PSI • Annual Report 2008

40 Years of Process Control and Information Systems

Annual Report 2008

PSI

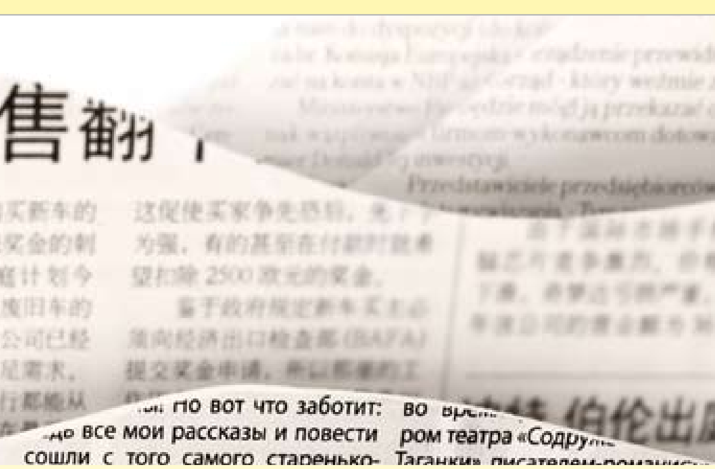
ENERGY MANAGEMENT

Intelligent utility solutions for electricity, gas, oil, water and district heating providers. Focus on delivering reliable and efficient solutions for grid management and for trading and sales in the deregulated energy markets.

PRODUCTION MANAGEMENT

Software products and customized solutions for production planning, specialized production controls and efficient logistics. Focus on optimizing resource utilization and enhancing quality and efficiency.

INFRASTRUCTURE MANAGEMENT



High-availability control solutions for the monitoring and effective operation of telecommunications, transport/traffic, public safety, environmental protection and disaster prevention infrastructures.

PSI Group at a Glance

Electricity

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

Gas, oil, water

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

Energy trading and sales

- Planning, analysis and optimization
- Integrated electricity and gas trading and sales
- Invoicing systems

Metals

- Production planning and optimization
- Manufacturing and process control
- Materials logistics and energy management
- Manager cockpit for executive management
- Metals supply chain consulting

Mechanical engineering and plant construction

- Production planning and control
- Enterprise resource planning
- Manufacturing execution systems
- Control systems for raw materials production

Carmakers and automotive suppliers

- Production planning and control
- Supply chain management and logistics
- Process control systems for industrial production

Logistics/airport

- Warehouse management system
- Planning, control and optimization of logistical networks
- Airport passenger, baggage and cargo handling
- Transport management systems

Telecommunications

- Network and service management
- Mobile and value-added services
- Fault and performance management

Transport and traffic

- Operations control systems for public and rail transport
- Depot management systems, passenger information systems
- Automated train dispatch
- Traffic control systems
- Telematics and operational monitoring

Public safety

- Safety & security control systems
- Control systems for environmental protection and disaster prevention
- Mobile security applications
- Railroad video management

PSI AG is a leading supplier of software solutions and complete process control systems for utilities, industrial firms and infrastructure operators. Our innovative control software solutions have made us an industry leader both nationally and internationally. Founded in 1969, PSI is one of Germany's most experienced information technology companies.

In fiscal year 2008 the PSI Group generated revenue of EUR 128.9 million. International revenue increased as a percentage of total from 21% to 28%, while international incoming orders increased from 26% to 32% of total. PSI has eleven locations in Germany, as well as offices in Poland, Russia, China, the UK, Austria, Switzerland and in the USA.

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

PSI Group IFRS figures in EUR million

	2008	2007	2006	2005	2004
Sales revenues	128.9	123.2	117.0	116.5	115.2
Operating result	6.2	4.1**	1.0	0.2	–9.1
Earnings before tax	5.3	2.9**	–0.3	–1.3	–12.3
Group net result	4.1	1.9**	0.4	0.02	–12.3
Shareholders' equity	33.7	29.4**	28.9	28.5	24.6
Equity ratio (in %)	32.9	32.5**	34.2	32.4	25.5
Investments*	6.5	1.6	3.5	1.6	4.8
Research & Development expenditure	10.5	10.4	10.7	10.8	10.8
Research & Development ratio (in %)	8.1	8.4	9.1	9.3	9.4
New orders	152	132	125	115	126
Order backlog at Dec 31	101	78	74	70	73
Employees at Dec 31 (number)	1,126	1,016	1,049	1,058	1,106

* Corporate acquisitions, intangible assets, plant and equipment
** adjusted

CONTENTS

ARMIN STEIN (57)
Since January 1st 2001
PSI director of Finance,
Controlling and Human Resources.

DR. HARALD SCHRIMPF (44)
Since July 2002
PSI director of Marketing, Sales
and Technology.

Dear ladies and gentlemen,

We exceeded our targets in 2008 despite adverse conditions. The financial crisis that broke out in 2007 spread, requiring governments and central banks to rescue numerous financial institutes and implement economic stimulus packages. PSI made preparations for a global economic downturn back when times were still good. In accordance with our long-term strategy, between 2005 and 2007 we dismantled, sold and realigned our short-term-oriented businesses, enhanced our competitive advantages, cut costs and built up exports. Today our portfolio is thus balanced among counter-cyclical, cyclical and non-cyclical businesses. By focusing on the right sub-segments and with a load diversification across platforms Group-wide, we have demonstrated the dependability necessary for growth.

Incoming orders rose a substantial 15 % to EUR 152 million; revenue was up 5 % to EUR 128.9 million. Orders backlog increased to a solid EUR 101 million, which only includes non-cancelable contract phases. Annual maintenance orders amounted to an additional EUR 25 million, which going forward are included in the order backlog. The share of exports increased by 38 % to EUR 35.9 million. The “Grow East!” export strategy has proven effective, as export markets Russia, China, Poland and the Gulf region are the only remaining growth regions in the market segments we operate in. The operating result rose 63 % to EUR 6.2 million, substantially ahead of our target of EUR 5 million and last year’s result of EUR 3.8 million, even as we continued to invest for the future. The group result after deferred taxes increased 140 % to EUR 4.1 million. Earnings per share rose again, up 130 % from EUR 0.15 to EUR 0.34 for a price/earnings ratio of 10.5. For 2009 we are targeting an operating result of EUR 7.5 million, without paring back investing in our products and export structures. Operating cash flow rose to EUR 9.9 million. Despite cash outflows for two acquisitions, cash and cash equivalents increased from EUR 18.9 million to EUR 23.7 million. Pension provisions totaled EUR 26.7 million; loans amounted to only EUR 0.3 million.

PSI shares suffered considerably in line with the stock market decline as some investors exited in January and October, falling to around EUR 3. Only in the last weeks of December did PSI’s solid earnings regain attention, the shares recovering to close out the year in Xetra trading at a (nonetheless disappointing) EUR 3.60. Analysts value the shares at around EUR 6. Accordingly, we have been taking advantage of this extreme undervaluation and our excellent cash position to buy back 212,000 shares at an average price of EUR 3.17. Exactly 11.9 million shares are thus now outstanding.

The counter-cyclical **Energy Management** business landed large orders despite tough international competition in the German-speaking domestic market, adjacent countries and export markets Russia, the Gulf region and South East Asia. Our export joint venture PSI Energo was highly successful with the Russian pilot projects, opening the door to further large orders. PSI received several initial orders from Russian oil pipeline operators and started a partnership in the Gulf region. In contrast to consumer nations, producer nations' capital expenditure behavior is cyclical in a manner that affords balanced growth.

Revenue and earnings were again up sharply in the cyclical **Production Management** business. The acquisition of FLS in May enhances our mass production references, lending several PSI products unique features just in time for the economic downturn. The acquisition of 4Production makes PSI now the largest producer of software for the steel and non-ferrous industries. Both acquisitions have performed well, as we have won key export contracts from China, Russia, Brazil, the Gulf region and other export markets, mainly for steel and logistics. In these early-cycle markets we concentrate on the more economy-independent sub-segments of stainless steel, tube steel, coarse cast, electrical steel and light metals. PSIPENTA posted its fourth successive earnings increase in mechanical engineering, plant construction and automotive engineering. Earnings are being buoyed by specialized vehicles, defense and rail vehicles, in addition to business from the key customer VW/Audi. PSI Production, founded in 2007, received a large coal mining order, and is preparing to begin exporting. The Russian company OOO PSI, which took over sales in the country, now has 15 employees located in Moscow and Yekaterinburg.

In the non-cyclical **Infrastructure Management** business, Transcom GmbH posted higher year-on-year earnings in the Transport segment, in which significant proceeds from divestitures accrued. Telecommunications showed continued improvement despite ongoing restructuring. The PTT Software distribution partnership was launched with Vodafone (mobile phone as radio telephony device) with the plan of replacing expensive private mobile radio. Our Polish subsidiary showed strong revenue and earnings growth on orders from fashion retailers, manufacturers and one utility.

Though our acquisition activity was restrained up to the year 2007 while the economy was strong, valuations are now becoming increasingly attractive. Our product platforms, market access, brands, and international production and sales will allow PSI to continue increasing its acquisition momentum and quality edge over competitors. We have a developmental community in place across all business units promoting platform convergence in a manner similar to the LINUX principle. Components, methods and tools are coordinated, and in part outsourced to our Polish subsidiary. This reduces platform development costs by a double-digit percentage, and simultaneously accelerates innovation.

We are grateful to our customers for the confidence they place in our solutions for business and survival-critical processes. To many customers we have been a reliable partner for going on four decades now, through resource shortages and recessions. We would like to thank shareholders for sticking with us through the difficult fourth quarter, when even the shares of companies well able to weather the crisis were pummeled below the book value in the selloff. Times like these demand a lot of courage from investors; and this courage will pay off when the market recovers. Not only do our employees hold a high percentage of our shares, other profit sharing incentives have been increasingly integrated into compensation as well. Allowing employees to assume an entrepreneurial role raises their awareness, streamlines decision-making and greatly increases flexibility of response. We are especially grateful to our staff and managers whose dedication made possible the Group's solid results for 2008. Our human capital increased in the second year now of financial crisis by 100 to a total of 1,126 highly qualified employees.

Going into 2009 we have a record order backlog, a record operating result, record operating cash flow and new export channels in the few growth regions left in the world. In 2009 we expect to see incoming orders rise further to EUR 160 million, revenue to EUR 140 million and the operating result to EUR 7.5 million. The slogan "40 years of PSI" points out our extraordinary stability as a provider, as we drive forward the transformation of PSI into a global software provider in a fifth straight year of linear growth.

Berlin, March 2009 | Dr. Harald Schrimpf | Armin Stein

PROF. DR. ROLF WINDMÖLLER (60)
Chairman of the Supervisory Board

Dear PSI shareholders, friends and partners,

Our primary objective in the 2008 financial year was to further the PSI Group's growth and internationalization strategy, while continuing to improve earnings. On behalf of you, our shareholders, we also observed the responsibilities incumbent on us by law, the Articles of Association, as well as the German Corporate Governance Code. We acted in an advisory capacity to the Board of Directors in their management of the company, monitoring its activities on a regular basis. We were directly involved in all decisions of significance and fundamental importance.

The Board of Directors and Supervisory Board focused on the following key issues in 2008:

- Achieving sustained increases in incoming orders and earnings
- Expanding exports, concentrating on Russia
- The optimization of our growth strategy
- Strengthening the Group's market position and enhancing differentiation through targeted acquisitions.

The strategy of profitable growth focusing on the fast-growing economies of Asia and Eastern Europe yielded continued benefit in 2008. In the Russian market we won a strategically important pilot contract for a regional high-voltage grid, and we entered the market in Thailand with a large order in the energy area. We believe strongly that reducing dependency on the domestic market puts the PSI Group in an excellent position to maintain profitable growth even under adverse economic conditions.

In its eight regular meetings held, the Supervisory Board discussed and reviewed the Annual Financial Statements, Group strategy, the FLS and 4Production acquisitions, current business, preparations for voting on new Supervisory Board appointments at the Annual General Meeting in April 2008, and auditing of the Board's own work. 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 met twice in the 2008 fiscal year; the Audit Committee met three times. The Chairman of the Supervisory Board was in regular contact with the Board of Directors outside of Supervisory Board meetings as well, and was kept informed regularly of the business situation and of important transactions.

As in previous years, the Board of Directors and Supervisory Board monitored the Group's compliance with the German Corporate Governance Code. The audit revealed no indications of noncompliance with respect to the points outlined in the Declaration of Compliance. Wilfried Götze, Bernd Haus, Karsten Trippel and Prof. Dr. Rolf Windmöller were appointed to the Supervisory Board as shareholder representatives in voting at the Annual General Meeting held April 25, 2008. At the Supervisory Board meeting convened thereafter, Prof. Dr. Rolf Windmöller was elected Supervisory Board Chairman, and Wilfried Götze was elected Deputy Chairman. Christian Brunke and Wolfgang Dedner did not seek reappointment to the Supervisory Board after respective six-year tenures. We would like to thank Mr. Brunke and Mr. Dedner for their hard work and achievements as Chairman and Deputy Chairman of the Supervisory Board during a difficult phase in the company's history.

Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, appointed as auditor at the April 25, 2008 Annual General Meeting, audited the Annual Financial Statements, Consolidated Financial Statements and Management Report for the period January 1 to December 31, 2008 as mandated by the Supervisory Board, thereupon issuing an non-qualified 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 at the Supervisory Board meeting held on February 27, 2009 and subsequently endorsed. The Annual Financial Statements and Consolidated Financial Statements were thus approved.

The Group net profit/loss and incoming orders continued rising in 2008 despite increasingly difficult conditions. We invested in expanding our export activities, and enhancing the attractiveness of our products, while acquiring new domestic and international customers and completing pilot-type projects begun last year. In view of the troubled market environment, this joint accomplishment on the part of the Board of Directors and PSI management and staff deserves particular recognition. The Supervisory Board would like to express its gratitude to all concerned for their outstanding commitment and productivity.

We would also like to thank our customers for the confidence placed in us in 2008. PSI will remain a dependable partner going into our 40th anniversary as a company, focused exclusively on optimizing our customers' business processes. Satisfied reference customers are crucial to our ability to attract new customers, and keep PSI on its present growth trajectory.

Berlin, March 2009

Prof. Dr. Rolf Windmöller
Chairman of the Supervisory Board

Corporate Governance

Responsible and long-term oriented management and control of the Company is of key significance at PSI. Efficient cooperation between the Board of Directors and the Supervisory Board, clear rules, respecting shareholders interests, openness and transparent corporate communication are core principles of Company management. We are thus committed to the German Corporate Governance Code in the latest version dated June 6, 2008. Code recommendations were implemented with five exceptions.

Declaration of Compliance with the German Corporate Governance Code.

On November 6, 2008, the Board of Directors and 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:

- **Item 4.2.1:** The Company had no appointed spokesperson or chairperson, as the PSI AG Board of Directors is comprised of only two members.
- **Item 5.3.3:** The Supervisory Board has not formed a Nomination Committee, as all four shareholders' representatives on the Supervisory Board are involved in nominating candidates for voting at the Annual General Meeting.
- **Item 5.4.3:** Supervisory Board appointments may be conducted on the basis of nominee lists, as permitted by applicable law. This allows for the bundling of nominees for voting purposes.
- **Item 5.4.6:** Supervisory Board remuneration does not involve a bonus component, but rather a base component plus a meeting attendance component.
- **Item 7.1.2:** The Supervisory Board or a Board-appointed audit committee does not discuss the half-year or quarterly reports with the Board of Directors prior to their release.

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

Good cooperation between Board of Directors and Supervisory Board.

The PSI Board of Directors is comprised of two members, who cooperate with great effectiveness. The Supervisory Board is comprised of two employee representatives and four independent members who are committed to upholding the interest of the Company and shareholders. 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, beyond the extent required by law. During the year under review, no business transactions took place between related parties and the PSI Group.

Directors' remuneration and shareholdings.

Supervisory Board members received remuneration totaling EUR 117,000 in fiscal year 2008, which breaks down as follows:

	Total EUR K
Dr. rer. nat. Ralf Becherer	16
Christian Brunke (through April 25, 2008)	11
Wolfgang Dedner (through April 25, 2008)	7
Wilfried Götze (from April 26, 2008)	15
Bernd Haus (from April 26, 2008)	12
Barbara Simon	16
Karsten Trippel	12
Prof. Dr. Rolf Windmöller	28
	117

The two members of the Board of Director received remuneration as follows:

	Fixed remuneration EUR K	Variable remuneration EUR K	Total EUR K
Dr. Harald Schrimpf	196	235	431
Armin Stein	196	235	431
	392	**470**	**862**

As of December 31, 2008, members of the Board of Directors and Supervisory Board held the following number of PSI shares:

	2008 shares	2007 shares
Board of Directors		
Dr. Harald Schrimpf	69,000	61,000
Armin Stein	21,000	12,000
Supervisory Board		
Dr. rer. nat. Ralf Becherer	2,268	1,268
Christian Brunke	Supervisory Board member until April 25, 2008	5,000
Wolfgang Dedner	Supervisory Board member until April 25, 2008	28,500
Wilfried Götze	54,683	Supervisory Board member starting April 26, 2008
Bernd Haus	1,000	Supervisory Board member starting April 26, 2008
Barbara Simon	7,890	7,890
Karsten Trippel	116,600	103,500
Prof. Dr. Rolf Windmöller	3,795	1,120

At this time, PSI has no stock option program or comparable incentive systems in place. In 2008, 25 board member share transactions were reported and published on the PSI website under Directors' Dealings.

Active and open communications.

Promptly providing consistent information to all capital market participants is a top priority for PSI. In addition to reporting required by law, we regularly report on business developments and strategically important events at the Company – in print, in presentations and on the Internet at www.psi.de/ir. Here the annual document per Article 10 of the Securities Prospectus Act is also posted, listing all disclosable transactions in the past year. Our financial calendar provides notification of important dates. Declarations of Compliance to the Corporate Governance Code can also be viewed on the website. Additionally, 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 is to be advised immediately if potential disqualifying events or conflict of interests arise in the course of an audit. The same applies to findings and events during the audit that could be of significance to the work of the Supervisory Board. Should the auditors identify deviations from the Code, they are to inform the Board of Directors and the Supervisory Board.

PSI has deployed a risk management system for the more effective identification of opportunities and risks, details of which are provided in the Group management report under 'Risk management' (p. 35).

Effective Corporate Governance remains a focus.

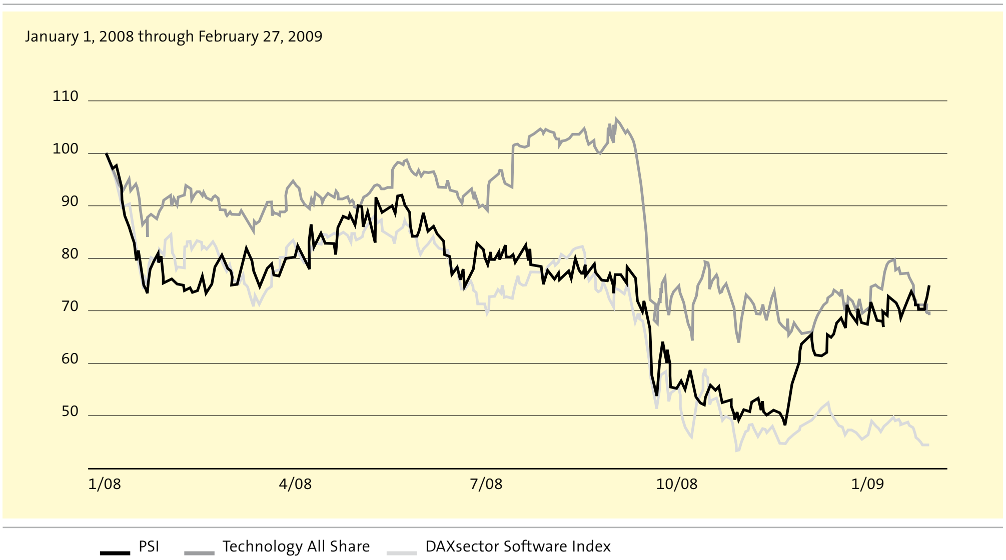
Effective corporate governance will remain a central concern of the Board of Directors and the Supervisory Board in 2009. At the Annual General Meeting on April 28, 2009, we will again offer shareholders the option of granting power of attorney and issuing instructions. The Board of Directors and Supervisory Board will continue their cooperation in the new fiscal year to address all significant business events in mutual confidence.

PSI Shares

The year 2008 proved one of the most dramatic for the stock market in decades. Major stock market indices fell by over 40 % in consequence of the financial crisis, the effects of which became increasingly magnified in the course of the year, accompanied by extreme volatility. PSI suffered accordingly from the larger phenomenon despite posting healthy business results ahead of our targets for the year, the shares closing out the year at a disappointing EUR 3.60.

PSI shares slid in January and October triggered by cash outflow and consequential selling by institutional investors, declining from EUR 5.90 at the start of a year to the year's low of EUR 2.82 in mid-December. In the last two weeks of the year the shares rebounded up to EUR 3.60. Down 39 % for the year, PSI shares performed roughly in line with the DAXsector Software Index, which was off 32 % for the year, and the Technology All Share Index, down 50 %. The DAXsector Software Index includes all software shares listed in the Prime Standard of the Deutsche Börse. The broader Technology All Share Index encompasses all technology stocks in the Prime Standard.

PSI share price versus Technology All Share and DAXsector Software indices in %, January 1 = 100 %



At the start of 2009 PSI shares stabilized above EUR 4, partially evading persistent selling pressure on the market. Analysts estimate fair value for our shares at between EUR 6 and EUR 7.60 in view of our stable results and outlook. The shares thus have appreciation potential substantially above average once the market stabilizes.

In the fourth quarter we took advantage of this extreme undervaluation to buy back 221,116 shares of stock (1.8 %) at an average price of EUR 3.17, 212,870 shares of which were withdrawn.

We continued our active communications with analysts and investors despite waning interest in small and mid-caps over the course of the year. PSI held three analysts' conferences and several investor road shows in financial centers in Germany and Europe. We conducted numerous one-on-one calls with investors, and remained in constant contact with institutional and private shareholders via phone and correspondence. We received regular coverage in the financial and business media due to our solid results, including stock market radio and TV broadcasts, as in previous years. The percentage of shares held by investors subject to disclosure requirements halved from 20.4 % in 2007 to 10.0 %.

We again received recognition for our financial communications in 2008, the PSI Annual Report taking the silver award for best software company report in the "International ARC Awards – World's Best Annual Reports", the world's largest annual report competition.

As we celebrate our anniversary in 2009 we will continue driving forward the transformation of PSI into a global software provider, as we pursue our fifth straight year of increased revenue and earnings. Our goal is to lay the groundwork for PSI to be properly valued as one of Germany's largest software enterprises and a profitable growth company. We will thus be continuing our intensive communications with market participants to keep us on the radar of institutional investors and analysts as we move closer to a lasting breakthrough, with or without a favorable economy.

PSI shares by the numbers in euros

	2008	2007
Earnings per share	0.34	0.15 **
Market capitalization at December 31	43,606,332	71,495,433
Annual high	5.85	6.90
Annual low	2.82	4.17
Number of shares outstanding at December 31	12,112,870 *	12,112,870

* The reduced number of shares outstanding has not yet been recorded in the commercial register by the reporting date.
** adjusted.

PSI shares

Stock exchanges	Xetra, Frankfurt, Berlin, Stuttgart, Düsseldorf, Hamburg, Munich
Stock exchange segment	Prime Standard
Index affiliation	Technology All Share, Prime All Share, DAXsector All Software, DAXsector Software, DAXsubsector All Software, DAXsubsector Software, CDAX
ISIN	DE0006968225
Security Identification Number	696822
Stock exchange code	PSA2

40 years of PSI – 40 years

1969___PSI Gesellschaft für Prozesssteuerungs- und Informationssysteme GmbH founded in Berlin. First order received from steel industry.

1974___PSI first company to introduce employee shareholding program.

1976___PSI becomes established as a provider of energy supply software.

1986___Launch of first standard software product in the production planning segment (PPS).

1994___PSI converts into a stock corporation and becomes one of the first ISO 9001 certified European software companies.

1996___Development of PSIpenta, first object-oriented Enterprise Resource Planning (ERP) system.

1998___PSI AG conducts initial public offering on the Frankfurt Stock Exchange.

2000___PSI acquires the gas management systems unit of IT company debis Systemhaus and starts internationalizing its energy business.

# of intelligent solutions

2002 — Generational change in top management, PSI transforming itself into an integrated control systems enterprise.

2004 — Export strategy “Grow East!”. PSI establishes subsidiaries in Poland and China.

2005 — First big contracts from Chinese steel industry and expansion of logistics business in Russia.

2006 — Office opened in Russia, new distribution partnerships in Eastern Europe and Asia.

2007 — Process control system for efficient resource extraction, entry into the Russian steel and electrical power industries. PSI rounds out concentration on software solutions for energy, industry and infrastructure.

2008 — Acquisition of optimization software specialist FLS and 4Production, a production management provider to the aluminum and copper industries. Subsidiary and joint venture established in Russia.

2009 — PSI starts 40th company anniversary year with over EUR 100 million order backlog.

For four decades PSI has been known as a provider of tailored solutions based on innovative software products and advanced industry knowledge. PSI products and solutions help customers deploy their human, energy and other resources with heightened efficiency and environmental compatibility.

We employ a time-tested four-phase model to ensure efficient R&D with rapid time-to-market.

We collaborate with leading industry partners on pilot projects from the very first project phase, to ensure that our products add specific value. The solutions customers receive are configured for their business processes, generating competitive advantage. Additionally, customers benefit from our involvement in research and standardization projects, the results of which flow back into the solution deployed; such as our new resource extraction control system, which has proven its great commercial value within only a short period of time.

40 Years of Innovation

In the second project phase, experience and components from the pilot are productively integrated. This, too, leads to customized solutions involving proven, state-of-the-art technology. As our know-how grows in subsequent projects, pilot project customers benefit in parallel through access to our entire knowledge base for expansion and optimization.

In phase three we establish a base product derived from project experience; this advanced, field-tested technology is then deployed in modified form with other customers in our target industries. An example of this is our efficiency-enhancing production and logistic sequencing software, available to customers from a range of industries since 2008.

In phase four we distribute our products internationally through our own offices and through export partners, providing competitive advantages to customers and partners abroad. Exporting expands the PSI customer base, which in turn accelerates development. Examples include our supergrid voltage system in Russia and logistics solutions exported to Russia and Poland.

Expanding into new markets

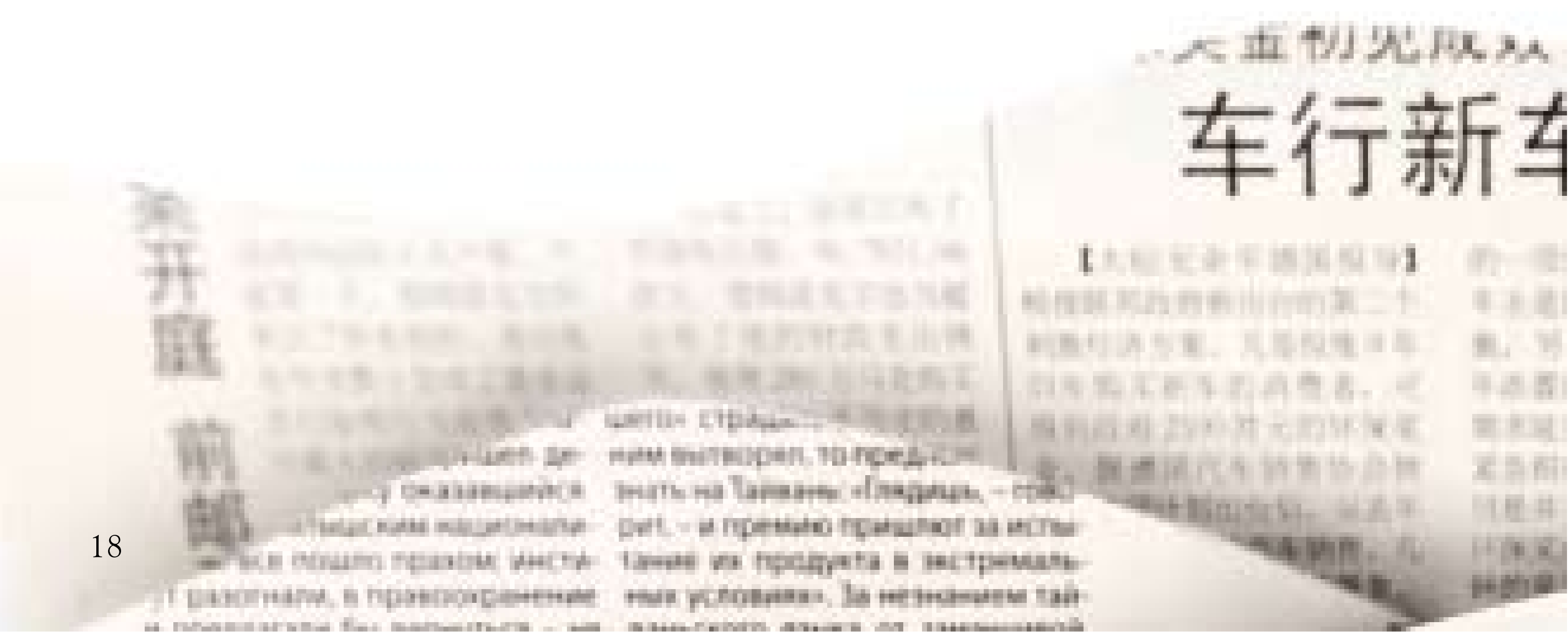
China, Russia and Eastern European EU nations have announced plans for heavy spending on infrastructure over the next few years as a stimulus response to the global economic downturn. With our specialized solutions for utilities, heavy industry and transport infrastructure PSI is now ideally positioned to benefit from this investment.

This positioning was responsible for further acceleration of growth in 2008, with revenue improving for the fifth year in a row. Incoming orders rose sharply and the order book range again increased on robust exports and moderate domestic business. The “Grow East!” export strategy thus proved effective, despite the faltering economy. Our key export markets Russia, China and Poland represent some of the few world regions still experiencing growth.

The infrastructure programs announced in Eastern Europe and Asia hold growth potential for PSI, as our specialized solutions for controlling large utility and transport infrastructures and managing complex production processes are extremely attractive for these economies. Developed originally for the German market, which has to contend with high energy, labor and our resource costs and which maintains very high safety standards, these products were designed especially for efficient business processes and short amortization periods. PSI solutions thus position the Company effectively for meeting today’s difficult economic challenges.

For four decades we have enjoyed a highly stable customer base on our home market in Germany, which in recent years has grown further. Exports have risen sharply, underscoring the relevance of our products internationally.

In Energy Management we have successfully competed against strong international competitors in countries like



Russia, Malaysia and Thailand. Our efforts to enter the Chinese production management market in recent years have also paid off, so that now our customers include China's largest steel and aluminum producers. Our logistics solutions have done particularly well in Eastern Europe and Russia, where we gained further market share in 2008.

Other than in Poland, China and Russia where we maintain subsidiaries, we are increasingly pursuing export partnerships with local IT service providers and big plant construction firms. Our international references and partners represent a springboard for steady future growth. Though already well-established internationally, our solutions for the energy and steel sectors hold additional potential in equipping additional grid regions and rationalization investment in the steel industry. Several innovative products also present considerable opportunities for the years ahead, with our new resource extraction control system already successfully in use in Germany, which is highly attractive to Chinese mining operators. Airport logistics solutions also hold significant growth potential in South East Asia, China and the Middle East. Altogether, PSI is well prepared to emerge strengthened from the current economic slump.

Stable earnings

Concentrating on our strong core business in recent years has laid the foundation for profitability and steadily rising earnings, taking us into our anniversary year with the momentum of last year's better-than-expected results. We intend to build upon this momentum to achieve further earnings increases in the years ahead. We will continue investing in our products and export structures so as to provide optimal support for our customers around the world.

The "Grow East!" strategy has led to a doubling in exports to 28 % of total business since 2005. International expansion broadens our base of installed software products and reduces dependency on specific regions. International distribution partners serve to enlarge the market for our products and boost licensing revenue. This in turn propels earnings, allowing us to further accelerate product development and overall growth.

Local-market staff and regional partners ensure our ability to provide on-site support to customers around the world, and enhance productivity by extending software production into export markets. This reduces the impact of short-term exchange rate fluctuations on earnings. Splitting standard development between development teams at our international subsidiaries and in Germany yields additional benefits.

Product platform convergence being pursued since 2008 promises to further enhance productivity, for which we have created a corporation-wide developmental community that facilitates software component sharing and accelerates the convergence process. This broader base for standard development eliminates redundant work and enhances overall R&D efficiency. The result is faster development and steadily increasing competitiveness.

We fully expect further productivity gains going forward through increased exports, international software production and platform convergence. This will provide the necessary impetus to keep expanding our margins, as in recent years.

Efficiency worldwide

Innovative technologies for the economical and prudent deployment of human, energy and other resources create a decisive competitive edge in today's globalized world. The current economic malaise means that intelligent software solutions are more important now than ever, especially for the monitoring, control and optimization of complex industrial processes and infrastructures.

Our high-availability energy systems have for many years played a key role in ensuring a stable and dependable supply of electricity, gas and oil by making it possible to manage complex grid structures. This promotes decentralized energy production and the utilization of renewable energy sources. Our gas and oil pipeline management solutions likewise deliver high availability in combination with extensive planning and simulation options. The certified leak identification and localization system is a particularly important feature for the secure and eco-friendly transport of oil and oil products.

Because of their special technical features and functionalities, today our energy management systems are deployed throughout Western Europe and in Scandinavia, Eastern Europe, the Persian Gulf, Malaysia and Thailand for more economical and efficient energy supply.

Our production and logistics solutions are deployed wherever systems are overloaded and quality specifications and deadlines must be adhered to. They unlock potential savings – all the more valuable in times of economic turmoil – for example to minimize energy consumption in the steel and aluminum industries, optimize automobile manufacturing processes, make coal mining more efficient in Germany or to monitor and improve logistical networks.

Today our production management software for the metals industry is utilized in Europe, Russia, China, South East Asia, North America and South America. Our production planning system for the automotive industry and mechanical and plant construction allows businesses to distribute processes around the world through global installation; our logistics customers are concentrated in German-speaking Europe and Eastern Europe.

Our infrastructure management solutions facilitate the efficient planning and control of transport/traffic and telecommunications infrastructures, enhancing public safety and protection of the environment. PSI control systems make possible efficient vehicle deployment in public municipal transportation and the economic operation of wireless networks. Entire transport/traffic and ecological data can be monitored from safety and environmental control centers for swift reaction to errors, helping to avoid environmental damage. In Germany and the neighboring countries, our infrastructure control systems are used in telecommunications, for tasks in rail and rail traffic and in flooding protection.

Cross-border teamwork

Specialized software providers like PSI achieve market stature by having highly qualified and motivated personnel to manage long-term customer relationships and propel innovation. PSI staff has for many years been characterized by a particularly high percentage of university graduates with specialized industry knowledge; over 80 % of staff holds a university degree, most with engineering backgrounds. Strong employee retention affords a high level of continuity.

Because our projects generally concern customers' core business processes, they afford challenging and interesting tasks for motivated project teams, enhancing significantly the career prospects of those to gain experience with us in the growth markets we operate in. Internal career progression opportunities are increased through the flat hierarchies in place and relevant continuing education and training opportunities offered within our organization.

In recent years PSI has become significantly more international, with some 100 employees now working on projects at international locations. In addition there are our partners, who have access to our product implementation know-how. Opportunities to work on international teams are a key source of career-promoting experience for our employees in Germany, in addition to stints at our fast-growing foreign subsidiaries.

Training seminars thus focus particularly on training our employees for working in an internationalized PSI Group, offerings including foreign language and intercultural skills courses in addition to uniform project-business training corporation-wide.

Stable long-term customer relationships are a pillar of PSI's strength, and this demands continuity through low employee turnover. Our commitment in this regard is reflected in substantial employee shareholdings, with roughly 25 % of PSI free float held by several hundred employees in 2008, which stimulates hard work and entrepreneurial thinking on all levels.

As an expanding high-tech corporation, the Group will be offering outstanding opportunities for dedicated employees in the years ahead. In 2008 we added 110 staff members for a total of 1,126. Now more than ever in the present recession, PSI is an outstandingly attractive employer, offering excellent career opportunities and exciting challenges.

2008 at a glance

Energy segment growing nationally and internationally —In the Energy segment PSI received more big international orders from Russia and Thailand. New customer acquisition improved upon an already formidable market position in Germany and Austria.

New subsidiary and joint venture in Russia —Our presence in the Russian market was heightened through the founding of both a subsidiary and a joint venture for implementing energy control systems.

Successful global sales for Steel —In the Steel segment we received orders from China, Russia, France, Brazil, Canada and the US, further boosting exports as a percentage of total steel sales.

Acquisitions enhancing market position and differentiation —The integration of optimization software specialist FLS expanded PSI's offering and enhanced differentiation, the Production Management segment in particular. The acquisition of 4Production, a leading production management provider for the aluminum and copper industries, strengthens our market position in the Metals segment.

Logistics growing in Russia and Poland —The Logistics segment experienced a further rise in exports with orders from Russia and Poland, and an additional distribution partnership in Russia extended our market reach.

New mobile phone conference calling solution —The new push-to-talk solution developed in Infrastructure Management, jointly marketed with Vodafone since the end of 2008, allows conference calling over wireless networks.

CONSOLIDATED MANAGEMENT REPORT

Consolidated Management Report

SUMMARY

The PSI Group maintained its positive momentum in fiscal year 2008, posting another operating result increase to EUR 6.2 million. Energy Management was again the primary earnings driver, posting EUR 3.6 million on revenues which were 7 % higher year-on-year. Production Management revenue rose 12 %, the segment posting an operating result of EUR 2.7 million, up 59 %. Infrastructure Management posted an operating result of EUR 0.5 million, in line with last year's figure which included one-time income from sale of the public-sector services business. Consolidated revenue rose to EUR 128.9 million; incoming orders increased 15 % to EUR 152 million.

PSI further expanded its international business in 2008, landing key orders from Russia, China, South East Asia, Europe, North America and South America. Export activities again centered on Russia, new orders being received in the gas, oil, logistics, steel and electricity segments. PSI established a joint venture and a subsidiary there, in addition to a number of new partnerships.

Two acquisitions served to enhance PSI's technological edge and consolidate our position in the metals industry.

ECONOMIC AND INDUSTRY ENVIRONMENT

IT and software markets slowing

Because of the deteriorating economy, the German IT market slowed to only 3.7 % growth in 2008, coming after 5.0 % in the year prior; this impacted the hardware, software and IT services segments. Software again grew faster than the overall market, though software revenue growth subsided to 4.2 % for PSI versus 5.0 % last year.

Substantial economic slowing

The German economy slowed considerably in 2008 versus the previous year, GDP growth coming in at only 1.3 % after last year's 2.5 %. Capital expenditure in other assets, including computer software and copyrights, increased 6.6 %, less than the previous year's 8.0 % rise.

Manufacturing increased by only 0.7 % in 2008 as opposed to 5.2 % in the year prior. The global steel industry, to which PSI is a major software provider, declined in 2008 for the first time in ten years. Global raw steel production declined 1 % in 2008, with demand expected to fall further in 2009.

BUSINESS RESULTS

PSI 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 district heating)
- Manufacturing (metals, mechanical engineering, plant construction, automotive – plus logistics)
- Infrastructure (transport and traffic, safety, telecommunications)

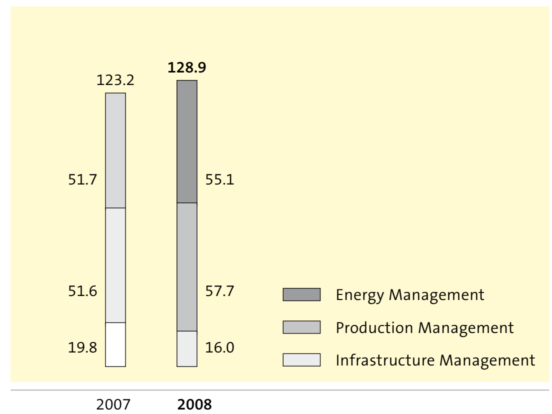
Accordingly, the Group is organized into the three segments Energy Management, Production Management and Infrastructure Management.

With more than 1,100 employees, PSI is one of Germany's largest software makers. As a specialist for high-end control systems, PSI occupies a leading role in the German market, particularly among utilities and steel manufacturers. The group is thus well-positioned to gain additional market share internationally and increase growth and profitability. Internationalization reduces dependence on Germany's domestic economy. This is why PSI began establishing and developing subsidiaries in China and Poland in 2005. In 2008 export activities again centered on the Russian market, where PSI established a subsidiary and a joint venture while simultaneously expanding our network of Russian partners.

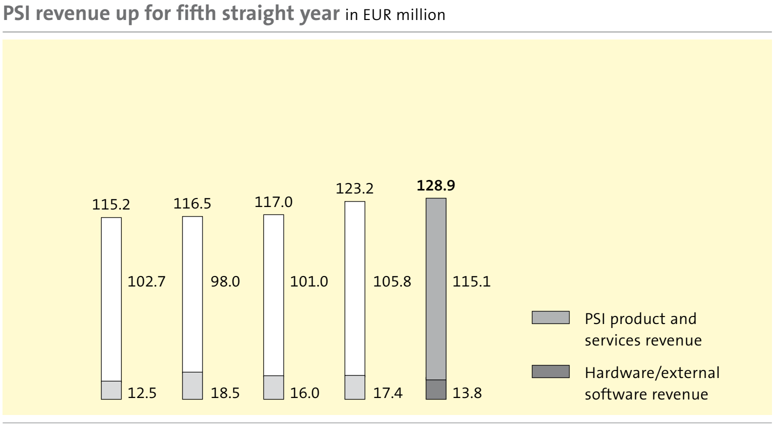
The financial crisis that broke out in 2007 and cyclical economic downturn became more severe in the second half of 2008, affecting nearly every industry. PSI made preparations for a global economic downturn back when times were still good, concentrating on process control software products for utilities, manufacturing/logistics and infrastructure operators. With a rebalanced portfolio and an enhanced competitive edge, PSI was well-positioned to weather the storms in crisis-year 2008, as incoming orders, revenue and earnings were all up again. Efforts begun in prior years to build the exports in the growth markets of Eastern Europe and Asia are now beginning to pay off. Though not immune to the economic downturn, PSI's relevant markets continue to grow. The Group-wide strategy of progressive platform convergence is likewise paying off, as PSI is now reaping the benefits from efficiency enhancements in R&D and project execution implemented in previous years. More even distribution of these responsibilities between business segments yields greater stability, thus the PSI Group will be moving forward with the convergence process in the years ahead.

The PSI Group employs a value-oriented management information system. The key management metrics are operating result in relation to value added, earnings before taxes, incoming orders and liquidity, reflecting the core strategy of profitable growth.

Revenue by segment in EUR million



PSI revenue up for fifth straight year in EUR million



Earnings

Consolidated net profit up significantly

The Group's operating result improved from EUR 4.1 million for the previous year to EUR 6.2 million. Consolidated net profit rose to EUR 4.1 million for the year under review from a previous EUR 1.9 * million. The electrical energy, gas and oil segments, the metals industry, PSIPENTA and traffic/transport contributed in particular to this outcome.

Ratio of purchased services lower

Project-related expenditure on acquired goods and services decreased by EUR 3.5 million to EUR 22.1 million. Expenditure for purchased services decreased slightly by EUR 0.2 million. Project-related expenditure on hardware and licenses declined by EUR 3.3 million. Employee costs rose 5 % to EUR 75.3 million as result of increasing capacity and acquisitions.

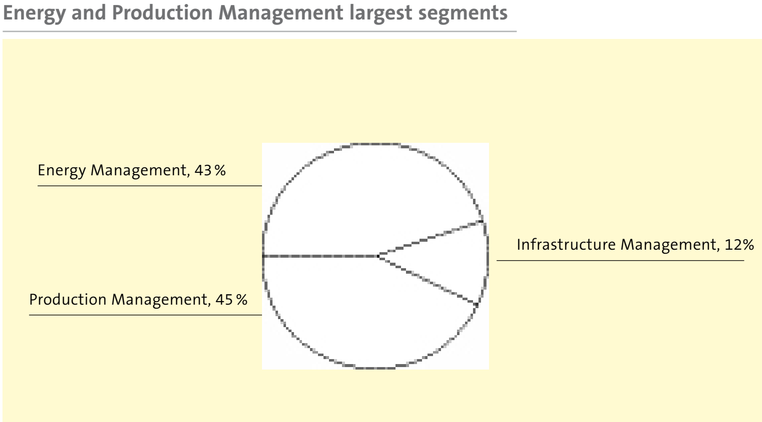
Incoming orders well ahead of previous year

Incoming orders for 2008 totaled EUR 152 million, EUR 20 million higher than for the previous year. This 15 % increase was due to a substantial rise in export orders as well as moderately higher domestic orders. Similarly, orders backlog finished the year at EUR 101 million versus EUR 78 million one year ago. The solid order situation continued all the way through the fourth quarter of 2008, giving us a good start into the year 2009. Average order book reach was approximately 9.3 months.

Consolidated revenue up

Consolidated revenue for 2008 came in at EUR 128.9 million, surpassing last year's figure of EUR 123.2 million by 5 %. Production Management posted the biggest gain, though Energy Management also generated significant revenue. Revenue per employee declined 6 % year-on-year to EUR 114,000 due to a lower percentage of third-party products and acquisitions being consolidated for only part of the year.

Energy and Production Management largest segments

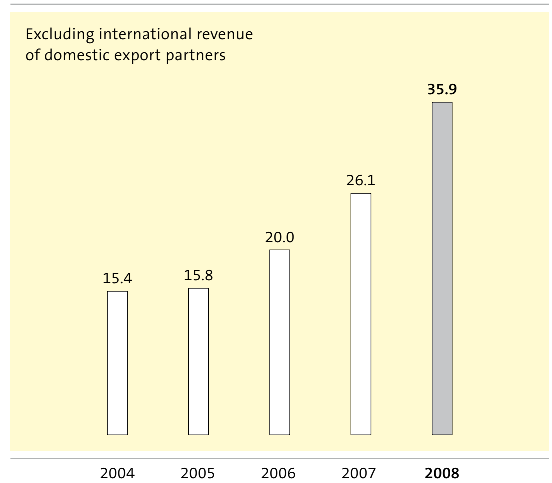


* adjusted.

Exports up again as percentage of total revenue

Export revenue was up significantly year-on-year from EUR 26.1 million to EUR 35.9 million. Exports thus increased from 21 % to 28 % of total. International orders increased from 26 % last year to 32 % of total orders. Maintenance revenue rose from EUR 22.8 million to EUR 25.0 million.

International revenue up sharply in EUR million



Production Management was the main sales engine in 2008, generating 45 % of total revenue, up from 42 % last year. Energy Management contributed 43 % as compared to a previous 42 %, while Infrastructure Management accounted for 12 %, down from 16 %. Infrastructure management last year included revenues from the public sector services business which was sold in mid-2007.

Energy Management doing well with exports

Energy Management landed significant export orders in 2008, and from the home-market of German-speaking Europe, boosting revenue 7 % to EUR 55.1 million. The segment encompasses electrical energy, gas, oil, heat, water and energy trading. The operating result came in 39 % higher year-on-year at EUR 3.6 million despite investment in the export business, versus a previous-year value of EUR 2.6 million. Electrical Energy received large orders in Russia and Thailand. The gas and oil sub-segment continued its strong performance seen in recent years, booking orders from German and European natural gas providers and attracting new international oil customers. Energy trading systems successfully concluded its first pilot projects using the newly integrated electricity and gas trading system. The PSI product portfolio thus covers nearly the entire range of requirements of Europe's deregulated energy market.

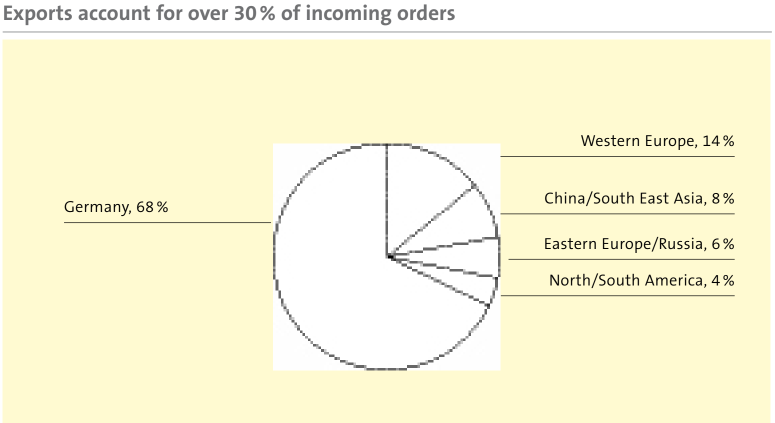
Production Management with double-digit growth

Production Management, the PSI segment that develops solutions for production and logistics planning and controls, posted 12 % higher revenue in 2008 of EUR 57.7 million. The operating result for the segment substantially exceeded last year's mark of EUR 1.7 million, coming in at EUR 2.7 million to defy the market trend. PSI BT posted higher earnings and gained market share in the steel industries of China, Russia, Europe, and North and South America. ERP software provider PSIPENTA likewise posted another earnings increase. The acquired firms FLS and 4Production were integrated into the Group, and have performed quite well. While improving our position in the automotive and non-ferrous businesses, these companies also contribute more advanced optimization algorithms and more productive software technology useful for all PSI products.

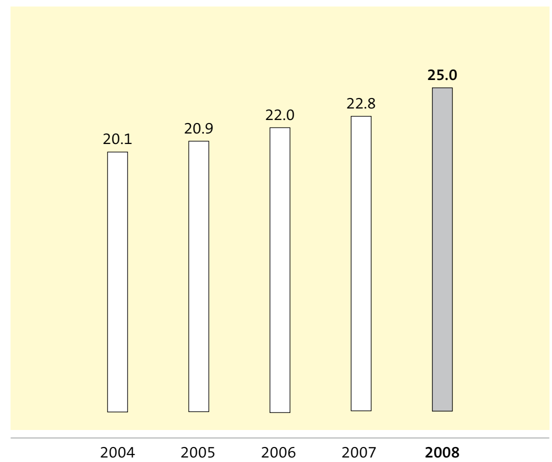
Infrastructure management in the black

Infrastructure Management revenues declined 19 % year-on-year in 2008 to EUR 16.0 million as a result of the nonrecurring sale of public sector services in mid-2007 and weaker hardware sales. The operating result came in unchanged at EUR 0.5 million, despite last year's figure including proceeds from the sale of public sector services. Both transport and traffic systems and telecommunications solutions saw improvement on operating level. In Telecommunications, PSI and Vodafone jointly developed a new technology for utilizing mobile communications networks to replace private mobile radio.

Exports account for over 30 % of incoming orders



Maintenance revenue rising steadily in EUR million



Financial position

PSI conducts monthly liquidity planning to ensure the coverage of operational and capital expenditure. A rolling monthly risk management forecast is performed for all companies with a planning horizon of twelve months. This serves to minimize bank borrowing by individual Group companies and optimizes interest income on fixed term deposits.

Predominant financing through operating business

PSI capital expenditure goes mainly to product optimization and to implement the Group's internationalization strategy, both of which are financed from earnings as far as possible. PSI focuses on major pilot customers and dependable partnerships for the development of new products and functionalities.

As at December 31, 2008, PSI had guarantee and credit lines of EUR 72.2 million to finance ongoing business. Utilization almost exclusively concerned the guarantee credit line, amounting to EUR 36.0 million on the balance sheet date. The Group was in a position to fulfill its payment obligations at all times in fiscal 2008.

PSI has authorized capital of EUR 15.5 million, per an Annual General Meeting resolution on May 19, 2005. In the fourth quarter of 2008, 221,116 shares were purchased on the open market as part of a stock buyback at an average price of EUR 3.17, 212,870 of which were withdrawn at year-end. The stock buyback was approved by shareholders in an April 25, 2008 resolution, by which PSI is authorized to buy back up to 10 % of subscribed capital through October 24, 2009. The retiring of the shares had not yet been recorded in the commercial register as of the reporting date. At the reporting date PSI AG share capital totaled EUR 31,008,947.20, of which EUR 544,947.20 is being withdrawn.

Cash flow positive in 2008 despite acquisitions

Cash flow from operating activities tripled to EUR 9.9 million from last year's level of EUR 3.0 million. Cash flow from investment activities was negative at EUR –4.5 million due to the FLS and 4Production acquisitions, versus EUR 0.5 million last year due to the sale of public sector services. Cash flow from financing activities decreased from EUR 0.1 million for the previous year to EUR –0.7 million. Cash and cash equivalents of EUR 23.7 million at year-end exceeded last year's EUR 18.9 million due to positive cash flow.

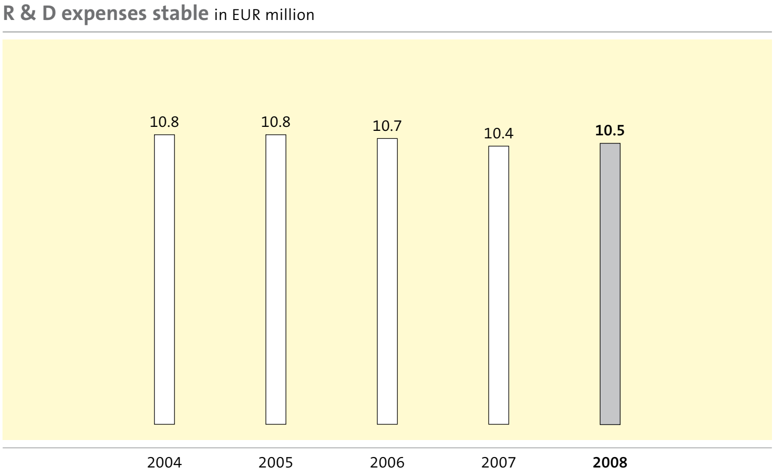
Assets

Assets structure: Intangible assets

In 2008, the PSI Group invested EUR 6.5 million in intangible assets and property, plant and equipment, after EUR 1.6 million in the previous year. Capital expenditure represents intangible assets and plant, property and equipment acquired from third parties. Software developed by the Group and acquired know-how were recorded as ongoing expenses, as in the previous year.

The carrying amount of goodwill increased by EUR 3.3 million through the two acquisitions in 2008, to EUR 16.2 million.

R & D expenses stable in EUR million



Balance sheet structure: Equity ratio remains above 30 %

Total PSI Group assets increased 13 % in 2008 to EUR 102.6 million.

Current assets increased slightly from 71 % to 72 % of total assets. Cash and cash equivalents increased by EUR 4.7 million, and receivables from long-term contract manufacturing rose by EUR 3.5 million. Non-current assets decreased from 29 % to 28 % of total.

Current liabilities increased from 35 % to 39 % of total. Non-current liabilities decreased slightly from 32 % to 28 % of total. The equity ratio remained unchanged year-on-year at 33 %.

The Company's subscribed capital is being reduced through the withdrawal of 212,870 shares. Post-withdrawal share capital totals EUR 30,464,000.00, consisting of 11,900,000 no par value shares each with a notional par value of EUR 2.56. Each share entitles its holder to one vote. Shareholders exercise their voting rights at the Annual General Meeting in accordance with applicable law and the Articles of Association. There are no restrictions with respect to voting rights or the disposal of shares.

In fiscal year 2008 the consortium of current and former employee shareholders of PSI AG held 13.23 % of voting rights in the Group. The consortium's representatives are Mr. Paul G. Söhnchen and Mr. Eberhardt Amrhein, both from Germany. Voting rights attributable to individual consortium members are determined on the basis of the consortium articles.

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

Results of operations, financial position and net assets improved for the PSI Group in fiscal year 2008. Earnings and cash flow again increased, and management's expectation for 2009 is again for positive cash flow. The Group thus is well-positioned financially to realize the envisioned growth objectives.

Research and Development

Innovative products and maintaining technological leadership are key competitive advantages in the software market. The development of new products is thus extremely important for PSI. Offering products with cutting-edge functionalities is just as critical to business success as the use of joint development platforms and sharing new functionalities within the Group.

The implementation of the group-wide platform strategy remained a central focus of development activities in 2008. PSI thus established a corporation-wide development community designed to promote sharing software components within the Group and product platform convergence. Convergence promotes export growth and the use of core products across all business units.

As in previous years, in 2008 we continued our close collaboration with industry-leading pilot customers on the new product development. This collaboration guarantees customers of generating benefits from our products right from the start. Products are optimized on an ongoing basis in follow-up projects and adapted to the shifting requirements in our target markets. The resulting core products allow for broader distribution and export of innovations developed (four-phase process).

In parallel with platform convergence and internal technology transfer we continually develop new products, product expansions and product versions. We evaluate their effectiveness in pilot projects and monitor market acceptance. In 2008, we made further progress on pioneering projects including the new electricity and gas trading system, a version of our network control system for high-voltage systems modified for the Russian market, an integrated transport and warehouse management system, a materials flow management system, a new control system for resource extraction and a new version of our steel tube production software.

In 2008, the PSI Group received EUR 0.8 million in public subsidies. The subsidies were granted for platforms for creating self-regulating managing networks and controlling intelligent logistics networks and real-time logistics systems. At EUR 10.5 million, total Group R&D expenditure in 2008 was slightly above the previous year's figure of EUR 10.4 million. This does not include any relevant purchased services.

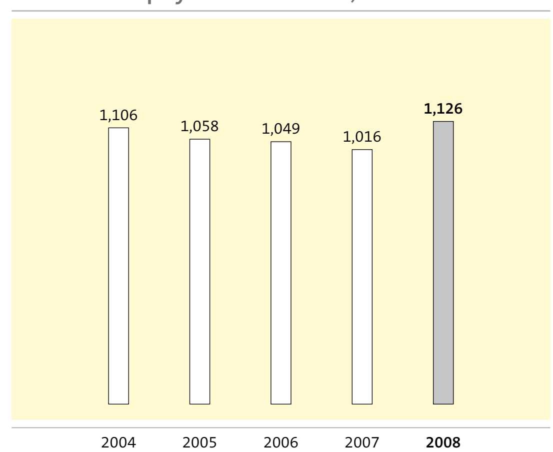
The primary R&D objectives for 2008 were:

- The Russian version of the electrical network control system
- The new electricity and gas energy trading system
- The new PSIpenta country-specific versions for distributed worldwide installations
- New products supporting value-added services such as conference calling and secure wireless messaging
- Expansion of the depot management systems to include planning and operational optimization functions
- The group-wide standardization of user interfaces and system components.

EMPLOYEES

For a specialized software provider like PSI, having highly qualified and motivated staff members provides a critical competitive advantage. For this reason, PSI has for many years employed a high percentage of university graduates with specialist industry knowledge. The number of employees with university degrees exceeds 80 %, most of whom have engineering backgrounds.

Number of employees rises to over 1,100



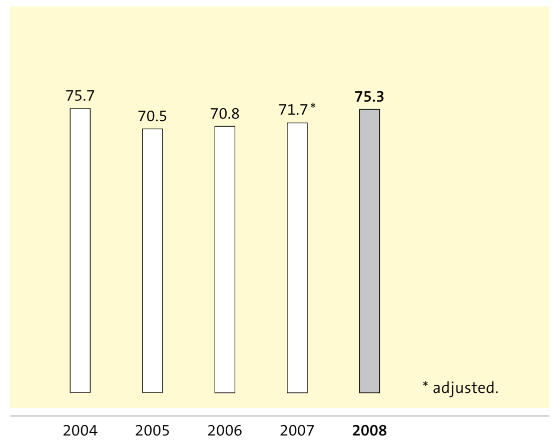
As in previous years, in 2008 employees held a significant portion of PSI free float, 5.41 % of whom belongs to the employee shareholder pool. Additionally, PSI employees have been receiving increasing incentives in the form of variable compensation components. This promotes entrepreneurial thinking and a high level of commitment on all levels.

Personnel development and qualification in 2008 again focused on training employees for an internationalized PSI, and specialist training of new employees at international locations and locations in Germany. PSI highly values language skills among its new recruits who are critical for expanding the export business. Standardization within the Group and the bundling of general development topics were further advanced through Group-wide workgroups on technology, infrastructure, maintenance, quality management, controlling and marketing.

The workforce increased in size by 110 in 2008 to 1,126 employees. Fifty of these came to PSI in acquisitions, in addition to hiring at the Group's subsidiaries in Russia and Poland. Energy Management numbered 454 employees, Production Management 546, and Infrastructure Management 126.

At EUR 75.3 million, personnel expenditures were up 5 % versus the previous year's figure of EUR 71.7 million, in line with rising revenue. With increasing direct service providing in export nations China, Poland and Russia, average per-personnel expenditures are close to the industry average.

Employee costs higher in EUR million



Structure and organization

The structure of the PSI Group changed in 2008 through the establishment of our Russian subsidiary OOO PSI and the acquisitions of FLS FUZZY Logik Systeme GmbH and 4Production Holding GmbH. All three companies are part of the Production Management segment.

Group structure on Dec 31, 2008

Energy Management		Production Management		Infrastructure Management	
PSI AG Electrical Energy Gas/Oil		PSI Production GmbH	100 %	PSI Transcom GmbH	100 %
Nentec GmbH	100 %	PSIPENTA GmbH	100 %	PSI Sp. z o.o. (Poland)	100 %
PSI Büsing & Buchwald GmbH	100 %	PSI BT GmbH	100 %		
PSI CNI GmbH	100 %	PSI Information Technology Co. Ltd. (China)	100 %		
PSI Energo LLC. (Russia)	24.9 %	4Production Holding GmbH	100 %		
		PSI Logistics GmbH	100 %		
		PSI AG (Switzerland)	100 %		
		FLS GmbH	100 %		
		OOO PSI (Russia)	100 %		

In accordance with Article 8 of the Articles of Association, the Supervisory Board appoints the members of the Board of Directors and determines 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 percentage of performance-related components is specified by the Supervisory Board on the basis of the company's business results, applying due discretion. The Supervisory Board may also approve a reasonable one-time bonus for exceptional performance.

Supervisory Board remuneration does not include performance-related components. It involves a basic remuneration component and a component linked to meeting attendance.

In accordance with Article 11 of the Articles of Association, the Supervisory Board is authorized to make changes and amendments to Articles of Association relating only to its version. Otherwise, the Articles of Association may be amended by the Annual General Meeting with a three-quarters majority of voting share capital present, in accordance with Article 179 German Stock Corporation Act.

The company has no significant agreements in place contingent upon a change of control resulting from a takeover bid. The company has no compensation agreements with members of the Board of Directors or with employees in place for the contingency of a takeover bid. Reference is made to applicable law.

Special events during the fiscal year

In a contract signed May 19, 2008, PSI acquired a 100 % stake in FLS FUZZY Logik Systeme GmbH headquartered in Dortmund. FLS specializes in software systems for intelligent decision-making support and process optimization; its customers include prominent firms in the automotive and mechanical engineering industries.

In a contract signed August 11, 2008, PSI acquired a 100 % stake in 4Production Holding GmbH headquartered in Würselen. 4Production is a leading metals supply chain consultant and provider of production management solutions for the aluminum and copper industries.

On June 5, 2008 PSI AG and a Russian partner founded PSI Energo LLC., Moscow, Russia, in which PSI holds a 24.9 % stake. This company was established to build up a distribution structure.

The company OOO PSI headquartered in Moscow, Russia, was founded on June 23, 2008, to service Russian customers and partners and assist in implementing PSI Group solutions within the Russian Federation.

EVENTS AFTER THE BALANCE SHEET DATE

PSI CNI GmbH was merged into PSI AG effective January 31, 2009, simplifying the structure of the PSI Group.

In February 2009 PSI acquired a 25 % stake in caplog-x GmbH headquartered in Leipzig. caplog-x is a new energy data management company active in the deregulated gas market, owned by VNG-Erdgascommerz GmbH and PSI AG.

RISK REPORT

PSI risk policy is designed to ensure the long-term success of the Company. Policy is founded upon the effective identification and assessment of business risks in order to avert or contain these through suitable countermeasures.

PSI has identified the following risks, which are tracked by the early warning system:

- Market: Insufficient incoming orders or order backlog
- Employees: Too little availability of the necessary qualifications
- Liquidity: Adverse payment conditions and inadequate credit lines
- Costs and income: Deviation from projections, particularly in project execution and development.

Risk management policy governs

- Risk strategy:
  Explicit principles for minimizing primary risks and general risk management guidelines
- Risk management organization:
  Responsibilities on the various management levels and for the relevant controllers
- Risk recognition, control and monitoring:
  Risk identification instruments and monitoring metrics
- Risk management system:
  Use of Group-wide Professional Services Automation (PSA) solution.

Supplemental project risk management policies have been in place since 2005. These govern the risk management in a project context, including the identification, documentation, analysis and evaluation of risks as well as planning, specifying and monitoring measures for minimizing project-related risks. In particular, this concerns measures for limiting project pre-financing.

The Professional Services Automation (PSA) solution, featuring an integrated Management Information System (MIS), is a standardized information and control instrument for all levels of the Group. Regular MIS reports, which are generally created monthly, provide risk parameter data on:

- Order situation and capacity utilization
- Liquidity planning
- Assets and financial situation
- Forecast of key economic factors
- Sales forecast and market changes
- Project controlling and contract management.

Risk and opportunity analysis

PSI's risk profile further improved in 2008 through rising exports, local-market production (natural hedging), preproduction in low-cost neighboring countries (near-shoring) and platform convergence effects. Simultaneously, new risks arose in connection with the economic downturn and financial crisis.

Opportunities and risks by segment

In **Energy Management** our dependency on the German market was reduced through further international distribution successes, including big orders from Russia and Thailand. In the German-speaking home market, PSI consolidated its excellent position with major contracts from existing customers. Being countercyclical, utilities preserve growth opportunities for PSI even when the economy is contracting. Demand for reliable and efficient energy infrastructure will continue to rise, especially in Eastern Europe and Asia. The international expansion of the major German utilities holds additional potential, which for many years have relied on PSI control system solutions. At the same time, the need for pre-financing and guarantees is increasing as our international business grows.

The political debate regarding the further deregulation of the European energy markets may create uncertainty on the part of market participants, leading to delays in capital expenditure. PSI would be sharply affected by market weakness of this sort, in view of a continuing high degree of dependency of the German market.

On the other hand, the convergence of the electricity and gas markets in Europe presents new opportunities for PSI, due to the capital investments required. Large export projects involve inherent execution risk due to reliance on local partners, their level of experience, conflicting ideas of quality and standards, and even shifting customer policies in some cases.

Partnerships concluded over the last two years in Russia, Malaysia and the Czech Republic increase our distribution reach, and thus sales opportunities for PSI products. Yet they also bring new dependencies.

In **Production Management,** PSI made excellent progress in internationalizing the business, primarily in Metals. The acquisition of 4Production and continued orders from China, Russia, France, Canada and Brazil strengthened PSI's position as the world's leading specialized software provider in this area. The present decline in the global steel industry poses a risk for PSI, although revenue dependency on specific regions has been reduced relative to the previous year. PSI additionally contains risk by concentrating on the regions that continue to grow economically, and on less cyclical sub-segments of the steel industry. Another risk lies in persistent cultural differences with Eastern Europe in terms of ideas of quality and brand protection.

In 2008 the logistics sub-segment again profited from orders from Russia and Poland, and growth in Eastern Europe. In the home market, PSI concentrated increasingly on logistics solutions for complex situations, characterized by short amortization periods. We also received orders in connection with major rationalization programs and in the area of consumer goods logistics. Competition is intensifying between PSI and Eastern European providers in the export business, which we have responded to by utilizing Eastern European personnel, which now account for 15 % in the logistics sub-segment. There are additional opportunities for PSI Logistics through expansion of air cargo logistics in the airport segment. These opportunities must be seen however in context with inherent operating costs and risks.

ERP subsidiary PSIPENTA posted higher earnings again in 2008, benefiting from a strict concentration on mechanical engineering, plant construction and auto manufacturing. Being focused on the SME market, PSIPENTA is nonetheless dependent on the prevailing capital investment climate in the mid-sized business sector. Incoming orders thus could suffer if the domestic economy becomes mired in a protracted slump. This risk is partially contained by concentrating on long-term projects in less cyclical sub-segments like special equipment and rail transport vehicles. In 2008 PSI Production, reorganized one year ago, completed its first pilot projects in the resource extraction sub-segment, receiving the series production contract. This new solution has outstanding export prospects, to China especially, though these too must be seen in context with costs and risks of market entry.

In **Infrastructure Management** the sub-segments transport and traffic systems and telecommunications performed better in 2008 than in the previous year. Both segments are non-cyclical, and potentially able to benefit from the upgrading of public infrastructure announced in late 2008. Above all, the main risks confronting PSI stem from much larger competitors. At the same time, PSI has opportunities in investment by wireless network operators in mobile data services like message routing and mobile conference calling. The workforce of PSI Poland, which is part of this segment, has now grown to 35. The company has proven valuable for preproduction, but also has generated orders from Polish logistics customers, and anticipates orders from energy suppliers in 2009.

Opportunities and risks of internationalization

Internationalization plans were driven forward in 2008, centering on Russia, to reduce dependency on the domestic market. There are untapped opportunities in several growth markets, thus PSI is concentrating on Eastern markets for export, where the core energy, manufacturing/logistics and infrastructure markets are rapidly expanding. With its company headquarters in Berlin, PSI is particularly well-positioned to export to markets in the East. However, this expansion involves additional risks, such as dependency on international partners, exchange rates and legal systems. Further expanding international activities diversifies opportunities and risks over a wider area.

Opportunities and risks of new products and technologies

In 2008 PSI kept up investment in new product versions and expansions to heighten competitiveness. At the same time, product platforms and components are being merged in a PSI-wide convergence process so as to profit from volume production. PSI Group income and liquidity depends primarily on the market success of new products, and the mastering of newly developed technology.

Financial risks

PSI primarily uses trade receivables, liquid funds, liabilities to banks and guarantees as instruments to finance the operating business. The most important risks in this respect are default risk, liquidity risk and market value risk. Default and liquidity risks are managed using credit lines and control procedures. For PSI, there is no concentration of default risk among individual contractual partners or groups thereof. 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 euros. Depreciation pressure is anticipated among Eastern countries to which we export, due to capital outflows resulting from the financial crisis. The carrying amount of Group financial instruments not recognized on the balance sheet at market value is very close to the market value due to their short-term durations. Market value risk is thus minimal.

Employees

We are successful at recruiting qualified employees with sophisticated skills, integrating and retaining them at our company for a long time. Our fluctuation level is low. We will continue aligning our remuneration structure around performance and results. With the freezing of pension provisions at the end of 2006, all future benefits were rendered defined, direct salary components.

Future risks

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

OUTLOOK

Conditions are still good in 2009 for further profitable growth despite the economy, as PSI booked EUR 152 million in incoming orders in 2008, 18 % more than revenue for the year. Order backlog increased to a record high of EUR 101 million at year-end. The operating result of EUR 6.2 million came in substantially above the estimate for the year. PSI made further gains in Energy and Production Management in both the domestic and international markets, seeing stable growth of our business because of our having realigned in recent years to concentrate on the fast-growing Asian and Eastern European markets.

The German and European economies are expected to be weak in 2009. The economies of China, Poland, the Czech Republic, Slovakia and Russia are still projected to grow, though at a slower pace. Our specialized solutions for energy providers, manufacturing/logistics and transport infrastructure are highly attractive for these countries in particular. We intend to continue profiting in these areas, so that international comprises 50 % of our business over the next five years. Even with stagnation of the home markets of German-speaking Europe, we thus still expect our growth targets to be obtainable.

To achieve this end, we will continue pursuing our focus and internationalization strategy. We anticipate double-digit growth in the new business segments we are entering in China, Poland and Russia starting in 2010. The expansion of our network of partners in 2008 consolidated our presence in growth regions.

Internationalization objectives include increasing product and license sales relative to domestic market sales. These efforts will be enhanced by continuing to invest in product platform convergence. We will be systematically adding to the portfolio and further enhancing efficiency. In this manner we will lay the foundation for achieving double-digit earnings growth.

Over the next two years, we foresee further revenue and earnings growth, particularly in the counter-cyclical Energy Management segment. In Production Management we intend to pick up market share over the next several years, so as to emerge from this crisis period stronger than before. We predict increased public spending on infrastructure over the next two years to benefit Infrastructure Management in the form of organic growth and rising earnings. We project consolidated revenue, which lags incoming orders by roughly twelve months, to rise to around EUR 140 million in 2009. Over the next four years we plan to boost operating margin to over 10 %; for 2009 our target is for an operating result of around EUR 7.5 million. To achieve these targets, we will continue investing in our product base and the internationalization of our core business.

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

Consolidated Balance Sheet

dated December 31, 2008 (IFRS)

ASSETS	Note	Jan 1 – Dec 31, 2008 EUR K	Jan 1 – Dec 31, 2007 EUR K
Non-current assets			
Property, plant and equipment	C. 1	8,002	7,745
Intangible assets	C. 1	18,658	15,030
Investments in associates		0	0
Other financial assets	C. 2	0	20
Deferred tax assets	C. 13	2,373	3,642 *
		29,033	**26,437**
Current assets			
Inventories	C. 3	1,681	990
Trade receivables, net	C. 4	23,253	22,255
Receivables from long-term development contracts	C. 5	22,636	19,130
Other assets	C. 6	2,365	2,790
Cash and cash equivalents	C. 7	23,650	18,948
		73,585	**64,113**
		102,618	**90,550**

* Previous-year figures adjusted. See C. 9 and C. 13 of Notes on the Consolidated Financial Statements.

TOTAL EQUITY AND LIABILITIES	Note	Jan 1 – Dec 31, 2008 EUR K	Jan 1 – Dec 31, 2007 EUR K
Shareholders' equity			
Subscribed capital	C. 8	30,464	31,009
Capital reserves	C. 8	31,642	31,772
Retained earnings		0	0*
Reserve for Treasury stock		–26	0
Other reserves		275	–582*
Accumulated losses		–28,632	–32,772*
		33,723	**29,427**
Non-current liabilities			
Pension provisions	C. 9	26,653	27,391*
Deferred tax liabilities	C. 13	2,164	1,990
		28,817	**29,381**
Current liabilities			
Trade payables		9,558	9,386
Other liabilities	C. 12	18,113	14,291
Liabilities from long-term development contracts	C. 5	11,126	6,685
Financial liabilities	C. 10	341	305
Provisions	C. 11	940	1,075
		40,078	**31,742**
		102,618	**90,550**

Consolidated Income Statement

for fiscal year 2008 (IFRS)

	Note	2008 EUR K	2007 EUR K
Revenue	D. 14	128,851	123,184
Other operating income		2,449	3,183
Increase/decrease in inventories and work in progress		–48	–72
Cost of materials	D. 15	–22,142	–25,646
Personnel expenses	D. 16	–75,331	–71,745 *
Depreciation and amortization	D. 17	–2,638	–3,119
Other operating expenses	D. 18	–24,911	–21,720
Operating result		**6,230**	**4,065**
Interest income		682	459
Interest expense		–1,632	–1,583
Profit before taxes		**5,280**	**2,941**
Taxes on income	C. 13	–1,140	–1,074 *
Consolidated net profit		**4,140**	**1,867**
Group earnings per share in EUR (basic and diluted)	D. 19	**0.34**	**0.15 ***
Average shares outstanding (thousand)	D. 19	**12,082**	**12,113**

* Previous-year figures adjusted. See D. 16, C. 13 and D. 19 of Notes on the Consolidated Financial Statements.

Consolidated Cash Flow Statement

for the period January 1 to December 31, 2008 (IFRS)

	2008 EUR K	2007 EUR K
1. Cash flow from operating activities		
Consolidated net loss before tax	**5,280**	**2,941 ***
Adjustment for non-cash expenses		
Amortization of intangible assets	992	1,498
Depreciation of property, plant and equipment	1,617	1,458
Income/losses from the disposal of assets	33	22
Interest income	–682	–459
Interest expense	1,632	1,583
Foreign exchange profit/loss	–148	63
Other non-cash income/expenses	0	–1,336
	8,724	**5,770**
Change in working capital		
Changes in inventories	712	747
Changes in trade receivables	–4,225	–5,587
Changes in other assets	1,136	–1,203
Changes in provisions	–1,286	–990 *
Changes in trade payables	–12	1,058
Changes in other liabilities and deferred taxes	5,705	3,478
	10,754	**3,273**
Interest paid	–90	–96
Income taxes paid	–771	–137
Cash flow from operating activities	**9,893**	**3,040**
2. Cash flow from investment activities		
Additions to intangible assets	–338	–176
Additions to property, plant and equipment	–1,792	–1,415
Additions to financial assets	0	–20
Disposals of subsidiaries, minus cash disposed	–3,098	0
Disposals of subsidiaries, minus cash disposed	0	1,563
Disposals of property, plant and equipment	0	28
Disposals of financial assets	20	69
Interest received	682	457
Cash flow from investment activities	**–4,526**	**506**
3. Cash flow from financing activities		
Outflows for share buybacks	–701	0
Inflows from current financial liabilities incurred	36	62
Cash flow from financing activities	**–665**	**62**
4. Cash and cash equivalents at end of period		
Change in cash and cash equivalents	4,702	3,608
Cash and cash equivalents at beginning of period	18,948	15,340
Cash and cash equivalents at end of period	**23,650**	**18,948**

* Previous-year figures adjusted. See D. 16, C. 13 and D. 19 of Notes on the Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

for 2008 (IFRS)

	Subscribed capital EUR K	Capital reserves EUR K	(adjusted) Retained earnings EUR K
Note	C. 8	C. 8	
Balance at December 31, 2006	**31,009**	**31,772**	**0**
Consolidated net profit			
Actuarial gains			
Reduction in pension liabilities through sale of subsidiaries			
Deferred taxes			
Currency translation			
Total income taken directly to equity			
Net profit/loss for the period			
Balance at December 31, 2007	**31,009**	**31,772**	**0**
Consolidated net profit			
Actuarial gains			
Deferred taxes			
Currency translation			
Total income taken directly to equity	0	0	
Net profit/loss for the period	0	0	
Share buybacks			
Share withdrawal	–545	–130	
Total capital transactions	–545	–130	
Balance at December 31, 2008	**30,464**	**31,642**	**0**

* Previous-year figures adjusted. See C. 9 and C. 13 of Notes on the Consolidated Financial Statements.

Reserve for Treasury stock EUR K	(adjusted) Other reserves EUR K	(adjusted) Accumulated losses EUR K	(adjusted) Total EUR K
0	**–2,971**	**–34,639**	**25,171**
		1,867	1,867
	3,851		3,851
	300		300
	–1,825		–1,825
	63		63
	2,389		2,389
	2,389	1,867	4,256
0	**–582**	**–32,772**	**29,427**
		4,140	4,140
	1,432		1,432
	–427		–427
	–148		–148
0	857		857
0	857	4,140	4,997
–701			–701
675			0
–26			–701
–26	**275**	**–28,632**	**33,723**

Consolidated Segment Reporting

2007 and 2008 (IFRS)

	Energy Management		Production Management	
	Dec 31, 2008 EUR K	Dec 31, 2007 EUR K	Dec 31, 2008 EUR K	Dec 31, 2007 EUR K
Revenue				
External revenue	55,124	51,745	57,706	51,609
Inter-segment revenue	1,153	326	2,029	1,449
Total revenue	**56,277**	**52,071**	**59,735**	**53,058**
Other income	4,344	3,861	3,793	3,496
Changes in finished goods and work in progress	0	0	–48	–80
Cost of purchased services	–3,441	–2,989	–6,091	–6,197
Costs of purchased goods	–6,650	–7,277	–3,105	–1,991
Personnel expenses	–32,795	–31,700	–34,679	–30,975
Depreciation and amortization	–1,378	–1,390	–930	–985
Other operating expenses	–12,744	–10,017	–15,948	–14,635
Segment operating result before depreciation/amortization	**4,991**	**3,949**	**3,657**	**2,676**
Segment operating result	**3,613**	**2,559**	**2,727**	**1,691**
Financial result	–659	–423	–346	–466
Segment result	**2,954**	**2,136**	**2,381**	**1,225**
Investments in associates carried at-equity	**0**	**0**	**0**	**0**
Segment assets	**42,801**	**42,199**	**46,400**	**33,436**
Segment liabilities	**19,348**	**18,392**	**30,135**	**22,331**
Segment investments	**669**	**616**	**5,092**	**381**

* Previous-year figures adjusted. See C. 9 and C. 13 of Notes on the Consolidated Financial Statements.

Infrastructure Management		Reconciliation		PSI Group	
Dec 31, 2008 EUR K	**Dec 31, 2007 EUR K**	**Dec 31, 2008 EUR K**	**Dec 31, 2007 EUR K**	**Dec 31, 2008 EUR K**	**Dec 31, 2007 EUR K**
16,021	19,830	0	0	128,851	123,184
1,368	2,196	−4,550	−3,971	0	0
17,389	**22,026**	**−4,550**	**−3,971**	**128,851**	**123,184**
613	2,046	−6,301	−6,220	2,449	3,183
0	8	0	0	−48	−72
−2,287	−2,074	2,197	1,407	−9,622	−9,853
−3,657	−7,639	892	1,114	−12,520	−15,793
−7,553	−9,262	−304	192	−75,331	−71,745*
−290	−724	−40	−20	−2,638	−3,119
−3,730	−3,873	7,511	6,805	−24,911	−21,720
775	**1,232**	**−555**	**−673**	**8,868**	**7,184**
485	**508**	**−595**	**−693**	**6,230**	**4,065**
55	−235	0	0	−950	−1,124
540	**273**	**−595**	**−693**	**5,280**	**2,941**
0	**0**	**0**	**0**	**0**	**0**
11,186	**10,966**	**−142**	**307**	**100,245**	**86,908**
10,344	**9,903**	**6,602**	**8,423**	**66,429**	**59,049***
165	**207**	**601**	**387**	**6,527**	**1,591**

Schedule of Changes in Intangible Assets and Property,

2007
(IFRS)

	Costs of acquisition/production				
	Jan 1, 2007 EUR K	**Additions EUR K**	**Disposals EUR K**	**Disposal through sale of 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 equipment	9,457	1,043	1,389	80	9,031
3. Operating and 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**

2008
(IFRS)

	Costs of acquisition/production				
	Jan 1, 2008 EUR K	**Additions from corporate acquisitions EUR K**	**Additions EUR K**	**Disposals EUR K**	**Dec 31, 2008 EUR K**
I. Intangible assets					
1. Other intangible assets	9,812	1,036	338	1,540	9,646
2. Goodwill	15,174	3,253	0	0	18,427
3. Capitalized software development costs	1,696	0	0	0	1,696
	26,682	**4,289**	**338**	**1,540**	**29,769**
II. Property, plant and equipment					
1. Land and buildings	12,490	0	300	30	12,760
2. Computers and equipment	9,031	70	1,129	1,360	8,870
3. Operating and office equipment	4,771	38	363	742	4,430
	26,292	**108**	**1,792**	**2,132**	**26,060**
	52,974	**4,397**	**2,130**	**3,672**	**55,829**

Plant and Equipment

Accumulated amortization/depreciation					Net carrying amount	
Jan 1, 2007 EUR K	Additions EUR K	Disposals EUR K	Disposal through sale of 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**

Accumulated amortization/depreciation				Net carrying amount	
Jan 1, 2008 EUR K	Additions EUR K	Disposals EUR K	Dec 31, 2008 EUR K	Dec 31, 2008 EUR K	Dec 31, 2007 EUR K
7,698	992	1,533	7,157	2,489	2,114
2,258	0	0	2,258	16,169	12,916
1,696	0	0	1,696	0	0
11,652	**992**	**1,533**	**11,111**	**18,658**	**15,030**
6,790	397	30	7,157	5,603	5,700
7,662	951	1,353	7,260	1,610	1,369
4,095	269	723	3,641	789	676
18,547	**1,617**	**2,106**	**18,058**	**8,002**	**7,745**
30,199	**2,609**	**3,639**	**29,169**	**26,660**	**22,775**

Notes on the Consolidated Financial Statements

PSI AKTIENGESELLSCHAFT FÜR PRODUKTE UND SYSTEME DER INFORMATIONSTECHNOLOGIE, BERLIN, AT DECEMBER 31, 2008

A. GENERAL COMPANY INFORMATION

The parent of the PSI Group is PSI Aktiengesellschaft für Produkte und Systeme der Informationstechnologie (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 dated December 31, 2008 and the Consolidated Management Report for the 2008 financial year dated February 12, 2009, submitting these to the Supervisory Board for approval on February 16, 2009.

The operations of the PSI Group encompass the production and distribution of software systems and products that meet the special needs and requirements of customers active 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 also provides the full range of data processing services, distributes electronic equipment and operates data processing systems.

The PSI Group is organized into three main areas of business (segments): Energy Management, Production Management and Infrastructure Management. See section F. regarding 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 ACCOUNTING AND VALUATION PRINCIPLES AND FINANCIAL RISK MANAGEMENT METHODS

Reporting principles

The PSI Group consolidated financial statements are prepared based on historical cost. Excepted from this are available-for-sale financial assets carried at fair value.

The PSI Group consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as applicable 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

With the exception of the measurement of pension provisions, the same accounting and valuation principles were applied as last year. The PSI Group has applied the new and revised standards obligatory for financial years starting on or after January 1, 2008, listed below. The application of these standards did not require any additional details to be provided in the Notes to the Consolidated Financial Statements, and had no other impact on the Group's net assets, financial position or results of operations.

IFRIC 11 (IFRS 2)
"Group and Treasury Share Transactions"
The PSI Group applied IFRIC interpretation 11 in regard to consolidated financial statements. According to this interpretation, agreements that 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. The PSI Group has adjusted its application of accounting and valuation principles accordingly. The PSI Group has not issued any instruments falling under the scope of this interpretation.

IFRIC 12 "Service concession agreements"
IFRIC 12, issued by the IFRIC in November 2006, governs accounting for service concession agreements by the concession operators in view of the obligations and rights entailed. This interpretation has no impact on the PSI Group, as the Group holds no concessions.

IFRIC 14 (IAS 19) "The limit on a defined benefit asset, minimum funding requirements and their interaction"
IFRIC interpretation 14 provides guidelines for determining the maximum overfunding of defined benefit plans recognizable as an asset IAS 19 "Employee benefits". The PSI Group has adjusted its application of accounting and valuation principles accordingly. The application of this interpretation has no effect on the PSI Group's net assets, financial position or results of operations, as Group defined benefit pension plans do not have recognizable assets/minimum funding requirements.

IFRS 2 "Share-based payment"
In January the IASB issued an amendment to IFRS 2 further specifying exercise terms and the accounting treatment of effectively annulled benefits. The PSI Group opted for early adoption of this amendment effective January 1, 2008. This had no effect on the Group's net assets, financial position or results of operations, as no events occurred falling under the scope of this new rule.

Amendments IAS 39 and IFRS 7
"Reclassification of financial assets"
In November 2008 the IAS B issued amendments to IAS 39 and IFRS. These amendments implemented in view of the financial crisis allow reclassifying certain financial assets as "held-to-maturity" or "available-for-sale" per IAS 39. The Group does not hold any financial assets to which these rules would apply.

Effects of new accounting standards not yet applicable

The PSI Group did not opt for early application of the following IAS/IFRS rules and interpretations becoming mandatory next fiscal year:

IAS 23 "Borrowing costs" (revised)
In April 2007, the IASB issued an amendment to IAS requiring borrowing costs to be capitalized directly attributable to the purchase, construction or production of a qualifying asset. Previously, the Group charged borrowing costs to income in the period of accrual. The PSI Group is required to apply the standard prospectively under the transition rules for the IAS 23 amendment. Accordingly, borrowing costs associated with qualifying assets recognizable on or after January 1, 2009 will be capitalized. No changes to the consolidated financial statements result from past borrowing costs expensed immediately against income.

IFRIC 13 "Customer loyalty programs"
The IFRIC interpretation IFRIC 13, issued June 2007, provides that customer loyalty credits are to be accounted for separately with respect to the sales activity in connection with which they were granted. A portion of the fair value of consideration received is classified as accrued credits and deferred. This portion is then recognized as income in the reporting period in which the loyalty credits are redeemed. The PSI Group is not aware of any programs in place to which IFRIC 13 would apply.

Amendments to IFRS 1 "First-Time Adoption of International Financial Reporting Standards" and IAS 27 "Consolidated and Separate Financial Statements under IFRS".

The IFRS 1 amendments allow companies to carry investments in subsidiaries, joint ventures or associates at purchase cost in their IFRS opening balance, in line with IAS 27, or at amounts reported or fair value applicable under earlier accounting rules in lieu of cost of purchase (deemed cost). The IAS 27 amendment requires that all dividends of subsidiaries, joint ventures or associates must be recognized income in the separate financial statements. Both amendments are applicable for fiscal years starting on or after January 1, 2009. The IAS 27 amendment is applicable prospectively. The new requirements apply exclusively to the separate financial statements of the parent company, having no effect on the consolidated financial statements.

IAS 1 "Presentation of financial statements" (amended):

This amended standard was announced in September 2007 and is applicable for the first time starting with fiscal years beginning on or after January 1, 2009. The standard requires separate presentation of changes in equity resulting from transactions with shareholders in their capacity as investors as well as other changes in equity. The statement of changes in shareholders' equity is to break down all relevant details concerning transactions with shareholders, while all other changes in equity are to be presented in a single line. The standard also introduces the presentation of comprehensive income for the period, in which all income items are either presented in a single schedule or in two related schedules. The Group has not yet decided whether to present comprehensive income for the period in one or two schedules.

IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – puttable financial instruments and obligations arising on liquidation

These amendments to IAS 32 and IAS 1 were announced in February 2008 and are applicable for the first time for fiscal years beginning on or after January 1, 2009. The revisions provide for a few exceptions permitting the classification of puttable financial instruments as equity when specific conditions are met. The amended standards will have no effect on net assets, financial position or results of operations, as the Group has not issued any such instruments.

Improvements to IFRS 2008

In May 2008 the Board issued a first-ever collective standard amending various different IFRS standards in a move designed primarily to eliminate inconsistencies and clarify wording. Specific transition rules apply for each standard. The PSI Group has not opted for early adoption of any standards, and does not anticipate any changes due to first-time adoption.

IAS 39 "Financial instruments: recognition and measurement" qualifying exposures

These amendments to IAS 39 were announced in August 2008, and are applicable for the first time for fiscal years beginning on or after July 1, 2009. The amendment specifies how hedge accounting rules in IAS 39 apply to the designation of one-sided risk in a hedged item and the designation of inflation risks as hedged items. The permissibility is upheld in only a portion of fair value changes or cash flow fluctuations of a financial instrument being designated as a hedged item. The amendment is not expected to have an effect on net assets, financial position or results of operations, as the Group has not effected any such transactions.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"

IFRIC 16 was announced in July 2008, and is applicable for the first time for fiscal years beginning on or after October 1, 2008. The interpretation is applicable prospectively. IFRIC 16 outlines rules for accounting for net investment hedges. The interpretation outlines rules concerning the identification of foreign currency risks hedgeable through net investment hedges, criteria for group companies holding net investment hedging instruments and how foreign currency gains and losses from the net investment and hedging instrument are to be determined that are reclassifiable upon sale of the net investment. The Group is currently reviewing which accounting and valuation principles apply for reclassification upon sale of a net investment.

Important judgments and estimates

In applying accounting principles, management has made no discretionary judgments having a material effect on the amounts presented in the financial statements. The most important forward-looking assumptions, and any material causes of uncertainty concerning estimates as of the reporting date, involving a considerable risk of substantial restatement of the carrying amounts of assets or liabilities in the next reporting period, are presented below.

Impairment of non-current assets

The PSI Group tests for the impairment of non-current assets on an annual basis, in line with IAS 36. Impairment testing is based on future cash flows generated by individual assets or groups of assets combined into cash-generating units. Goodwill reported by the PSI Group is a significant non-current asset subject to annual impairment testing. See note C. 1 for further details regarding impairment testing. The carrying amount of tested non-current assets is EUR 16,169k as at December 31, 2008 (previous year: EUR 12,916k).

Project accounting

The PSI Group realizes revenue based on estimated project performance. Performance estimates are made based on an estimated hourly volume or contractual milestones, and are updated continually. See Note C. 5 for further information on realized project revenue not yet invoiced. At December 31, 2008 realized income from ongoing projects totaled EUR 6,006k (previous year: EUR 6,848k).

Deferred tax assets

Deferred tax assets are recognized for all unused tax losses and temporary accounting differences to the extent likely or that there are objective indications that taxable income will be generated so that the losses can actually be used. Significant deferred tax assets have furthermore been recognized in the 2005 to 2008 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 accrual and the amount of the income to be taxed in future, in view of tax planning strategy (timing of taxable income accrual, consideration of tax risks etc.). At December 31, 2008 capitalized tax loss carryforwards totaled EUR 0k (2007: EUR 404k), uncapitalized tax loss carryforwards totaled EUR 74,485k (2007: EUR 81,875k). Deferred tax assets arising from temporary accounting differences totaled EUR 2,373k at December 31, 2008 (2007: EUR 3,642k); deferred tax liabilities totaled EUR 2,164k (2006: EUR 1,990k). See note C. 13. for further details.

* adjusted.

Pensions and other post-employment benefits

Post-employment expense from defined benefit plans is determined on the basis of actuarial calculations. Actuarial calculation involves assumptions pertaining 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. Provisions for pensions and similar obligations totaled EUR 26,653k at December 31, 2008 (2007: EUR 27,391k*). See note C. 9 for further details.

Principles of consolidation

a) Subsidiaries

The consolidated Group financial statements encompass PSI AG and the companies it controls. A control relationship typically exists when PSI AG directly or indirectly holds over 50 % of the voting rights on the subscribed capital of a company, and can influence a company's financial and business policy in such a way that PSI AG profits from its activities.

The purchase method is applied for the accounting of corporate acquisitions in accordance with IFRS 3. 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.

Acquisition premiums paid in excess of the fair value of identifiable assets and liabilities on the acquisition transaction date are recognized as goodwill, an asset. Identifiable assets and liabilities are carried at fair value as of the acquisition date.

There were no significant changes among fully consolidated companies in fiscal year 2008 other than the acquisitions listed below. Accordingly, 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 für Industries GmbH (‘PSI BT’),
- PSI Transcom GmbH (‘PSI Transcom’),
- PSI AG für Produkte und Systeme der Informationstechnologie, 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’)
- PSI Information Technology Shanghai Co. Ltd. (‘PSI China’),
- 4Production Holding GmbH (‘4Production’),
- FLS FUZZY Logik Systeme GmbH (‘FLS’),
- OOO “PSI” (‘PSI Russia’)

PSI AG exercised the option to no longer include in the Notes to the Consolidated Financial Statements disclosures required by Article 313 (4) of the HGB (share ownership schedule). These disclosures are instead to be provided in a separate schedule filed with the commercial register.

Changes to scope of consolidation

In a contract signed August 11, 2008, a 100 % stake was acquired in 4Production Holding GmbH headquartered in Würselen. The company reported assets of EUR 3,159k and liabilities of EUR 2,597k as of the acquisition date. Net assets (at carrying amount) thus totaled EUR 562k, which is the dual entry for the acquisition cost. The resulting difference is allocated to intangible assets with limited useful life and goodwill.

The purchase and sale contract includes a variable price component, the amount of which the Company believes cannot be reliably estimated as of the reporting date due to uncertainty.

The table below provides a preliminary view of acquisition cost broken down by the market value of assets and liabilities acquired.

	Carrying amount before acquisition EUR K	Adjustment amount EUR K	Carrying amount after acquisition EUR K
Non-current assets			
Property, plant and equipment	102	0	102
Other intangible assets	9	689	698
Goodwill	0	2,911	2,911
Current assets			
Inventories	1,273	0	1,273
Trade receivables	103	0	103
Other assets	47	0	47
Cash and cash equivalents	1,625	0	1,625
Liabilities			
Liabilities with banks	203	0	203
Deferred tax liabilities	0	206	206
Trade payables	156	0	156
Other liabilities	722	0	722
Liabilities from long-term development contracts	1,516	0	1,516
Net assets	**562**	**3,394**	**3,956**

Hidden reserves are recognizable for the acquired customer base and for products, having an estimated useful life of 10 and 7 years respectively. Goodwill is recognized reflecting the present earnings outlook for 4Production.

From the initial consolidation date through the reporting date, 4Production contributed EUR 2,020k to consolidated revenue and EUR 220k to the Group net profit/loss. If included in the PSI Group consolidated financial statements as of January 1, 2008, consolidated revenue would have totaled EUR 131,361k and the Group net profit/loss EUR 4,315k.

In a contract signed May 19, 2008, a 100 % stake was acquired in FLS FUZZY Logik Systeme GmbH headquartered in Dortmund. The company reported assets of EUR 875k and liabilities of EUR 603k as of the acquisition date. Net assets (at carrying amount) thus totaled EUR 272k, which is the dual entry for the acquisition cost. The resulting difference is allocated to intangible assets with limited useful life and goodwill.

The purchase and sale contract includes a variable price component, which resulted in a retroactive acquisition price adjustment of EUR 45k. The Company remitted this amount to the seller in January 2009.

The table below provides a preliminary view of acquisition cost broken down by the market value of assets and liabilities acquired:

	Carrying amount before acquisition EUR K	Adjustment amount EUR K	Carrying amount after acquisition EUR K
Non-current assets			
Property, plant and equipment	6	0	6
Other intangible assets	2	336	338
Goodwill	0	297	297
Current assets			
Inventories	130	0	130
Trade receivables	176	0	176
Other assets	16	0	16
Cash and cash equivalents	545	0	545
Liabilities			
Liabilities with banks	256	0	256
Deferred tax liabilities	0	100	100
Trade payables	27	0	27
Other liabilities	207	0	207
Liabilities from long-term development contracts	113	0	113
Net assets	**272**	**533**	**805**

Hidden reserves are recognizable for the acquired customer base and for products, having an estimated useful life of 10 and 7 years respectively. Goodwill is recognized reflecting the present earnings outlook for FLS FUZZY GmbH.

From the initial consolidation date through the reporting date, 4Production contributed EUR 1,121k to consolidated revenue and EUR 109k to the Group net profit/loss. If included in the PSI Group consolidated financial statements as of January 1, 2008, consolidated revenue would have totaled EUR 129,443k and the Group net profit/loss EUR 4,210k.

b) Associates

Investments in associates are carried at-equity. An associate is a company over which the Group exercises material influence. Carrying at equity means that shareholdings in associates are carried at cost plus/minus the change in the Group's percentage ownership of the net assets of the associate. Goodwill from associates is included in the carrying amount of the investment, and is neither amortized nor impairment tested. The income statement shows the Group's percentage ownership of associates. The Group records changes in associates' equity reported in the applicable ownership percentage and presents this in the statement of changes in shareholders' equity as applicable. Unrealized gains and losses from transactions between the Group and associates are eliminated in accordance with the percentage ownership of associates.

On June 5, 2008 PSI AG and a Russian partner founded PSI Energo LLC., Moscow, Russia, in which PSI holds a 24.9 % stake of share capital totaling 10,000 rubles (i.e. 2,490 rubles). This company was established to build up a distribution structure. No material assets, liabilities, expenses or income were recognized in fiscal 2008.

c) Consolidation measures and uniform Group valuation

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

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

Currency translation

The PSI consolidated financial statements are prepared in euro, the functional currency and presentation currency of the Group. Each Group company determines its own functional currency. The financial statement items of the respective companies are measured using this functional currency. Foreign currency transactions are translated initially at the applicable spot rate for the functional currency and the foreign currency for the transaction date. Monetary assets and liabilities in foreign currency are translated into the functional currency as of the reporting date rate. Any currency translation differences are recognized in net profit or loss for the period.

The functional currency of the foreign companies such as PSI AG/CH, PSI Poland, PSI Russia 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 (euros) on the balance sheet at the rate effective at the reporting date. Income and expense amounts are translated at the rate effective at the reporting date, or at the weighted average rate for the fiscal year, as a simplification measure. Exchange rate differences arising from translation are recognized separately in equity.

Non-current assets

a) Intangible assets

Intangible assets are measured initially at cost. Intangible assets are 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 depreciation/amortization). The depreciation/amortization schedule and method are reviewed at the end of each fiscal year.

Intangible assets encompass:

Goodwill

Goodwill from a business combination is carried at cost on initial recognition, measured as the premium paid in the business combination above the PSI Group's percentage ownership of the fair value of identifiable assets, liabilities and contingent liabilities acquired. After initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is tested for impairment at least once a year, and whenever the situation or changed circumstances should indicate the carrying amount may be impaired. To test whether impairment has occurred, goodwill acquired in 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 to 5 years).

The cost of new software not an integral component of associated hardware is capitalized and treated as an intangible asset. Software is depreciated on a straight line basis over a 3 to 5 year useful life.

Costs incurred to restore or maintain future economic benefits originally expected by the company are expensed.

b) Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation and accumulated impairment losses. For property, plant and equipment that is sold or scrapped or from which no further economic benefit is expected, the corresponding costs and the accumulated depreciation are derecognized; realized profit or loss from the disposal is reported on the income statement.

The cost of property, plant and equipment represents the purchase price plus costs required to bring the property, plant and equipment into working condition for its intended use. Subsequent expenditures, such as maintenance and upkeep costs incurred after fixed assets are put into operation, are expensed in the period incurred. Expenditure likely to generate additional economic benefit in excess of that originally measured for a given asset 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. The following useful lives are applied for individual asset groups:

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

The useful life and depreciation method for property, plant and equipment are reviewed annually to ensure these are consistent with the expected economic benefits generated by the property, plant and equipment over time.

c) Impairment of non-current non-financial assets

Non-current 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 in impairment testing is to determine the recoverable amount of the asset or cash-generating unit. This is defined as the higher of fair value less cost to sell or value in use. Fair value less costs to sell is defined as the price recoverable from sale of an asset or cash-generating unit in a transaction 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 as the present value of expected cash flows based on current use. No impairments of non-current assets were recognized in fiscal years 2008 or 2007.

Financial assets

Financial assets are classifiable into the following basic categories:

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

At December 31, 2008 and December 31, 2007 the PSI Group had only loans and receivables extended and financial assets available for sale (December 31, 2007).

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 from the charging off, impairment or amortization of loans and receivables are included in profit/loss reportable for the period.

Available-for-sale financial assets are non-derivative financial assets classified as available for sale not falling into the three other categories above. After initial recognition, available-for-sale financial assets are measured at fair value, with profits and losses being recognized separately in equity. At the time the financial investment is derecognized or impairment is determined, 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 based on the listed bid price on the stock exchange on the balance sheet date. Fair value data was available for available-for-sale financial assets shown by the PSI Group on December 31, 2008 and 2007.

Financial assets are tested for impairment on each balance sheet date. An impairment or bad debt allowance is recognized in income for financial assets carried at amortized cost, when it is likely the company cannot recover all amounts due from loans, receivables and held-to-maturity financial investments according to contractual terms. An impairment loss is defined as the difference between the carrying amount of the asset and the present value of expected future cash flows measured using the effective interest method. The carrying amount of the asset is reduced by way of a value adjustment account. The impairment loss is recognized in income. A previous expensed impairment is reversed in income if the subsequent partial value recovery (or reduction in impairment) can be objectively attributed to circumstances occurring after the original impairment. Reversal write-ups are only performed however up to the amortized cost that would have resulted had the impairment not occurred. The financial asset is derecognized upon being classified as uncollectable.

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

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

Objectives 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 credit lines) and other liabilities. Current receivables and liabilities arising from long-term contract manufacturing are another component of financial risk management. The primary risks are default and liquidity risk. Interest rate and currency translation risks are only incurred to a minor extent due to relatively insignificant interest-bearing liabilities and foreign-currency receivables/payables. Market value risks are incurred exclusively in association with available-for-sale financial assets, and also to a minor extent only.

a) Default risk

Default or counterparty non-payment risk is managed through credit lines, establishing partial order prepayment percentages and control procedures. The Group only conducts transactions with creditworthy parties. Customers requesting credit for transactions with the Group must undergo a credit check. The company requires collateral as necessary. As the main customers of the PSI Group are prominent, major companies in the energy, utility, steel and automotive industries, with credit ratings of either "very good" or "good", the Board of Directors believes the PSI Group's overall portfolio has a below-average risk profile than that of other software suppliers. Risk concentration may occur with individual customers or customer groups that are exposed to similar risk scenarios or exhibit similar features (same industry, customers, sales region, currency etc.). For the PSI Group, there is no substantial concentration of default risk with either individual partners or groups thereof with similar features. The maximum default risk is the total balance sheet carrying amounts of financial assets from trade receivables and other assets.

The Group uses liquidity planning tools (maturity, expected cash flows) to monitor liquidity risk on an ongoing basis. The objective is to preserve a balance between having adequate financial resources at all times and the necessary flexibility. Monitoring of project financing is an especially important part of maintaining financial balance. The PSI Group endeavors to maximize project prepayment (ratio of advance payments for projects to receivables from long-term contract manufacturing). As there are considerable differences in customer prepayment history depending on the industry to which the customer belongs, the PSI Group does not stipulate fixed percentages for prepayment. The fundamental objective is to achieve a Group-wide prepayment percentage of 50 to 60 %. No other specific percentages are employed for liquidity monitoring.

At December 31, 2008, the due dates of 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	1,668	7,847	43	9,558
Other liabilities	0	17,689	424	18,113
Financial liabilities	42	299	0	341
	1,710	**25,835**	**467**	**28,012**

At December 31, 2007, the due dates of 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**

There were no material differences between balance sheet carrying value and undiscounted cash flows for fiscal years 2008 and 2007 due to the short-term maturities of financial liabilities held.

b) Capital management

The primary objective of PSI Group capital management is to ensure that a high credit rating is maintained and a solid equity ratio in the interest of operational stability and maximizing shareholder value.

The PSI Group manages its capital structure in view of prevailing economic circumstances. No adjustments or changes were made to capital management objectives/policies in 2008 and 2007 fiscal years.

The PSI Group monitors capital on a consolidated basis utilizing the equity ratio. Internal policy dictates that PSI Group equity may not fall below 30 % of total assets, in line with IFRS.

Current assets

a) Inventories

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

b) Cash and cash equivalents

Cash and cash equivalents are comprised of cash, fixed-term deposits and sight deposits. The Group Cash Flow Statement likewise employs the above definition of cash and cash equivalents.

Shareholders’ equity

Equity is comprised of subscribed capital, capital reserves, retained earnings, treasury shares, other reserves and accumulated profit or loss.

Capital reserves include premiums in accordance with Article 150 German Stock Corporation Act, as well as loss carry-forwards applied in accordance with profit appropriation resolutions.

Retained earnings includes profit appropriation in accordance with Article 174 German Stock Corporation Act.

Own shares purchased by the PSI Group into treasury are deducted from equity. The purchase, sale, issuance and withdrawal of own shares are not recognized in income.

Unrealized gains/losses from currency translation, actuarial gains/losses from the measurement of pension provisions and effects from the measurement of available-for-sale securities at market value are reported under other reserves.

Pension provisions

The PSI Group has several defined benefit plans and defined contribution pensions plans in place, the latter of which do not involve plan assets. The expenditure for defined benefit plan benefits is determined separately for each plan using the projected unit credit method. Actuarial gains/losses are taken directly to equity.

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 settlement of the obligation will require an outflow of resources representing an economic benefit, and if a reliable estimate of the amount of the obligation can be made. Provisions are reviewed 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 discounting, provisions increasing over time are recorded as borrowing costs.

b) Financial liabilities

Financial liabilities are classifiable into the following categories:

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

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

Financial liabilities are carried at cost of purchase upon initial recognition, which corresponds to the market value of consideration provided; transaction costs are included.

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 applicable 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 purchase of property, plant and equipment are reported in other liabilities as deferred income; this is recognized as revenue over the useful life of the asset in question in accordance with recorded depreciation. Realized revenue associated with expenditures is reported as other operating income on the income statement.

Funds provided the Company by Investitionsbank Berlin as investment grants are subject to future compliance conditions. These mainly include adherence with job guarantees and guarantees of the non-transfer of funded investment assets. Investment grants received from tax authorities are subject to guarantees of the non-transfer of funded investment assets. According to PSI Group planning these conditions will be met in full on the basis of current planning.

In 2008 the PSI Group received a total of EUR 773k for various development projects, including European Union projects (previous year: EUR 1,650k). The subsidies granted were recognized as income in 2008 and shown as a reduction to the corresponding expenses. There are no additional requirements or obligations in connection with development projects other than the obligation to verify expenses in the amount for which subsidies were granted.

Borrowing costs

Borrowing costs are recognized in the period incurred.

Research and development costs

Research and development costs came to EUR 10.5 million in the 2008 fiscal year (2007: EUR 10.4 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, requiring an assessment as to whether 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 the asset.

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

Most PSI Group leases are for vehicles and hardware (servers). These operating leases generally have a term of between three and four years.

Revenue realization and recognition

PSI Group revenue is generated primarily from the project business and licensing software products to end customers, both with and without customer-specific adaptation. Revenue is also generated from the sale of third-party software, hardware and services, e.g. installation, consultancy, training and maintenance.

a) Project business

The partial profit realization method is used for long-term project agreements fulfilling the conditions required to apply this method, in which revenue from the development and distribution of software systems and products is deferred and realized based on the percentage of project completion. The percentage of completion is determined as the ratio of man hours accrued to the total estimated man hours, or on the basis of milestones. Advance payments received from customers are offset directly in equity against the corresponding receivables. Changes in project terms can lead to adjustments in originally recognized costs and revenue for individual projects. These change effects are recorded in the period in which they are implemented. In addition, provisions for onerous contracts are allocated in the period in which losses are recognized, and are offset against project receivables.

b) Sales of licenses

The PSI Group realizes revenue from contracts once a license is provided, the sale price is fixed or can be determined, there are no material obligations to customers, and the collection of receivables is likely.

c) Maintenance, other services

Revenue from maintenance agreements is realized on a straight-line basis over the term of the agreement based on historical data. Revenue from consultancy and training is realized once the service has been provided. Maintenance revenue is reported in the Notes to the Consolidated Financial Statements as revenue from software creation and maintenance, together with revenue from project business (less reallocated merchandise/hardware).

d) Recognition of interest income

Interest is recognized proportionately over time based on the effective yield on the asset.

Taxes on income

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

Deferred taxes are reported using the balance sheet-oriented liability method for all temporary differences between the carrying amount of an asset or liability and its tax cost basis as of the balance sheet date. 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 liabilities in transactions not constituting a business combination which at the time of the transaction neither impact financial-accounting net profit or loss for a period or the taxable profit, and

- deferred tax liabilities from temporarily taxable differences connected with investments in subsidiaries, associated companies and interests in joint ventures; these may not be recognized if the timing of the reversal of 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, 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 deductible temporary differences or unused tax loss carryforwards/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 transactions not constituting a business combination where neither the financial-accounting net profit or loss for a period or the taxable profit are impacted at the time of the transaction, and

- deferred tax assets from taxable temporary differences connected with investments in subsidiaries, associated companies and interests in joint ventures; these may not be recognized to the extent 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 reviewed 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 at least partially be offset. Unrecognized deferred tax assets are reviewed on each balance sheet date and recognized to the extent that it has become likely, or of 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 at the tax rates expected to be valid for the period in which an asset is realized or a liability discharged. Tax rates (and tax laws) valid or announced on the balance sheet date are applied. Income taxes concerning items recognized directly in equity are recognized in equity rather than 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 are recorded after deducting sales tax, with the exception of the following cases:

- accrued sales tax for purchased assets or services uncollectible by the tax revenue office is classified as production costs of or expenditure for the asset in question.

- receivables and liabilities are recorded including applicable sales tax. Sales tax amounts refunded by or remitted to the tax revenue office are recorded as liabilities/debts on the consolidated financial statements.

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

Segment reporting

a) Business segments

The PSI Group is organized into three main business segments:

- Energy Management
- Production Management
- Infrastructure Management

Financial information by business segment and geographical segment is shown under note F. and in a separate appendix to the Notes to the Consolidated Financial Statements.

b) Transactions between the business segments

Segment revenue, segment expenses and the segment result involve only minimal transfers between business segments. Such transfers are accounted for at regular market prices paid by customers unassociated with the Company for comparable services. These transfers were eliminated in consolidation.

C. NOTES ON THE CONSOLIDATED BALANCE SHEET

NON-CURRENT ASSETS

1 Intangible assets and property, plant and equipment

With respect to the change in non-current assets in the fiscal year ending on December 31, 2008, reference is made to the attached schedule "Change in intangible assets and property, plant and equipment" (appendix to the Notes to the Consolidated Financial Statements).

The PSI Group carried out impairment testing on non-current assets on December 31, 2008 and December 31, 2007. Impairment testing to determine value in use is based on the following cash-generating units and proportionate with goodwill carrying amounts:

	Dec 31, 2008 EUR K	Dec 31, 2007 EUR K
Energy Management		
Electrical Energy sub-segment of PSI AG, Nentec and CNI	1,493	1,493
Gas and oil sub-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
FLS	342	0
4Production	2,911	0
	8,481	**5,228**
Infrastructure Management		
PSI Transcom	2,352	2,352
	2,352	2,352
	16,169	**12,916**

Impairment testing is based on cash flow projections for individual cash-generating units in view of market expectations (growth rates in relevant market segments, software project revenue and maintenance revenue, hourly and daily rates for employees, average personnel expenditure, mark-ups on sales of hardware and third-party licenses). The applicable time frame reflects long-term business projections. Cash flows employed derive from historical data. The substantial margin improvements are also taken into account resulting from major development investment in the past fiscal years and restructuring measures implemented. Cash flows were also adjusted downward in recent testing to reflect the current economic situation. Assumptions made by the management with regard to business trends in the software industry accord with the expectations of industry experts and market observers.

The PSI Group compared the previously employed method of deferring cash flows (factoring in an 8-year time horizon without positing a perpetual annuity) to an alternative method (3-year time horizon with perpetual annuity), as of December 31, 2008. The comparison had no implications for impairment testing for fiscal years 2008 and 2007. Starting with the 2009 fiscal year, it is planned to conduct impairment testing exclusively using the method used for medium-range internal planning (3-year time horizon with perpetual annuity).

A discount rate of 9.31 % after tax and 10.79 % before tax was applied (previous year: 8.20 % after tax and 9.14 % before tax). The discount rate was adjusted in view of the current economic situation (real economy developments and financing conditions).

Management believes that at this time, no reasonably possible change in the fundamental assumptions made for determining value in use of the cash-generating units could result in the carrying amount of the cash-generating unit substantially exceeding its recoverable amount. Because of considerable economic uncertainty regarding projected cash flows and financing conditions, the PSI Group Board of Directors applied 30 % lower cash flows and a 12 % after-tax discount rate as a worst-case scenario for impairment testing. Even under these parameters, no impairment was identified.

2 Other financial assets

A year ago, securities available for sale at any time comprised primarily money market fund shares, which can be converted into cash at short notice.

The cost bases and the current disposal value of securities available for sale at any time are reported under financial assets, and are as follows:

	2008 EUR K	2007 EUR K
Cost bases	20	67
Additions	0	20
Sale	–20	–67
Unrealized gains/losses	0	0
Market value	**0**	**20**

CURRENT ASSETS

3 Inventories

	2008 EUR K	2007 EUR K
Unfinished products	124	6
Hardware and third-party licenses	1,544	968
Subcontractor payments made on account	13	16
	1,681	**990**

4 Trade receivables, net

	2008 EUR K	2007 EUR K
Trade receivables, gross	23,835	22,620
Individual valuation allowances	–582	–365
	23,253	**22,255**

Trade receivables are non-interest bearing and have a term of 0 to 90 days. The change in individual valuation allowances was as follows:

	2008 EUR K	2007 EUR K
As at January 1	365	85
Appropriation recognized as expense	311	315
Claimed	–11	–20
Reversals recognized as income	–83	–15
As at December 31	**582**	**365**

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

	2008 EUR K	2007 EUR K
Neither overdue nor impaired:	15,463	15,704
Overdue, not impaired:		
< 30 days	5,063	4,346
30 – 60 days	635	763
60 – 90	166	260
90 – 120 days	83	176
> 120 days*/**	1,843	1,006
	7,790	**6,551**
As at December 31	23,253	22,255

* amount of which from collateral retained EUR 313k (2007: EUR 286k)
** amount of which paid through January 31, 2009: EUR 171k

5 Receivables from long-term development contracts

Receivables are recognizable under the partial profit realization method when revenue is realized but cannot yet be invoiced under contract terms. These amounts are realized according to various performance criteria, such as achieving certain milestones, projected versus cumulative billable working hours, the completion of certain units, or the completion of the contract. This balance sheet account shows directly attributable individual costs (personnel expenditure and purchased services), plus overhead and share of profits to an appropriate extent.

Receivables are measured using the partial profit realization method, and break down as follows:

	2008 EUR K	2007 EUR K
Costs incurred	41,333	40,425
Share of profit	6,006	6,848
Contract revenue	47,339	47,273
Advance payments received	–24,703	–28,143
Receivables from long-term development contracts	22,636	19,130
Liabilities from long-term development contracts	11,126	6,685

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

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

6 Other assets

	2008 EUR K	2007 EUR K
Prepaid expenses	666	997
Tax credits	787	476
Payments made on account	268	241
Subsidies	264	399
Receivables from customers	0	110
Other	380	567
	2,365	**2,790**

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

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

7 Cash and cash equivalents

	2008 EUR K	2007 EUR K
Bank balances	13,861	13,754
Fixed term deposits	9,767	5,175
Cash	22	19
	23,650	**18,948**

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

8 Shareholders' equity

See the schedule of changes in Group equity.

a) Subscribed capital

Fully paid-up share capital recorded in the commercial register totals EUR 31,008,947.20 (2007: EUR 31,008,947.20). Share capital is comprised of EUR 12,112,870 no-par shares (2007: EUR 12,112,870). In a December 22, 2008 resolution, the PSI AG Board of Directors, with Supervisory Board approval, declared 212,870 shares withdrawn pursuant to the shareholder resolution passed at the April 25, 2008 Annual General Meeting, reducing share capital by EUR 544,947.20 from EUR 31,008,947.20 to EUR 30,464,000. This share capital reduction had not yet been recorded in the commercial register by the date the consolidated financial statements were produced.

At the PSI AG Annual General Meeting on April 25, 2008 the Board of Directors was authorized to buy back shares up to 10 % of share capital (EUR 3,096k). The authorization expires on October 24, 2009.

b) Contingent and authorized capital

There were no changes in contingent and authorized capital in 2008.

	2008 EUR K	2007 EUR K
Authorized capital (AC)		
AC I/2005 (expires May 18, 2010)	15,504	15,504
	15,504	**15,504**
Contingent capital (CC)		
CC II/2004 (expires May 26, 2009)	10,240	10,240
	10,240	**10,240**
	25,744	**25,744**

c) Capital reserves

Capital reserves contain premiums from capital increases.

d) Treasury shares

At the PSI AG Annual General Meeting on April 25, 2008 the Board of Directors was authorized to buy back shares up to 10 % of share capital (EUR 3,096k). The authorization expires on October 24, 2009. As of the balance sheet date the PSI Group held 8,246 shares in treasury.

e) Other reserves

Other reserves break down as follows:

	2008 EUR K	2007 EUR K
Currency translation	–53	95
Actuarial gains/losses	–125	–1,557
Deferred taxes	453	880
	275	**–582**

NON-CURRENT LIABILITIES

9 Pension provisions

Pension provisions are allocated for future obligations and current benefits (old-age, invalidity, and survivors' pension benefits) for active and former employees of the PSI Group and their surviving dependents.

Three different defined benefit pension plan models are employed at the PSI Group, which provide benefits to employees based on length of service and salary level prior to payout in accordance with plan provisions. On December 5, 2006 the PSI AG Board of Directors and the Group works council concluded a works agreement on the Company pension plan and compensation payments within the PSI AG Group encompassing all existing defined benefit pension plans. The works agreement between the PSI AG Board of Directors and the Group works council thus replaces existing individual agreements.

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

- Vested rights as at December 31, 2006 of a majority of employees were frozen as fixed amounts. The result of this procedure is that accrued pension benefits will not increase beyond the level reached at December 31, 2006 through either future service or salary increases.
- Freezing of vested rights is done by determining pension benefits payable from age 65 for each plan participant, as if they were age 65 as of 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 given increased gross cash compensation in the form of an annual payment increasing in equal amounts, ending at the latest upon reaching the age of 65. These compensation amounts are determined by actuarial formulas.

- The first step in determining compensation amounts is to establish the constant annual premium that would be payable to a fictitious insurer if the insurer had to pay pension benefits under the hitherto existing pension plans had they continued unchanged. The amount of compensation payment to employees in the first year equals 70 % of the constant annual premium payable to a fictitious insurer determined in the above manner, increasing 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 compensation due to the employee, the PSI Group has no obligation to pay the difference to the employee.

The amount of pension obligations (present value of defined benefit pension commitments) was calculated by actuarial formulas applying the following assumptions:

	2008 %	2007 %
Discount rate	5.7	5.3
Increase in salaries	2.0	1.0
Increase in pension payouts	1.0	1.0
Staff turnover	4.5	4.5

The salary trend is comprised of expected future salary increases, which are estimated annually and depend on various factors including inflation and seniority.

At December 31, 2008 a retirement age of 64 (previous year: 64) was assumed in calculating pension obligations. The retirement age is based on statistical surveys of retirement ages within the PSI Group.

In fiscal year 2008, the PSI Group opted to record actuarial gains and losses in connection with measurement of pension provisions directly in equity. This option was exercised retroactively for the 2007 fiscal year.

The following adjustments resulted from the accounting change:

At January 1, 2007	**EUR K**
Net increase in deferred tax assets	2,441
Net increase in pension provisions	6,217
Net decrease in opening balance of retained earnings	1,181
Net decrease in other reserves	3,003
Net increase in net loss for the year	408
At January 1, 2008	**EUR K**
Net increase in deferred tax assets	549
Net increase in pension provisions	1,841
Net decrease in opening balance of retained earnings	1,181
Net decrease in other reserves	677
Net increase in net loss for the year	566
January 1, 2007 through December 31, 2007	**EUR K**
Net decrease in personnel expenditure	225
Net increase in tax expense	67
Net increase in after-tax earnings	158

The effect on 2007 earnings per share was an adjustment of EUR 0.01.

Net pension expenses are as follows:

	2008 EUR K	2007 EUR K
Work time expenditure recorded in personnel expenditure	85	99
Interest expense recorded in interest result	1,440	1,335
Expenses for the period	**1,526**	**1,434**

The table below shows the breakdown of pension obligations:

	2008 EUR K	2007 EUR K
Defined benefit pension obligations	26,653	27,391
Current pension obligation	**26,653**	**27,391**

The adjustment of plan liabilities based on historical data amounted to EUR 50k in the year under review (2007: EUR 135).

The table below shows the change in pension obligations:

	2008 EUR K	2007 EUR K
Pension obligation, start of period	27,391	31,374
Actuarial gains recognized in equity	–1,432	–3,851
Pension benefit payments	–832	–724
Reductions through sales of subsidiaries	0	–842
Expenses for the period	1,526	1,434
Pension obligation at end of period	**26,653**	**27,391**

The following shows the expected payment structure for the years 2009 to 2011:

	EUR K
Pension benefit payments	
2007	724
2008	832
Projected pension benefit payments	
2009	970
2010	1,058
2011	1,162

CURRENT LIABILITIES

10 Financial liabilities

The PSI Group uses short-term, variable interest rate bank credit lines for financing purposes. Financial liabilities are paid back monthly, interest rates range between 7.5 and 8.3 %. Collateral is not provided. The objective is to ensure funds to meet all current financial liabilities. The market value of financial liabilities is the carrying amount. At December 31, 2008 the PSI Group had unutilized credit lines in the amount of EUR 7,617k (previous year: EUR 7,229k).

Interest expenses from bank overdrafts amounted to EUR 90k in the 2008 fiscal year (2007: EUR 95k).

11 Provisions

The change in provisions was as follows:

	Balance Jan 1, 2008 EUR K	Claimed EUR K	Interest portion EUR K	Reversed EUR K	Added EUR K	Balance Dec 31, 2008 EUR K
Personnel provisions	588	–384	102	–2	247	551
Other provisions	487	–205	0	0	107	389
	1,075	**–589**	**102**	**–2**	**354**	**940**
Of which short-term	598					499
Of which long-term	477					441

Personnel provisions principally represent provisions in connection with phased retirement schemes. Provisions are calculated on the basis of the applicable agreement terms in place with employees and a discount rate of 5.7 % (previous year: 5.3 %) for the projected cash flows in connection with the agreements concluded. Provisions for phased retirement schemes were offset in the amount of EUR 470k against the asset value of insolvency reserves, the provision of which is required by law.

12 Other liabilities

	2008 EUR K	2007 EUR K
Personnel-related liabilities	8,292	7,140
Tax liabilities (payroll and sales tax)	4,201	2,650
Deferred income	1,830	1,354
Social security liabilities	10	3
Other	3,780	3,144
	18,113	**14,291**

Employee liabilities principally represent claims to vacation, overtime and special payments. Deferred income (prepaid maintenance revenue) is recognized in income within one year. Miscellaneous liabilities are non-interest bearing.

13 Deferred taxes/taxes on income

The trade income tax in Germany is levied on taxable income of the PSI Group, determined by deducting certain income not subject to trade tax and adding certain expenses not deductible for trade income tax purposes. The effective trade tax rate varies by municipality in which the PSI Group operates. The average trade tax rate in 2008 was approximately 15 %. Trade income tax was deductible as operating costs up to and including the 2007 assessment period. Corporation tax rates of 25 % and 15 % applied in the 2007 and 2008 fiscal years. A solidarity surcharge of 5.5 % is additionally levied on corporation tax assessed. The effective income tax rate was thus 39.26 % for 2007 and 29.83 % for 2008.

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

	2008 EUR K	2007 EUR K
Effective tax expense		
Current year	**–430**	**–105**
Deferred tax expense		
Change in intangible assets	–316	–1,052
Change in long-term development contracts	198	81
Changes in inventories	22	52
Phased retirement programs	11	–63
Activation of self-constructed software	0	140
Change in pension provisions	–44	–649
Project-related provisions	–177	118
Activation of tax loss carryforwards	–404	404
	–710	**–969**
Income tax expense	**–1,140**	**–1,074**

The table below shows the reconciliation of tax expense and income:

	2008 EUR K	2007 EUR K
Earnings before tax	5,280	2,941
Theoretical income tax expense (29.83 %; 2007: 39.26 %)	–1,575	–1,155
Uncapitalized tax loss carryforwards	–404	–714
Non-controllable consolidation effects	–256	–417
Utilization of tax losses	1,296	1,185
Other	–201	27
Effective tax expense	**–1,140**	**–1,074**

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

	2008 EUR K	Change 2008 EUR K	2007 EUR K
Deferred taxes			
Pension provisions	1,361	–44	1,405
Pension provisions (DBO)	122	–427	549
Intangible assets	–227	–441	214
Tax-deductible goodwill impairment	659	–180	839
Phased retirement programs and service anniversary bonus provisions	158	11	147
Project-related provisions	–145	–177	32
Receivables from long-term development contracts	–1,792	198	–1,990
Inventories	74	22	52
Tax loss carryforwards, Germany	0	–404	404
	210	**–1,442**	**1,652**
thereof effective on income		–710	
thereof effective on equity		–427	
thereof from acquisition cost attribution		–305	
Balance sheet			
Deferred tax assets	2,373		3,642
Deferred tax liabilities	**–2,164**		**–1,990**

The PSI Group has the following tax loss carryforwards:

	2008 EUR K	2007 EUR K
Loss carryforward domestic trade tax	71,403	78,338
Loss carryforward domestic corporation tax	71,228	76,927
Loss carryforward international corporation tax	3,257	4,948

Domestic loss carryforwards do not expire.

External tax audits commenced in June 2007 for the companies 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, have now been largely concluded. All material audit findings have been taken account of in these financial statements.

D. NOTES ON CONSOLIDATED INCOME STATEMENT

The income statement is prepared using the nature of expenditure method.

14 Revenue

	2008 EUR K	2007 EUR K
Software development and maintenance	104,044	96,458
License fees	8,144	7,335
Merchandise	16,663	19,391
	128,851	**123,184**

15 Cost of materials

	2008 EUR K	2007 EUR K
Cost of purchased services	9,622	9,853
Costs of purchased goods	12,520	15,793
	22,142	**25,646**

16 Personnel expenses

	2008 EUR K	2007 EUR K
Salaries and wages	63,881	60,538
Social security	11,450	11,207
	75,331	**71,745**

Employee costs include expenses for payments in connection with defined contribution pension commitments of EUR 583k (previous year: EUR 570k) and und state pension funds of EUR 4,756k (previous year: EUR 4,771k).

17 Depreciation and amortization

	2008 EUR K	2007 EUR K
Of intangible assets and property, plant and equipment	2,609	2,654
Of capitalized development costs	0	302
	2,609	**2,956**
Of current assets	29	163
	2,638	**3,119**

18 Other operating expenses

	2008 EUR K	2007 EUR K
Rent for leased properties	4,993	4,770
Travel costs	4,557	4,427
Project expenses	3,393	949
Advertising and marketing	3,058	2,936
Equipment leasing	1,942	1,526
Data line, IT and telephone costs	1,888	1,740
Legal and advisory costs	1,150	973
Other	3,930	4,399
	24,911	**21,720**

19 Earnings per share

In accordance with IAS 33, undiluted earnings per share is calculated by dividing the Group net profit/loss by the weighted average number of shares outstanding.

	2008	2007
Net profit/loss for the period (EUR k)	4,140	1,867
Weighted number of shares outstanding (in thousand)	12,082	12,113
Basic/diluted earnings per share (EUR/share)	**0,34**	**0,15**

To calculate diluted earnings per share, net profit or loss for the period attributable to ordinary shareholders and the weighted average number of the shares outstanding are adjusted for the dilutive effect on common shares potentially issued from the exercise of stock options, rights and/or warrants. Shares purchased by the Company into treasury during the fiscal year were factored into the weighted average number of shares.

E. NOTES ON THE CASH FLOW STATEMENT

Cash and cash equivalents reported are not subject to restrictions on disposal claims/rights imposed by third parties. The PSI Group has made no payments for extraordinary transactions. Interest and income tax payments have been reported; no dividend was paid out. The breakdown of cash and cash equivalents is shown under C.7. Current account liabilities were not included in cash and cash equivalents.

F. NOTES ON SEGMENT REPORTING

The PSI Group complies with IFRS 8 – Segment Reporting. This standard features regulations on the reporting of data broken down by business and geographical segments.

Segment after restructuring/application of IFRS 8

- Energy Management: Intelligent solutions for electricity, gas, oil and water utilities. Focus is on delivering reliable and efficient grid management, trading and distribution solutions for deregulated energy markets.

- Production Management: Software products and customized solutions for production planning, specialized production controls and efficient logistics. Focus is on optimizing resource utilization and enhancing quality and efficiency.

- Infrastructure Management: High-availability control solutions for the monitoring and effective operation of infrastructures in the fields of telecommunications, transport and traffic, public safety, environmental protection and disaster prevention.

Reconciliation of segment assets and liabilities

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

	2008 EUR K	2007 EUR K
Gross assets per balance sheet	102,618	90,550
Deferred tax assets	–2,373	–3,642
Segment assets	**100,245**	**86,908**

	2008 EUR K	2007 EUR K
Gross liabilities per balance sheet	68,895	61,123
Tax provisions	–302	–84
Deferred tax liabilities	–2,164	–1,990
Segment liabilities	**66,429**	**59,049**

Additional geographical disclosures

In the 2008 fiscal year, the PSI Group generated domestic revenue of EUR 92.9 million (previous year: EUR 97.1 million) and international revenue of EUR 35.9 million (previous year: EUR 26.1 million). Non-current assets, deferred tax assets, pension obligations and rights from insurance agreements are primarily attributable to domestic activities, so 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 under operating leasing agreements. In 2008, leasing charges of EUR 103k accrued (2007: EUR 112k) for leased data processing systems, and EUR 1,033k for vehicles and other equipment (2007: EUR 797k).

In the 1996 fiscal year, PSI AG concluded a tenancy agreement for an office building in Berlin. This tenancy agreement expires on March 31, 2012.

The rent and lease payments shown below stem from these agreements/ leases:

	Rental payments EUR K	Leasing payments EUR K	Total EUR K	Previous years total EUR K
2009	3,319	1,044	4,363	3,589
2010	3,013	761	3,774	2,876
2011	2,434	357	2,791	2,349
2012	727	53	780	666
2013	46	4	50	44
2014 and beyond	0	0	0	0

Guaranteed sureties

At the balance sheet date PSI AG had guaranteed sureties totaling EUR 36,011k (2007: EUR 28,419k) from various insurers and banks.

Letters of subordination and comfort

PSI AG has provided letters of subordination totaling EUR 190k (previous year: EUR 1,048k) for various subsidiaries from which it has receivables. In addition, a letter for comfort has been provided for one subsidiary.

Employees

The average number of PSI Group employees in the fiscal year was 1,099 (2007: 1,034). Employees break down by function as follows:

	2008	2007
Production	895	840
Administration	69	62
Revenue	113	114
Development	22	18
Total	**1,099**	**1,034**

Auditing expenses

Audit fees for the auditing of PSI AG, the PSI consolidated financial statements and all material subsidiaries of the PSI Group amounted to EUR 165k (previous year: EUR 155k). No other fees were paid to the PSI Group's financial statement auditors.

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. The existence of trustee relationships is taken into account in determining significant influence on the part of related individuals or companies to the PSI Group on financial and business policies, in addition to existing controlling relationships.

Related companies

The associates included in the consolidated financial statements are considered related companies. Additionally, the company PSI Energo LLC., Moscow, founded during the year under review, is an associate considered a related party. 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 consolidation.

Related individuals

The following are considered related individuals:

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

Members of the PSI AG Supervisory Board
Christian Brunke (through April 25, 2008)
Wolfgang Dedner (through April 25, 2008)
Barbara Simon
Karsten Trippel
Prof. Dr. Rolf Windmöller
Dr. rer. nat. Ralf Becherer
Bernd Haus (from April 26, 2008)
Wilfried Götze (from April 26, 2008)

Highclere International Investors Limited, London, Great Britain, disclosed on May 24, 2007 in line with Article 21 (1) German Securities Trading Act that the percentage of the voting rights held by Highclere International Investors Limited in PSI AG exceeded the 3 % threshold on May 23, 2007, on this date equaling 3.08 % (373,245 voting rights). The voting rights are attributable to Highclere International Investors Limited in full via Highclere International Investors Smaller Companies Fund in accordance with Article 22 (1) (1) (6) German Securities Trading Act. Highclere International Investors Limited also disclosed in line with Article 21 (1) German Securities Trading Act that the percentage of the voting rights held by Highclere International Investors Smaller Companies Fund, Westport, CT 06880, USA in PSI AG exceeded the 3 % threshold on May 23, 2007, on this date equaling 3.08 % (373,245 voting rights).

In a letter dated January 25, 2008 Highclere International Investors Limited, London, Great Britain, disclosed in line with Article 21 (1) German Securities Trading Act that the percentage of the voting rights held by Highclere International Investors Limited in PSI AG exceeded the 5 % threshold on January 25, 2008, on this date equaling 5.33 % (645,019 voting rights). The voting rights are attributable to Highclere International Investors Limited in full via Highclere International Investors Smaller Companies Fund, Westport, CT 06880, USA, and Highclere (Jersey) International Investors Smaller Companies Fund, Jersey, Channel Islands, in accordance with Article 22 (1) (1) (6) German Securities Trading Act.

Highclere International Investors Limited, London UK, also disclosed in a letter dated January 25, 2008 in line with Article 21 (1) German Securities Trading Act that the percentage of the voting rights held by Highclere International Investors Smaller Companies Fund, Westport, CT 06880, USA, in PSI AG exceeded the 5 % threshold on January 25, 2008, on this date equaling 5.21 % (630,659 voting rights).

Ratio Asset Management LLP, London, Great Britain, informed PSI AG by letter dated June 12, 2007 in line with Article 21 (1) German Securities Trading Act that the percentage of the voting rights held by Ratio Asset Management LLP in PSI AG exceeded the 3 % threshold on June 11, 2007, on this date equaling 3.87 % (468,485 voting rights). The voting rights are attributable to Ratio Asset Management LLP in full in accordance with Article 22 (1) (1) (6) German Securities Trading Act.

Ratio Asset Management LLP, London, Great Britain, informed PSI AG by letter dated February 25, 2008 in line with Article 21 (1) German Securities Trading Act that the percentage of the voting rights held by Ratio Asset Management LLP in PSI AG exceeded the 5 % threshold on February 22, 2008, on this date equaling 5.21 % (631,386 voting rights). The voting rights are attributable to Ratio Asset Management LLP in full in accordance with Article 22 (1) (1) (6) German Securities Trading Act. The Ratio European Fund, George Town, Grand Cayman, Cayman Islands, informed PSI AG in a letter dated February 25, 2008 in line with Article 21 (1) German Securities Trading Act that the percentage of the voting rights held by The Ratio European Fund in PSI AG exceeded the 3 % threshold on February 22, 2008, on this date equaling 3.72 % (451,099 voting rights).

In a letter dated October 20, 2008, Ratio Asset Management LLP, London, Great Britain, informed PSI AG in line with Article 21 (1) German Securities Trading Act that the percentage of the voting rights held by Ratio Asset Management LLP in PSI AG fell below the 5 % threshold on October 20, 2008, on this date equaling 4.67 % (565,592 voting rights). The voting rights are attributable to Ratio Asset Management LLP in full in accordance with Article 22 (1) (1) (6) German Securities Trading Act via The Ratio European Fund, which directly holds 3 % or more of PSI AG voting rights.

In a letter dated June 9, 2008, ENERGY Innovations Portfolio AG & Co. KGaA, Mannheim, Germany, informed PSI AG in line with Article 21 (1) German Securities Trading Act that its share of the voting rights in PSI Aktiengesellschaft, Berlin, Germany, ISIN DE 0006968225, WKN: 696822, fell below the 5 % and 3 % thresholds on June 02, 2008, on this date equaling 2.58 % (313,000 voting rights).

In a letter dated November 27, 2007 FiveT Investment Management Limited, Grand Cayman, Cayman Islands, disclosed in line 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 3 % threshold on November, 23 2007, on this date equaling 3.04 % (368,408 voting rights). The voting rights are attributable 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 disclosed in line with Article 21 (1) German Securities Trading Act that the percentage of the voting rights held by FiveMore Fund Limited, George Town, Grand Cayman, Cayman Islands, in PSI AG exceeded the 3 % threshold on November 23, 2007, on this date equaling 3.04 % (368,408 voting rights).

In a letter dated November 6, 2008, FiveT Investment Management Limited, Grand Cayman, Cayman Islands, disclosed in line with Article 21 (1) German Securities Trading Act that the share in the voting rights of FiveT Investment Management Limited in PSI AG fell below the 3 % threshold on October 31, 2008, now equaling 2.75 % (332,887 voting rights). The voting rights are attributable 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 disclosed in line with Article 21 (1) German Securities Trading Act that the percentage of the voting rights held by FiveMore Fund Limited, George Town, Grand Cayman, Cayman Islands, in PSI AG fell below the 3 % threshold on October 31, 2008, now equaling 2.75 % (332,887 voting rights).

In a 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 percentage of the voting rights held by ACCERA Capital GmbH in PSI AG exceeded the thresholds of 3 % and 5 % on December 19, 2007, now equaling 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.

In a letter dated June 9, 2008, ACCERA Capital GmbH, Wachenheim a. d. Weinstrasse, Germany, informed PSI AG in accordance with Article 21 (1) and Article 22 (1) (1) German Securities Trading Act that its share of the voting rights in PSI Aktiengesellschaft, Berlin, Germany, ISIN DE 0006968225, WKN: 696822, fell below the 5 % and 3 % thresholds on June 2, 2008, on this date equaling 2.58 % (313,000 voting rights). The voting rights are attributable to the company per Article 22 (1) (1) (1) German Securities Trading Act.

On April 22, 2008 ACCERA Venture Partners AG, Mannheim, Germany, informed PSI AG in line with Article 21 (1) German Securities Trading Act that its share of the voting rights in PSI Aktiengesellschaft, Berlin, Germany, ISIN DE 0006968225, WKN: 696822, exceeded the 5 % threshold on February 22, 2005, now equaling 5.18 % (627,000 voting rights). 5.18 % of voting rights (627,000) are attributable to the company per Article 22 (1) (1) (1) German Securities Trading Act through ENERGY Innovations Portfolio AG & Co. KGaA (formerly MVV Innovationsportfolio AG & Co. KGaA).

On June 9, 2008 ACCERA Venture Partners AG, Mannheim, Germany, informed PSI AG in line with Article 21 (1) German Securities Trading Act that its share of the voting rights in PSI Aktiengesellschaft, Berlin, Germany, ISIN DE 0006968225, WKN: 696822, fell below the 5 % and 3 % thresholds on June 2, 2008, on this date equaling 2.58 % (313,000 voting rights). The voting rights are attributable to the company per Article 22 (1) (1) (1) German Securities Trading Act.

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

In a letter dated February 27, 2008 Financière de l'Echiquier, Paris, France, disclosed in line with Article 21 (1) German Securities Trading Act that its share of the voting rights in PSI AG fell below the 3 % threshold on February 26, 2008 and on that day equaled 2.8785 % (348,670 voting rights).

In addition, the consortium of active and former employees of the PSI AG Group which holds shares for the purpose of bloc voting, holds 5.17 % of voting rights in PSI AG.

The shareholder consortium of active and former employees of PSI Aktiengesellschaft für Produkte und Systeme der Informationstechnologie, represented by Mr. Paul G. Söhnchen of Germany and Mr. Eberhardt Amrhein of Germany, disclosed the following on April 23, 2008:

On behalf of the 143 members of the shareholder consortium of active and former employees of PSI AG listed in the annex to this disclosure (hereinafter: "the consortium"), all of whom are PSI AG shareholders, disclosure is hereby provided that the percentage of voting rights in PSI AG held by each consortium member had not exceeded the 15 % threshold since January 20, 2007. The percentage of voting rights currently held by each consortium member is 13.23 %.

The voting rights percentage of each individual consortium member is determined on the basis of the number of shares owned by and attributable to the respective member (Article 21 (1) German Securities Trading Act) pursuant to Article 22 (2) German Securities Trading Act. Attribution is determined in accordance with the block voting terms of the consortium articles.

It is also disclosed that voting rights in PSI AG attributable to the consortium have exceeded the 10 % threshold since January 20, 2007. The consortium now holds 13.23 % of voting rights in PSI AG.

The voting rights percentage specified above has been fully attributable to the consortium since January 20, 2007 without interruption, in line with Article 22 (1) (6) German Securities Trading Act. These shares are governed by the consortium articles. A portion of shares governed by the consortium articles has been deposited with the consortium's administrative office. Consortium members have granted powers of attorney for the remaining shares governed by the consortium articles

Transactions with related individuals

No business transactions took place between the PSI Group and related individuals in 2008.

Supervisory Board

The individuals below were Supervisory Board members in fiscal year 2008:

Name	Profession	Location	Supervisory Board memberships at other companies
Prof. Dr. Rolf Windmöller (Chairman)	Graduate Engineer	Ennepetal	ProDV Software AG, Dortmund (Chairman)
Wilfried Götze (Deputy Chairman) (from April 26, 2008)	Business executive	Berlin	
Bernd Haus (from April 26, 2008)	Business executive	Ranstadt	
Wolfgang Dedner (Deputy Chairman) (through April 25, 2008)	Graduate Engineer	Berlin	
Christian Brunke (through April 25, 2008)	Graduate Economist	Berlin	
Barbara Simon (employee representative)	Graduate Engineer	Berlin	
Karsten Trippel	Business executive	Großbottwar	Berlina AG for assets East-West investment and property management AG Preußische Vermögensverwaltung AG, Berlin
Dr. rer. nat. Ralf Becherer (employee representative)	Graduate Chemist	Aschaffenburg	

Board of Directors and Supervisory Board remuneration

The table below shows remuneration paid to the PSI AG Board of Directors in fiscal year 2008 (2007: EUR 590k):

	2008 EUR K	2007 EUR K
Fixed remuneration		
Armin Stein	196	190
Dr. Harald Schrimpf	196	190
	392	**380**
Variable remuneration		
Armin Stein	235	105
Dr. Harald Schrimpf	235	105
	470	**210**
Board of Directors – total	**862**	**590**

No pension commitments existed for Board of Directors.

Pensions provisions of EUR 562k are reported for former Board of Directors members (2007: EUR 556k). No further remuneration was paid to former Board of Directors members in the 2008 fiscal year other than pension benefit payments.

The Supervisory Board was paid remuneration of EUR 117k (2007: EUR 116k):

	2008 EUR K	2007 EUR K
Prof. Dr. Rolf Windmöller	28	18
Dr. rer. nat. Ralf Becherer	16	15
Barbara Simon	16	15
Wilfried Götze (from April 26, 2008)	15	0
Karsten Trippel	12	12
Bernd Haus (starting April 26, 2008)	12	0
Christian Brunke (through April 25, 2008)	11	33
Wolfgang Dedner (through April 25, 2008)	7	23
	117	**116**

The Board of Directors and Supervisory Board shareholdings were as shown below:

	2008 Number of shares	2007 Number of shares
Dr. Harald Schrimpf	69,000	61,000
Armin Stein	21,000	12,000
Christian Brunke	–	5,000
Wolfgang Dedner	–	28,500
Karsten Trippel	116,600	103,500
Dr. rer. nat. Ralf Becherer	2,268	1,268
Barbara Simon	7,890	7,890
Prof. Dr. Rolf Windmöller	3,795	1,120
Bernd Haus	1,000	–
Wilfried Götze	54,683	–

Disclosures concerning the German Corporate Governance Code

PSI AG submitted the declaration prescribed per Article 161 of the German Stock Corporation Act on November 6, 2008. This document is available for viewing by shareholders at all times on the PSI AG website (www.psi.de) in the Investor Relations section.

Responsibility Statement

To the best of our knowledge, the consolidated financial statements provide a true and fair view of the assets, liabilities, financial position and profit or loss of the Group in accordance with the applicable reporting principles, and the Group management report presents a true and fair view of business results and performance and of the position of the Group, outlining the principal opportunities and risks pertaining to the Group's business going forward.

Berlin, February 12, 2009

Dr. Harald Schrimpf

Armin Stein

Auditor's report

We granted the following audit certificate for 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, statement of changes in shareholders' equity, cash flow statement, and Notes to the Consolidated Financial Statements – and the Group Management Report for the financial year January 1 to December 31, 2008. The preparation of the Consolidated Financial Statements and Group Management Report in accordance with IFRS as applicable within the EU and with the supplementary provisions of Section 315 a (1) HGB are the responsibility of the legal representatives of the Company. Our responsibility is to express an opinion on the Consolidated Financial Statements and the Group Management Report based on our audit.

We conducted the audit of the Consolidated Financial Statements in accordance with Article 317 HGB and German generally accepted standards for the auditing of financial statements outlined by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany, IDW). These standards require that we plan and perform audits in such manner that misstatements materially affecting the presentation of net assets, financial position and results of operations in the Consolidated Financial Statements and the Group Management Report in accordance with the applicable financial reporting framework will with reasonable assurance be detected. Knowledge of the business activities and the economic and legal environment of the Group are taken into account in determining audit procedures, in addition to the expected potential for misstatements. The effectiveness of the accounting-related internal control system and documentation supporting the disclosures in the Consolidated Financial Statements and the Group Management Report are examined primarily on a spot-check 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 evaluation of the overall presentation of the Consolidated Financial Statements and the Group Management Report. We believe that the audit conducted 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 Article 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 provides on the whole a true and fair view of the Group's position, suitably presenting business opportunities and risks going forward."

Berlin, February 16, 2009

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Glöckner
Public accountant

Weiß
Public accountant

FINANCIAL DATES FOR 2009

Publication of the annual financial statements	March 13, 2009
Analysts' conference	March 13, 2009
Q1 report	April 24, 2009
Annual General Meeting	April 28, 2009
Q2 report	July 28, 2009
Q3 report	October 28, 2009
Analysts' conference German Equity Forum	November 9 – 11, 2009

PSI SHARES

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

We would be glad to add your name to our shareholder information mailing list.
Please get in touch as well if you would like a copy of the PSI AG Financial Statements.
For the latest investor news, please visit our website at www.psi.de/ir

"In 2008 we achieved higher revenue, earnings and exports despite an adverse economic environment. This gives us momentum we can build on going forward."

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