

Small Planet

Annual Report 2010

PSI 

PSI develops and integrates software solutions and complete systems for process control at energy suppliers, in energy-intensive industries and for infrastructure operators all over the world. We play a leading role in our core markets. From the start, our solutions were developed for the management of large-scale energy grids and complex production and logistics processes. Designed to meet the strict demands of the German market, they provide high levels of reliability and increase the efficiency of energy and raw material usage. Our locations in Asia, North and South America, Central and Eastern Europe allow us to contribute, both today and in the future, to the growth and sustainable development of these regions.

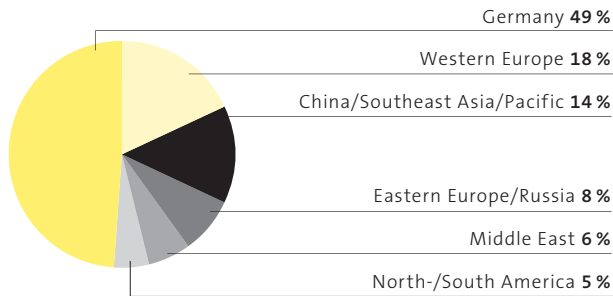
PSI GROUP IFRS FIGURES IN EURO MILLION

	2010	2009	2008
Revenues	158.7	147.0	128.9
Operating result	9.5	7.8	6.2
Earnings before taxes	7.9	6.9	5.3
Group net result	7.0	6.6	4.1
Shareholders' equity	68.1	66.3	33.7
Equity ratio (in %)	40.3	42.8	32.9
Investments ¹⁾	6.9	18.9	6.5
Research & Development expenditure	16.0	12.1	10.5
Research & Development ratio (in %)	10.1	8.2	8.1
New orders	177	150	152
Order backlog on Dec 31	108	97	101
Employees at Dec 31 (number)	1,422	1,411	1,126

¹⁾ Corporate acquisitions, intangible assets, plant and equipment.

PSI GROUP AT A GLANCE

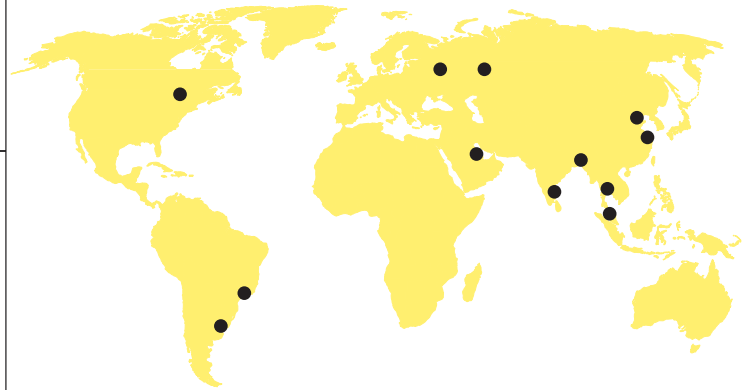
MORE THAN HALF OF INCOMING ORDERS
ARE EXPORT ORDERS



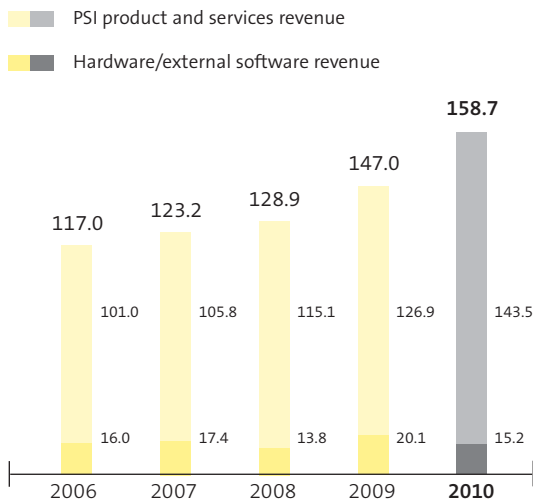
PSI LOCATIONS IN EUROPE



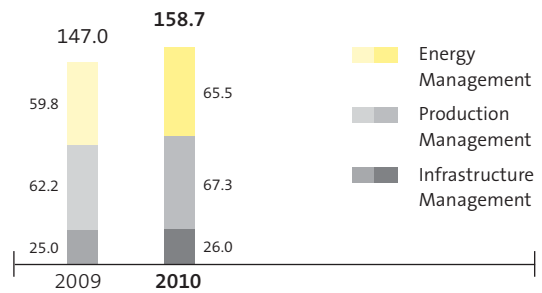
PSI LOCATIONS WORLDWIDE



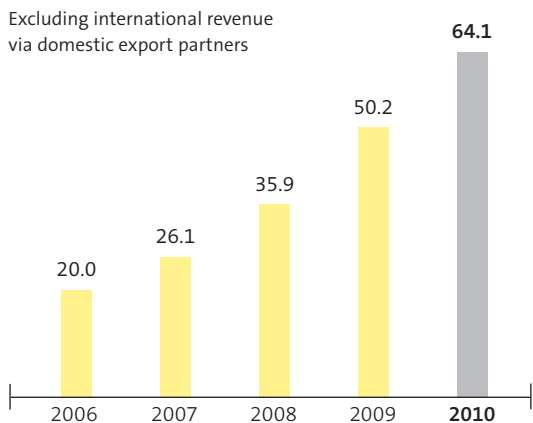
OWN ADDED VALUE CONTINUES TO INCREASE
(EURO MILLION)



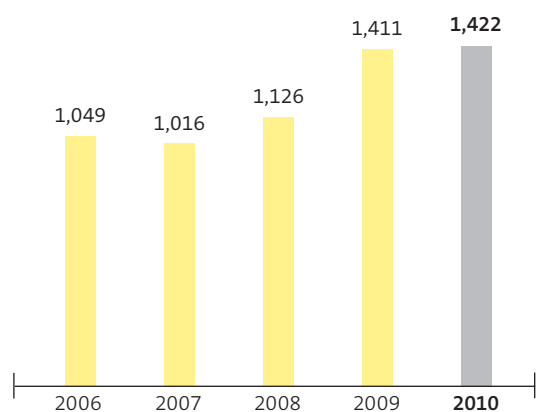
PSI REVENUE GROWS
IN ALL SEGMENTS (EURO MILLION)



FOREIGN REVENUE UP BY 28 % (EURO MILLION)



NUMBER OF EMPLOYEES UP SLIGHTLY



ENERGY MANAGEMENT

Intelligent utility solutions for electricity, gas, oil, water and district heating. The focus is on delivering reliable and economic solutions for intelligent grid and operations management, gas and pipeline management, and for trading and sales in deregulated energy markets.

SEGMENT DEVELOPMENT

In 2010, Energy Management gained large orders in export business in particular, and acquired important new customers, while the existing customer business continued to show stable growth. Total revenue increased by 10% to EUR 65.5 million. In spite of investments, the operating result increased by EUR 4.3 million in the prior year to EUR 4.7 million.

	2010	2009
Revenues (EUR K)	65,457	59,791
Operating result (EUR K)	4,714	4,272
Employees	515	482

PRODUCTION MANAGEMENT

Software products and solutions for production planning, production control and logistics. The focus is on optimizing resource utilization and enhancing quality and efficiency in the metals, raw material extraction, mechanical and plant engineering, automotive and logistics industries.

SEGMENT DEVELOPMENT

Production Management posted 8% higher revenue in 2010, EUR 67.3 million. New orders were also increased further. The segment's operating result dropped from EUR 2.1 million for the previous year to EUR 1.3 million. This was primarily due to higher investment in the raw material extraction control system, and to depreciation and amortization from purchase price allocation.

	2010	2009
Revenues (EUR K)	67,267	62,213
Operating result (EUR K)	1,253	2,057
Employees	591	633

INFRASTRUCTURE MANAGEMENT

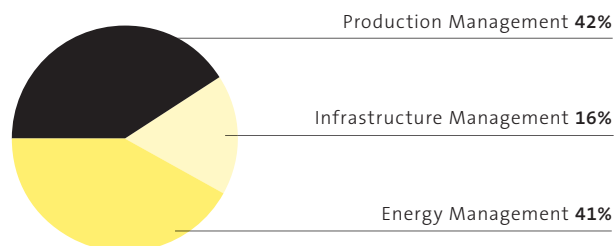
High-availability control solutions for the monitoring and effective operation of infrastructures in the fields of transportation, public safety, environmental protection and disaster prevention. Areas of focus are operations control technology, mobile safety and telematics applications.

SEGMENT DEVELOPMENT

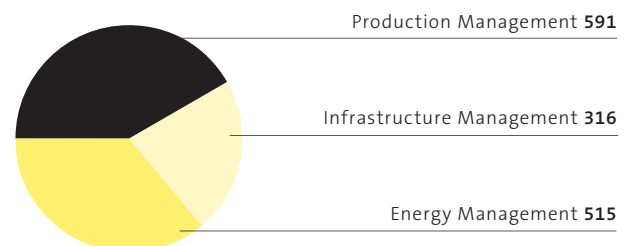
At EUR 26.0 million, Infrastructure Management had 4% higher revenues in 2010. The operating profit increased by EUR 2.2 million in the prior year to EUR 4.4 million, which includes both depreciation and amortization from the allocation of the purchase price for the inControl Tech-Group and the effect on profits from the sale of the Telecommunications area.

	2010	2009
Revenues (EUR K)	25,964	24,981
Operating result (EUR K)	4,449	2,152
Employees	316	296

REVENUE ALLOCATION BY SEGMENT



EMPLOYEE STRUCTURE



Intelligent solutions from PSI boost the efficiency of industrial processes and infrastructures



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LETTER FROM THE BOARD OF DIRECTORS

LADIES AND GENTLEMEN,

In 2010, investors and customers finally began to see PSI as a provider of software-based solutions that help more efficiently use ever scarcer resources of energy, raw materials, the environment and workforce. This is a growing market niche with high entry barriers, in which we can enjoy continued good growing in our domestic and export markets in the coming years.

Good PSI share value growth

As a result, the value of the PSI share doubled from EUR 8.85 to EUR 17.85 – supported by improved attention, strong investors and the growing importance of our core areas of intelligent energy networks (smart grid), raw material scarcity, environmental protection, work efficiency (specialist staff shortages) and our participation in the boom in East Asia. Based on a strong increase in takeover activities in the smart grid area, our price-earnings ratio can be expected to continue to improve. In 2010, our share value increased to the satisfaction of shareholders, and we are making every effort to ensure that dividends begin to keep pace again. Continuing our dividend policy, at the next Annual General Meeting we will suggest distributing half of the profits per share, i.e. EUR 0.23 per share.

Successful year

We won new orders in the amount of EUR 177 million, up from 150 million the year before. We were also able to increase our revenue from EUR 147 million to 158.7 million, or approximately 8%. We were able to increase the operating result before depreciation and amortization (EBITDA) by 22% to EUR 13.9 million, and the operating result (EBIT) by 22% to EUR 9.5 million. Cash flows from operating activities went up to EUR 13.1 million. In total, cash and cash equivalents increased by EUR 8.1 million to EUR 28.9 million.

We had planned for an EBIT increase of 28%, but long-term export projects in the area of control systems for electricity grids and the product development of a raw material extraction control system required unexpectedly large investments. In terms of finance income, we were affected by the lower interest rates. In interest expense, pensions continued to affect us. We set off the higher adjustments with shareholders' equity, as always. As far as taxes are concerned, domestically we still profit from the losses carried forward, but foreign subsidiaries and finished large-scale projects led to an increase in the actual tax expense to EUR 0.7 million. This meant that Group profit after taxes went up from EUR 6.6 to 7 million, a mere 6%. With 15.7 million shares, the profit per share decreased from EUR 0.46 to 0.45. The extension of our Aschaffenburg facility for 100 workplaces subtracted EUR 4 million in cash flow from investing activities. Suitable rental space is not available at the location. The dividend payout for 2009 reduced cash flows from financing activities by EUR 3.3 million.



Left:
**DR. HARALD
SCHRIMPF**
(46)

Since July 2002
PSI director of
Marketing,
Sales and Technology.

Right:
ARMIN STEIN
(59)

Since January 2001
PSI director of
Finance,
Controlling and
Human Resources.

Energy Management shows international growth

The Energy Management business unit was able to increase its revenues by 10% in 2010 from EUR 59.8 to 65.5 million. Important projects were won in the Benelux states, Switzerland, Austria, Poland, Russia, the Gulf region and Southeast Asia. The partnership with Gazavtomatika, the automation subsidiary of Gazprom, showed particularly strong development. The operating profit rose from EUR 4.3 to 4.7 million. Whereas the contribution of the Gas and Oil section again exceeded projections, the result of the Electrical Energy division still suffered from the pilot and export projects. The Energy Trading Systems division continued its recovery in spite of the costs of the migration to the Group technology platform. The Network Communication division made a positive contribution to the result, and began the development of smart terminal units in a new pilot project. With this development, and through cooperation with large-scale IT manufacturers, we want to support our customers in the imminent technical revolution in medium- and low-voltage networks.

Production Management with new Turbine Construction division

Production Management posted 8 % higher revenue in 2010 of EUR 67.3 million. The operating result went down from EUR 2.1 to 1.3 million, influenced by the investments in the new raw material extraction control system amounting to almost EUR 1.8 million. Inquiries from China, Australia and Russia are looking very promising. The Metal Industry and Optimization divisions continued to improve their results even though in Metal Industry results were burdened by depreciation and amortization from the purchase price allocation and the fusion costs. PSI Logistics achieved a balanced result and production planning PSIPENTA made an appropriate contribution. For the year-end, we merged the PSI Production division Production Control with PSIPENTA in order to benefit from synergies in the joint automobile and machine manufacture market. The most important aspect, however, is the fact that at the same time a new, more focused, internationally aligned unit Turbine Construction was created.

Infrastructure Management with very good result

Infrastructure Management increased revenues by 4 % to EUR 26 million. The inControl Tech Group in South East Asia, Public Transportation, Telecommunications and PSI Poland made major contributions to the very good result. On the other hand, the development of the mobile Celllls VOIP solution resulted in a significant loss. We sold the IT services division for Telecommunications companies, because no further distribution and technical synergies were possible for the Group, and due to sub-critical volume.

Investments for the shift to a software house

In 2010, we again invested significantly in the Group-wide technology platform and in modern software tools used across the Group. PSI must further expand its resources in Poland and Malaysia and include local personnel in after-sales service, particularly in export markets. To speed up processes, PSI examines volume purchases in countries with attractive cost structures, and continues the targeted purchases of technology and market access in target export regions.

Goals for 2011

In 2011, our aim is to increase new orders to EUR 185 million, revenues to EUR 170 million and the operating result from EUR 13 to 15 million.

We would like to thank our customers who have made it possible for us to grow, and who also enjoy the economic and competitive benefits. We would also like to thank our employees and managers for the energy and stamina they devote to the conversion and expansion of PSI. They are creating a PSI with strong products and services, which wins exciting and future-focused orders in the domestic market and worldwide, and which successfully meets even complicated challenges. Our slogan "Small Planet" recognizes the enormous growth of emerging markets and the challenges resulting from this. PSI makes a major contribution to ensuring that consumers have reliable sources of renewable and conventional energies, and that industry and its goods and jobs are competitive, efficient and conserve resources.

Berlin, March 2011



Dr. Harald Schrimpf



Armin Stein

Report from the Supervisory Board



**PROF. DR.
ROLF WINDMÖLLER (62)**
Chairman of the Supervisory Board

DEAR PSI SHAREHOLDERS, FRIENDS AND PARTNERS,

During the 2010 financial year, our main focus was on continuing our strategy of growth and internationalization, and on further improving the Group's financial indicators. Again last year, in our capacity as members of the Supervisory Board, we assumed the responsibilities incumbent on us by law, the Articles of Association and the German Corporate Governance Code. The Supervisory Board monitored the activities of the Board of Directors on a regular basis, advising it on its management of the company. The Board of Directors informed the Supervisory Board regularly, promptly and comprehensively on the position of PSI AG by means of written and oral reports, thereby creating the basis for compliance with legal monitoring duties. The Board of Directors has met its disclosure obligations to the Supervisory Board in full.

The Supervisory Board ensured that legal provisions, the Articles of Association and the bylaws of the Supervisory Board and the Board of Directors were complied with, and was directly involved in all major decisions of fundamental importance. The Supervisory Board passed the resolutions required by law and by the Articles of Association. If transactions required the approval of the Supervisory Board, the Board of Directors was consulted in depth before resolutions were passed. The Chairman of the Supervisory Board was in regular contact with the Board of Directors outside Supervisory Board meetings as well, and was informed regularly of important transactions and of the business situation.

Cooperation between the Supervisory Board and the Board of Directors was consistently constructive and goal-oriented in nature. Coordination between the Chairman of the Supervisory Board and the two members of the Board of Directors was characterized by an ongoing and intensive exchange. The Chairman of the Supervisory Board communicated important information received from the Board of Directors to the other members of the Supervisory Board whenever necessary.

Focuses of Supervisory Board discussions

In fulfilling its monitoring duties, the Supervisory Board focused on the following main areas, among others:

- Increasing the incoming orders and profits in order to achieve medium and long-term company objectives
- Extending the company's international market position and export structures by founding two foreign subsidiaries and increasing international sales activities
- Integration of the companies acquired in 2008 and 2009
- Tightening Group structures and focusing more strongly on core business
- Implementing the new requirements of the German Corporation Governance Code.

Regular discussions and resolutions of the Supervisory Board focused on the Annual Financial Statements, reviewing the Group strategy and its implementation, long-term and short-term planning, the disposal of the business unit Telecommunications, ongoing operative business, reviewing and upgrading the Group risk management system, and auditing the Board's own work. The Supervisory Board concerned itself not only with the financial development of PSI AG and the Group, but also with the development of individual subsidiaries, while also monitoring activities abroad. The Board of Directors reported to the Supervisory Board comprehensively and on an ongoing basis regarding the assets and financial position, risk position, market and competitive position, and personnel situation. The Supervisory Board held six meetings in 2010 to fulfill its aforementioned duties. These included a meeting mainly devoted to discussing and adopting the Annual Financial Statements, a strategy meeting, a planning meeting and an audit meeting.

Activities of Supervisory Board committees

The Supervisory Board formed two committees. The Personnel Committee is concerned with the employment contracts and personnel matters of the Board of Directors. In the course of the business year, this Committee met four times, among other reasons in order to discuss the further development of the performance-based fee components of the Board's payment.

The Audit Committee focuses on accounting and risk management matters. This committee met three times, one session of which was devoted to the adoption of the Annual Financial Statements and endorsement of the Consolidated Financial Statements.

Corporate Governance

As in previous years, the Board of Directors and Supervisory Board monitored the Group's compliance with the German Corporate Governance Code. On November 19, 2010, the Supervisory Board approved the Declaration of Compliance in accordance with Article 161 of the German Stock Corporation Act. The Company meets most of the recommendations of the Code. The few departures are also explained in the Corporate Governance Report on page 10. The audit revealed no indications of non-compliance with respect to further recommendations of the Code other than those mentioned in the Declaration of Compliance.

Once again in 2010, the Supervisory Board reviewed the efficiency of its own activity in an audit meeting.

Composition of the Supervisory Board and Committees

During the entire 2010 financial year, the membership of the Supervisory Board comprised the shareholder representatives Prof. Rolf Windmüller (Chairman), Wilfried Götze (Deputy Chairman), Bernd Haus and Karsten Trippel, and employee representatives Barbara Simon and Dr. Ralf Becherer. The current members of the Personnel Committee are Supervisory Board Members Prof. Rolf Windmüller as Chairman, Wilfried Götze and Barbara Simon; the members of the Audit Committee are Supervisory Board members Bernd Haus as Chairman, Dr. Ralf Becherer, Wilfried Götze and Prof. Rolf Windmüller.

Audit of the Annual and Consolidated Financial Statements

Accounting firm Ernst & Young GmbH was appointed as auditor at the May 3, 2010 Annual General Meeting of PSI AG. Ernst & Young GmbH audited the Annual Financial Statements, Management Report, Consolidated Financial Statements and Group Management Report for the fiscal year from January 1 to December 31, 2010, and issued an unqualified audit opinion.

All members of the Supervisory Board received the financial statements and management reports, the audit reports of the auditor and the recommendation of the Board of Directors regarding the appropriation of net retained profits, following the preparation of these reports and in good time before the meeting. After a preparatory discussion by the Audit Committee, the plenary Supervisory Board discussed these documents in its meeting of March 1, 2011. Both the members of the Board of Directors and representatives of the auditor attended this meeting. The auditor representatives reported on the audit in general, on the main points established in the audit, on the key findings of the audit and on services that the auditor rendered in addition to the audit services, and further answered questions from members of the Supervisory Board. The Supervisory Board did not raise any objections, and thus acknowledged and approved the findings of the audit.

The Supervisory Board checked the Group Statements and the Consolidated Management Report, as well as the Annual Statements and Annual Report for 2010 and the results of the auditors' audit. Based on the final results of these checks, the Supervisory Board raised no objections and at the Supervisory Board meeting on 1 March 2011, it approved the Annual Statements and Group Statements. The Supervisory Board concurs with appropriation of profits proposed by the Board of Directors, which provides for a dividend of EUR 0.23 per share.

In 2010, the PSI Group was able to significantly increase its new orders and as a result to profit greatly from the economic upswing. Growth also continued in terms of the Group result and revenue. The Group continued to invest in technology, market share and export structures, as in the previous years. Both in Germany and abroad, PSI gained new customers and completed technologically demanding projects. The successes achieved together with the Board of Directors, Management and employees deserve special recognition and respect. The Supervisory Board would like to express its gratitude to all involved for their outstanding commitment and productivity.

The Supervisory Board thanks its customers and shareholders for the confidence shown during 2010. In 2011, PSI will be a reliable partner for its customers and will make every effort to provide optimum support in increasing the efficiency of their business processes through innovative solutions. Only if our reference customers are satisfied can we succeed in winning further new customers and continuing PSI's history of growth.

Berlin, March 2011

A handwritten signature in black ink, appearing to read 'R. Windmüller', written in a cursive style.

Prof. Dr. Rolf Windmüller
Chairman of the Supervisory Board

Corporate Governance

CORPORATE GOVERNANCE DECLARATION

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, customer orientation, fair business practices and protection of intellectual property are core principles of Company management. The key principles of dealing with customers, shareholders, employees, partners and competitors of PSI are set forth in the Code of Conduct, which is posted on the Group's website at www.psi.de.

CORPORATE GOVERNANCE REPORT

Declaration of Compliance of PSI AG with the German Corporate Governance Code under Article 161 German Stock Corporation Act (Aktengesetz – AktG) of November 19, 2010

The Board of Directors and Supervisory Board of PSI Aktiengesellschaft für Produkte und Systeme der Informationstechnologie declare pursuant to Article 161 of the German Stock Corporation Act:

PSI has complied with the recommendations of the government commission for the German Corporate Governance Code in its version of June 18, 2009, with the exceptions listed in the disclosure of December 11, 2009.

PSI AG has complied and does comply with the recommendations of the government commission for the German Corporate Governance Code, version of May 2, 2010, since its publication, with the following exceptions:

- **Item 3.8:** No personal deductible for D&O insurance has been set or agreed for the Supervisory Board pursuant to the personal deductible of the Board of Directors because management feels that the agreed personal deductible is appropriate.
- **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 include performance-related components. It involves a basic remuneration component and a component linked to meeting attendance. The Supervisory Board feels that performance-related Supervisory Board remuneration conflicts with its supervisory and controlling duties.
- **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. This information is not necessary, as the Supervisory Board receives a monthly report and is continually informed on the future quarterly developments in the Supervisory Board meetings.

Composition of the Supervisory Board

The Supervisory Board already discussed precise objectives for its composition during 2010 and passed a corresponding resolution in its meeting of March 1, 2011. The objectives which the Supervisory Board lists in this resolution take into account the Company-specific situation, as well as potential conflicts of interest, an age cap for Supervisory Board members and diversity.

Each member of the Supervisory Board must have the knowledge, skills and technical experience required to properly carry out his or her tasks. At the time of their appointment, members of the Supervisory Board should not be older than 70 years of age.

It must be ensured that the composition reflects diversity, particularly in terms of the industry environment and the internationality of the PSI Group. Regarding the growing importance of the international activities of the PSI Group, the Supervisory Board has set itself the objective of having at least one member with many years of international experience. For this purpose, the member of the Supervisory Board need not himself be a foreigner. German citizens can also meet this requirement if they have had extended experience with foreign business.

Taking account of the Company's specific situation, an appropriate number of women should also continue to be part of the Supervisory Board. In this context, the Supervisory Board considers it appropriate if at least one long-term member of the Supervisory Board is a woman. The participation of one woman in the six-member Supervisory Board thus reflects the general proportion of women in the industry environment of the PSI Group, and the fact that about 20% of employees in the Company are women. Since the Supervisory Board must also reflect the objectives of diversity as an overall body, the woman on the Supervisory Board may be an employee representative.

Persons to be suggested for appointment must not have potential conflicts of interest. In particular, members of the Supervisory Board must not hold positions on the Boards of or carry out consultancy work for the main competitors of PSI AG or a Group company.

In accordance with the law demanding a one-third participation of employees on the Supervisory Board of PSI AG, the Supervisory Board is made up of four shareholder representatives and two employee representatives. In 2010, the objectives regarding its composition as determined by the Supervisory Board and set out above were achieved: In 2010, the Supervisory Board consisted of one member with an engineering background in the field of electrical engineering, one capital market expert and two financial experts with many years of experience in accounting, one of them with special and extensive experience in international business. In addition, with Ms. Simon as an employee representative, a woman was also represented on the Supervisory Board. Ms Simon's term in office will continue until our Annual General Meeting in 2012.

Cooperation between the Board of Directors and the 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. During the year under review, no business transactions took place between related parties and the PSI Group.

Description and composition of the committees

The Supervisory Board has established committees to enhance the efficiency of its decisionmaking processes. These committees consist of at least three Supervisory Board members each. The committee members' term of office corresponds to their term of office as member of the Supervisory Board, unless a shorter term has been stipulated upon their election to the Supervisory Board. The Supervisory Board has formed a Personnel Committee and a Balance Sheet Committee.

The Personnel Committee prepares the personnel decisions of the Supervisory Board. This applies in particular to coordination of the Board of Directors employment agreements. Members of the Personnel Committee currently are Supervisory Board members Prof. Dr. Rolf Windmüller as Chairman, Wilfried Götze and Barbara Simon.

The Balance Sheet Committee is concerned with issues in accounting, risk management and the related recommendations by the Corporate Governance Code. It ensures the independence of the auditor, determines the audit focus and prepares the audit mandate. Further, it prepares the decision of the Supervisory Board regarding approval of the Annual Financial Statements and Consolidated Financial Statements. To this end, it reviews the preliminary balance sheet, the Consolidated Financial Statements, the Management Report and the proposal for the appropriation of profits. The Audit Committee is currently made up of the Supervisory Board members Bernd Haus as Chairman, Wilfried Götze, Barbara Simon as employee representative and Professor Dr. Rolf Windmüller.

Board member remuneration and shareholdings

Per resolution of the Annual General Meeting of April 13, 2004, the current remuneration of the Supervisory Board members comprises a basic remuneration component and a component linked to meeting attendance. Basic remuneration is EUR 30,000 a year plus sales tax for the Supervisory Board chairman, EUR 20,000 for the deputy chairman and EUR 10,000 for each additional Supervisory Board member. There is also compensation of EUR 5,000 for each activity in a Supervisory Board committee for each committee chairman and EUR 3,000 for the other committee members.

The component linked to attendance at meetings is EUR 300 per meeting for each Supervisory Board member. Supervisory Board members received remuneration totaling EUR 119,000 in fiscal year 2010, which breaks down as follows:

	2010 EUR K	2009 EUR K
Dr. Ralf Becherer	16	16
Wilfried Götze	23	23
Bernd Haus	18	18
Barbara Simon	16	16
Karsten Trippel	13	13
Prof. Dr. Rolf Windmüller	33	34
	119	120

The members of the Board of Directors received the following remuneration in 2010:

	2010 EUR K	2009 EUR K
Fixed remuneration		
Dr. Harald Schrimpf	222	198
Armin Stein	222	198
Variable remuneration		
Dr. Harald Schrimpf	269	212
Armin Stein	269	214
Long-term fee component		
Dr. Harald Schrimpf	250 ¹⁾	0
Armin Stein	250 ¹⁾	0
	1,482	822

¹⁾ The condition for the Board's long-term fee component was met in the fiscal year. As a result, each Board member is entitled to EUR 500 K. EUR 250 K of this was paid in 2010 and the remainder will be paid in July 2011.

The remuneration of both Board of Directors members comprises a) non-performance related, fixed remuneration (fixed salary component includes a cash value benefit from the private use of a company car), b) a variable component consisting of a achievement bonus, a short-term and long-term performance-related component, and c) an annual lump sum for a defined contribution pension fund.

Each board member has an employment agreement that provides for a non-performance related fixed remuneration in the amount of EUR 222,000 a year. It is paid in twelve equal monthly installments. Additionally, each board member is given a leased vehicle for business and personal use for the actual term of office.

In addition to the non-performance related fixed component, the Company can pay each board member a voluntary annual achievement bonus that has a maximum amount. The members have no legal claim to repeated payments. Payment and amount of the achievement bonus is determined by the Supervisory Board after proper assessment, to the extent warranted by PSI AG's financial success.

Apart from the achievement bonus, the employment agreements provide for performance-related components, the amount of which is set by the Supervisory Board based on the PSI Group's performance. Accordingly, each board member is entitled to a variable short-term performance bonus, the amount of which depends on the targets reached in each fiscal year with regard to earnings before taxes, share price and certain strategic goals. The goals are agreed in an annual target agreement made between the Supervisory Board and each Board of Directors member.

Variable long-term remuneration, which may be paid out under certain conditions (also in the case of change of control) is linked to a long-term increase in PSI AG's market capitalization above a set amount. The requirements for the payment of these remuneration components have been reached in fiscal 2010. In December 2010, 50 % of this remuneration was paid out. The final payment will be made in July 2011.

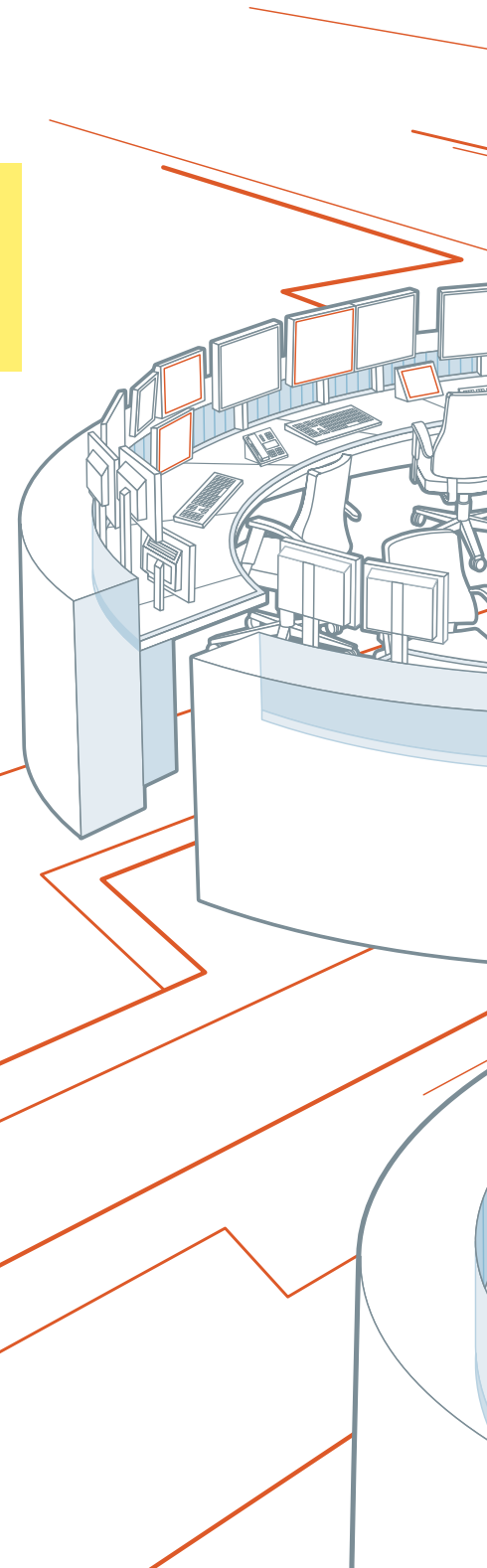
As of December 31, 2010, members of the Board of Directors and Supervisory Board held the following number of PSI shares:

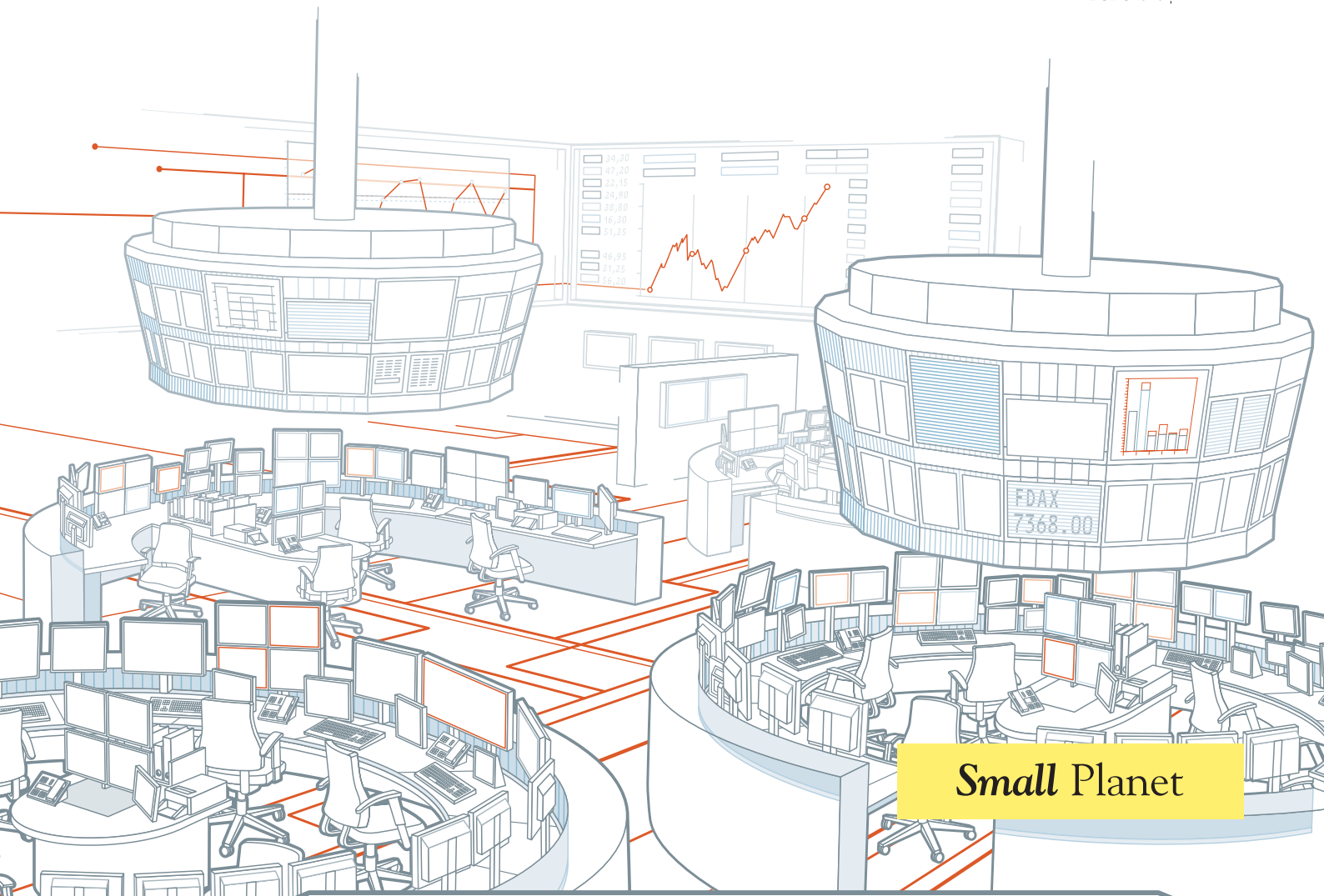
	2010 Shares	2009 Shares
Board of Directors		
Dr. Harald Schrimpf	71,000	71,000
Armin Stein	23,300	23,300
Supervisory Board		
Dr. Ralf Becherer	2,268	2,268
Wilfried Götze	54,683	54,683
Bernd Haus	1,000	1,000
Barbara Simon	7,890	7,890
Karsten Trippel	124,450	124,450
Prof. Dr. Rolf Windmüller	6,305	6,305

At this time, PSI has no stock option program or comparable incentive systems in place. In 2010, members of the boards did not carry out share transactions.

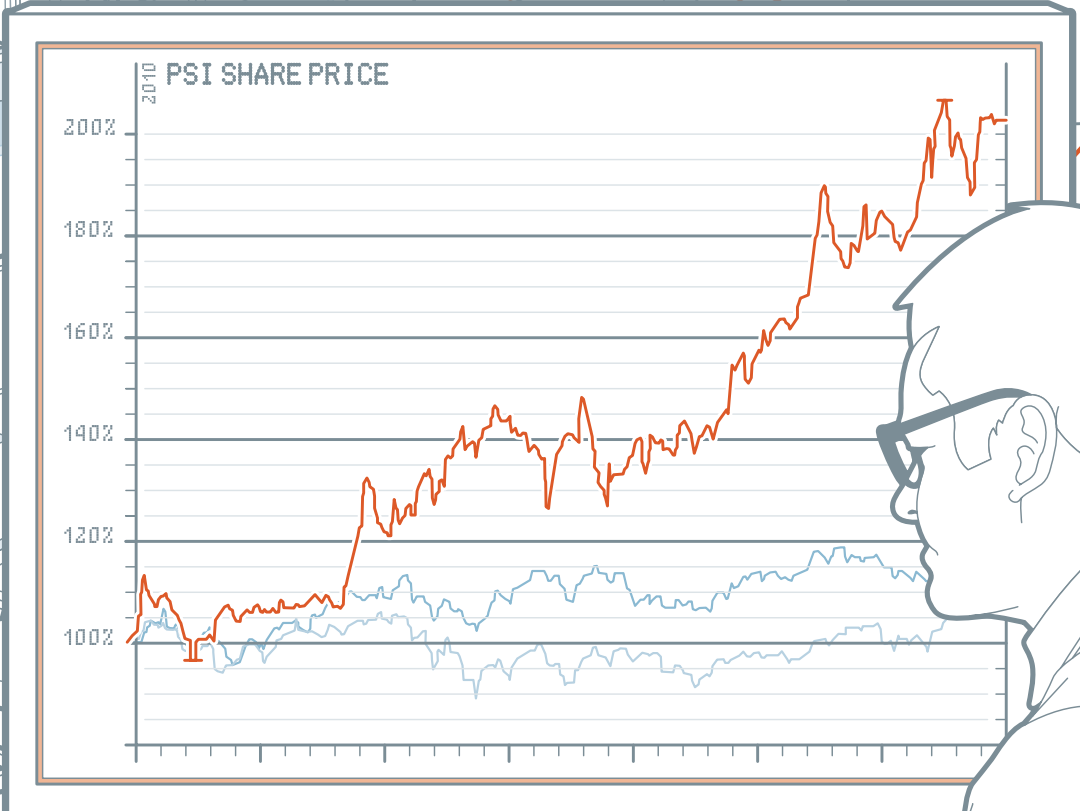
The PSI share – for tomorrow's world

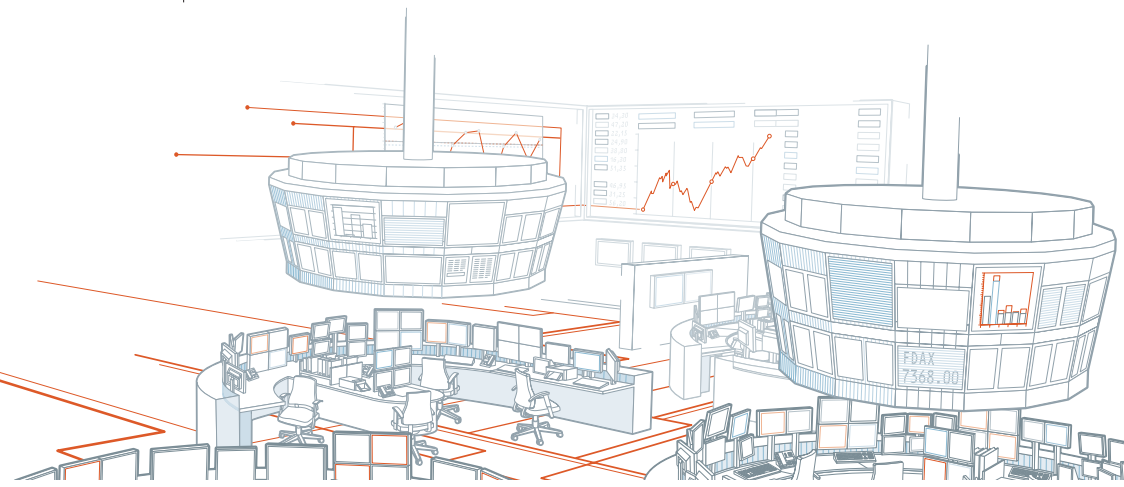
Our communication with investors in 2010 had a clear focus: PSI's future globalization and product strategy, and the extraordinary opportunities offered by changes to the energy markets. We were able to significantly increase awareness of the PSI share amongst investors and analysts. As a result, the price of the PSI share again performed considerably better than all relevant market indices.





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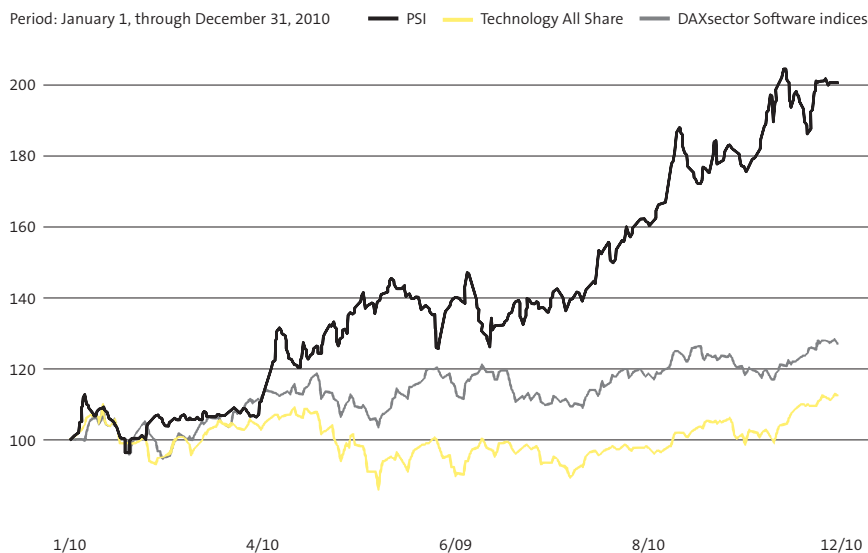




The PSI share started 2010 at EUR 8.85 and until the end of March showed no clear trend. From April onwards, it then rose sharply: The share rose in several stages until it reached a new 9-year high of more than EUR 18 at the beginning of December. At the year-end, the PSI share was EUR 17.85 – a year-on-year increase of 102%. As a result, it outperformed the German leading index, the DAX, which rose by 16% over the year, the DAXsector Software Index, which was up 20% for the year, and the Technology All Share Index, which rose by 9%. The DAXsector Software Index includes all software shares listed in the Prime Standard of Deutsche Börse. The broader Technology All Share Index encompasses all technology stocks in the Prime Standard.

In 2010 we again intensified our communication with the capital market. PSI presented at 12 analysts' conferences and 15 investor road shows in all of Europe's major financial centers. Our regular dialog with the financial and business media, analysts, institutional and private investors focused on our positive economic growth, international opportunities for growth, and the significance of smart grid technology for PSI's energy business. Over the course of the year, five more research institutes took up coverage of the PSI share, including Deutsche Bank, Berenberg Bank and American investment bank Jefferies International. This doubled the number of analysts regularly commenting on the performance of PSI.

PSI share price versus Technology All Share and DAXsector Software indices



This broad interest in PSI not only brought about price increases, but also a 65 % rise in the trading volume of the PSI share. As a result, PSI was able to establish its position among the 45 most liquid and the 30 leading market capitalization German technology shares by the year-end. The percentage of shares held by investors subject to disclosure requirements decreased from 56.5% to 48.7% compared to 2009 after one major investor took his exit and several funds came on board.

Our financial communication was again recognized in 2010: At the world's largest annual report competition, the "International ARC Awards – World's Best Annual Reports," the PSI Annual Report received one Gold and one Honors award.

Clear targets to guide our course for 2011: We want to continue our successful growth and globalization course, and to increase our revenue and income for the seventh year in a row. We will continue our intensive capital market communication in order to attract the attention of other institutional investors and analysts. A focus of 2011 will be increased dialog with international investors and specialized Cleantech investors.

The growth in revenue and earnings forecast by analysts for the years to come, along with continuation of our dividend policy launched in 2010, offer excellent prospects. We are convinced that despite the higher valuation for the next few years, there is further significant potential for the PSI share price to increase.

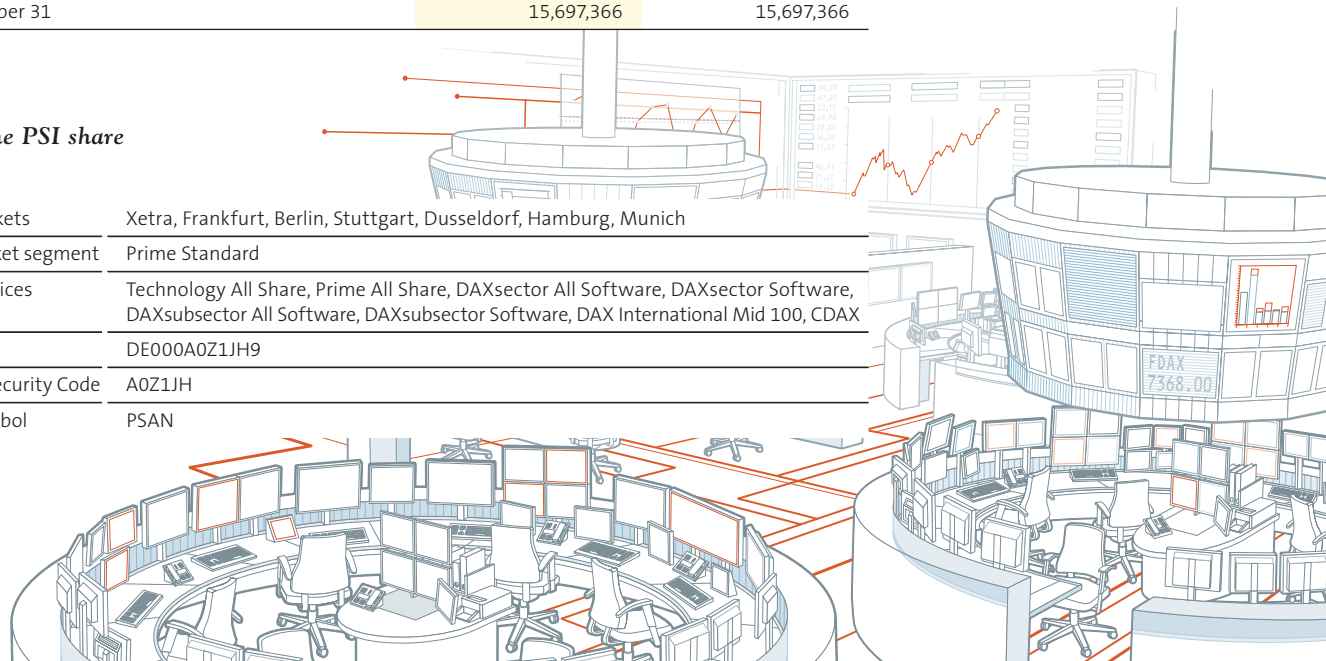
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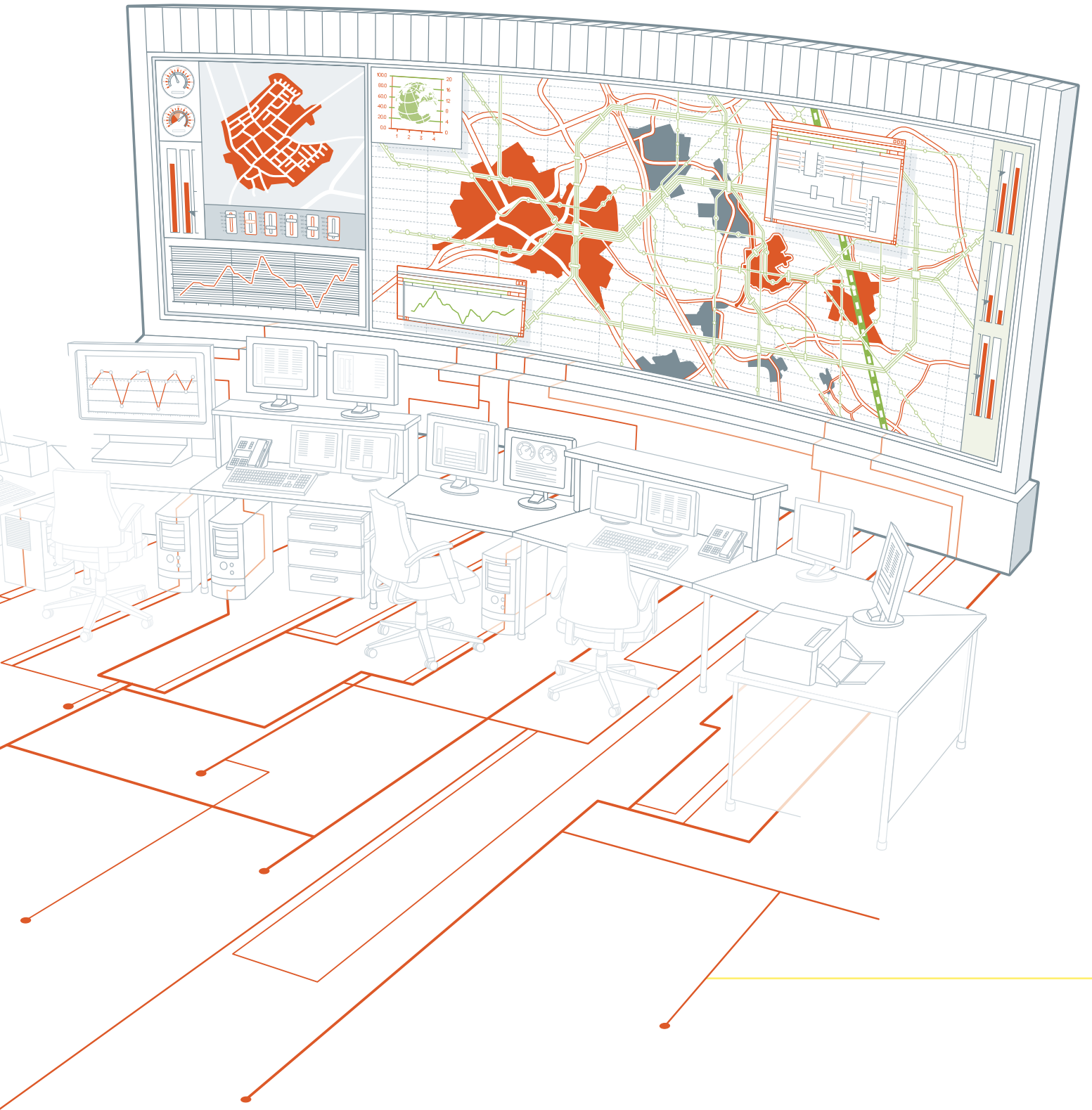
Key figures on the PSI share

		2010	2009
Earnings per share	EUR	0.45	0.46
Market capitalization on December 31	EUR million	280,197,983	138,921,689
Annual high	EUR	18.65	10.07
Annual low	EUR	8.25	3.60
Number of shares outstanding on December 31		15,697,366	15,697,366

Data on the PSI share

Stock markets	Xetra, Frankfurt, Berlin, Stuttgart, Dusseldorf, Hamburg, Munich
Stock market segment	Prime Standard
Part of Indices	Technology All Share, Prime All Share, DAXsector All Software, DAXsector Software, DAXsubsector All Software, DAXsubsector Software, DAX International Mid 100, CDAX
ISIN	DE000A0Z1JH9
German Security Code	A0Z1JH
Ticker symbol	PSAN





Solutions for a world in motion

Managing the closer integration of the world

Our planet is already populated by almost seven billion people. As the world's population inexorably grows, the regions of the world are growing closer together. The driving forces behind this development are the globalization of the world economy, increasing mobility and increased networking through new digital media. Massive growth in emerging countries in particular is driving these processes forward at great speed.

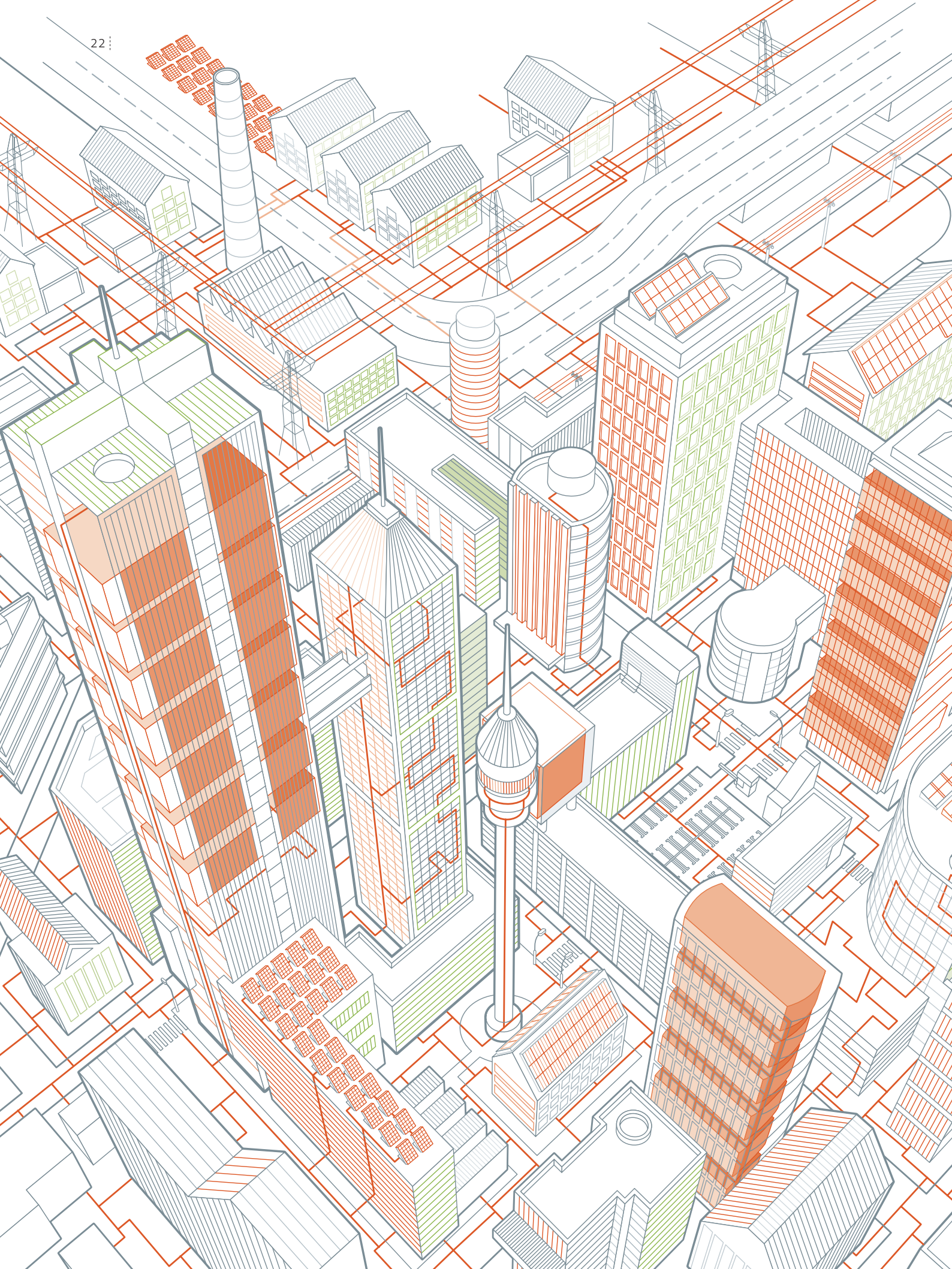
Software supports sustainable growth

The earth's natural resources are limited – further growth will be possible only if resources are protected. This requires intelligent software solutions for the economical and ecological management of labor, energy and raw materials. The challenges range from efficient raw materials production, to avoiding losses through the transport and distribution of energy, to the careful use of resources in energy-intensive industrial processes. Efficient and safe supplies of energy and goods are crucial here. Highly flexible software will therefore be the deciding factor for success, although it accounts for only a small portion of costs the system technology it is used with.

Global rise in demand for intelligent solutions

PSI process control solutions were initially developed for the management of largescale energy grids and complex production and logistics processes. Originally designed for the highly demanding German market, they are highly scalable and offer comprehensive options for simulation and optimization. Thanks to these unique features, the international demand for our solutions has risen sharply in recent years. In 2010, for the first time we received more than half of our orders from export markets. Our locations in Asia, North and South America, and Central and Eastern Europe allow us to contribute in the future to the growth and sustainable development of our planet.

Small Planet



A stylized architectural line drawing of a cityscape, featuring various building outlines and a network of orange lines representing power lines or infrastructure. The drawing is positioned on the left side of the page, extending from the top to the bottom.

A world full of energy

Head start in the changing energy markets

The energy supplies of the future

The supply of electrical energy is currently undergoing a fundamental shift in Germany and many other countries. For many decades, electricity production was dominated by traditional large power stations, which were built in the immediate vicinity of large centers of consumption. The transportation and distribution networks were set up and optimized for this centralized approach. The rapid expansion of renewable energies has dramatically changed this supply structure in recent years. Renewable energies involve a number of smaller, more local systems, which are sited away from centers of consumption, particularly in windy coastal regions and rural areas. Due to the natural changes in weather conditions, renewable energies are subject to major supply fluctuations. For existing transport and distribution networks, this means both a sharp rise in the need to transport electricity over long distances, and destabilization of the grid. Moreover, additional capacity demand in low-voltage distribution networks is expected due to the growth in electromobility.

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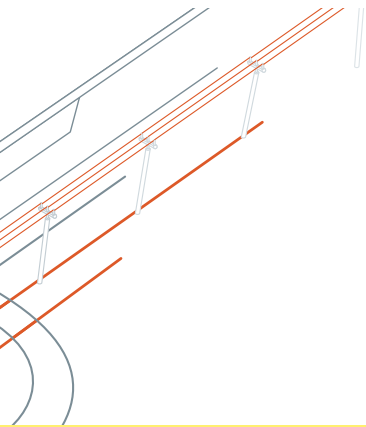


Growing importance of software for network management

In 2010, 17% of Germany's electricity came from renewable energies. By 2020, this should reach at least 35% according to plans by the federal government. The expansion and reorganization of existing electricity networks is unable to keep pace with the growth in renewable energies, so intelligent software is gaining in importance for the management of these networks. Functions such as thermal overhead line monitoring in high-voltage networks improve the utilization of the limited transport capacity in the network. Exact forecasts for consumption, wind and solar production help to recognize and avoid bottlenecks and critical network states in good time. Grid calculations, feed-in and load management, and the linked control of a group of smaller generators as a virtual power plant can help grid operators to master the increased complexity of these systems.

Greater complexity at all levels

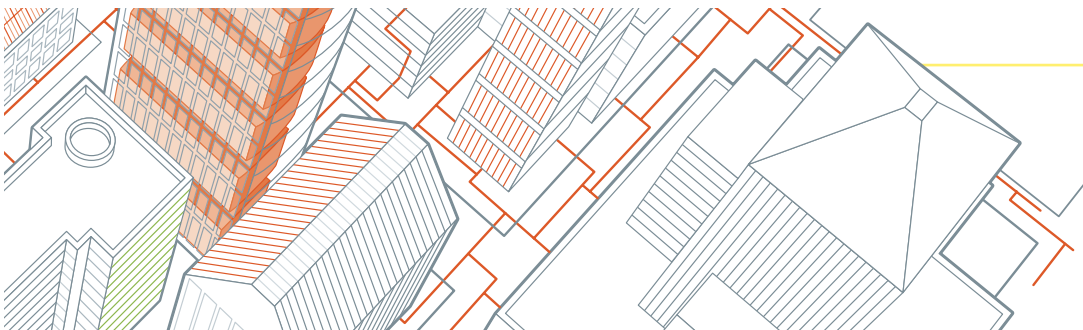
In the long term, the further expansion of renewable energies will require fundamental changes to the electricity grid. In addition to improved storage technologies, these changes include intelligent consumption control using smart grid technologies, and the large-scale balancing of energy production and consumption via pan-European supergrids. In future, this will require greater automation for low voltages with intelligent forecasting and optimization algorithms which were previously only used for high and medium voltages. In the high-voltage field, the complexity will be increased further still through the creation of supergrids. Consequently, software solutions are increasingly a strategic factor for success in controlling the rising complexity for grid operators.



PSI solutions for networks of the future

PSI offers unique experience in developing control systems for the management of large and maximum transport and distribution networks, for almost all leading German and many international grid operators in Europe and Asia. These systems combine high operational safety with functions for controlling the flood of information created by the rising complexity of networks and the increased use of intelligent network equipment. Thanks to its experience on the German market, which is one of the international front runners in the expansion of renewable energies, PSI solutions are attractive for industrialized and emerging countries planning to expand their renewable energies over the next few years.

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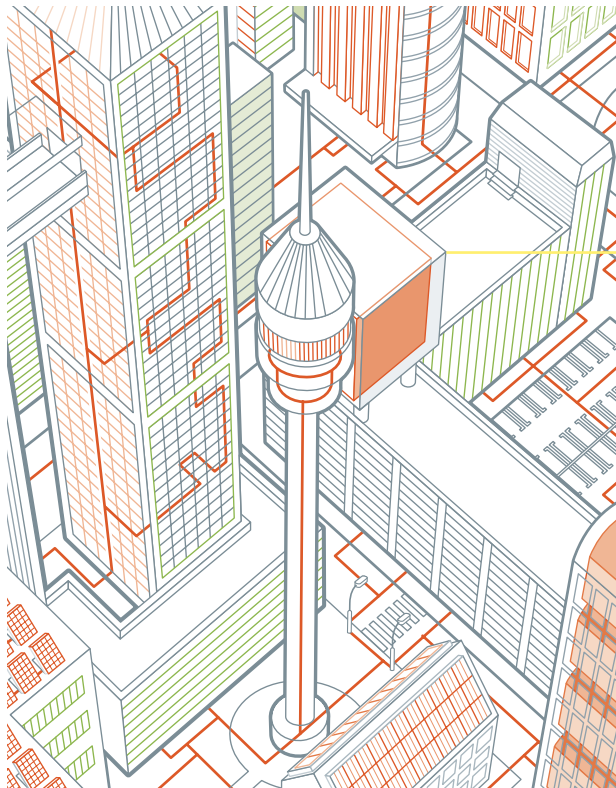
Leading position with gas suppliers

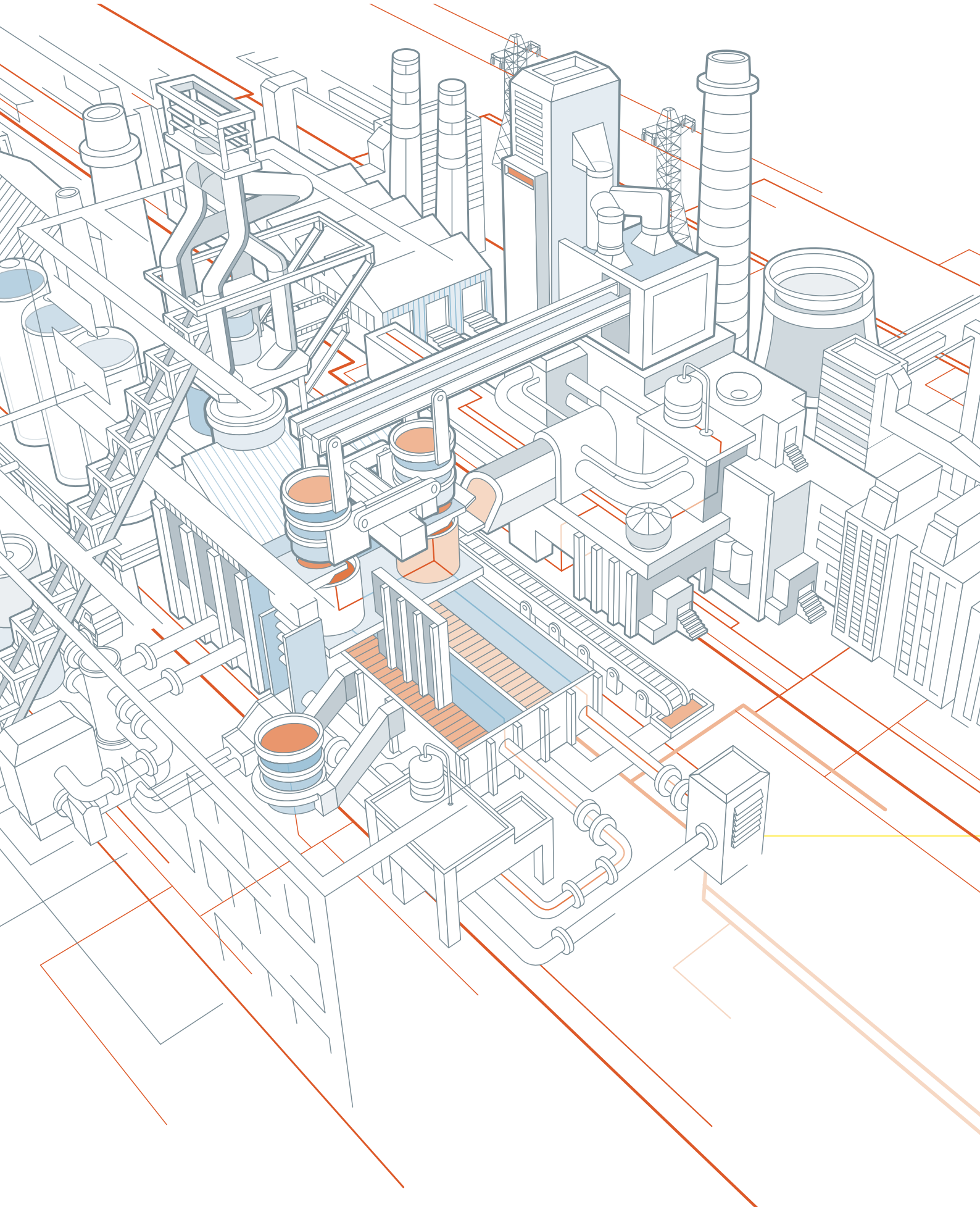
PSI also provides solutions for the transportation, distribution, and management of gas and oil, which support the environmentally-friendly, safe and economic operation of complex gas networks and oil pipelines, and contribute to the efficient handling of gas and oil. Functions for optimized control minimize technology-related losses. Leak detection and identification systems help to reduce losses when transporting gas and oil over large distances, and ultimately prevent environmental damage. Building on its leading position on the German market, PSI has continuously expanded its international position for gas and oil solutions in recent years. It was for this reason that Gazprom, the world's leading natural gas supplier, commissioned PSI with the supply of software for the control system for its main north European gas transport pipeline.

Injecting energy into the world's energy markets

Our range of services includes energy management systems for energy trade and energy sales in liberalized energy markets, and other energy and gas management solutions for electricity and gas suppliers, trading and sales companies. Overall, this makes PSI one of the largest suppliers to the energy industry at the national and international level. We want to build on this so that we can continue to recognize trends in the energy market early, and help our customers implement new requirements and thereby participate in the growth of energy markets.

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Production for the countries of the world

Efficient processes for sustainable growth

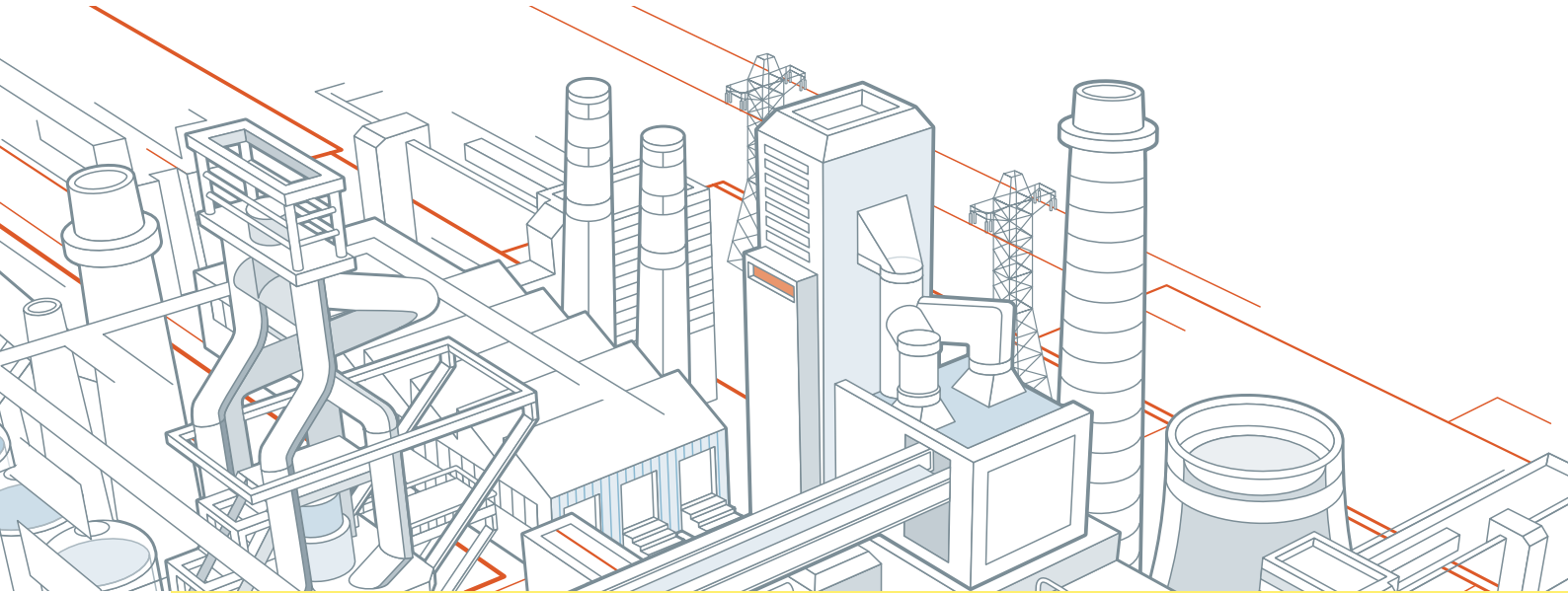
Global growth course for industrial production

In 2010, the global economy returned to its growth course. Demand by emerging economies in particular for industrial equipment, vehicles and consumables led to growth in industrial production. In light of increasing energy prices and shortages of raw materials, the efficiency of industrial value creation processes is becoming ever more important worldwide. Energy-intensive industries such as raw material extraction, metals production, vehicle manufacturing, mechanical and plant engineering are increasingly investing in production optimization in order to further improve the cost-effectiveness and competitiveness of their products. In the past years, PSI has successfully focused on the energy-intensive industries which now have the highest demand for software solutions to increase efficiency.

Optimal use of resources for metals production

The production of steel, aluminum and other metals is directly affected by the costs of energy and raw materials. At the same time, the demand for quality and flexibility in metals production has continuously increased over the past years. Given these challenges, the optimal planning and control of production process in the metals industry is essential for the success. If resources are not used efficiently, valuable savings potential is lost. This is where the PSI software solution for metals production comes in, bringing efficiency improvements to facilities already running capacity, and helping users provide quality products and meet deadlines. The optimization of energy use is a particular area of focus addressed by an integrated energy management system. With more than 40 years of experience, PSI is a leading software provider for the metals industry.

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Transparency creates more efficiency for mining

In recent years, together with a large German pilot customer, PSI has developed a new software solution for the improved control of raw material extraction. This highly available system integrates different information and applications which had previously only been usable separately. This creates transparency throughout the entire mining process, thereby enabling overall improvement and quicker reaction to faults and unplanned events. The geo-supported extraction control and combination of geological information with current machine status greatly increases the proportion of mined material compared to the non-usable component. This means that the software costs amortize quickly, making the solution attractive for the improvement of mining efficiency and safety even in emerging economies.

Innovative solution for turbine manufacture

For many years, PSI has specialized in integrated production management solutions in mechanical and plant engineering. Recently PSI has also developed software components for the planning, control and monitoring of special production and maintenance processes in the fields of energy generation and aviation. Together with industry-leading pilot customers in the fields of turbine manufacture and aircraft maintenance, PSI has added an integrated solution for optimized manufacturing control to its software portfolio. This greatly increases the efficiency of resources use in production and maintenance. Based on these successful projects, PSI will further extend activities in these attractive mechanical and plant engineering sub-segments in the coming years.

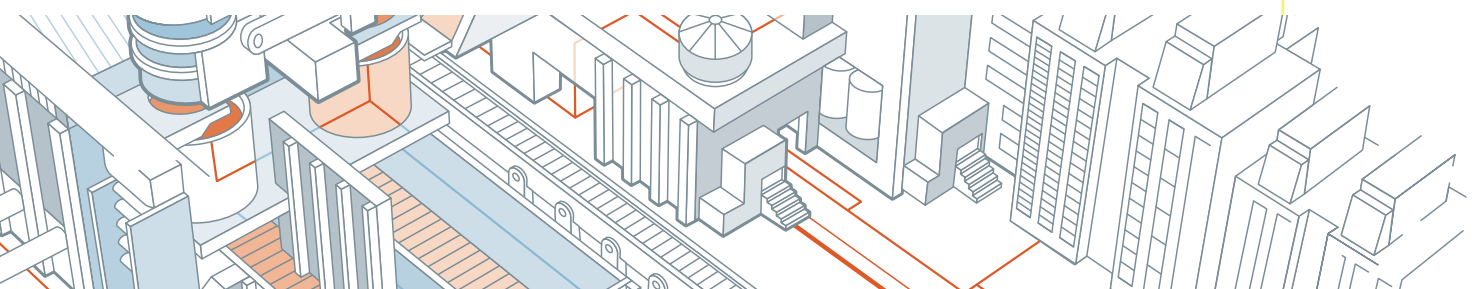
Optimal production sequence in automobile manufacture

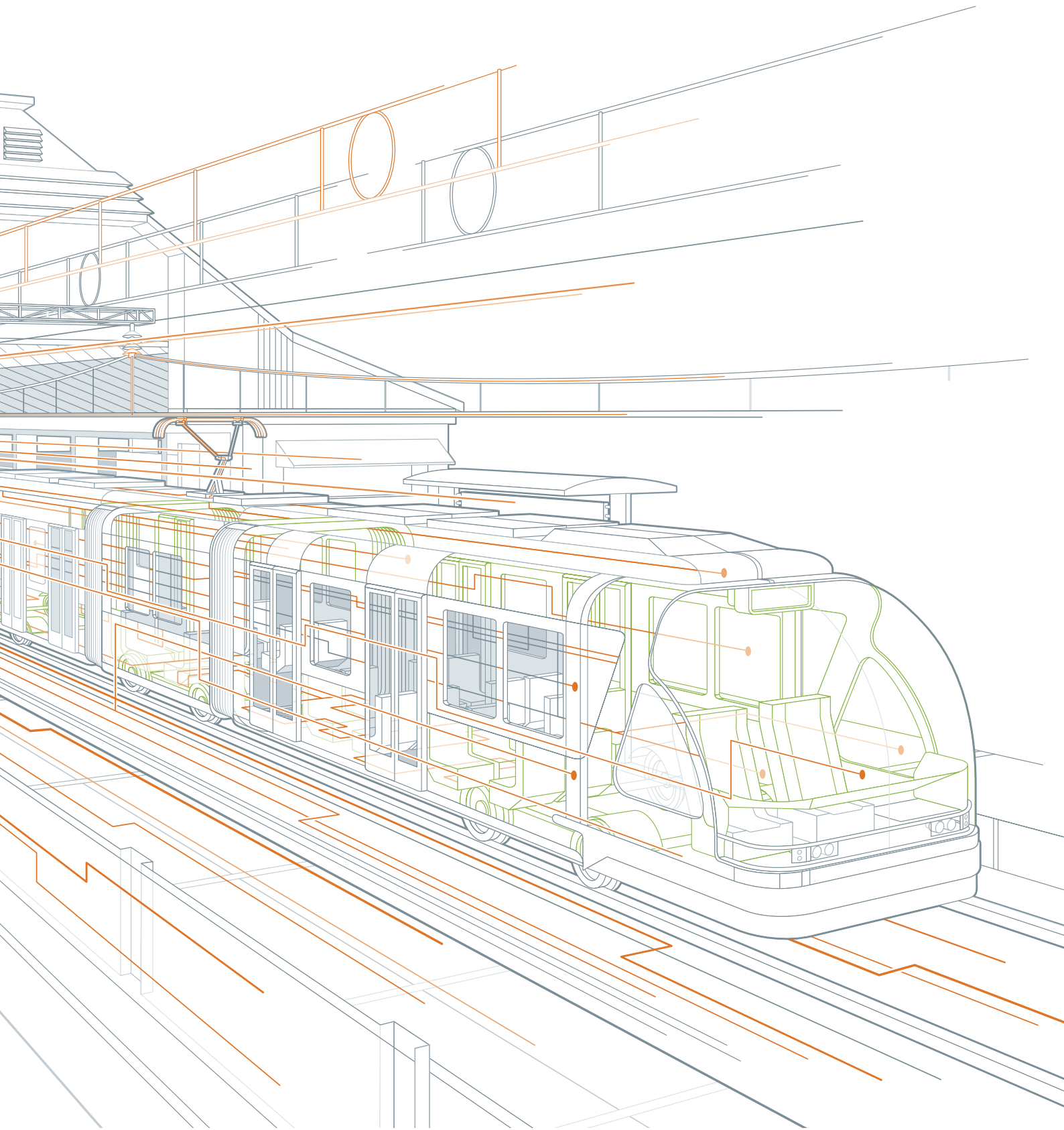
PSI has been developing software solutions for various production control and logistics tasks in the automotive industry for more than two decades. As part of product platform harmonization, an integrated solution for the efficient production for automobile manufacturers and suppliers was created, bundling industry experience from the various areas of the PSI group in one software product. The central feature of this new software is an optimization core which is already being used successfully at more than 30 automotive industry production sites for sequencing across all production levels. As a result, the PSI software also significantly contributes to the economic and efficient treatment of the resources used in vehicle production.

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Dynamic optimization of logistic networks

Efficient logistics processes are an important factor for the cost-effectiveness and sustainability of industrial production, and will only become more important in the future. This is true both of intralogistics – material flows within a company – and of the large-scale optimization of goods flows as part of logistic networks. For many years, PSI has been developing products both for the optimal support of intralogistics and for efficient transport planning. With a recently developed software product, PSI also supports the dynamic optimization of complex logistics networks with multiple locations. It optimizes driving times and routes, having a positive effect on existing resources and energy consumption. PSI will continue to invest in solutions which contribute to improving resource usage, energy consumption, and quality in production and logistics. Because this is where industry is headed all over the world.





Traffic systems connect the world

Solutions for efficient infrastructures

All over the world, high-performance transportation infrastructures are the backbone of modern society. The fast population growth and rapid expansion of big cities in emerging economies require high levels of investment in public transport. Due to this strong growth and high investment, efficient monitoring and control of transportation infrastructures is becoming increasingly important.

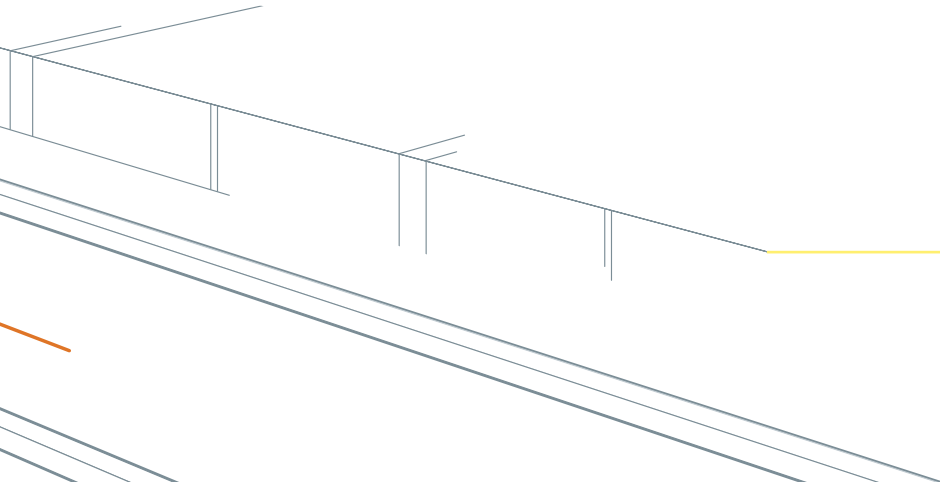
Control systems for more attractiveness in local public transport

Today, software-based control systems are an important tool for the safe and economic operations of public transportation infrastructures. PSI operations control systems support the monitoring and control of operations, as well as special functions such as passenger information, schedule synchronization and fault management. This increases the safety, cost-effectiveness and attractiveness of local public transportation – essential to provide an attractive alternative to motorized individual transportation.

Efficiency advancement in depot management

The newly developed depot management system is a unique PSI offering in the transportation control systems market. The software is designed for vehicle utilization planning and disposition based on schedules. An intelligent optimization core, that has already proven its value in numerous industrial and logistical applications, significantly increases cost-effectiveness and efficiency. It lets operators reduce vehicle fleet size while maintaining traffic performance, improve maintenance planning and reducing shunting, downtime and out of service conditions.

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“PSI makes a major contribution to ensuring that consumers have reliable sources of renewable and conventional energies, and that industry and its goods and jobs are competitive, efficient and conserve resources.”

Dr. Harald Schimpf
PSI director of Marketing,
Sales and Technology

Consolidated Management Report

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BUSINESS AND STRATEGY

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

- Electricity, gas, oil, district heating and water utilities
- The metals, raw material extraction, mechanical and plant engineering, automobile and automobile supply, and logistics industry
- Infrastructure operators in the fields of traffic, security and environmental protection.

Accordingly, the Group is organized into the three segments Energy Management, Production Management and Infrastructure Management. The PSI Group develops and sells its own software products for these sectors, including complete systems based on these products.

In Energy Management, the PSI Group develops control systems for electric networks, combined energies control systems, gas and pipeline management systems and solutions for energy trading, energy sales and portfolio management on the deregulated energy market.

In Production Management, PSI has an integrated solutions portfolio for the planning and control of production and logistics processes in selected industries and for logistics providers.

Infrastructure Management includes control solutions for the monitoring and operation of transport/traffic, public safety, environmental protection and disaster prevention infrastructures.

With more than 1,400 employees, PSI is one of Germany's largest software manufacturers. As a specialist for high-end control systems, PSI has grown to become a leader, particularly among utilities and metal manufacturers – not just in Germany but also in other parts of the world. The functionality and innovative character of PSI's products are key competitive advantages. Founded in 1969, PSI is one of Germany's most experienced information technology companies.

The PSI Group's German offices are in Berlin, Aschaffenburg, Dortmund, Dusseldorf, Essen, Hamburg, Hanover, Karlsruhe, Munich, Stuttgart and Würselen. It also has international locations, including subsidiaries and representative offices in Argentina, Austria, Bahrain, Belgium, Brazil, China, India, Malaysia, the Netherlands, Poland, Russia, Switzerland, Thailand and the US.

The Group strategy is centered around growth, international expansion and concentration on the core business. To meet its strategic goals, the PSI Group aims to be a technological leader with a high rate of innovation, helping to set the pace and shape trends in its target industries. Product and technology development includes collaborating with clients on pilot projects.

PSI is pursuing a growth strategy with a heavy emphasis on international markets. The number one source of growth is exports to the markets of Eastern Europe and Asia. PSI aims at further extending its export share in the next years and to open up additional geographical markets. This will lead to economies of scale, thereby creating the conditions for a further increase in profitability.

In the last five years, this strategy has enabled the PSI Group to continually grow revenues and earnings. During this time, the international share of Group revenues and incoming orders more than doubled.

BUSINESS DEVELOPMENTS AND ECONOMIC SITUATION

IT and software market back on track

The German IT market, which contains the segments hardware, software and IT services, grew by 2.7 % in 2010 after contracting by – 6.5 % in the prior year. The market segment of software of relevance to PSI showed a slightly weaker growth of 2.4 % compared to the overall market. In the prior year, the software market contracted by – 4.9 %.

German economy 2010 – rapid growth after the crisis

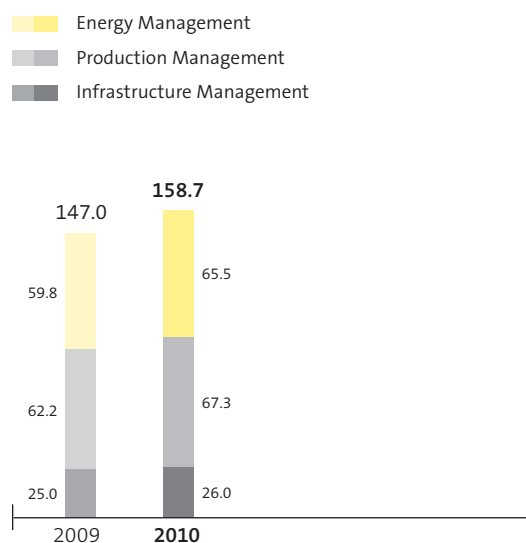
In 2010, the German economy grew more than it has done since the reunification of Germany. The gross domestic product, which had dropped by – 4.7 % in the prior year, went up by 3.6 %. Investments in other assets, including computer software and copyrights, went up by 6.4 %, stronger than in the prior year with 5.6 %.

The manufacturing industry recorded growth of 10.3 % in gross value added in 2010, as against a decline of – 16.7 % in the previous year. The global steel industry, for which PSI is a major software provider, experienced a rapid recovery in 2010. Global steel production increased by 15.1 %, whereas it had declined by – 6.1 % in 2009.

Number of PSI orders received grow by two digit figure

In this positive economic climate the PSI Group continued its positive course of the preceding years, and achieved growth in sales, operating result and Group result. Incoming orders increased by 18 % to EUR 177 million, even more strongly than revenues. Order backlog at year-end was EUR 108 million, growth of EUR 11 million over the prior year.

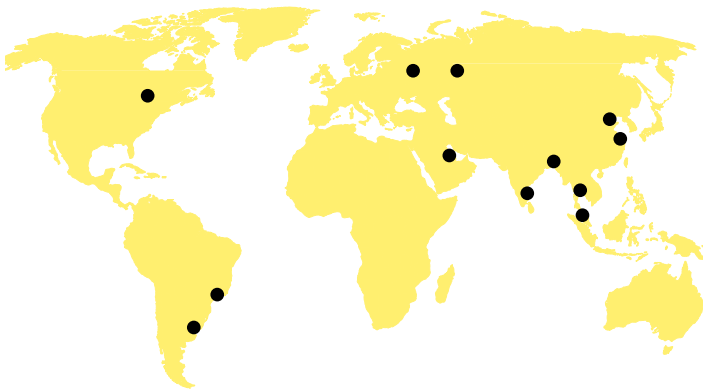
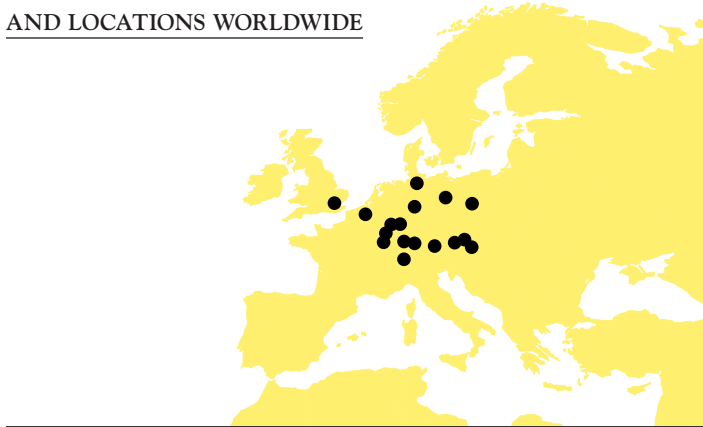
PSI REVENUE GROWS IN ALL SEGMENTS (EURO MILLION)



GROUP STRUCTURE AS OF DECEMBER 31, 2010

Energy Management	Production Management	Infrastructure Management
PSI AG	PSI Production GmbH 100 %	PSI Transcom GmbH 100 %
Electric energy	PSIPENTA GmbH 100 %	PSI Produkty i Systemy
Gas/Oil	PSI Metals GmbH 100 %	Informatyczne Sp. z o.o. (Poland) 100 %
PSI Nentec GmbH 100 %	PSI Metals Austria Group 100 %	inControl Tech Group 100 %
PSI Energy Markets GmbH 100 %	PSI Metals Non Ferrous GmbH 100 %	Cellis GmbH 100 %
PSI CNI GmbH 100 %	PSI Information Technology	
OOO PSI Energo (Russia) 24.9 %	Co. Ltd. (China) 100 %	
caplog-x GmbH 25 %	PSI Logistics GmbH 100 %	
	PSI AG (Switzerland) 100 %	
	FLS FUZZY Logik Systeme GmbH 100 %	
	OOO PSI (Russia) 100 %	

INTERNATIONAL PRESENCE AND LOCATIONS WORLDWIDE



● PSI locations

As in the previous years, the PSI Group benefited from the fact that its process management solutions are aimed directly at the efficiency of value adding processes, so that they amortize very quickly. In 2010, after getting through the economic crisis, many customers are again focusing on investments in the optimal use of their existing capacities and in the efficient use of resources. PSI itself again invested in extending its international market position, in the new control system for raw materials extraction and in the Group-wide technology platform.

On December 31, 2010, the PSI Transcom GmbH Telecommunications unit was sold. With this step, the PSI Group continues its thematic focus on software products for energy, industry and infrastructure providers in the areas of Traffic and Environment.

PSI Metals North America, Inc. was founded at the end of the year, and entered in the trade register of the state of Delaware in January 2011. The new company will first of all focus on marketing PSI solutions in the North-American steel industry and providing local support to existing customers. PSI Metals North America, Inc. belongs to the Production Management segment.

As part of a pilot project, PSI made further investments in PSImining, obtaining partial approval by the pilot customer in December 2010. PSImining is a central control system used to increase mining productivity, which was developed specifically for use in countries such as China, Australia or Russia.

The PSI Group approximately achieved its own 2010 targets of EUR 160 million in revenues and EUR 10 million in operating results, despite the difficult economic environment. The operating result before depreciation from the purchase price allocation was EUR 11.4 million. The objective of EUR 170 million of new orders was achieved and exceeded.

RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

EARNINGS

Consolidated revenue up

Consolidated revenue for 2010 came in at EUR 158.7 million, surpassing last year's figure of EUR 147.0 million by 8%. Whereas Energy and Production Management showed a clear increase, revenues in Infrastructure Management were only slightly above prior year levels. Revenue per employee, measured by the average number of Group employees, increased from EUR 108,000 to EUR 112,000 in spite of the lower hardware revenues, primarily due to the higher productivity of own added value.

Reduced third-party proportion

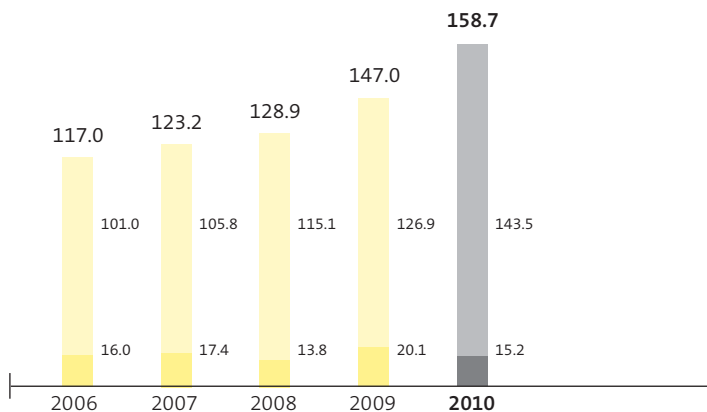
Expenditure on acquired goods and services decreased by EUR 2.2 million to EUR 26.3 million, particularly due to lower costs of goods purchased for Infrastructure Management. While expenditure for purchased services grew by EUR 2.3 million, project-related purchases of hardware and license fees dropped by EUR 4.5 million. Personnel expenses increased, due in large part to the acquisitions taken into account in 2009 only on a pro-rata basis, by 13% to EUR 94.2 million.

Improved operating and Group result

The Group's operating result improved by 22% from EUR 7.8 million for the previous year to EUR 9.5 million. Consolidated net profit rose 6% to EUR 7.0 million for the year under review, from a previous EUR 6.6 million. Earnings per share decreased slightly by EUR 0.46 to EUR 0.45, due to the higher number of shares. The Gas and Oil businesses, metal manufacturing industry, Transport and Telecommunications along with inControl Tech Group primarily contributed to this outcome. The result suffered from higher research and development costs, which were partially balanced out by sale of the Telecommunications business.

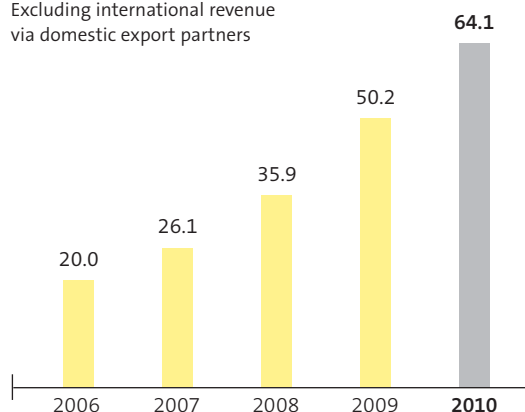
OWN ADDED VALUE CONTINUES TO INCREASE (EURO MILLION)

- PSI product and services revenue
- Hardware/external software revenue

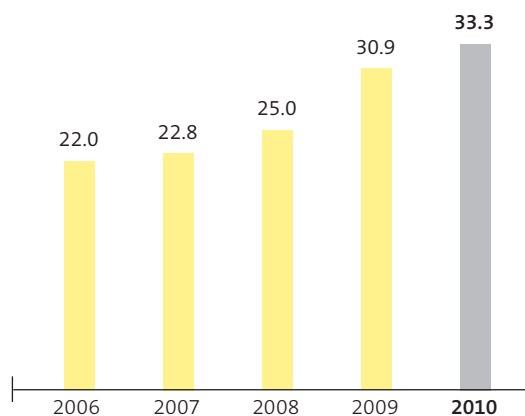


FOREIGN REVENUE UP BY 28% (EURO MILLION)

Excluding international revenue via domestic export partners



MAINTENANCE REVENUE CONTINUED UP (EURO MILLION)



New orders strongly on the increase

New orders for 2010 came in at EUR 177 million, surpassing last year's figure of EUR 150 million by 18%. The order backlog finished the year at EUR 108 million versus EUR 97 from the prior year.

Exports up again as percentage of total revenue

Revenues generated outside Germany rose to EUR 64.1 million from EUR 50.2 million through the disproportionate international growth and acquisitions in 2009. Exports thus increased from 34% to 40%. International orders increased from 33% last year to 51% of total orders. Maintenance revenue rose from EUR 30.9 million to EUR 33.3 million.

Production Management was again the main sales engine in 2010. This segment generated 42 % of Group revenues. The Energy Management percentage was also 41 % as in the prior year, whereas that of Infrastructure management dropped from 17 % to 16 %. Infrastructure Management includes the revenues of the inControl Tech Group, which, apart from infrastructure projects, also trades in Energy Management for Asian customers.

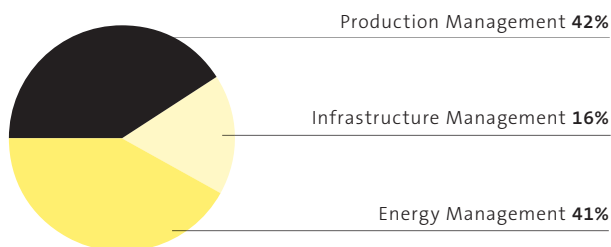
Energy Management segment increases revenues and earnings

In 2010, Energy Management particularly gained large export orders and acquired important new customers, whereas existing customer business continued to show a stable development. Total revenue increased by 10 % to EUR 65.5 million. The segment encompasses electrical energy, gas, oil, heat, water and energy trading. In spite of investments in the development of protocols and interfaces according to American standards, the operating result increased by EUR 4.3 million in the prior year to EUR 4.7 million. The Gas and Oil businesses continued on the positive track of prior years and received multiple orders from Gazprom. The Energy trading systems business was also able to improve its result, whereas the Electrical Energy business suffered from investments in intelligent networking functions and international standards.

Production Management generates higher revenues

Production Management posted 8 % higher revenue in 2010, of EUR 67.3 million. New orders greatly increased compared to the prior year. In this market segment, PSI develops solutions for production and logistics planning and controls. The segment's operating result dropped from EUR 2.1 million for the previous year to EUR 1.3 million. This was due primarily to higher investments in the raw material extraction control system as part of the pilot project, and to depreciation and amortization from the allocation of the purchase price for the AIS Group allocated to this segment. PSI Metals, which focuses on the steel industry, was able to acquire numerous new international customers and to further grow profits. ERP software provider PSIPENTA acquired a number of new clients, generating positive earnings once again. FLS repeated its good prior year result, whereas PSI Production suffered from investments in the raw material control system. PSI Logistics achieved a slightly positive result.

REVENUE ALLOCATION BY SEGMENT



Infrastructure Management with a higher result

At EUR 26.0 million, Infrastructure Management had 4 % higher revenues in 2010. The increase in added value was in this case accompanied by a reduction in hardware revenue. The operating profit increased by EUR 2.2 million in the prior year to EUR 4.4 million, which includes both depreciation and amortization from the allocation of the purchase price for the inControl Tech Group and the effect on profits from the sale of the Telecommunications business. Apart from this, Traffic Technology and PSI Poland also contributed to the improved result of the segment.

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. In order to finance the extension building in Aschaffenburg, a long-term loan was taken out.

Predominant financing through operating business

PSI capital expenditure goes mainly to product optimization and further internationalization of the Group. Both are financed as far as possible from operating business. PSI focuses on major pilot customers and dependable partnerships for international growth and for the development of new products and functionalities.

As of December 31, 2010, PSI had guarantee and credit lines of EUR 104.6 million to finance ongoing business. In the prior year, the guaranteed and bank credit facility amounted to EUR 87.9 million. The claimed amount related almost entirely to the guaranteed loan, and on the balance sheet date had increased slightly from EUR 42.0 million in the prior year to EUR 42.4 million. The Group was in a position to fulfill its payment obligations at all times in fiscal 2010.

Cash flows from operating activities showed clear increase

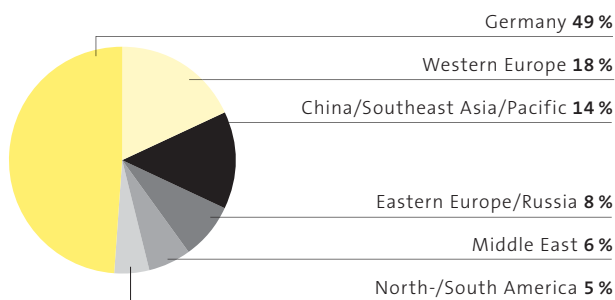
Cash flows from operating activities increased to EUR 13.1 million. In the prior year, due to an extension of working capital relating to a project, this was EUR 4.4 million. Changes in working capital stem mainly from fluctuations between project phases, in which advance payments from customers are greater than the services performed, and project phases, in which the services performed are greater than the customer payments already received.

Cash flows from investing activities were EUR – 6.8 million, mainly due to investments in the extension building in Aschaffenburg. In the prior year, due to acquisitions of the AIS Group, this was EUR – 15.9 million.

Cash flows from financing dropped to EUR 1.5 million due to a first-time dividend payment and taking on a new loan. In the prior year, due to an extension of working capital relating to a project, this was EUR 8.6 million. As of year-end, cash and cash equivalents increased from EUR 20.8 million to EUR 28.9 million.

ASSETS**Assets structure: Investments in an extension**

In 2010, the PSI Group invested EUR 6.9 million in intangible assets and property, plant and equipment. In the prior year, cash investments had been EUR 18.9 million. Capital expenditure was for intangible assets and plant, property and equipment acquired from third parties. The biggest individual item in 2010 was an investment in an extension building in Aschaffenburg.

MORE THAN HALF OF INCOMING ORDERS ARE EXPORT ORDERS

The carrying value of goodwill remained unchanged at EUR 43.9 million.

Balance sheet structure:**Equity ratio of 40 %**

The PSI Group's total assets rose in 2010 by 9 % to EUR 169.2 million.

On the assets side, non-current assets were up from EUR 61.2 million to EUR 65.0 million, due largely to the investment in the extension building. Current assets were up from EUR 93.5 million to EUR 104.1 million. Cash and cash equivalents grew by EUR 8.1 million, while trade receivables dropped by EUR 5.8 million and receivables from long-term contract manufacturing rose by EUR 4.6 million.

On the liabilities side, current liabilities grew from EUR 55.2 million to EUR 60.1 million, primarily due to the increase in other liabilities by EUR 2.6 million. Non-current liabilities went up due to a new long-term loan and an increase in pension provisions from EUR 33.3 million to EUR 41.0 million. Equity rose from EUR 66.3 million to EUR 68.1 million. The equity ratio went down from 43 % to 40 % due to a higher balance sheet total.

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 2010. Earnings and cash flow from operating activities in particular showed a positive development. For 2011, management expects higher earnings and a positive cash flow. The Group thus remains well-positioned financially to finance organic growth.

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 the PSI Group. 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.

For new product development PSI works closely with pilot customers who are industry leaders. This collaboration ensures that customers gain benefits from the 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 the new products thus developed.

The implementation of the Group-wide platform strategy is a central focus of development activities. PSI thus established a Group-wide development community designed to promote sharing software components within the Group and product platform convergence. Convergence promotes further export growth and the use of core products across all business units. It also allows for lower development costs.

In parallel with platform convergence and internal technology transfer, the Group continually develops new products, product extensions and product versions. The effectiveness is evaluated by pilot projects and market acceptance monitoring in the target markets.

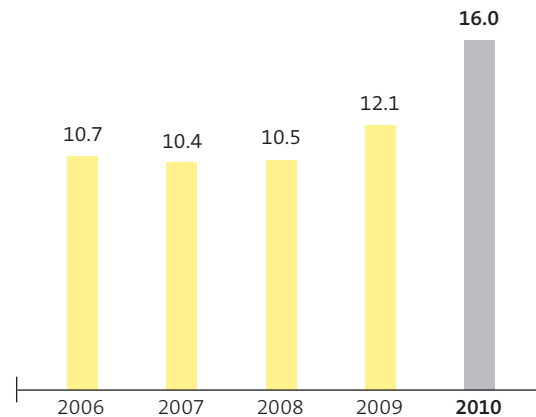
At EUR 16.0 million, PSI Group's R&D expenditure in 2010 was above the previous year's figure of EUR 12.1 million. This does not include any relevant purchased services.

The primary R&D objectives were:

- The new control system for mining automation
- Supporting protocols and interfaces for station technology and smart meters according to American standards
- Higher functions for the intelligent management of electric grids
- The combination of the product offerings in the Metals business in a new product version *PSI*metals 5 based on the Group standard
- The new UNICODE-capable *PSI*penta-Release 8.0
- Standardization of user interfaces and system components across the Group.

The new product *PSI*mining, a central control system for mining automation, already with international demand, was importantly partially approved by the pilot customer at the end of the year.

R&D EXPENDITURE SIGNIFICANTLY HIGHER (EURO MILLION)



The new *PSI*penta-Release 8.0 was presented at the CeBIT 2010, which was specifically extended by functionalities for project-based individual manufacturers. The new production management solutions for metals *PSI*metals 5 was successfully implemented for the first customer.

In Energy Management, the PSI Group has experienced greater international demand in recent years for control systems and more requests for functions related to the increased use of renewable energy sources. Accordingly, the PSI Group has invested more heavily in the expansion of international business, supporting international standards and the development of new functions.

Apart from product development, PSI has participated for many years in research projects for innovative technology development funded by the public sector. Topics of these research projects include platforms for creating self-regulating energy networks, controlling intelligent logistics networks and real-time logistics systems.

The findings of the projects are implemented under consortium agreements concluded among the participants of the respective research association. The funding covers approximately 40% to 50% of personnel and non-labor costs that the PSI Group incurs for its research projects. The provider of development funds is continually updated as to the use of the funds and the project status. In 2010, the PSI Group received a total of EUR 1.3 million in public subsidies.

SUSTAINABILITY

PSI solutions for sustainable business

For 41 years, PSI has been helping customers in the energy industry and in energy-intensive industries by providing software solutions to increase efficiency and use energy and raw materials responsibly. As a result, PSI production management systems for the steel and aluminum industry have functions which help to avoid consumption peaks by predicting energy consumption for all production stages. This means that energy use can be optimized. At the same time, it also supports the reuse of energy amounts released during production using special functions and optimization methods.

In the past years, PSI has been continuously extending its network management systems for large electrical transmission networks by adding functions which aid in the transmission of increasing amounts of renewable energy. This includes functions such as safety calculations, thermal overhead line monitoring, bottleneck, manufacturing and infeed management.

PSI gas management systems enable optimum control of the compressor stations needed for network operations, and minimize losses due to technical causes. Leak detection and localization systems contribute to reducing losses during gas and oil transports over large distances and to preventing environmental damages. In Logistics and Traffic in the past years, PSI has developed new solutions for the dynamic control of optimized logistics networks and energy-optimized rail traffic, among other things. This allows us to effectively support customers in reducing greenhouse gases and saving energy.

Energy efficiency of own processes

PSI itself also uses sustainable processes, such as the procurement of energy-saving IT equipment and when operating own locations. For example, in 2010, as part of an extension in Aschaffenburg, two block heating stations were erected in order to efficiently heat and supply the new and existing buildings with electricity.

Contribution to research

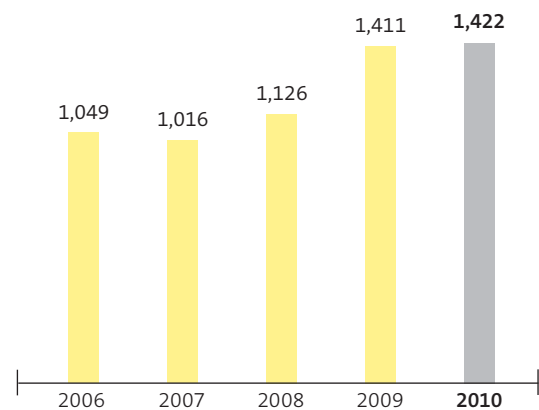
PSI is committed to promoting education and research in engineering and natural sciences on many levels. One example is that PSI maintains several university cooperations nears its most important locations, ranging from the provision of placement positions up to cooperations in the context of double majors.

Since the fall of 2010, PSI has been a committed commercial partner for the Logistics research cluster and a project partner for the environmentally friendly and sustainable energy technology cluster at the new RWTH Aachen campus. To mark the 2010 Zuse centenary year, PSI promoted the new permanent Konrad Zuse exhibition at the German Technology Museum in Berlin, particularly the hands-on section for children and teenagers.

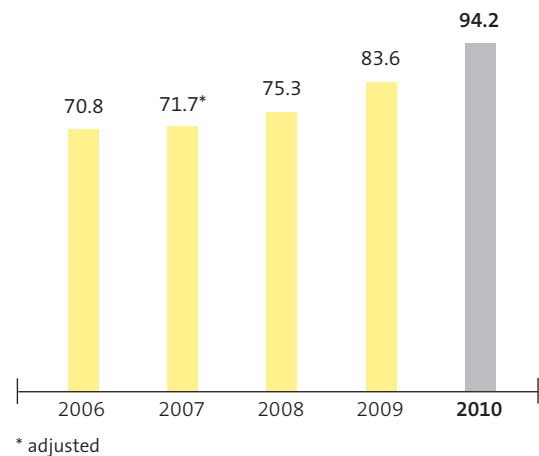
EMPLOYEES

For a specialist software provider like PSI, having highly qualified and motivated staff members provides crucial competitive advantage. For this reason, the PSI Group 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.

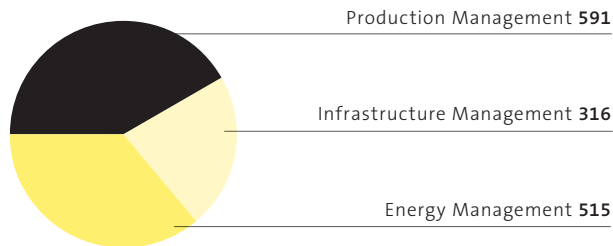
NUMBER OF EMPLOYEES UP SLIGHTLY



PERSONNEL EXPENDITURE UP (EURO MILLION)



EMPLOYEE STRUCTURE



Human resources development and employee qualification are key to the functionality and innovative character of PSI's products. The major focus is on the specialist training of new employees at international locations and locations in Germany, as well as qualification of employees for international work.

In terms of employee education, PSI emphasizes collaboration on customer projects and training sessions on special topics. Standardization and knowledge transfer within the Group are further promoted through Group-wide working groups on technology, infrastructure, maintenance, quality management, controlling and marketing.

A special feature of PSI is the high number of PSI shares held by employees. A large number of employees formed a consortium after PSI AG's IPO. The consortium's primary goals include coordinating unanimous voting by those employee shareholders participating in the Annual General Meeting, and the long-term stabilization of the PSI share price. The employee consortium has 10.6% voting rights, 4.09% of which were pooled, at last notification.

The workforce increased in size by 10 to 1,422 employees. Energy Management numbered 515 employees, Production Management 591, and Infrastructure Management 316.

At EUR 94.2 million, personnel expenditures were up 13% versus the previous year's figure of EUR 83.6 million. With increasing direct service providing in export regions Southeast Asia, China, Poland and Russia, average per-personnel expenditures will be close to the international industry average.

LEGAL DISCLOSURES

DISCLOSURES UNDER ARTICLE 315(4) HGB (GERMAN COMMERCIAL CODE)

As of December 31, 2010, the subscribed capital of the PSI AG totaled EUR 40,185,256.96, consisting of 15,697,366 no-par value shares with a notional par value of EUR 2.56. Each share entitles its holder to one vote. There were no different types of shares. 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.

One part of the shares bundled in the consortium of current and former employee shareholders was transferred to the consortium in trust (pool shares). Of the voting right proportion of 10.61% last announced by the consortium, 4.09% are pool shares. Since each consortium member may only remove his or her pool shares with the approval of the consortium management or after terminating membership in the consortium with a notice period of three months before the end of a year, there is no actual sales restriction. Among the purposes of the consortium is to coordinate consistent voting behavior for the employee shareholders involved in the Annual General Meeting of PSI AG. The consortium's representatives are Mr. Paul G. Söhnchen and Mr. Eberhardt Amrhein, both of Germany. Voting rights attributable to individual consortium members are determined on the basis of the consortium articles.

In 2010, RWE Rheinland Westfalen Netz AG, Essen, held 17.77% of PSI AG. According to information of PSI AG, RWE Rheinland Westfalen Netz AG is a company managed by RWE AG, Essen. The RWE Group is a major utility and key customer of PSI AG's Energy Management segment. According to a disclosure under Article 27a(1) Securities Trading Act (Wertpapierhandelsgesetz – WpHG) of September 2009, 2009, the RWE Group's investment in PSI AG serves to secure the cooperation between PSI AG and the RWE Group on a sustained basis.

Kajo Neukirchen GmbH held a 21.68% stake in PSI AG in the 2010 fiscal year until March 8, 2010. Kajo Neukirchen GmbH, according to information of PSI AG, is a holding company wholly owned by Dr. Karl-Josef Neukirchen. On March 8, 2010, PSI AG was informed by Linklaters LLP in the name and by commission of Kajo Neukirchen GmbH that the thresholds of 20%, 15% and 10% of voting rights in PSI AG had not been exceeded. According to further notices by Linklaters LLP, Kajo Neukirchen GmbH also did not exceed the reporting threshold of 5% on March 12, 2010, and the reporting threshold of 3% on April 22, 2010.

PSI AG did not issue shares with special rights.

In terms of employee shares, PSI AG does not have control of voting rights if the employees have a share in the Company's capital and do not directly exercise control rights.

Board members are appointed and dismissed by the Supervisory Board according to Section 8 (1) of the Articles. The Supervisory Board also determines the number of members. Otherwise, Sections 84ff of the Stock Corporation Act (AktG) apply to the appointment and dismissal of Board members.

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. Apart from this, the Annual General Meeting approves the Articles according to Section 19 of the Articles with a simple majority of submitted votes and a simple majority of the share capital represented when passing the resolution. This applies to the extent that there are no legal provisions stating that resolutions are to be passed with a majority of at least three quarters of the subscribed capital represented when passing the resolution.

PSI has authorized capital of EUR 8.0 million, per an Annual General Meeting resolution on May 3, 2010, that will expire on May 2, 2015. This resolution authorizes the Board of Directors to increase the company's share capital against cash or non-cash contributions upon approval of the Supervisory Board and without further resolution at the Annual General Meeting. It can be used in particular to finance corporate acquisitions. To date, the company has not exercised this authority.

Through April 27, 2014, PSI AG has contingent capital in the amount of EUR 15.2 million. This serves to meet the requirements of convertible and warrant bonds and profit certificates. On April 28, 2009, the General Meeting authorized the Company to issue these up to a total nominal amount of EUR 120 million. To date, the company has not exercised this authority.

PSI AG's Board of Directors was authorized by the Annual General Meeting on May 03, 2010, to acquire and sell its own shares until June 30, 2013, to an amount up to 10% of subscribed capital as of the date of the authorizing resolution. Based on the share capital from that date, the company is authorized to buy back up to 1,569,736 shares. The authorization can be exercised in full or in partial amounts, in one go or in several parts. It may furthermore be exercised by companies authorized by PSI AG to exercise this right or by companies majority-owned by PSI AG. The authorization must not be used for the purpose of trading own shares. Acquisition can be either on the stock market, adhering to the equality principle, or using a public bid addressed to all shareholders of the Company.

There are no major Company agreements subject to a change in control due to a takeover offer.

DIRECTORS' REMUNERATION

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

The remuneration of both Board of Directors members comprises a) non-performance related, fixed remuneration (fixed salary component includes a cash value benefit from the private use of a company car), b) a variable component consisting of a achievement bonus, a short-term and long-term performance-related component, and c) an annual lump sum for a defined contribution pension fund.

Each board member has an employment agreement that provides for a non-performance related fixed remuneration in the amount of EUR 222,000 a year. It is paid in twelve equal monthly installments. Additionally, each board member is provided a leased vehicle for business and personal use for the actual term of office.

In addition to the non-performance related fixed component, the Company can pay each board member a voluntary annual achievement bonus up to a set maximum amount. The members have no legal claim to repeat payments. Payment and amount of the achievement bonus is determined by the Supervisory Board after proper assessment, to the extent warranted by PSI AG's financial success.

Apart from the achievement bonus, the employment agreements provide for performance-related components, the amount of which is set by the Supervisory Board based on the PSI Group's performance. Accordingly, each board member is entitled to a variable short-term performance bonus, the amount of which depends on the targets reached in each fiscal year with regard to earnings before taxes, share price and certain strategic goals. The goals are agreed in an annual target agreement made between the Supervisory Board and each member of the Board of Directors.

Variable long-term remuneration, which may be paid out under certain conditions (including in the case of change of control) is linked to a long-term increase in PSI AG's market capitalization above a set amount. The requirements for the payment of these remuneration components were reached in fiscal 2010. In December 2010, 50% of this remuneration was paid out. The final payment will be made in July 2011.

EVENTS AFTER THE BALANCE SHEET DATE

On January 3, 2011, the new subsidiary PSI Metals North America, Inc. was entered in the trade register of the state Delaware, USA. The new company will focus on marketing PSI solutions in the North American steel industry and providing local support to existing customers.

RISK REPORT

The PSI Group's risk policy is designed to ensure the long-term success of the Company. The effective identification and assessment of business risks is necessary in order to avert or limit these through suitable countermeasures.

To this end, PSI has established a risk management system that assists with early risk detection and prevention. This applies in particular to risks that may jeopardize the continued existence of the PSI Group. The duties of risk management include risk recording, evaluation, communication, management and control, documentation and system monitoring. The Company's risk management system is refined on an ongoing basis; findings from the management system are included in corporate planning.

DESCRIPTION OF THE MAIN CHARACTERISTICS OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM WITH REGARD TO THE CONSOLIDATED FINANCIAL STATEMENTS (ARTICLE 289(5) AND ARTICLE 315(2)(5) HGB).

The PSI Group's risk management system comprises all organizational regulations and measures to detect and handle risks associated with business operations.

The Board of Directors bears full responsibility for the internal control and risk management system with regard to accounting for the consolidated companies and for the Group. All companies and divisions are included in the Consolidated Financial Statements by way of a strictly defined management and reporting organization.

With regard to the accounting processes of the consolidated companies and the Consolidated Financial Statements, we consider the characteristics of internal control and risk management systems important, as they can significantly impact the Consolidated Balance Sheet and the General Consolidated Financial Statements, including the Management Report. This includes in particular:

- Identifying major risk and control areas with relevance to the Group accounting process controlling
- Monitoring the Group accounting process and their results at Group and division level
- Preventive control measures in accounting for the Group and its divisions as well as in operational, economically productive company processes that generate significant information for the preparation of the Consolidated Financial Statements, including the Management Report, with a separation of functions and predefined approval processes in the relevant areas
- Measures to ensure proper IT-supported processing of circumstances and data used for the Consolidated Financial Statements
- The Group has also implemented a risk management system for the accounting process that includes measures to identify and evaluate significant risks and risk-reducing methods, to ensure the proper preparation of the Consolidated Financial Statements.

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

- Market: too few new orders or current orders
- Employees: insufficient availability of required qualifications
- Liquidity: Unfavorable payment terms and insufficient credit limits
- Costs and revenues: Different to projected values especially in terms of project handling and development.

Risk management policy governs:

- Risk strategy: explicit basic principles to minimize main risks and general risk management principles
- Risk management organization: Responsibilities of the management levels and controllers involved
- Risk detection, control and monitoring: Risk detection tools and tools to monitor key figures
- Risk management system: Application of the Professional Services Automation (PSA) solution across the Group.

Supplemental project risk management policies are in place. These govern risk management in projects, 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 key data defined in the policies concerning:

- Development of orders and capacity
- Liquidity planning
- Development of asset and financial position
- Forecast of economic key figures
- Sales forecast and market development
- Project controlling and contract management.

RISK AND OPPORTUNITY ANALYSIS

The PSI Group is exposed to a number of risks. These include normal risks of doing business, general economic risks, tax and finance risks, as well as risks that can arise from the shareholder structure. In the 2010 fiscal year, the risk profile changed due primarily to the increased percentage of international business and the changed shareholder structure after the departure of one large investor.

Opportunities and risks by segment

In Energy Management PSI acquired new customers around the world, reducing its dependency on the German market. In the German-speaking home market, PSI consolidated its very good position with follow-up orders from existing customers, although receiving fewer orders than in the prior year. There is further growth potential, especially in Eastern Europe and Asia, due to the rising demand for reliable and efficient energy infrastructure. 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 investments. PSI would be sharply affected by market weakness of this sort, due to its continuing high degree of dependency of the German market. On the other hand, the convergence of the electricity and gas markets in Europe, new cross-border grid structures, innovative energy services and smart grid technologies provide additional business potential for PSI, as they will make investments necessary.

Large export projects involve inherent execution risk due to reliance on local partners and their training, conflicting interpretations of performance and standards, and shifting customer policies in some cases. Partnerships concluded over the last two years increase our distribution reach, and thus sales opportunities for PSI products. Yet they also bring new dependencies.

In Production Management, PSI continued to expand its international business in 2010, particularly in Metals. After the integration of the AIS Group acquired in 2009, PSI 2010 has further confirmed its global leadership position as a special software provider in this area thanks to additional orders from China, France, Belgium, the US, Canada, Brazil, Russia, Slovakia, Australia and New Zealand. Due to the recovery of the global steel market, the risk in this segment was reduced for PSI, especially since a dependency on the development of individual regions was reduced because of an improved market position. Risks could stem from the further development of raw materials. Another risk lies in the still underdeveloped awareness of the importance of quality and brand protection in some countries in East Asia.

Due to their customer base, Logistics and ERP are particularly hard hit by the fluctuations of the economic climate. Incoming orders thus could suffer if the domestic economy slumps. Therefore, in the logistics market, PSI has concentrated increasingly on solutions for complex situations, characterized by short amortization periods. Recently PSI received an important logistics order from Switzerland. In 2009 and 2010, the ERP subsidiary PSIPENTA successfully entered the attractive and only slightly cyclical market segment of turbine manufacturing and maintenance.

At the end of 2010, PSI Production received an important approval for a pilot project for a new mining control system, but suffered from higher development expenditure during the year. Together with the partner RAG Mining Solutions, the marketing of *PSImining* began. This new solution has outstanding export prospects to China and other countries, though these must be seen in the context of the costs and risks relating to market entry.

In **Infrastructure Management**, Traffic Systems showed positive development, as did PSI Poland, which is assigned to Infrastructure Management. PSI Poland proved its worth in pre-production, and in 2010 it set up a further own business in the Polish market. The Telecommunications business, which had in the past been strongly dependent on the investment cycles in the mobile phone industry, was sold in December 2010.

The acquisition of inControl Tech Group in 2009 has given PSI its own access to growth markets in Southeast Asia, India and the Middle East. PSI also has access to low-cost hardware and integration solutions. The use of a larger pool of highly qualified specialists in the region can reduce the cost of services and equipment. At the same time, the integration of inControl Tech in the processes of the PSI Group involves risks.

Opportunities and risks of internationalization

In 2010, international activities were extended further, showing a significant increase in international revenues and orders received. This has reduced PSI's dependency on the German market and opened up new growth opportunities. However, this expansion involves additional risks through the integration of new subsidiaries into the Group and dependency on international partners, exchange rates and legal systems. Further expansion of international activities will spread opportunities and risks over a wider area.

Opportunities and risks of new products and technologies

PSI kept up investment in new product versions and extensions, 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.

Risks from the shareholder structure

If attendance at the Annual General Meeting is well under 100%, there is a risk that one of the major shareholders of PSI AG would have a dominating influence on the Annual General Meeting that it can use to serve its own interests, which may conflict with the Company's goals. The same risk could arise if attendance at the Annual General Meeting is high and major shareholders coordinate their voting.

Tax risks

PSI cannot rule out the risk that following external audits by the tax authorities, claims for back taxes will be filed for which the company has not set aside any provisions, or that an unforeseen need for liquidity may arise.

PSI feels there is a very high risk that the acquisition and attribution of a total 28.60% of voting rights in the company by Kajo Neukirchen GmbH, Eschborn, has caused a loss of up to 28.60% of tax losses carried forward since January 1, 2009. The exclusion of the possibility to use the carry forward amounts could cause a higher tax burden on the company for the tax period starting from the fiscal year of the detrimental share acquisition.

Financial risks

PSI primarily uses trade receivables, liquid funds, liabilities to banks and guarantees as instruments to finance operative 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 of them. The Group endeavors to have sufficient liquidity and credit lines to fulfill its obligations. In the context of the loan taken out to finance the extension in Aschaffenburg, in the business year 2010, the PSI Group agreed an interest swap to hedge against interest rate risks. Details relating to the hedging instrument are set out in the notes.

PSI Group carries out its transactions predominantly in euro. In the business year 2010, the Group agreed hedges in the shape of exchange forward contracts to protect itself against currency risks. Details relating to these hedges and the hedged risks are set out in the appendix. 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 terms. Market value risk is thus minimal.

Employees

We are successful at recruiting qualified employees with sophisticated skills, and integrating and retaining them at our company for a long time. Our fluctuation rate 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 are defined, direct salary components.

Future risks

The central focus of PSI's strategy for the next few years is further profitable growth and internationalization of the Group. If this does not go according to plan, there is a risk that the PSI Group may not reach its growth and earnings targets. PSI would also continue to be dependent to a high degree on the economy and the regulatory framework in Germany.

OUTLOOK

PSI started 2011 with improved conditions to speed up profitable growth. In 2010, we booked EUR 177 million in incoming orders, more than 10% over annual revenues. The order backlog at year-end was EUR 108 million. The operating result rose by 22% to EUR 9.5 million. In this context, depreciation and amortization charges from the purchase price allocation and investments in the new raw material extraction control system were juxtaposed with proceeds from the sale of the Telecommunications business. The international market position was above all extended further in the Steel business and the Energy Management segment. PSI was able to profit from the high investments in the previous years in extending international sales structures and from the focus on core business.

The German and European economies are expected to continue the recovery, which started in 2010, throughout 2011. The economic outlook in China, Russia, Eastern Europe and the Southeast Asian "tiger nations" is also positive. These economies in particular are the key export markets for our specialized solutions in the areas of utilities, manufacturing and transport infrastructure. We also want to profit from this in 2011 and in the following years, and also increase our speed of growth, especially internationally. Even with a stagnation of the home markets of German-speaking Europe, we still expect our growth targets to be achievable.

We will continue our successful focusing and internationalization strategy, and consider additional geographical markets in 2012. We are targeting further growth in the new business segments we are entering in China, Poland, Russia and Southeast Asia and elsewhere starting in 2011.

Internationalization objectives include further increasing the product and the license share of revenues relative to domestic market sales. These positive effects will be enhanced by migrating additional business units to the newly created single product platform, and further investment in the convergence of our technical basis. We will be systematically adding to the portfolio in order to make use of opportunities and enhance efficiency. In this manner we will improve the foundation for achieving double-digit earnings growth going forward.

Over the next two years, we anticipate further growth impetus in the counter-cyclical Energy Management segment through investments in the expansion and intelligent management of grids. In Production Management, we were able to gain market share during the financial crisis, and emerged in a stronger position. In Infrastructure Management we expect growth impetus in Traffic and Southeast Asia, which we will benefit from by way of higher revenues and rising earnings. We want to increase consolidated revenue for 2011 to approximately EUR 170 million. Over the next two years, we plan to boost the operating margin to over 10%; for 2011 our target is for an operating profit of more than EUR 13 million. To achieve these targets, we will continue investing in the functionality of our products, the efficiency of our business processes, and the internationalization of additional core business areas.

Berlin, February 14, 2011



Dr. Harald Schrimpf



Armin Stein

Consolidated Financial Statements (IFRS)

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- >> p. 52 Consolidated Income Statement
Group Comprehensive Income Statement
- >> p. 53 Consolidated Cash Flow Statement
- >> p. 54 Consolidated Statement of Changes in Equity
- >> p. 56 Consolidated Segment Reporting
- >> p. 58 Statement of Changes in Fixed Assets
- >> p. 60 Notes to the Consolidated Financial Statements

Consolidated Balance Sheet

dated December 31, 2010 (IFRS)

ASSETS	Note	31.12.2010 EUR K	31.12.2009 EUR K
Non-current assets			
Property, plant and equipment	C. 1	13,710	9,344
Intangible assets	C. 1	46,591	48,585
Investments in associates	C. 2	401	359
Deferred tax assets	C. 14	4,310	2,904
		65,012	61,192
Current assets			
Inventories	C. 3	3,402	2,837
Trade receivables, net	C. 4	27,938	33,751
Receivables from long-term development contracts	C. 5	37,242	32,686
Other assets	C. 6	6,682	3,504
Cash and cash equivalents	C. 7	28,882	20,765
		104,146	93,543
		169,158	154,735

TOTAL EQUITY AND LIABILITIES	Note	31.12.2010 EUR K	31.12.2009 EUR K
Shareholders' equity			
Subscribed capital	C. 8	40,185	40,185
Capital reserves	C. 8	35,137	35,244
Other reserves	C. 8	-3,526	-1,589
Accumulated losses		-3,706	-7,551
		68,090	66,289
Non-current liabilities			
Non-current loans	C. 10	5,674	843
Pension provisions	C. 9	33,610	30,096
Deferred tax liabilities	C. 14	1,670	2,314
		40,954	33,253
Current liabilities			
Trade payables		15,410	14,610
Other liabilities	C. 13	25,773	23,147
Liabilities from long-term development contracts	C. 5	16,154	15,398
Financial liabilities	C. 11	2,485	1,561
Provisions	C. 12	292	477
		60,114	55,193
		169,158	154,735

Consolidated Income Statement

for the period January 1 to December 31, 2010 (IFRS)

	Note	2010 EUR K	2009 EUR K
Revenues	D. 15	158,688	146,985
Other operating income		6,655	3,590
Increase/decrease in inventories and work in progress		60	71
Cost of materials	D. 16	-26,303	-28,487
Personnel expenses	D. 17	-94,163	-83,628
Depreciation and amortization	D. 18	-4,425	-3,631
Other operating expenses	D. 19	-30,998	-27,086
Operating result		9,514	7,814
Interest income		189	607
Interest expense		-1,883	-1,758
Income from investments in associates		58	282
Earnings before taxes		7,878	6,945
Taxes on income	C. 14	-831	-342
Consolidated net profit		7,047	6,603
Group earnings per share (basic and diluted)	D. 20	0.45	0.46
Average shares outstanding (thousand)	D. 20	15,697	14,201

Group Comprehensive Income Statement

for the period January 1 to December 31, 2010 (IFRS)

	Note	2010 EUR K	2009 EUR K
Consolidated net profit		7,047	6,603
Currency translation foreign operations		1,257	116
Net losses from cash flows hedges		-1,094	0
Income tax effects		323	0
		-771	0
Actuarial losses		-3,483	-2,822
Income tax effects		1,060	842
		-2,423	-1,980
Other earnings after taxes		-1,937	-1,864
Total group earnings after taxes		5,110	4,739

Consolidated Cash Flow Statement

for the period January 1 to December 31, 2010 (IFRS)

	2010 EUR K	2009 EUR K
1. Cash flow from operating activities		
Consolidated net loss before tax	7,878	6,945
Adjustment for non-cash expenses		
Amortization of intangible assets	2,298	1,758
Depreciation of property, plant and equipment	2,126	1,873
Losses from the disposal of assets	29	28
Interest income	-189	-437
Interest expense	1,883	1,759
Other non-cash income/expenses	-36	-166
	13,989	11,760
Change in working capital		
Changes in inventories	-531	2,260
Changes in trade receivables	-707	-10,198
Changes in other assets	-4,605	-824
Changes in provisions	-1,142	-1,503
Changes in trade payables	1,033	2,291
Changes in other liabilities	6,147	1,269
	14,184	5,055
Interest paid	-188	-161
Income taxes paid	-852	-493
	13,144	4,401
2. Cash flow from investment activities		
Additions to intangible assets	-313	-477
Additions to property, plant and equipment	-6,565	-2,394
Additions to financial assets	-160	-77
Additions to investments in subsidiaries, minus cash acquired	0	-13,350
Disposals of financial assets	25	0
Interest received	189	429
	-6,824	-15,869
3. Cash flow from financing activities		
Change in subscribed capital	0	3,046
Changes in capital reserves	0	6,001
Outflows for share buybacks	0	-1
Inflows from current financial liabilities incurred	0	-463
Inflows from new non-current financial liabilities incurred	4,661	0
Dividends paid to the shareholders of the parent company	-3,202	0
	1,459	8,583
4. Cash and cash equivalents at end of period		
Change in cash and cash equivalents	7,779	-2,885
Changes to the financial resource fund due to exchange rate fluctuations	338	0
Cash and cash equivalents at beginning of period	20,765	23,650
	28,882	20,765

Consolidated Statement of Changes in Equity

for the period January 1 to December 31, 2010 (IFRS)

	Subscribed capital EUR K	Capital reserves EUR K	Reserve for Treasury stock EUR K
Note	C. 8	C. 8	
Balance on December 31, 2008	30,464	31,642	-26
Annual Group profit			
Other earnings after taxes			
Total Group earnings after taxes	0	0	0
Cash capital increase	3,046	6,001	
Capital increase against non-cash contributions	6,675	12,079	
Share buybacks			-1
Share sales			27
Total capital transactions	9,721	18,080	26
Set-off of capital reserves against accumulated losses		-14,478	
Balance on December 31, 2009	40,185	35,244	0
Annual Group profit			
Other earnings after taxes			
Total Group earnings after taxes	0	0	0
Dividend distributions			
Cost of equity fund raising		-107	
Total capital transactions	0	-107	0
Balance on December 31, 2010	40,185	35,137	0

Other earnings	Accumulated losses	Total
EUR K	EUR K	EUR K
C. 8		
275	-28,632	33,723
	6,603	6,603
-1,864		-1,864
-1,864	6,603	4,739
		9,047
		18,754
		-1
		27
0	0	27,827
	14,478	0
-1,589	-7,551	66,289
	7,047	7,047
-1,937		-1,937
-1,937	7,047	5,110
	-3,202	-3,202
		-107
0	-3,202	-3,309
-3,526	-3,706	68,090

Consolidated Segment Reporting

2010 and 2009 (IFRS)

	Energy Management		Production Management	
	31.12.2010 EUR K	31.12.2009 EUR K	31.12.2010 EUR K	31.12.2009 EUR K
REVENUES				
External revenue	65,457	59,791	67,267	62,213
Inter-segment revenue	2,839	1,117	2,606	2,347
Total revenue	68,296	60,908	69,873	64,560
Other income	5,056	4,522	4,029	4,240
Changes in finished goods and work in progress	0	0	60	71
Cost of purchased services	-5,122	-2,151	-7,221	-6,756
Costs of purchased goods	-8,985	-9,318	-1,979	-2,340
Personnel expenses	-39,540	-35,613	-42,315	-38,855
Depreciation and amortization	-1,001	-1,242	-918	-907
Other operating expenses	-13,860	-12,704	-19,256	-17,401
Segment operating result before depreciation/amortization	5,845	5,644	3,191	3,519
Segment operating result before depreciation/ amortization resulting from purchase price allocation	4,844	4,402	2,273	2,612
Amortization/depreciation resulting from purchase price allocation	-130	-130	-1,020	-555
Segment operating result	4,714	4,272	1,253	2,057
Financial result	-637	-350	-730	-517
Segment result	4,077	3,922	523	1,540
Investments in associates carried at-equity	401	359	0	0
SEGMENT ASSETS	44,563	45,757	66,225	60,076
SEGMENT LIABILITIES	27,325	22,582	46,104	37,682
SEGMENT INVESTMENTS	695	903	787	15,588

¹⁾ Thereof acquisition by issuing shares EUR 16,034 K.

Infrastructure Management		Reconciliation		PSI Group	
31.12.2010 EUR K	31.12.2009 EUR K	31.12.2010 EUR K	31.12.2009 EUR K	31.12.2010 EUR K	31.12.2009 EUR K
25,964	24,981	0	0	158,688	146,985
2,059	1,760	-7,504	-5,224	0	0
28,023	26,741	-7,504	-5,224	158,688	146,985
3,962	1,180	-6,392	-6,352	6,655	3,590
0	0	0	0	60	71
-4,461	-3,301	4,279	1,977	-12,525	-10,231
-4,678	-8,104	1,864	1,506	-13,778	-18,256
-11,966	-9,098	-342	-62	-94,163	-83,628
-562	-461	-59	-39	-2,540	-2,649
-5,134	-4,508	7,252	7,527	-30,998	-27,086
5,746	2,910	-843	-628	13,939	11,445
5,184	2,449	-902	-667	11,399	8,796
-735	-297	0	0	-1,885	-982
4,449	2,152	-902	-667	9,514	7,814
-269	-2	0	0	-1,636	-869
4,180	2,150	-902	-667	7,878	6,945
0	0	0	0	401	359
42,564	40,069	11,496	5,929	164,848	151,831
14,096	17,711	11,206	7,670	98,731	85,646
574	17,311 ¹⁾	4,822	1,127	6,878	34,929

Statement of Changes in Fixed Assets

for the period January 1 to December 31, 2009 (IFRS)

2009	Acquisition and manufacturing costs			
	1.1.2009	Additions through corporate acquisitions	Additions	Disposals
	EUR K	EUR K	EUR K	EUR K
Intangible assets				
Other intangible assets	9,646	3,454	248	0
Goodwill	18,427	27,755	0	0
Capitalized software development costs	1,696	0	228	0
	29,769	31,209	476	0
Property, plant and equipment				
Land and buildings	12,760	214	714	0
Computers and equipment	8,870	141	1,240	391
Other facilities, operating and office equipment	4,430	493	442	209
Subcontractor payments and facilities under construction	0	0	500	0
	26,060	848	2,396	600
Financial assets				
Investments in associates	0	0	359	0
	0	0	359	0
	55,829	32,057	3,231	600

Statement of Changes in Fixed Assets

for the period January 1 to December 31, 2010 (IFRS)

2010	Acquisition and manufacturing costs		
	1.1.2010	Additions	Disposals
	EUR K	EUR K	EUR K
Intangible assets			
Other intangible assets	13,348	313	352
Goodwill	46,182	0	0
Capitalized software development costs	1,924	0	1,696
	61,454	313	2,048
Property, plant and equipment			
Land and buildings	13,188	59	136
Computers and equipment	9,860	1,399	1,153
Other facilities, operating and office equipment	5,156	601	227
Subcontractor payments and facilities under construction	500	4,506	0
	28,704	6,565	1,516
Financial assets			
Investments in associates	359	66	24
	359	66	24
	90,517	6,944	3,588

	Accumulated amortization				Net carrying amount		
	31.12.2009	1.1.2009	Additions	Disposals	31.12.2009	31.12.2009	31.12.2008
	EUR K	EUR K	EUR K	EUR K	EUR K	EUR K	EUR K
	13,348	7,157	1,758	0	8,915	4,433	2,489
	46,182	2,258	0	0	2,258	43,924	16,169
	1,924	1,696	0	0	1,696	228	0
	61,454	11,111	1,758	0	12,869	48,585	18,658
	13,688	7,157	438	0	7,595	5,593	5,603
	9,860	7,260	1,051	390	7,921	1,939	1,610
	5,156	3,641	384	181	3,844	1,312	789
	500	0	0	0	0	500	0
	28,704	18,058	1,873	571	19,360	9,344	8,002
	359	0	0	0	0	359	0
	359	0	0	0	0	359	0
	90,517	29,169	3,631	571	32,229	58,288	26,660

	Accumulated amortization				Net carrying amount		
	31.12.2010	1.1.2010	Additions	Disposals	31.12.2010	31.12.2010	31.12.2009
	EUR K	EUR K	EUR K	EUR K	EUR K	EUR K	EUR K
	13,309	8,915	2,222	343	10,794	2,515	4,433
	46,182	2,258	0	0	2,258	43,924	43,924
	228	1,696	76	1,696	76	152	228
	59,719	12,869	2,298	2,039	13,128	46,591	48,585
	13,111	7,595	447	130	7,912	5,199	5,593
	10,106	7,921	1,178	1,113	7,986	2,120	1,939
	5,530	3,844	502	201	4,145	1,385	1,312
	5,006	0	0	0	0	5,006	500
	33,753	19,360	2,127	1,444	20,043	13,710	9,344
	401	0	0	0	0	401	359
	401	0	0	0	0	401	359
	93,873	32,229	4,425	3,483	33,171	60,702	58,288

Notes on the Consolidated Financial Statements

PSI Aktiengesellschaft für Produkte und Systeme der Informationstechnologie,
Berlin, as of December 31, 2010

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, 2010 and the Consolidated Management Report for the 2010 fiscal year dated February 14, 2011, submitting these to the Supervisory Board for approval on February 22, 2011.

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, 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 business areas (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 derivative financial instruments and 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. Unless otherwise indicated, all figures are rounded up or down two decimal places to the nearest thousand (EUR K).

CHANGES IN ACCOUNTING AND VALUATION PRINCIPLES

(The same accounting and valuation principles were applied as last year. The PSI Group has applied the new and revised standards obligatory for fiscal years starting on or after January 1, 2010, listed below.

- IFRS 2 *Group cash-settled share-based payment transactions* became effective on January 1, 2010
- IFRS 3 *Business Combinations* (amended) and IAS 27 *Consolidated and Separate Financial Statements* (amended) including the subsequent changes in IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 28, IAS 31 and IAS 39 took effect on July 1, 2009
- IFRIC 17 *Distributions of non-cash assets to owners* took effect on July 1, 2009
- *Improvements to IFRS 2008* collective standard on various IFRSs
- *Improvements to IFRS 2009* collective standard on various IFRSs.

If the application of a standard or interpretation has a significant effect on the Group's net assets, financial position or results of operations, these are explained below in more detail:

IFRS 3 (revised 2008) *Business combinations* and IAS 27 (revised 2008) *Consolidated and separate financial statements according to IFRS* were published in January 2008 and incorporated in EU law in June 2009. The PSI Group records financial statements and transactions involving minority interests carried out on or after January 1, 2010 according to the new standards. In contrast to the accounting and valuation methods applied up to December 31, 2009, ancillary acquisition costs are now recorded in profit or loss. Limited purchase price liabilities are recorded at their present value to the extent that this can be determined reliably. Adjustments after the time of the acquisition are taken into account in profit or loss. Any effects from the acquisition and sale of minority interests are set off with shareholders' equity as in the previous years. In the case of a sale of shares resulting in a loss of control, the remaining shares must be recorded at fair value. For acquisitions of shares resulting in gaining control, the shares held previously must be recorded at their fair value. Any differences to the previous carrying values must be included in profit or loss. The changes have an impact on the presentation of company transactions shown in the balance sheet, particularly on the results of the reporting period in which the company was acquired and in the subsequent periods. Due to the changes to IAS 27, since January 1, 2010, cash flows from the acquisition and sale of minority interests must be shown in cash flows from financing activities instead of cash flows from investing activities.

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 which will become mandatory next fiscal year:

IFRS 9 Financial Instruments

This standard was published by IASB in November 2009 and represents the first of a total three phases for the complete replacement of IAS 39. As each phase is completed, the relevant content is taken from IAS 39 and inserted into IFRS 9. The first phase leads to a fundamental change in the regulations on categorizing and assessing financial instruments. Its content relates solely to financial assets. IAS 39 was scheduled for total replacement in the second half of 2010. IFRS 9 is mandatory for fiscal years starting on or after January 1, 2013. It has yet to be adopted under European law. The application of the new standard will lead to changes in the presentation of and accounting for financial instruments.

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 goodwill as per the impairment test as of December 31, 2010 was EUR 43,924 K (previous year: EUR 43,924 K).

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, 2010 realized income from ongoing projects totaled EUR 18,015 K (previous year: EUR 16,274 K)

Deferred tax assets

Deferred tax assets are recognized for all unused tax losses and temporary accounting differences to the extent they are 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 2010 fiscal years due to internal restructuring (asset deals). Determining 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.). As of December 31, 2010 capitalized tax loss carryforwards totaled EUR 0 K (2009: EUR 0 K), uncapitalized tax loss carryforwards totaled EUR 49.9 m (2009: EUR 54.9 m). No deferred tax assets were classified from these tax losses. Deferred tax assets arising from temporary accounting differences totaled EUR 4,310 K on December 31, 2010 (2009: EUR 2,904 K); deferred tax liabilities totaled EUR 1,670 K (2009: EUR 2,314 K). See note C. 14. for further details.

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 33,610 K on December 31, 2010 (2009: EUR 30,096 K). See note C. 9 for further details.

Development costs

Development costs are capitalized according to the accounting method explained on page 67, top left. The first-time capitalization of the costs is based on management's opinion that the technical and economic feasibility has been demonstrated. To determine the amounts to be capitalized, management makes assumptions about the amount of future estimated cash flows from the project. The carrying amount of the capitalized development costs as of December 31, 2010 was EUR 152 K (2009: EUR 228 K).

PRINCIPLES OF CONSOLIDATION

a) Subsidiaries

The Consolidated Group Financial Statements encompass PSI AG and the companies it controlled as of December 31, 2010. 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 2010. Accordingly, apart from PSI AG, the following were also included:

- PSIPENTA Software Systems GmbH ('PSIPENTA')
- PSI Logistics GmbH ('PSI Logistics')
- PSI Nentec GmbH ('Nentec')
- PSI Metals GmbH (previously: PSI Business Technology for Industries GmbH ('PSI Metals'))
- PSI Transcom GmbH ('PSI Transcom')
- PSI AG for Information Technology Products and Systems, Switzerland ('PSI AG/CH')
- PSI Production GmbH ('PSI Production') (previously: PSI Production Gesellschaft für Steuerungs- und Informationssysteme mbH)
- PSI Energy Markets GmbH ('PSI Energy')
- 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')
- PSI Metals Non Ferrous GmbH (previously: 4Production AG) ('PSI Metals NF')
- FLS FUZZY Logik Systeme GmbH ('FLS')
- OOO PSI ('PSI Russia')

- Cellls GmbH, ('Cellls')
- PSI Metals Austria GmbH ('PSI Metals Austria')
- AIS Advanced Information Systems NV, ('AIS Belgium')
- OOO AIS Advanced Information Systems ('OOO AIS Russia')
- AIS Advanced Information Systems Private Limited
- inControl Tech Sdn. Bhd., Petaling Jaya, Malaysia ('inControl Tech') as the holding company of the following companies (hereinafter jointly called 'inControl Tech Group'):
 - a) inControl Tech Private Limited, Chennai, Tamil Nadu, India
 - b) inControl Tech Manufacturing SPC, Bahrain
 - c) inControl Tech Holding Thailand Ltd., Thailand
 - d) inControl Tech (Thailand) Ltd., Thailand

in the Consolidated Financial Statements.

With the contract dated July 12, 2010, PSI Transcom sold the Telecommunications business to an external buyer as part of an asset deal, effective from December 31, 2010. In the context of this sale, a reduction of non-current assets amounting to EUR 52 K (no goodwill) and of current assets amounting to EUR 2,169 K was recorded. On the other side, a reduction in non-current liabilities of EUR 809 K and in current liabilities of EUR 1,938 K was also recorded. After deducting sales costs, sales profits of EUR 1,881 K were realized from the sale. The contractual provisions regarding the sale of the section include earn-out clauses in favor of the PSI Group, which were not yet recorded in the balance sheet as their realization is currently uncertain.

Changes to scope of consolidation – 2009

In a contract signed May 27, 2009, a 100% stake was acquired in inControl Tech Group headquartered in Malaysia. The company reported assets of EUR 10,283 K and liabilities of EUR 7,049 K as of the acquisition date. Accordingly, net assets (at carrying amount) were EUR 3,234 K. In the context of the purchase price allocation, these net assets were set against the acquisition cost. The resulting difference was allocated to intangible assets with limited useful life and goodwill.

The table below provides a view of the acquisition costs 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	718	0	718
Other intangible assets	0	1,101	1,101
Goodwill	0	15,208	15,208
Current assets			
Inventories	3,131	0	3,131
Receivables from long-term development contracts	3,436	0	3,436
Trade receivables	2,286	0	2,286
Other assets	250	0	250
Cash and cash equivalents	369	0	369
Receivables from related companies	93	0	93
Liabilities			
Liabilities with banks	1,683	0	1,683
Deferred tax liabilities	56	275	331
Trade payables	2,139	0	2,139
Other liabilities	1,864	0	1,864
Liabilities from long-term development contracts	1,307	0	1,307
Net assets	3,234	16,034	19,268

Hidden reserves are attributed to existing customer relationships. Goodwill results in particular from the position of inControl Tech on the Malaysian market and its management competence.

From the initial consolidation date through the reporting date December 31, 2009, inControl Tech Group contributed EUR 12,335 K to consolidated revenue and EUR 2,402 K to the Group net profit/loss. This includes depreciation and amortization with regard to the hidden reserves for the client relationships disclosed in the purchase price allocation. If included in the PSI Group Consolidated Financial Statements as of January 1, 2009, consolidated revenue would have increased to EUR 150,030 K and the Group net profit declined to EUR 6,125 K.

In a contract signed August 26, 2009, a 100% stake was acquired in the AIS Group headquartered in Austria. The company reported assets of EUR 7,670 K and liabilities of EUR 6,374 K as of the acquisition date. Accordingly, net assets (at carrying amount) were EUR 1,296 K. In the context of the purchase price allocation, these net assets were set against the acquisition cost. The resulting difference was allocated to intangible assets with limited useful life and goodwill.

The table below provides a view of the acquisition costs 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	131	0	131
Other intangible assets	38	2,315	2,353
Goodwill	0	10,718	10,718
Current assets			
Inventories	285	0	285
Receivables from long-term development contracts	3,041	0	3,041
Trade receivables	1,587	0	1,587
Other assets	107	0	107
Cash and cash equivalents	2,481	0	2,481
Liabilities			
Liabilities with banks	843	0	843
Deferred tax liabilities	69	579	648
Trade payables	715	0	715
Other liabilities	2,590	0	2,590
Liabilities from long-term development contracts	2,157	0	2,157
Net assets	1,296	12,454	13,750

Hidden reserves are attributed to existing customer relationships. Hidden goodwill results in particular from the position of AIS Group on the global market and its management competence.

From the initial consolidation date through the reporting date on December 31, 2009, AIS Group contributed EUR 2,668 K to consolidated revenue and EUR –205 K to the Group net profit/loss. This includes depreciation and amortization with regard to the hidden reserves for the client relationships disclosed in the purchase price allocation. If included in the PSI Group Consolidated Financial Statements as of January 1, 2009, consolidated revenue would have increased to EUR 154,192 K and the Group net profit declined to EUR 6,208 K.

In the year under review, Cellls GmbH, headquartered in Berlin, was incorporated. This is a subsidiary of PSI Transcom GmbH. It was entered in the Commercial Register on October 2, 2009.

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 profit and loss 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 its associates are eliminated in accordance with the percentage ownership of associates.

As of December 31, 2010, shares in the following associates were valued at equity:

- OOO PSI Energo, Moscow, Russia ('PSI Energo')
- caplog-x GmbH, Leipzig ('caplog-x')
- EIT Bilisim Teknolojileri Sanayi ve Ticaret Anonim Sirketi, Istanbul, Turkey.

c) Consolidation measures and uniform Group valuation

The Annual Financial Statements of the subsidiaries and associated companies included in the Consolidated Financial Statements are based on 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 major foreign companies such as PSI AG/CH, PSI Poland, PSI Russia, the inControl Tech Group companies and PSI China is generally the respective national currency. The assets and liabilities of these subsidiaries are translated into the presentation currency of PSI AG (euro) on the balance sheet 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 of purchase or manufacture. Intangible assets are recognized if it is likely that future economic benefit from the asset will flow to the Company, and the cost of purchasing or manufacturing the asset can be measured reliably. For the purposes of subsequent measurement, intangible assets are recognized at cost of purchase or manufacture 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 for the acquisition of 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 would indicate that 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 must 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 (four to five years).

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

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

Research and development costs

Research costs are recognized in the period incurred. Development costs of a single project are only capitalized as an intangible asset if the Group can demonstrate the following:

- the technical feasibility that the intangible asset can be completed
- the intention to complete the intangible asset and the ability to use or sell it
- how the asset will have a future economic benefit
- the availability of resources for the purpose of completing the asset
- the ability to reliably measure the expenditure attributable to the intangible asset during development.

Development costs are carried after their initial recognition pursuant to the cost model, i.e. costs less accumulated impairment losses. The depreciation begins with the conclusion of the development phase and from the time that the asset can be used. It is applied over the time period for which the future benefit is expected, and is included in the depreciation. During the development phase, an annual impairment test is carried out.

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 methods for property, plant and equipment are reviewed annually to ensure these are consistent with the expected business-related 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 2010 or 2009.

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.

On December 31, 2010 and December 31, 2009 the PSI Group had only loans and receivables extended and on December 31, 2010, it had financial assets held for trading.

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.

The PSI Group uses derivative financial instruments in the form of foreign exchange forward contracts to protect itself against exchange rate risks. A part of these derivative financial instruments is carried at fair value at the time the contract is concluded and revalued at fair value in the subsequent periods. Profits or losses from changes to the fair value of derivatives are immediately recognized. For details, see the information under C. 6.

The Group uses the following hierarchy to determine and report fair value of financial instruments for each valuation method: Step 1: listed (not adjusted) prices on active markets for similar assets or similar liabilities. Step 2: procedures where input parameters have a significant effect on the fair value, either directly or indirectly. Step 3: procedures where input parameters have a significant effect on the fair value, either directly or indirectly, and are not based on observed market data. The foreign exchange forward contracts listed in the paragraph above are attributed to Step 2.

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 uncollectible.

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

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.

At December 31, 2010, the maturities 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	2,167	13,243	0	15,410
Other liabilities	200	23,870	1,703	25,773
Financial liabilities	0	2,893	5,266	8,159
	2,367	40,006	6,969	49,342

For the 2010 fiscal year, there have been no significant variations between the balance sheet carrying values and the undiscounted cash flows.

At December 31, 2009, the maturities 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	6,030	8,580	0	14,610
Other liabilities	0	22,303	844	23,147
Non-current loans	0	0	843	843
Financial liabilities	17	1,362	182	1,561
	6,047	32,245	1,869	40,161

There were no material differences between balance sheet carrying value and undiscounted cash flows for 2009, due to the short-term maturities of the financial liabilities held.

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 were incurred only to a minor extent due to relatively insignificant interest-bearing liabilities and foreign-currency receivables/payables. Market value risks were 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 conducts transactions only with creditworthy parties. Customers requesting credit for transactions with the Group must undergo a credit check. The company obtains collateral as necessary. Since 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 compared to 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 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 fulfillment). 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 data are employed for liquidity monitoring.

b) Capital management

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

The PSI Group manages its capital structure with a view towards prevailing economic circumstances. No adjustments or changes were made to capital management objectives or policies in the 2010 and 2009 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 include profit appropriation in accordance with Article 174 of the 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 and actuarial gains/losses from the valuation of pension provisions are reported under other reserves.

PENSION PROVISIONS

The PSI Group has several defined benefit plans and other defined contribution pension 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 without affecting profit.

CURRENT LIABILITIES

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.

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 the recorded depreciation. Realized revenue associated with expenditures is reported as other operating income on the income statement.

Funds provided to the Company by Investitionsbank Berlin as investment grants are subject to future compliance conditions. These mainly include adherence to 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.

In 2010 the PSI Group received a total of EUR 1,256 K for various development projects, including European Union projects (previous year: EUR 872 K). The subsidies granted were recognized as income in 2010 and shown as a reduction in 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

The Group capitalizes borrowing costs for all qualifying assets for which production was begun on or after January 1, 2010. Borrowing costs in connection with the course of production that began before January 1, 2010 are still recognized by the Group in the period incurred. In 2010, no significant borrowing costs were incurred for qualifying assets.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs came to EUR 16.0 million in the 2010 fiscal year (2009: EUR 12.1 million).

LEASING

The determination as to whether an agreement is or contains a lease is made on the basis of the financial 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 expenses 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 project business and licensing software products to end users, 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 contingent losses from uncompleted contracts are allocated in the period in which losses are recognized, and are offset against project receivables.

b) Sale 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 tax authorities. The amount is determined by 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 impact neither 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 be recognized only to the extent that it is likely that the temporary differences will be reversed in the foreseeable future and there is sufficient taxable profit against which the temporary differences can be used.

The carrying amount of the deferred tax assets is reviewed on each balance sheet date and written off 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 debts are applied with the VAT amount included in them.

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 the Consolidated Segment Reporting on page 56f.

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, 2010, reference is made to the attached schedule "Change in intangible assets and property, plant and equipment" (Statement of changes in fixed assets on page 58f).

a) Goodwill and property, plant and equipment

The PSI Group carried out impairment testing on non-current assets on December 31, 2010 and December 31, 2009. Impairment testing to determine value in use is based on the following cash-generating units and proportionate with goodwill carrying amounts:

	31.12.2010 EUR K	31.12.2009 EUR K
Energy Management		
Electrical Energy business of PSI AG, Nentec and CNI	1,493	1,493
Gas and Oil businesses of PSI AG	1,576	1,576
PSI Energy Markets	2,267	2,267
	5,336	5,336
Production Management		
PSIPENTA	615	615
PSI Metals (formerly PSI BT)	8,198	8,198
PSI Logistics	838	838
PSI Production	285	285
FLS	342	342
AIS Group	10,750	10,750
	21,028	21,028
Infrastructure Management		
PSI Transcom	2,352	2,352
inControl Tech Group	15,208	15,208
	17,560	17,560
Total goodwill	43,924	43,924

Impairment testing is based on cash flow projections for individual cash-generating units given 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 3-year planning time frame reflects long-term business projections. The estimated cash flows are determined based on past information. Cash flows were also adjusted downward in recent testing to reflect the current economic situation. Assumptions made by management with regard to business trends in the software industry are in accord with the expectations of industry experts and market observers.

Apart from for the inControl Tech Group, a discount rate of 6.57 % after tax and 8.27 % before tax was applied (previous year: 7.97 % after tax and 9.27 % before tax). For the inControl Tech Group, taking into account a country risk surcharge, a discount rate of 10.44 % before tax and 8.42 % after tax was applied. The discount rate was adjusted in view of the current economic situation (real economy developments and financing conditions). Cash flows arising after the three-year time period are extrapolated using a growth rate of 1.3 % (2009: 1.3 %).

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 20 % 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.

b) Capitalized software development costs

The Group capitalized no development costs in 2010 (2009: EUR 228 K). The development costs capitalized in the previous year relate to a software package that can be operated together with existing Group software modules and which is useful for various industry solutions that the PSI Group provides. Depreciation and amortization of the software developed is conducted over an estimated time period of three years.

2 Investments in associates

Since June 5, 2008 the Group has held a 24.9% stake in PSI Energo, Moscow, Russia. This company was established to build up a distribution structure. PSI Energo is not listed on the stock exchange. In 2009, PSI AG subscribed shares in the amount of EUR 27 K as part of a capital increase in PSI Energo; the share of PSI Energo's capital after the capital increase remains 24.9%.

Per agreement of March 3, 2009, PSI AG acquired 25% of the shares in caplog-x GmbH headquartered in Leipzig, for EUR 50 K. The company provides companies in the gas market with the full information chain from data collection to remote data supply, particularly for invoicing large customers.

With the contract dated August 6, 2010, the Group obtained 24.9% of EIT Bilisim Teknolojileri Sanayi ve Ticaret Anonim Sirketi, Istanbul, Turkey. The company is to distribute certain PSI solutions in Turkey and in the Caspian region.

The table below includes a summary of financial information about the Group's stakes in PSI Energo, caplog-x and EIT Bilisim Teknolojileri Sanayi ve Ticaret Anonim Sirketi:

	2009 EUR K	2008 EUR K
Share in assets and liabilities of associates:		
Current assets	1,476	2,727
Non-current assets	100	76
Current liabilities	-1,139	-2,481
Non-current liabilities	-20	0
Equity	417	322
Share in the revenue and result of associates:		
Revenue	1,066	2,933
Result	24	316
	2010 EUR K	2009 EUR K
Carrying value of the investment	401	359

At the time of preparation of the 2010 Consolidated Financial Statements, there was no information available as to the assets, liabilities, revenues or operating result of PSI Energo, caplog-x and EIT Bilisim Teknolojileri Sanayi ve Ticaret Anonim Sirketi.

CURRENT ASSETS

3 Inventories

	2010 EUR K	2009 EUR K
Unfinished products	244	180
Hardware and third-party licenses	2,482	2,282
Subcontractor payments	676	375
	3,402	2,837

4 Trade receivables, net

	2010 EUR K	2009 EUR K
Trade receivables, gross	28,106	33,898
Receivables from associates	433	642
Individual valuation allowances	-601	-789
	27,938	33,751

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

	2010 EUR K	2009 EUR K
As of January 1	789	582
Appropriation recognized as expense	336	490
Additions through corporate acquisitions	0	214
Claimed	0	0
Reversals recognized as income	-524	-497
As of December 31	601	789

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

	2010 EUR K	2009 EUR K
Neither past due nor impaired:	16,332	22,690
Past due, not impaired:		
< 30 days	5,591	5,008
30 – 60 days	3,018	1,004
60 – 90 days	459	526
90 – 120 days	542	791
> 120 days ^{1) 2)}	1,996	3,732
	11,606	11,061
As of December 31	27,938	33,751

¹⁾ Amount of which from collateral retained EUR 84 K (2009: EUR 0) and contractually secured: 0 K (2009: EUR 141 K).

²⁾ Paid as of February 14, 2011: EUR 381 K.

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:

	2010 EUR K	2009 EUR K
Costs incurred	82,269	69,876
Share of profit	18,015	16,274
Contract revenue	100,284	86,150
Advance payments received	–79,196	–68,862
Set off against contract revenue	–63,042	–53,464
Receivables from long-term development contracts	37,242	32,686
Liabilities from long-term development contracts	16,154	15,398

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

Receivables from long-term contract manufacturing in the amount of EUR 37,242 K (2009: EUR 32,686 K) are neither past due nor impaired as of the balance sheet date.

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

6 Other assets

	2010 EUR K	2009 EUR K
Claims from the sale of business units	2,198	0
Prepaid expenses	1,027	913
Subcontractor payments	898	729
Tax credits	776	932
Subsidies	146	272
Foreign currency contracts (fair value)	221	173
Other	1,416	485
	6,682	3,504

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 past due or impaired receivables.

In the business year 2010, the Group used exchange forward contracts in order to protect itself from currency risks. These forward exchange contracts are not categorized as hedges against cash flow, fair value hedges or net investments. The time period for which the foreign exchange forward contracts are concluded corresponds to the time period in which foreign currency transactions exist, generally 1 to 12 months.

7 Cash

	2010 EUR K	2009 EUR K
Bank balances	11,082	13,597
Fixed term deposits	17,776	7,134
Cash	24	34
	28,882	20,765

The time deposit investments and bank balances are not past due; 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 40,185,256.96 (2009: EUR 40,185,256.96).

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 30,464,000.00. The share capital reduction was recorded in the Commercial Register on March 9, 2009. Share capital is comprised of 15,697,366 no-par shares (2008: 12,112,870).

In its resolution of May 20, 2009, PSI AG's Board of Directors, with Supervisory Board approval, used part of the 2005 authorized capital. The authorized capital was increased upon resolution of the Annual General Meeting on May 19, 2005 by EUR 3,046,397.44 to EUR 33,510,397.44. 1,189,999 new shares were issued. The capital increase was recorded in the Commercial Register on May 22, 2009.

On June 8, 2009, the Board of Directors resolved with Supervisory Board approval to use an additional part of the aforementioned authorized capital from 2005. By way of capital increase against contributions in kind, the share capital was increased by EUR 6,674,859.52 from EUR 33,510,397.44 to EUR 40,185,256.96. 2,607,367 new shares were issued. The capital increase was implemented on the basis of the contribution of all shares in inControl Tech by its sole shareholder, Jubilee Systems Sdn. Bhd., Kuala Lumpur, Malaysia. The capital increase was recorded in the Commercial Register on June 10, 2009.

At the PSI AG Annual General Meeting on April 28, 2009, the Board of Directors was authorized to buy back shares up to 10% of share capital. Based on the share capital of that date in the amount of EUR 30,464,000, the company was authorized for a maximum amount of own shares in the amount of EUR 30,464,000.00. This is about 1,190,000 shares of the company. The authorization expired on October 27, 2010.

b) Contingent and authorized capital

Upon resolution of the Annual General Meeting on April 28, 2009, the Board of Directors was authorized to issue convertible bonds and bonds with warrants alongside profit-sharing rights and/or participating bonds (with the option to exclude subscription rights) up to April 28, 2014.

To fulfill any exercised rights as above, the Annual General Meeting on April 27, 2009 created a new "contingent capital 2009." Thereunder, the company's share capital of up to EUR 15,232,000, divided into up to 5,950,000 no-par shares, is contingently increased.

The contingent capital from an authorization of May 27, 2004 (CC II/2004) was replaced by the aforementioned new contingent capital 2009.

	2010 EUR K	2009 EUR K
Authorized capital (AC)		
AC 2010 (expires May 2, 2015)	8,036	0
AC I/2005 (expires May 18, 2010)	0	15,504
	8,036	15,504
Contingent capital (CC)		
CC 2009 (expires April 27, 2014)	15,232	15,232
	15,232	15,232
	23,268	30,736

The Annual General Meeting on May 3, 2010 agreed on a new authorized capital amount (GK 2010). The Board was authorized to increase the ordinary stock of the company with the Supervisory Board's approval in the period up to 2 May 2015, either in one go or in several steps, up to a total to EUR 8,035,840.00 by issuing new nominal no-par shares in exchange for cash contributions or investments in kind. The authorized capital created in the General Meeting on May 19, 2005 was annulled.

There were no changes in conditional capital in 2010. In the business year 2009, conditional capital amounting to EUR 9,721 K was used due to capital measures.

c) Capital reserves

Capital reserves contain premiums from capital increases. The costs attributable to issuing equity instruments were posted directly in the equity as negative premiums, taking into account deferred tax effects.

d) Other reserves

Other reserves break down as follows:

	2010 EUR K	2009 EUR K
Currency fluctuation reserve	1,320	63
Actuarial losses	-6,430	-2,947
Deferred taxes	2,678	1,295
Cash flow hedge reserve	-1,094	0
	-3,526	-1,589

The cash flow hedge reserve contains the effective part of cash flow hedges at the balance sheet date.

e) Distributed dividends

During the financial year, a dividend on ordinary shares for the business year 2009 amounting to EUR 0.21 per share (EUR 3,201,279.43) was distributed. The dividend for the financial year 2009 for some ordinary shares was only paid on a pro-rata basis.

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 hitherto existing defined benefit pension plans. The 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 of 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. Vested rights are determined as though the employee had reached his or her 65th birthday by 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 an 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:

	2010 %	2009 %	2008 %	2007 %
Discount rate	4.70	5.50	5.70	5.30
Increase in salaries	1.50	2.00	2.00	1.00
Increase in pension payouts	1.75	1.75	1.00	1.00
Staff turnover	4.96	4.50	4.50	4.50

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, 2010 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.

Pension benefits break down as follows:

	2010 EUR K	2009 EUR K
Work time expenditure recorded in staff costs	52	58
Interest expense recorded in interest result	1,641	1,499
Pension benefits	1,693	1,557

Liabilities from defined benefit plans:

	2010 EUR K	2009 EUR K
Cash value of defined benefit plan	33,610	30,096
Current pension obligation	33,610	30,096

Adjustment of plan liabilities:

	2010 EUR K	2009 EUR K	2008 EUR K	2007 EUR K
Cash value of defined benefit plan	33,610	30,096	26,653	27,391
Adjusted of plan liabilities	53	209	50	135

The table below shows the change in pension obligations:

	2010 EUR K	2009 EUR K
Pension obligation, start of period	30,096	26,653
Actuarial losses recognized in equity	3,483	2,822
Pension benefit payments	-1,026	-936
Pension benefits	1,693	1,557
Group disposals	-636	0
Pension obligation at end of period	33,610	30,096

The following shows the expected payment structure for the years 2011 to 2013:

	EUR K
Pension benefit payments	
2009	936
2010	1,026
Projected pension benefit payments	
2011	1,202
2012	1,300
2013	1,434

10 Financial liabilities

Financial liabilities contain liabilities from loans of EUR 4,826 K and the non-current part of derivatives amounting to EUR 848 K. For more explanations on derivatives, please see the information at 11 (Financial Liabilities).

In the financial year 2010, in order to finance the extension construction in Aschaffenburg, a loan contract was taken out with Landesbank Berlin for a nominal amount of EUR 4,000,000 and a term to December 31, 2015. The loan is subject to a variable interest rate (3-month EURIBOR plus a margin of 1.220%). The remaining value until December 31, 2010, amounts to EUR 3,950,000. The loan is secured with a first-order mortgage on a certain plot of land and building in Aschaffenburg of EUR 4,000,000 in favor of Landesbank Berlin.

As of December 31, 2010, the Group reported a EUR 876 K bank loan due March 31, 2012.

Interest expenses from non-current bank loans amounted to EUR 27 K in the financial year (2009: EUR 10 K).

CURRENT LIABILITIES**11 Financial liabilities**

Financial liabilities contain current account loans of EUR 2,239 K and the current part of derivatives amounting to EUR 246 K.

The PSI Group uses short-term, variable interest rate bank credit lines for financing purposes. Financial liabilities are paid back monthly, with interest rates ranging between 4.3 % and 8.3 %. Collateral is not provided. The objective is to ensure continuous refinancing of all short-term financial liabilities. The fair value of financial liabilities is the carrying amount. As of December 31, 2010 the PSI Group had unused credit lines in the amount of EUR 9,488 K (previous year: EUR 10,047 K).

Interest expenses from bank overdrafts amounted to EUR 161 K in the 2010 fiscal year (2009: EUR 151 K).

In the financial year 2010, in order to protect against interest rate risks in the context of the above-mentioned long-term loans, an interest swap was agreed. The loan and the hedging instrument were designated as a hedge (cash flow hedge). Cash flows will be received in the period from January 1, 2011, and December 31, 2015. The hedging instrument was included in the balance sheet at its fair value December 31.

In the business year 2010, in the context of contracted foreign currency customer orders, exchange forward contracts were agreed in order to hedge against currency risks. This is to hedge future cash flows from expected transactions. The Company has designated the expected transactions in the context of customer orders and exchange forward contracts as a hedge (cash flow hedge). Cash flows are expected to be received in the period from May 31, 2011, and December 31, 2013. The hedging instruments were included in the balance sheet at fair value on December 31, 2010 with no effect on profits.

The inventory of derivatives designated as hedges showed the following development:

Underlying transaction/hedging relationship	Risk/type of hedge	Nominal amount EUR K	Amount of risk hedges EUR K	Fair value	
				31.12.2010 EUR K	31.12.2009 EUR K
1.) Loan/interest swap	Interest rate change risk/ cash flow hedge	3,950	3,950	-10	0
2.) Future transactions/ foreign currency contracts	Currency risk/ cash flow hedge	11,223	11,223	-1,084	0
Total		15,173	15,173	-1,094	0

Re 1.): Opposing cash flows relating to the secured risk of underlying transactions and hedges balance out fully over the hedging period because significant interest risk items are hedged at the same amount, duration and interest rate in accordance with the Group risk policy. In order to measure the effectiveness of hedges, the “Critical-Terms-Match” method is used.

Re 2.): Opposing cash flows relating to the secured risk of underlying transactions/expected transactions and hedges are expected to balance out fully over the hedging period, based on the information available when compiling the Group statements, because significant interest risk items are hedged at the same amount, duration and interest rate immediately after they arise, in accordance with the Group risk policy. In order to measure the effectiveness of hedges, the “Critical-Terms-Match” method is used.

12 Provisions

The change in provisions was as follows:

	As of 1.1.2010 EUR K	Claimed EUR K	Interest proportion/ Changes to interest rate EUR K	Liquidation EUR K	Additional EUR K	Disposals EUR K	As on 31.12.2010 EUR K
Personnel provisions	273	-103	-54	0	0	-42	74
Other provisions	204	0	0	-11	25	0	218
	477	-103	-54	-11	25	-42	292
thereof current	203						218
thereof non-current	274						74

Personnel provisions principally represent provisions in connection with phased retirement schemes. Merchandise provisions are calculated on the basis of the applicable agreement terms in place with employees and a discount rate for projected cash flows in connection with the agreements concluded of 3.75 % for cash flows expected in 2012 (previous year: 5.5 %) and 3.90 % for cash flows expected for 2013 (previous year: 5.5 %). Provisions for phased retirement schemes were offset in the amount of EUR 146 K against the asset value of insolvency reserves, the provision of which is required by law.

13 Other liabilities

	2010 EUR K	2009 EUR K
Personnel-related liabilities	11,704	10,917
Tax liabilities (payroll and sales tax)	5,248	4,039
Deferred income	4,887	3,483
Social security liabilities	63	138
Other	3,871	4,570
	25,773	23,147

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

14 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 the municipality in which the PSI Group operates. The average trade tax rate in 2010 was approximately 15%. Corporation tax rates of 15% and 15% applied in the 2009 and 2010 fiscal years. A solidarity surcharge of 5.5% is additionally levied on corporation tax assessed. The effective income tax rate for 2010 was thus 29.83% (2009: 29.83%).

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

	2010 EUR K	2009 EUR K
Actual tax expense		
Current year	-1,452	-718
Deferred tax expense		
Change in intangible assets	301	153
Change in long-term development contracts	-66	638
Changes in inventories	-23	-16
Phased retirement programs	-32	-26
Change in pension provisions	-96	-89
Project-related provisions	577	-96
Other provisions	17	-27
Fixed assets	-11	-18
Cost of equity issue	-46	-143
	621	376
Income tax expense	-831	-342

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

	2010 TEUR	2009 TEUR
Earnings before taxes	7,878	6,945
Theoretical income tax expense (29.83%; 2009 29.83%)	-2,350	-2,072
Uncapitalized tax loss carryforwards	-657	-63
Tax effects from asset deals	0	-321
Use of non-capitalized loss carryforwards	2,203	2,183
Effects of differences due to foreign tax rates	88	0
Other	-115	-69
Actual tax expense	-831	-342

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

	2010 TEUR	Change TEUR	2009 TEUR
Deferred taxes			
Pension provisions	3,200	964	2,236
Intangible assets	-268	480	-748
Tax-deductible goodwill impairment	300	-179	479
Phased retirement programs	100	-32	132
Project-related provisions	336	577	-241
Receivables from long-term development contracts	-1,329	-66	-1,263
Derivatives/Financial instruments	323	323	0
Fixed assets	-73	-11	-62
Inventories	34	-23	57
Other	17	17	0
	2,640	2,050	590
thereof with effect on income		667	
thereof equity change		1,383	
Balance sheet			
Deferred tax assets	4,310		2,904
Deferred tax liabilities	-1,670		-2,314

The PSI Group has the following tax loss carryforwards:

	2010 EUR m	2009 EUR m
Loss carryforward domestic trade tax	47.2 ¹⁾	47.8 ¹⁾
Loss carryforward domestic corporation tax	44.6 ¹⁾	49.3 ¹⁾
Loss carryforwards abroad	5.5	5.6

Domestic loss carryforwards do not expire.

¹⁾ The information regarding the domestic carryforwards takes into account the high risk that the 2009 purchase and addition of 28.60 % of voting rights by Kajo Neukirchen GmbH, Eschborn, has led to a reduction of up to 28.60 % of tax loss carryforwards since January 1, 2009.

D. DETAILS RELATING TO GROUP PROFIT/LOSS ACCOUNT

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

15 Revenues

	2010 EUR K	2009 EUR K
Software development and maintenance	136,946	116,715
License fees	9,771	8,726
Merchandise	11,971	21,544
	158,688	146,985

16 Cost of materials

	2010 EUR K	2009 EUR K
Cost of purchased services	12,525	10,231
Costs of purchased goods	13,778	18,256
	26,303	28,487

17 Staff costs

	2010 EUR K	2009 EUR K
Wages and salaries	79,592	70,960
Social security	14,571	12,668
	94,163	83,628

Staff costs include expenses for payments in connection with defined contribution pension commitments of EUR 672 K (previous year: EUR 610 K) and und state pension funds of EUR 5,697 K (previous year: EUR 5,601 K).

18 Depreciation and amortization

	2010 EUR K	2009 EUR K
Of intangible assets and property, plant and equipment	4,425	3,631
	4,425	3,631

19 Other operating expenses

	2010 EUR K	2009 EUR K
Travel costs	6,678	5,113
Rent/leasing property	5,353	5,338
Project expenses	3,499	2,154
Advertising and marketing	3,085	3,237
Equipment leasing	2,312	2,104
Data line, IT and telephone costs	2,156	2,045
Legal and advisory costs	1,394	1,509
Contributions, fees, expenses	264	683
Other	6,257	4,903
	30,998	27,086

20 Earnings per share

In accordance with IAS 33, basic earnings per share are calculated by dividing the Group net profit/loss by the weighted average number of no-par shares.

	2010	2009
Net profit/loss for the period (EUR K)	7,047	6,603
Weighted number of no-par shares (in thousand)	15,697	14,201
Basic/diluted earnings per no-par share (EUR/share)	0.45	0.46

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.

E. NOTES TO THE CASH FLOW STATEMENT

Cash and cash equivalents reported are not subject to restrictions on disposal claims or 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 has regulations on the reporting of data broken down by business and geographical segments.

Segments after restructuring/application of IFRS 8

- Energy Management: Intelligent solutions for electricity, gas, oil and water utilities. The focus is 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. The focus is 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.

Reconciliation of segment assets and liabilities

Segment assets and liabilities distribute to the gross assets and gross liabilities as follows:

	2010 EUR K	2009 EUR K
Gross assets per balance sheet	169,158	154,735
Deferred tax assets	-4,310	-2,904
Segment assets	164,848	151,831
Gross liabilities per balance sheet	101,068	88,446
Tax provisions	-667	-486
Deferred tax liabilities	-1,670	-2,314
Segment liabilities	98,731	85,646

Additional geographical disclosures

In the 2010 fiscal year, the PSI Group generated domestic revenue of EUR 94.6 million (previous year: EUR 96.8 million) and international revenue of EUR 64.1 million (previous year: EUR 50.2 million). Non-current fixed assets of EUR 28,163 K (2009: EUR 29,678 K) are allocated to foreign entities.

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 2010, leasing charges of EUR 242 K accrued (2009: EUR 157 K) for leased office equipment; EUR 1,023 K (2009: EUR 946 K) accrued for leased data processing systems, vehicles and other equipment.

In the 1996 fiscal year, PSI AG concluded a tenancy agreement for an office building in Berlin. The rental contract was renegotiated in the reporting year and has a term up to March 31, 2017.

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

	Tenancy payments EUR K	Leasing payments EUR K	Total EUR K	Prior year total EUR K
2011	3,514	1,427	4,941	5,109
2012	2,309	839	3,148	3,869
2013	1,952	450	2,402	1,511
2014	1,508	119	1,627	446
2015	1,504	8	1,511	9
2016	1,504	0	1,511	0
and beyond	376	0	376	0

Guaranteed sureties

At the balance sheet date PSI AG had guaranteed sureties totaling EUR 40,509 K (2009: EUR 40,651 K) from various insurers and banks.

Letters of subordination and comfort

PSI AG has provided letters of subordination totaling EUR 304 K (previous year: EUR 104 K) for various subsidiaries from which it has receivables. In addition, letters of comfort have been provided for various subsidiaries.

Employees

The average number of PSI Group employees in the fiscal year was 1,407 (2009: 1,370). Employees break down by function as follows:

	2010	2009
Production	1,166	1,112
Administration	98	87
Revenue	122	142
Development	21	29
Total	1,407	1,370

Equity statement

	Shares in %	Shareholders' equity ¹⁾ 31.12.2010 TEUR	Net result ¹⁾ 2010 TEUR
PSIPENTA Software Systems GmbH, Berlin	100	1,200	0 ²⁾
PSI Nentec GmbH, Karlsruhe	100	501	0 ³⁾
PSI Metals GmbH, Dusseldorf	100	5,731	1,367
PSI Information Technology Shanghai Co. Ltd., Shanghai, China	100	-313	380
PSI Transcom GmbH, Berlin	100	2,580	2,429
Cellls GmbH, Berlin	100	100	-93
PSI AG Produkte und Systeme der Informationstechnologie, Glattzentrum, Switzerland	100	380	158
PSI Logistics GmbH, Berlin	100	387	0 ²⁾
PSI Energy Markets GmbH, Hanover	100	1,330	0 ³⁾
PSI Production GmbH, Berlin	100	-519	-1,600
PSI Produkty i Systemy Informatyczne Sp. z o.o., Poznan, Poland	100	619	221
PSI CNI Control, Networks & Information Management GmbH, Wels, Austria	100	1,248	39
FLS FUZZY Logik Systeme GmbH, Dortmund	100	378	0 ³⁾
PSI Metals Non Ferrous GmbH, Würselen	100	1,005	0 ³⁾
OOO PSI, Moscow, Russia	100	905	583
inControl Tech Sdn. Bhd., Selangor, Malaysia	100	8,541	2,438 ⁴⁾
inControl Tech Private Limited, India	100	-53	-20 ⁴⁾
inControl TechManufacturing SPC, Bahrain	100	-232	-240 ⁴⁾
inControl Tech Thailand Ltd., Thailand	100	81	105 ⁴⁾
inControl Tech Holding Thailand Ltd., Thailand	100	-3	-1 ⁴⁾
PSI Metals Austria GmbH, Austria	100	1,551	380
AIS Advanced Information Systems (India) Private Ltd, India	100	2	0
AIS Advanced Information Systems NV, Belgium	100	1,003	418
OOO AIS Advanced Information Systems, Russia	100	34	-28
caplog-x GmbH, Leipzig	25	121	96 ⁵⁾
PSI Energo LLC., Moscow, Russia	24.9	1,383	2 ⁵⁾
EIT Bilisim Teknolojileri Sanayi ve Ticaret Anonim Sirketi, Istanbul, Turkey	24.9	24	0

¹⁾ Values according to legal and local accounting regulations
before consolidation bookings

²⁾ Claimed amount from debtor warrants

³⁾ Profit-pooling contract

⁴⁾ Values according to IFRS before consolidation bookings

⁵⁾ Statements as on 31.12.2009

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 170 K (previous year: EUR 165 K). For tax consultancy services from the auditors of the Financial Statements, the PSI Group recorded fees in the amount of EUR 53 K (previous year: EUR 0 K) and for other audit services EUR 18 K (previous year: EUR 50 K).

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. PSI Energo, caplog-x, and EIT Bilisim Teknolojileri Sanayi ve Ticaret Anonim Sirketi, Istanbul, Turkey, are associates that are considered related parties. There are no other related companies.

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

Related persons

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

Barbara Simon
Karsten Trippel
Prof. Dr. Rolf Windmüller
Dr. rer. nat. Ralf Becherer
Bernd Haus
Wilfried Götze

Transactions with related persons

No business transactions took place between the PSI Group and related individuals in 2010.

Supervisory Board

The individuals below were Supervisory Board members in fiscal year 2010:

Name	Profession	Location	Supervisory Board memberships at other companies
Prof. Dr. Rolf Windmüller (Chairman)	Graduate engineer	Ennepetal	ProDV Software AG, Dortmund (Chairman)
Wilfried Götze (Deputy Chairman)	Business graduate	Berlin	
Bernd Haus	Business graduate	Ranstadt	
Barbara Simon (employee representative)	Graduate engineer	Berlin	
Karsten Trippel	Businessman	Großbottwar	Berlina AG für Anlagewerte Preußische Vermögensverwaltung AG, Berlin Riebeck Brauerei von 1872 AG, Wuppertal
Dr. rer. nat. Ralf Becherer (employee representative)	Graduate chemist	Aschaffenburg	

Remuneration for Board of Directors and Supervisory Board

Remuneration of EUR 1,482 K was paid to the PSI AG Board of Directors in the fiscal year 2010 (2009: EUR 822 K):

	2010 EUR K	2009 EUR K
Fixed remuneration		
Armin Stein	222	198
Dr. Harald Schrimpf	222	198
	444	396
Long-term fee component		
Armin Stein	250 ¹⁾	0
Dr. Harald Schrimpf	250 ¹⁾	0
	500	0
Variable remuneration		
Armin Stein	269	214
Dr. Harald Schrimpf	269	212
	538	426
Board of Directors – total	1,482	822

¹⁾ The condition for the Board's long-term fee component was met in the fiscal year. As a result, each Board member is entitled to EUR 500 K. EUR 250 K of this was paid in 2010 and the remainder will be paid in 2011.

No pension commitments exist for Board of Directors members.

Pension provisions of EUR 626 K are reported for former Board of Directors members (2009: EUR 591 K). No further remuneration was paid to former Board of Directors members in the 2010 fiscal year other than pension benefit payments.

The Supervisory Board was paid remuneration of EUR 119 K in fiscal 2010 (2009: EUR 120 K).

	2010 EUR K	2009 EUR K
Prof. Dr. Rolf Windmüller	33	34
Wilfried Götze	23	23
Bernd Haus	18	18
Dr. rer. nat. Ralf Becherer	16	16
Barbara Simon	16	16
Karsten Trippel	13	13
	119	120

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

	2010 Number of shares	2009 Number of shares
Dr. Harald Schrimpf	71,000	71,000
Armin Stein	23,300	23,300
Karsten Trippel	124,450	124,450
Dr. rer. nat. Ralf Becherer	2,268	2,268
Barbara Simon	7,890	7,890
Prof. Dr. Rolf Windmüller	6,305	6,305
Bernd Haus	1,000	1,000
Wilfried Götze	54,683	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 19, 2010. This document is available for viewing by shareholders at all times on the PSI AG website (www.psi.de) in the Investor Relations section.

Berlin, February 14, 2011



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 have audited the Consolidated Financial Statements prepared by PSI Aktiengesellschaft für Produkte und Systeme der Informationstechnologie, Berlin – consisting of the balance sheet, income statement, comprehensive 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, 2010. 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 (German commercial code) and generally accepted German 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 a way 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. In determining the audit procedures, the business activity, business and legal environment, and expectations as to possible errors were taken into consideration. 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 assessment of 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 our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the Consolidated Financial Statements comply with the IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Article 315 a (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 28, 2011

Ernst & Young GmbH
Accounting firm

Schepers
Public accountant

Weiß
Public accountant

FINANCIAL DATES FOR 2011

Publication of annual result	15 March 2011
Analysts' conference	15 March 2011
First quarter report	26 April 2011
Annual General Meeting	29 April 2011
First half-year report	28 July 2011
Third quarter report	28 October 2011
Analysts' conference German Equity Forum	21 to 23 November 2011

PSI SHARES

Stock market segment: Prime Standard
Exchange symbol: PSAN
German Security Code: A0Z1JH
ISIN: DE000A0Z1JH9

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 **2010**, WE WERE ABLE TO CLEARLY INCREASE NEW ORDERS AND EXPORT. THIS MEANT THAT WE TOOK A GREAT STEP FORWARD ON OUR PATH TO BECOMING A GLOBAL SOFTWARE PRODUCT PROVIDER.”

YOUR INVESTOR RELATIONS CONTACT

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