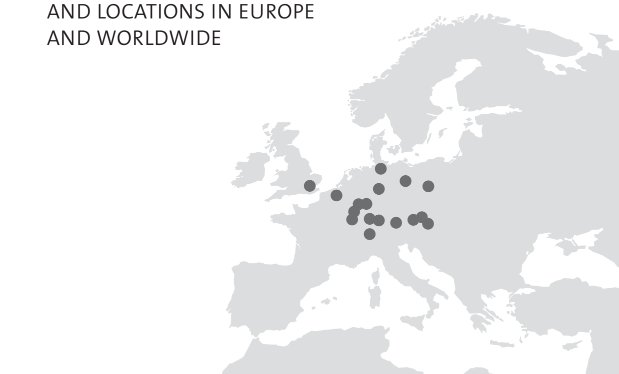
Annual Report 2011

Smart RESOURCES

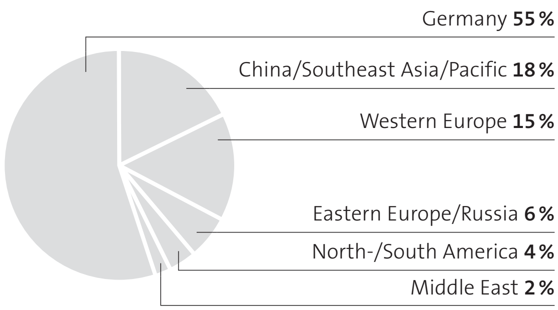
PSI

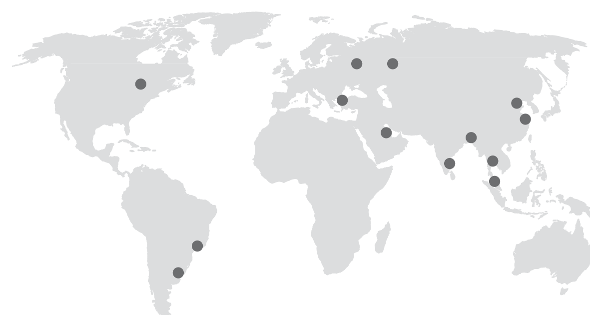
PSI GROUP AT A GLANCE

INTERNATIONAL PRESENCE AND LOCATIONS IN EUROPE AND WORLDWIDE

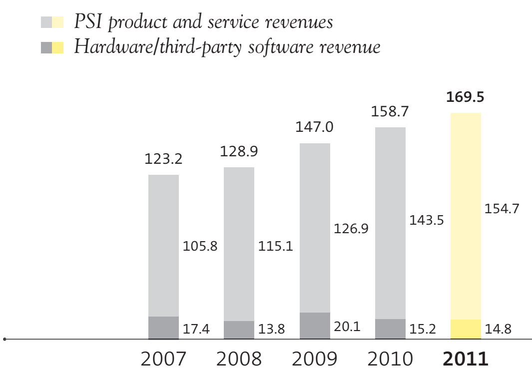


EXPORT SHARE OF NEW ORDERS AT 45 %

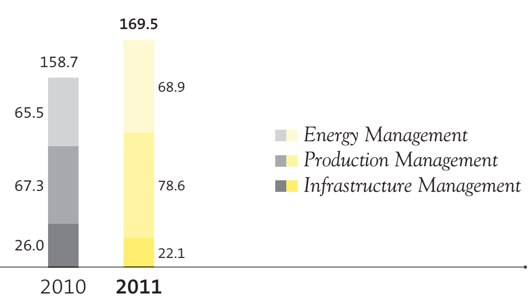




OWN ADDED VALUE CONTINUES TO INCREASE
(EURO MILLION)



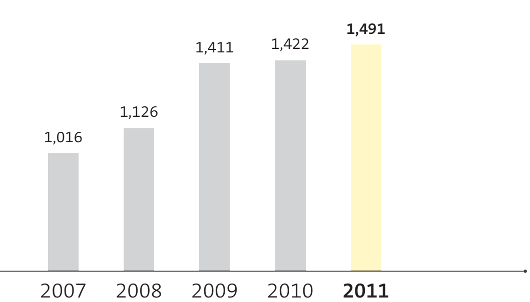
PSI REVENUES INCREASE BY 7 %
(EURO MILLION)



SHARE OF FOREIGN BUSINESS REACHES 50 %
(EURO MILLION)

Excluding international revenue via domestic export partners

NUMBER OF EMPLOYEES UP SLIGHTLY



ENERGY MANAGEMENT

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

SEGMENT DEVELOPMENT

Revenues from Energy Management increased in 2011 by 5.2 % to EUR 68.9 million. The operating result suffered due to an investment backlog in electricity distribution grids as a result of the German energy shift and investments in the product base and fell from EUR 4.7 million the previous year to EUR 4.0 million.

	2011	2010
Revenues (EUR K)	68,886	65,457
Operating result (EUR K)	4,045	4,714
Employees	524	515

PRODUCTION MANAGEMENT

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

SEGMENT DEVELOPMENT

Revenues from Production Management at PSI in 2011 grew by 16.8 % to EUR 78.6 million. New orders continued to increase over an already strong previous year. The segment's operating result increased considerably from EUR 1.3 million in the previous year to EUR 5.5 million.

	2011	2010
Revenues (EUR K)	78,590	67,267
Operating result (EUR K)	5,488	1,253
Employees	650	591

INFRASTRUCTURE MANAGEMENT

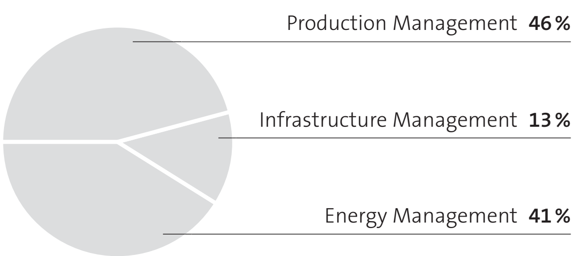
High-availability control solutions for the monitoring and effective operation of transport/traffic, public safety, environmental protection and disaster prevention infrastructures, focusing on operations control systems, mobile safety and telematics applications.

SEGMENT DEVELOPMENT

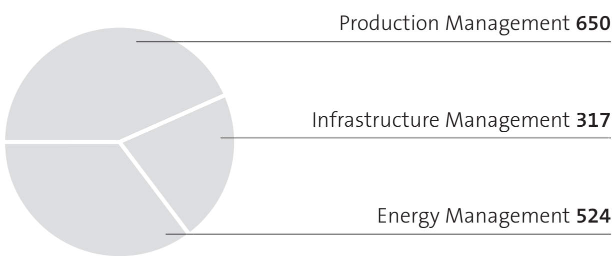
In 2011 Infrastructure Management achieved revenues of EUR 22.1 million, EUR 3.9 million lower than the previous year. When adjusted for the revenues from the Telecommunications business sold at the end of 2010, this corresponds to a slight increase. The operating result fell from EUR 4.4 million from the previous year to EUR 3.1 million, but the previous year figure includes the impact on profits of the sale of the Telecommunications business.

	2011	2010
Revenues (EUR K)	22,068	25,964
Operating result (EUR K)	3,121	4,449
Employees	317	316

REVENUE ALLOCATION BY SEGMENT



EMPLOYEE ALLOCATION PER SEGMENT



PSI solutions are extremely reliable, and ensure that resources are used effectively. For decades, PSI has been developing and integrating software solutions and complete systems for process control for energy suppliers, in energy-intensive industries and for infrastructure operators world. From the start, our intelligent solutions were developed for the management of large-scale energy grids and complex production and logistics processes.

Today, PSI products ensure that energy and raw materials are used in a way which conserves resources on a global scale. The Group has a leading position in its core markets. With a view to the future of our planet, PSI contributes to sustainable development with locations in Asia, America, and Central and Eastern Europe.

PSI GROUP IFRS FIGURES IN EURO MILLION

	2011	2010	2009
Revenues	169.5	158.7	147
Operating result	10.7	9.5	7.8
Earnings before taxes	8.7	7.9	6.9
Group net result	7.4	7	6.6
Shareholders' equity	72.9	68.1	66.3
Equity ratio (in %)	41.5	40.3	42.8
Investments [1)]	4.4	6.9	18.9
Research & Development expenditure	16.2	16	12.1
Research & Development ratio (in %)	9.6	10.1	8.2
New orders	174	177	150
Order book on Dec 31	112	108	97
Employees at Dec 31 (number)	1,491	1,422	1,411

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

Intelligent solutions from PSI ensure that resources are used in a smart way, increasing the efficiency of industrial processes and large infrastructures

Contents

Letter from the Board of Directors

LADIES AND GENTLEMEN,

in 2011 PSI AG was accepted onto the TecDAX. The German energy shift in the spring and the escalation of the sovereign debt crisis caused a slowing of new orders at PSI, meaning we have had to reduce profit targets. Our share price began the year at EUR 17.85, rose during the changes to energy policy to EUR 23.34, fell by the fourth quarter to a low of just under EUR 14.0, then rose more strongly than the market in January 2012 from EUR 14.72 to EUR 17.40.

Stronger core growth than planned

We won new orders totaling EUR 174 million, and thereby remained just under the previous year's total of EUR 177 million. We grew revenues by 7 % to just under EUR 170 million. Taking into account the sale of the Telecommunications business at the end of 2010 with EUR 6 million of contracts and revenues, core growth of 11 % was achieved, i.e. somewhat better than our growth target for the year of 8 %. Our operating result before depreciation and amortization (EBITDA) grew 5 % to EUR 14.6 million. Depreciation and amortization from purchase price allocations from corporate acquisitions in 2009 fell from EUR 1.9 million to EUR 1 million. This improved the operating result (EBIT) by 12.6 % from EUR 9.5 million to EUR 10.7 million. Adjusted for the sale of the Telecommunications business, this represents an increase of 37 %. We generated 1 % interest on our cash, whilst we had to add 5 % accrued interest to our pensions. Losses carried forward from the dotcom era, now totaling EUR 44 million, are still softening the tax burden, so that the Group net result increased from EUR 7 million to EUR 7.4 million. With 15.7 million shares, the profit per share increased from EUR 0.45 to EUR 0.47. At the next Annual General Meeting we will suggest distributing slightly more than half of the profits per share, i.e. EUR 0.25 dividend per share.

Cash flows from operating activities increased from EUR 13.1 million to EUR 15.4 million. Cash flows from investment activities, which last year were affected by a new building at the Aschaffenburg facility, increased from EUR –6.8 million to EUR –1.6 million. As a large acquisition failed to materialize, we paid off the construction loan of EUR 4.8 million in 2011, meaning that, including dividend payments of EUR 3.6 million, cash flows from investment activities went from EUR 1.5 million to EUR –9.0 million. In total, cash increased from EUR 28.9 million to EUR 33.8 million, which can also be used for targeted acquisitions.

Left:
DR. HARALD SCHRIMPF
(47)

Responsibilities: Marketing, Sales, Technology and Investor Relations

Since July 2002, Dr.-Ing. Harald Schrimpf has been a member of the Board of Directors of PSI AG. Starting in 1995, as electrical engineer, he was responsible for large IT projects in various management positions at DaimlerChrysler and EADS. In 2001 Dr. Schrimpf became Center Director Software at gedas, a subsidiary of Volkswagen. His goal is to further expand PSI's already strong position, domestically and internationally.

RIGHT:
ARMIN STEIN
(60)

Responsibilities: Organization, HR, Finances and Controlling

On January 1, 2001, Armin Stein, with degrees in business administration and engineering, was made responsible for the Board-level Finances department. From 1989 he was business manager and from 1995 CEO of AEG Softwaretechnik GmbH. From 1997 to 2000 Armin Stein was active in the executive management of the repas AEG Group, and came to the PSI Group in the course of the acquisition of repas AEG Software GmbH.

Gas and Oil business reinforces profit in Energy Management

In 2011 the Energy Management business won roughly the same volume of contracts as in the previous year, while revenues grew by 5% from EUR 65.5 million to EUR 68.9 million. Changes to energy policy capped important sources of income for German energy providers, meaning the investments required for converting energy infrastructure have slowed considerably. New contracts from neighboring countries, Russia, the Gulf and South East Asia have not, in such a short period of time, been able to compensate for weak areas primarily in electricity distribution grids. We hope that the investment backlog will be resolved by the end of the year. Investments in the new control system core and new transmission, distribution and municipal grid variants have each had a detrimental effect. Consequently, the operating result fell from EUR 4.7 million to EUR 4.0 million. The Gas and Oil business made the biggest contribution to profits owing to large contracts in Russia. The Energy Trading division completed two customer projects, which involved the multi-year merger of gas supplier planning tools and the electricity trading system into an integrated economic planning and energy trading system based on the Group's unified technology platform.

Strong growth of Production Management

New orders in Production Management increased by 8%, and revenues grew by a healthy 17% from EUR 67.3 million to EUR 78.6 million. The operating result, which suffered during the previous year due to the raw material control system, jumped from EUR 1.3 million to EUR 5.5 million and even exceeded the long-term linear trend. The Raw Materials division secured an order in China and expects large orders in 2012. The Metals division delivered numerous projects on the Group technology platform and is expanding its leading position on the market. In Logistics, our investments in logistic network simulation and transport management paid off, and we are receiving increasing orders from logistics groups. With our PSIPENTA production management software, we have been able to exceed the 5% EBIT margin for the first time, in particular due to larger projects in engineering and automotive production. FLS, specialized in sequence optimization for car producers, was the front runner in revenues with 18% of the operating result.

Infrastructure Management again trending positive

Revenues in Infrastructure Management shrank from EUR 26.0 million to EUR 22.1 million. New orders fell by a third, but were 28% above revenues. The operating result fell more than expected, from EUR 4.4 million to EUR 3.1 million. These declines can be attributed to the sale of the Telecommunications business on the one hand, and on the other to the fact that profits in South East Asia have not risen. The outsourcing of the Cellls VOIP solution to a joint venture also caused a one-time reduction in profits. For 2012 we are expecting moderate increases and investments in the migration of technology to the PSI Group platform.

Investments in the Group-wide technology platform shifted in 2011 towards rolling out new technology in the business units and training employees. In 2012 we will further invest in Java control system modules, generated Internet applications, business process management, declarative programme generation as well as request and test tools, in order to once again considerably boost quality and productivity. We will also expand cost-efficient production in facilities abroad. Our goal, to increase the margin by 1 % to 2 % per year with average 8 % growth, remains unchanged.

We would like to thank our customers who entrusted important projects to us in 2011. We would also like to thank shareholders for the capital they have made available. We will do our utmost in 2012 to increase the value of the Company. We are also thankful to our employees and management for their consistently top performance. Our "Smart Resources" slogan shows the energy business, industry and infrastructure operators how energy, raw materials and the workforce can be used more efficiently with the help of intelligent software. After a year of policy changes and the euro debt crisis, in 2012 we are expecting a recovery in Central Europe and America as well as further progress in Asia. We hope to gain new orders totaling EUR 190 million, achieve 8 % growth in revenues to more than EUR 180 million, and raise profits from EUR 13 million to EUR 16 million EBIT.

Berlin, March 2012

Dr. Harald Schrimpf   Armin Stein

Report from the Supervisory Board

PROF. DR.
ROLF WINDMÖLLER (63)
Chairman of the Supervisory Board

DEAR PSI SHAREHOLDERS,
FRIENDS AND PARTNERS,

the PSI AG Supervisory Board continued its close working relationship with the Board of Directors in the fiscal year 2011. As in previous years, our attention was focused on strategic further development and further improving the PSI Group's financial indicators. In addition, we regularly monitored and played an advisory role in the Board of Director's work in accordance with the law, Company Articles of Association and the German Corporate Governance Code. The Board of Directors informed the Supervisory Board regularly, promptly and comprehensively on the situation 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. It was involved in all significant decisions concerning the Company. 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. Cooperation between the Supervisory Board and the Board of Directors was consistently constructive and goal-oriented in nature.

The Chairman of the Supervisory Board was in regular contact with the Board of Directors outside of Supervisory Board meetings, and kept abreast of the business situation and important transactions. There was ongoing and intensive cooperation between him and both members of the Board of Directors. The Chairman of the Supervisory Board communicated important information from this exchange to the other members of the Supervisory Board.

Focuses of Supervisory Board discussions

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

- Expansion of existing international structures in operational and organizational regard in preparation for further growth
- Organizational changes in the Energy division as a requirement for taking advantage of the business potential of changes to energy policy in Germany
- Further development of the product base in the Energy division to meet the requirements of the changes to energy policy in Germany
- Overseeing the Group-wide roll-out process of the new, unified development platform
- Expansion of the risk management system in the area of Corporate Acquisitions.

Regular discussions and resolutions of the Supervisory Board focused on the Annual Financial Statements, reviewing the Group's strategy and its implementation, long-term and medium-term planning, acquiring parts of Axxom Software AG, ongoing development in 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 regular meetings in 2011 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 advise on the variable, long-term remuneration of the Board of Directors.

The Audit Committee focuses on accounting and risk management matters. The 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 April 29, 2011, 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.

In 2011 again, the Supervisory Board reviewed the efficiency of its own activity in an audit meeting.

Composition of the Supervisory Board and Committees

During the entire fiscal year 2011, the membership of the Supervisory Board comprised the shareholder representatives Prof. Dr. Rolf Windmöller (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. Dr. Rolf Windmöller 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. Dr. Rolf Windmöller.

Audit of the Annual and Consolidated Financial Statements

Accounting firm Ernst & Young GmbH was appointed as auditor at the April 29, 2011 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, 2011, and issued an unqualified audit certificate.

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 2, 2012. Both the members of the Board of Directors and representatives of the auditor attended this meeting. They 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 2011 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 March 2, 2012, 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 0.25 per share.

In 2011, the PSI Group was able to further increase revenues and earnings and thereby continued its profitable growth. Despite the sale of a business area at the end of 2010, new orders remained at the same level as the previous year and therefore above revenue. The Group continued to invest in technology and export structures as in 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 concerned for their outstanding commitment and productivity.

The Supervisory Board thanks customers and shareholders of PSI for the confidence shown during 2011. In 2012, PSI will be a reliable partner for its customers and will make every effort to support them with even better solutions for improving the efficiency of their business processes. It is only with satisfied reference customers that we can successfully gain new international customers in future and continue PSI's history of growth into its eighth year.

Berlin, March 2012

R. Windmöller

Prof. Dr. Rolf Windmöller
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, respect for shareholders' interests, open and transparent corporate communication, customer orientation, fair business practices and the protection of intellectual property are core principles of Company management. The key principles of our dealings 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 of the German Stock Corporation Act (Aktiengesetz – AktG) of April 29, 2011.

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 May 26, 2010, with the exceptions listed in the disclosure of November 19, 2010.

On the basis of the resolutions from the Annual General Meeting from April 29, 2011, PSI AG will comply with the recommendations of the government commission for the German Corporate Governance Code in its version of May 26, 2010, with the following exceptions:

- **Item 4.2.1:** The Company has not yet appointed a speaker or Chairman of the Board of Directors. As the PSI AG Board of Directors comprises two members, a speaker or Chairman is unnecessary.
- **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 consists of a basic remuneration component and a component linked to meeting attendance. The Supervisory Board feels that performance-related Supervisory Board remuneration would conflict 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 is not necessary, as the Supervisory Board receives a monthly report and is regularly informed on the future quarterly developments in the Supervisory Board meetings.

Composition of the Supervisory Board

The Supervisory Board already discussed specific 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 reflecting 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 nationals 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 Company's six-member Supervisory Committee thus reflects the general proportion of women in the industry environment of the PSI Group, and the fact that around 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 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 2011, the objectives regarding its composition as determined by the Supervisory Board and set out above were achieved: In 2011, 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 the next 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 very effectively. 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 closely associated parties and the PSI Group.

Description and composition of the committees

The Supervisory Board has established committees to enhance the efficiency of its decision-making 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 Windmöller as Chairman, Wilfried Götze and Barbara Simon.

The Audit 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 (Chairman), Wilfried Götze, Barbara Simon as employee representative and Prof. Dr. Rolf Windmöller.

Board member remuneration and shareholdings

By resolution of the Annual General Meeting of April 29, 2011, the current remuneration of the Supervisory Board members comprises a basic remuneration component and a component linked to meeting attendance. Basic remuneration is EUR 40,000 a year plus value-added tax for the Supervisory Board Chairman, EUR 30,000 for the Deputy Chairman and EUR 20,000 for each additional Supervisory Board member. There is also compensation of EUR 5,000 for each activity on a Supervisory Board committee for each committee chairman and EUR 3,000 for each other committee member.

The component linked to attendance at meetings is EUR 500 per meeting for each Supervisory Board member. Supervisory Board members received remuneration totaling EUR 150,000 in fiscal year 2011, which breaks down as follows:

	2011 EUR K	2010 EUR K
Dr. Ralf Becherer	27	16
Wilfried Götze	34	23
Bernd Haus	29	18
Barbara Simon	28	16
Karsten Trippel	23	13
Prof. Dr. Rolf Windmöller	44	33
	185	**119**

The members of the Board of Directors received the following remuneration in 2011:

	2011 EUR K	2010 EUR K
Fixed remuneration		
Dr. Harald Schrimpf	222	222
Armin Stein	222	222
Variable remuneration		
Dr. Harald Schrimpf	210	269
Armin Stein	210	269
Long-term fee component		
Dr. Harald Schrimpf	250	250
Armin Stein	250	250
	1,364	**1,482**

The remuneration of the two 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 an 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 non-performance related 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. The 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 tax, certain balance sheet ratios 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.

In January 2011 a variable, long-term remuneration plan was agreed with the members of the Board of Directors, which, under certain circumstances, also pays out in the case of change of control. The amount of remuneration is linked to a long-term increase in PSI AG's market capitalization above a set amount and the development of the PSI Group's EBITA in the period from January 1, 2011, to June 30, 2013. The payment of this remuneration component will partially take place in the fiscal year 2013 at the earliest, the final payment will occur in 2014.

On December 31, 2011, the members of the Board of Directors and Supervisory Board held the following shares in PSI:

	2011 Shares	2010 Shares
Board of Directors		
Dr. Harald Schrimpf	64,000	71,000
Armin Stein	23,300	23,300
Supervisory Board		
Dr. Ralf Becherer	1,268	2,268
Wilfried Götze	54,683	54,683
Bernd Haus	1,000	1,000
Barbara Simon	7,890	7,890
Karsten Trippel	109,750	124,450
Prof. Dr. Rolf Windmöller	6,305	6,305

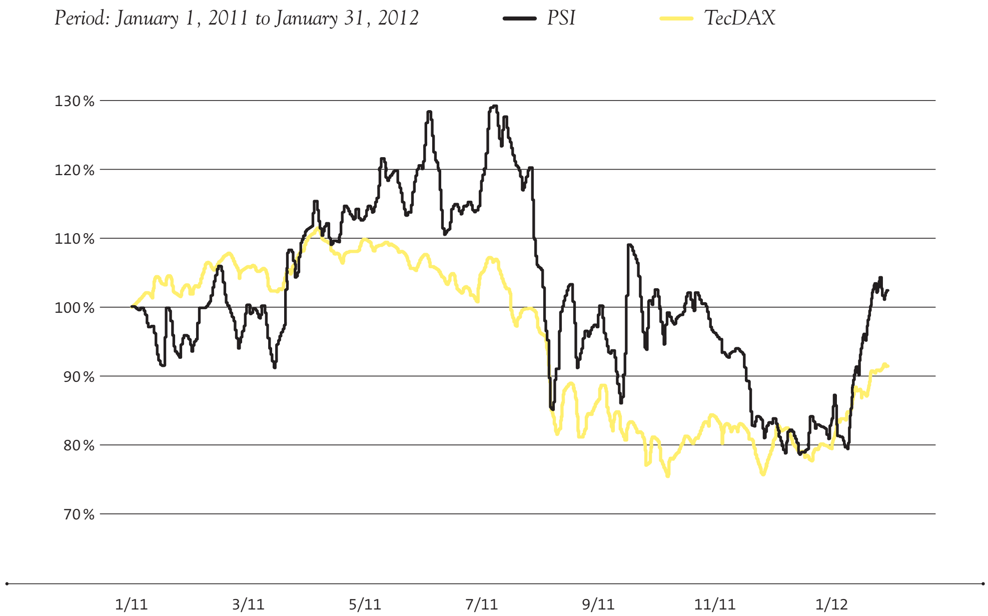
At this time, PSI has no stock option program or comparable incentive systems in place. In 2011, 19 board member share transactions were reported and published on the PSI website under Directors' Dealings.

The share: New on TecDAX

In 2011, PSI intensified the previous years' focused financial communication and thereby further increased awareness of PSI shares, reached new groups of investors, and was finally accepted onto the TecDAX in autumn. However, we could not escape the general uncertainty caused by the sovereign debt crisis and the changes to energy policy in Germany, which meant that PSI shares recorded significant losses in the second half of the year.

PSI SHARE PRICE COMPARED TO TECDAX

Period: January 1, 2011 to January 31, 2012



PSI shares started with a price of EUR 17.85 in 2011 and initially remained flat until the middle of March. The publication of the Annual Report 2010 and the start of public discussions on changes to energy policy in Germany caused dynamic changes to share prices which reached a ten-year high of EUR 23.34 on July 7. However, later in the year PSI shares suffered due to the general weakness of the stock markets and uncertainty in the German energy market. This made it necessary for PSI to adjust the earnings target for 2011 after the figures for the third quarter were published. PSI shares eventually finished the year with a closing price of EUR 14.72, which corresponds to a loss for the year of 17.5 %. This means they performed only marginally better than the TecDAX, which recorded a loss of 19.5 % during the same period.

Scan this symbol
with your smartphone
to get the latest
PSI share price.

www.psi.de/ir

Despite the difficult circumstances, our communication with the stock market was once again very intensive: At 16 investment conferences and 15 investor roadshows, we presented PSI in the most important European and American financial centers. The focus of our regular dialog with the financial and economic press, analysts, institutional investors and private investors in 2011 was the significance of PSI technology for integrating renewable energy into existing electricity grids and thereby its significance for the shift to renewable energy. Further important topics were growth opportunities for the new Raw Material Extraction business and PSI's acceptance onto the TecDAX. As in the previous year, PSI's shares were covered by ten analysts. We expect that this number will increase in the medium term after the Company's acceptance onto the TecDAX.

A renewed increase in the volume of trade in PSI shares by 90 % and increases to the share prices during the last few years were of key importance for the Company's acceptance onto the TecDAX. As a result, PSI was able to establish itself as one of the 35 most profitable and the 30 leading market capitalization German technology shares by the year's end. The proportion of shares held by investors subject to disclosure requirements decreased compared to 2010 from 48.7 % to 39.8 %, owing to greater spread of fund companies.

We received a bronze award for our finance communication in 2011 at the world's largest annual report competition, the "International ARC Awards – World's Best Annual Reports".

In 2012, we hope to continue our successful course of the last few years and increase our revenue and earnings for the eighth year in a row. We will continue our intensive equity market communication and focus even more on making PSI known to more investors, thereby strengthening our position on the TecDAX. As in the previous year, dialog with international investors and specialized Cleantech investors will remain a focus.

Our dividend policy, with its focus on continuity, and the revenue and earnings growth forecast by analysts offer our shareholders excellent prospects, and we are convinced that PSI shares will continue to enjoy significant price growth potential in the next few years.

KEY FIGURES ON THE PSI SHARE

		2011	2010
Earnings per share	Euro	0.47	0.45
Market capitalization on December 31	Euro	231,065,228	280,197,983
Annual high	Euro	23.34	18.65
Annual low	Euro	13.38	8.25
Number of shares outstanding on December 31		15,697,366	15,697,366

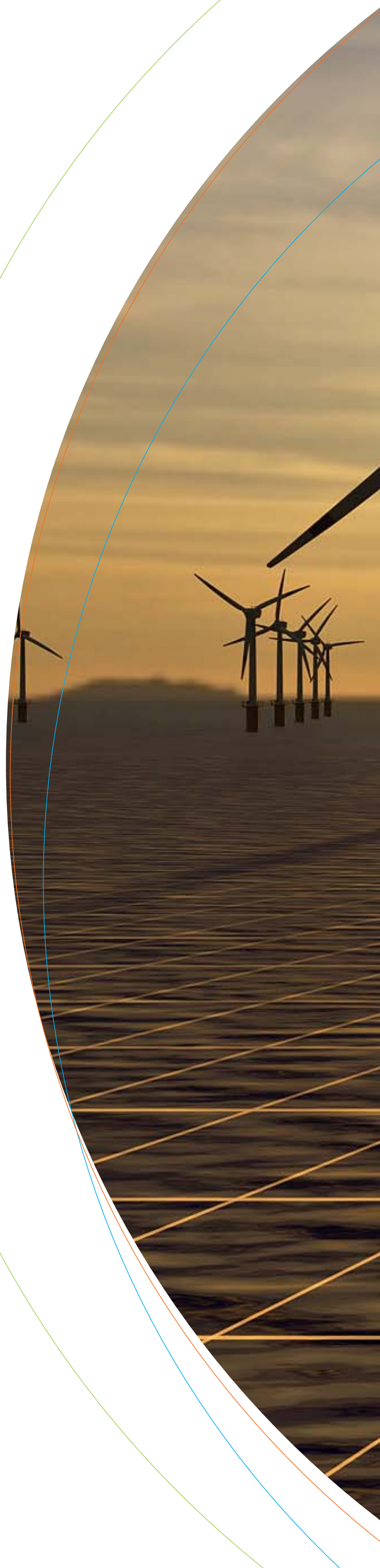
DATA ON THE PSI SHARES

Stock markets:	Xetra, Frankfurt, Berlin, Stuttgart, Dusseldorf, Hamburg, Munich
Stock market segment:	Regulated market, prime standard
Indices:	TecDAX, Technology All Share, DAXsector Software, DAXsector All Software, DAXsubsector Software, DAXsubsector All Software, DAX International Mid 100, Midcap Market Index, HDAX, Prime All Share, CDAX, NASDAQ OMX Clean Edge Smart Grid Infrastructure Index
ISIN:	DE000A0Z1JH9
German Security Code:	A0Z1JH
Exchange symbol:	PSAN

Energy management for the future

» WIND AND SUN CANNOT BE CONTROLLED. THE RIGHT SOFTWARE KEEPS THE ELECTRICITY SUPPLY STABLE DURING THE SHIFT TO RENEWABLES. «

For almost 40 years, PSI has been developing intelligent control systems for the management of large-scale energy grids. PSI's customers include almost all major German utilities as well as many in Europe and Asia.



The future belongs to renewable energies

The energy shift in Germany accelerated once more in 2011. The proportion of energy from renewable sources in the German electricity supply was around 20 %, three times as high as in 2000. By 2050 it is planned to reach 80 %. To ensure a reliable and economical energy supply both now and in the future, this fundamental change will require significant investment in network infrastructure and its intelligent management. Firstly, weather-dependent fluctuations in the production of wind and solar energy must be compensated for. Secondly, long distances between wind- and sun-rich areas and industrial consumption centers must be bridged.

Network structures for the energy shift

In addition to the expansion of transport and distribution networks, storage technologies and decentralized energy production can make an important contribution. Network expansion provides the basis for large-scale balancing of fluctuations in energy production. It creates market transparency and makes possible the development of Europe-wide concepts. Storage technologies enable short-term adjustments for discrepancies between electricity production and demand. Decentralized energy production reduces electricity transmission distances and reduces the losses that occur during transmission.

A firm command of complexity.

TRANSPARENCY

Good planning and forward-thinking action are the foundations for technically and economically optimal decisions. PSI solutions support grid operators with unique simulation possibilities and forecast methods for dealing with increasing complexity.

PSI solutions for networks of the future

As the market leading network control technology provider, PSI has invested strongly in the past few years in functionalities for supporting the energy shift. These include functions for the optimum use of transport capacity in high-voltage networks, forecasts for consumption, wind and solar production to avoid bottlenecks and critical network states, grid calculations, feed-in and load management, virtual power plants, and optimization calculations for energy storage, energy producers and large-scale consumers.

Innovation for changing energy markets

PSI solutions help to deal with the increasing complexity of network operations, and are supplemented by energy management systems for energy trading and energy sales on deregulated markets. These systems are designed especially for the gas and electricity markets. They also support forecast, portfolio, risk and balancing group management.

Gas as key technology for the energy shift

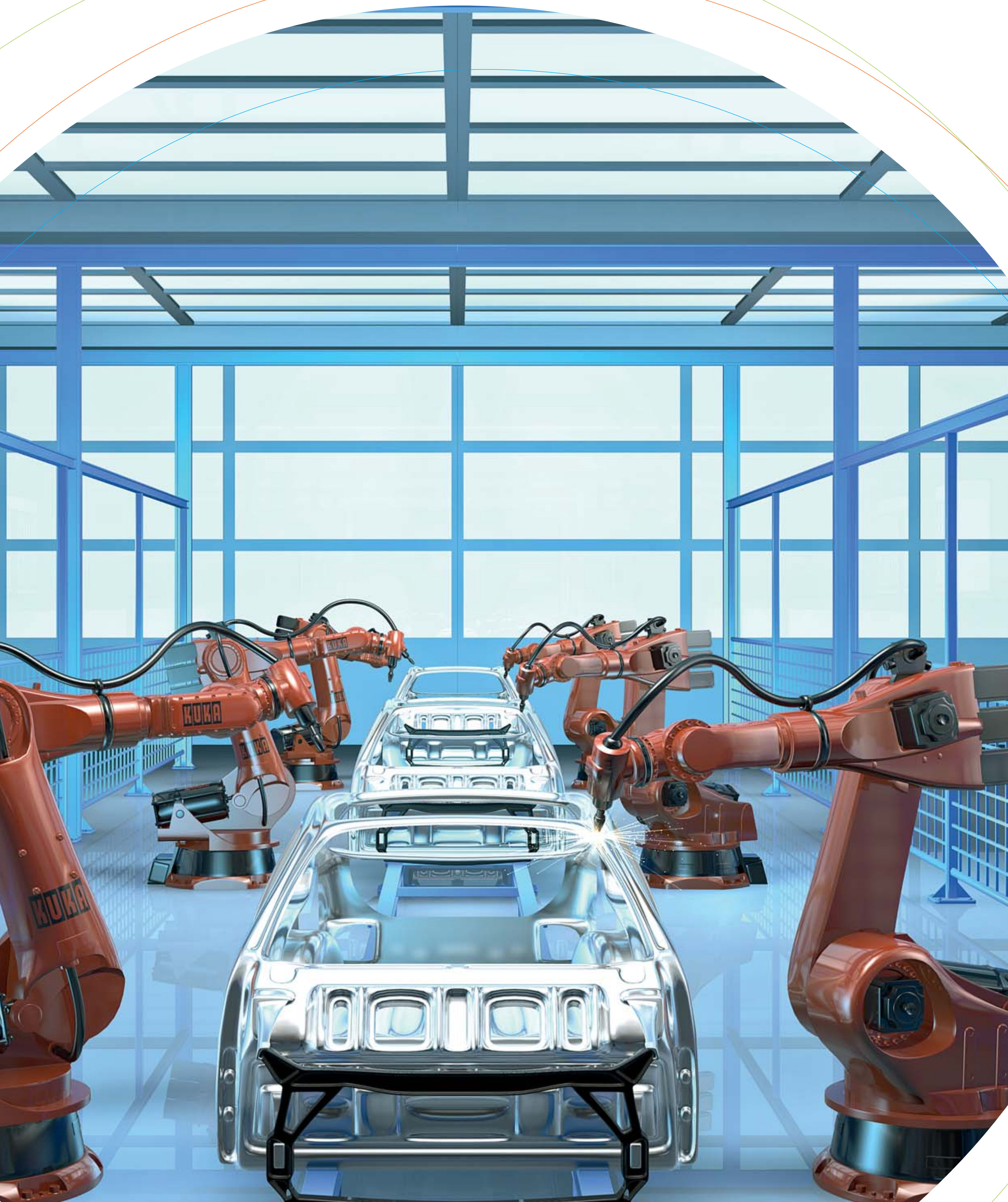
The accelerated exit from nuclear power gives gas a key role in the energy shift. Gas power plants are a flexible and comparatively cost-efficient alternative in the energy mix. They help to build up reserve capacities for electricity production to compensate for lower energy production from renewable sources during adverse weather conditions. Through “power to gas” technologies such as hydrogen and methane synthesis from surplus renewable electricity, the existing gas network can be used as storage. Losses in efficiency occurring as part of this can be minimized by using process heat.

Strong position in the gas market

PSI has gained a leading position during the last few years in the gas market as well. Today almost all German gas suppliers rely on PSI gas management systems for managing their networks. Building on this, PSI has continually expanded its international activities in the gas and oil market. Gazprom, the world’s leading natural gas supplier, has chosen PSI’s control system software, which is used in various strategically important pipelines in the Russian gas network. PSI leak detection systems make it possible to react quickly to defects in oil pipelines, such as the ones in Russia, Kuwait and Saudi Arabia.

Functions for dynamic markets

PSI solutions for the transport, distribution and management of gas and oil support the environmentally-friendly, safe and economic operation of complex gas networks and oil pipelines. They also provide considerable support for 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 long distances, and help prevent environmental damage. Extensive simulation and optimization possibilities make it easy to adjust to fast-changing market conditions. They ensure future security.


KUKA
KUKA
KUKA

Gaining an advantage with intelligent production

Scarce raw materials and expensive energy require efficient processes. Intelligent software saves resources and reduces costs.

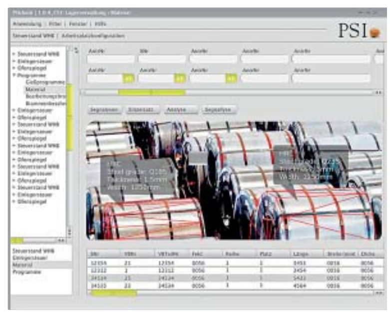
Growing production and scarcer resources

The global economy continued to grow in 2011. The demand for industrial facilities, vehicles and consumer goods is particularly high in developing countries. Increased production and growth in the global population mean raw materials are becoming scarcer. With energy prices also increasing at the same time, the efficiency of industrial value creation is becoming more significant on a global scale. The quality of processes has become a decisive competitive advantage for industries reliant on energy and raw materials. However, other industries are also increasingly investing in solutions designed to optimize their production and logistic processes.

Leading provider in the metal industry

For decades PSI has been developing software solutions for metals production which help increase the efficiency of all production and logistics processes. This means available resources are used to full advantage. The software makes it possible to take advantage of saving potential and generate improved results regardless of whether the objective is to use facilities to capacity, maximize quality of products or meet delivery deadlines. The intelligent solutions for planning, production and logistics, for energy management and facility optimization provide suppliers of steel, aluminum and other metals with a competitive advantage. PSI has a leading position globally in production management solutions for the metals industry, and benefits from both growth and the need to use scarce resources more intelligently.

» OUR SOLUTIONS HELP ENERGY-INTENSIVE COMPANIES COMPETE ON A GLOBAL SCALE. «



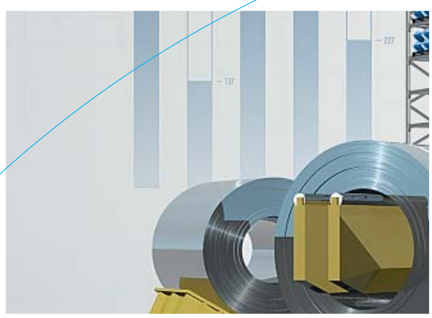
Conserving resources.

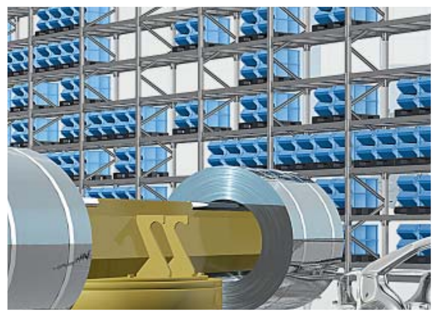
EFFICIENCY

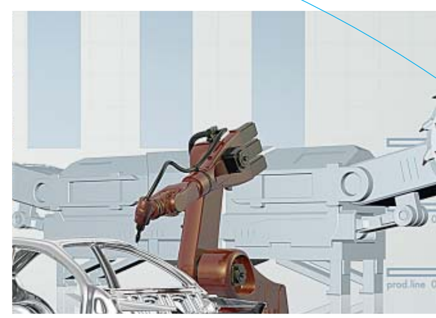
In the past few years PSI has invested in the development of a new Group-wide development platform based on the most recent development tools and standards. This allows us to set technical and functional standards and offer our customers a high degree of security for the future.

Innovation for more efficiency in the mining industry

For raw material extraction, in the past few years PSI has developed an innovative software solution designed to improve control in mining and successfully implemented it for a pilot customer. This solution integrates information and applications, which were previously separated, into a unified system. It thereby ensures transparency and makes it possible to optimize the entire mining process. Control of mining activities based on geological information increases the efficiency of raw material extraction, giving faster amortization of the system as well as keeping environmental damage as minimal as possible. Faults and unplanned events are identified faster, making it possible to react more quickly. This increases the safety of personnel and facilities. In 2011, PSI was successful in entering the Chinese market with this system. In the coming years increased demand for this solution is expected primarily in countries rich in raw materials, such as China, Australia and Russia.







Solutions for the growing energy production market

In the past few years, PSI has developed special software components in mechanical and plant engineering for planning, controlling and monitoring specific production and maintenance processes in the fields of energy production and aviation. In cooperation with world-leading turbine construction and aviation maintenance pilot customers, a product has been created which greatly increases the efficiency of resource use in production and maintenance. This means it has significant unique selling points. PSI will further expand this attractive market segment. As global energy demand rises, the demand for solutions for the construction and maintenance of turbines will rise accordingly.

Optimum production sequence in the automobile industry

An optimum production sequence across all stages of production is decisive for the efficient use of resources and thus also business success. For many years, an optimization core developed by PSI has been used by the world's leading automobile manufacturers in over 30 production facilities for this central task. Based on this tried and tested optimization core, PSI has developed a new universal solution for efficient production for automobile manufacturers and suppliers. With its integrated sequence optimization, this software offers significant advantages in using resources efficiently.

Growth from logistics

Efficient logistics are a decisive factor for the profitability and sustainability of production and distribution processes. This is true both of intralogistics – material flows within a company – and of the large-scale optimization of goods flows as part of logistics networks. PSI has been developing solutions for intralogistics and efficient transport planning for many years. These solutions have been refined in the last few years to dynamically optimize complex logistical networks with multiple locations and modes of transport. This optimizes travel times and routes. Available resources are used more efficiently and energy consumption falls. PSI is seeing increasing demand for this product from large logistics service providers, and therefore expects further growth from the logistics industry.

Intelligent systems ensure global mobility

PSI solutions manage traffic and increase the quality of modern infrastructures.

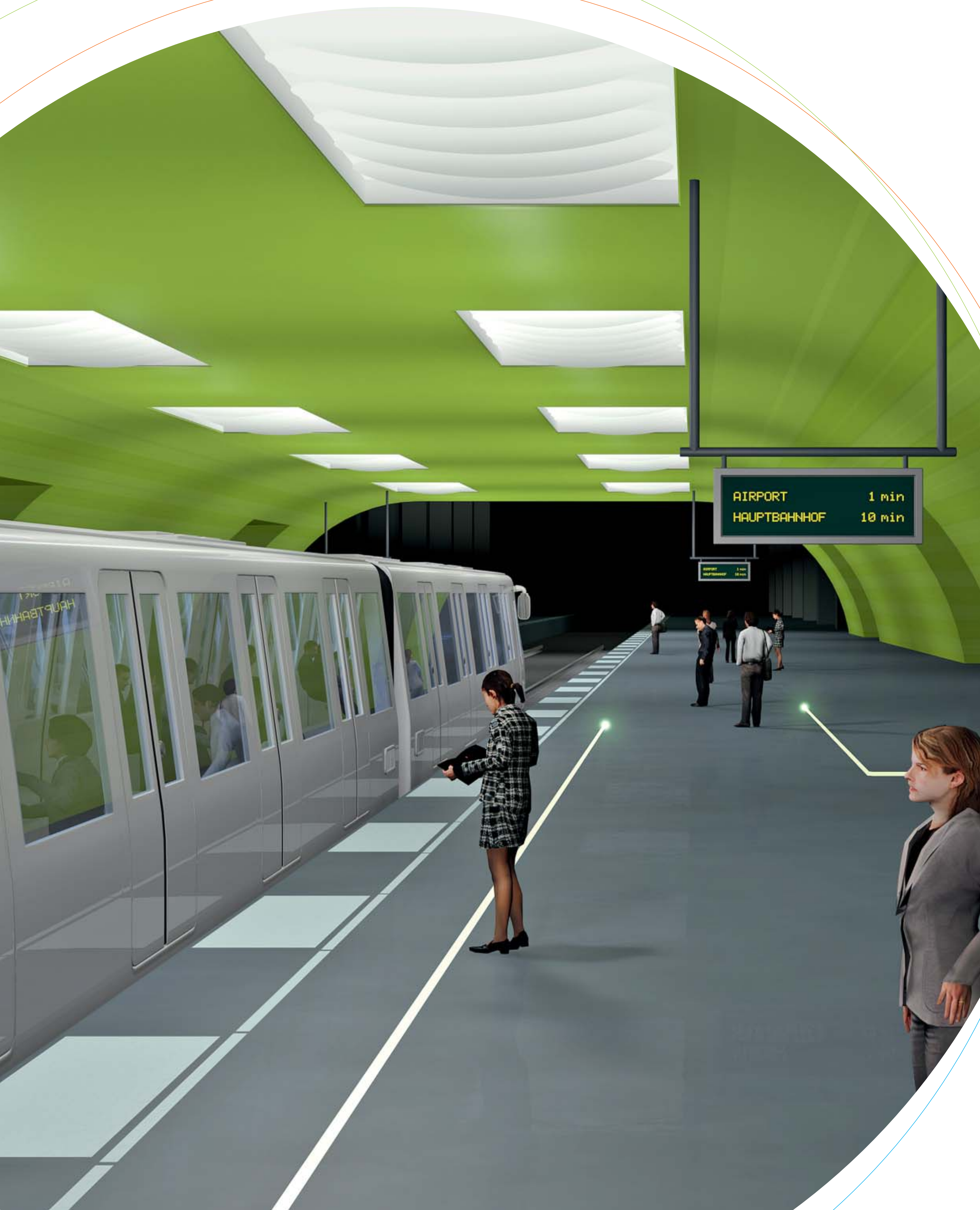
Growing mobility demands investment

Business is marked by rapidly increasing mobility. All over the world, transportation systems lay the foundation for the efficient and safe transport of people and goods. It is primarily developing economies which are experiencing rapid population growth, with constantly expanding urban areas. This requires not only ongoing investment in existing transport infrastructure, but also their intelligent usage. The expansion of transport networks can barely keep up with rapidly increasing demand. Requirements for safety and quality are growing at the same time. Intelligent IT solutions contribute to sustainable mobility.

» THOROUGH KNOWLEDGE OF THE FIELD AND GOOD TEAMWORK ENSURE ATTRACTIVE TRANSPORT SYSTEMS. «

Smarter with IT solutions

Integrated IT solutions support networked processes in public transportation. They ensure smarter and considerably safer mobility on a global scale. They also help make transportation systems more environment-friendly. PSI offers comprehensive and intelligent solutions for operations control technology and depot management. They increase the performance, availability and thereby also the attractiveness of transportation services.


AIRPORT 1 min
HAUPTBAHNHOF 10 min

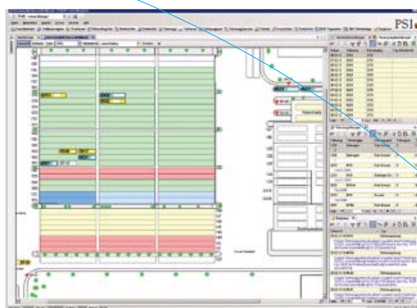
Transportation – the backbone of society.

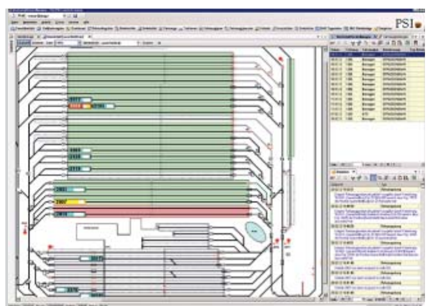
Our newly developed software for depot management delivers the highest efficiency of vehicle management, refueling and maintenance planning. Since 2011 the system has been successfully used in Germany's largest bus and tram depots.

RELIABILITY

Innovative control systems create alternatives

The quality of control systems plays an important role in the efficient operation of networked infrastructures. In public transportation, operations control systems monitor and control the entire operational process. In addition, they provide special functions for passenger information, transfer connections and fault management. They help transportation companies improve their service for passengers, and ensure fast, comfortable and punctual connections. They therefore create an attractive alternative to motorized personal transport.





More effective through better planning

One unique selling point of PSI transport control systems is its integrated depot management. Vehicle utilization planning and dispatching based on the current schedule are the software's core tasks. An intelligent optimization core, already proven in numerous industry and logistics applications, provides more profitability and efficiency. Fleet sizes can be reduced while still maintaining traffic performance. Maintenance planning can be improved. Delays caused by shunting can be avoided, while downtime and out of service conditions are reduced.

Safe infrastructures

In transportation, safety is as important as the efficiency of operational processes. PSI monitoring systems for facilities and infrastructures are characterized by high levels of scalability and reliability. For example, they are used in video management for monitoring rail facilities, monitoring roads, tunnels and bridges, as well as for recording environmental data and measurements such as water levels and weather data. Functions for advanced danger recognition and alarms provide real time information and make it possible to make rapid decisions when predefined types of events occur.

"Intelligent PSI software ensures that energy, raw materials and the workforce in energy management and the energy industry are used in a smart way. This lets us help our customers boost their efficiency and competitiveness."

Dr. Harald Schrimpf
Responsibilities: Marketing,
Sales and Technology

Consolidated Management Report

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 utilities
- Metals, raw material extraction, mechanical and plant engineering, automobile and automotive supply, and logistics
- Infrastructure operators in the fields of traffic, safety 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 the fields of raw material extraction, metal production, logistics, and mechanical and vehicle engineering.

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

With almost 1,500 employees, PSI is one of Germany's largest software manufacturers. As a specialist for high-end control systems, particularly for energy providers and metal manufacturers, PSI has grown to become an international leader, both nationally and in target export markets. 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 Austria, Bahrain, Belgium, Brazil, China, Great Britain, India, Malaysia, Poland, Russia, Switzerland, Thailand, Turkey 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 most important source of growth is exports to the markets of Asia and Eastern Europe. PSI aims to further extend its export share in the upcoming years and to invest in additional geographic target markets. This will bring economies of scale, thereby improving opportunities for further profitability growth.

In the last seven 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.

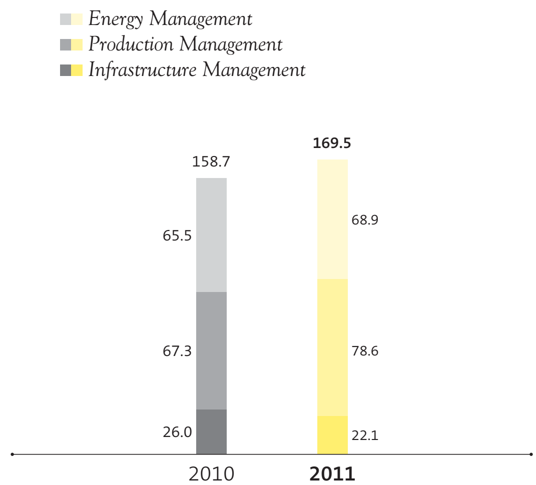
BUSINESS DEVELOPMENTS AND ECONOMIC SITUATION

IT and software markets grow in 2011
The German IT market, which contains the segments hardware, software and IT services, grew again in 2011, by 3.2 %. The software market segment, of particular relevance to PSI, experienced the strongest growth in the IT market with 5.1 %

German economy with robust growth in 2011
The German economy grew strongly once again in 2011. GDP increased by 3.0 % compared to 3.7 % the previous year. Investments in equipment, which grew by 8.3 %, once again played an important role in economic growth. They increased by 10.5 % last year.

In 2011 manufacturing recorded further growth in gross added value of 6.0 %, after 9.8 % last year. The global steel industry, to which PSI is a major software provider, grew once again. After rapid growth of 15.2 % in 2010, global raw steel production increased by a further 6.8 % in 2011.

PSI REVENUE GROWS BY 7 %
(EURO MILLION)



GROUP STRUCTURE AS OF DECEMBER 31, 2011

Energy Management	
PSI AG Elektrische Energie Gas/Oil	
PSI Nentec GmbH	100 %
PSI Energy Markets GmbH	100 %
PSI CNI GmbH	100 %
PSI TURKEY BILIŞIM TEKNOLOJILERY SANAYI VE TICARET A.Ş., Istanbul, Turkey	100 %
OOO PSI Energo (Russia)	24.9 %
caplog-x GmbH	25 %

Production Management	
PSI Production GmbH	100 %
PSIPENTA GmbH	100 %
PSI Metals GmbH	100 %
PSI Metals Austria GmbH	100 %
PSI Metals Belgium NV	100 %
PSI Metals Non Ferrous GmbH	100 %
PSI Information Technology Shanghai Co. Ltd. (China)	100 %
PSI Metals North America Inc.	100 %
PSI Logistics GmbH	100 %
PSI AG (Switzerland)	100 %
FLS FUZZY Logik Systeme GmbH	100 %
OOO PSI (Russia)	100 %

Infrastructure Management	
PSI Transcom GmbH	100 %
PSI Produkty i Systemy Informatyczne Sp. z o.o. (Poland)	100 %
PSI Incontrol-Gruppe	100 %
Talk IP International AG	30 %

INTERNATIONAL PRESENCE AND LOCATIONS
IN EUROPE AND WORLDWIDE

PSI locations

Effective September 1, 2011, parts of Axxom Software AG were acquired as part of an asset deal. This has enabled the PSI Group to strengthen its position in the field of logistics.

In the third quarter of 2011, PSI won its first order from a Chinese customer for the new PSImining product. PSImining is a central control system used to increase mining productivity, and was developed during the last few years specifically for use in countries such as China, Australia and Russia.

The PSI Group reached its target for 2011 of around EUR 170 million in revenues. The EUR 13 million operating result target was reduced after the third quarter to EUR 10 to 11 million due to renewable energy policy decisions. This target was reached. The EUR 185 million target for new orders was not achieved due to delays in awarding large orders in Germany, Russia and China.

Strong development in Production Management

The PSI Group continued the positive development of previous years in this environment, achieving increases in revenue and operational and Group earnings. EUR 174 million of new orders were just short of the previous year's EUR 177 million, although the 2010 figures included orders for the Telecommunications business which has since been sold. The orders in hand at the end of the year increased slightly to EUR 112 million.

In Production Management in particular, the PSI Group benefited from the fact that its process control solutions focus directly on the efficiency of industrial added value and therefore amortize very quickly. As a result of the German energy shift, the framework conditions for many German Energy Management customers have changed, which has caused planning revisions and delays to investments in electricity distribution grids. Despite these effects, PSI itself has continued to invest in solutions for intelligent grid control, in expanding its international market position and in the Group-wide uniform technology platform.

RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

EARNINGS

Consolidated revenue up

In 2011 Group revenue exceeded the previous year's total of EUR 158.7 million by 6.8 % with EUR 169.5 million. Whereas Energy and Production Management increased, revenues in Infrastructure Management were lower than previous year levels due to the sale of the Telecommunications business. Revenue per employee, measured by the average number of Group employees, declined slightly from EUR 112,000 to EUR 109,000, primarily due to expanding capacities in target countries with cheaper costs of living and lower salary costs.

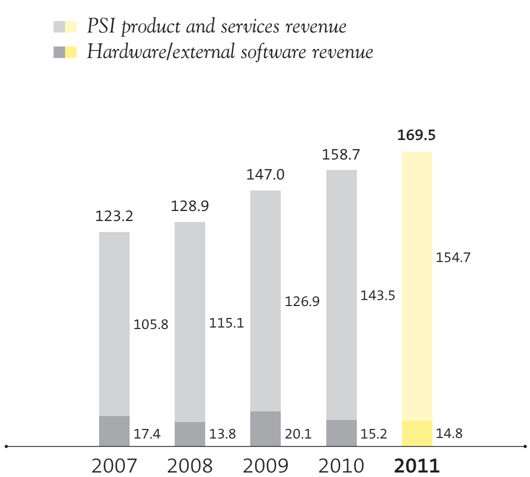
Increased third-party proportion

The cost of materials and services increased by EUR 4.8 million to EUR 31.1 million. While expenditure for project-related purchases of hardware and licenses fell by EUR 0.3 million, the costs for purchased services increased by EUR 5.1 million. Personnel expenses increased by 1.7 % to 95.8 million euro.

Improved operating and Group result

The Group's operating result improved by more than 12 % from EUR 9.5 million from the previous year to EUR 10.7 million. The Group result rose for the reporting year from EUR 7.0 million by 5.6 % to EUR 7.4 million. Earnings per share grew from EUR 0.45 to EUR 0.47. The Gas and Oil division, all Production Management business units and the PSI Incontrol Group were the main contributors to this result. The result suffered primarily in the Electrical Energy business, due to expenditures for research and development related to systems for electricity distribution grids and high export project expenses.

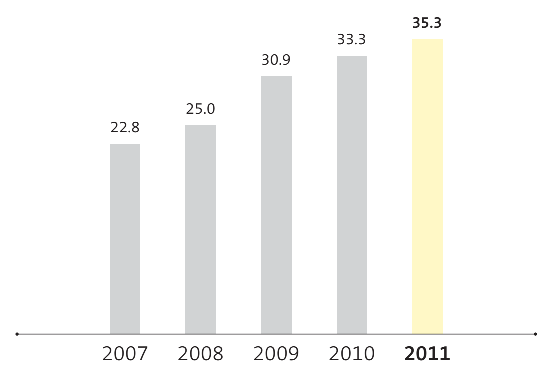
OWN ADDED VALUE CONTINUES TO INCREASE
(EURO MILLION)



SHARE OF FOREIGN BUSINESS REACHES 50 %
(EURO MILLION)

Excluding international revenue via domestic export partners

MAINTENANCE REVENUE CONTINUED UP
(EURO MILLION)



New orders approximately constant

In 2011 new orders totaled EUR 174 million, slightly under the previous year's total of EUR 177 million. The figures from the previous year contain orders from the Telecommunications business. The order book volume at the end of the year increased over the previous year's level of EUR 108 million, to EUR 112 million.

Exports up again as percentage of total revenue, more license revenues

Revenues generated outside of Germany increased considerably, from EUR 64.1 million the previous year to EUR 84.4 million. Exports thus increased from 40 % to 50 % of total revenues. The proportion of international orders fell from 51 % to 45 %, primarily due to reduced new orders in Infrastructure Management. Maintenance revenue rose from EUR 33.3 million to EUR 35.3 million. License revenues jumped from EUR 9.8 million to

EUR 14.2 million. As part of the focus on increasing software business, it is planned to substantially grow license, maintenance and permanent upgrade contracts.

Production Management once again made the largest contribution to Group revenues in 2011. Revenues from this segment increased from 42 % from last year to 46 %. The Energy Management percentage was also 41 % as in the prior year, whereas that of Infrastructure Management dropped from 16 % to 13 %. Infrastructure Management includes the revenues of the PSI Incontrol Group, which, in addition to infrastructure projects, also trades in Energy Management for Asian customers.

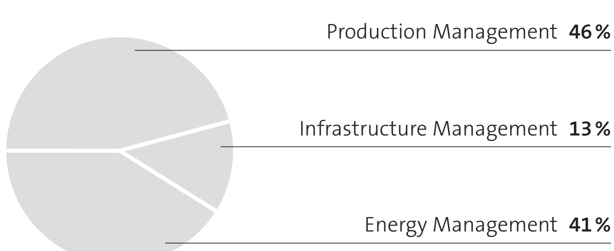
Energy Management segment with investments in the product base

In 2011 Energy Management was on the one hand shaped by strong growth in the Gas and Oil division, and on the other hand by weak orders in the Electrical Energy division due to German energy shift. Sales increased by 5.2 % to 68.9 million euro. The segment encompasses electrical energy, gas, oil, heat and energy trading. The operating result suffered due to investment delays in electricity distribution grids and simultaneously by investments in the product base, and fell from EUR 4.7 million from last year to EUR 4.0 million. The Gas and Oil division continued positively and received multiple orders from Gazprom. The Energy Trading Systems business merged planning tools for gas suppliers with the electricity trading solution on the basis of the new Group-wide uniform technology platform within two pilot projects.

Production Management revenues and earnings jump

Revenues from Production Management at PSI in 2011 increased by 16.8 % to EUR 78.6 million. New orders continued to increase over an already strong previous year. In this market segment, PSI develops solutions for efficient planning and control of productions and logistics processes. The segment's operating result increased considerably, from EUR 1.3 million the previous year to EUR 5.5 million. All of the segment's business units were able to exceed their previous year's earnings. The sequence optimization specialist FLS and PSI Metals, which focuses on the steel industry, achieved the highest margins. The ERP software provider PSIPENTA and PSI Logistics also considerably grew earnings over the previous year. PSI Production was able to enter the Chinese market with its raw material extraction control system.

REVENUE ALLOCATION BY SEGMENT



Infrastructure Management with lower revenues

In 2011 Infrastructure Management achieved revenues of EUR 22.1 million, EUR 3.9 million lower than the previous year. When adjusted for the revenues from the Telecommunications business sold at the end of 2010, this corresponds to a slight increase. The operating result fell from EUR 4.4 million from the previous year to EUR 3.1 million, whereby the previous year's figure includes the effects on earnings from the sale of the Telecommunications business. While South East Asian PSI Incontrol matched its previous year's earnings, PSI Poland also improved its earnings in 2011.

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. A loan taken out in 2010 to finance the extension work to the Aschaffenburg facility was paid back early in 2011.

Financing predominantly through business operations

PSI capital expenditure goes mainly to product optimization and further internationalization of the Group. Both are financed as far as possible from the operative 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, 2011, PSI had guarantee and credit lines of EUR 99.8 million to finance ongoing business. In the prior year, the guaranteed and bank credit facility amounted to EUR 104.6 million. The claimed amount related almost entirely to the guaranteed loan, and on the balance sheet date had increased slightly from EUR 42.4 million in the prior year to EUR 42.9 million. The Group was in a position to fulfil its payment obligations at all times in the fiscal year 2011. The Group has internal ratings issued by house banks, which range from A- to BBB.

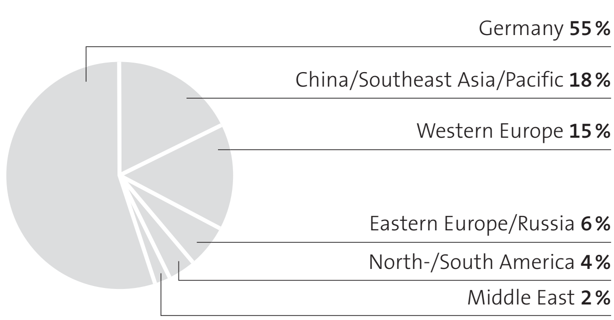
Cash flows from operating activities

Cash flows from operating activities increased to EUR 15.4 million. In the previous year it totaled EUR 13.1 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 investment activities fell to EUR –1.6 million. In the previous year, due to investments in extension work at the Aschaffenburg facility, this was EUR –6.8 million.

Cash flows from financing activities fell to EUR –9.0 million due to the repayment of a property loan taken out in the previous year, share buy-back and higher dividend payments. In the prior year, due to taking out the loan, this was EUR 1.5 million. As of year end, cash increased from EUR 28.9 million to EUR 33.8 million.

EXPORT SHARE OF NEW ORDERS AT 45 %



ASSETS

Assets structure: Goodwill remains unchanged

The PSI Group invested EUR 4.4 million in intangible assets and property, plant and equipment compared to EUR 6.9 million the previous year. Capital expenditure was for intangible assets and plant, property and equipment acquired from third parties. The previous year's figure includes investment in extension work at the Aschaffenburg facility.

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

Balance sheet structure: Equity ratio still above 40 %

The PSI Group's total assets rose in 2011 by 3.8 % to EUR 175.7 million.

On the assets side, non-current assets experienced only a marginal increase from EUR 65.0 million to EUR 65.2 million. Current assets were up from EUR 104.1 million to EUR 110.5 million. Cash and cash equivalents increased by EUR 5.0 million, trade receivables grew by EUR 3.2 million and receivables from long-term contract manufacturing rose by EUR 0.3 million.

On the liabilities side, current liabilities grew from EUR 60.1 million to EUR 67.5 million, primarily due to the EUR 4.1 million increase in receivables from long-term development contracts and other liabilities of EUR 1.9 million. Non-current liabilities fell from EUR 41.0 million to EUR 35.3 million, due to the repayment of a long-term loan and decreased pension provisions. Shareholders' equity increased from EUR 68.1 million to EUR 72.9 million. Equity ratio increased from 40 % to 42 %.

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 2011. Earnings and cash flow from operating activities in particular showed a positive development. For 2012, management once again 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. The functionality and modernity of products are just as decisive for business success as the use of Group-wide development platforms and the exchange of 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 provide the basis for broader distribution and export.

The focus of development activities shifted during 2011 from developing Group-wide software platforms to implementing the platforms in the PSI business fields. PSI has established a Group-wide development community which promotes the exchange of software components within the Group and accelerates further convergence of product platforms. Convergence improves the foundations for further export growth and also reduces development costs.

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

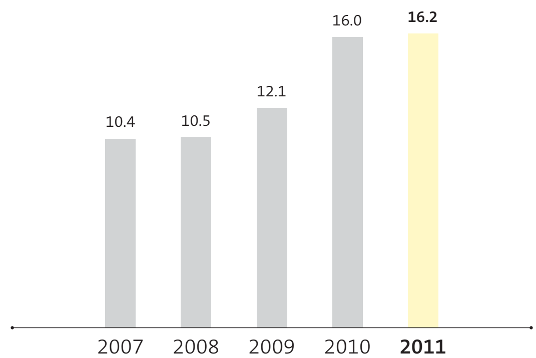
At EUR 16.2 million, the PSI Group's R&D expenditure in 2011 was slightly above the previous year's figure of EUR 16.0 million. This does not include any relevant purchased services.

The primary R&D objectives were:

- The new control system core and product variants for electricity transmission and distribution networks
- Secure communication solutions for smart grids
- The new industry solution for the automobile industry with integrated sequence optimization
- The merger of the electricity trading system and the planning tool for gas suppliers into an integrated energy management solution
- Expanding Group-wide software platforms with further applications and tools.

After completion of the German pilot project, a first partial order for the new PSImining project was received from China. PSImining is a central control system designed to automate the mining process.

R&D EXPENDITURES AT CONTINUED HIGH LEVEL
(EURO MILLION)



Mobile enhancements for the PSI*penta* product were presented at CeBIT 2011. The new Production Management solution PSI*metals* 5, intended for metals production, has already been successfully implemented for multiple customers.

In Energy Management in the past few years PSI Group has invested heavily in product variants for export, supporting international standards and the development of new functions for better integrating renewable energies.

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 developing platforms for creating self-regulating energy networks, controlling intelligent logistics networks and improving transport security.

The findings of the projects are implemented under cooperation/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 2011, the PSI Group received a total of EUR 1.7 million in public subsidies.

SUSTAINABILITY

PSI solutions for sustainable business

For 42 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 circuit 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 transport over large distances and to preventing environmental damages. Storing surplus energy using electrolysis and methanation will give gas a positive environmental image. In Logistics and Traffic, PSI has in recent years 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 our own locations. For example, since 2010 the Aschaffenburg facility has been using two block heating stations to efficiently heat and provide electricity to both the new and existing buildings.

Contribution to research

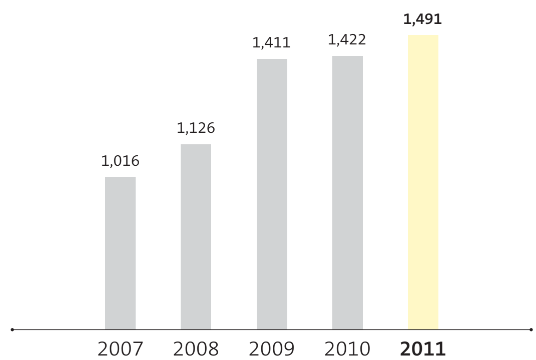
PSI is committed to promoting education and research in engineering and natural sciences on many levels. PSI also maintains working ties with universities near the Group's most important locations, including by offering work placements and through cooperation on dual major programs.

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. In 2011 PSI participated in climate reporting as part of the Carbon Disclosure Project for the first time.

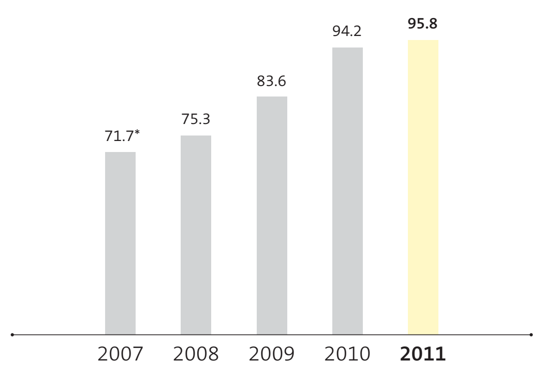
EMPLOYEES

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.

PERSONNEL COUNT RISES AGAIN

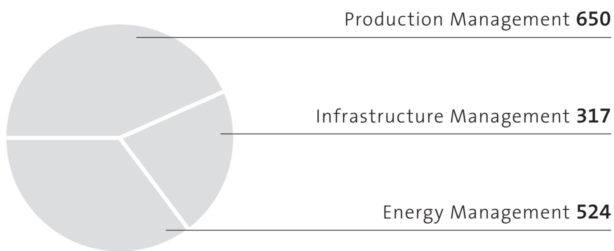


PERSONNEL EXPENDITURE SLIGHTLY UP
(EURO MILLION)



* *adjusted.*

PRODUCTION MANAGEMENT WITH HIGHEST NUMBER OF EMPLOYEES



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. Standardization and knowledge transfer within the Group are further promoted through Group-wide working groups on technology, infrastructure, maintenance, quality management, controlling and marketing. Group-wide employee training for the unified Java technology platform is new.

A special feature of PSI is that employees and management hold around 25 % of PSI shares. A large number of employees formed a consortium after PSI AG's IPO. Coordinating unified voting behavior among participating employee shareholders at the Annual General Meeting is an essential goal.

The workforce increased in size by 69 to 1,491 employees. Energy Management numbered 524 employees, Production Management 650, and Infrastructure Management 317.

At EUR 95.8 million, personnel expenditures were up 1.7 % versus the previous year's figure of EUR 94.2 million. With increasing direct service providing in export regions Southeast Asia, China, Poland and Russia, average per-employee expenditures will be close to the international industry average.

LEGAL DISCLOSURES

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

As of December 31, 2011, 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. Legal restrictions on voting rights could exist pursuant to Sect. 136 of the AktG or, if the Company holds its own shares, pursuant to Sect. 71b of the AktG. In the second half of 2011, PSI AG issued a total of 9,332 PSI AG shares as workforce shares to employees. These shares are subject to an agreed contractual lock-up period until December 8, 2013. 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 9.35 % last announced by the consortium, 3.74 % 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.

In 2011, RWE Deutschland AG, Essen, held a stake of 17.77 % of PSI AG. According to information of PSI AG, RWE Deutschland 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 Sect. 27a Para. 1 of the Securities Trading Act (Wertpapierhandelsgesetz – WpHG) of September 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.

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 Sect. 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 in so far as 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 an 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 pre-tax earnings, 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.

In January 2011 a variable long-term performance-based remuneration plan was agreed with the members of the Board of Directors, which, under certain circumstances, also pays out in the case of change of control. The amount of remuneration is linked to a long-term increase in PSI AG's market capitalization above a set amount and the development of the PSI Group's EBITA in the period from January 1, 2011, to June 30, 2013. The payment of these remuneration components takes place in installments during the fiscal year 2013 at the earliest, while the remainder is paid in 2014.

EVENTS AFTER THE BALANCE SHEET DATE

On February 3, 2012, PSI Group has acquired the Swiss company Time-steps AG. Time-steps AG is a very small software company which provides statistical optimization for energy storage, energy suppliers, large-scale consumers and local suppliers and has shown its expert capabilities in numerous reference projects.

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 (SECT. 289 PARA. 5 AND SECT. 315 PARA. 2 NO. 5 OF THE HGB)

The PSI Group's risk management system includes all organizational regulations and measures for detecting and handling 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 through a strictly defined management and reporting organization.

With regard to the accounting processes of the consolidated companies and the Consolidated Financial Statements, we consider characteristics of internal control and risk management systems to be important in so far as they are able to 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 of 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 information 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 orders in hand
- Employees: Insufficient availability of persons with the necessary qualifications
- Liquidity: Unfavorable payment terms and insufficient credit limits
- Costs and revenues: Deviations from projected amounts, especially in terms of project handling and development.

Risk management policy governs
- Risk strategy: explicit basic principles for minimizing main risks, and general risk management principles
- Risk management organization: responsibilities of the management levels and controllers
- Risk detection, control and monitoring: risk detection tools and tools for monitoring key performance indicators
- Risk management system: application of the Group-wide Professional Services Automation (PSA) and a Group-wide issue-tracking solution.

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 performance indicators defined in the policies on:

- Development of orders and capacity use
- 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. Changes to the risk profile in the fiscal year 2011 were primarily due to policy decisions on the German change to renewable energy and further increases in the proportion of international business.

Opportunities and risks by segment

In **Energy Management,** PSI gained new international customers, but this did not compensate for the effects of the German energy shift. As German energy providers lost important sources of income during 2011, they delayed the investments necessary for converting energy infrastructure. As a consequence, PSI received fewer orders than in the previous year, especially in the area of electrical distribution grids. The risk of a continued investment slowdown on the German market contrasts with further growth potential in Europe and Asia. At the same time, the need for pre-financing and guarantees is increasing as our international business grows.

In the long term, the convergence of the electricity and gas markets in Europe, new cross-border grid structures, the expansion of storage technologies, innovative energy services and smart grid technologies will provide additional business potential for PSI, as they will require investments.

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. The existing international partnerships increase PSI's sales reach and therefore opportunities to see products. Yet they also bring new dependencies.

In **Production Management,** PSI continued to expand its international business in 2011, particularly in metals. Our leading global position as a specialist software provider in this field was further expanded with new customers and subsequent orders from China, France, Belgium, the US, Canada, Brazil, Mexico, Russia, Sweden, Turkey and New Zealand. Due to the positive development in the global steel market in 2011, the risk in this segment was reduced for PSI, especially since a dependency on the development of individual regions was reduced due to the improved market position and important new customers. Risks could come from the further development of raw material prices. 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. PSI continued its positive development in 2011 with orders from large logistics service-providers. In the past few years, the ERP subsidiary PSIPENTA successfully entered the attractive and only slightly cyclical market segment of turbine manufacturing and maintenance.

In 2011 PSI Production succeeded in selling the new raw material extraction control system into China. This new solution has outstanding prospects in export for profits and additional large orders, though these too must be seen in the context of the costs and risks relating to market entry.

In **Infrastructure Management,** after a lackluster year Traffic Systems once again had increased new orders at the end of the year. In this area, PSI is very dependent on the financial situation of mainly public customers. In recent years, the Traffic business's dependency on the German market was reduced by orders from the growth regions in South East Asia. PSI Poland, which is part of Infrastructure Management, again developed well. It proved its value in pre-production, and in 2011 set up a further own business in the Polish market.

With PSI Incontrol Group, since 2009 PSI has had its own access to growth markets in Southeast Asia, India and the Middle East. PSI also has access to low-cost hardware and integration services. 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 PSI Incontrol in the processes of the PSI Group involves risks.

Opportunities and risks of internationalization
In 2011, international activities were extended further, showing a significant increase in new international customers. 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 expansions, to heighten its competitiveness. At the same time, products 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 could 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 believes that previous ownership and attribution of a total of 28.60 % of voting rights in the Company by Kajo Neukirchen GmbH, Eschborn, caused a loss of up to 28.60 % of tax losses carried forward in the second quarter of 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 potentially detrimental share acquisition. The Board of Directors is of the opinion that there is no detrimental share acquisition and therefore that the tax losses carried forward have not been lost.

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.

PSI Group carries out its transactions predominantly in euros. In the 2011 fiscal year, the Group again made hedges in the form 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.

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. In 2011, performance and result-based components were added to the compensation structure. 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 revenue 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 2012 with a solid foundation for continued profitable growth. In 2011, we received EUR 174 million in new orders over annual revenues. The order backlog at year-end was EUR 112 million. The operating result rose by more than 12% to EUR 10.7 million. Problems resulting from the changes to German energy shift and investments in export were countered by very strong operational growth in Production Management. The international market position was extended further in the Steel business in particular. PSI was able to profit from the clear focus on attractive niche markets and the high investments in the previous years in extending its international sales structures.

The trend to the more efficient use of energy, raw materials and labor will continue through the next two years. In 2012 PSI will benefit in Production Management especially. In this segment we went into the year with a high order volume and have experienced continued strong demand for our solutions. We project that the German energy shift will continue in 2012, and therefore hope that the investment slowdown on the German energy utilities market will have been resolved by the end 2012. We are also seeing high international demand for our gas and oil solutions. In Infrastructure Management, after the end of the stimulus programs we expect normality to return to investment behavior, with moderate increases in Germany and Europe as well as consistently high demand in Southeast Asia. We want to use this positive impetus in 2012 to achieve our growth targets internationally most of all, and reduce our dependence on the German market.

While continuing our successful strategy of focusing and internationalization, from 2012 our focus will shift to intensifying business in existing international locations and reaching out to new geographical markets. We are targeting further growth in the new business segments we are entering in China, Poland, Russia and Southeast Asia.

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 and following the recovery of investment in Germany, we are anticipating further growth impetus in the counter-cyclical Energy Management segment through investments in electricity grid expansion and intelligent control. In Production Management, we hope to build on our increased market share to achieve further growth and higher profitability. In Infrastructure Management, we expect moderate increases in revenue and profit. Overall, we plan to grow Group revenues by an average 8% per year for the next few years. Our revenue target for 2012 is over EUR 180 million. Over the next two years, we plan to boost the operating margin by 1 to 2% annually. For 2012 our target is an operating profit of more than EUR 13 million. To achieve these targets, we will continue investing in the quality and functionality of our solutions and the internationalization of our core business areas.

Berlin, February 23, 2012

Dr. Harald Schrimpf

Armin Stein

Consolidated Financial Statements (IFRS)

Consolidated Balance Sheet

dated December 31, 2011 (IFRS)

Assets	Note	31.12.2011 EUR K	31.12.2010 EUR K
Non-current assets			
Property, plant and equipment	C. 1	14,464	13,710
Intangible assets	C. 1	46,188	46,591
Investments in associates	C. 2	208	401
Deferred tax assets	C. 14	4,333	4,310
		65,193	**65,012**
Current assets			
Inventories	C. 3	4,048	3,402
Trade receivables, net	C. 4	31,163	27,938
Receivables from long-term development contracts	C. 5	37,551	37,242
Other assets	C. 6	3,860	6,682
Cash and cash equivalents	C. 7	33,846	28,882
		110,468	**104,146**
		175,661	**169,158**

TOTAL EQUITY AND LIABILITES	Note	31.12.2011 EUR K	31.12.2010 EUR K
Shareholders' equity			
Subscribed capital	C. 8	40,185	40,185
Capital reserves	C. 8	35,137	35,137
Reserve for own shares	C. 8	−368	0
Other reserves	C. 8	−2,172	−3,526
Net retained profits/losses		128	−3,706
		72,910	**68,090**
Non-current liabilities			
Financial liabilities	C. 10	795	5,674
Pension provisions	C. 9	32,104	33,610
Deferred tax liabilities	C. 14	2,356	1,670
		35,255	**40,954**
Current liabilities			
Trade payables		16,979	15,410
Other liabilities	C. 13	27,705	25,773
Liabilities from long-term development contracts	C. 5	20,233	16,154
Financial liabilities	C. 11	2,336	2,485
Provisions	C. 12	243	292
		67,496	**60,114**
		175,661	**169,158**

Consolidated Income Statement

for the period January 1 to December 31, 2011 (IFRS)

	Note	2011 EUR K	2010 EUR K
Revenues	D. 15	169,544	158,688
Other operating income		5,058	6,655
Changes in inventories		−27	60
Cost of materials	D. 16	−31,123	−26,303
Personnel expenses	D. 17	−95,775	−94,163
Depreciation and amortization	D. 18	−3,981	−4,425
Other operating expenses	D. 19	−33,031	−30,998
Operating result		**10,665**	**9,514**
Interest income		250	189
Interest expense		−2,222	−1,883
Income from investments in associates		31	58
Earnings before taxes		**8,724**	**7,878**
Taxes on income	C. 14	−1,280	−831
Consolidated net profit		**7,444**	**7,047**
Group earnings per share (basic and diluted)	D. 20	0.47	0.45
Average shares outstanding (thousand)	D. 20	15,685	15,697

Group Comprehensive Income Statement

for the period January 1 to December 31, 2011 (IFRS)

	2011 EUR K	2010 EUR K
Consolidated net profit	**7,444**	**7,047**
Currency translation for foreign operations	−243	1,257
Net losses from cash flows hedges	189	−1,094
Income tax effects	−56	323
	133	**−771**
Actuarial gains (previous years losses)	2,085	−3,483
Income tax effects	−621	1,060
	1,464	**−2,423**
Other earnings after taxes	**1,354**	**−1,937**
Total Group earnings after taxes	**8,798**	**5,110**

Consolidated Cash Flow Statement

for the period January 1 to December 31, 2011 (IFRS)

	2011 EUR K	2010 EUR K
1. Cash flow from operating activities		
Consolidated net earnings before tax	**8,724**	**7,878**
Adjustment for non-cash expenses		
Amortization of intangible assets	1,511	2,298
Depreciation of property, plant and equipment	2,470	2,126
Losses from disposal of assets	82	29
Interest income	−250	−189
Interest expense	2,222	1,883
Other non-cash income/expenses	3	−36
	14,762	**13,989**
Change in working capital		
Changes in inventories	−712	−531
Changes in trade receivables	−3,600	−707
Changes in other assets	861	−4,605
Changes in provisions	−1,657	−1,142
Changes in trade payables	1,494	1,033
Changes in other liabilities	5,543	6,147
	16,691	**14,184**
Interest paid	−480	−188
Income taxes paid	−845	−852
	15,366	**13,144**
2. Cash flow from investment activities		
Additions to intangible assets	−773	−313
Additions to property, plant and equipment	−3,239	−6,565
Additions to financial assets	−30	−160
Inflows from sale of subsidiary companies	1,973	0
Inflows from disposal of financial assets	201	25
Interest received	264	189
	−1,604	**−6,824**
3. Cash flow from financing activities		
Outflows for share buybacks	−503	0
Payments (previous year inflows) from repayment (previous year constitution) of non-current financial liabilities	−4,838	4,661
Dividends paid to the shareholders of the parent company	−3,610	−3,202
	−8,951	**1,459**
4. Cash and cash equivalents at end of period		
Change in cash and cash equivalents	4,811	7,779
whereof changes to the financial resource fund due to exchange rate fluctuations	153	338
Cash and cash equivalents at beginning of period	28,882	20,765
	33,846	**28,882**

Consolidated Statement of Changes in Equity

for the period January 1 to December 31, 2011 (IFRS)

	Subscribed capital EUR K	Capital reserves EUR K	Reserve for Treasury stock EUR K
Note	C. 8	C. 8	
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**
Annual Group profit			
Other earnings after taxes			
Total Group earnings after taxes	0	0	0
Dividend distributions			
Share buybacks			−503
Issue of own shares			135
Total capital transactions	0	0	−368
Balance on December 31, 2011	**40,185**	**35,137**	**−368**

Other reserves EUR K	Net retained profit/losses EUR K	Total EUR K
C. 8		
−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**
	7,444	7,444
1,354		1,354
1,354	7,444	8,798
	−3,610	−3,610
		−503
		135
0	−3,610	−3,978
−2,172	**128**	**72,910**

Consolidated Segment Reporting

2011 and 2010 (IFRS)

	Energy Management		Production Management	
	31.12.2011 EUR K	31.12.2010 EUR K	31.12.2011 EUR K	31.12.2010 EUR K
REVENUES				
External revenue	68,886	65,457	78,590	67,267
Inter-segment revenue	1,263	2,839	1,544	2,606
Total revenue	**70,149**	**68,296**	**80,134**	**69,873**
Other income	5,529	5,056	5,573	4,029
Changes in finished goods and work in progress	0	0	−27	60
Cost of purchased services	−5,169	−5,122	−8,977	−7,221
Costs of purchased goods	−8,772	−8,985	−3,047	−1,979
Personnel expenses	−40,566	−39,540	−45,554	−42,315
Depreciation and amortization	−1,281	−1,001	−1,026	−918
Other operating expenses	−15,715	−13,860	−20,736	−19,256
Segment operating result before depreciation/amortization	**5,456**	**5,845**	**7,366**	**3,191**
Segment operating result before depreciation/ amortization resulting from purchase price allocation	**4,175**	**4,844**	**6,340**	**2,273**
Amortization/depreciation resulting from purchase price allocation	−130	−130	−852	−1,020
Segment operating result	**4,045**	**4,714**	**5,488**	**1,253**
Financial result	−768	−637	−660	−730
Segment result	**3,277**	**4,077**	**4,828**	**523**
Shares of equity-method accounted associated companies	**193**	**401**	**0**	**0**
SEGMENT ASSETS	**52,347**	**44,563**	**66,828**	**66,225**
SEGMENT LIABILITIES	**28,666**	**27,325**	**45,539**	**46,104**
SEGMENT INVESTMENTS	**1,126**	**695**	**1,736**	**787**

	Infrastructure Management		Reconciliation		PSI Group	
	31.12.2011 EUR K	31.12.2010 EUR K	31.12.2011 EUR K	31.12.2010 EUR K	31.12.2011 EUR K	31.12.2010 EUR K
	22,068	25,964	0	0	169,544	158,688
	4,631	2,059	−7,438	−7,504	0	0
	26,699	**28,023**	**−7,438**	**−7,504**	**169,544**	**158,688**
	2,143	3,962	−8,187	−6,392	5,058	6,655
	0	0	0	0	−27	60
	−4,461	−4,461	952	4,279	−17,655	−12,525
	−6,013	−4,678	4,364	1,864	−13,468	−13,778
	−9,398	−11,966	−257	−342	−95,775	−94,163
	−581	−562	−60	−59	−2,948	−2,540
	−5,217	−5,134	8,637	7,252	−33,031	−30,998
	3,753	**5,746**	**−1,929**	**−843**	**14,646**	**13,939**
	3,172	**5,184**	**−1,989**	**−902**	**11,698**	**11,399**
	−51	−735	0	0	−1,033	−1,885
	3,121	**4,449**	**−1,989**	**−902**	**10,665**	**9,514**
	−513	−269	0	0	−1,941	−1,636
	2,608	**4,180**	**−1,989**	**−902**	**8,724**	**7,878**
	15	**0**	**0**	**0**	**208**	**401**
	44,755	**42,564**	**7,398**	**11,496**	**171,328**	**164,848**
	17,117	**14,096**	**7,983**	**11,206**	**99,305**	**98,731**
	488	**574**	**1,079**	**4,822**	**4,429**	**6,878**

Statement of Changes in Fixed Assets

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

2010	Acquisition and manufacturing costs		
	1.1.2010 EUR K	Additions EUR K	Disposals 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**

Statement of Changes in Fixed Assets

for the period January 1 to December 31, 2011 (IFRS)

2011	Acquisition and manufacturing costs			
	1.1.2011 EUR K	Additions EUR K	Disposals EUR K	Rebookings EUR K
Intangible assets				
Other intangible assets	13,309	1,124	59	0
Goodwill	46,182	0	0	0
Capitalized software development costs	228	0	0	0
	59,719	**1,124**	**59**	**0**
Property, plant and equipment				
Land and buildings	13,111	398	1	4,273
Computers and equipment	10,106	1,999	195	0
Other facilities, operating and office equipment	5,530	893	334	733
Subcontractor payments and facilities under construction	5,006	0	0	−5,006
	33,753	**3,290**	**530**	**0**
Financial assets				
Investments in associates	401	15	208	0
	401	**15**	**208**	**0**
	93,873	**4,429**	**797**	**0**

	Accumulated amortization				Net carrying amount	
31.12.2010 EUR K	1.1.2010 EUR K	Additions EUR K	Disposals EUR K	31.12.2010 EUR K	31.12.2010 EUR K	31.12.2009 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**

	Accumulated amortization				Net carrying amount	
31.12.2011 EUR K	1.1.2011 EUR K	Additions EUR K	Disposals EUR K	31.12.2011 EUR K	31.12.2011 EUR K	31.12.2010 EUR K
14,374	10,794	1,435	43	12,186	2,188	2,515
46,182	2,258	0	0	2,258	43,924	43,924
228	76	76	0	152	76	152
60,784	**13,128**	**1,511**	**43**	**14,596**	**46,188**	**46,591**
17,781	7,912	556	0	8,468	9,313	5,199
11,910	7,986	1,297	185	9,098	2,812	2,120
6,822	4,145	617	279	4,483	2,339	1,385
0	0	0	0	0	0	5,006
36,513	**20,043**	**2,470**	**464**	**22,049**	**14,464**	**13,710**
208	0	0	0	0	208	401
208	**0**	**0**	**0**	**0**	**208**	**401**
97,505	**33,171**	**3,981**	**507**	**36,645**	**60,860**	**60,702**

Notes on the Consolidated Financial Statements

PSI Aktiengesellschaft für Produkte und Systeme der Informationstechnologie, Berlin, as of December 31, 2011

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, 10178 Berlin, Germany. It is entered in the Berlin-Charlottenburg commercial register under the number HRB 51463.

The Board of Directors prepared the Consolidated Financial Statements dated December 31, 2011, and the Consolidated Management Report for the 2011 financial year dated February 23, 2012, and submitted them to the Supervisory Board for approval.

The operations of the PSI Group encompass the production and distribution of software systems and products that meet the specific needs and requirements of customers active primarily in the following industries and service sectors: Energy supply, production, transportation, 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.

The Company is publicly listed in the Prime Standard on the German Stock Exchange in Frankfurt/Main (WKN 696822) and listed there in the TecDax. The Company was accepted to the TecDax in September 2011.

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 accounting and valuation methods used in fiscal 2011 correspond to those used in the previous year.

EFFECTS OF NEW ACCOUNTING LEGISLATION

There were no major changes arising from new applicable IFRS regulations or IFRIC interpretations for the PSI Group in the fiscal year 2011.

Newly issued IFRS standards, which have not yet been applied, are listed below.

IFRS 9 "Financial Instruments" was published by the IASB in November 2009. In the future financial assets must be assigned only to the "amortized cost" and "fair value" assessment categories and valuated accordingly. In October 2010 additional provisions regarding accounting financial assets were issued, which amend the application of the fair value option. Due to an amendment published in December 2011, IFRS 9 is now obligatory for fiscal years which commence on or after January 1, 2015 (this was originally planned for January 1, 2013). This change also introduces eased transition rules and modifies the related reporting requirements of IFRS 7. It has yet to be adopted under European law. Application of the new standard will lead to changes in the presentation and accounting of financial assets and liabilities.

In May 2011 the IASB issued IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IFRS 12 "Disclosure of Interests in Other Entities", amendments to IAS 27 "Separate Financial Statements" and amendments to IAS 28 "Investments in Associates and Joint Ventures". IFRS 10 replaces current provisions regarding Consolidated Financial Statements (parts of IAS 27 "Consolidated and Separate Financial Statements") and special purpose entities (SIC-12 "Consolidation – Special Purpose Entities") and binds the control approach as a uniform principle in the future. In addition, the standard contains guidelines for assessing control in cases of doubt. The current provisions on accounting for interest in joint ventures (IAS 31 "Interest in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers") will be replaced in the future by IFRS 11. The reporting requirements of IAS 27, IAS 28 and IAS 31 will be brought together in IFRS 12, and more added. Due to these amendments, IAS 27 currently contains only provisions on accounting for interests in subsidiary, associated and jointly controlled companies in the separate financial statement of the parent company. IAS 28 is being expanded with provisions on accounting for interests in joint ventures, and stipulates the necessary application of equity methods for associated and jointly controlled companies. The amendments are mandatory for fiscal years starting on or after January 1, 2013. It has yet to be adopted under European law. We assume that the new and revised standards will not have major effects on the assets, financials, or profits of the PSI Group.

IFRS 13 "Fair Value Measurement," also published in May 2011 introduces a comprehensive framework for determining fair value. However, it does not contain new rules of whether and when assets and debts are to be included in the fair value. IFRS 13 is mandatory for fiscal years starting on or after January 1, 2013. It has yet to be adopted under European law. The standards has no major effects on the assets, financials, or profits of the PSI Group.

In June 2011 the IASB published "Amendments to IAS 1 – Changes to the presentation of other comprehensive income". Voting rights, income statements and other earnings, presented either on an ongoing basis or in two consecutive statements, remain in principle unchanged. In the future, however, other earnings items are to be grouped in such a way that there is a separate statement based on whether these items may or may not have to be reclassified on the income statement at a later time. Associated income tax positions must be classified accordingly. The amendments are mandatory for fiscal years starting on or after July 1, 2012. It has yet to be adopted under European law. The application of the new standard will lead to changes in the presentation of the total results calculation.

"Amendments to ISA 19 – Employee benefits" was published in June 2011. The amendments lead to the abolition of the corridor method and require actuarial profits and losses to be directly recorded as other earnings. In addition, the interest rate used to discount pension obligations will in the future be definitive for the expected interest on plan assets. Furthermore, past service costs must always be completely recorded in the period of the plan emendation. The revised standard also changes the rules for payments due to the termination of employee relationship, and expands the disclosure requirements. The amendments are mandatory for fiscal years starting on or after January 1, 2013. It has yet to be adopted under European law. We assume that the revised standard will not have major effects on the assets, financials, or profits of the PSI Group.

The IASB and IFRS IC issued further statements during the reporting year which have not had nor will have any major impact on the PSI Group's Consolidated Financial Statements.

IMPORTANT JUDGMENTS AND ESTIMATES

The Group Annual Report requires estimates and assumptions, which have consequences for the presentation of the assets, financials, and earnings of the Group. 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, 2011, 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, 2011 realized income from ongoing projects totaled EUR 28,454 K (previous year: EUR 18,015 K).

Deferred tax asset

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, 2011, capitalized tax loss carry forwards totaled EUR 71 K (previous year: EUR 0 K), uncapitalized tax loss carry forwards totaled EUR 46.4 million (2010: EUR 49.9 million). No deferred tax assets were classified from these tax losses. Deferred tax assets arising from temporary accounting differences totaled EUR 4,333 K on December 31, 2011 (2010: EUR 4,310 K); deferred tax liabilities totaled EUR 2,356 K (previous year: EUR 1,670 K). Further details can be found in note C. 14.

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 32,104 K on December 31, 2011 (previous year: EUR 33,610 K). See note C. 9 for further details.

Development costs

Development costs are capitalized according to the accounting method explained on page 63. 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, 2011 was EUR 76 K (previous year: EUR 152 K).

PRINCIPLES OF CONSOLIDATION

a) Subsidiaries

The consolidated Group Financial Statements encompass PSI AG and the companies it controlled as of December 31, 2011. 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 and an asset. Identifiable assets and liabilities are carried at fair value as of the acquisition date.

There were the following changes among fully consolidated companies in fiscal year 2011.

In January 2011 PSI METALS NORTH AMERICA INC., USA, was founded as a wholly-owned subsidiary. The company is registered in Delaware.

PSI AG held 24.9 % shareholders' equity of EIT Bilisim Teknolojileri Sanayi ve Ticaret Anonim SIRKETI ANA SÖZLESMESI, Turkey. The shares were carried at equity. In September 2011 an agreement was made with the other shareholders to acquire the remaining shares for a purchase price totaling EUR 7 K. The company was renamed PSI TURKEY BILISIM TEKNOLOJILERI SANAYI VE TICARET ANONIM SIRKETI. As of that point in time, the company was included in the Group Annual Report as part of full consolidation.

With the notarized contract of August 25, 2011 the assets of Cellls GmbH were transferred in their entirety to PSI Transcom as a consolidation.

Apart from PSI AG, the following companies

- PSIPENTA Software Systems GmbH ('PSIPENTA')
- PSI Logistics GmbH ('PSI Logistics')
- PSI Nentec GmbH ('Nentec')
- PSI Metals GmbH ('PSI Metals')
- PSI Transcom GmbH ('PSI Transcom')
- PSI AG für Produkte und Systeme der Informationstechnologie, Switzerland ('PSI AG/CH')
- PSI Production GmbH ('PSI Production')
- 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 ('PSI Metals NF')
- FLS FUZZY Logik Systeme GmbH ('FLS')
- OOO PSI ('PSI Russia')
- PSI Metals Austria GmbH ('PSI Metals Austria')
- PSI Metals Belgium NV ('PSI Metals Belgium')
- AIS Advanced Information Systems Private Limited, India
- PSI Incontrol Sdn. Bhd., Selangor, Malaysia ('PSI Incontrol') as a holding company of the following (hereinafter collectively 'PSI Incontrol Group'):
    a) inControl Tech Private Limited, Chennai, Tamil Nadu, India
    b) inControl Tech For Shares SPC, Bahrain
    c) inControl Tech Holding Thailand Ltd., Thailand
    d) inControl Tech (Thailand) Ltd., Thailand
- PSI NORTH AMERICA INC., USA ('PSI Metals NA')
- PSI TURKEY BILISIM TEKNOLOJILERI SANAYI VE TICARET ANONIM SIRKETI, Turkey ('PSI Turkey')

are included in the Consolidated Financial Statements.

With the contract dated December 21, 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, there was a reduction in non-current liabilities of EUR 809 K and in current liabilities of EUR 1,938 K. 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, the result of which meant earnings totaling EUR 486 K were recorded in the reporting year.

b) Associated companies

Investments in associated companies are carried at equity. An associate is a company over which the Group exercises material influence. Carrying at equity means that shareholdings in associated companies are carried at cost plus/minus the change in the Group's percentage ownership of the net assets of the associate. Goodwill from associated companies 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 associated companies. The Group records changes in associated companies' 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 associated companies are eliminated in accordance with the percentage ownership of associates.

As of December 31, 2011, shares in the following associate companies were valued at equity:

- OOO PSI Energo LLC., Moscow, Russia ('PSI Energo')
- caplog-x GmbH, Leipzig ('caplog-x')
- Talk-IP International AG, Eching ('Talk-IP').

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.

Intra-Group balances and transactions, resulting intra-Group 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 PSI Incontrol Group companies, PSI Metals North America 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 on 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 in the business combination above the PSI Group's percentage ownership of the fair value of identifiable assets, liabilities and contingent liabilities acquired. After initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is tested for impairment at least once a year, and whenever the situation or changed circumstances 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 depreciated on a straight line basis over their estimated useful life (4 to 5 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 3 to 5 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 and amortization 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 cost 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 noncurrent assets were recognized in fiscal 2011 or 2010.

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, 2011 and December 31, 2010 the PSI Group had only loans and receivables extended.

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 derecognition, impairment or amortization of loans and receivables are included in profit/loss reporting 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 the 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 previously 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. However, reversal write-ups are only performed 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 have been repaid, i.e. if the liabilities stipulated in the contract are settled, cancelled or have expired.

At December 31, 2011, 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	3,683	13,296	0	16,979
Other liabilities	338	26,847	520	27,705
Financial liabilities	0	2,336	795	3,131
	4,021	**42,479**	**1,315**	**47,815**

The trade payables due within 1 year include provisions for outstanding payment in the amount of EUR 8,458 K.

For the 2011 fiscal year there were no significant variations between the balance sheet carrying values and the undiscounted cash flows.

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**

The trade payables due within 1 year include provisions for outstanding payment in the amount of EUR 9,570 K.

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

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 again only to a minor extent.

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 manufacturing). As there are considerable differences in customer prepayment history depending on the industry to which the customer belongs, the PSI Group does not stipulate fixed percentages for prepayment. The fundamental objective is to achieve a Group-wide prepayment percentage of 50 % to 60 %. No other specific 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 in view of prevailing economic circumstances. No adjustments or changes were made to capital management objectives or policies in the 2011 and 2010 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, measured per IFRS.

CURRENT ASSETS

a) Inventories

Inventory is 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 Section 150 German Stock Corporation Act, as well as loss carry forwards applied in accordance with profit appropriation resolutions.

Retained earnings includes profit appropriation in accordance with Section 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.

Other reserves includes unrealized profit and loss from currency translation, actuarial profit and loss from valuation of pension provisions, and the cash flow hedge reserve.

PENSION PROVISIONS

The PSI Group has several performance-based benefit plans and contribution-based pensions plans in place, the latter of which do not involve plan assets. The expenditure for performance-based 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 profit and loss 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 2011 the PSI Group received subsidies from various projects, including from the European Union, in the amount of EUR 1,710 K (previous year: EUR 1,256 K). The subsidies granted were recognized as income in 2011 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, 2011. Borrowing costs in connection with the course of production that began before January 1, 2011 are still recognized by the Group in the period incurred. In 2011, no significant borrowing costs were incurred for qualifying assets.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs came to EUR 16.2 million in the 2011 fiscal year (2010: EUR 16.0 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 expense on a straight-line basis over the lease term.

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

REVENUE REALIZATION AND RECOGNITION

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

a) Project business

The partial profit realization method is used for long-term project agreements fulfilling the conditions required to apply this method, in which revenue from the development and distribution of software systems and products is deferred and realized based on the percentage of project completion. The percentage of completion is determined as the ratio of man hours accrued to the total estimated man hours, or on the basis of milestones. Advance payments received from customers are offset directly in equity against the corresponding receivables. Changes in project terms can lead to adjustments in originally recognized costs and revenue for individual projects. These change effects are recorded in the period in which they are implemented. In addition, provisions for 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 nor 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 carry forwards 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 carry forwards/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 that 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 that 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 Statements 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 54f.

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, 2011, reference is made to the attached schedule "Change in intangible assets and property, plant and equipment" (appendix to the Notes to the Consolidated Financial Statements).

Goodwill and property, plant and equipment

The PSI Group carried out impairment testing on non-current assets on December 31, 2011 and December 31, 2010. Impairment testing to determine value in use is based on the following cash-generating units and proportionate with goodwill carrying amounts:

	31.12.2011 EUR K	31.12.2010 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	8,198	8,198
PSI Logistics	838	838
PSI Production	285	285
FLS	342	342
PSI Metals Austria Group	10,750	10,750
	21,028	**21,028**
Infrastructure Management		
PSI Transcom	2,352	2,352
PSI Incontrol 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 and expectations in view of market expectations (growth rates in relevant market segments, software project revenue and maintenance revenue, hourly and daily rates for employees, average personnel expenditure, mark-ups on sales of hardware and third-party licenses). The three-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 Group, a discount rate of 5.86 % after tax and 7.14 % before tax was applied (previous year: 6.57 % after tax and 8.27 % before tax). For the Incontrol Group, taking into account a country risk surcharge, a discount rate of 8.64 % before tax and 7.12 % after tax was applied (previous year: 10.44 % after tax and 8.42 % before tax). 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 % (2010: 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.

2 *Shares of associated companies*

Since June 5, 2008 the Group has held a 24.9 % stake in PSI Energo LLC, 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.

By an agreement on June 28, 2011 PSI Transcom acquired 30 % of the shares of Talk-IP International AG located in Eching for the purchase price of EUR 15 K. The company provides and markets telecommunications services.

The table below includes a summary of financial information about the Group's stake in PSI Energo and caplog-x.

	2010 EUR K	2009 EUR K
Share in assets and liabilities of associates:		
Current assets	3,014	1,476
Non-current assets	765	100
Current liabilities	−3,493	−1,139
Non-current liabilities	−20	−20
Equity	**266**	**417**
Share in the revenue and result of associates:		
Revenue	1,406	1,066
Result	44	24

	2011 EUR K	2010 EUR K
Carrying value of the investment	**193**	**401**

The table below includes a summary of financial information for the rump fiscal year about the Group's stake in Talk-IP AG:

	2011 EUR K	2010 EUR K
Share in assets and liabilities of associates:		
Current assets	190	0
Non-current assets	0	0
Current liabilities	−140	0
Non-current liabilities	0	0
Equity	**50**	**0**
Share in the revenue and result of associates:		
Revenue	26	0
Result	0	0

	2011 EUR K	2010 EUR K
Carrying value of the investment	**15**	**0**

At the time of preparation of the 2011 Consolidated Financial Statements, there was no information available as to the assets, liabilities, revenues or operating results of PSI Energo and caplog-x.

CURRENT ASSETS

3 *Inventories*

	2011 EUR K	2010 EUR K
Unfinished products	224	244
Hardware and third-party licenses	2,567	2,482
Subcontractor payments	1,257	676
	4,048	**3,402**

4 *Trade receivables, net*

	2011 EUR K	2010 EUR K
Trade receivables, gross	31,638	28,106
Receivables from associates	7	433
Individual valuation allowances	−482	−601
	31,163	**27,938**

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

	2011 EUR K	2010 EUR K
As of January 1	601	789
Appropriation recognized as expense	229	336
Claimed	−99	0
Reversals recognized as income	−249	−524
As of December 31	**482**	**601**

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

	2011 EUR K	2010 EUR K
Neither past due nor impaired:	**20,644**	**16,332**
Past due, not impaired:		
< 30 days	6,714	5,591
30 – 60 days	1,912	3,018
60 – 90 days	268	459
90 – 120 days	496	542
> 120 days [1) 2)]	1,129	1,996
	10,519	**11,606**
As of December 31	**31,163**	**27,938**

[1)] Amount of which from collateral retained EUR 64 K (2010: EUR 84 K.
[2)] Paid by February 14, 2012: EUR 162 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:

	2011 EUR K	2010 EUR K
Costs incurred	93,556	82,269
Share of profit	28,454	18,015
Contract revenue	**122,010**	**100,284**
Advance payments received	−104,692	−79,196
Set off against contract revenue	−84,459	−63,042
Receivables from long-term development contracts	37,551	37,242
Liabilities from long-term development contracts	20,233	16,154

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 37,551 K (2010: EUR 37,242 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*

	2011 EUR K	2010 EUR K
Tax credits	1,103	776
Prepaid expenses	915	1,027
Claims from the sale of business units	599	2,198
Subcontractor payments	291	898
Subsidies	84	146
Other	868	1,637
	3,860	**6,682**

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.

7 *Cash*

	2011 EUR K	2010 EUR K
Bank balances	16,800	11,082
Fixed term deposits	17,013	17,776
Cash	33	24
	33,846	**28,882**

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

8 *Shareholders' equity*

See the Consolidated Statement of Changes in Group equity.

a) Subscribed capital

Fully paid-up share capital recorded in the commercial register totals EUR 40,185,256.96 (previous year: 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 3,046,400. This is about 1,190,000 shares of the Company. The authorization expired on October 27, 2010.

At the PSI AG Annual General Meeting on May 3, 2010 the Board of Directors was authorized to buy back shares up to 10 % of share capital. Based on the share capital from that date, the Company is authorized to buy back up to 1,569,736 shares. The authorization expires on October 30, 2013.

b) Contingent and authorized capital

By 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 27, 2014.

To fulfill any exercised rights as above, the Annual General Meeting on April 28, 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.

	2011 EUR K	2010 EUR K
Authorized capital (AC)		
AC 2010 (expires May 2, 2015)	8,036	8,036
	8,036	**8,036**
Contingent capital (CC)		
CC 2009 (expires April 27, 2014)	15,232	15,232
	15,232	**15,232**
	23,268	**23,268**

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 May 2, 2015, either in one 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 and 2011.

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:

	2011 EUR K	2010 EUR K
Currency fluctuation reserve	1,077	1,320
Actuarial losses	−4,345	−6,430
Deferred taxes	2,001	2,678
Cashflow hedge reserve	−905	−1,094
	−2,172	**−3,526**

The cash flow hedge reserve contains the hedge assets as of the balance sheet date to cover foreign currency payments expected in the future.

e) Distributed dividends

During the financial year, a dividend on ordinary shares for the business year 2010 amounting to EUR 0.23 per share (EUR 3,610,394.18) was distributed.

NON-CURRENT LIABILITIES

9 *Pension provisions*

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

Three different defined benefit pension plan models are employed at the PSI Group, which provide benefits to employees based on length of service and salary level prior to payout in accordance with plan provisions. On December 5, 2006 the PSI AG Board of Directors and the Group Works Council concluded a works agreement on the Company pension plan and compensation payments within the PSI AG Group encompassing all existing defined benefit pension plans. The 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. As a result of this freeze, 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. The benefits are set as if the employee were age 65 as of December 31, 2006.

- As compensation for the discontinuation of future increases in the company pension (pension increases), either equal increasing amounts will be paid into 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:

	2011 %	**2010** %	**2009** %	**2008** %
Discount rate	5.20	4.70	5.50	5.70
Increase in salaries	1.50	1.50	2.00	2.00
Increase in pension payouts	1.75	1.75	1.75	1.00
Staff turnover	4.00 –5.00	4.96	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, 2011 a retirement age of 62 or 63 (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:

	2011 EUR K	**2010** EUR K
Work time expenditure recorded in staff costs	96	52
Interest expense recorded in interest result Pension benefits	1,604	1,641
Liabilities from defined benefit plans	**1,700**	**1,693**

Liabilities from defined benefit plans:

	2011 EUR K	**2010** EUR K
Cash value of defined benefit plan	32,104	33,610
Current pension obligation	**32,104**	**33,610**

Adjustment of plan liabilities:

	2011 EUR K	2010 EUR K	2009 EUR K	2008 EUR K
Cash value of defined benefit plan	32,104	33,610	30,096	26,653
Adjusted of plan liabilities	230	119	209	50

The table below shows the change in pension obligations:

	2011 EUR K	2010 EUR K
Pension obligation, start of period	33,610	30,096
Actuarial losses recognized in equity	−2,085	3,483
Pension benefit payments	−1,109	−1,026
Pension benefits	1,700	1,693
Group disposals	−12	−636
Pension obligation at end of period	**32,104**	**33,610**

The following shows the expected payment structure for the years 2012 to 2014:

	EUR K
Pension benefit payments	
2010	1,026
2011	1,109
Projected pension benefit payments	
2012	1,265
2013	1,423
2014	1,541

10 Financial liabilities

Financial liabilities contain liabilities from loans of EUR 252 K (2010: EUR 4,826 K) and the non-current part of derivatives amounting to EUR 543 K (2010: EUR 848 K). For more explanations on derivatives, please see 11 (Financial liabilities).

In the 2010 fiscal year, 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 interest rate was variable (3 month EURIBOR plus 1.220 %) and secured by a first mortgage on a certain property and facility in Aschaffenburg for EUR 4,000,000 in favor of the Landesbank Berlin. The loan was fully repaid early as of December 31, 2011.

Interest expenses from non-current bank loans amounted to EUR 158 K in the financial year (2010: EUR 27 K).

CURRENT LIABILITIES

11 Financial liabilities

Financial liabilities contain current account loans of EUR 1,505 K, including a subsidised loan repayable on 31 March 2012 in the amount of EUR 469 K, and the current part of derivatives amounting to EUR 362 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 4.8 % 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, 2011 the PSI Group had unutilized credit lines in the amount of EUR 8,859 K (previous year: EUR 9,488 K).

Interest expenses from bank overdrafts amounted to EUR 104 K in the 2011 fiscal year (2010: EUR 161 K).

In the 2010 fiscal year, 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 February 12, 2012, and July 30, 2014. The hedging instruments were included in the balance sheet at fair value on December 31, 2011 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 31.12.2011 EUR K	Fair value 31.12.2010 EUR K
1.) Loan/interest swap	Interest rate change risk/ cash flow hedge	0	0	0	−10
2.) Future transactions/ foreign currency contracts	Curreny risk/ cash flow hedge	10,517	10,517	−905	−1,084
Total		**10,517**	**10,517**	**−905**	**−1,094**

Re 1.): As of December 31, 2011 the interest swap is no longer part of a hedging relationship due to the discontinuation of the underlying transaction. The interest swap is valued at EUR – 129 K on the statement date as a standalone derivative.

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 prospective effectiveness of hedges, the Critical Terms Match method is used. Retrospective effectiveness is measured using the Dollar Offset method.

12 Provisions

The change in provisions was as follows:

	As of 1.1.2011 EUR K	Claimed EUR K	Interest proportion/ Changes to interest rate EUR K	Liquidation EUR K	Additional EUR K	As on 31.12.2011 EUR K
Personnel provisions	74	−30	−9	0	0	35
Other provisions	218	−13	0	−65	68	208
	292	**−43**	**−9**	**−65**	**68**	**243**
thereof current	218					208
thereof non-current	74					35

Personnel provisions principally represent provisions in connection with phased retirement schemes. Provisions are calculated on the basis of the applicable agreement terms in place with employees and a discount rate for projected cash flows in connection with the agreements concluded of 3.82 % for cash flows expected in 2013 (previous year: 3.75 %). Provisions for phased retirement schemes were offset in the amount of EUR 40 K against the asset value of insolvency reserves, the provision of which is required by law.

13 Other liabilities

	2011 EUR K	2010 EUR K
Personnel-related liabilities	12,563	11,704
Tax liabilities (payroll and sales tax)	5,174	5,248
Deferred income	4,204	4,887
Social security liabilities	0	63
Other	5,764	3,871
	27,705	**25,773**

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 2011 was approximately 15 %. Corporation tax rates of 15 % applied in the 2010 and 2011 fiscal years. A solidarity surcharge of 5.5 % is additionally levied on corporation tax assessed. The effective income tax rate for the fiscal year 2011 was thus 29.83 % (previous year: 29.83 %).

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

	2011 EUR K	2010 EUR K
Actual tax expense		
Current year	**−1,294**	**−1,452**
Deferred tax expense		
Change in intangible assets	−27	301
Change in long-term development contracts	−878	−66
Changes in inventories	−12	−23
Phased retirement programs	−34	−32
Change in pension provisions	−87	−96
Project-related provisions	851	577
Other provisions	89	17
Fixed assets	41	−11
Use of tax loss carry-forwards	71	0
Cost of equity issue	0	−46
	14	**621**
Income tax expense	**−1,280**	**−831**

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

	2011 EUR K	2010 EUR K
Earnings before taxes	8,724	7,878
Theoretical income tax expense (29.83 %; previous year: 29.83 %)	−2,602	−2,350
Uncapitalized tax loss carry forwards	−781	−657
Non-deductible operating expenses and profit tax additions	−148	−107
Use of non-capitalized loss carry forwards	1,883	2,203
Effects of differences due to foreign tax rates	441	88
Other	−73	−8
Actual tax expense	**−1,280**	**−831**

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

	2011 EUR K	Change EUR K	2010 EUR K
Deferred taxes			
Pension provisions	2,492	−708	3,200
Intangible assets	−115	153	−268
Tax-deductible goodwill impairment	120	−180	300
Phased retirement programs	66	−34	100
Project-related provisions	1,187	851	336
Receivables from long-term production contracts	−2,207	−878	−1,329
Derivatives/Financial instruments	267	−56	323
Fixed assets	−32	41	−73
Unused tax losses	71	71	0
Inventories	22	−12	34
Other	106	89	17
	1,977	**−663**	**2,640**
thereof with effect on income		14	
thereof equity change		−677	
Balance sheet			
Deferred tax assets	4,333		4,310
Deferred tax liabilities	−2,356		−1,670

The PSI Group has the following tax loss carry forwards:

	2011 EUR K	2010 EUR K
Loss carry forward, domestic trade tax	43.7[1)]	47.2[1)]
Loss carry forward, domestic corporation tax	40.9[1)]	44.6[1)]
Loss carry forwards abroad	5.6	5.5

Domestic loss carry forwards do not expire.

[1)] The information on domestic carry forwards 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 carry forwards 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

	2011 EUR K	2010 EUR K
Software creation and maintenance	138,650	136,946
License fees	14,155	9,771
Merchandise	16,739	11,971
	169,544	**158,688**

16 Cost of materials

	2011 EUR K	2010 EUR K
Cost of purchased services	17,656	12,525
Cost of purchased goods	13,467	13,778
	31,123	**26,303**

17 Staff costs

	2011 EUR K	2010 EUR K
Wages and salaries	80,927	79,592
Social security	14,848	14,571
	95,775	**94,163**

Staff costs include expenses for payments in connection with defined contribution pension commitments of EUR 682 K (previous year: EUR 672 K) and state pension funds of EUR 5,581 K (previous year: EUR 5,697 K).

18 Depreciation and amortization

	2011 EUR K	2010 EUR K
Of intangible assets and property, plant and equipment	3,981	4,425
	3,981	**4,425**

19 Other operating expense

	2011 EUR K	2010 EUR K
Travel costs	8,142	6,678
Rent/leasing property	5,428	5,353
Project expenses	1,203	3,499
Advertising and marketing	3,888	3,085
Equipment leasing	2,413	2,312
Data line, IT and telephone costs	2,501	2,156
Legal and advisory costs	1,354	1,394
Contributions, fees, expenses	326	264
Other	7,776	6,257
	33,031	**30,998**

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.

	2011	2010
Net profit/loss for the period (EUR K)	7,444	7,047
Weighted number of no-par shares (in thousand)	15,685	15,697
Basic/diluted earnings per no-par share (EUR/share)	**0.47**	**0.45**

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. In the reporting year a dividend was paid out for the fiscal year 2010. 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 uses IFRS 8 – operating segment reporting. This standard contains regulations on the reporting of data broken down by business and geographical segments.

Segments

- 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 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, transportation, 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:

	2011 EUR K	2010 EUR K
Gross assets per balance sheet	175,661	169,158
Deferred tax assets	−4,333	−4,310
Segment assets	**171,328**	**164,848**
Gross liabilities per balance sheet	102,751	101,068
Tax provisions	−1,090	−667
Deferred tax liabilities	−2,356	−1,670
Segment liabilities	**99,305**	**98,731**

Additional geographical disclosures

In the 2011 fiscal year, the PSI Group generated domestic revenue of EUR 85.1 million (previous year: EUR 94.6 million) and international revenue of EUR 84.4 million (previous year: EUR 64.1 million). Non-current fixed assets of EUR 27,496 K (2010: EUR 28,163 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 2011, leasing charges of EUR 220 K accrued (2010: EUR 242 K) for leased office equipment; EUR 952 K (2010: EUR 1.023 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 2010 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
2012	3,995	936	4,931	4,941
2013	2,571	622	3,193	3,148
2014	1,964	307	2,271	2,402
2015	1,654	89	1,743	1,627
2016	1,654	5	1,659	1,511
2017	373	0	373	1,511
and beyond	0	0	0	376

Guaranteed sureties

At the balance sheet date PSI AG had guaranteed sureties totaling EUR 40,080 K (previous year: EUR 40,509 K) from various insurers and banks.

Letters of subordination and comfort

PSI AG made letters of subordination for two subsidiaries upon which claims were outstanding. These letters of subordination no longer exist (previous year: EUR 304 K). In addition, a letter of comfort has been provided for a subsidiary.

Employees

The average number of PSI Group employees in the fiscal year was 1,455 (previous year: 1,407). Employees break down by function as follows:

	2011	2010
Production	1,201	1,166
Administration	113	98
Revenue	124	122
Development	17	21
Total	**1,455**	**1,407**

Equity statement

	Shares in %	Shareholders' equity[1)] 31.12.2011 EUR K	Net result[1)] 2011 EUR K
PSIPENTA Software Systems GmbH, Berlin	100	1,200	0 [2)]
PSI Nentec GmbH, Karlsruhe	100	501	0 [3)]
PSI Metals GmbH, Dusseldorf	100	5,864	2,901
PSI Information Technology Shanghai Co. Ltd., Shanghai, China	100	247	539 [4)]
PSI Metals North America Inc., Pittsburgh, USA	100	77	50
PSI Transcom GmbH, Berlin	100	1,392	142
PSI AG Produkte und Systeme der Informationstechnologie, Glattzentrum, Switzerland	100	478	34
PSI Logistics GmbH, Berlin	100	387	0 [2)]
PSI Energy Markets GmbH, Hanover	100	1,330	0 [3)]
PSI Production GmbH, Berlin	100	−460	59
PSI Produkty i Systemy Informatyczne Sp z o.o., Poznan, Poland	100	550	484
PSI CNI Control, Networks & Information Management GmbH, Wels, Austria	100	1,142	−106
FLS FUZZY Logik Systeme GmbH, Dortmund	100	378	0 [3)]
PSI Metals Non Ferrous GmbH, Würselen	100	1,005	0 [3)]
OOO PSI, Moskau, Russia	100	1,015	134
PSI Incontrol Sdn. Bhd., Selangor, Malaysia	100	7,980	1,353 [4)]
inControl Tech Private Limited, Chennai, India	100	−190	−55 [4)]
inControl Tech For Shares SPC, Salimabad, Bahrain	100	−177	57 [4)]
inControl Tech (Thailand) Ltd., Bangkok, Thailand	100	210	138 [4)]
inControl Tech Holding (Thailand) Ltd., Bangkok, Thailand	100	0	−1 [4)]
PSI Metals Austria GmbH, Linz, Austria	100	1,448	41
AIS Advanced Information Systems (India) Private Ltd., Kolkata, India	100	59	64
PSI Metals Belgien NV, Brüssel, Belgium	100	796	211
PSI TURKEY BILISIM TEKNOLOJILERY SANAYI VE TICARET A.Ş., Istanbul, Turkey	100	20	−1
Talk-IP International AG, Eching	30	50	0
caplog-x GmbH, Leipzig	25	323	123 [5)]
PSI Energo LLC., Moskau, Russia	24.9	743	54 [5)]

[1)] Values according to legal and local accounting regulations before consolidation bookings.
[2)] Claimed amount from debtor warrants.
[3)] Profit-pooling contracts.
[4)] Values according to IFRS before consolidation bookings.
[5)] Statements as on December 31, 2010.

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 179 K (previous year: EUR 170 K). For tax consultancy services from the auditors of the financial statements, the PSI Group recorded fees in the amount of EUR 85 K (previous year: EUR 53 K) and for other audit services EUR 0 K (previous year: EUR 18 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 associated companies included in the Consolidated Financial Statements are considered related companies. PSI Energo, caplog-x and Talk-IP International are associated companies 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. In addition, in the fiscal year PSI AG sold 100% of its shares in PSI AG/CH to a subsidiary. This transaction was also eliminated as part of the consolidation process.

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 Windmöller
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 2011.

Supervisory Board

The individuals below were Supervisory Board members in fiscal year 2011:

Name	Profession	Location	Supervisory Board memberships at other companies
Prof. Dr. Rolf Windmöller (Chairman)	Graduate engineer	Ennepetal	ProDV Software AG, Dortmund (Chairman)
Wilfried Götze (Deputy Chairman)	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 1,364 K was paid to the PSI AG Board of Directors in fiscal year 2011 (previous year: EUR 1,482 K):

	2011 EUR K	2010 EUR K
Fixed remuneration		
Armin Stein	222	222
Dr. Harald Schrimpf	222	222
	444	**444**
Long-term fee component		
Armin Stein	250	250
Dr. Harald Schrimpf	250	250
	500	**500**
Variable remuneration		
Armin Stein	210	269
Dr. Harald Schrimpf	210	269
	420	**538**
Board of Directors – total	**1,364**	**1,482**

In addition, provisions in the amount of EUR 200 K were made in the fiscal year for the long-term remuneration components of the Board of Directors.

No pension commitments exist for Board of Directors members.

Pension provisions of EUR 591 K are reported for former Board of Directors members (previous year: EUR 626 K). No other remuneration was made in the 2011 fiscal year, except for pension payments to earlier board members of EUR 51 K (previous year: EUR 50 K).

The Supervisory Board was paid remuneration of EUR 185 K in the reporting year (previous year: EUR 119 K):

	2011 EUR K	2010 EUR K
Dr. rer. nat. Ralf Becherer	27	16
Wilfried Götze	34	23
Bernd Haus	29	18
Barbara Simon	28	16
Karsten Trippel	23	13
Prof. Dr. Rolf Windmöller	44	33
	185	**119**

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

	2011 Number of shares	2010 Number of shares
Dr. Harald Schrimpf	64,000	71,000
Armin Stein	23,300	23,300
Dr. rer. nat. Ralf Becherer	1,268	2,268
Wilfried Götze	54,683	54,683
Bernd Haus	1,000	1,000
Barbara Simon	7,890	7,890
Karsten Trippel	109,750	124,450
Prof. Dr. Rolf Windmöller	6,305	6,305

Disclosures concerning the German Corporate Governance Code

PSI AG submitted the declaration prescribed per Section 161 of the German Stock Corporation Act on April 29, 2011. 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 23, 2012

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, 2011. 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 Sect. 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 were examined primarily on a spot-check basis in the course 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 Section 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 24, 2012

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Schepers	Weiß
Public accountant	Public accountant

FINANCIAL DATES FOR 2012

Publication of annual result	March 15, 2012
Analysts' Conference	March 15, 2012
First quarter report	April 26, 2012
Annual General Meeting	May 3, 2012
First half-year report	July 27, 2012
Third quarter report	October 29, 2012
Analysts' Conference German Equity Forum	November 12 to 14, 2012

PSI SHARES

Stock market segment:	Prime Standard
Part of Indices:	TecDAX
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 **2011** DEUTSCHE BÖRSE ACCEPTED US ONTO TECDAX. THIS GIVES OUR STOCK VISIBILITY TO MORE INVESTORS ON THE INTERNATIONAL LEVEL."

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