment of non-current assets based on the regulations contained in IAS 36. The future cash flows which will be generated for individual assets or groups of assets combined into cash-generating units form the basis for the impairment test. One important non-current asset which is subject to annual impairment testing is the goodwill reported in the PSI Group. Further details regarding the impairment test re contained in note C. 1. The carrying amount of the tested non-current assets is EUR 12,916k as at December 31, 2007 (previous year: EUR 12,916k).

Project evaluation
The PSI Group realizes revenue based on the estimated performance in the projects. Performance estimates are made based on an estimated hourly volume or on the basis of contractually agreed milestones and are updated continually. Further details regarding revenue from projects not yet invoiced are listed in note C. 5. The amount of realized partial profits as at December 31, 2007 was EUR 6,848k (previous year: EUR 5,283k).

Deferred tax assets
Deferred tax assets are recognized for all unused tax losses and temporary accounting differences to the extent likely or to which there exist objective indications that there will be taxable income available with the result that the losses can actually be used. Important parts of the deferred tax assets have continued to arise in the 2005 to 2007 fiscal years due to internal restructuring (asset deals). Determination of the amount of the deferred tax assets requires an estimate to be made by corporate management based on the expected date of receipt and the amount of the income to be taxed in the future as well as the future tax plan strategy (temporary incurrence of tax results, consideration of tax risks etc.). As at December 31, 2007 the amount of capitalized tax losses was EUR 404k (2006: EUR 0k) and the non-capitalized tax benefits from losses EUR 81,875k (2006: EUR 82,058k). The deferred tax assets due to temporary accounting differences as at December 31, 2007 was EUR 3,093k (2006: EUR 4,302k); the deferred tax liabilities amounted to EUR 1,990k (2006: EUR 2,297k). Further details are contained in note C. 13.

Pensions and other post-employment benefits
Expense from defined post-employment benefit plans is determined using actuarial calculations. The actuarial calculation is undertaken on the basis of assumptions with respect to discount rates, expected retirement age, future wage and salary increases, mortality and future pension increases. Such estimates are subject to considerable uncertainty commensurate with the long-term nature of these plans. The provisions for pensions and similar obligations as at December 31, 2007 amounted to EUR 25,550k (2006: EUR 25,157k). Further details in this respect are contained in note C. 9.

Principles of consolidation

a) Subsidiaries
The financial statements of the Group encompass PSI AG and the companies it controls. This control is usually demonstrated by PSI AG directly or indirectly holding over 50 % of the voting rights of the subscribed capital of a company and can direct a company's financial and business policy in such a way that PSI AG profits from its activities.

The purchase method in accordance with IFRS 3 is applied for the accounting of purchases of a company. Companies acquired or sold in the course of a fiscal year are included in the consolidated financial statements from the time of acquisition or until the time of the sale.

The surplus acquisition costs resulting from an acquisition over and above the acquired proportion of the fair values if the identifiable assets and liabilities on the day of the acquisition transaction is designated as goodwill and recognized as an asset. The recognized identifiable assets and liabilities are evaluated at fair value at the time of acquisition.

In the 2007 fiscal year, there have been no material changes to the fully consolidated companies with the exception of internal restructuring/various name changes and the sale of one Group company and one division of another Group company. According the following were consolidated in addition to PSI AG

- PSIPENTA Software Systems GmbH ('PSIPENTA'),
- PSI Logistics GmbH ('PSI Logistics'),
- Nentec Gesellschaft für Netzwerk Technologie mbH ('Nentec'),
- PSI Business Technology for Industries GmbH ('PSI BT'),
- PSI Transcom GmbH ('PSI Transcom'),
- PSI AG for products and systems of information technology, Switzerland ('PSI AG/CH'),
- PSI Production Gesellschaft für Steuerungs- und Informationssysteme mbH ('PSI Production'), formerly GSI Gesellschaft für Steuerungs- und Informationssysteme mbH,
- PSI Büsing & Buchwald GmbH ('BuB'),
- PSI CNI Control Networks & Information Management GmbH ('CNI'),
- PSI Produkty i Systemy Informatyczne Sp. z o.o. ('PSI Poland'), and
- PSI Information Technology Shanghai Co. Ltd. ('PSI China').

PSI AG exercised the option to no longer include in the Group notes disclosures required by Article 313 (4) of the HGB (list of the share ownership). Instead, the disclosures will be included in a separate statement deposited with the commercial register.

On July 5, 2007, PSI AG sold its subsidiary European IT Consultancy EITCO GmbH to a group of investors and thus moved a step closer to concentrating on the core business. In connection with the sale, the disposal of non-current assets worth EUR 143k (none of which involved goodwill) and current assets worth EUR 1,452k, of cash and cash equivalents worth EUR 143k, of non-current liabilities worth EUR 577k as well as current liabilities worth EUR 791k were recognized. After deduction of selling costs, the sale realized a profit on disposal of EUR 765k, which was reported under other operating income and allocated to the infrastructure management segment. The contractual agreements regarding the sale of European IT Consultancy EITCO GmbH are scheduled to be to the benefit of the PSI Group's earn-out clauses, which have not yet been recognized in the balance sheet as their realization is currently uncertain.

b) Consolidation measures and uniform Group valuation

The annual financial statements of the subsidiaries and associated companies included in the consolidated financial statements are based on the uniform accounting standards and reporting periods/dates.

Intragroup balances and intragroup transactions, resulting intragroup profits and non-realized profits and losses between consolidated companies were eliminated in full. Unrealized losses were only eliminated if the transactions provided no substantial indications of impairment of the asset transferred.

Currency conversion

The PSI consolidated financial statements are prepared in euro, the functional currency and presentation currency of the Group. Each company within the Group determines its own functional currency. The items contained the financial statements of the respective company are measured using this functional currency. Foreign currency transactions are translated initially at the spot rate between the functional currency and the foreign currency valid on the day of the transaction. Monetary assets and liabilities in a foreign currency are translated into the functional currency using the reporting date rate. All exchange differences in this respect are recognized in the net profit or loss for the period.

The functional currency of the foreign companies such as PSI AG/CH, PSI Poland and PSI China is generally the respective national currency. The assets and liabilities of these subsidiaries are translated into the presentation currency of PSI AG (euro) on the balance sheet date at the reporting date rate. Revenue and expenses are translated at the weighted average rate of the fiscal year. Exchange differences arising from the translation are recognized as a separate component of equity.

Non-current assets

a) Intangible assets

Intangible assets are measured initially at cost. Intangible assets are then recognized if it is likely that future economic benefit from the asset will flow to the company and the cost of the asset can be measured reliably. For the purposes of subsequent measurement, intangible assets are recognized at cost less accumulated amortization and accumulated impairment losses (reported in the depreciation). The depreciation period and depreciation method are checked at the end of each fiscal year.

Intangible assets encompass:

Goodwill

Goodwill from a business combination is measured at cost on initial recognition, which is measured as the excess of the cost of the business combination over the interest of the PSI Group in the fair values of the acquired identifiable assets, liabilities and contingent liabilities. After the initial recognition, the goodwill is measured at cost less accumulated impairment losses. Goodwill is tested for impairment at least once a year if the situation or changes in circumstances indicate that the carrying amount may be impaired. For the purposes of testing whether impairment has occurred, the goodwill acquired with a business combination must be assigned to a cash-generating unit. If the recoverable amount of the cash-generating unit is less than its carrying value, an impairment loss is to be recognized. Impairment losses are not reversed.

Industrial property rights and licenses
Amounts paid for the purchase of industrial property rights and licenses are capitalized and then written down on a straight line basis over their estimated useful life (4 – 5 years).

The costs of new software are capitalized and treated as intangible assets if these costs are not an integral component of the associated hardware. Software is written down on a straight line basis over a period of 3 – 5 years.

Costs incurred to restore or maintain the future economic benefits which the company had expected originally are recognized as an expense.

Capitalized development costs for self-constructed software
Research costs are recognized as an expense in the period in which they are incurred. An intangible asset resulting from this development within the framework of an individual project is only recognized if the PSI Group can prove both the technical feasibility of the completion of the intangible asset, so that the latter is available for internal use or for sale, and the intention to complete and then to use or sell the intangible asset. In addition, the Group must prove the generation of a future economic benefit from the asset, the availability of resources to complete the asset and the ability to determine reliably the expense to be assigned to the intangible asset during its development. The capitalized development costs are written down over the period in which revenue is expected from the project in question (depreciation on a straight line basis over a period of 4 years). The capitalized amount of the development costs is tested for impairment once a year and during the years if there are indications that impairment has taken place.

b) Property, plant and equipment

Property, plant and equipment are recognized at cost less accumulated depreciation and accumulated impairment losses. If property, plant and equipment are sold or scrapped or no further economic benefit is expected from the use of them, the corresponding costs and the accumulated depreciation are derecognized; a realized profit or loss from the disposal is reported in the income statement.

The costs of property, plant and equipment comprise the purchase price including the costs required to bring the property, plant and equipment to a working condition for their intended use. Subsequent expenditure, such as maintenance and upkeep costs which are incurred after the fixed assets are put into operation, are recognized as an expense in the period in which they are incurred. If it is likely that expenditure leads to additional economic benefit, in excess of the originally measured performance of the available asset, flowing to the company, expenditure is capitalized as additional property, plant and equipment costs.

Depreciation is calculated on a straight line basis over an estimated useful life assuming a residual carrying amount of EUR 0. For the individual asset groups, the following useful life is used:

Buildings and exterior installations:	10 to 50 years
Computer hardware:	3 to 4 years
Leasehold improvements:	according to the remaining term of the lease agreement or the shorter actual useful life
Other office furniture and fixtures:	5 to 13 years

The useful life and the depreciation method for property, plant and equipment are examined annually to guarantee that the depreciation method and the depreciation period are consistent with the expected pattern of economic benefits arising from the property, plant and equipment.

c) Impairment of non-current non-financial assets

Long-term assets are tested for impairment if the situation or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The first step of the impairment check is to determine the recoverable amount of the asset or cash-generating unit. This is defined of the higher of the fair value less cost to sell and the value in use. The fair value less costs to sell is defined as the price which can be recovered from selling an asset or cash-generating unit between two knowledgeable and willing parties in an arm's length transaction less the cost to sell. The value in use of an asset or cash-generating unit is determined by the present value within current use based on expected cash flows. No impairment of non-current assets was recognized in the 2007 and 2006 fiscal years.

Financial assets

Financial assets are divided fundamentally into the following categories:

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

As at December 31, 2007 and December 31, 2006, the PSI Group only had loans and receivables extended and available-for-sale financial assets.

Loans and receivables extended are non-derivative financial assets with fixed or definable payments that are not listed on an active market. These assets are measured at amortized cost using the effective interest method. Profits and losses are recognized in the profit or loss for the period of the loans and receivables are derecognized or impaired within the framework of amortization.

Available-for-sale financial assets are those non-derivative financial assets which are classified as available for sale and are not included in the three categories named above. After initial recognition available-for-sale financial assets are measured at fair value, whereby profits or losses are recognized in a separate equity item. At the time the financial investment is derecognized or impairment for the financial investment is determined, the accumulated profit and loss previously recognized in equity is recognized as income in the income statement. The fair value of financial investments traded on organized markets is determined by reference to the listed bid price on the stock exchange on the balance sheet date. Fair values are available for the available-for-sale financial assets reported by the PSI Group as at December 31, 2007 and December 31, 2006.

Financial assets are tested for impairment on each balance sheet date. If it is likely that in the case of financial assets recognized on the balance sheet at amortized cost the company cannot recover, according to the contractual conditions, all the amounts due from loans, receivables and held-to-maturity financial investments, impairment or bad debt allowance is recognized in income. The impairment loss is defined as the difference between the carrying amount of the asset and the present value of the cash flow expected in the future measured using the effective interest method. The carrying amount of the asset is reduced using a value adjustment account. The impairment loss is recognized in income. A previous impairment recognized in expense is corrected in income if the subsequent partial value recovery (or reduction of the impairment) can be attributed objectively to circumstances occurring after the original impairment. However, an increase in value is only recognized to the extent that it does not exceed the amount of the amortized cost which would have resulted had the impairment not occurred. The financial asset is derecognized if the latter is classified as uncollectable.

The PSI Group does not use any financial derivatives, e.g. to hedge currency translation and interest rate risks.

As in the previous year, the carrying amounts of financial assets and liabilities are largely those of the fair value.

Objective and methods of financial risk management

The main financial instruments used to finance the company's operations are cash, available-for-sale financial assets, current liabilities (bank overdrafts) and other liabilities. A further component of financial risk management is represented by current receivables and liabilities arising from long-term contract manufacturing. The main risks are default risks and liquidity risks. Interest rate and currency translation risks, and foreign currency receivables and liabilities, occur to an insignificant extent due to the subordinate importance of interest rate liabilities. Market value risks occur exclusively in association with available-for-sale financial assets and are also of subordinate importance.

a) Default risk

Default risks and the risk that a contractual partner will not comply with payment obligations are managed using credit lines, determination of order-related advance financing ratios and control procedures. The Group concludes transactions only with creditworthy third parties. All customers wanting to conclude transactions with the company based on credit undergo a credit check. The company obtains guarantees if appropriate. As the main customers of the PSI Group are well-known major companies in the energy and utility industries, as well as in the steel and automotive industries, with either very good or good credit ratings, the Board of Director's expectation is that over the whole receivables portfolio of the PSI Group there is a below-average risk profile compared with other software suppliers. Risk clusters can form both with individual customers and also with groups of customers which are exposed to the same risk scenarios and/or have the same features (same industry, same customers, same sales region, same currency etc.). For the PSI Group, there is no substantial concentration in terms of default risk with either an individual contractual partner or a group of contractual partners with similar features. The maximum default risk is the amount of the balance sheet carrying amounts of financial assets from trade receivables and other assets.

Using liquidity planning tools (maturity, expected cash flows), the Group monitors the risk of a liquidity shortfall on an ongoing basis. The objective is to preserve a balance between continuous coverage of the financial resources required and ensuring flexibility. As part of monitoring the financial balance, monitoring of project financing especially is accorded particular significance. The PSI Group endeavors to maximize per project the advance financing rate (ratio of the project-based advance payments contained to the receivables from long-term contract manufacturing). As there are considerable differences in customer payment history based on the advance financing depending on the industry to which the customer belongs, there are no stipulations in the PSI Group regarding the exact amount of advance financing. The fundamental objective is to achieve an advance financing rate over the entire Group of 50 – 60 %. There are no further individual details regarding ratios in the area of liquidity monitoring.

As at December 31, 2007, the due dates of the financial liabilities were as follows:

	Due immediately EUR K	Due within 1 year EUR K	Due after 1 year EUR K	Total EUR K
Trade payables	2,838	6,548	0	9,386
Other liabilities	0	13,906	385	14,291
Financial liabilities	305	0	0	305
	3,143	**20,454**	**385**	**23,982**

As at December 31, 2006 the due dates of the financial liabilities were as follows:

	Due immediately EUR K	Due within 1 year EUR K	Due after 1 year EUR K	Total EUR K
Trade payables	3,775	4,623	14	8,412
Other liabilities	0	11,544	341	11,885
Financial liabilities	393	0	0	393
	4,168	**16,167**	**355**	**20,690**

b) Capital management

The primary objective of the capital management of the PSI Group is to guarantee the maintenance of a high credit rating and a good equity ratio to support operations and to maximize the shareholder value.

The PSI Group manages its capital structure in accordance with the prevailing economic circumstances. No adjustment measures or changes to the objectives/provisions of capital management were made during the 2007 and 2006 fiscal years.

The PSI Group monitors its capital with the help of the equity ratio on a consolidated basis. In accordance with internal provisions, the equity determined for the PSI Group in accordance with the IFRS may not exceed 30 % of total assets.

Current assets

a) Inventories

Inventories are measured at purchase cost or at the lower net sales revenue to be expected less any costs incurred.

b) Cash

Cash encompasses cash, fixed-term deposits and sight deposits. The funds in the Group's cash flow statement are distinguished in accordance with the above definition.

Equity

Equity encompasses subscribed capital, capital reserves, retained earnings, own shares, other reserves and the accumulated profit or loss.

Capital reserves include premiums in accordance with Article 150 German Stock Corporation Act as well as loss carryforwards offset in accordance with resolutions regarding the appropriation of profits or losses.

The retained earnings include appropriations of profit or loss in accordance with Article 174 German Stock Corporation Act.

Own shares acquired by the PSI Group are deducted from equity. The purchase, sale, issue or withdrawal of own shares are not recognized in income.

Unrealized profit or loss from currency translation and the measurement at market value of available-for-sale securities are reported on other reserves. Other reserves have developed as follows in the fiscal year:

	Dec 31, 2007 EUR K	Changes in 2007 EUR K	Dec 31, 2006 EUR K
Currency conversion	95	63	32

Pension provisions

The PSI Group has several defined benefit plans and other defined contribution pensions plans. There are no plan assets for the defined benefit plans. The expenditure for benefits guaranteed by the defined benefit plans is determined separately for each plan using the projected unit credit method. Actuarial gains and losses are recognized as an expense or as income if the net accumulated non-recognized actuarial gains and losses for each individual plan at the end of the previous reporting period exceed 10 % of the defined benefit obligation at this point. These gains or losses are realized over the expected average remaining working life of the employee participating in the plan.

Current liabilities

a) Other provisions

A provision is reported if the PSI Group has a current (statutory, contractual or constructive) obligation due to a past occurrence, if it is likely that the settlement of the obligation will require an outflow of resources representing an economic benefit and if a reliable estimation of the amount of the obligation can be made. Provisions are examined at each balance sheet date and adjusted to the best current estimate. If the corresponding interest effect is substantial, the provision amount equals the present value of the probable expenditure required to settle the obligation. In the case of discounting, the increase in the provision reflecting the passage of time is recognized as borrowing costs.

b) Financial liabilities

Financial liabilities are divided into the following categories:

- Financial liabilities held for trading and
- Other financial liabilities.

The financial liabilities reported in the consolidated financial statements of the PSI Group were classified as other financial liabilities.

When financial liabilities are recognized for the first time, they are carried at the costs of purchase which correspond to the market value of the given consideration; transaction costs are included here.

Financial liabilities are no longer reported if they are repaid, i.e. if the liabilities stipulated in the contract are settled, cancelled or have expired.

Government grants

Government grants are recognized when there is reasonable assurance that the company will comply with the relevant conditions. Government grants are recognized in income on a scheduled basis in a similar way to the recognition of the related expenditure which they are to compensate. Grants obtained for the acquisition of property, plant and equipment are reported in other liabilities as deferred income recognized as revenue during the use of the asset in question in accordance with the depreciation recognized in the accounts. The realized revenue associated with the expenditure is reported as other operating income in the income statement.

The grants granted to the company by Investitionsbank Berlin as investment grants are linked to compliance with conditions in the future. These basically include compliance with workplace guarantees and compliance with guarantees that the economic assets supported will remain in place. The investment grants received from the tax authorities are linked to compliance with guarantees that the economic assets supported will remain in place. Based on its planning, the PSI Group assumes that conditions will be fulfilled in full.

In 2007, the PSI Group received a total of EUR 1,650k (previous year: EUR 1,291k) as part of various development projects, including those of the European Union. The subsidies granted have been recognized as income in 2007 and are reported as a reduction in the corresponding expenses. There are no additional requirements or obligations resulting from the development projects other then the obligation to demonstrate the level of expenses for which the subsidies were granted.

Borrowing costs

Borrowing costs are recognized in the period in which they were incurred.

Research and development costs

Research and development costs in the 2007 fiscal year amounted to EUR 10.4 million (2006: EUR 10.7 million).

Leasing

The determination as to whether an agreement is or contains a lease is made on the basis of the economic substance of the agreement and requires an assessment as to whether the fulfillment of the contractual agreement depends on the use of a certain asset or certain assets and whether the agreement grants a right to use of the asset.

A lease is classified as an operating lease if all the risks and rewards associated with property remain with the lessor. Lease payments within an operating lease are recognized as expense on a straight line basis over the term of the lease.

The PSI Group has concluded leases for vehicles and hardware (server). The term of these operating leases is generally between three and four years.

Revenue realization and recognition

The revenue of the PSI Group is generated primarily from its project business and from the granting of licenses to end customers for the use of its own software products, both with and without customer-specific adaptations. Revenue is also generated from the sale of third-party software, hardware and services, e.g. installation, consultancy, training and maintenance.

a) Project business

For long-term project agreements which fulfill the conditions required to use the partial profit realization method, revenue from the development and distribution of software systems and products is limited and realized according to the partial profit realization method depending on the degree of completion of the project. The degree of completion is determined by the ratio of man hours allocated so far to the total number of man hours planned or on the basis of milestones. Advance payments received from customers are offset directly in equity with the corresponding receivables. Changes to the project conditions can lead to adjustments to the originally recognized costs and revenue of individual projects. The changes are recognized in the period in which they are finalized. In addition, provisions for onerous contracts are formed in the period in which these losses are finalized, and are offset with the inventory of receivables.

b) Sales of licenses

The PSI Group realizes its revenue on the basis of a corresponding agreement once the license is supplied, the sale price is fixed or can be determined and there are no important obligations regarding customers and the contribution or receivables is likely.

c) Maintenance, other services

Revenue from maintenance agreements are realized on a straight line basis over the term of the agreement based on experience values. Revenue from consultancy and training is realized once the service has been provided. Revenue from maintenance is reported in the Group notes as revenue from software creation and maintenance together with the revenue from project business (less reallocated merchandise/hardware).

d) Multi-element arrangements

If an agreement contains several individual services, the revenue for these agreements are realized on the basis of IAS 18 (Multi-Element Contracts). This involves checking separately the individual contractual components in terms of the fulfillment of the relevant revenue realization criteria for the respective contractual component. If the fair value (based on standard market pricing) of the individual contractual components can be determined, the revenue is realized upon the delivery of the respective individual component.

e) Recognition of interest income

Interest is recognized on a time proportion basis that takes into account the effective yield on the asset.

Taxes on income

Current tax assets and liabilities for the current period and prior periods are to be measured at the amount expected to be recovered from the taxation authorities or to be paid to the taxation authorities. The amount is measured using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxes are reported in the balance sheet using the balance sheet-oriented liability method for all temporary differences on the balance sheet date between the carrying amount of an asset or liability in the balance sheet and its tax base. Deferred tax liabilities are recognized for all taxable temporary differences, with the exception of:

- Deferred tax liabilities arising from the initial recognition of goodwill or of an asset or liability in the case of a transaction which is not a business combination and at the time of the transaction influences neither the accounting net profit or loss for a period or the taxable profit, and

- the deferred tax liability from temporarily taxable differences, which are connected with investments in subsidiaries, associated companies and interests in joint ventures, may not be recognized if the timing of the reversal of the temporary differences can be controlled and it is likely that the temporary differences will not be reversed in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, as yet unused tax loss carryforwards and unused tax credits to the extent that it is likely or to which there are substantial and convincing indications that taxable income is available against which the deductible temporary differences and the unused tax loss carryforwards and tax credits can be offset, with the exception of:

- Deferred tax assets from deductible temporary differences arising from the initial recognition of an asset or liability in the case of a transaction which is not a business combination and at the time of the transaction influences neither the accounting net profit or loss for a period or the taxable profit, and

- the deferred tax asset from taxable temporary differences, which are connected with investments in subsidiaries, associated companies and interests in joint ventures, may not be recognized to the extent that it is likely that the temporary differences will be reversed in the foreseeable future and there is sufficient taxable profit against which the temporary differences can be used.

The carrying amount of the deferred tax assets is examined on each balance sheet date and written down to the extent it is no longer likely that there will be sufficient profit against which the deferred tax asset can be offset, at least partially. Unrecognized deferred tax assets are examined on each balance sheet date and recognized to the extent that it has become likely or to which there are now substantial and convincing indications that a future taxable profit will enable the realization of the deferred tax asset.

Deferred tax assets and liabilities are measured using the tax rates expected to be valid for the period in which an asset is realized or a liability is discharged. The tax rates (and tax laws) are based on these valid or announced on the balance sheer date. Income taxes related to items recognized directly in equity are recognized in equity and not in the income statement.

Deferred tax assets and liabilities are offset against one another if the Group has a legally enforceable right to offset current tax assets against current tax liabilities and this relates to taxes on income levied on the same taxable entity by the same taxation 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
The PSI Group is divided into three main business segments:

- Energy Management
- Production Management
- Infrastructure Management

The financial information regarding the business segment and geographical segment are shown in note F. and in a separate appendix to these Group notes.

b) Transactions between the business segments
Segment revenue, segment expenses and the segment result include only minimal transfers between business segments. Such transfers are entered in the balance sheet at general market prices which customers with no company association calculate for similar services. These transfers were eliminated in the consolidation.

C. NOTES TO THE CONSOLIDATED BALANCE SHEET

NON-CURRENT ASSETS

1 Intangible assets and property, plant and equipment

With respect to the development of non-current assets in the fiscal year ending on December 31, 2007, reference is made to the attached Development of intangible assets and property, plant and equipment (appendix to the Group notes).

The PSI Group carried out an impairment test on its non-current assets on December 31, 2007 and December 31, 2006. The impairment test as a means of determining utility value is based on the following cash-generating units with the carrying amount incurred for goodwill:

	Dec 31, 2007 EUR K	Dec 31, 2006 EUR K
Energy Management		
Electrical energy segment and Nentec of PSI AG	1,493	1,493
Gas and oil segments of PSI AG	1,576	1,576
BuB	2,267	2,267
	5,336	**5,336**
Production Management		
PSIPENTA	574	574
PSI BT	3,490	3,490
PSI Logistics	838	838
PSI Production	285	285
PSI AG/CH	41	41
	5,228	**5,228**
Infrastructure Management		
PSI Transcom	2,352	2,352
	2,352	**2,352**
	12,916	**12,916**

The basis of the impairment test is cash flow planning for the individual cash-generating units over a period of 8 years based on historical values and expectations regarding market development (growth rates in the relevant market segments, ratio of software project revenue and maintenance revenue, hourly and daily rates for employees, average employee costs, mark-ups on sales of hardware and third-party licenses). The planning period of 8 years reflects the detailed long-term company planning so that this is used instead of the 5-year period stipulated in IAS 36.134. No further cash flows beyond this planning horizon were taken into account. The recognized cash flows were derived from historical information. In addition, it was also taken into account that substantial development investment over past fiscal years periods and the restructuring measures which had been carried out had resulted in substantial margin improvements. The assumptions made by the management with regard to business development trends in the software industry correspond with the expectations of industry experts and market observers. An interest rate of 8.20 % (previous year: 7.45 %) was used as the discount rate. The management believes that in accordance with reasonable discretion there could be no change to the fundamental assumptions made to determine the utility value of the cash-generating units which would lead to the carrying amount of the cash-generating unit substantially exceeding its recoverable amount.

2 Other financial assets

The securities available for sale at any time comprise primarily investments in money market funds which can be converted into cash at short notice.

The costs of purchase and the current revenue value of the securities available for sale at any time are reported in the financial assets and are as follows:

	2007 EUR K	2006 EUR K
Initial costs	67	187
Additions	20	0
Sale	–67	–120
Unrealized gains/losses	0	2
Market value	**20**	**67**

CURRENT ASSETS

3 Inventories

	2007 EUR K	2006 EUR K
Work in progress (at cost of purchase)	6	489
Hardware and third-party licenses (at cost of purchase)	968	1,198
Payments on account to subcontractors	16	20
	990	**1,737**

4 Trade receivables, net

	2007 EUR K	2006 EUR K
Trade receivables, gross	22,620	18,615
Individual valuation allowances	–365	–85
	22,255	**18,530**

Trade receivables do not bear interest and have a term of 0 – 90 days. The specific valuation allowances formed have developed as follows:

	2007 EUR K	2006 EUR K
As at January 1	85	265
Appropriation recognized as expense	315	33
Claimed	–20	–85
Reversals recognized as income	–15	–128
As at December 31	**365**	**85**

The age structure of the trade receivables as at December 31 was as follows:

	2007 EUR K	2006 EUR K
Neither overdue nor impaired	15,704	12,606
Overdue, not impaired		
< 30 days	4,346	3,622
30 – 60 days	763	967
60 – 90 days	260	217
90 – 120 days	176	70
> 120 days*	1,006	1,048
	6,551	**5,924**
As at December 31	**22,255**	**18,530**

* Of which EUR 286k (2006: EUR 30k) allocated to security retentions.

5 Trade receivables from long-term development contracts

Receivables arise in accordance with the partial profit realization method if revenue is recognized, although it cannot yet be invoiced in accordance with the contractual conditions. These amounts are realized in accordance with various performance criteria, such as achieving certain milestones, the ratio between planned and cumulative working hours and of own employees, the completion of certain units or the completion of the agreement. The balance sheet items contain the directly attributable individual costs (employee costs and purchased services), to an appropriate extent overheads and profit shares.

The receivables are measured in accordance with the partial profit realization method and contain the following components:

	2007 EUR K	2006 EUR K
Costs incurred*	40,425	40,508
Profit share	6,848	5,283
Contract revenues*	47,273	45,791
Advance payments received	–28,143	–27,825
Receivables from long-term development contracts	19,130	17,966
Liabilities from long-term development contracts	6,685	6,069

* The previous-year figures have been adjusted.

Liabilities from long-term contract manufacturing are reported as advance payments which exceed the respective receivables from con tract manufacturing.

Warranty obligations with regard to the contract manufacturing accepted occur as part of normal operations.

6 Other assets

	2007 EUR K	2006 EUR K
Prepaid expenses	997	1,120
Tax credits (sales tax)	476	342
Subsidies	399	311
Payments made on account	241	19
Other loans	110	275
Other	567	317
	2,790	**2,384**

The accruals basically contain deferred advance payments for maintenance and are expensed within a year.

No specific valuation allowances were formed for the other assets. There are no overdue or impaired receivables.

7 Cash and cash funds

	2007 EUR K	2006 EUR K
Bank balances	13,754	11,040
Fixed term deposit	5,175	4,285
Cash	19	15
	18,948	**15,340**

The time deposit investments and bank balances are not overdue; specific valuation allowances are not required.

8 Equity

With regard to the development of equity, reference is made to the list of changes in group equity.

a) Subscribed capital

The fully paid-up share capital entered in the commercial register equals EUR 31,008,947.20 (2006: EUR 31,008,947.20). The share capital is divided into EUR 12,112,870 (2006: EUR 12,112,870) no-par shares.

At the Annual General Meeting of PSI AG April 26, 2007 the Board of Directors was authorized to buy back shares amounting to up to 10 % of the share capital (EUR 3,096k). The authorization expires on October 25, 2008.

b) Contingent and authorized capital

The contingent and authorized capital did not change in 2007.

	2007 EUR K	2006 EUR K
Authorized capital (AC)		
AC I/2005 (up to May 18, 2010)	15,504	15,504
	15,504	15,504
Contingent capital (CC)		
CC II/2004 (up to May 26, 2009)	10,240	10,240
	10,240	**10,240**
	25,744	**25,744**

c) Capital reserves

The capital reserves contain the premium from capital increases.

d) Treasury shares

At the Annual General Meeting of PSI AG on April 26, 2007 the Board of Directors was authorized to buy back shares amounting to up to 10% of the share capital (EUR 3,096k). The authorization expires on October 25, 2008. The existing authorization of the Board of Directors for the acquisition of Treasury shares passed by the Annual General Meetings on May 19, 2005 and May 12, 2006 was cancelled with effect from the end of the day of the Annual General Meeting. There were no Treasury shares on the balance sheet date.

NON-CURRENT LIABILITIES

9 Pension provisions

Pension provisions are formed for obligations (pension, invalidity, widow's pension and orphan's pension benefits) from future pensions and current benefits for active and former employees of the PSI Group as well as their surviving dependents.

There are three different models of defined benefit pension commitments in the PSI Group which provide benefits to employees depending on seniority and existing payments before reaching the insured event. On December 5, 2006 the Board of Directors of PSI AG and the group works council concluded a works agreement to govern the company pension plan and compensation payments in the PSI AG Group which encompassed all the existing modules of defined benefit pension commitments. As works agreement the agreement between the Board of Directors of PSI AG and the group works council thus replaces the existing individual agreements.

The content of this agreement is to modify the existing pension plans and to convert them prospectively into defined contribution pension commitments:

- The vested rights as at December 31, 2006 of the preponderant number of employees were frozen as fixed amounts. The result of this procedure is that the acquired rights to a pension will not increase beyond the level reached as at December 31, 2006 either through future service or future salary increases.

- Freezing of the vested rights is carried out in such a way that a vested right to a pension from the age of 65 is determined for each benefit candidate. The vested right is determined as though the employee had reached the age of 65 on December 31, 2006.

- As compensation for the discontinuation of future increases in the company pension (pension increases), either equal increasing amounts will be paid into a insured provident fund until the end of employment, or the employees will be provided with an increase in gross cash compensation in the form of an annual one-off payment increasing in equal amounts, ending at the latest upon reaching the age of 65. These compensation amounts are determined using actuarial principles.

- The first step in determining the compensation amounts is to establish the constant annual premium which would be payable to a fictitious insurer if the latter had to pay the pension benefits of the pension plans hitherto had they continued unchanged. The amount of the compensation payment to the employees amounts in the first year to 70% of the constant annual premium of a fictitious insurer determined in this way and is then increased annually by a constant percentage. If an employee leaves the company early and the amounts paid into the provident fund do not yet equal 100% of the compensation due to the employee, the PSI Group has no obligation to pay the difference to the employee.

The amount of the pension obligation (defined benefit obligation of the pension commitments) was calculated in accordance with actuarial methods based on the following assumptions:

	2007 %	2006 %
Discount rate	5.3	4.4
Increase in salaries	1.0	1.0
Increase in pension	1.0	1.0
Turnover	4.5	4.5

The salary trend encompasses expected future salary increases, which are estimated annually and are dependent on various factors including inflation and seniority.

As at December 31, 2007 a retirement age of 64 (previous year: 64) was assumed when calculating the pension obligation. The retirement age is based on statistical surveys of retirement age in the PSI Group.

The net pension expenses are as follows:

	2007 EUR K	2006 EUR K
Work time expenditure declared in personnel expenditure	99	893
Amortization of statistical net losses declared in personnel expenditure	225	672
Effects from freezing of the pension obligation declared in personnel expenditure	0	–931
Interest expense in the interest result	1,335	1,444
Period expenses	**1,659**	**2,078**

The allocation of the effects of freezing the pension obligations to employee costs for the 2006 fiscal year was undertaken against the background of the amount of the decreases in pension provisions being attributable to the discontinuation of service cost components.

The following summary shows the composition of pension obligations:

	2007 EUR K	2006 EUR K
Defined-benefit pension obligations	27,390	30,416
Unrealized actuarial gain/loss	–1,840	–5,259
Current pension obligation	**25,550**	**25,157**

There were no actuarial losses in the reporting year which in total exceeded 10 % of the present value of the pension obligation.

The experience-based adjustment of the plan liabilities was EUR 135k in the reporting year.

The following summary shows how the pension obligation has developed:

	2007 EUR K	2006 EUR K
Pension obligation, start of period	25,157	23,637
Pension payments	–724	–558
Reduction through sale of subsidiaries	–542	0
Expense for the period	1,659	2,078
Pension obligation, end of period	**25,550**	**25,157**

The following shows the expected payment structure for the years 2008 to 2010:

	EUR K
Pension payments	
2006	558
2007	724
Expected pension payments	
2008	903
2009	983
2010	1,060

CURRENT LIABILITIES

10 Financial liabilities

The PSI Group uses short-term, variable interest rate bank overdrafts for financing purposes. The financial liabilities are repaid monthly and accrue interest at between 7.4 % and 8.0 %. Collateral is not provided. The objective is continuous refinancing of the current financial liabilities. The market value corresponds to the carrying amount of the financial liabilities. As at December 31, 2007 the PSI Group had unutilized credit lines from bank overdrafts amounting to EUR 7,229k (previous year: EUR 7,044k).

The expenses for interest from bank overdrafts amounted in the 2007 fiscal year to EUR 95k (2006: EUR 98k).

11 Provisions

Provisions have developed as follows:

	Status Jan 1, 2007 EUR K	Demands EUR K	Interest share EUR K	Concellation EUR K	Supply EUR K	Disposals EUR K	Status Dec 31, 2007 EUR K
Personnel provisions	1,160	–570	153	0	56	–211	588
Other provisions	340	–73	0	–43	263	0	487
	1,500	**–643**	**153**	**–43**	**319**	**–211**	**1,075**
Of which short-term	404						598
Of which long-term	1,096						477

The employee provisions basically contain provisions for partial retirement measures. The basis for the calculation of provisions was provided by the corresponding contractual condition agreed with employees and a discount rate of 5.3 % (previous year: 4.4 %) for the planned cash flows in connection with the agreements concluded. The provisions for partial retirement were offset in the amount of EUR 578k with the asset values for insolvency insurance, the formation of which is required by law.

12 Other liabilities

	2007 EUR K	2006 EUR K
Personnel-related liabilities	7,140	5,400
Tax liabilities (sales tax, income tax)	2,650	2,757
Deferred income	1,354	1,589
Social security liabilities	3	25
Other	3,144	2,114
	14,291	**11,885**

The employee liabilities basically contain claim to vacation, overtime and special payments. The deferred income (prepaid maintenance revenue) is recognized in income within a year. Miscellaneous liabilities are non-interest bearing.

13 Deferred taxes/on income taxes

The trade income tax in Germany is levied on taxable income of the PSI Group, this being determined by the deduction of certain income which is not subject to trade tax, and by adding certain expenses which are not deductible for trade income tax purposes. The effective trade tax rate depends on the municipality in which the PSI Group operates. The average trade tax in 2007 was approximately 17.5 %. The trade income tax is deductible as operating costs up to and including the 2007 assessment period. A corporation tax of 25 % applied in the 2006 and 2007 fiscal years. A solidarity surcharge of 5.5% is levied on the corporation tax determined in addition to the corporation tax. In the 2006 and 2007 fiscal years, this meant an effective tax rate of 39.26 % for the current income tax.

The corporation tax is reduced to 15 % for future fiscal years. At the same time, the option of including the trade tax in operating costs will cease to apply. Furthermore, the basic trade tax rate was reduced by the legislators. An effective tax rate of 29.83 % was therefore used for deferred tax balances as at December 31, 2007.

Income tax expense for the current fiscal year is as follows:

	2007 EUR K	2006 EUR K
Effective tax expense		
Current year	–105	–253
Deferred tax expense (PY: income)		
Change in intangible assets	–1,052	586
Change in long-term development contracts	81	–504
Inventories	52	0
Phased retirement programs	–63	–115
Activation of self-constructed software	140	215
Change in pension provisions	–582	1,098
Project-related provisions	118	–265
Activation of tax loss carryforwards	404	0
	–902	**1,015**
Income tax expense (PY: income)	**–1,007**	**762**

Of the deferred tax expenses of EUR 902k, EUR 482k relate to the change in tax rates.

Reconciliation of the tax expense/tax income is shown in the following summary:

	2007 EUR K	2006 EUR K
Earnings before tax	2,716	–335
Theoretical tax expense (PY: income) (39.26 %; PY: 39.26 %)	–1,066	132
Deferred capitalization of tax losses	–714	–121
Non-controllable consolidation effects	–417	–702
Utilization of tax losses	1,185	1,407
Other	5	46
Actual tax expense (PY: income)	**–1,007**	**762**

The deferred taxes reported in the PSI Group are as follows:

	2007 EUR K	Change 2007 EUR K	2006 EUR K
Deferred taxes			
Pension provisions	1,405	–582	1,987
Intangible assets	1,053	–1,052	2,105
Phased retirement programs	147	–63	210
Project-related provisions	32	118	–86
Receivables from long-term development contracts	–1,990	81	–2,071
Activation of self-constructed software	0	140	–140
Inventories	52	52	0
Tax loss carryforwards, Germany	404	404	0
	1,103	**–902**	**2,005**
thereof effective on income	–902		1,015
thereof effective on equity	0		0
Balance sheet			
Deferred tax assets	3,093		4,302
Deferred tax liabilities	**–1,990**		**–2,297**

The PSI Group has the following tax loss carryforwards:

	2007 EUR K	2006 EUR K
Loss carryforward domestic trade tax	78,338	79,584
Loss carryforward domestic corporation tax	76,927	78,126
Loss carryforward international corporation tax	4,948	3,932

In principle, the domestic loss carryforwards do not expire.

External tax audits commenced in June 2007 for the companies and/or former group companies PSI AG, PSIPENTA GmbH, PSI Logistics GmbH, PSI Information Management GmbH, Integral GmbH, PK Software GmbH, GSI mbH, PSI BT GmbH and Transcom GmbH. Concluding audit statements are not yet available.

D. NOTES TO THE CONSOLIDATED INCOME STATEMENT

The income statement is prepared in accordance with the nature of expenditure method.

14 Revenues

	2007 EUR K	2006 EUR K
Software development and maintenance	96,458	93,254
License fees	7,335	5,793
Merchandise	19,391	17,991
	123,184	**117,038**

15 Cost of materials

	2007 EUR K	2006 EUR K
Cost of purchased services	9,853	9,281
Cost of goods purchased	15,793	14,612
	25,646	**23,893**

16 Personnel expenses

	2007 EUR K	2006 EUR K
Salaries and wages	60,763	59,504
Social security, expenses, pensions and other benefits	11,207	11,327
	71,970	**70,831**

Employee costs include expenses for payments in connection with defined contribution pension commitments of EUR 570k (previous year: EUR 211k) and und state pension funds of EUR 4,771k (previous year: EUR 4,669k).

17 Depreciation and amortization

	2007 EUR K	2006 EUR K
Depreciation of fixed assets		
of intangible assets and property, plant and equipment	2,654	2,568
of capitalized development costs	302	548
	2,956	**3,116**
Depreciation of current assets	163	14
	3,119	**3,130**

18 Other operating expenses

	2007 EUR K	2006 EUR K
Rents, leases and related costs of real estate	4,770	4,488
Travel costs	4,427	4,014
Advertising and marketing	2,936	2,970
Dataline, IT and telephone costs	1,740	2,213
Equipment leasing	1,526	1,613
Legal and advisary costs	973	1,051
Project expenses	949	557
Other	4,399	4,151
	21,720	**21,057**

19 Earnings per share

In accordance with IAS 33, the determination of the undiluted earnings per share is based on dividing the group result by the weighted number of shares.

	2007	2006
Net income for the period (EUR k)	1,709	427
Number of weighted shares (in thousands)	12,113	12,113
Undiluted/diluted earnings per share (EUR/share)	**0.14**	**0.04**

To calculate the diluted earnings per share, the net profit or loss for the period attributable to the ordinary shareholder and the weighted average of the shares outstanding is adjusted by the effects of all potentially dilutive common shares which could result from the exercise of option warrants. No dilution took place as the share option plans expired in 2004 and no new plans have been issued.

E. NOTES TO THE CASH FLOW STATEMENT

The reported liquid funds are not subject to restrictions on disposal by third parties. The PSI Group has made no payments for extraordinary transactions. Interest and income tax payments have been reported and no dividend was paid out. The composition of the cash funds is shown under C.7. Current account liabilities were not included in the cash funds.

F. NOTES TO THE SEGMENT REPORTING

The PSI Group applies IFRS 8 – Segment reporting. This standard includes regulations regarding the publication of information regarding divisions and geographical segments.

PSI AG adapted the segment reporting when applying IFRS 8 for the first time. The new strategic direction of the individual operating areas of the PSI Group was also taken into account. For purposes of comparison with previous years, an adaptation to the newly structured segments was also undertaken. As part of the new business segments, before implementing the new structure a check was made as to whether the changed allocation of operating areas required a valuation adjustment. This check revealed no value adjustments on the assets reported in the operating areas.

Segments in the consolidated financial statements as at December 31, 2007

- Network Management: Intelligent control systems for managing and monitoring complex networks for the supply of energy, for mobile telephone operation and for the management of local public transport.
- Production Management: Software products and customized solutions for production planning, especially production control tasks and efficient logistics. Main areas of emphasis are the optimization of resource utilization and increasing quality and efficiency.
- Information Management: IT solutions for customer and community proximity by means of secure and efficient support of the business processes of public authorities and service providers.

Segment after the restructure/application of IFRS 8

- Energy Management: Intelligent solutions for utilities in the electricity, gas, oil and water segments. Main areas of emphasis are reliable and efficient solutions for grid management and for trading and distribution in the liberalized energy market.
- Production Management: Software products and customized solutions for production planning, especial production control tasks and efficient logistics. Main areas of emphasis are the optimization of resource utilization and increasing quality and efficiency.
- Infrastructure Management: Highly available control solutions for monitoring and the effective operation of infrastructures in the fields of telecommunications, transport and traffic, public safety, environmental protection and disaster prevention.

As part of the new segment division the individual operating areas were assigned to the segments in accordance with their strategic alignment. The following changes resulted to the previous segmentation:

- In the former Network Management segment, the activities were divided into telecommunications and transport and assigned to the Production Management (transport and traffic logistics) and Infrastructure Management (telecommunications and other activities in the field of transport) segments. The segment was renamed Energy Management.
- The transport and traffic logistics and electronic messaging information activities were assigned to the former Production Management segment.
- The activities in the field of electronic message information were separated from Information Management and assigned to the Production Management segment. In addition, the activities in the fields of telecommunications and transport (without transport and traffic logistics) were assigned to the former segment. The segment was renamed Infrastructure Management.

Reconciliation of segment assets and liabilities

The segment assets and/or liabilities were reconciled as follows with the gross assets and/or liabilities:

	2007 EUR K	2006 EUR K
Gross assets according to balance sheet	90,001	84,660
Deferred tax assets	–3,093	–4,302
Segment assets	**86,908**	**80,358**

	2007 EUR K	2006 EUR K
Gross liabilities according to balance sheet	59,282	55,713
Tax provisions	–84	–122
Deferred tax liabilities	–1,990	–2,297
Segment liabilities	**57,208**	**53,294**

Additional geographical disclosures

In the 2007 fiscal year the PSI Group generated revenue of EUR 97.1 million (previous year: EUR 97.1 million) within Germany and revenue of EUR 26.1 million (previous year: EUR 20.0 million) outside Germany. Non-current assets, deferred tax assets, pension obligations and the rights from insurance agreements are to be allocated preponderantly to domestic activities so that extensive classification is unnecessary.

G. OTHER NOTES

Other financial obligations and contingencies

Tenancy and leasing agreements

Cars, office furniture and fixtures, data processing systems and other equipment were leased as part of operating leasing agreements. In 2007, leasing charges of € 112k (2006: € 160k) accrued for the leased office furniture and fixtures, € 797k (2006: € 729k) for the leased data processing systems, cars and other equipment.

In the 1996 fiscal year, PSI AG concluded a tenancy agreement for an office building in Berlin. The tenancy agreement has a fixed term until March 31, 2012.

These tenancy and leasing agreements resulted in the following tenancy and leasing payments:

	Rental payments EUR K	Leasing payments EUR K	Total EUR K	Previous year's total EUR K
2008	3,331	891	4,222	4,119
2009	2,944	645	3,589	3,322
2010	2,511	365	2,876	2,795
2011	2,229	120	2,349	2,278
2012	662	4	666	1,941
2013 and later	44	0	44	490

Guaranteed sureties

At the balance sheet date, guaranteed sureties amounting to € 28,419k (2006: € 33,515k) were taken on by various insurance companies and banks for PSI AG.

Letters of subordination and letters of comfort

PSI AG has submitted letters of subordination totaling € 0.9 million (previous year: € 6.5 million) for various subsidiaries with outstanding debts. In addition, a letter for comfort was submitted for one subsidiary.

Other contingent liabilities

As at December 31, 2007 there was one contingent liability which guaranteed the Board of Directors of PSI AG long-term performance-related remuneration. This is linked to a steady increase in the company's market capitalization.

Employees

The average number of employees in the PSI Group was 1,034 in the fiscal year (2006: 1,049 employees). The distribution of the employees by function is as follows:

	2007	2006
Production	840	861
Administration	62	70
Revenue	114	102
Development	18	16
Total	**1,034**	**1,049**

Auditing expenses

The audit fees for the auditing of PSI AG, the PSI consolidated financial statements and all material subsidiaries of the PSI Group amounted to € 155k (previous year: € 159k). The group's auditors invoiced € 0k for tax consultation in the reporting year and € 33k in the previous year.

Related party disclosures

Companies and individuals are regarded as related parties if they have the possibility of controlling the PSI Group or exerting a significant influence over its financial and business policies. In determining the significant influence held by related individuals or related companies of the PSI Group over the financial and business policies, the existence of trustee relationships was taken into account in addition to existing controlling relationships.

Related companies

The associated companies included in the consolidated financial statements are to be regarded as related companies. There are no other related companies.

There are trade relationships between PSI AG and its subsidiaries in terms of cash management, central administration services and employee provision; these were eliminated in the consolidation.

Related individuals

The following people are to be regarded as related individuals:

Members of the Board of Directors of PSI AG
Dr. Harald Schrimpf
Armin Stein

Members of the Supervisory Board of PSI AG
Christian Brunke
Wolfgang Dedner
Barbara Simon
Karsten Trippel
Prof. Dr. Rolf Windmöller
Dr.rer.nat. Ralf Becherer

On February 28, 2007 Fidelity International Limited, Tonbridge, Kent, TN11 9DZ, Great Britain, informed PSI AG in accordance with Article 21 (1) German Securities Trading Act that the share of the voting rights of the FMR Corp., Boston, Massachusetts 02109, USA, in PSI AG had on February 22, 2007 fallen below the threshold of 3 % and on this day equaled 0.00 % (0 voting rights). The voting rights had been assigned to the FMR Corp. In accordance with Article 22 (1) (2) German Securities Trading Act in connection with Article 22 (1) (1) (6) German Securities Trading Act.

Highclere International Investors Limited, London, Great Britain, announced on May 24, 2007 in accordance with Article 21 (1) German Securities Trading Act that the share of the voting rights of Highclere International Investors Limited in PSI AG fell below the threshold of 3 % on May 23, 2007 and on this day equaled 3.08 % (373,245 voting rights). The voting rights are assigned to Highclere International Investors Limited to their full extent via Highclere International Investors Smaller Companies Fund in accordance with Article 22 (1) (1) (6) German Securities Trading Act. Highclere International Investors Limited also announced in accordance with Article 21 (1) German Securities Trading Act that the share of the voting rights of Highclere International Investors Smaller Companies Fund, Westport, CT 06880, USA in PSI AG fell below the threshold of 3 % on May 23, 2007 and on this day equaled 3.08 % (373,245 voting rights).

Ratio Asset Management LLP, London, Great Britain, informed PSI AG by letter dated June 12, 2007 in accordance with Article 21 (1) German Securities Trading Act that the share of the voting rights of Ratio Asset Management LLP in PSI AG fell exceeded the threshold of 3 % on June 11, 2007 and on this day equaled 3.87 % (468,485 voting rights). The voting rights are assigned to Ratio Asset Management LLP to their full extent in accordance with Article 22 (1) (1) (6) German Securities Trading Act.

By letter dated November 27, 2007 FiveT Investment Management Limited, Grand Cayman, Cayman Islands, announced in accordance with Article 21 (1) German Securities Trading Act that the share in the voting rights of FiveT Investment Management Limited in PSI AG exceeded the threshold of 3 % on November, 23 2007 and on this day equaled 3.04 % (368,408 voting rights). The voting rights are assigned to FiveT Investment Management Limited in their full extent via FiveMore Fund Limited in accordance with Article 22 (1) (1) (6) German Securities Trading Act. FiveT Investment Management Limited, Grand Cayman, Cayman Islands, also announced in accordance with Article 21 (1) German Securities Trading Act that the share of the voting rights of FiveMore Fund Limited, George Town, Grand Cayman, Cayman Islands, in PSI AG exceeded the threshold of 3 % on November 23, 2007 and on this day equaled 3.04 % (368,408 voting rights).

MVV GmbH, Mannheim, Germany, announced on December 21, 2007 on its own behalf and on behalf of both MVV Verkehr AG, Mannheim, Germany, and MVV Energie AG, Mannheim, Germany, in accordance with Articles 21 (1) and 24 German Securities Trading Act that the share of the voting rights of MVV GmbH, MVV Verkehr AG and MVV Energie AG in PSI AG fell below the thresholds of 5 % and 3 % on December 19, 2007 and that MVV GmbH, MVV Verkehr AG and MVV Energie AG no longer hold any voting rights in PSI AG. MVV GmbH, MVV Verkehr AG and MVV Energie AG had been assigned voting rights in PSI AG directly held by ENERGY Innovations Portfolio AG & Co. KGaA (formerly traded under the name of MVV Innovationsportfolio AG & Co. KGaA), Mannheim, Germany. MVV Energie AG has sold its investment to ENERGY Innovations Portfolio AG & Co. KGaA.

The City of Mannheim, Germany, announced in accordance with Article 21 (1) German Securities Trading Act that the share of the voting rights of the city of Mannheim in PSI AG fell below the thresholds of 5 % and 3 % and that the city of Mannheim no longer holds any voting rights in PSI AG. The city of Mannheim was assigned the voting rights in PSI AG via MVV GmbH, MVV Verkehr AG and MVV Energie AG, all Mannheim, Germany, which had been held by ENERGY Innovations Portfolio AG & Co. KGaA (formerly traded under the name of MVV Innovationsportfolio AG & Co. KGaA), Mannheim, Germany.

By letter dated December 20, 2007 ACCERA Capital GmbH, Wachenheim a. d. Weinstraße, Germany (formerly 12. VermögensverwaltungsGmbH30 GmbH, Bonn, Germany), informed PSI AG in accordance with Article 21 (1) and Article 22 (1) (1) German Securities Trading Act that the share of the voting rights of ACCERA Capital GmbH in PSI AG exceeded the thresholds of 3 % and 5 % on December 19, 2007 and now equaled 5.18 % (627,000 voting rights). The voting rights were directly held – as previously also – by ENERGY Innovations Portfolio AG & Co. KGaA (formerly MVV Innovationsportfolio AG & Co. KGaA), Mannheim, Germany and were assigned to ACCERA Capital GmbH, Wachenheim a. d. Weinstraße, Germany.

The Financière de l'Echiquier, Paris, France, announced on January 4, 2008 in accordance with Article 21 (1) German Securities Trading Act that its share of the voting rights in PSI AG fell below the threshold of 5 % on November 26, 2007 and on that day equaled 4.85 % (587,936 voting rights).

In addition, the consortium in which various active and former employees of the PSI AG Group hold shares for the purposes of jointly exercising their voting rights, holds a 5.17 % of the voting rights in PSI AG.

Transactions with related individuals

No business transactions between related individuals and the PSI Group took place in 2007.

Supervisory Board

The following individuals were members of the Supervisory Board in the 2007 fiscal year:

Name	Profession	Location	Membership in the Supervisory Board of other companies
Members of the Supervisory Board			
Christian Brunke (Chairman)	Graduate economist	Berlin	
Wolfgang Dedner (Deputy Chairman)	Graduate engineer	Berlin	
Barbara Simon (employee representative)	Graduate engineer	Berlin	
Karsten Trippel	Salesman	Großbottwar	Berlina AG for assets East-West investment and property management AG Preußische Vermögensverwaltung AG, Berlin
Prof. Dr. Rolf Windmöller	Graduate engineer	Ennepetal	ProDV Software AG, Dortmund (Chairman)
Dr.rer.nat. Ralf Becherer (employee representative)	Graduate chemist	Aschaffenburg	

Remuneration for the Board of Directors and Supervisory Board

The Board of Directors of PSI AG received the following remuneration in the 2007 fiscal year period (2006: € 536k):

	Fixed remuneration EUR K	Variable remuneration EUR K	Total EUR K
Armin Stein	190	105	295
Dr. Harald Schrimpf	190	105	295
	380	**210**	**590**

Pensions provisions of € 556k (2006: € 569k) were reported for members of the Board of Directors who had left the company. No payments were made in the 2007 fiscal year for other services, except pension payments to former executive board members.

The Supervisory Board received the remuneration of € 116k (2006: € 117k):

	EUR K
Christian Brunke	33
Wolfgang Dedner	23
Barbara Simon	15
Karsten Trippel	12
Prof. Dr. Rolf Windmöller	18
Dr.rer.nat. Ralf Becherer	15
	116

The following shares were held by members of the Board of Directors and Supervisory Board:

	2007 Number of shares	2006 Number of shares
Board of Directors		
Armin Stein	12,000	8,000
Dr. Harald Schrimpf	61,000	50,000
Supervisory Board		
Christian Brunke	5,000	5,000
Wolfgang Dedner	28,500	26,500
Barbara Simon	7,890	7,890
Karsten Trippel	103,500	84,000
Prof. Dr. Rolf Windmöller	1,120	1,120
Dr.rer.nat. Ralf Becherer	1,268	268

Notes to the German Corporate Governance Code

On November 23, 2007 PSI AG submitted the prescribed declaration in accordance with Article 161 of the German Stock Corporation Act. It can be viewed at any time by the shareholders at the homepage of PSI AG (www.psi.de) in the Investor Relations section.

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Berlin, February 11, 2008

Dr. Harald Schrimpf   Armin Stein

AUDITOR'S REPORT

We granted the following audit certificate to the Consolidated Financial Statements and the Group Management Report:

"We audited the consolidated annual financial statements prepared by PSI Aktiengesellschaft für Produkte und Systeme der Informationstechnologie, Berlin – consisting of the balance sheet, income statement, cash flow statement, statement of changes in shareholders' equity and notes to the Consolidated Financial Statements – and the Group Management Report for the financial year from January 1 to December 31, 2007. The preparation of the Consolidated Financial Statements and Group Management Report in accordance with IFRS as applicable within the EU, and the supplementary provisions of Section 315 a (1) of the HGB are the responsibility of the legal representatives of the Company. Our responsibility is to express an opinion on the Consolidated Financial Statements and on the Group Management Report based on our audit.

We conducted our audit of the Consolidated Financial Statements in accordance with Article 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany, IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the Consolidated Financial Statements in accordance with the applicable financial reporting framework and in the Group Management Report are detected with reasonable assurance. Knowledge of business activities and the economic and legal environment of the Group and the expectation of possible misstatements are taken into account in determining audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the Consolidated Financial Statements and the Group Management Report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the Consolidated Financial Statements and the Group Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the Consolidated Financial Statements comply with the IFRS as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group Management Report is consistent with the Consolidated Financial Statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Berlin, February 15, 2008

Ernst & Young AG • Wirtschaftsprüfungsgesellschaft • Steuerberatungsgesellschaft
Glöckner (Auditor) Freund (Auditor)

FINANCIAL DATES FOR 2008

Publication of the annual financial statements	March 13, 2008
Analysts' conference	March 13, 2008
Q1 report	April 24, 2008
Annual General Meeting	April 25, 2008
Q2 report	July 29, 2008
Q3 report	October 28, 2008
Analysts' conference German Equity Forum	November 10 – 12, 2008

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

"In 2007 we increased revenue, profits and the export share. Building on this, we will push ahead with the continued development of PSI into a global software supplier."

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IMPRESSUM

HERAUSGEBER
PSI Aktiengesellschaft für Produkte und Systeme
der Informationstechnologie, Berlin

KONZEPT UND GESTALTUNG
HGB Hamburger Geschäftsberichte GmbH & Co. KG

ILLUSTRATIONEN
www.drushbapankow.de
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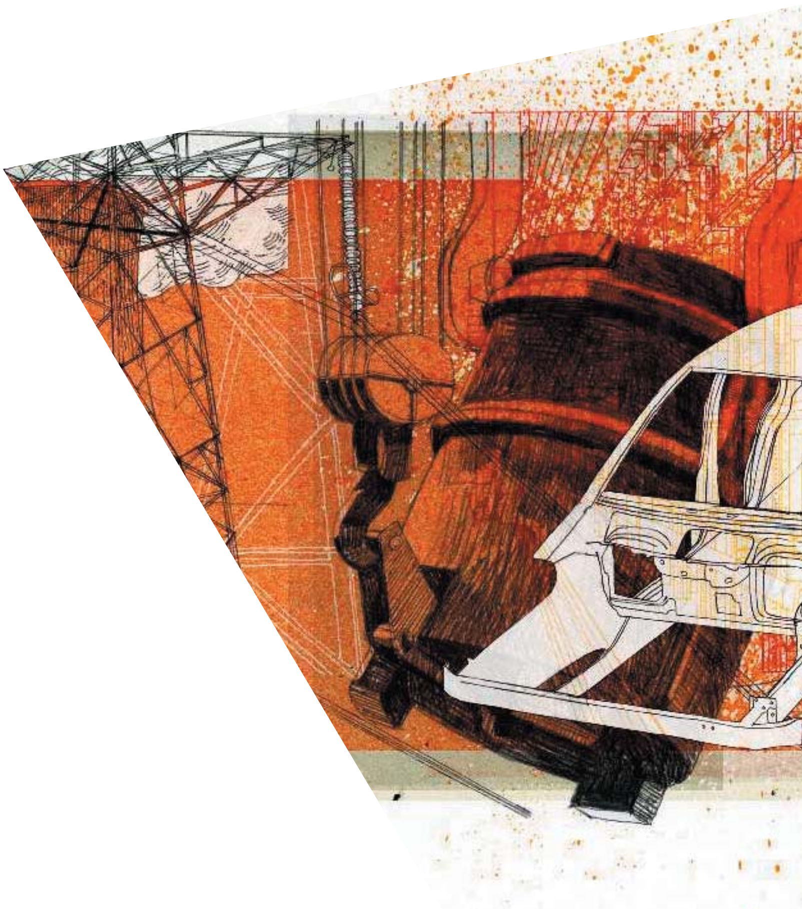

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