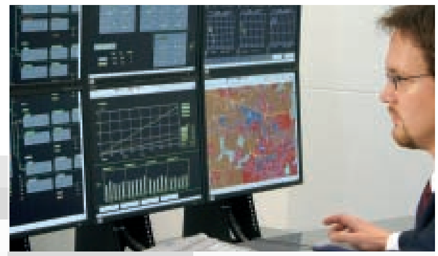


Annual Report 2004

Facing the Future with Innovations!

PSI

2004 at a Glance

Break-even in Production Management. With a new structure and new products, we reached the break-even point at mid-year in the Production Management segment.

Information Management trimmed. During the second quarter, all of this segment's activities were combined into one subsidiary.

Control system strategy proves successful. We received our first orders from industrial companies and government agencies for our new manufacturing and disaster-prevention control rooms.

Major orders in the energy segment. We further expanded our market position with numerous strategic orders from large electric utilities.

Successes in the steel segment. Our PSI-BT subsidiary penetrated further into the market with major strategic orders and new partnerships. It has been a wholly owned subsidiary of the PSI Group since the end of last year.

PSI software for international airports. With new partnerships in the airport and warehouse segment, PSI Logistics is now on the road to success internationally, as well.

New products are off to a good start. Our new products for service providers, transportation management, gas management and IT network management were successfully introduced with pilot customers.

Expansion in Asia and Eastern Europe. PSI has taken advantage of the opportunities presented by the EU expansion and the economic boom in China to open new subsidiaries in Poland and in Shanghai.

The PSI Group: We are the leading specialist in control systems for process automation

Network Management

PSI's Software directs the processes of public utilities. By using our expertise in control technology.

Electricity, Gas, and Oil
For electricity, gas, oil and water utilities, we are among Europe's market leaders in:
- Control systems
- Software for operations management
- Simulation and network utilization
- Sales and distribution

Telecommunications
We are a leading independent provider of products and services for
- Network and service management
- Infrastructure
- Test management
- Security management

Transportation
We are one of the leading providers of control technology applications for traffic systems and transportation services:
- Operation control systems for passenger and freight traffic
- Passenger information systems
- Depot management systems
- Systems for transportation management and freight logistics

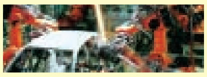
Production Management

PSI provides large corporations and medium-sized companies an overview of their production chain. With control systems for production planning.

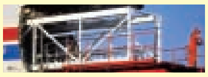
Metals
- PSI is the German leader in production management systems for metal manufacturing and processing

Process Industry
- PSI is well positioned as a provider of control systems for the chemical and pharmaceutical industries
- We are the German leader in production planning systems for the printing industry

Mechanical engineering and plant construction
- PSI is one of the top providers of mechanical engineering control systems (production planning systems, enterprise resource planning)



Automobile manufacturers and automotive suppliers
- We have a strong position in production planning and supply chain management systems
- We also supply process control systems for industrial production

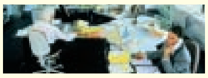


Logistics/airports
- PSI is well positioned to provide solutions for managing transportation routes, supply depots, virtual distribution centers and production warehouses, and airport and sorting logistics

Industrial service providers
- PSI also supplies professional services automation, human-resource allocation planning and time recording, company portals and virtual assistants based on agent technology

Information Management

PSI helps government agencies and service providers to bring their information technology up to date.



Public administration

- eGovernment: PSI provides solutions for monitoring target agreements, registration and information services, electronic filing systems and transaction processing
- PSI supplies control rooms for environmental protection and disaster prevention

Service Providers

- Professional services automation
- Management of customer relationships using portals and agent technology
- Networks and process control systems
- Control systems for managing complex information sources and information processes

The PSI Group in Figures

(in € millions)

	US GAAP			IFRS	
	2000	2001	2002	2003	**2004**
Net sales	146.7	164.9	150.7	137.6	**115.2**
Operating result	– 13.4	– 2.2	– 12.4	– 1.0	**– 9.1**
Earnings before taxes	– 13.2	– 1.5	– 19.0	– 4.0	**– 12.3**
Net Group Result	– 14.8	– 5.1	– 14.8	– 4.8	**– 12.3**
Shareholders' Equity	65.2	65.6	51.0	39.4	**24.6**
Equity ratio (in %)	46.1	42.9	37.1	32.9	**25.5**
Investments	18.9	11.8	7.7	5.6	**4.8**
Research and development costs	9.1	10.3	11.5	8.8	**10.8**
New Orders	184	158	136	119	**126**
Employees at Dec. 31 (number)	1,362	1,405	1,294	1,193	**1,106**
Revenues per employee (in € thousands)	108	117	117	115	**104**

With more than a thousand employees, PSI is a corporation that develops and distributes IT control systems based on its own software products. These control systems automate the complex core processes of PSI's customers in the Network, Production and Information Management segments. Both domestically and internationally, PSI occupies a leading position in these markets.

Contents

Dr. Harald Schrimpf (40) has been responsible for marketing, sales and technology for the PSI Board of Directors since July, 2002

Armin Stein (53) has been responsible for the finance, controllership and human resources functions for the PSI Board of Directors since January 1, 2001

Dear Shareholders,

We started the year 2004, our second full fiscal year under new management, with the motto, "Accelerate into the Future!" We had projected a slightly positive net Group result, based on improvements in Production Management and our expectation that Network Management's strong performance would continue. However, uncertainty over the energy legislation, which has been delayed since mid-2003, resulted in fewer new orders for Network Management. Electric utilities finally lifted their freeze on investment in mid-2004 and we are hoping that gas utilities will likewise experience a market upswing by mid-2005. In Production Management, which for years was the company's big loss-maker, we introduced a new structure and new products in 2003 and finally reached the break-even point at mid-year. Information Management was negatively affected by a further decline in consulting rates. This largely eroded the improvements that had been achieved through reductions in personnel costs and the licensing business.

After losing the legal dispute in June, we reassessed the remaining risks from the past in the second half of the year. Consequently, we ended the year with an overall difficult picture: operating results of € – 9.1 million versus a positive operating cash flow of €6.6 million. Incoming orders outpaced those of the previous-year period by €7 million.

We managed to successfully settle several legal disputes going back to the period from 1998 to 2001. Nevertheless, our loss of the lawsuit over the Basis II Project unfortunately forced us to report a significant loss. At the same time, this means that we no longer face any further material risks from litigation. On the contrary, PSI expects to gain millions of Euros from counterclaims and appeals.

In the course of the IFRS conversion, goodwill impairments totaling approximately €7 million were recorded. This has substantially reduced the risk of further valuation allowances. At the beginning of 2004, we introduced strict management guidelines that closely parallel the conservative provisions of the German Commercial Code. As a result, research and development expenditures will no longer be capitalized, so that future successes will not be burdened with write-offs. Licenses acquired by customers will be recorded to earnings only following installation. Due to tax-loss carryforwards, future earnings of up to €80 million will incur only minimal taxes.

The causes of the risks adjusted in 2004 and their effects on liquidity were limited primarily to the years 1998 through 2001, with the result that liquidity increased to just under €19 million by year-end 2004. After increasing our equity by 10%, we were able to acquire the minority interest in PSI-BT and no longer require any medium-term loans to finance our normal operations. The portion of PSI shares held by the top ten institutional investors doubled between 2002 and 2004 to approximately 22% and had risen to 30% by the beginning of 2005.

During 2004, we continued to pursue our strategy of focusing and integrating the Group as the prerequisites for achieving profitability, partnership excellence, and export success. This includes taking over minority shares in subsidiaries, merging smaller subsidiaries, reducing administrative costs, and consolidating redundant activities. In order to take advantage of the growth in China and Eastern Europe, we set up subsidiaries in Shanghai and in Poland. The company software for service providers, PSIprofessional, is now in the trial run phase and will be adopted at PSI in 2005. Based on PSIpenta, this software improves corporate transparency and the reliability of forecasts and reduces costs. In the business units where the workload is low, the employees have agreed to further flexibility in wages and working hours. In return, PSI has reduced its use of outsourcing in order to preserve jobs. The resulting high ratio of company (as opposed to outside) employees represents a good basis for growth, but also poses risks.

We intensified the process begun in 2003 of developing new products and product versions and brought them to market. In accordance with the four-phase model described in our last Annual Report, research and development expenditures were restricted to concepts and prototypes, without reference to specific projects. New developments were closely coordinated with pilot customers and jointly financed. Many of the new products consist of existing core products that have been enhanced to take into account the specific requirements of another business unit. This approach lowers development costs and increases the speed with which we can create innovative solutions.

In 2005, we are expecting a recovery in Network Management and the first positive contributions to Group results from the Production Management segment. The convergence of commercial solutions and control technology in our electricity and gas/oil business units will allow us to provide an even better array of products, especially for network utilities and energy traders. We started the year with a higher order portfolio and are preparing our management resources for a growth phase beginning in 2006. As one of the largest German software manufacturers, we are considered by investors to be an active participant in the consolidation of the industry..

The Board of Directors would especially like to thank our shareholders and customers for your continued confidence, particularly when the news is not all good. We will support our customers as long-term, innovative international partners as they continue to develop their businesses. We also want to thank our employees for their performance and their commitment. Having substantially lowered risks and introduced new products and improved organizational structures, we are confident that, as in 2003, we will be able to improve the value of our company and our share price.

Sincerely yours,

Dr. Harald Schrimpf   Armin Stein

Berlin, February 2005

Christian Brunke (63) Chairman of the Supervisory Board

Report from the Supervisory Board

Dear PSI Shareholders,
Dear Friends and Partners of our Company,

Strengthening PSI was our main concern in Fiscal Year 2004. Consequently, the Supervisory Board primarily emphasized the Company's further strategic development. We were honored to perform for you, the shareholders, the duties and responsibilities to which we are bound by law, by our Articles of Incorporation, and by the German Corporate Governance Code. We have continually monitored the work of the Board of Directors and supported it with our advice.

The focal points for both the Board of Directors and the Supervisory Board were the further streamlining of the PSI Group and the expansion of the market activities that we initiated in 2003:

In order to reorganize the Information Management segment, PSI sold its PK Software Engineering subsidiary and combined the public management segment with UBIS. The Board of Directors and the Supervisory Board coordinated the investments in new products, especially the transfer of the control system technology to the Production and Information Management business segments. The Supervisory Board followed the progress of the activities. Other areas of particular emphasis were the complete takeover of PSI-BT, the Network Management measures undertaken in the second half of the year, and steps toward international expansion. PSI accomplished the latter by setting up subsidiary companies in Poland and China.

We are convinced that, through these measures, the Board of Directors has chosen the tools necessary to satisfy our customers' needs and to guarantee long-term improvements in the PSI Group's performance.

The faithful cooperation between the Board of Directors and the Supervisory Board was fundamentally demonstrated in eight regular sessions of the Supervisory Board, four sessions of the Human Resources Committee, and four sessions of the Audit Committee.

As in previous years, the Board of Directors and the Supervisory Board monitored the Group's compliance with the provisions of the German Corporate Governance Code. During the annual audit, the auditors found no indication of noncompliance with any of the points in the Declaration of Conformity.

The accounting firm Ernst & Young AG was appointed as annual auditor by the General Shareholders' Meeting on May 27, 2004. At the request of the Supervisory Board, it audited the Annual Financial Statements, the Consolidated Financial Statements, and the Management Report for the period from January 1 through December 31, 2004 and gave them an unqualified audit certificate. The Supervisory Board audited the Annual Financial Statements, the Consolidated Financial Statements, and the Management Report and approved them after discussing them with the auditors and the members of the Board of Directors at the Supervisory Board meeting on March 8, 2005. The Annual Financial Statements and the Consolidated Financial Statements were thereupon adopted.

The Supervisory Board had expected better results for 2004. In view of the very difficult market conditions in 2004, the overall performance of the Board of Directors, the management, and the employees deserves special recognition. Despite the difficult economy, we succeeded in winning important strategic orders and achieving an excellent starting position for PSI in 2005 and the years to come. Therefore, the Supervisory Board would especially like to thank everyone involved for their enormous commitment and hard work.

We also want to thank our customers for the renewed faith they have shown in our company. In 2005, we will continue to apply every effort to ensure that our existing customers are satisfied and to attract new customers.

Berlin, March 2005

Christian Brunke
Chairman of the Supervisory Board

Corporate governance

For PSI, Corporate Governance is a tool for securing the future. The capital markets look very closely at the management of a company. They reward those companies whose corporate management is responsible, transparent, and dedicated to creating value. This is encouraged by the German Corporate Governance Code in its latest version, dated May 21, 2003. PSI goes to great lengths to implement its recommendations.

Clear and efficient leadership and control structures. The Board of Directors consists of only two members. As a result, it is very efficient. The Supervisory Board is comprised of six members (two of which are employees' representatives) who are quite committed to applying their expertise to serve the interests of the company and its shareholders. This configuration means that cooperation between the Board of Directors and the Supervisory Board is efficient. It goes beyond that which is required by law.

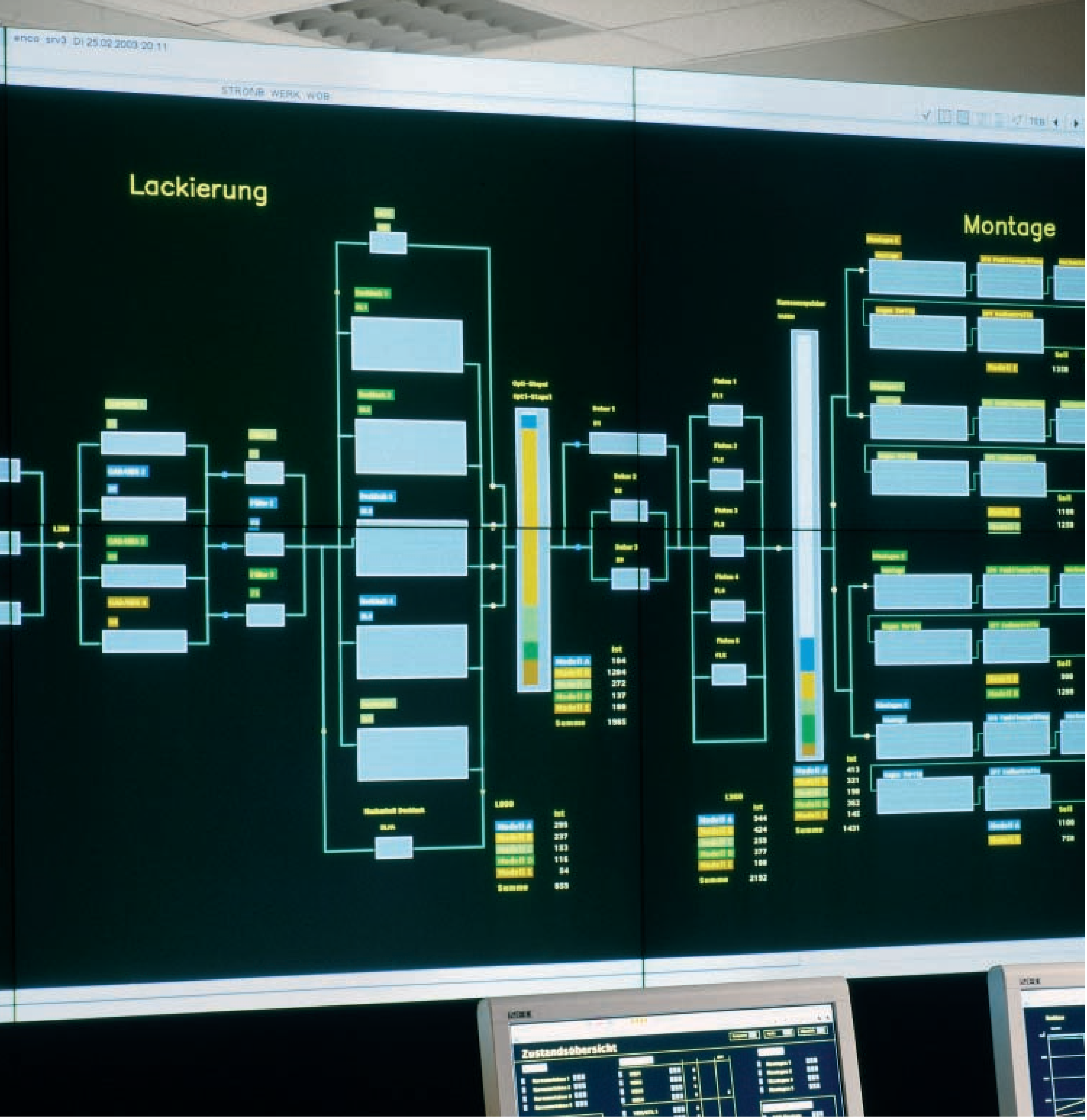
Open and quick information for shareholders and the public. PSI is dedicated to providing more than the level of transparency required by law. On the one hand, all business processes follow clearly defined guidelines. On the other hand, corporate communication is very open. We regularly report on important company events – in printed form, at presentations, and on the Internet at www.psi.de/ir. In 2004, the Investor Relations department also fielded questions from investors in some 500 telephone calls.

Transparent Accounting and Auditing. The auditors have agreed to immediately inform the Supervisory Board of any possible grounds for exclusion or bias that may arise during the audit. The same shall apply if the auditors reach conclusions or come across incidents during the course of the audit that are material to the work of the Supervisory Board. In the event the auditors should detect noncompliance with the Corporate Governance Code, they shall inform the Board of Directors and the Supervisory Board.

Efficient Risk Management. PSI has instituted a risk management system that will help us to recognize opportunities and to avoid risks. You may find more details on this in the Risk Management chapter of the Report from the Board of Directors (page 27).

Declaration of Conformity to the German Corporate Governance Code. PSI AG conforms to the recommendations of the German Corporate Governance Code in the version dated May, 2003, with the following exceptions (please consult the Internet site, as well, at www.psi.de/ir):

- The company has not appointed a spokesman or chairman of the Board of Directors. There is no need for either a spokesman or a chairman, since the Board consists of only two members.
- Compensation of the members of the Board of Directors is disclosed as a single amount.
- Members of the Supervisory Board are not compensated based on performance. Their compensation is also tied to attendance of sessions of the Supervisory Board and is published as a single amount.



Facing the Future with Innovations!

Network Management for deregulated markets

As project managers in a customer project for E.ON Ruhrgas, Marion Kneppel and Dr. Christian Kelling have made a decisive contribution to the successful development of the new-generation control system for the gas market

For years, leading network operators have put their trust in PSI for innovative control technology. Our new products can handle the highest levels of complexity and the increased demands of the deregulated markets.

Deregulation of the energy markets should be completed in 2005

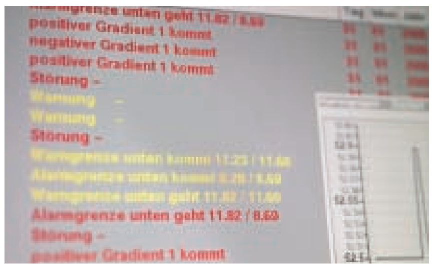
Once again, the energy markets are on the move. Admittedly, the amendment to the commercial energy law by a new EU guideline was delayed. During the past two years, this has had a negative effect on the investment climate in the energy market. Now in 2005, the new law is expected to be passed and the Regulatory Authority for Electricity and Gas will be set up. Once that happens, we will have a clearer view of how market deregulation is going to proceed.

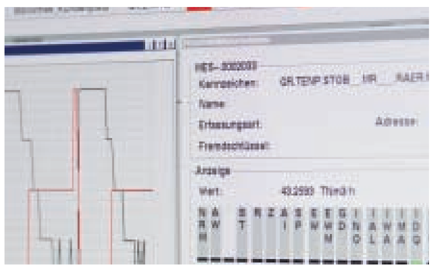
At PSI, we have taken advantage of the delays to further develop our product portfolio. Our solutions cover both the classical network management tasks and the new requirements of the deregulated markets. The spectrum ranges from control technology through maintenance and repair management, to planning and simulation of network utilization, and to energy sales and distribution.

In 2004, we also demonstrated how competitive our solutions are: Around mid-year, we received several major orders from well-known energy providers, including Deutsche Bahn AG, Vattenfall Europe, RWE Energy, enviaM and MVV Energie AG. At year-end, E.ON awarded us a strategically significant order that will enable us to make headway against major suppliers of control systems that have a global presence: PSI was entrusted with setting up the control systems for the German high- and highest voltage network for E.ON and for the Bavarian medium-voltage network.

PSIcontrol – the latest-generation gas control system

PSIcontrol has been used successfully by gas providers for more than three decades. Since 2004, the fourth generation has been available. Since the first customers began using it, it has been running 24 hours a day on up to 130 workstations. This new-generation product is based on future-oriented technical standards and features functions designed to satisfy the increased requirements for operating networks in the deregulated gas market. This new product shows that PSI is optimally positioned to take advantage of the improved investment climate in the gas segment.





In telecommunications, PSI systems are a fixed constant

In the telecommunications segment, PSI has been developing large network and configuration management solutions for leading European telecommunications providers such as Vodafone or E-Plus for over ten years. We have utilized the experience gained from these projects and from our collaboration on international panels such as the TeleManagement Forum to develop high-performance products for network management, identity management and configuration management.

In 2004, we finished developing PSImccm, our comprehensive cross technology and multi vendor configuration management system and received acceptance for the first customer projects. The system demonstrated its high performance capabilities and reliability during the nationwide UMTS system debut in Germany during the Spring.

Along with the introduction of the new-generation mobile technology, the strategic focus of large telecommunications providers has begun to shift more and more from that of the pure network operator to offering attractive new applications and services. PSI supports the market-driven integration of these new services into the network operators' range of services.

As team leader and project manager, Christian J. Günther advises his client, E-Plus, during the introduction of the PSImccm product

PSI makes traffic and transportation manageable

PSI develops control systems and telematics solutions ranging from vehicle equipment to complete operation control centers for companies that provide traffic and transportation services. Thanks to new technologies such as GPRS communications and GPS-locating, our operation control systems for local public transport provide for a smooth ride both in rural settings and in large cities such as Hamburg and Amsterdam.

Transparency in transportation planning is created by our new transportation management system. We developed this in 2004 via an internal transfer of technology. Using the tried and tested PSItraffic telematics platform allows companies to optimize all internal and external freight transportation operations via a logistics control center that covers several locations at once. The new transportation management system has been in use successfully since 2004 by pilot customers from various industries. It can be used both as a stand-alone solution or as an enhancement to existing PSI solutions for industry and utilities.

PSImccm – Mobile Common Configuration Management

PSImccm is a comprehensive configuration management system for cross technology and multi vendor environments. It helps wireless providers to overcome the complexity created by the existence of parallel GSM and UMTS infrastructures. When UMTS was initiated in Spring of 2004, PSImccm clearly demonstrated its high performance capabilities.

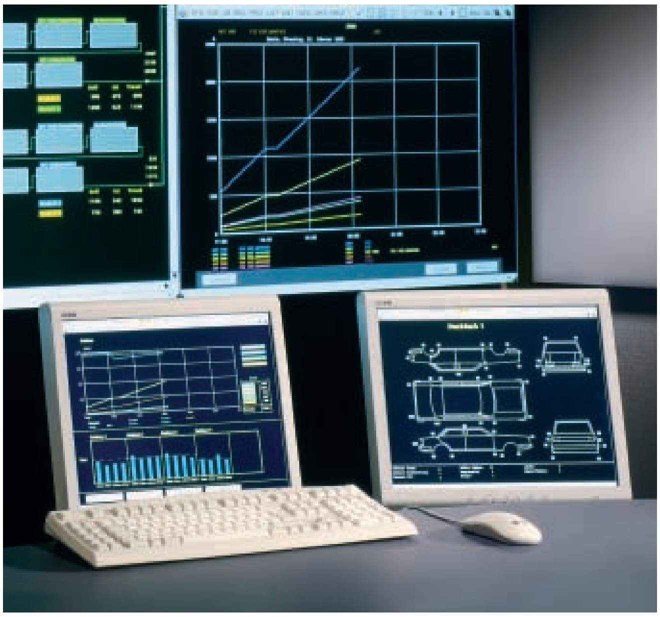
Production Management
beyond company borders

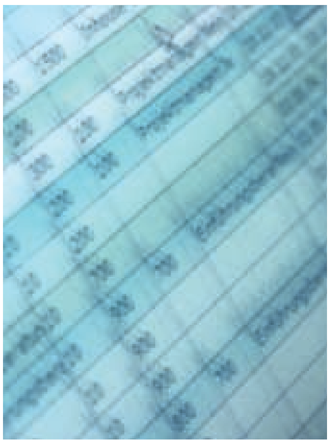
Dr. Ralf Nagel is responsible for further development of the new manufacturing system, PSImcontrol, in the PSI manufacturing business unit

At a time when production is global and based on division of labor, companies must be able to react flexibly to changes in the market. In order to do so, they need software solutions that enhance their flexibility, thereby giving them a competitive advantage.

PSImcontrol – the factory at a glance

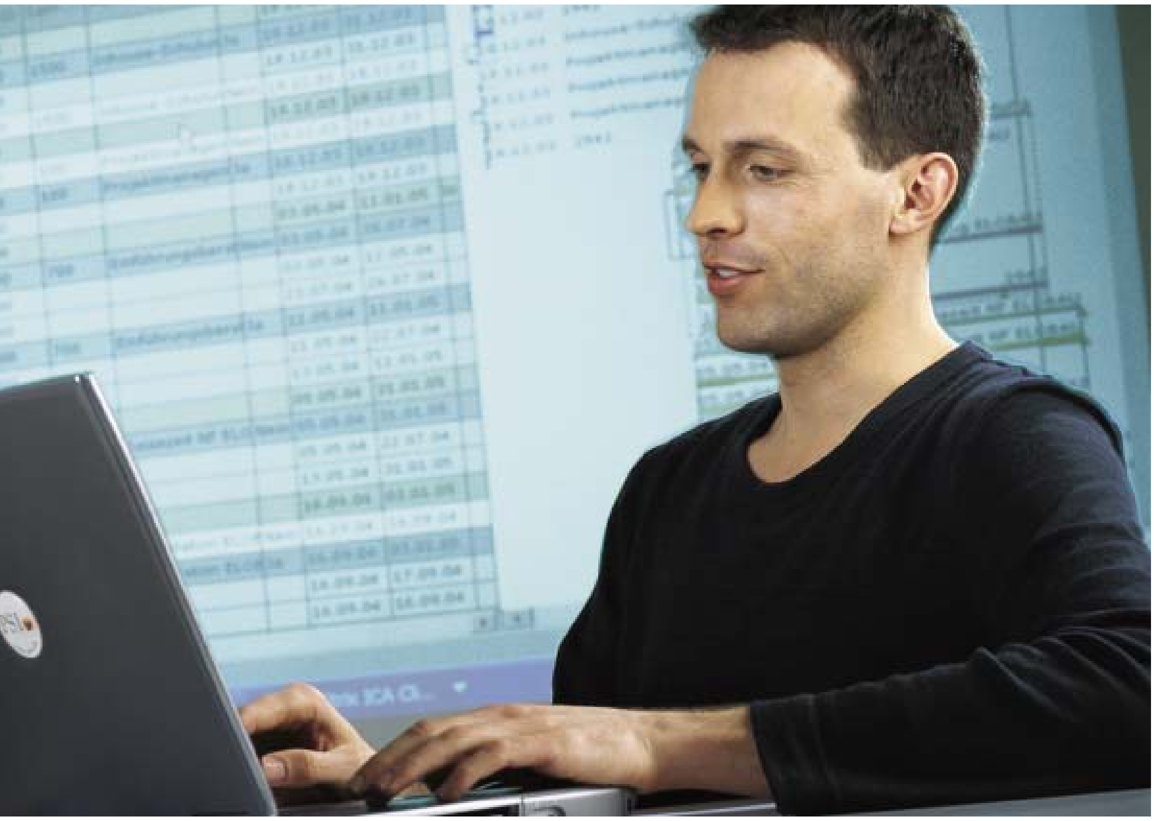
PSImcontrol, the new manufacturing control system, follows a completely new approach in production logistics: it brings all the manufacturing areas and all the individual systems together in one standardized user interface. This allows manufacturing companies to react more quickly and accurately to unexpected events. No matter what the time or the location, they are constantly informed about the current manufacturing situation.





PSIpenta – new functions for distributed structures

The new version of the PSIpenta ERP standard was specially upgraded to meet the demands of manufacturing companies that operate worldwide. With that goal in mind, the system was expanded to include pivotal functions in workflow management, multilingual capabilities, and multi-site control.



As a PSIpenta product manager, Lukas Birn is designing new functionalities and product enhancements

On the road to success with new Products

In the Production Management segment, we harvested the fruits in 2004 of the product offensive launched the previous year. The first orders for our new production and logistics control system, PSImcontrol, marked our successful entry into a promising new market segment. The new version of PSIpenta was developed in close collaboration with the user group and pilot customers. A particular focus of this process was support for distributed global production and logistics structures. Only a few weeks later, more than 20 customers had decided to go with the new version, demonstrating its high level of user acceptance.

Innovative products also put the steel and logistics segments on the road to success in 2004. ThyssenKrupp commissioned us to develop a new, site-independent manufacturing control system based on our new modular software product, PSImetals. We strengthened our level of cooperation with SAP by obtaining mySAP SCM certification for the interface. We continued the prior year's successes in the logistics segment: our partnership agreement with DHL Fulfilment represents yet another opportunity for us to provide warehouse management software and services. In the airport logistics segment, we expanded our cooperation with Vanderlande Industries and Lufthansa.

Information Management for good community and customer relations

Irini Werner, management assistant, and Martin Knab, manager of the infrastructure segment, are making a crucial contribution to project success at the interface with the customer

New technologies enable government agencies and service providers to meet the growing requirements for good community and customer relations. At the same time, they provide solutions for current security problems.

PSI system provides flood warnings

We also advanced our innovative offensive in the Information Management segment in 2004 with new product launches. Here, too, we applied our control system technology, which has proven itself in the field with the utility companies. During the first quarter, the state of Saxony awarded us a contract to build a flood center based on our environmental control system, PSIecontrol. We developed an IT control system, PSIitcontrol, for network and system management of large IT networks that makes it possible to control even widely dispersed IT networks from a central location.

Electronic registration and information solutions from PSI lessen workloads for municipalities

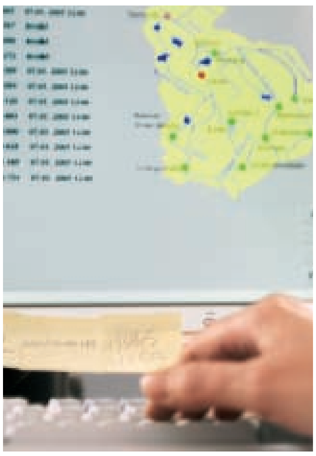
Electronic registration and information services represent one of the most important eGovernment service offerings and have considerable business potential. Under PSI's leadership, an international consortium has developed a standard for European registry information services – the European Community's RISER project. The new information service began operating a pilot program in the Fall of 2004. The electronic registration and information service designed by PSI for the state of North Rhine-Westphalia also began operating in the Fall. This electronic solution, which simultaneously serves many communities, is based on the PSIinquiry platform. It provides faster data transfer rates and allows local budgets to eliminate costs that would have been spent on paper transactions.

IT service providers profit from PSI expertise

Our own experience from planning and implementing large IT projects has been incorporated into the development of an overall, company-wide solution for project-driven service companies. The new PSIprofessional product encompasses components such as time, cost, human-resource, and project management. It has been undergoing a pilot trial with a customer since 2004 and has been marketed since the beginning of 2005.

PSIitcontrol – secure control of IT networks

PSIitcontrol is a control system designed to administer IT networks that satisfies all the requirements for security and high availability. Software agents whose functions are decentralized monitor hardware and process conditions. If threshold values are exceeded, they trigger status signals.



PSIecontrol – a control room for the environmental segment

PSIecontrol, our environmental control system, is based on proven PSI solutions for the energy market. It offers clear and rapid editing of all relevant data, providing redundant, fail-safe backup. As an innovative system for environmental protection and the prevention of natural disasters, it features a sophistocated alarm and notification system to provide information to state districts and municipalities.

Investor Relations

Susanne John, Investor Relations, is responsible for the design
and maintenance of our award-winning online presence

PSI talks straight with investment decision makers and private investors. Again in 2004, our investor relations activities were characterized by frank and direct discussions and sharing of information. For us, it was important to openly disclose past risks while simultaneously talking about our opportunities. Indeed, our opportunities have multiplied, thanks to our efforts on so many fronts. And we are convinced that these positive developments will also be rewarded by the stock market.

Share price recovered only at the beginning of 2005

The performance of PSI's share price in 2004 was unsatisfactory. After tripling during 2003, our share price started the year 2004 at €4.50, then rose to over €6.00 by the beginning of February. For the rest of the year, however, the share price trended downward. Following publication of the six-month results, which were negatively affected by special items, it fell to a low of €2.10. By year-end, however, the share price had rebounded to €3.00, thanks to the initial successes from marketing the new products and the increase in new orders received. At the beginning of 2005, PSI's shares gained almost 50%, reaching just under €4.40, due to press releases about the continued positive growth in orders and the agreement concerning the new energy law.

For long stretches of time, movements in PSI's share price paralleled those of the relevant share indices, the TecDAX and the Technology All Share. In the final analysis, however, PSI's share performance was significantly worse during 2004. Following the completion of PSI's turnaround, there is, consequently, further potential for the share price to recover in 2005.

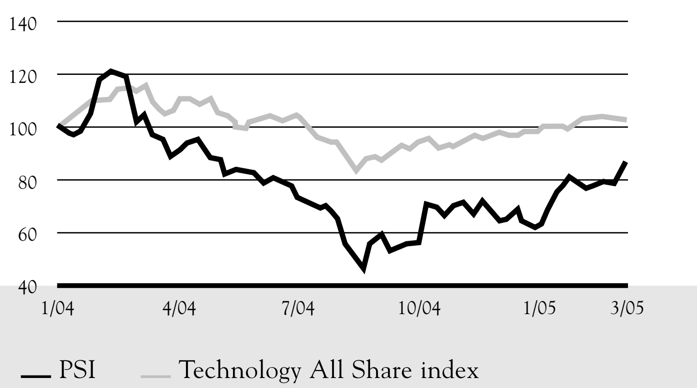
Intensive dialogue contributed to increased interest on the part of large investors

Investor interest in PSI rose further during 2004, as evidenced by the growing number of inquiries about our shares. During 2004, the proportion of PSI equity held by the ten largest institutional investors increased from 19% to 22.8%. In 2002, by contrast, it amounted to only 12%.

Our intensive efforts to communicate with the capital markets were also a contributing factor. As in the previous year, we held two analyst meetings and several investor roadshows in German and international financial centers. In addition, we regularly made ourselves available to answer questions from financial and economic journalists on talk shows, such as the 30-minute interview we gave to Bloomberg TV.

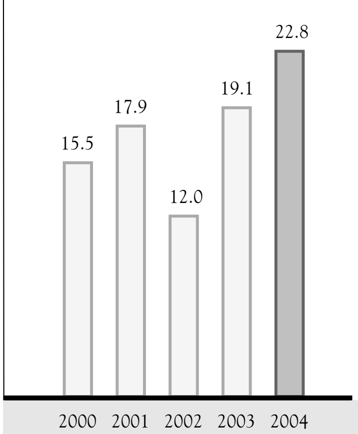
For the most part, the PSI share price tracked the index during 2004

(in %, January 1 = 100%)



Every fifth share held by the top 10 institutional investors

Proportion of PSI shares held by the top ten institutional investors in PSI (in %)



PSI shares in figures

(in €)

	2003	2004
Earnings per Share	– 0.43	**– 1.12**
Market capitalization at December 31	49,557,915	**33,038,610**
Yearly high	5.38	**6.30**
Yearly low	1.40	**2.10**
Number of shares at December 31	11,012,870	**11,012,870**

Stock market listings:	Xetra, Frankfurt/Main, Berlin-Bremen, Stuttgart, Duesseldorf, Hamburg, and Munich
Stock market segment:	Prime Standard
Indices:	Technology All Share, Prime All Share, Prime Software, Prime IG Software, and CDAX
ISIN:	DE0006968225
German Securities Code:	696822
Exchange symbol:	PSA2

PSI received German Business Communication Award

Again in 2004, we received an award for our continuous dialogue with shareholders. We were singled out for recognition in the "2004 Best Online Presence" category sponsored by the German Business Communication Award. Also, the "Handelsblatt" financial journal had named our 2003 Annual Report one of the best of the year.

Over the medium term, we expect our share price to climb

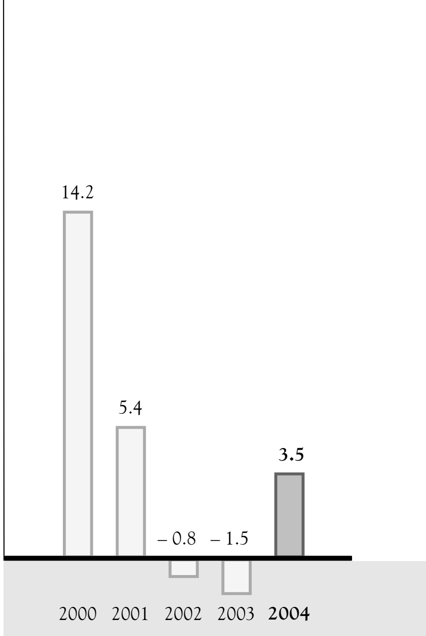
Following restructuring in all three of our business segments, PSI's share price again shows the potential for growth in 2005 and the coming years. Despite its weak share price performance last year, PSI ranked among the 60 top technology companies in the Prime Standard index by market capitalization at the end of 2004. Medium-term, we expect that the positive developments in the operating business will be rewarded by the stock markets, enabling us to become part of the TecDAX index. This would reflect our market position as one of the largest German software companies listed on the stock market.

Consolidated Management Report

Consolidated Management Report

Trends in the Software Industry in Germany

(in %)



PSI started 2005 better placed to achieve positive business developments than in previous years: the Group began the year with a considerably stronger order portfolio, new products, and an improved risk profile.

During Fiscal Year 2004, PSI pressed further ahead with its core business strategy, “From an IT Portfolio to a Control Systems Enterprise”. Following successful restructuring of the Production and Information Management business segments, the measures initiated in the gas and telecommunications segments in mid-2004 were also completed.

During 2004, we were able to eliminate major risks to PSI’s further development. Legal disputes that had been pending for several years were resolved, while the capitalized software development costs and company goodwill contained in consolidated assets were further reduced in connection with the IFRS conversion.

Developments in the Business Environment and Industry

Economy in Germany and Europe experienced slight recovery

After several years of stagnation, the German economy again improved slightly in 2004. The gross national product increased by 1.6%, in contrast to a 0.1% decline in the previous year. Gross investments in fixed assets, an indicator whose trend has a particularly strong effect on PSI as a software manufacturer, decreased by a further 0.7%. In the previous year, the decline was even greater, at 2.2%.

The debate over further deregulation of the energy markets also continued during 2004. This led to a worsening of the investment climate in the energy industry. For PSI, the negative effects were felt most acutely in the gas and oil business segments.

On the other hand, industrial stagnation ended and sales and production figures in the processing industry began to rise again in 2004. The 3% growth rate, however, came primarily from international orders.

Gains in the European IT market and segment software

The Western European IT market can be divided into the hardware, office technology, data communication, software, and IT services segments. After being down for two years, it grew by 2.3%. Germany also enjoyed a growth rate of 1.9% after two years of declines. As in the rest of Europe, the market segment relevant to PSI, that of software, experienced a growth rate of 3.5% in Germany, again better than the overall market.

PSI's Organization and Strategy

The PSI Group's core business is developing IT process control systems. We further strengthened our focus on this area in 2004. These control systems and some specific software products are tailor-made to fit the requirements of particular industries:

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

In order to meet the needs of these industries, the Group is structured into three business segments: Network Management, Production Management, and Information Management.

In some of these segments, PSI is the market leader. One of our major goals is now to achieve sustainable increases in earnings in these individual segments. In order to reach this goal, the Group restructured its operations in 2003 and 2004, while simultaneously implementing an innovation and marketing offensive. Another objective is to reduce the company's dependence on the German market. That is why PSI set up several new partnerships, including those in the logistics and steel segments. Certification of the interface by SAP set the stage for closer cooperation with that company.

Company Development

Substantial increases in order inventory

PSI's incoming orders book showed a positive trend in 2004, increasing 6% from €119 million in 2003 to €126 million in 2004. Despite weaknesses in some specific markets, all three business segments reported a positive trend during the second half of the year. The company's year-end order inventory increased from €66 million in the previous year to €73 million.

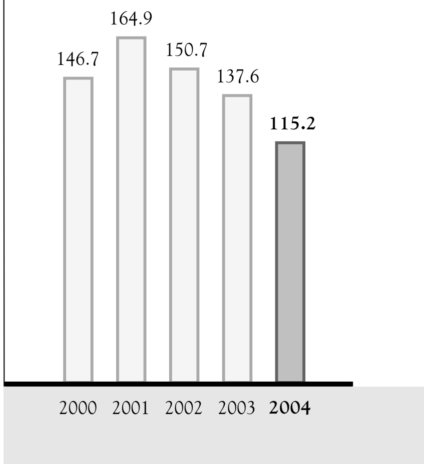
Consolidated revenues and operating results negatively affected by special items

Consolidated revenues totaled €115.2 million, 16% below the prior year's consolidated revenues of €137.6 million. Primarily, this was due to further reductions in revenues from hardware and third-party software, the reduced number of employees, and a stronger focus on the core business.

The Group reported an operating loss of €9.1 million. This included €3.2 million of restructuring and reorganization costs. In addition, results were negatively impacted by the loss of our legal dispute with the State of Berlin, which cost the Company €3.5 million.

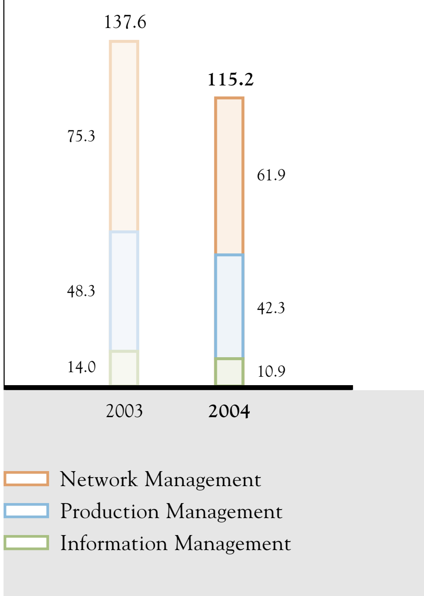
PSI Revenues

(in € millions)

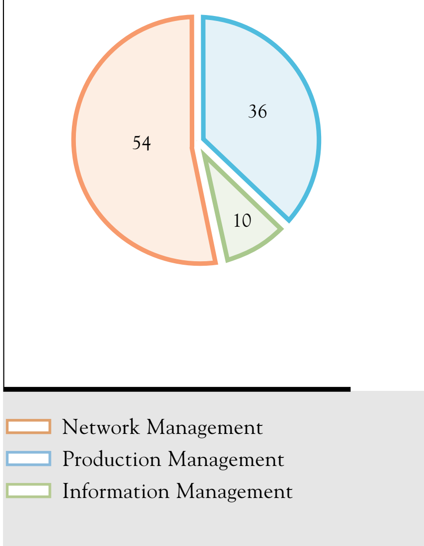


Segment and Consolidated Group Revenues

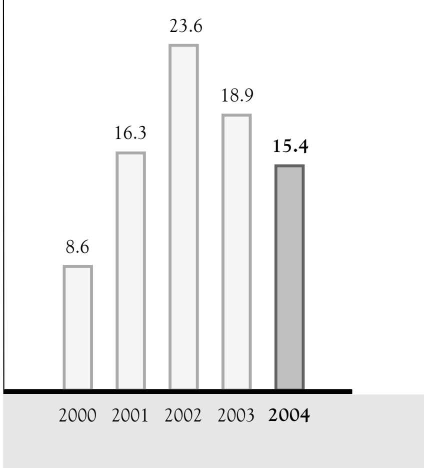
(in € millions)



Network Management continues to be the most important business segment
(Share of revenues in %)



Foreign revenues
(in € millions)



Network Management affected by market weakness despite successes in the electricity segment

Network Management's revenues declined by 18% to €61.9 million. This segment encompasses the energy, telecommunications and traffic markets. Operating results worsened to € – 2.5 million, representing the first loss reported by Network Management. The segment's loss was attributable both to market weaknesses in the telecommunication and gas industries and to the company's investments in the new gas management system and the UMTS configuration management system. The improved market success in the electric energy segment was not enough to offset these negative effects.

Production Management reached the break-even point in the second half of the year

Production Management's revenues dropped 11% to €42.3 million. In this segment, PSI develops solutions for planning and controlling production and logistics processes. This segment reported an operating loss of €2.3 million. After reaching break-even on PSIPENTA, Production Management also achieved an overall balanced operating result in the second half of the year.

Information Management affected by special items

Information Management recorded a 22% decline in revenues in 2004, to €10.9 million. This segment concentrates on developing software solutions to support the business processes of government agencies and service providers. This segment reported an operating loss of €4.2 million, which includes the negative impact of the litigation with the State of Berlin.

Revenue distribution per segment virtually unchanged

In 2004, PSI once again derived over half of its Group revenues from the Network Management segment. This segment's share of revenues decreased slightly from 55% to 54%. Production Management's contribution increased from 35% to 36%, while that of the Information Management segment remained flat at 10%.

Profitability: Improvements in the cost structure

The cost of purchased goods and services fell by €6 million to €22.5 million. Personnel costs decreased by €5.7 million to €75.7 million. In 2004, improvements in the cost structure were more than offset by non-recurring expenses for restructuring, reorganization, and balance sheet adjustments.

The proportion of revenues from exports declined slightly, from 14% to 13%. However, this figure does not include international projects that were ordered by domestic sales partners. Once again, the proportion of revenues contributed by maintenance agreements showed a positive trend, increasing from 14% to 17%.

Asset structure: Intangible assets reduced

During 2004, €0.7 million of capitalized software development costs were written off; no new amounts were capitalized. As a result, the residual book value of the capitalized software development costs now totals only €1.5 million. At €11.4 million, the book value of goodwill in relation to the PSI Group's revenues is likewise low. This has substantially reduced the risk of further valuation allowances.

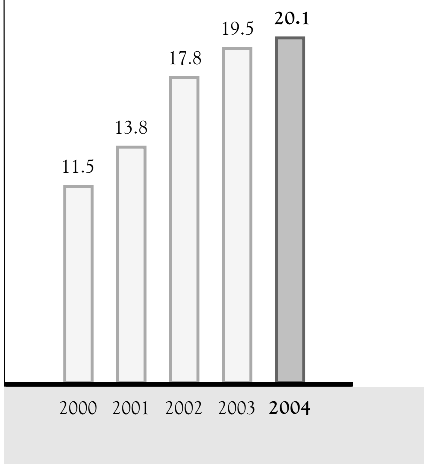
Balance sheet structure: Decrease in uncompleted contracts; increase in liquidity

The PSI Group's total assets fell by 19% in 2004 to €96.8 million.

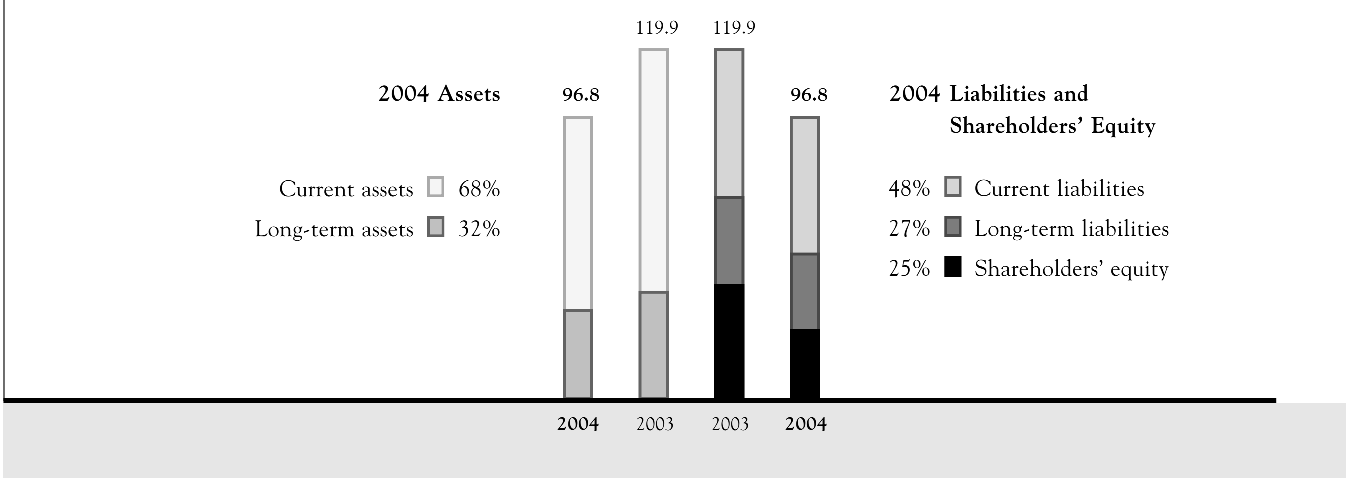
On the assets side, the proportion of current assets to total assets decreased slightly from 69% to 68%. An increase in cash and cash equivalents was offset primarily by a reduction in accounts receivable from long-term production orders (uncompleted contracts) due to the conclusion of substantial projects. The proportion of long-term assets increased accordingly, from 31% to 32%.

On the liabilities side, current liabilities increased from 42% to 48%. Here, short-term loans and trade accounts payable decreased, while liabilities associated with long-term production orders (billings in excess of costs and estimated earnings on uncompleted contracts) rose. Due to the decline in the balance sheet total, the proportion of long-term liabilities increased from 25% to 27%. As a result of the Group loss, the equity ratio fell from 33% to 25%.

Maintenance revenues
(in € millions)

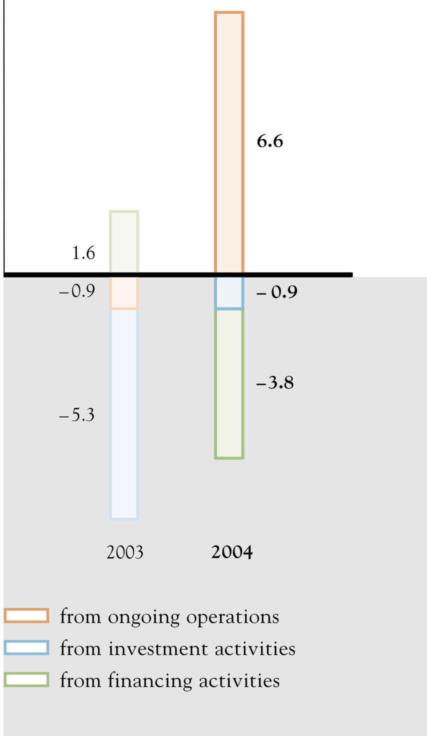


2004 Balance Sheet Structure
(in € millions and %)



Management Report

Cash flow
(in € millions)



Financial position: Positive cash flow increases liquidity

Cash flow from operations improved dramatically from € – 0.9 million to €6.6 million. Due to simultaneous repayments of financial liabilities, cash flow from financing activities dropped from €1.6 million to € – 3.8 million. The outflow of funds from investment activities was reduced to € – 0.9 million; in the previous year, it reached € – 5.3 million as a result of the acquisition of minority shares in several subsidiaries. Overall, liquid assets rose by €1.9 million to €18.9 million.

Financing: Prepared for future Group development

PSI's subscribed capital remained unchanged at €28.2 million in 2004. An additional 20,807 shares were repurchased for €0.1 million as part of the share buy-back program.

The General Shareholders' Meeting on May 27 passed a resolution approving the issuance of €10.5 million of authorized capital and €10.2 million of contingent capital. Authorized and contingent capital are explained in greater detail in the Notes to the Consolidated Annual Report.

To finance its current operations, PSI has mixed guarantees and credit lines totaling €54.6 million. Utilizations totaled €30.0 million at December 31.

In the third quarter of 2004, PSI switched from US GAAP to IFRS accounting principles. The effects of the change were reflected primarily in the different treatment under IFRS accounting principles of goodwill, provisions for part-time employment offered to employees who accept early retirement, pension reserves, deferred taxes and cash flow. The specific differences are explained in detail in the Notes to the Consolidated Annual Report.

Investments: More R+D for new products

The PSI Group invested €4.8 million in intangible assets and fixed assets during 2004. Software development costs were not capitalized in 2004.

Expenditures on research and development of €10.8 million exceeded the prior-year total by 23%. Thanks to this R+D spending and to the new business procedures that were implemented throughout the Group in 2003 for refinancing the innovation process, we were able to develop numerous new products which in some cases have already been successfully brought to market (please see also the section entitled "Securing the future" on page 26, in the Management Report).

Structure and organization further streamlined

The PSI Group's structure was further simplified in 2004. The business operations of PK Software Engineering were sold and PSI UBIS AG was merged with the public management segment. As a result, Information Management's operating business was combined with the wholly owned subsidiary, PSI Information Management GmbH.

PSI acquired the minority shares in PSI-BT AG. PSI thus assumed 100% control of the industry-oriented subsidiaries in Production Management, as well. The result is that entrepreneurial decisions can now be implemented considerably faster and we are also now better able to respond flexibly to market changes.

The Network Management segment's organizational structure was not changed in 2004. In addition to the business segments and wholly owned subsidiaries, we also have a strategic joint venture with the VA TECH Group, in which PSI has a 40% investment.

Special events during Fiscal Year 2004

PSI sold the business operations of PK Software Engineering GmbH to PROSOZ Herten GmbH on March 27, 2004, in line with its core business strategy.

On February 23, 2004, PSI UBIS AG became PSI Information Management GmbH. In order to take advantage of the opportunities for synergy in Information Management, all activities of this segment were combined with PSI Information Management GmbH as of May 1, 2004.

On July 8, 2004, the Polish subsidiary, PSI Produkty i Systemy Informatyczne Sp. z o.o., was established. PSI hopes this will help it to take advantage of the opportunities presented by the eastward expansion of the EU.

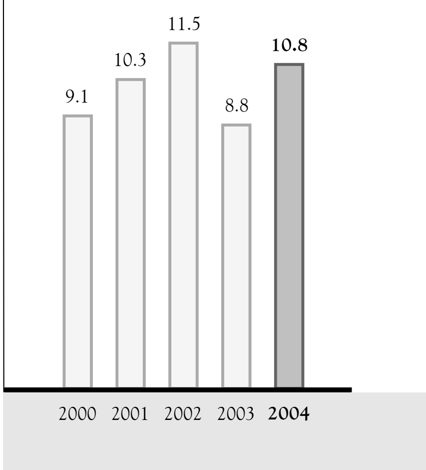
Effective December 31, 2004, PSI AG took over 100% of the PSI-BT AG subsidiary. Previously, the VDEh Steel Institute owned 42% of the shares in PSI-BT via the Betriebsforschungsinstitut, or BFI (BFI=Institute for Applied Industrial Research). PSI-BT is the German market leader in Production Management software for the steel industry and is represented in Shanghai, China by a subsidiary.

Events after the Balance Sheet Date

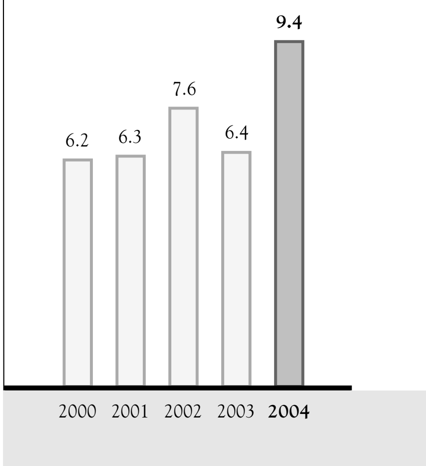
The Chinese authorities gave their approval in January, 2005 for the establishment of the Chinese subsidiary, PSI Information Technology (Shanghai) Co. Ltd. The company focuses primarily on sales of PSI solutions for the Chinese steel industry.

On February 7, 2005, PSI effected an increase in capital from authorized capital. The cash inflow of €3.9 million was used to finance the takeover of the minority interests in the steel software subsidiary PSI-BT.

R+D Expenses
(in € millions)



R+D Expenses as a proportion of Revenues
(in %)



Securing the future

Research and Development

Having innovative products and maintaining a technological lead are among the most important competitive advantages in the software market. The development of new products thus has special significance for PSI.

Accordingly, our close collaboration with pilot customers who are leaders in their respective industries guarantees the customer benefits of our products from the very outset. In follow-up projects, these products undergo constant further development and are adapted to fit the changing requirements in our target markets. The resulting core products form the basis for expanded sales and exports of the innovations that were created in this way.

In order to quicken the pace of innovations in our company, we have been striving hard since 2003 to achieve synergies. Our catalog of innovative solutions has expanded significantly since we began to actively market the Group's portfolio of products in all market segments. Moreover, the increase in technology transfers since 2003 has led to the creation of new products that we were able to bring to the market in 2004.

The most important measure of the new products' success is their acceptance in the target markets. Consequently, the success of the new version of PSIpenta, for which we received 25 orders within a few months, and the first orders for the new PSImcontrol manufacturing control system were crucial for PSI's future development.

Highlights of our progress in 2004 were:

- our new control systems for production, logistics, government agency business and IT service providers,
- the products for service and maintenance companies based on PSIpenta technology,
- our new transportation management system for logistics specialists and transportation companies,
- the new generation of products for the international gas market,
- the new version of PSIpenta and
- configuration management for the mobile communications market.

Risk Management

The PSI Group's risk management system is an essential component of its business success. The company has to be able to recognize and evaluate risks and opportunities early on, so that appropriate steps can be taken to avoid risks and seize opportunities.

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

- Market: too few incoming orders or an order portfolio that is too low
- Human resources: a shortage of employees with the necessary skills
- Liquidity: unfavorable payment terms, inadequate lines of credit, and payment default risks.
- Costs and revenues: Variations from budgeted amounts, especially as regards project completion or development

During 2004, further work was done on the risk management guidelines adopted in Fiscal Year 2003. They set forth the procedures for identifying, analyzing, and reporting risks, as well as how the company should handle risks that have been identified. These risk management guidelines are integrated into the PSI Group's company guidelines and, in a nutshell, include the following components:

- Reporting at the segment and sub-departmental levels
  - Regular monthly reporting on developments involving the company's assets, financial position, and earnings situation
  - Variance analyses (budget vs. actual)
  - Adjustment of budgeted amounts to current developments
- Project controllership function
  - Legal status of projects
  - Updated project performance status
  - Manpower utilization and capacity status
  - Project risks, and action plans for reducing project risks
- Sales projections, market and competitor analyses
- Capacity utilization management
- Centralized cash management for the PSI Group
- Controllership functions are exercised by executives/members of the Board of Directors of PSI AG in their capacity as members of the Supervisory Boards/Advisory Committees of subsidiaries

Since Spring of 2004, the risk management function has enjoyed increasing support thanks to the internal use of the professional services automation (PSA) solution, PSIprofessional. This system features an integrated management information system (MIS) and serves as a standardized information and control tool for every level of the company.

Future development risks

PSI's risk profile has improved considerably during 2004, particularly with regard to balance-sheet and legal risks.

In particular, PSI implemented and largely completed restructuring efforts at PSI Information Management GmbH and in the gas and telecommunications segments in 2004. The success of the restructuring will have a major effect on the PSI Group's future earnings performance. PSI AG's Board of Directors will continue to monitor developments in these business segments and will take further action in the event actual results deviate from expectations.

Efforts aimed at developing a stronger international presence were intensified in 2004. As a result, PSI acquired new partners and set up locations in Poland and China. We are lessening our dependence on the domestic market thanks to our successful international marketing efforts. At the same time, we face new risks such as dependence on international partners and fluctuations in exchange rates. In order to better diversify its opportunities and risks, PSI will continue to expand its international activities.

In order to strengthen its competitive position, PSI made further investments in new products in 2004. By broadening our product portfolio and developing new groups of customers, we can reduce our dependence on individual customers and markets. The future earnings and liquidity trends at PSI depend, to a large extent, on how successful our new products are in the market and on our ability to master newly developed technologies.

To finance its operations, PSI utilizes financial instruments consisting primarily of trade accounts receivable, liquid assets, and bank loans. The most important risks we face in this respect are default, liquidity, exchange-rate, and fair-value risks.

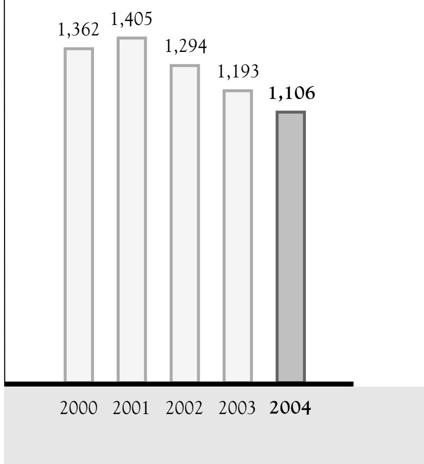
Default and liquidity risks are controlled by using credit lines and monitoring procedures. PSI's default risk is not focused on specific contractual partners or one group of contractual partners. The Group strives to maintain liquidity and credit lines that are sufficient to enable it to satisfy its obligations.

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

Corporate governance

Again in 2004, acting in a responsible and transparent manner was an important pillar of PSI's value-oriented Group leadership. As stipulated in their corporate governance principles, both the Board of Directors and the Supervisory Board undertook to strive for a high level of effectiveness in their work together. The objective was to further strengthen the confidence of shareholders, customers, and employees in senior management by applying clear rules, transparency, and openness in our company communications and by always remembering that we are working to advance the interests of our shareholders. The Board of Directors and the Supervisory Board have adopted a Declaration of Conformity which is published on the PSI website. Deviations from the rules of the German Corporate Governance Code are explained in a special chapter of this report (please see page 6) and on the Internet.

Number of employees



Employees

A high proportion of engineers translates into a competitive advantage

For a specialized software provider such as PSI, the skills and motivation of its employees represent a strategic competitive advantage. Therefore, PSI stands out thanks to a particularly high proportion of university graduates with specialized industry expertise. The share of employees with a university degree was around 85%. As in previous years, they were, predominantly, engineers.

In 2004, staff development and training was again focused on specialized and project management skills. PSI held regular training sessions. We actively took advantage of the Group's synergistic potential through inter-divisional workgroups on specific topics such as technology, infrastructure, quality management, controllership functions, and marketing.

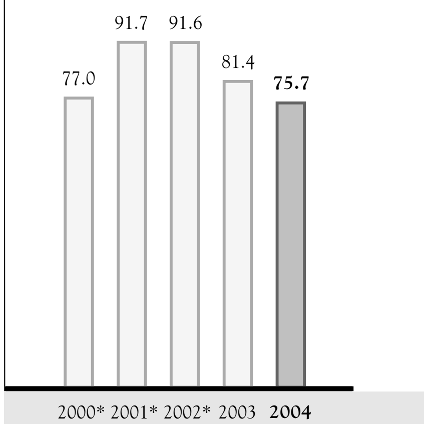
The PSI Group also pushed forward in 2004 with modern human resources concepts such as variable, performance-related compensation and flexible working hours. This enabled us to improve the flexibility, manpower utilization, and motivation of our employees.

Our employees' high level of motivation and sense of belonging to the company were also demonstrated by the large percentage of PSI shares held by employees. Approximately 30% of our shares were widely dispersed among the employees, of which 7.1% were held by shareholder pools.

Personnel costs

Including restructuring costs

(in € millions)



*subsequently adapted to IFRS

Number of PSI employees reduced

As part of the restructuring efforts, the number of employees in certain segments was also adjusted in 2004 to take into account market trends. Above all, this affected Information Management and the gas and telecommunications segments. Overall, the number of employees in the Group fell by 87 to 1,106. Accordingly, personnel costs decreased by €5.7 million to €75.7 million. There were 534 employees in the Network Management segment, 435 in Production Management and 137 in Information Management.

The Board of Directors would like to thank all the employees for their performance in 2004. In a year that was characterized by difficult economic conditions in some of PSI's target markets, they demonstrated particular commitment and managed to develop numerous promising innovations to the point where they are now ready for the market.

Outlook

During 2004, PSI laid the foundations for improved results in the years to come. Following restructuring of the Production Management and Information Management segments, the steps initiated in Network Management in mid-2004 were also completed during the fourth quarter. As a result, we started Fiscal Year 2005 with an improved cost structure, a significantly higher order inventory, new products and an improved risk profile.

In 2005, we expect to see market conditions comparable to those of last year, along with a slight upswing in the IT market. The further deregulation that is planned for the energy market will be of special significance to PSI in 2005. The new law that is expected to come into force on April 1, 2005 (Energiewirtschaftsgesetz = Law on the Fuel and Electricity Industries) could have positive effects on the currently cautious investment climate in the gas market.

Therefore, assuming our business performance remains steady, we expect continual improvements in our quarterly results. The new products that we developed during 2003 and 2004 and have now brought to market present additional opportunities. These include, in particular, the new control systems for Production and Information Management and the new products for professional service automation, maintenance and transportation management that were developed on the basis of PSIpenta.

We are also well positioned to take advantage of growth in the Chinese market and the eastward expansion of the EU, thanks to our new subsidiaries in China and Poland. However, the EU expansion also brought increased competition in basic programming and IT services. This is a risk that we will continue to face.

Expanding our business internationally will continue to be extremely important in the future as we strive to hedge against volatility in the German market. Consequently, we want to enter into additional export partnerships. In this regard, the international investment structure of our large corporate clients offers additional medium-term opportunities.

Over the coming years, PSI will transform itself from being one of the largest German software providers to being a leading international provider of control technology solutions for network operators, industry, and government agencies, as well. Given the technological lead of our product portfolio and the technological skills of our employees, we have all the qualifications necessary to achieve this objective.

Consolidated Annual Report
(IFRS)

Consolidated Balance Sheet

ASSETS	Note	Dec. 31, 2004 EUR k	Dec. 31, 2003 EUR k
Non-Current assets			
Property, plant and equipment	C. 1	8,495	9,291
Intangible assets	C. 1	17,565	16,707
Shares in associates, measured at equity	C. 2	663	749
Other financial assets	C. 3	1,334	5,102
Deferred tax assets	C. 14	2,977	4,915
		31,034	**36,764**
Current assets			
Inventories	C. 4	2,809	2,787
Trade receivables, net	C. 5	22,163	29,536
Receivables from long-term construction contracts	C. 6	16,954	29,741
Other Assets	C. 7	4,954	4,115
Cash and Cash Equivalents	C. 8	18,868	16,970
		65,748	**83,149**
		96,782	**119,913**

EQUITY AND LIABILITIES	Note	Dec. 31, 2004 EUR k	Dec. 31, 2003 EUR k
Equity			
Subscribed capital	C. 9	28,193	28,193
Capital reserve	C. 9	30,898	30,898
Other reserves		1,181	1,181
Treasury shares	C. 9	– 129	– 73
Other comprehensive income		– 9	– 335
Accumulated loss		– 35,494	– 23,223
Minority interest		0	2,798
		24,640	**39,439**
Non-current liabilities			
Financial liabilities	C. 11	0	392
Pension provisions	C. 10	22,669	24,127
Deferred tax liabilities	C. 14	3,397	5,310
		26,066	**29,829**
Current liabilities			
Trade payables		10,273	13,425
Other liabilities	C. 13	19,099	18,519
Liabilities from long-term construction contracts	C. 6	12,339	11,866
Financial liabilities	C. 10	2,317	5,360
Provisions	C. 12	2,048	1,475
		46,076	**50,645**
		96,782	**119,913**

Consolidated Income Statement

	Note	Dec. 31, 2004 EUR k	Dec. 31, 2003 EUR k
Sales revenue	D. 15	115,193	137,566
Other operating income		3,887	2,588
Increase/decrease in finished goods and work in process		259	– 78
Cost of materials	D. 16	– 22,451	– 28,496
Personnel expenses	D. 17	– 75,749	– 81,439
Amortization and depreciation	D. 18	– 3,716	– 6,346
Other operating expenses	D. 19	– 26,499	– 24,841
Operating result		**– 9,076**	**– 1,046**
Interest income		290	476
Interest expenses		– 3,432	– 2,564
Result from equity investments		– 87	– 861
Income before taxes and minority interests		**– 12,305**	**– 3,995**
Income taxes		34	– 415
Net Group loss for the year before minority interests		**– 12,271**	**– 4,410**
Minority interests		0	– 379
Net Group loss for the year		**– 12,271**	**– 4,789**
Basic earnings per share (EUR/share)	D. 20	**– 1.11**	**– 0.43**
Number of weighted no-par-value shares (thousand shares)	D. 20	**11,010**	**11,011**

Consolidated Cash Flow Statement

	Dec. 31, 2004 EUR k	Dec. 31, 2003 EUR k
Cashflow from operating activities		
Net Group loss before taxation	**– 12,271**	**– 4,789**
Adjustments to reconcile net loss to cash used in operating activities		
Amortization on intangible assets	1,927	4,155
Depreciation of property, plant and equipment	1,781	2,570
Write-downs of financial assets	0	720
Income/Expenses from the disposal of assets	– 105	162
Investment income	0	0
Interest income	– 290	0
Interest expense	2,268	1,991
Foreign exchange profit/loss	– 19	48
Other non cash-related expenses	4,366	776
Minority interests	– 256	379
	– 2,599	**6,012**
Working capital changes		
Changes in inventories	– 121	700
Changes in trade receivables	15,662	6,741
Changes in other receivables	792	1,284
Changes in provisions	1,046	– 123
Changes in trade payables	– 3,168	– 192
Changes in deferred taxes	0	– 481
Changes in other liabilities	– 3,932	– 3,193
Changes in rest of the other remaining liabilities	0	– 10,385
	7,680	**363**
Interest paid	– 1,117	– 392
Income taxes paid	0	– 837
	6,563	**– 866**
Cash flows from investment activities		
Additions to intangible assets	– 838	– 3,945
Additions to property, plant and equipment	– 1,070	– 1,048
Additions to financial assets	– 115	– 320
Disposal of intangible assets	770	0
Disposal of property, plant and equipment	80	0
Disposal of financial assets	0	0
Interest received	290	0
	– 883	**– 5,313**
Cash flows from financing activities		
Amortization/Raising of loans	– 3,695	1,690
Acquisition of treasury shares	– 87	– 73
	– 3,782	**1,617**
Cash and cash equivalents at end of period		
Changes in cash and cash equivalents	1,898	– 4,562
Cash and cash equivalents at beginning of period	16,970	21,532
	18,868	**16,970**

Consolidated Statement of Changes in Equity

	Subscribed capital EUR k	Capital reserve EUR k	Other reserves EUR k
Note	C. 9	C. 9	
As of December 31, 2002	**28,154**	**71,765**	**1,220**
Adjustments in the IFRS opening balance			
As of January 1, 2003	**28,154**	**71,765**	**1,220**
Net Group loss for the year			
Capital increase through conversion of other reserves to reassess the inputed par value per share	39		– 39
Purchase of treasury shares			
Offsetting of statutory losses and capital reserves		– 40,867	
Unrealized losses from financial investments			
Foreign currency translation adjustments			
Adjustments to minority interests			
As of December 31, 2003	**28,193**	**30,898**	**1,181**
Net Group loss for the year			
Purchase of treasury shares			
Issue of treasury shares			
Unrealized losses from financial investments			
Foreign currency translation adjustments			
Distribution of minorities			
Adjustments to minority interests			
As of December 31, 2004	**28,193**	**30,898**	**1,181**

Segment Reporting

	Network Management		Production Management	
	Dec. 31, 2004 EUR k	Dec. 31, 2003 EUR k	Dec. 31, 2004 EUR k	Dec. 31, 2003 EUR k
Sales revenue				
External sales	61,911	75,348	42,340	48,271
Inter-segment sales	334	598	2,128	2,582
Total revenue	**62,245**	**75,946**	**44,468**	**50,853**
Other operating income	4,522	3,652	2,275	1,568
Increase/decrease in finished goods and work in process	– 540	52	425	– 62
Cost of purchased services	– 5,545	– 8,141	– 4,396	– 5,467
Costs of purchased merchandise	– 10,494	– 13,236	– 2,583	– 3,204
Personnel expenses	– 37,621	– 38,321	– 29,112	– 31,738
Amortization and depreciation of intangible assets and property, plant and equipment	– 2,488	– 2,256	– 1,130	– 1,275
Impairment loss	0	– 1,951	0	– 174
of which: goodwill	0	– 1,951	0	0
Other operating expenses	– 12,526	– 12,673	– 12,272	– 14,043
of which: non-cash items	0	0	0	0
Operating profit/loss by segment	**– 2,447**	**3,072**	**– 2,325**	**– 3,542**
Financial result	– 718	– 896	– 1,605	– 731
Profit/loss from equity investments	– 97	– 400	0	– 461
Segment profit/loss before minority interests	**– 3,262**	**1,776**	**– 3,930**	**– 4,734**
Investment in associates measured by the equity method	**424**	**520**	**0**	**0**
Segment assets	**52,281**	**58,871**	**27,302**	**33,928**
Segment liabilities	**34,998**	**36,611**	**22,550**	**25,798**
Segment investments	**1,968**	**2,438**	**1,923**	**1,470**
Substantial non-cash-related expenses	**0**	**0**	**599**	**0**

Treasury shares EUR k	Other comprehensive income EUR k	Accumulated loss EUR k	Minority interest EUR k	**Total** EUR k
C. 9				
0	**– 657**	**– 49,436**	**0**	**51,046**
	274	– 9,865	2,419	– 7,172
0	**– 383**	**– 59,301**	**2,419**	**43,874**
		– 4,789		– 4,789
				0
– 73				– 73
		40,867		0
	20			20
	28			28
			379	379
– 73	**– 335**	**– 23,223**	**2,798**	**39,439**
		– 12,271		– 12,271
– 87				– 87
31				31
	382			382
	– 56			– 56
			– 256	– 256
			– 2,542	– 2,542
– 129	**– 9**	**– 35,494**	**0**	**24,640**

	Information Management		Reconciliation		PSI Group	
	Dec. 31, 2004 EUR k	Dec. 31, 2003 EUR k	Dec. 31, 2004 EUR k	Dec. 31, 2003 EUR k	Dec. 31, 2004 EUR k	Dec. 31, 2003 EUR k
	10,942	13,947	0	0	115,193	137,566
	2,373	2,392	– 4,835	– 5,572	0	0
	13,315	**16,339**	**– 4,835**	**– 5,572**	**115,193**	**137,566**
	1,443	1,183	– 4,353	– 3,815	3,887	2,588
	374	0	0	– 68	259	– 78
	– 2,736	– 1,289	1,586	1,781	– 11,091	– 13,116
	– 343	– 264	2,060	1,324	– 11,360	– 15,380
	– 8,649	– 11,050	– 367	– 330	– 75,749	– 81,439
	– 436	– 715	338	287	– 3,716	– 3,959
	0	– 262	0	0	0	– 2,387
	0	– 141	0	0	0	– 2,092
	– 7,189	– 4,923	5,488	6,798	– 26,499	– 24,841
	0	0	0	0	0	0
	– 4,221	**– 981**	**– 83**	**405**	**– 9,076**	**– 1,046**
	– 874	– 461	55	0	– 3,142	– 2,088
	0	0	10	0	– 87	– 861
	– 5,095*	**– 1,442**	**– 18**	**405**	**– 12,305**	**– 3,995**
	0	**0**	**239**	**229**	**663**	**749**
	4,343	**8,703**	**9,216**	**12,747**	**93,142**	**114,249**
	3,203	**2,619**	**7,574**	**9,573**	**68,325**	**74,601**
	123	**380**	**805**	**1,285**	**4,819**	**5,573**
	3,580	**0**	**0**	**0**	**4,179**	**0**

*includes Basis II litigation

Consolidated Fixed Assets Movement Schedule 2003

	Acquisition and production cost			
	Jan. 1, 2003 EUR k	Additions EUR k	Disposals EUR k	Dec. 31, 2003 EUR k
Intangible assets				
Other intangible assets	17,584	1,871	274	19,181
Goodwill	29,271	601	0	29,872
Capitalized software development costs	24,103	1,399	24	25,478
	70,958	**3,871**	**298**	**74,531**
Property, plant and equipment				
Land and buildings	12,262	11	0	12,273
Computers and accessories	13,891	1,462	2,547	12,806
Office equipment	5,346	229	483	5,092
	31,499	**1,702**	**3,030**	**30,171**
	102,457	**5,573**	**3,328**	**104,702**

Consolidated Fixed Assets Movement Schedule 2004

	Acquisition and production cost			
	Jan. 1, 2004 EUR k	Additions EUR k	Disposals EUR k	Dec. 31, 2004 EUR k
Intangible assets				
Other intangible assets	19,181	1,275	1,191	19,265
Goodwill	29,872	2,472	301	32,043
Capitalized software development costs	25,478	0	0	25,478
	74,531	**3,747**	**1,492**	**76,786**
Property, plant and equipment				
Land and buildings	12,273	0	1	12,272
Computers and accessories	12,806	871	2,079	11,598
Office equipment	5,092	201	327	4,966
	30,171	**1,072**	**2,407**	**28,836**
	104,702	**4,819**	**3,899**	**105,622**

	Accumulated amortization/depreciation				Net book values	
	Jan. 1, 2003 EUR k	Additions EUR k	Disposals EUR k	Dec. 31, 2003 EUR k	Dec. 31, 2003 EUR k	Dec. 31, 2002 EUR k
	12,770	1,499	272	13,997	5,184	4,814
	18,522	2,092	0	20,614	9,258	10,749
	22,649	564	0	23,213	2,265	1,454
	53,941	**4,155**	**272**	**57,824**	**16,707**	**17,017**
	5,141	341	0	5,482	6,791	7,121
	12,295	1,639	2,453	11,481	1,325	1,596
	3,768	590	441	3,917	1,175	1,578
	21,204	**2,570**	**2,894**	**20,880**	**9,291**	**10,295**
	75,145	**6,725**	**3,166**	**78,704**	**25,998**	**27,312**

	Accumulated amortization/depreciation				Net book values	
	Jan. 1, 2004 EUR k	Additions EUR k	Disposals EUR k	Dec. 31, 2004 EUR k	Dec. 31, 2004 EUR k	Dec. 31, 2003 EUR k
	13,997	1,184	530	14,651	4,614	5,184
	20,615	0	0	20,615	11,428	9,257
	23,212	743	0	23,955	1,523	2,266
	57,824	**1,927**	**530**	**59,221**	**17,565**	**16,707**
	5,482	339	1	5,820	6,452	6,791
	11,481	995	2,020	10,456	1,142	1,325
	3,917	447	299	4,065	901	1,175
	20,880	**1,781**	**2,320**	**20,341**	**8,495**	**9,291**
	78,704	**3,708**	**2,850**	**79,562**	**26,060**	**25,998**

Notes
to the Consolidated Financial Statements for the year ended December 31, 2004

A. General Information about the Company

PSI Aktiengesellschaft für Produkte und Systeme der Informationstechnologie (PSI AG) with registered offices at Dircksenstrasse 42-44, 10178 Berlin, Germany, is the parent of the Group. It is registered in the Berlin-Charlottenburg commercial register under the number HRB 51463.

The management board prepared the consolidated financial statements as of December 31, 2004 and the group management report for the fiscal year 2004 on February 18, 2005 and released them to the supervisory board on February 25, 2005.

The business activities of the PSI Group comprise the preparation and sale of software systems and products designed to meet special requirements and needs of customers operating mainly in the following industries and service areas: power supply, manufacturing, telecommunications, transport, government authorities, software technology, internet applications and business consulting. In addition, the Group provides services of all kinds in the field of data processing, sells electronic devices and operates data processing systems.

The PSI Group is divided into three core business segments: Network Management, Production Management and Information Management.

Like other entities operating in dynamic technological industries, the PSI Group is exposed to numerous risks. Major risks for the development of the PSI Group lie in the success with which it carries out its projects and markets its products, competition with larger companies, the ability to generate sufficient cash flows to finance future business development and cooperation with strategic partners.

The main customers of the PSI Group are utility, telecommunications and manufacturing companies in Germany and Europe. The main plants are located in Berlin, Aschaffenburg, Barsinghausen, Essen, Dortmund, Duesseldorf, Karlsruhe, Hamburg, Munich and Neviges.

The Company is listed in the Prime Standard segment (Deutsche Börse AG) of the Frankfurt stock exchange.

B. Presentation of Accounting and Measurement Methods

Accounting Principles

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

The consolidated financial statements of the PSI Group are prepared in accordance with the International Financial Reporting Standards (IFRS) from fiscal year 2004 onwards. The consolidated financial statements have been prepared in Euros. Unless indicated otherwise, all amounts are stated in thousands of Euros (EUR k).

The December 31, 2004 consolidated financial statements have been prepared in accordance with all International Financial Reporting Standards (IFRS) applicable as of the balance sheet date (December 31, 2004) which were published by the International Accounting Standard Board (IASB), including the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). The PSI Group already fully applies the accounting standards published in the course of fiscal 2004, with the aim of creating a “stable IFRS platform” whose application is mandatory for fiscal years starting on or after January 1, 2005. As no comparable information in accordance with IFRS was published for prior periods that is not in compliance with these accounting principles, a presentation of differences resulting from voluntary earlier application has not been included.

These consolidated financial statements prepared in accordance with IFRS make use of the exemption provisions according to the German law to facilitate the raising of capital [“Kapitalaufnahmeerleichterungsgesetz”] included in Sec. 292a HGB [“Handelsgesetzbuch”: German Commercial Code]. Compliance of group accounting with the 7th EU Directive, which is required for exemption from the obligation to prepare consolidated financial statements in accordance with the German Commercial Code, has been based on the interpretation of the directive by German Accounting Standard No 1 (GAS 1) “Exempting consolidated financial statements in accordance with Sec. 292a HGB”. The Company is listed in the Prime Standard segment of the stock exchange and applies the provisions of Sec. 292a HGB, and is thus exempt from the provisions of Secs. 290 et seq. HGB on preparing consolidated financial statements. The group management report has been prepared in accordance with Sec. 315 HGB.

Conversion from US GAAP to IFRS Accounting

Following the ratification by the European Union’s Council of Ministers of the Regulation of the European Parliament and of the Council on the application of international accounting standards (EU Regulation) in June 2002, all companies geared towards the capital market with registered offices in the EU are required to prepare consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) for fiscal years starting after December 31, 2004.

IFRS 1 “First-Time Adoption of International Financial Reporting Standards” was applied for preparation of the first set of financial statements in accordance with IFRS. The conversion date is December 31, 2004 (IFRS opening balance sheet as of January 1, 2003). All assets and liabilities were recorded in accordance with the IFRS provisions applicable as of March 31, 2004. By then, IAS 36 “Impairment of Assets” and IAS 38, “Intangible Assets”, in particular, had been revised and IFRS 3, “Business Combinations”, and IFRS 5, “Non-Current Assets Held for Sale and Discontinued Operations (March, 2004)“, had been issued. All changes resulting from the changes in accounting policy have been offset against revenue reserves in the IFRS opening balance sheet, without affecting income.

PSI AG makes use of the following exemption options pursuant to IFRS 1:

Pension provisions

PSI AG has recorded all actuarial gains and losses from defined benefit obligations in the opening balance sheet (fresh start).

Accumulated foreign currency differences

PSI AG has reclassified the translation differences resulting from the translation of foreign subsidiaries as of the date of transfer, recorded as accumulated changes in equity, to the accumulated loss.

Acquisitions

PSI AG has not made use of the option to recognize business acquisitions in the IFRS opening balance sheet on the basis of the former accounting provisions. The accounting provisions applied in prior years (US GAAP) do not contain any significant differences from IFRS with respect to the recognition of acquisitions.

Improvement-Projekt

In the scope of the Improvement Project, members of the International Accounting Standards Board (IASB) revised some existing IAS. Where relevant for PSI AG, those standards have, generally, already been taken into account in the opening balance sheet. The balance sheet, for instance, was classified according to residual term pursuant to IAS 1, “Presentation of Financial Statements”. In addition, minority interests are now recognized in the equity section separate from the equity components allocable to the majority shareholders of the parent company. The profits and losses allocable to minority interests must be reported on the face of the income statement for information purposes.

Material effects of the conversion

In contrast to the accounting, measurement and consolidation methods pursuant to US GAAP presented in the notes to the financial statements for 2003 (included in the annual report), the following differences in accounting pursuant to IFRS had a significant effect on the consolidated financial statements of PSI AG, as detailed below:

Impairment of goodwill

a) Procedure according to US GAAP

The impairment test under US GAAP was performed on the basis of reporting units. By analogy to SFAS 131 (Segment Reporting), a reporting unit is defined as an operative segment or sub-segment of an operative segment ("Management Approach").

The impairment test was performed for the main legal entities of the segments.

In US GAAP, the impairment test is based on a two-step approach at the reporting-unit level. In a first step, the fair value of the reporting unit (determined on the basis of the discounted cash flows) is compared against its carrying amount. If the carrying amount exceeds fair value, the second step of the impairment test has to be conducted by comparing the carrying amount of a reporting unit's goodwill to its assumed implied fair value (fair value of the reporting unit less fair value of the assets and liabilities of the reporting unit, including the fair value of identifiable intangible assets). If the carrying amount of goodwill exceeds its implied fair value, an impairment charge is recorded at an amount equal to the difference.

b) Procedure according to IFRS

The International Accounting Standards Board (IASB) published the standard "Business Combinations" (IFRS 3) on March 31, 2004 which governs accounting for corporate mergers. At the same time, the new IFRS 3 amended IAS 36, "Impairment of Assets" and IAS 38, "Intangible Assets".

A central element of IFRS 3 is the change of accounting treatment for acquired goodwill. Whereas goodwill was previously subject to scheduled amortization over its useful life, the new IFRS exclusively provide for the recognition of impairment losses subject to impairment tests, thereby following the example of US GAAP.

An impairment test must be performed annually if certain indicators are present. The PSI Group conducts the impairment test as of December 31 of each fiscal year.

In addition, the impairment test must be conducted whenever "triggering events" occur, as outlined in the standard. For example, a triggering event could occur if the fair value of a cash-generating unit has significantly changed since the last calculation of the recoverable amount or if events have occurred that indicate that the recoverable amount is likely to fall short of the carrying amount of the cash-generating unit, if recalculated.

The annual impairment test for goodwill and intangible assets with an indefinite useful life can be performed at any time during the reporting period, with the only condition being that the same intangible assets or goodwill must be measured consistently and using the same measurement date.

The first step in an impairment test is to determine the recoverable amount of a cash-generating unit. It is defined as the higher of the fair value less costs to sell or value in use. Fair value less costs to sell is defined as the price which could be recovered in the sale of an asset or a cash-generating unit between two knowledgeable, consenting and independent business partners after deducting costs to sell. An asset's or cash-generating unit's value in use is determined by the present value of the estimated cash flows expected to be generated from its current use.

Once the recoverable amount has been determined, it is compared against the corresponding net carrying amount of the assets and, if applicable, liabilities summarized in the cash-generating unit, including the allocated goodwill. If the recoverable amount exceeds the carrying amount, the cash-generating unit and the goodwill allocable to it is not impaired and thus carried forward at its previous carrying amount. In this event there is no need to record an impairment loss.

If, by contrast, the carrying amount exceeds the recoverable amount of a cash-generating unit, an impairment loss must be recognized. It is expensed with effect on income at an amount equal to the difference between the carrying amount and recoverable amount. The impairment is initially offset against the existing goodwill.

If the impairment loss amounting to the difference between the recoverable amount and the carrying amount of the cash-generating unit exceeds the goodwill, the remaining loss is allocated to the cash-generating unit's other assets, writing these down in proportion to their carrying amounts. In this context, the carrying amount of individual assets may only be written down to the highest of net selling price, value in use or zero. The corresponding charges must also be posted to the income statement.

It is not possible to reverse impairments recorded on goodwill or intangible assets with an indefinite useful life.

Impairment losses determined in the course of a transitional impairment test in accordance with IFRS 1 must be deducted directly from equity without being recorded in the income statement as an expense.

The recoverable amount is determined on the basis of the value in use, applying a pre-tax discount rate of 11%.

By contrast to US GAAP, IFRS does not require the impairment test to be performed on the basis of the segments or a sub-segment, but the cash-generating unit. The difference in definitions of the units subject to the test led to existing US GAAP reporting units' being subdivided further for IFRS purposes. This produced impairment losses of EUR 6,897k in the opening balance sheet as of January 1, 2003 and of EUR 2,092k in the fiscal year 2003.

In the impairment test performed, the impairment loss amounting to the difference between the carrying amount and the recoverable amount of a cash-generating unit in the Network Management segment exceeded the goodwill allocated to this cash-generating unit. The excess impairment loss was allocated to the cash-generating unit's capitalized software development costs. An impairment loss of EUR 242k was recorded on these capitalized software development costs.

Provisions for "Altersteilzeit" (German Phased Retirement Scheme)

In accordance with IFRS, provisions must be set up for all employees who are expected to make use of the scheme. The discounted step-up amounts must be considered when determining the provision. Pursuant to US GAAP, a provision is not set up until a contractual agreement has been signed with the employees in question. The step-up amounts are saved up ratably over the employee's period of active service. The different calculation bases under IFRS and US GAAP led to an increase in the provision for "Altersteilzeit" at PSI AG.

Pension provisions

With respect to the existing IFRS option to report interest for pension provisions either under functional costs – as required by US GAAP – or under interest, PSI AG elected to make the disclosure under interest income.

Deferred taxes

The individual adjustments arising from the conversion to IFRS also led to adjustments to deferred taxes. These concern deferred taxes from pensions, capitalized software development costs and goodwill.

Effects on the cash flow statement

Contrary to the presentation in US GAAP, where short-term financial liabilities are shown in the cash flow from operating activities, they are now contained in the cash flow from financing activities. Further non-cash effects of the conversion mainly resulted from the impairment of goodwill and adjustments to the pension provision.

Below is a reconciliation of equity from US GAAP to IFRS as of January 1, 2003 and December 31, 2003, as well as the net loss for the fiscal years from January 1 to December 31, 2003 and from January 1 to September 30, 2003 (date quarterly reporting was converted from US GAAP to IFRS):

	EUR k
Equity as of January 1, 2003 in accordance with US GAAP	**51,046**
Equity-reducing events	
Amortization of goodwill pursuant to IAS 36	– 6,897
"Fresh start" for pension provisions	– 2,498
Valuation allowance for capitalized software development costs	– 242
Change in personnel-related provisions	– 217
	– 9,854
Equity-increasing events	
Changes in deferred taxes	58
Disclosure of minority interests within equity	2,624
	2,682
Equity as of January 1, 2003 in accordance with IFRS	**43,874**

	EUR k
Equity as of December 31, 2003 in accordance with US GAAP	**48,492**
Equity effect from the opening balance sheet	**– 7,172**
Equity-reducing events in fiscal 2003	
Amortization of goodwill pursuant to IAS 36	– 2,092
Change in personnel-related provisions	– 558
	– 2,650
Equity-increasing events in fiscal 2003	
Changes in deferred taxes	225
Effects from pension provisions	106
Adjustment of minority interests	357
Adjustment of capitalized software development costs	81
	769
Equity as of December 31, 2003 in accordance with IFRS	**39,439**

	EUR k
Net loss for the year from January 1 to December 31, 2003 in accordance with US GAAP	**– 2,528**
Impairment of goodwill	– 2,092
Change in personnel-related provisions	– 559
Adjustment of minority interests	– 21
Adjustment of deferred taxes	225
Effects from pension provisions	105
Adjustment of capitalized software development costs	81
	– 2,261
Net loss for the year from January 1 to December 31, 2003 in accordance with IFRS	**– 4,789**

Consolidation Principles

a) Subsidiaries

The consolidated financial statements of the Group include PSI AG and the companies that it controls. This control is normally evidenced when PSI AG owns, either directly or indirectly, more than 50% of the voting rights of an entity's share capital and is able to influence the financial and operating policies of PSI AG so as to benefit from its activities.

In accordance with IFRS 3, the purchase method is used to account for acquisitions. Entities acquired or disposed of during the fiscal year are included in the consolidated financial statements from the date of acquisition or to the date of disposal.

Any excess of the cost of the acquisition over the interest acquired in the fair value of the identifiable assets and liabilities as of the date of the exchange transaction is described as goodwill and recognized as an asset. The recognized assets and liabilities acquired are measured at their fair value on the date of acquisition. Minority interests are stated at the minority's proportion of the fair values.

The following entities were included in the consolidated financial statements as fully consolidated subsidiaries. (The ownership interest of PSI AG is identical to the existing voting rights.):

	Share %	Equity* as of Dec. 31, 2004 EUR k	Net income/loss* 2004 EUR k
PSI-BT Business Technology for Industries AG, Duesseldorf ("PSI-BT")	100.0	6,346	– 246
PSI Information Management GmbH, Berlin ("PSI IM")	100.0	81	– 648
PSIPENTA Software Systems GmbH, Berlin ("Psipenta")	100.0	– 3,838	– 803
PSI Transportation GmbH, Berlin ("Transportation")	100.0	48	– 160
NENTEC Netzwerktechnologie GmbH, Karlsruhe ("Nentec")	100.0	26	0**
PSI Logistics GmbH, Berlin ("Logistics")	100.0	856	0***
PSI AG Produkte und Systeme der Informationstechnologie, Wallisellen, Switzerland ("PSI/Switzerland")	100.0	– 265	– 325
GSI – Gesellschaft für Steuerungs- und Informationssysteme mbH, Berlin ("GSI")	100.0	109	44
Büsing und Buchwald Gesellschaft für Organisation und Datenverarbeitung mbH, Barsinghausen ("BuB")	100.0	636	0**
PSI Produkty i Systemy Informatyczne, Poznan, Poland ("PSI/Poland")	100.0	37	– 24

* Figures in accordance with statutory accounting provisions (HGB) before consolidation entries.
** Net income/loss for the year after profit and loss transfer agreement.
*** Net income/loss for the year after debtor warrant claims.

The following changes occurred during fiscal year 2004 with respect to the fully consolidated entities:

A business acquisition agreement was concluded on March 27, 2004 for the business operations of PK Software Engineering GmbH ("PK Soft"). Rights of use of PSI AG were included in the sale. The selling price was EUR 1,560 k. Under a merger agreement dated August 24, 2004, the remaining legal shell of PK Soft was retroactively merged into PSI AG, effective January 1, 2004. The merger into PSI AG was entered in the commercial register on October 5, 2004.

The Polish subsidiary PSI Produkty i Systemy Informatyczne ("PSI/Poland") was formed on July 8, 2004. Its capital stock is PLN 250,000. The registered offices of the subsidiary are in Poznan.

Under an agreement dated September 10, 2004, 100% of the shares in front2back AG ("front2back") were sold. The sales proceeds amounted to EUR 8,000. From the third quarter of 2003 onwards, front2back no longer had any business activities.

PSI AG and the former shareholders of Büsing und Buchwald Gesellschaft für Organisation und Datenverarbeitung mbH ("BuB") entered into a purchase agreement for shares in BuB on April 11, 2002. That purchase agreement was amended by supplementary agreements dated July 25, 2002 and June 25, 2003. Among other things, these supplementary agreements govern the definition of various criteria leading to a subsequent purchase-price increase by way of cash payment to the former shareholders. The criteria were met in 2004 and the purchase price was subsequently raised by EUR 1,300k, accordingly.

PSI AG and BFI Betriebstechnik GmbH entered into a purchase agreement for shares in PSI-BT AG on December 15, 2004. Under the agreement, PSI AG purchased all shares held by BFI Betriebstechnik GmbH in PSI-BT AG at a purchase price of EUR 3,384k. In the framework of the PSI-BT AG purchase agreement, a further purchase agreement was concluded on December 15, 2004 between PSI-BT AG and BFI Betriebstechnik GmbH on the purchase of the Metech business segment of PSI-BT AG at a purchase price of EUR 323k. The agreement stipulated that certain pensioners and former employees of PSI-BT AG with pension claims would be transferred to BFI Betriebstechnik GmbH, along with as securities to finance the benefit obligations.

Psipenta acquired business shares in integral datentechnik Kaiserslautern GmbH in a purchase agreement dated December 10, 2004, in return for payment of a purchase price of EUR 50k and transfer of 7,500 shares in PSI AG. Psipenta acquired the shares of PSI AG from PSI AG's treasury shares in a purchase agreement concluded by PSI AG and Psipenta on December 10, 2004, for a purchase price of EUR 24k, for the purpose of acquiring shares in integral datentechnik Kaiserslautern GmbH. In a merger agreement dated December 10, 2004, integral datentechnik Kaiserslautern was merged into Psipenta.

Former shareholders of Softsystems Scheufele & Happe GmbH received compensation payments of EUR 330k from PSI AG in connection with the disposal of their shares in 2001.

The formation of PSI Information Technology (Shanghai) Co. Ltd. was authorized by the authorities on January 20, 2005.

The following changes occurred in the fiscal year 2003 with respect to the fully consolidated entities:

By notarized deed dated March 25, 2003, PSI AG acquired 54% of the shares in GSI – Gesellschaft für Steuerungs- und Informationssysteme mbH ("GSI"). The purchase price of EUR 28k for the shares was paid in cash. Since the share purchase, PSI AG holds 100% of the shares in GSI.

PSI AG acquired 66% of the shares in front2back in April 2003. The purchase price of EUR 33k for the shares was paid in cash. Since the purchase, PSI AG holds 100% of the shares in front2back. The operating activities of front2back were transferred to UBIS in 2003.

By notarized deed dated June 19, 2003, PSI AG acquired 1.1% of the shares in PSI Logistics GmbH ("Logistics"). The purchase price for the shares of EUR 15.6k was paid in cash. Since the share purchase, PSI AG holds 100% of the shares in Logistics.

By notarized deed dated December 18, 2003, PSI AG acquired 25% of the shares in PK Soft. The purchase price of EUR 300k was paid in cash in 2004. Since the share purchase, PSI AG holds 100% of the shares in PK Soft.

In total, purchase prices of EUR 5,088k (prior year: EUR 377k) were arranged for acquisitions in fiscal year 2004. Of that amount, EUR 4,943k will affect cash in 2005. The following is a preliminary allocation of the acquisition costs to the fair value of the assets acquired and liabilities assumed:

	2004 EUR k	2003 EUR k	Straight-line amortization/ depreciation Useful life
Intangible assets			
Customer base	440	0	3 years
Software and licenses	0	33	3 to 10 years
Property, plant and equipment	9	20	3 to 4 years
Goodwill	2,472	601	
Current assets			
Receivables	37	283	
Other assets	26	149	
Cash and cash equivalents	40	0	
	3,024	**1,086**	
Liabilities			
Provisions	– 14	– 228	
Liabilities to banks	– 300	0	
Payments on account received	0	– 24	
Trade payables	– 16	– 44	
Other	– 148	– 413	
Liabilities assumed	**– 478**	**– 709**	
Minority interests	**2,542**	**0**	
Total purchase price	**5,088**	**377**	

Most of the transactions presented were acquisitions of minority interests of subsidiaries already fully consolidated to date. Accordingly, the transactions have not resulted in any changes in the net income or sales of the PSI Group.

b) Associates

Equity investments between 20% and 50% of an entity's equity over which PSI AG has a significant influence are classified as associates and accounted for using the equity method. The carrying amount of the equity investment in the balance sheet is written up or down by the pro rata profits and losses of the associate. The amount of the loss allocated is generally limited to the acquisition cost of the associate. The Company examines the values of its shares in associates when there is an indication that the asset has been impaired or that an impairment loss recognized in prior years no longer exists.

For acquisitions of associates, the purchase method is used by analogy. Associates acquired or disposed of during the fiscal year are included in the consolidated financial statements from the date of acquisition or to the date of disposal.

Associates valued using the equity method are:

	Shares %	Carrying amount EUR k	Sales of the entity EUR k	Net income/loss of the entity EUR k
VA TECH CNI Control Networks & Information Management GmbH, Vienna, Austria ("CNI")	40.0	424	3,007	– 231
Schindler Technik AG, Berlin ("Schindler")	37.2	239	10,448	21

c) Consolidation Procedures and Uniform Measurement within the Group

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

Intercompany balances and transactions, including any resulting intercompany profits and unrealized profits and losses between consolidated entities and associates, were eliminated in full. Unrealized losses were only eliminated to the extent that the transaction did not provide evidence of an impairment of the asset transferred.

Currency Translation

Amounts of foreign currency transactions are translated at the exchange rate applicable between the reporting currency and the foreign currency at the date of the transaction. Exchange-rate differences arising from the settlement of monetary items at rates different from those at which they were initially recorded during the period or from the translation at closing rates as of the balance sheet date are recognized as income or expense in the periods in which they arise. All consolidated foreign subsidiaries are viewed as economically independent foreign entities because they are financially, economically and organizationally autonomous. Their reporting currencies are the respective local currencies. The balance sheets of the foreign subsidiaries included in consolidation are translated at the closing rate. The income statement is translated using the average rate. All resulting exchange differences are classified as equity until the disposal of the net investment.

Minority Interests

The shares allocable to the parent company during preparation of the consolidated financial statements pursuant to IAS 27 and the minority interests are determined exclusively based on the current equity investment. The minority interests are presented as a different item separate from the parent company's equity in the equity section of the consolidated balance sheet.

To the extent that current income is allocable to minority interests, the corresponding amount is reported separately in the consolidated income statement. To the extent that losses arise, these reduce the minority interests reported in the consolidated balance sheet until they have been used.

Non-Current Assets

a) Intangible assets

Additions to intangible assets are measured at cost. Intangible assets are recognized when it is probable that future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. For subsequent measurement purposes, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses (disclosed under amortization). Intangible assets are amortized on a straight-line basis over their estimated useful life. The amortization period and the amortization method are reviewed at the end of each fiscal year.

Intangible assets comprise:

Goodwill

Goodwill is the excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired as of the date of the exchange transaction. It is recognized as an asset at costs less impairments.

Industrial rights and licenses

Amounts paid for the purchase of industrial rights and licenses are capitalized and then amortized on a straight-line basis over their expected useful life.

The cost of new software is capitalized and treated as an intangible asset if these costs are not an integral part of the related hardware. Software is amortized on a straight-line basis over three to four years.

Costs incurred in order to restore or maintain the future economic benefits that the Company had originally expected are recognized as an expense.

Capitalized development costs for internally developed software

Research and development costs are recorded as expenses in the period in which they are incurred. This does not apply for development costs of internally developed or significantly improved software products that meet all of the following criteria:

- The technical feasibility of the software can be proven,
- The entity intends to complete the corresponding software,
- The Group is able to use or sell the software,
- It can be proven that there is a market for the software, and
- There are sufficient technical, financial and other resources to complete the software development in question.
- The software in question is clearly and unambiguously recognized and the related costs can be allocated clearly and determined reliably.

The costs capitalized for the internally developed software products contain direct costs (external costs and personnel expenses) and indirect costs (pro rata rent, salaries, other expenses).

The internally generated software products are amortized using the straight-line method over an estimated useful life of four years. The amortization method and period reflect the development of the asset's use for the Company.

b) Property, plant and equipment

Property, plant and equipment are reported at cost less accumulated depreciation and accumulated impairment losses. If items of property, plant and equipment are sold or scrapped, the corresponding acquisition costs and accumulated depreciation is derecognized and any profit or loss realized from the disposal is reported in the income statement.

The historical cost of an item of property, plant and equipment comprises its purchase price, including customs duties and other non-refundable acquisition taxes incurred in relation to the acquisition, as well as any directly attributable costs of bringing the asset to its location and to its working condition for its intended use. Subsequent expenditures, such as repair and maintenance costs incurred after the non-current assets have been commissioned, are recorded as expenses in the period in which the costs are incurred. If it is probable that significant additional future economic benefits will accrue to the Company above the standard of performance originally assessed for the asset, these expenses are capitalized as subsequent acquisition cost.

Depreciation is calculated over the estimated useful life using the straight-line method based on a residual carrying amount of EUR 0. If assets consist of several components with different useful lives, the components are depreciated individually over their respective useful lives. The following estimated useful lives are used for the individual groups of assets:

Buildings and land improvements:	10 to 50 years
Hardware:	3 to 4 years
Leasehold improvements:	According to the remaining term of the rent contract
Other furniture and fixtures:	5 to 13 years

The useful lives and depreciation methods used for property, plant and equipment are reviewed in each period to ensure that the methods and periods of depreciation are consistent with the expected economic benefit from the items of property, plant and equipment.

c) Impairment of non-current assets

An impairment test is performed for non-current assets if events or changes in circumstances indicate that the carrying value of the asset exceeds its recoverable amount. The first step in an impairment test is to determine the recoverable amount of an asset/a cash-generating unit. It is defined as the higher of the fair value less costs to sell or value in use. Fair value less costs to sell is defined as the price which could be recovered in the sale of an asset or a cash-generating unit between two knowledgeable, consenting and independent business partners after deducting costs to sell. An asset's or cash-generating unit's value in use is determined by the present value of the estimated cash flows expected to be generated from its current use.

No impairment losses were recorded on non-current assets in fiscal year 2004 (2003: EUR 2,092k).

A reversal of impairment losses recognized in prior years is recorded where there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. Any reversal is posted to income. The increase in value (or reduction of an impairment loss) of an asset is, however, only recorded to the extent that it does not exceed the carrying value that would have existed if (taking into account regular amortization or depreciation) no impairment losses had been recognized in prior years.

Impairment losses recorded for goodwill are generally not reversed in the following reporting periods.

Current Assets

Cash and Cash Equivalents

Cash and cash equivalents include cash, time deposit and on-call deposits. Cash equivalents are short-term, liquid financial investments which have original maturities of three months or less and are subject to insignificant risks of value fluctuation.

Financial Assets

Financial assets are generally divided into the following categories:

- Loans and receivables originated by the entity
- Held-to-maturity investments
- Financial assets held for trading
- Available-for-sale financial assets

Financial assets with fixed or determinable payments and fixed maturity that the Company intends and has the ability to hold to maturity, other than loans and receivables originated by the entity, are classified as held-to-maturity financial assets. Financial assets that are acquired principally for the purpose of generating a profit from short-term fluctuations in price or exchange rates are classified as held-for-trading financial assets. All other financial assets, apart from loans and receivables originated by the entity, are classified as available-for-sale financial assets.

Held-to-maturity financial assets are disclosed under non-current assets unless they are due within 12 months of the balance-sheet date. Held-for-trading financial assets are disclosed under current assets. Available-for-sale financial assets are disclosed under current assets, if the management intends to sell them within 12 months of the balance-sheet date.

The initial recognition of a financial asset is at cost, which corresponds to the fair value of the consideration given; transaction costs are included. Financial assets from customary sales and acquisitions are accounted for at the trade date.

Held-to-maturity financial assets are measured at amortized cost, using the effective interest rate method.

Financial assets are tested for impairment as of each balance sheet date. If it is probable that the Company will not be able to collect all amounts due according to the contractual terms of loans, receivables, or held-to-maturity financial investments carried at amortized cost, an impairment loss or allowance is recorded on the receivables, with effect on income. An impairment loss recorded in a prior period is adjusted, with effect on income, if the subsequent partial reinstatement (i.e. a reduction of the impairment loss) can be objectively related to an event occurring after the original impairment loss. However, after reinstatement, an asset may not be carried at an amount exceeding the carrying value that would have ensued had no impairment been recognized.

Trade receivables and other current assets are shown at the fair value of the consideration given and measured at their amortized cost, after forming appropriate valuation allowances. Valuation allowances are set up if there is any indication that an individual receivable is likely to default.

Financial assets or portions of financial assets are derecognized if the PSI Group loses its power to dispose of the contractual rights that make up the financial asset.

The Company has no financial investments held to maturity or financial assets held for trading purposes.

The Group does not use any financial derivatives to hedge against currency fluctuations or interest-rate risks, for example. It does not hold or issue any financial derivatives for trading purposes.

Risk Management for Financial Instruments

The Company's main financial instruments are trade receivables, as well as cash and cash equivalents and bank liabilities. The aim of using these financial instruments is to finance operations. The key risks are credit, liquidity, exchange-rate and fair-value risks.

a) Credit and liquidity risks

Credit risks or risks of a counterparty's failing to meet its payment obligations are managed by using lines of credit and control procedures. Where appropriate, the Company procures security. The PSI Group has no significant concentration of credit risk with any single counterparty or a group of counterparties with similar characteristics. The maximum credit risk equals the carrying amounts of the financial assets recognized in the balance sheet.

Liquidity risks arise from the possibility that customers may not be able to settle obligations to the Company under the agreed conditions.

In addition, the Group endeavors to have sufficient cash and cash equivalents or corresponding lines of credit to fulfill its future obligations.

b) Exchange-rate risks

As the group entities mainly effect transactions in Euros, there is no material exchange-rate risk. Hedge transactions are, therefore, not concluded to cover such risk.

c) Fair-value risks

The financial instruments not recognized at fair value within the Group primarily comprise cash and cash equivalents, trade receivables, other current assets, other non-current assets, trade payables, and other liabilities.

The carrying amount of cash and cash equivalents approximates fair value due to the high liquidity of these instruments. The fair value of receivables and payables based on the normal credit terms of trade also approximates their carrying amount at historical cost.

Inventories

Inventories are measured at cost or the lower expected net realizable value, less costs to complete.

Current Liabilities and Provisions

Other Provisions

A provision is only recognized when the entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the time value of the money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. In the discount process, the increase in the provision reflecting the passage of time is recognized as borrowing costs.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized when, and only when, it is virtually certain that the Company will receive the reimbursement.

Financial Liabilities

Financial liabilities are divided into the following categories:

- Financial liabilities held for trading
- Other financial liabilities

Financial liabilities that are acquired principally for the purpose of generating a profit from short-term fluctuations in price or exchange rates are classified as held-for-trading financial liabilities.

The initial recognition of a financial liability is at cost, which corresponds to the fair value of the consideration given; transaction costs are included. Financial liabilities from customary sales and acquisitions are accounted for at the trade date.

Financial liabilities are derecognized if they have been extinguished, i.e., if the commitments named in the contract have been settled, revoked, or have expired.

The Group does not use any financial derivatives to hedge against currency fluctuations or interest-rate risk, for example. It does not hold or issue any financial derivatives for trading purposes. It has no financial liabilities held for trading purposes.

Equity

Equity comprises subscribed capital, the capital reserve, treasury shares, other comprehensive income, any accumulated loss and minority interests.

Other comprehensive income consists of unrealized gains and losses from currency translation and measurement of available-for-sale securities at market value. These items underwent the following changes during the fiscal year:

	Dec. 31, 2003 EUR k	Variance 2004 EUR k	Dec. 31, 2004 EUR k
Currency translation	49	– 56	– 7
Unrealized losses from available-for-sale securities	– 384	382	– 2
	– 335	**326**	**– 9**

Contingencies

Contingent liabilities are not stated in the balance sheet. They are stated in the notes to the financial statements unless an outflow of resources embodying economic benefits is highly improbable.

Contingent assets are not stated in the balance sheet. However, they are disclosed in the notes to the financial statements when an inflow of economic benefits is probable.

Government Grants

Government grants are recognized when there is reasonable assurance that the Company will fulfill all associated conditions. Government grants are recorded with an effect on income as scheduled in line with the related expenses which are covered by the grants. Grants received for the acquisition of property, plant and equipment are recorded in other liabilities as deferred income. The income realized in connection with the grants is reported as other operating income in the income statement.

The grants issued to the Company as investment subsidies from Investitionsbank Berlin are linked to compliance with future conditions. These essentially include the fulfillment of job guarantees and guarantees that the subsidized goods will not be disposed of by the entity receiving the subsidies. The investment grants received from the tax authorities are linked to fulfillment of the guarantees for the subsidized goods. Based on its planning, the management board of PSI AG assumes that the conditions will be met in full.

In 2004, PSI AG received subsidies of EUR 320k from an EU funding project. PSI AG is developing a software application as part of this project, in cooperation with other syndicate partners. The subsidies were collected in 2004 and disclosed as a reduction of the corresponding expenses.

Borrowing Costs

Borrowing costs are recognized as an expense in the period in which they are incurred.

Leases

Leases under which all the risks and rewards of ownership of the assets are retained by the lessor are classified as operating leases. Lease payments on operating leases are recorded as an expense on a straight-line basis over the term of the lease.

The PSI Group has mainly entered into leases for vehicles and hardware (servers). These operating leases generally have a term of three to four years.

Revenue Recognition

The PSI Group generates most of its sales revenue from project business and from licensing the rights to use its software products to end users, both with and without customization. Sales revenue is also generated from the sale of third-party software, hardware and services, such as installation and consulting services, training and maintenance.

a) Project business

For long-term construction-type contracts that meet the criteria of the percentage-of-completion method, sales revenue from the development and sale of software systems and products is deferred and recognized according to the percentage of completion of the project. Percentage of completion is measured by the ratio of number of hours worked to the total estimated number of working hours, or on a milestone basis. Payments on account received from customers are offset against the corresponding receivables, without affecting income. Changes in project conditions may result in revisions to previously recorded costs and revenues for a particular project. These changes are recognized in the period in which the revisions are determined; this generally occurs when formal change orders are signed between the Company and the customer. In addition, provisions are recorded for potential losses from pending transactions in the period in which the losses are determined. They are offset against the receivables for the project.

b) Sale of licenses

The PSI Group recognizes its sales revenue based on the corresponding contract as soon as the license has been delivered, the sales price is fixed or can be determined, there are no significant obligations to customers and collection of the receivables is considered probable.

c) Maintenance

Revenue from maintenance agreements is recognized on a straight-line basis over the term of the agreement, based on past experience. Revenue from consulting and training services is recognized when the service has been performed.

d) Multiple-element arrangements

If a contract contains multiple elements, revenue is recognized based on IAS 18 (multiple-element arrangements). The individual contractual elements are reviewed for compliance with the revenue recognition criteria relevant for the respective contract elements. Where the net realizable value (based on customary market pricing) of the individual contractual elements can be determined, the revenue is recognized upon delivery of the individual elements.

e) Recognition of interest income

Interest is recognized pro rata temporis to reflect the effective yield on the asset.

Employee Benefits/Stock-Option Plans

The employees of the Company were granted options to purchase common shares of the Company. The provisions of IFRS 2 concerning recognition and measurement of stock option plans were not applicable as of the balance-sheet date. No specific treatment is prescribed for the balance sheet and the income statement. Obligations and costs resulting from stock-option plans are not recorded as personnel expenses in the income statement.

Income Taxes

The amount of income taxes is linked to earnings and takes account of deferred taxes. Deferred taxes are calculated using the liability method. Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates anticipated for the period in which the temporary differences are expected to reverse. The expected tax rate is determined on the basis of tax rates that have been incorporated or essentially incorporated in applicable law as of the balance-sheet date for these periods.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the balance-sheet date, to recover the carrying amount of its assets and settle its liabilities.

Deferred tax assets and liabilities are recognized regardless of when the temporary difference is likely to reverse. Deferred tax assets and liabilities are not discounted and are reported in the balance sheet as non-current assets and liabilities.

A deferred tax asset is recognized to the extent that it is probable that future taxable profit will be available. At each balance sheet date, the Company re-assesses unrecognized deferred tax assets and the carrying amount of deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will be available for the deferred tax asset to be recovered. Conversely, the Company reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the deferred tax asset to be utilized.

With the exception of temporary differences related to goodwill, a deferred tax liability is recognized for all temporary differences for which write-downs are not deductible for tax purposes.

Segment Reporting

a) Business segments

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

- Network Management
- Production Management
- Information Management

The business segments are the basis upon which the Group reports its primary segment information. The financial information on the business segments and geographic segments is presented in note F and in a separate attachment to these notes to the consolidated financial statements.

b) Intersegment transactions

Segment revenue, segment expenses and segment results only include immaterial transfers between business segments. Such transfers are accounted for at competitive market prices charged to unaffiliated customers for similar services. Those transfers are eliminated in consolidation.

C. Notes to the Consolidated Balance Sheet

Non-Current Assets

1 Intangible Assets and Property, Plant and Equipment

With respect to the changes in non-current assets in the fiscal year ending on December 31, 2004, reference is made to the attached changes in intangible assets and property, plant and equipment (attachment to the notes to the consolidated financial statements).

The PSI Group conducted an impairment test on non-current assets as of December 31, 2004 and as of December 31, 2003. The impairment test is based on the following cash-generating units which generate cash independently from one another:

- Network Management
- Reporting at the level of segments and sub-segments
  - a) Electrical power division
  - b) Nentec
  - c) Gas and oil division
  - d) Büsing & Buchwald
  - e) Telecommunications division
  - f) PSI Transportation

- Production Management
  - a) Psipenta
  - b) PSI-BT
  - c) PSI Logistics
  - d) GSI
  - e) PSI/Switzerland

- Information Management
  - a) PSI IM
  - b) PSI/Poland

The impairment test is based on the cash-flow planning for individual cash-generating units over a period of five to eight years. No further cash flows after the end of the planning horizon were taken into consideration – with the exception of the assumed residual value of the working capital. The cash flows included in the calculations were derived from past experience. It was also taken into account that the significant capital expenditure on development in past fiscal years, the reluctance of existing and additional customers to invest, as well as the restructuring measures taken, will lead to a substantial improvement in margins. The assumptions made by management regarding the anticipated business development in the software industry correspond to the expectations of industry experts and market analysts. The discount rate used ranged from 6.5% to 11.6%, depending on the equity capitalization of the individual cash-generating units.

2 Shares in Associates, Measured at Equity

Associates measured “at equity” comprise the carrying amounts of the following entities:

	Share %	2004 EUR k	2003 EUR k
VA TECH CNI Control Networks & Information Management GmbH	40.0	424	520
Schindler Technik AG	37.2	239	229
		663	**749**

The table below shows summarized information on the associates disclosed:

	2004 EUR k	2003 EUR k
Share in the balance sheets of the associates		
Current assets	5,869	5,024
Non-current assets	3,218	3,508
Current liabilities	7,050	6,264
Non-current liabilities	336	336
Equity	1,701	1,932
Share in sales revenues and net income of the associates		
Sales revenue	13,455	12,098
Net income/loss for the year	– 210	– 983
Carrying amount of the shares in associates	663	749

3 Other Financial Assets

	2004 EUR k	2003 EUR k
Available-for-sale investments	304	4,122
Financial assets measured at amortized cost	1,030	980
	1,334	**5,102**

The cost of purchase and the current sales value of the available-for-sale securities reported as financial assets break down as follows:

	2004 EUR k	2003 EUR k
Costs of purchase	308	4,506
Unrealized losses	– 4	– 384
Market value	**304**	**4,122**

The available-for-sale securities essentially consist of shares in a money-market fund.

Financial assets measured at amortized cost include the equity investment in Varial Software AG, in which PSI AG holds 9.1% of the shares. The historical cost of Varial Software AG amounts to EUR 1,300k. In consideration of the planned restructuring of that entity, an impairment loss of EUR 320k was recorded in 2003. By subscription slip dated November 17, 2004, PSI AG acquired 50,000 new no-par-value bearer shares, for an issue price of EUR 1.00 per share.

Current Assets

4 Inventories

	2004 EUR k	2003 EUR k
Work in process	1,570	1,288
at cost		
measured at fair value		
Hardware and third-party licenses	1,192	1,429
at cost		
measured at fair value		
Payments on account to subcontractors	47	70
	2,809	**2,787**

5 Trade Receivables, Net

	2004 EUR k	2003 EUR k
Trade receivables, gross	22,463	29,866
Specific valuation allowances	– 300	– 330
	22,163	**29,536**

6 Receivables from Long-Term Construction Contracts

Receivables under the percentage-of-completion method arise when sales revenues are recognized but cannot be invoiced yet, in accordance with the contractual terms. These amounts are recognized according to various performance criteria, such as the achievement of certain milestones, the ratio of budgeted to actual project hours of the entity's own employees, the completion of certain units or the completion of the contract. The balance sheet item contains direct costs (personnel expenses and third-party services) as well as an appropriate share of indirect costs.

Receivables measured using the percentage-of-completion method break down into the following components:

	2004 EUR k	2003 EUR k
Costs incurred	34,239	48,229
Profit shares	3,427	9,450
Contract revenue	**37,666**	**57,679**
Payments on account	**– 33,149**	**– 37,905**
Receivables from long-term construction contracts	16,954	29,741
Liabilities from long-term construction contracts	12,339	11,866

7 Other Assets

	2004 EUR k	2003 EUR k
Compensation payment from disposal of pensions	1,449	0
Prepaid expenses	1,317	1,709
Receivables from tax credits	443	808
Payments on account	326	186
Loans and advances to customers	222	0
Grants	194	0
Sundry	1,003	1,412
	4,954	**4,115**

Prepaid expenses (mostly prepayments for maintenance) will affect income within one year. The loans and advances to customers primarily concern a loan to a customer. The loan has a maturity of three years. It is secured by rights to the software.

8 Cash and Cash Equivalents

	2004 EUR k	2003 EUR k
Bank balances	7,536	8,813
Fixed term deposits	11,313	8,139
Cash	19	18
	18,868	**16,970**

9 Equity

With respect to changes in equity, reference is made to the consolidated statement of changes in equity.

a) Subscribed capital

The share capital fully paid in and filed with the commercial register amounts to EUR 28,192,947.20 (2003: EUR 28,192,947.20). The share capital is divided into 11,012,870 (2003: 11,012,870) no-par-value shares.

The management board was authorized by the shareholders' meeting of PSI AG on May 27, 2004 to repurchase treasury shares of up to 10% of equity (EUR 2,800k). This authorization will expire on November 26, 2005. The Company purchased 20,807 shares in 2004 (2003: 17,919 shares) in several tranches for a total purchase price of EUR 87k (2003: EUR 73k). The acquisition cost of the treasury shares acquired was offset against equity.

b) Capital increases

The shareholders decided in the shareholders' meeting of PSI AG on June 12, 2003 to convert other revenue reserves of EUR 38,992 to subscribed capital and increase the nominal amount of the shares to EUR 2.56 (previously: EUR 2.55646). The capital increase was filed at the commercial register on September 24, 2003.

By resolution of the management board dated February 7, 2005, PSI AG performed a capital increase from authorized capital I/2004. The share capital was increased by a nominal amount of EUR 2,816,000 through the issuance of 1,100,000 no-par-value bearer shares for an issue price of EUR 3.50 per share, in return for cash contributions. The supervisory board's approval was given by written/faxed and electronic voting. This was filed with the commercial register on February 11, 2005.

c) Contingent and authorized capital

The shareholders' meeting of May 27, 2004 passed a resolution to cancel authorized capital I and II and to create authorized capital I/2004, with authorization to exclude subscription rights. In addition, a resolution was passed to create contingent capital by issuing convertible bonds and convertible debentures, with the option to exclude the subscription rights. Both authorized and contingent capital are presented in the table below:

	2004 EUR	2003 EUR
Authorized capital (AC)		
AC I/2004 (until May 26, 2009)	10,500,000.00	0.00
AC II (until May 25, 2005)	1,231,114.15	1,231,114.15
AC I (until June 7, 2006)	0.00	2,585,000.00
AC II (until June 7, 2006)	0.00	4,823,911.07
	11,731,114.15	**8,640,025.22**
Contingent capital (CC)		
CC I (until May 25, 2005)	1,280,000.00	1,280,000.00
CC II (until May 26, 2009)	10,240,000.00	0.00
	11,520,000.00	**1,280,000.00**
	23,251,114.15	**9,920,025.22**

The amount of the contingent capital was adjusted in connection with the capital increase performed from company funds to round up the arithmetic nominal value per share.

The amount of the authorized capital (AC I/2004) totals EUR 7,684,000, following the capital increase performed in February 2005.

d) Capital reserve

In accordance with Sec. 150 AktG ["Aktiengesetz": German Stock Corporation Act], in its proposal for profit appropriation in 2003, the management board of PSI AG proposed to offset the accumulated loss of EUR 40,867k which resulted from offsetting the net income for the year against the loss carryforward against the capital reserve.

e) Treasury shares

By resolution of the shareholders' meeting dated May 27, 2004, PSI AG was authorized, pursuant to Sec. 71 (1), No. 8 of the AktG, to acquire treasury shares, with the possibility of excluding subscription rights in the disposal of treasury shares. The authorization is valid until the end of November 26, 2005. The resolution dated June 12, 2003 to acquire shares of the Company for any purpose permitted under Sec. 71 (1), No. 8 of the AktG was cancelled, with effect from the end of the day of the shareholders' meeting of May 27, 2004.

Under that stock redemption program, 38,726 treasury shares were acquired in 2003 and 2004, for a total purchase price of EUR 159,661.81. The sale of 7,500 shares in return for the acquisition of Integral by PSIPENTA GmbH resulted in treasury shares worth EUR 129k.

The ratio of treasury shares to share capital is 0.28% or EUR 79,938.56.

Non-Current Liabilities

10 Pension Provisions

The pension provisions are recorded for obligations from future and current post-employment benefits to current and former employees of the PSI Group, as well as their surviving dependants. The provision for pension obligations is calculated in accordance with IAS 19.

With respect to company pension plans, a distinction is made between defined benefit and defined contribution plans. With defined contribution plans, the entity does not enter into any further obligations, beyond the premiums payable to earmarked funds. In line with common German practice, the defined benefit plan of the PSI Group is not secured by a pension fund. With defined benefit plans, the entity's obligation consists of fulfilling the commitments made to current and former employees; a distinction is made between pension plans financed by provisions and those financed by funds. The pension commitments of the PSI Group are financed by additions to the provisions.

The projected benefit obligation was calculated using actuarial methods for which estimates are unavoidable. In addition to life expectancy, the following assumptions play a role here:

	2004 %	2003 %
Discount rate	5.5	6.5
Increase in salaries	1.0	1.5
Increase in pensions	1.0	1.5
Turnover	4.5	4.5

The increase in salaries includes annual estimates of future salary increases, taking account of inflation and seniority.

Net pension cost breaks down as follows:

	2004 EUR k	2003 EUR k
Service cost	673	288
Interest expense	1,378	1,272
Expenses for the period	**2,051**	**1,560**

The following table shows changes in benefit obligations:

	2004 EUR k	2003 EUR k
Benefit obligation, start of period	24,348	23,695
Unrealized actuarial gains and losses	– 1,679	432
Benefit obligation, end of period	**22,669**	**24,127**

The following table shows the development of pension liability:

	2004 EUR k	2003 EUR k
Pension liability, start of period	24,127	23,023
Pension payments	– 731	– 456
Disposal by sale of Metech operating unit	– 2,778	0
Expenses for the period	2,051	1,560
Pension liability, end of period	**22,669**	**24,127**

The actuarial losses that led to an increase in the projected benefit obligation in the fiscal year resulted from changes in the discount rate(s) underlying the calculations and changes in assumptions concerning inflation and mortality rates.

Current Liabilities

11 Financial Liabilities

	2004 EUR k	2003 EUR k
Current	2,317	5,360
Non-current	0	392
	2,317	**5,752**

PSI AG has concluded several credit agreements with a nominal value totaling EUR 470k (2003: EUR 470k) for long-term financing of investments in intangible assets and property, plant and equipment. Additionally, several entities in the PSI Group use bank overdrafts for short-term financing. Interest of 4.5% p.a. (2003: 5.2% p.a.) is charged on the long-term credits and an average of 8% p.a. (2003: 8% p.a.) on bank overdrafts. The financial liabilities are repaid monthly. The aim is to achieve ongoing refinancing of the current financial liabilities.

The following table shows the planned repayment of non-current financial liabilities and current overdraft facilities:

Year	Repayment of principal EUR k
2005	2,317
2006	0
	2,317

Interest expenses amounted to EUR 1,117k in fiscal year 2004 (2003: EUR 637k).

12 Provisions

The provisions changed as follows:

	Jan. 1, 2004 EUR k	Utilized EUR k	Interest component/ interest-rate change EUR k	Reversal EUR k	Addition EUR k	Dec. 31, 2004 EUR k
Personnel provisions	1,252	– 368	227	– 21	807	1,897
Other provisions	223	– 223	0	0	151	151
	1,475	**– 591**	**227**	**– 21**	**958**	**2,048**
of which: current	378					351
of which: non-current	1,097					1,697

13 Other Liabilities

	2004 EUR k	2003 EUR k
Deferred income	2,823	5,649
Personnel-related liabilities	3,941	4,773
Tax liabilities	3,510	3,418
Social-security liabilities	1,225	1,415
Liabilities from business acquisitions	4,943	0
Sundry	2,657	3,264
	19,099	**18,519**

Personnel-related liabilities mainly contain accrued vacation, overtime and bonuses. Deferred income (deferred maintenance income) is posted to income within one year.

14 Deferred Taxes/Taxes on Income

German trade tax is levied on the taxable income of the PSI Group, adjusted by deducting amounts that are not subject to trade tax and adding certain expenses that are not deductible for trade-tax purposes. The effective trade tax rate depends on the municipality in which the PSI Group operates. The average trade-tax rate for 2004 and 2003 was approximately 17.5%. The municipal trade-tax on income can be offset against the corporate income tax. The corporate income tax rate is 25%. In addition to the corporate income tax, a solidarity surcharge of 5.5% is levied on the corporate income tax paid.

The income tax expense for the current fiscal year is as follows:

	2004 EUR k	2003 EUR k
Current tax expense		
Current year	**24**	**– 1,040**
Deferred tax income/expense		
Net change in unused tax losses	1,843	1,410
Change in long-term construction contracts	– 1,936	– 1,974
Amortization of goodwill effective for tax purposes	480	375
Amortization of internally developed software	– 265	229
Change in pension provisions	– 187	286
Other	75	299
	10	**625**
Income tax expense	**34**	**– 415**

The following table shows the reconciliation of the tax expense/income:

	2004 EUR k	2003 EUR k
Earnings before tax	– 12,305	– 3,995
Theoretical tax income (39.26%)	– 4,831	– 1,568
Non-recognition of unused tax losses and write-down of unused tax losses capitalized in prior years	5,065	3,078
Use of unused tax losses	– 228	– 1,905
Non-taxable expenses/income	28	– 20
Current tax expense/income	**34**	**– 415**

The deferred taxes disclosed in the consolidated balance sheet break down as follows:

	2004 EUR k	2003 EUR k
Deferred tax assets		
Unused tax losses, Germany	2,462	4,305
Pension provisions	515	328
German phased retirement scheme	0	21
Other liabilities	0	261
	2,977	**4,915**
Deferred tax liabilities		
Receivables from long-term construction contracts	– 1,923	– 3,799
Capitalization of internally developed software	– 567	– 911
Tax-effective amortization of goodwill	– 897	– 417
Other	– 10	– 183
	– 3,397	**– 5,310**
Deferred tax liability, net	**– 420**	**– 398**
of which: change affecting income statement	10	625
of which: change in equity	11	0
Disclosure		
Deferred tax assets	2,977	4,915
Deferred tax liabilities	**– 3,397**	**– 5,310**

The PSI Group reports unused tax losses totaling EUR 79,987k, of which EUR 76,307k is accounted for by Germany. The unused tax losses in Germany do not expire, as a rule.

D. Notes to the Consolidated Income Statement

The income statement has been prepared using the nature of expense method.

15 Revenues

	2004 EUR k	2003 EUR k
Software development and maintenance	97,249	117,101
Licenses	4,769	4,326
Merchandise	13,175	16,139
	115,193	**137,566**

16 Cost of Materials

	2004 EUR k	2003 EUR k
Cost of purchased services	11,091	13,116
Cost of purchased goods	11,360	15,380
	22,451	**28,496**

17 Personnel Expenses

	2004 EUR k	2003 EUR k
Wages and salaries	65,376	70,555
Social security, pension and other benefit costs	10,373	10,884
	75,749	**81,439**

18 Amortization and Depreciation

	2004 EUR k	2003 EUR k
of intangible assets and property, plant and equipment	2,965	5,690
of current assets	8	175
of capitalized development costs	743	481
	3,716	**6,346**

19 Other Operating Expenses

	2004 EUR k	2003 EUR k
Rent, lease and incidental costs, real estate	5,844	5,894
Travel expenses	3,822	4,174
Lost court case BASIS 3000	3,420	0
Data line, IT and telephone costs	3,363	3,756
Advertising and marketing activities	2,301	2,915
Lease costs, movable property	1,920	2,625
Legal and consulting fees	1,514	1,334
Project costs	1,221	1,855
Sundry	3,094	2,288
	26,499	**24,841**

20 Earnings per Share

Pursuant to IAS 33, basic earnings per share are calculated by dividing the Group's net income for the year by the number of no-par-value shares.

	2004	2003
Net loss for the year (EUR k)	– 12,271	– 4,789
Number of weighted no-par-value shares (thousand shares)	11,010	11,011
Basic earnings per share (EUR/share)	**– 1.11**	**– 0.43**

For the purpose of calculating diluted earnings per share, the net income attributable to ordinary shareholders and the weighted average number of shares outstanding are adjusted for the effects of all potentially diluting ordinary shares from conversion of share options. For this purpose, the number of ordinary shares taken into account is the weighted-average number of ordinary shares plus the weighted-average number of ordinary shares which would be issued on the conversion of all the potentially dilutive ordinary shares into ordinary shares. Share options are deemed to have been converted into ordinary shares on the date when the options were granted. As of December 31, 2004 and December 31, 2003, there was no dilutive effect from stock options issued.

PSI AG applies IAS 33 (revised 2003).

Stock-Option Plan

The Company has issued stock options to employees as part of its stock-option plan. The objective of the stock-option plan is to attract and retain personnel and promote the success of the Company by providing employees with the opportunity to acquire share capital.

The Company is entitled to issue 500,000 options for the acquisition of shares in PSI AG to employees of PSI AG and its affiliated companies until May 25, 2005. The Company has not made use of this right.

Under the 2000/2003 stock-option plan (the "2000/2003 plan"), the Company issued 86,400 options for the acquisition of shares (86,400 shares) in PSI to employees of PSI AG. The options entitle the bearer to purchase shares in the Company at a price of EUR 24.13 and to exercise the option for the first time after about two and a half years. No further conditions were stipulated for exercising the options.

Under the 2001/2003 stock-option plan (the "2001/2003 plan"), the Company issued 121,400 options for the acquisition of shares (121,400 shares) in PSI to employees of PSI AG. The options entitle the bearer to purchase shares in the Company at a price of EUR 17.79 and to exercise the option for the first time after about two years. No further conditions were stipulated for exercising the options.

Under the 2002/2004 stock-option plan (the "2002/2004 plan"), the Company issued 116,300 options for the acquisition of shares (116,300 shares) in PSI to employees of PSI AG. The options entitle the bearer to purchase shares in the Company at a price of EUR 3.65 and to exercise the option for the first time after about two years. No further conditions were stipulated for exercising the options.

Changes in stock-option plans are shown in the following table:

	2000/2003 plan Options	2001/2003 plan Options	2002/2004 plan Options
Outstanding options as of Dec. 31, 2002	**73,050**	**109,300**	**109,500**
Options granted	0	0	0
Options exercised	0	0	0
Options forfeited	– 73,050	– 109,300	– 1,200
Outstanding options as of Dec. 31, 2003	**0**	**0**	**108,300**
Options granted	0	0	0
Options exercised	0	0	0
Options forfeited	0	0	– 108,300
Outstanding options as of Dec. 31, 2004	**0**	**0**	**0**

As of December 31, 2003, the fair value amounted to EUR 3.92 for the options from the 2000/2003 plan, to EUR 3.07 for the options from the 2001/2003 plan and to EUR 0.85 for those from the 2002/2004 plan.

E. Notes to the Cash Flow Statement

The cash and cash equivalents disclosed are not subject to any restrictions by third parties on disposal. The PSI Group has not made any payments for extraordinary transactions. Interest and income tax payments have been disclosed; a dividend was not paid.

PSI AG lost its appeal in a lawsuit against a customer (BASIS 3000 project) before a court of second instance. This resulted in non-cash expenses from write-downs of EUR 3.4 million (disclosed in the Information Management segment). Legal and consulting costs, as well as interest expenses of EUR 0.8 million affecting on cash were also incurred in this context.

Further non-cash effects mainly resulted from bad debt allowances for receivables from customers of EUR 599k (disclosed in the Production Management segment) and inventory write-downs of EUR 160k (disclosed in the Information Management segment).

Purchase prices for acquisitions of EUR 4,943k affected the cash flow in fiscal 2005. Therefore, capital expenditures and related liabilities are not included in the cash flow statement as transactions affecting cash.

F. Notes to the Segment Reporting

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

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

Segment reporting by business segment is attached to these notes to the consolidated financial statements.

Network Management

The Network Management segment mainly comprises the business activities of the energy, gas/oil/water and telecommunications divisions (of PSI AG), Büsing & Buchwald GmbH, PSI Transportation GmbH and Nentec GmbH, which mainly involve the development, introduction, service and maintenance of customized software in the utilities, telecommunications and public transport spheres. During the fiscal year, there were no sales in which a single customer achieved a sales volume of more than 10% of total sales for the segment.

Production Management

The Production Management segment mainly comprises the business activities of PSI-BT AG, with solutions for the steel and chemicals industries; PSI Logistics GmbH, with products and solutions for warehouse logistics; and Psipenta, with products and – increasingly also – solutions for the manufacturing industry.

PSI AG/Switzerland and PSI AG/UK exclusively sell the portfolio of PSI AG in these regions. A new business division of PSI AG (PSI Manufacturing) was formed in 2003. The PSI Manufacturing division is in the start-up phase. That division and the subsidiary acquired, GSI, were allocated to the Production Management segment. In the fiscal year, there were no sales in which a single customer achieved a sales volume of more than 10% of total sales for the segment.

Information Management

The Information Management segment mainly contains the business activities of the Public Management division (of PSI AG) and PSI Information Management GmbH. The Information Management segment mainly sells software solutions for public authorities. During the fiscal year, there were no sales in which a single customer achieved a sales volume of more than 10% of total sales for the segment.

The segment assets and liabilities can be reconciled as follows with gross assets and liabilities:

	2004 EUR k	2003 EUR k
Gross assets pursuant to the balance sheet	96,782	119,913
Shares in associates	– 663	– 749
Deferred tax assets	– 2,977	– 4,915
Segment assets	**93,142**	**114,249**

	2004 EUR k	2003 EUR k
Gross liabilities pursuant to the balance sheet	72,142	80,474
Tax provisions	– 420	– 563
Deferred tax liabilities	– 3,397	– 5,310
Segment liabilities	**68,325**	**74,601**

Additional Geographic Disclosures

The geographic segment information additionally required is not included, as the segment revenues and segment assets per geographic segment do not account for more than 10% of total revenues and total assets.

G. Special Explanations pursuant to Sec. 292a of the HGB (German Commercial Code)

The recognition, measurement and consolidation methods used under IFRS differ in the following main respects from the HGB provisions:

Secs. 266 and 275 of the HGB contain **provisions governing the form and classification** of the balance sheet and the income statement. In accordance with the IFRS, the balance sheet must disclose current and non-current assets and liabilities separately.

Under IFRS, internally generated **intangible assets** must be recognized if the criteria for recognition are satisfied. Under the HGB, they may not be capitalized.

Under IFRS, **securities** classified as “available for sale” are measured at fair value. The changes in fair value are reported under other comprehensive income in the equity section of the balance sheet. Upon realization, the change in fair value is eliminated from other comprehensive income with affecting earnings. Under the HGB, securities are measured at amortized cost.

By contrast to the HGB, IFRS only permit the sales market to be used to determine the lower carrying amount of **inventories.**

Under IFRS, revenue is recognized proportionately for **customer-specific construction contacts** in accordance with the percentage-of-completion method. Under the HGB, revenue generally may be recognized only following delivery and acceptance of the total order.

Under IFRS, **deferred taxes** must be recorded for all temporary differences between the carrying amounts in the tax accounts and the consolidated balance sheet. Unlike the HGB, deferred taxes are also recorded for quasi-permanent differences and unused tax losses.

Under the HGB, deferred taxes are determined on all temporary differences between the commercial and tax balance sheets in accordance with the timing concept.

Under IFRS, the **pension provisions** are measured using the projected-unit-credit method. In addition to the current and future pension claims, future anticipated pension increases are considered.

Under IFRS, **provisions** are recorded when the probability of a payment is higher than 50%. The provisions are measured at the settlement amount. For non-current provisions, future events that may affect the settlement value must be reflected in the amount of a provision. Non-current provisions are discounted using an interest rate adequate for the term and adjusted for risk.

Under the HGB, accruals are created as prudent business judgment requires on the balance sheet date. Discounting may only be performed if the underlying liability contains an interest portion.

Under IFRS, monetary items in foreign currency are translated at the closing rate. Exchange gains and losses are recorded with effect on income under IFRS. Under the HGB, monetary items in foreign currency are recognized at the lower or higher closing rate in accordance with the imparity principle.

H. Other Notes

Other Financial Obligations and Contingent Liabilities

Rent and lease agreements

Office equipment, data processing systems and other equipment have been rented on the basis of operating leases. In 2004, lease payments for office equipment amounted to EUR 116k (2003: EUR 116k) and for data processing systems and other equipment to EUR 330k (2003: EUR 799k).

During fiscal year 1996, PSI AG entered into a rent agreement for an office building in Berlin. The rent agreement has a fixed term until March 31, 2012.

These and other rent and lease agreements result in the following rent and lease payments:

	Rent payments EUR k	Lease payments EUR k	Total EUR k
2005	3,336	1,091	4,427
2006	3,033	523	3,556
2007	2,932	210	3,142
2008	2,360	15	2,375
2009	2,209	3	2,212
From 2010 onwards	4,629	3	4,632

Bank guarantees

Various insurance companies and banks have assumed guarantees of EUR 29,951k (2003: EUR 35,117k) for PSI AG.

Declarations of subordination and letters of comfort

PSI AG has issued declarations of subordination for a total of EUR 2,687k for various subsidiaries from which receivables are due. In addition, it has issued letters of comfort for subsidiaries.

Related Parties

Parties are considered to be related if they have the ability to control the PSI Group or exercise significant influence over it in making financial and operating decisions. Besides existing control agreements, trust relationships were taken into account when determining the significant influence that related parties have over the PSI Group's financial and operating decisions.

Related parties – companies

The affiliated entities and associates included in the consolidated financial statements are related parties. There are no further entities that are related parties.

Related parties – persons

The following persons are related parties:

Management board members of PSI AG	Supervisory board members of PSI AG		
Dr. Harald Schrimpf	Christian Brunke	Klaus Linke	Dirk Noß
Armin Stein	Wolfgang Dedner	Karsten Trippel	Barbara Simon

Related-party transactions

There were no business transactions during the fiscal year between related parties and the PSI Group.

Remuneration of the Management Board and Supervisory Board

The management board of PSI AG received remuneration of EUR 455k during fiscal year 2004 (2003: EUR 397k).

The management board's remuneration consists of a fixed component and a variable component from 2003. There are no pension obligations to the management board.

Pension provisions for former management board members are reported at EUR 978k (2003: EUR 808k). The increase is mainly due to compounding.

The supervisory board received remuneration of EUR 82k (2003: EUR 73k).

Shares are held as follows by the management board and the supervisory board:

	Shares Number		Shares Number		Shares Number
Management board					
Armin Stein	4,000				
Dr. Harald Schrimpf	28,000				
Supervisory board					
Christian Brunke	5,000	Klaus Linke	2,770	Barbara Simon	7,890
Wolfgang Dedner	25,300	Dirk Noß	56	Karsten Trippel	78,118

Information on the German Corporate Governance Code

The declaration of compliance was submitted on December 15, 2004 and can be accessed by the shareholders on the homepage of PSI AG (www.psi.de) in the investor relations section.

Berlin, February 18, 2005

Dr. Harald Schrimpf
Board of Directors

Armin Stein
Board of Directors

Report of the independent auditors for the exempting consolidated financial statements in accordance with 292a of the HGB

We have audited the consolidated financial statements of PSI Aktiengesellschaft für Produkte und Systeme der Informationstechnologie, Berlin, from January 1, 2004 to December 31, 2004, including the consolidated balance sheet and the related consolidated statement of income, cash flows, changes in shareholders' equity and notes for the year then ended. The legal representatives of the Company are responsible for the preparation and content of the consolidated financial statements. Our responsibility is to express an opinion, based on our audit, whether these consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

We conducted our audit in accordance with the German Auditing Rules and in compliance with the general accepted standards of auditing prescribed by the German Institute of Certified Public Accountants (Institut der Wirtschaftsprüfer). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. In establishing the audit procedures, we considered our knowledge about the Group's business operations, its economic and legal environment, and expectations of possible errors. An audit includes examining the effectiveness of the internal accounting control system and, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. The audit also includes assessing the accounting principles used and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present a true and fair view of the Group's net assets, financial position and results of operations in accordance with International Financial Reporting Standards.

Our audit, which also includes the management report for the fiscal period from January 1, 2004 to December 31, 2004 – which is the responsibility of the Company's management – has not given rise to any reservations. In our opinion, the management report and the additional disclosures in the consolidated financial statements convey a suitable presentation of the situation of the PSI Group taken as a whole and adequately present the risks to its future development. Additionally, we confirm that the consolidated financial statements and the Group's management report for the fiscal period from January 1, 2004 to December 31, 2004 meet the requirements for an exemption from preparing consolidated financial statements and the Group's management report in accordance with the rules and regulations of the German Commercial Code. An audit of the requirements for the consolidated financial statements to comply with the 7th EC Directive in order to be exempted from German rules and regulations is based on the interpretation of the Directive by GAS 1, "Exempting Consolidated Financial Statements in accordance with Sec. 292a of the German Commercial Code" issued by the German Accounting Standards Committee.

Ernst & Young AG • Wirtschaftsprüfungsgesellschaft

Selter (Wirtschaftsprüfer) Glöckner (Wirtschaftsprüfer)

Berlin, February 25, 2005

Karsten Pierschke Head of Investor Relations

"At PSI, many positive things are happening. We are striving to have our achievements rewarded by the stock market, as well."

Investor Relations: 2005 Financial Calendar

Publication of Annual Results	March 17, 2005
Presentation to Analysts	March 17, 2005
Report on first-quarter results	May 3, 2005
General Shareholders' Meeting	May 19, 2005
Report on second-quarter results	August 2, 2005
Report on third-quarter results	November 2, 2005

PSI Shares

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

We would be happy to add your name to our distribution list for shareholder information and to send a copy of our Annual Report to you, at your request.

You may also obtain up-to-date information on our company at **www.psiag.com/ir**

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