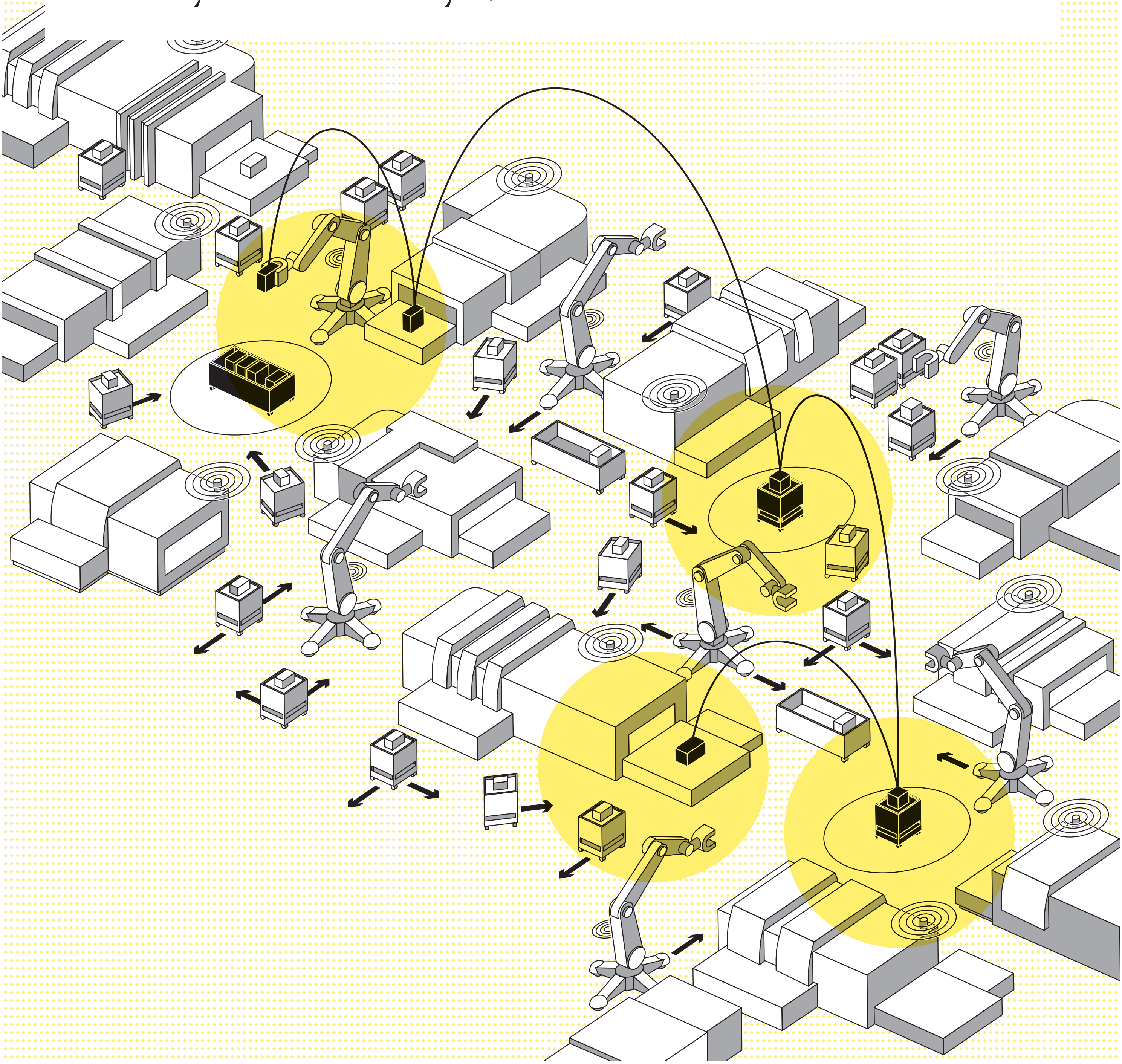
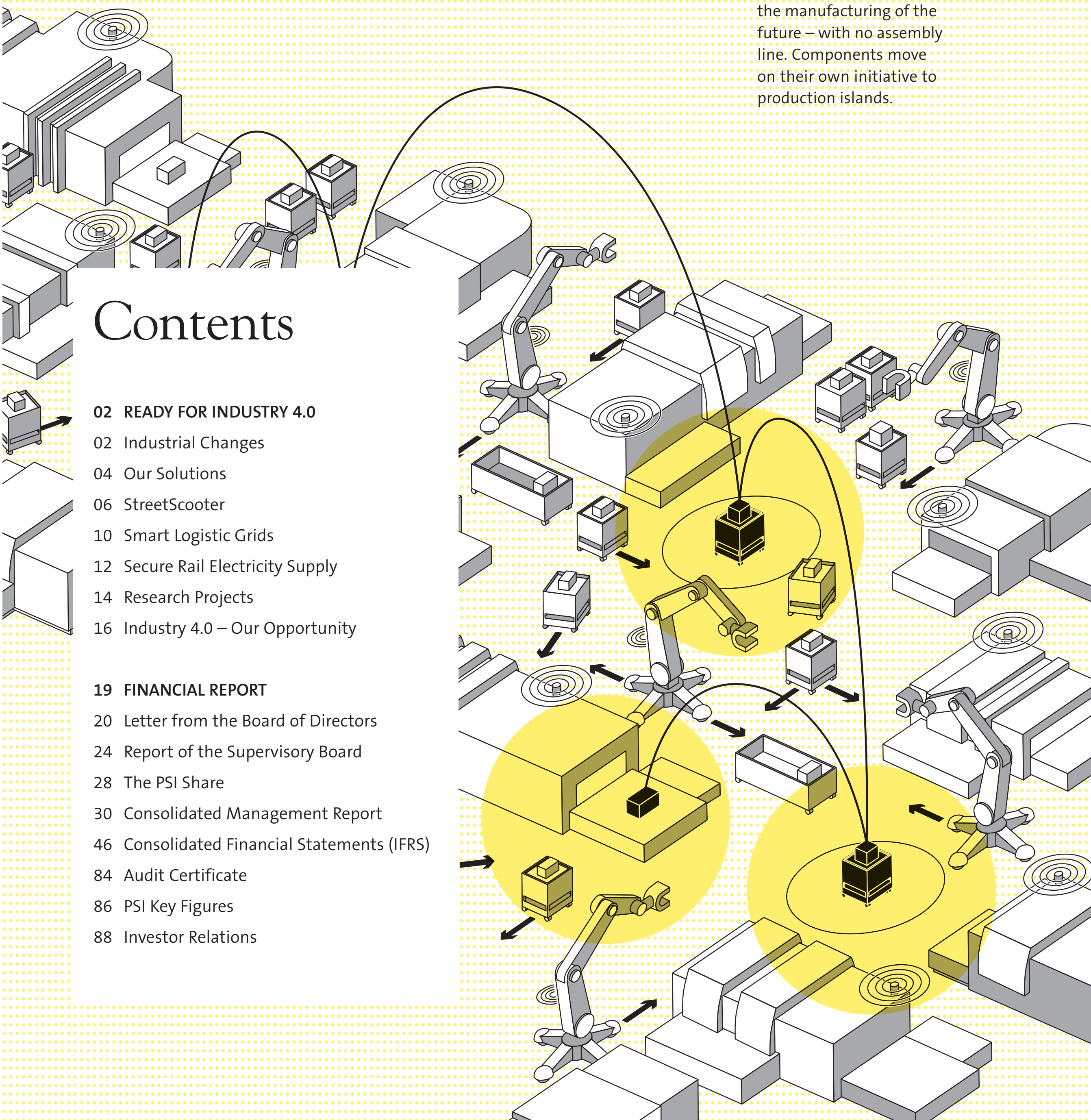
ANNUAL REPORT 2013

Ready for Industry 4.0



PSI

Our title illustration shows the manufacturing of the future – with no assembly line. Components move on their own initiative to production islands.



Contents

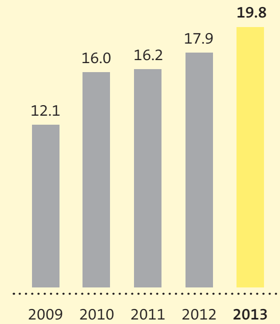
PSI Group Research and Development

+11%

EXPENDITURES FOR
RESEARCH & DEVELOPMENT

RESEARCH FOCI

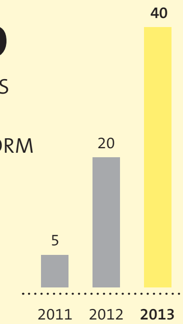
1. Industry 4.0
2. Transport management system
3. New control system release
4. Virtual power plants
5. Group technology platform



R&D SPENDING
in EUR million

23%

OF GROUP REVENUES
BASED ON THE NEW
TECHNOLOGY PLATFORM

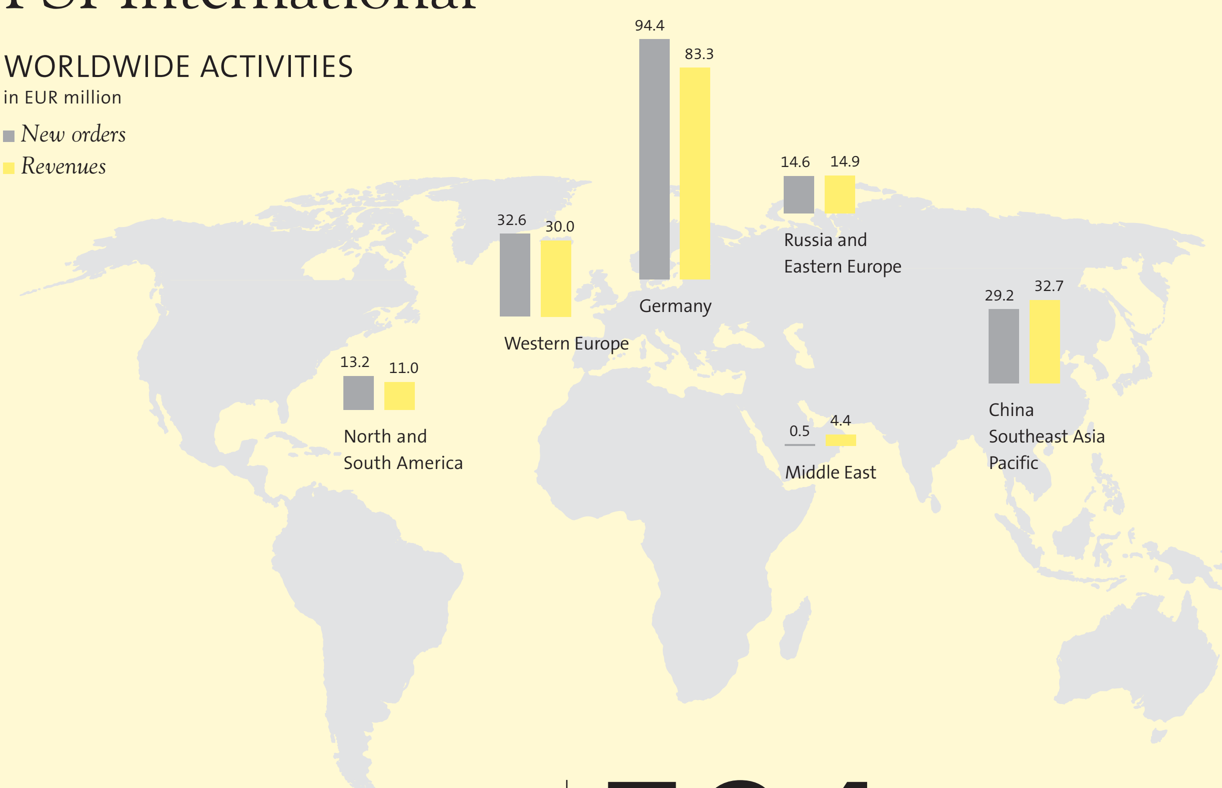


GROWTH IN REVENUES BASED ON
THE NEW TECHNOLOGY PLATFORM
in EUR million

PSI International

WORLDWIDE ACTIVITIES
in EUR million

New orders
Revenues



504%

EXPORT SALES GROWTH
IN THE LAST NINE YEARS

584

EMPLOYEES IN EXPORT MARKETS

Austria, Bahrain, Belgium, Brazil, China, Germany, Great Britain, India, Malaysia, Oman, Poland, Russia, Switzerland, Thailand, Turkey, USA

Our Core Competencies

— On the basis of its own software products, **PSI AG develops and integrates** complete solutions for energy management (gas, oil, electricity, heat, energy trading), production management (raw materials extraction, metal production, automotive, mechanical engineering, logistics) and infrastructure management for transport and safety. PSI employs 1700 people around the world.

— **Innovations are our business.** In close cooperation with industry-leading pilot customers, we continually develop new functions and products. In doing so, we leverage findings from joint research with leading scientific institutions.

PSI Group in Figures (IFRS) in EUR million

	2013	2012	%
Revenues	176.3	180.9	−2.5
Operating result	4.2	12.9	−67.4
Earnings before taxes	3.1	11.3	−72.6
Group net result	0.4	9.4	−95.7
Shareholders' equity	67.3	73.6	−8.6
Equity ratio (in %)	37.8	39.5	−4.3
Shareholders' equity (in %)	0.6	12.8	−95.3
Investments [1]	5.1	5.2	−1.9
Research & Development expenditure	19.8	17.9	10.6
Research & Development ratio (in %)	11.2	9.9	13.1
New orders	185	188	−1.6
Order backlog on Dec 31	118	118	0.0
Employees at Dec 31 (number)	1,692	1,591	6.3

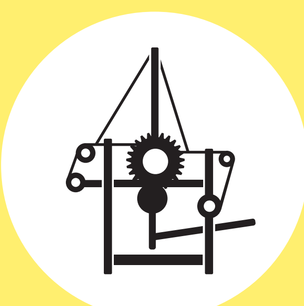
[1] Corporate acquisitions, intangible assets, plant and equipment.

The Future Belongs to Smart Production

The revolutionary concept of self-organising, flexible production will soon conquer the world. Early on, PSI started to prepare its products for the requirements of Industry 4.0.

Industry in Transition

1.0



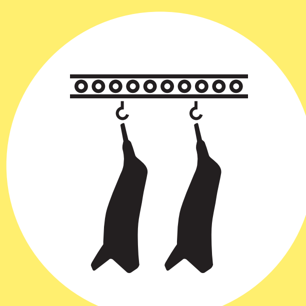
1784

The mechanical loom. The first mechanical production plants using water and steam power.

CONSEQUENCE:
Replacement of human and animal power by mechanical power. Emergence of mechanical engineering as a new discipline.

OPPORTUNITIES:
Beginning of industrial manufacture in the modern sense. Shift from agrarian to industrial economies, prosperity for more classes of society.

2.0



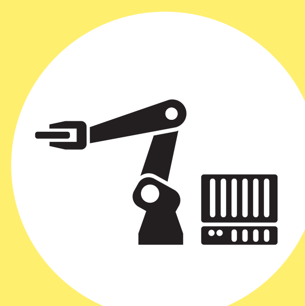
1870

The first assembly line in the slaughter-houses of Cincinnati. The introduction of division of labour in production using electrical power.

CONSEQUENCE:
Intensified mechanisation and start of series and mass production of goods.

OPPORTUNITIES:
The use of electricity makes production processes more controllable, luxury goods become affordable.

3.0



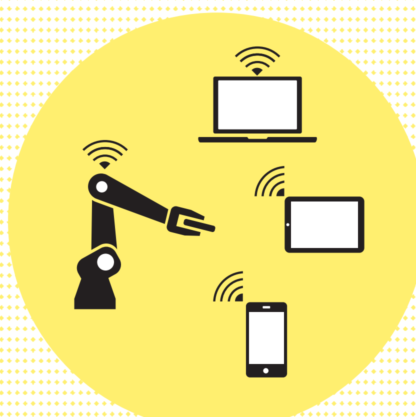
1969

The first programmable control. Beginning of the use of electronics and IT for greater automation of production.

CONSEQUENCE:
Robots perform complex tasks formerly only done by humans.

OPPORTUNITIES:
Higher productivity and product quality. Export markets can be addressed through more efficient production. Faster growth.

4.0



— The “Industry 4.0” program in Germany is extending the paradigms of Internet economy to the production of goods. Through to 2025, this fourth industrial revolution will disrupt, recombine or replace many of the achievements of the last one.

— Mobile Internet technology will give rise to highly flexible, self-organising production. Production cells will replace the assembly line. Machines will use a kind of HTML of the machine world to communicate their capabilities in the cloud. Workpieces will carry grain-sized microprocessors equipped with capabilities like wireless communication and satellite navigation. The processing plan will be stored on each microprocessor, so the workpiece can make its way through the process independently by requesting transport. The advantages of this new value-creation chain – flexibility, efficiency and differentiation are better than with conventional production methods.

Our Solutions Support the Structural Shift to Industry 4.0

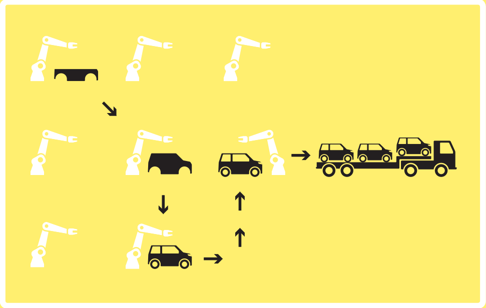
— As one of the most experienced software companies in Germany, PSI has long experience in the creation of solutions for the entire production and logistics process, as well as all planning levels. This puts us in a position to effectively support the step-by-step implementation of the fourth industrial revolution.

Working closely with leading partners in science, R&D and industry, we are involved in multiple research projects for the implementation of the Industry 4.0 vision in production and logistics. The results are tested in practice in pilot projects and flow back into the further development of our software products so they are available to all PSI customers.

The combination of close customer relationships, pioneering research projects and important industry standards as elements of our company platform is an important part of our product strategy. It ensures that our solutions are ready for existing and future trends, and actively support the structural shift to Industry 4.0. —

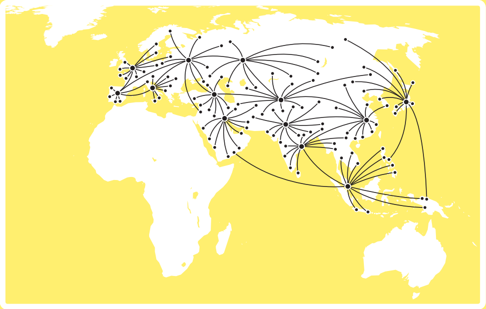
STREETSCOOTER Page 6

Innovative production concepts
for affordable electric mobility



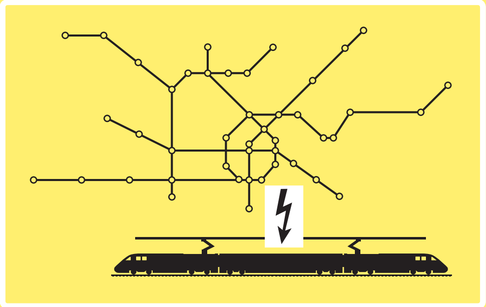
SMART LOGISTICS NETWORKS Page 10

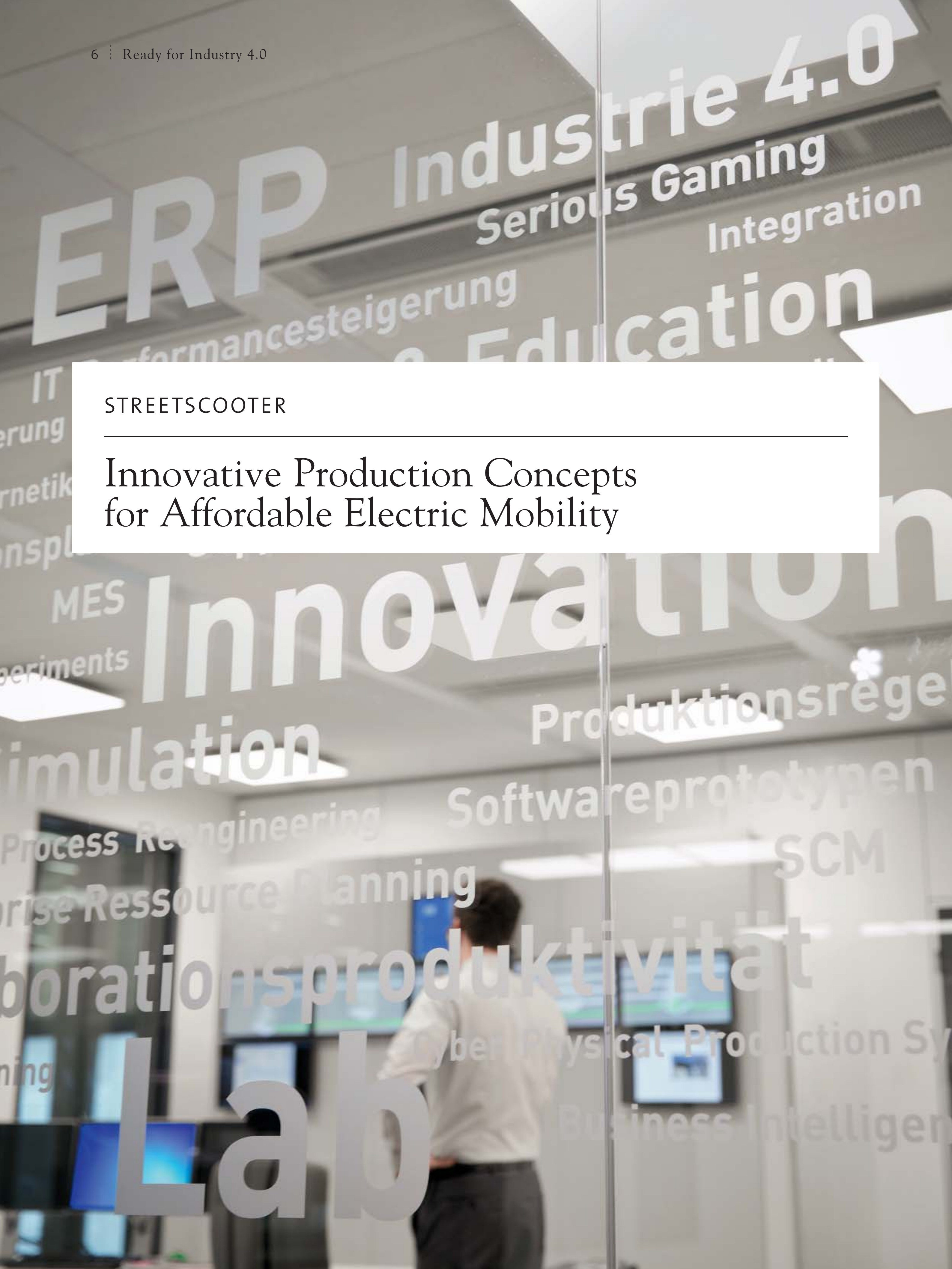
Improved logistics structures through
integrated transport management



SECURE RAIL ELECTRICITY SUPPLY Page 12

New standard system for efficient and
secure electricity network control





STREETSCOOTER

Innovative Production Concepts for Affordable Electric Mobility

Affordable electric cars for deliveries and short trips – with StreetScooter GmbH, SMEs and research institutions are making this shared vision a reality. PSI supplied the software for the planning and control of the complete production process, which is taking new directions in efficiency.

REAL-TIME PRODUCTION THANKS TO INTEGRATED SOFTWARE

Through the integration of all software components, for the first time it has been possible to model all processes from ordering to design changes to purchasing, production planning and control, down to the workshop level.

In the self-organising, flexible manufacturing of the future, networked production islands will take the place of the assembly line.

For many years, PSI software has helped bring together the various processes in industrial companies, making a major contribution to the fourth industrial revolution.

At RWTH Aachen, innovative production concepts are being developed together with private industry, associations and the public sector.

From Research to Practice

Within a short time, the StreetScooter research network has created a whole new class of vehicle. Its innovative structure and development concept made it possible to develop the first series-ready electric car model in about half the time and at a tenth of the costs.

The innovative methods of the fourth industrial revolution are already being tested in a demonstrator factory at the new RWTH Aachen campus.

PSI provided the software basis for order processing, production planning and control and the conceptual approaches for optimising the feed-in of electricity to the production process. The project uses new methods and standards developed in various research projects on subjects involved in the fourth industrial revolution.

RAPID PACE OF INDIVIDUAL DEVELOPMENTS

In just a year, based on the StreetScooter prototype, a customer-specific variant for use as a mail delivery vehicle was developed, tested and made ready for series production. This individually designed electric car was approved for road use in early 2014, and 50 vehicles are being tested in the Bonn area under conditions of actual use.

MODULAR FLEXIBILITY

The vehicle was designed from the outset to have a thoroughly modular structure. This means that StreetScooter can be repurposed and reconfigured for a host of different applications. This in turn means that it can be produced in lower numbers than conventional automobiles while remaining cost-competitive – thanks to innovative Industry 4.0 concepts and flexible IT support.

Scan this symbol with your smartphone to access our video on the real-time production system used for the StreetScooter.

“We need an affordable car to help bring about the breakthrough for electric mobility.”

–50%
DEVELOPMENT
TIME

+

–90%
DEVELOPMENT
COSTS

Within a year, the individually designed electric transporter was developed based on the Compact model.

SMART LOGISTICS NETWORKS

Improved Logistics Structures through Integrated Transport Management

> "Smart logistics networks with dynamic optimisation make it possible to save up to 10% of transport costs and emissions"

Logistics is a major element in globally networked value creation processes, and critical to success. Logistics networks must be adaptable in order to react quickly and flexibly to changes. At the same time, they must be fault-resistant in order to ensure reliable supply.

NEW INTEGRATED TRANSPORT MANAGEMENT SYSTEM

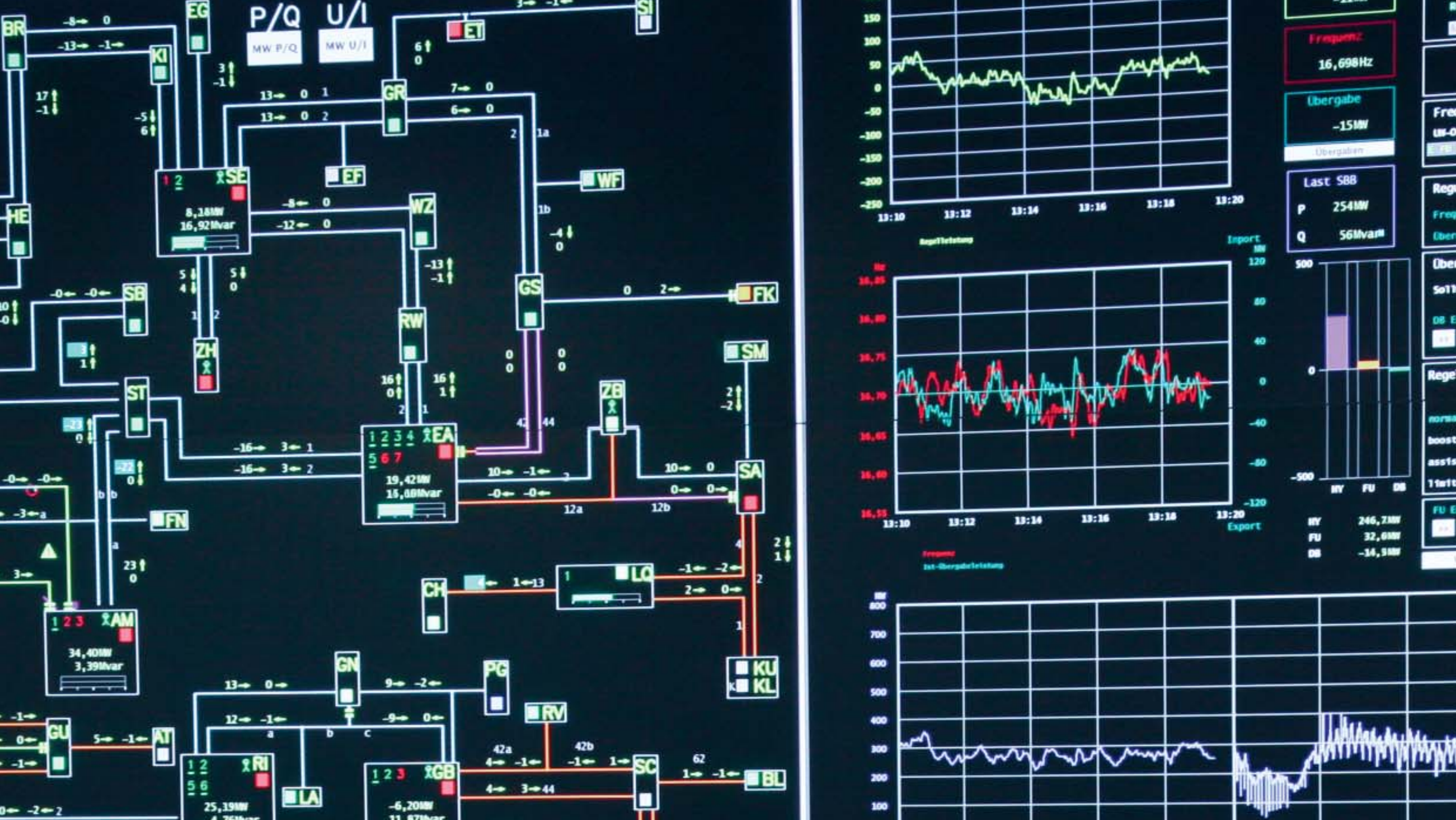
To accomplish this, PSI worked with a large logistics company to develop an integrated transport management system that combines logistics network optimisation with operative control of transportation processes.

The new transport management system combines optimisation of capacity usage of all transport resources with faster reactions to short-notice quantity changes and changes in service location.

This new software has already proven its performance in pilot projects. It gives logistics service providers many of the functions they will need for the fourth industrial revolution.

With completion of the pilot project, PSI is marketing the new modular logistics system to other customers. We are already seeing high demand and considerable growth potential.

The newly developed transport management system helps large logistics providers reduce their transportation costs.



SECURE RAIL ELECTRICITY SUPPLY

New Standard System for Efficient and Secure Electricity Network Control

"The new PSI control system is at the heart of the power supply for the world's busiest rail network."

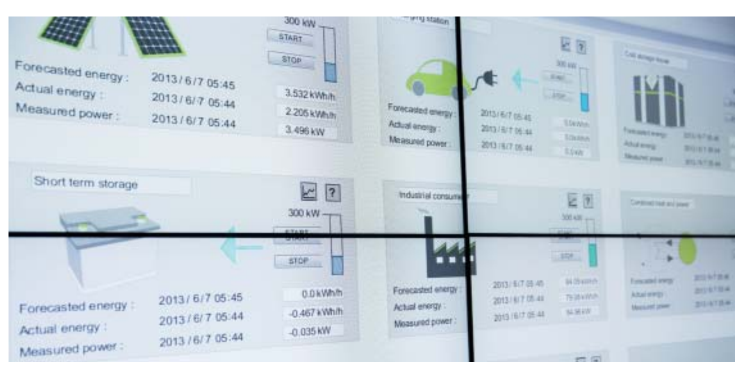
The PSI Group made significant investments in its product base in 2013. The focus was on transformation of the PSI*control* system to a multinetwork-capable standard system and the development of new functions for a secure railway electricity supply.

The new rail power system includes the regulation and optimisation of electricity production and transfer from the power station to the overhead lines, and control of the overhead lines along railways.

The new generation control system has many innovative functions as standard features, such as decentralised feed-in management and dynamic monitoring of limit values and overhead lines, that help transmission and distribution network operators manage the increasing amount of energy coming from renewable sources.

INTEGRATED SOLUTION FOR VIRTUAL POWER PLANTS

This all-in solution for virtual power plants lets operators combine a wide number of decentralised energy producers, storage and consumers. This makes it possible to integrate and market renewable energy generation.



PSI's new solution for virtual power plants combines a central portfolio management system with real-time plant monitoring and control.

Since early 2014, the most heavily-travelled rail network in the world, the Swiss SBB, has run with PSI control systems.

Research Projects for the Fourth Industrial Revolution

Flexibility and a high degree of automation are the competitive advantages of a high-salary country like Germany. In order to secure them, PSI AG pursues research together with excellence clusters in German engineering and leading universities. Five projects are considered cornerstones for the fourth industrial revolution.

AUTONOMIK FOR INDUSTRY 4.0

Optimised Planning and Control of Very Small Series Production

www.autonomik.de

FUZZY LOGIC FOR A WELL-ORGANISED PATH TO THE FINISHED PRODUCT

Lean production planning for very small series requires a radical new approach. This project favours decentral, highly flexible material flow units using cyber-physical systems (CPS) that perceive their surroundings by means of intelligent sensors. A new planning methodology is under development, as are an operating concept for decentralised very small series production of electric vehicles, a control concept for CPS for automotive production and material supply, a monitoring and assistance system for early fault detection and a simulation system for production control.

ProSense

Intelligent Production Control

www.prosense.info

INDIVIDUAL PRODUCTION, PUNCTUAL DELIVERY

The goal of this project is to develop a production control system that enables individual, flexible production to meet dynamic market demands. This high-resolution, adaptive system uses cybernetic support systems and intelligent sensors.

Smart Logistic Grids

Adaptable Multimodal Logistics Networks

INTEGRATED LOGISTICS PLANNING AND CONTROL

The goal of this research project is the development of a system that permits better action alternatives along a logistics network and thus improves the overall system efficiency. In it, methods and systems are being developed for the comprehensive treatment, development and optimisation of global logistics networks.

www.fir.rwth-aachen.de/forschung/forschungsprojekte/smart-logistic-grids-19-g-13002c

EUMONIS

Operation and Maintenance of Renewable Energy Systems

SOFTWARE AND SYSTEM PLATFORM FOR MONITORING SYSTEMS

The EUMONIS project addresses the operation and maintenance of renewable energy plants (RE), such as wind, solar and bioenergy production facilities, throughout plant life cycles. Integrated operations planning and service management software systems are being developed that allow all participants in the RE plant life cycle to communicate on a central platform.

www.eumonis.org

WInD

Adaptable Production Systems

NETWORK COORDINATION, PRODUCTION PLANNING AND CONTROL

The overall goal of this project is to develop an adaptable production system for mechanical and plant engineering. This will enable production networks to be substantially better coordinated and planning to be improved. It will be made possible by integrated IT structures, decentral production planning and the ability to decentralise production control.

www.win-d.de

Industry 4.0 – Our Opportunity

An interview with Prof. Dr. Günther Schuh and
Prof. Dr. Volker Stich of RWTH Aachen

Left: Univ.-Prof. Dr.-Ing. Dipl.-Wirt. Ing. Günther Schuh, Director of the Institute of Efficiency Research (FIR) RWTH Aachen.
Right: Prof. Dr.-Ing. Volker Stich, managing director of FIR and head of the Logistics research cluster.

As a high-salary country, Germany must move away from mass production. The goal is to make custom products at the same cost and speed as mass production. This will take a revolution in production processes – Industry 4.0. The unique combination of Internet technologies – networking people, machines and systems – and German engineering will give the country a competitive advantage over the low-wage countries.

> Industry 4.0 – what's new about it compared to conventional industrial production?

< *Prof. Schuh:* People, machines and systems will be much more integrated, and so will work together much more productively. We call it collaborative productivity. It leads to a higher level of cooperation that will substantially improve the development and production process. Person-to-person communication is intensifying, since in a couple of years everyone will have 10 to 20 mobile connected devices. And the same thing will take place between people and machines and from machine to machine. Objects will become proactive. They will detect conditions and say "Now I must report that something is not right."

> Are we talking about a revolution or an evolution?

< *Prof. Schuh:* Many major evolutionary advances are coming together. Taken individually they are not a revolution.

The first is that now we can finally achieve consistent data storage, as it was "one single source of truth." Previously companies have used different data media in different data holding sites, with the risk that they would not always be the same. So we've had to compare and collate over and over.

The second evolution is that with the cloud we can access data much better and store it more efficiently. We can also do much more high-performance and high-speed computing, which we production controllers have not yet learned to work with.

The third evolution is the decreasing cost and increasing capabilities of automation. Computer graphics are bringing the game industry into our production devices as we use it for controls and machines. Within a few years the costs for robotics will sink by a factor of five to ten.

The fourth evolution is social media, where young employees are at home. They work differently. If they're not constantly connected they feel like something's wrong. This speed, openness and presence naturally creates potential for productivity, ideally collaborative productivity.

If we get these four evolutions to work together, we will have a revolution in production.

> Who will lead it? Government, science, vendors or users?

< *Prof. Schuh:* An institution that is only 10 or 15 years old has taken the lead role: acatech, the German Academy of Technical Sciences. It has wide and high-level access to researchers, but also to vendors and users. It works to lay the groundwork for government, which then puts out bids and programmes including subsidy programmes. In doing so acatech enables an effective interplay between the public and research sector, while itself having no commercial interest. No sooner had this topic appeared as a potential development than the Federal Education and Research Ministry initiated the first project, "Industry 4.0", funded with EUR 200 million. Now we have project 2, "Internet-based business services", which builds on it. So the players are working together under sound leadership, better than has been the case in the past 20 or 30 years in my opinion.

< *Prof. Stich:* Plus, for the first time we have strong leverage, because Industry 4.0 is part of the government's high-tech strategy.

> How important is the Industry 4.0 vision for Germany's future as an industrial country?

< *Prof. Stich:* Germany is creating another unique selling proposition in engineering, a category where Germans are seen as having real strength. Disciplines are truly coming together for the first time, namely automation, IT and production technology. The way we push this combination in Germany will be hard for anyone else to copy any time soon.

< *Prof. Schuh:* I think that the attractiveness of a manufacturing location in future will no longer be a matter of the relationship of site, production and factor costs to product value. The speed and effort to run up series production will be more and more important, and so will the way we manage changes in series production. Static, stable, steady-state production will be less and less common.

And that is the opportunity for Germany as a location. Because Industry 4.0 will reduce the effort required to reach series production status. So I can get up to speed much faster, do development much faster through this collaborative productivity, and be much better able to cope with changes. Changes will not be a problem, because I'll be able to implement them at much less cost. At that point people will start to think about whether it's worth it to produce in China or India, although the operative factor costs are much lower. Try to get a production programme change done in China that wasn't planned yesterday but has to be in operation tomorrow. When you see the effort it takes to get a change implemented in a robust and quality-controlled fashion, you'll see that, in terms of qualifications and Industry 4.0 infrastructure, Germany will suddenly become a relatively inexpensive and definitely high-performance production location. Because we can make the chain from idea to product to execution so efficient, the other factor cost disadvantages will be more than compensated.

> To what extent will Industry 4.0 make production more sustainable?

< *Prof. Schuh:* A factory can work sustainably only when it works close to capacity. Industry 4.0 improves the transparency and controllability of the value creation chain, leading to better use of capacity and so more efficient use of materials.

And perhaps a word about the role of people: 20 to 24% of people in our society are not highly qualified. Industry 4.0 can offer jobs that are suitable for people with lower or moderate qualifications. But these jobs won't happen by themselves. We have to create the right value creation chains in dialogue with all societal groups, especially the unions.

< *Prof. Stich:* Industry 4.0 should lead to higher satisfaction at all qualification levels. Higher transparency leads to better understanding and thereby to more opportunities for individuals to make a difference, which in turn leads to higher satisfaction.

> What would be your recommendation to companies, short-term and long-term?

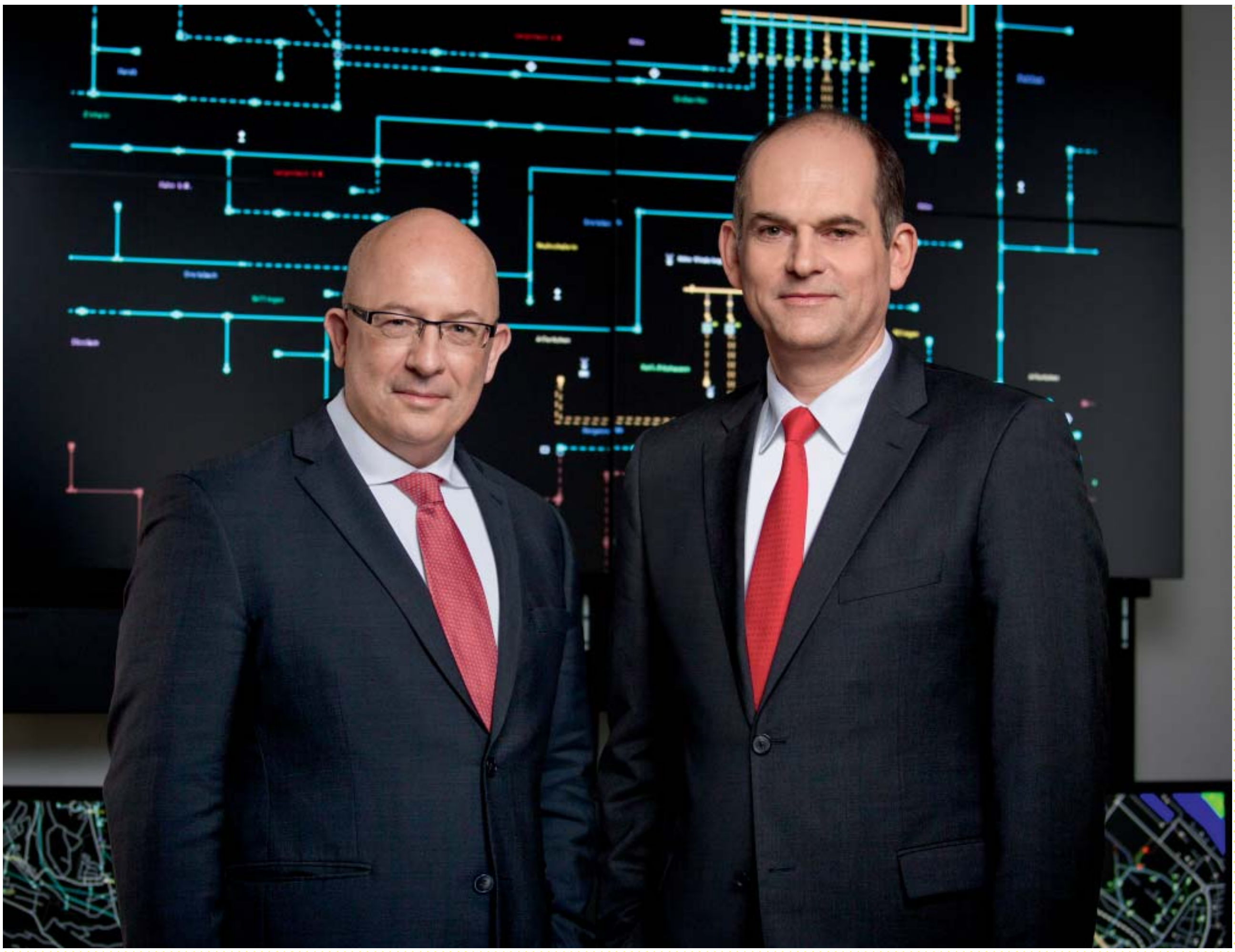
< *Prof. Schuh:* Companies preparing for Industry 4.0 need to invest in currently available software that is state of the art. By no means all have even the software functionality and infrastructure that they could today. In my view, German companies in particular tend to be hesitant about this. And companies don't make full use of the software they have. We still have a large qualification gap among users at companies. This goes right to the top, where leaders don't know what they could achieve if the software they have were used to its full potential.

We need to improve people's understanding of the possibilities. So we're glad that, with PSI and other companies, we can provide a demonstration plant and innovation labs here on campus, where we can help existing and potential customers to gain a deeper understanding of the processes, system capabilities and software capabilities. Only with better knowledge can I really get the most out of what my software can do. In my view, the announcement of the wonderful possibilities of Industry 4.0 should lead to an investment boom in application software as users get ready for the possibilities of the "next generation".

< *Prof. Stich:* A word to vendors: Last week we had 25 industrial executives here for the Executive MBA. Three things came out over and over again: Users want a different type of graphical user interface. They want more and different decision support systems. And they want sustainably representable, proven data security.

< *Prof. Schuh:* All three points are very important, which is why we are researching them. Vendors like PSI should closely monitor this research, because the first ones to offer tangible functionalities in their systems will have real USPs. acatech and many research institutions offer a kind of marketing backup here.

Financial Report



Harald Fuchs (49)

Responsibilities: Organisation, HR, Finances and Controlling

Dr. Harald Schrimpf (49)

Chairman.
Responsibilities:
Marketing, Sales, Technology and Investor Relations

Ladies and gentlemen,

2013 was a year of transition for PSI, with major investments and a generation change in management. As the last major division, Electrical Energy has largely completed the shift from project to product business. In a very involved project, the Logistics division combined logistics network simulation with the shipping system to create a large transport management system. These product investments went over budget and were not capitalised, and they negatively influenced the quarterly figures. Despite a good stock market environment, the share price dropped from EUR 15.41 to 13.55.

The Group in a year of transition

New orders and revenues went down by about 2% to EUR 185 and 176 million respectively. New orders were slowed by our campaign to move core customer business towards maintenance and upgrade contracts and to recognise only one annual tranche. As far as possible, we no longer bill integration services at a fixed rate, but effort-based. The revenues downturn was caused by logistics capacity being tied up. The operating result before depreciation and amortisation (EBITDA) was cut in half to EUR 8.0 million, while the operating result (EBIT) was a third at EUR 4.2 million and the Group result fell to EUR 0.4 million. The tax burden included deferred taxes and a special tax of EUR 0.7 million due to an allegedly detrimental share acquisition by an investor in 2009. At the Annual Shareholder Meeting we will therefore suggest that no dividends be distributed. In Russia, after the sale of our minority joint venture share, new orders continued unabated thanks to the multiple-partner strategy of our subsidiary. Despite the worse result, operative cash flow at EUR -0.1 million was just under last year's level (EUR +0.8 million), while cash flow from investments remained almost constant at EUR -3.7 million. Cash flow from financing dropped to EUR -7.2 million due to the EUR 4.7 million dividend distribution and repayments of loan. In total, cash flow dropped from -0.5 to EUR -11 million. We are continuing to push for better terms of payment for projects in Asia and with electrical utilities. After further small devaluations, cash and equivalents decreased from 33.3 million to EUR 21.8 million. This is sufficient for in-house growth financing and for smaller acquisitions.

Growth to China along pipelines and power lines

Weakened by the energy shift in Germany, the Energy segment again showed approximately constant new orders and revenues of EUR 65 and 61 million respectively. On 21 January 2014 the Chairman of RWE spoke of the severest structural crisis for energy companies in Germany in the industry's history. Recovery is not likely soon. Costs and CO_2 emissions will continue to rise. Our Electrical Energy division will continue to help limit costs and maintain supply security with intelligent functions. After the one-time investments of the last two years we will return our investment in our product base to a sustainable level. The Gas division is growing along the pipelines from Germany to neighbouring countries, Eastern Europe, Turkey, the Gulf, Russia and now across the Chinese border. We temporarily de-prioritised the Energy Markets division so that we could invest in multiproduct capability and migration to the Group platform with no losses.

Production Management with investments in Industry 4.0

The Metals division was the main focus of our investment, and despite weak markets in Europe and China it did well, building on the shale gas-driven growth in North American with very promising pilot projects. The Automotive unit suffered from personnel changes in sales, high investments in the Java-based supply chain management and just-in-time products, and upfront costs for China. The Mechanical Engineering division more than compensated for this with excellent profits. On the other hand, Logistics locations were dissolved due to repeated losses. We have now placed Logistics under new management and a lean structure, with a Transportation division in Dortmund and a Warehousing division in Aschaffenburg. The Mining division got its second large Chinese order, although it came late. Division revenues declined from EUR 89.4 million to 84.1 million, the first reverse after doubling in five years. New orders sank 6% to EUR 89.3 million. Logistics losses resulted in an operating result of just EUR 1.4 million, 5.2 million below the previous year. The division is very involved in research projects around Industry 4.0, and is gaining interesting USPs and growth opportunities.

Infrastructure and growth markets continue to grow

PSI Incontrol in Malaysia continued to make major progress in Arabia, India, Indochina and China, and grew its profits. The PSI Software Technology Centre in Poznan, Poland, two hours by car east of Berlin, is refining the Group platform (Eclipse 4) and improving Group-wide cooperation using social media and agile methods.

Infrastructure segment revenues rose from EUR 29.2 million to 31.3 million, plus EUR 7 million in internal services. With some distortion from accounting effects, the segment result was EUR 3.3 million. The US interest rate shift is causing currency devaluations and increasing the cost advantages of those locations. Accordingly, we are taking further steps to add functions and growth there.

Our German division for Public Transport and Infrastructure returned a weaker result with a restrained outlook, especially since the new German government is working only to boost domestic consumption instead of pursuing long overdue investments.

Outlook: back on track

We thank our employees for their outstanding efforts, especially in export projects. Our thanks also go out to our customers, without whom we could do nothing, for the confidence they have placed in us. We apologise to our shareholders that we have had to break this unsettling and unexpected news to them after eight years of steady growth. On the other hand, we are glad for the value investors who have now come on board.

In the Energy and Logistics divisions we have taken the precaution of making location, personnel and management cutbacks. Following approvals, project risks are well under control, and in 2014 good follow-on business will start to grow with existing and new customers. We stand by our projection from the third quarter of an EBIT of EUR 12 million and renewed growth in 2014.

Berlin, March 2014

Dr. Harald Schrimpf Harald Fuchs

Prof. Dr. Rolf Windmöller (65)
Chairman of the Supervisory Board

Dear PSI shareholders, friends and partners,

The PSI AG Supervisory Board continued its close working relationship with the Board of Directors in the fiscal year 2013. As in previous years, our focus was on the targeted expansion of international structures and the development of the key economic indicators of the PSI Group. In addition, we regularly monitored and advised the work of the Board of Directors in accordance with legal requirements, the Company Articles of Association and the German Corporate Governance Code. The Board of Directors informed the Supervisory Board regularly, promptly and comprehensively on the situation of PSI AG by means of written and oral reports in compliance with legal monitoring requirements. The Board of Directors has met its disclosure obligations to the Supervisory Board in full.

The Supervisory Board ensured that legal provisions, the Articles of Association and the bylaws of the Supervisory Board and the Board of Directors were complied with. It was involved in all significant decisions concerning the Company. The Supervisory Board passed the resolutions required by law and by the Articles of Association. If transactions required the approval of the Supervisory Board, the Board of Directors was consulted in depth before resolutions were passed. Cooperation between the Supervisory Board and the Board of Directors was consistently constructive and goal-oriented in nature.

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

Focuses of Supervisory Board discussions
In fulfilling its monitoring duties, the Supervisory Board focused primarily, but not exclusively, on the following points:

- The further expansion of international structures focussing on metal production as well as that of the PSI subsidiary in Southeast Asia in order to prepare the Group for further growth
- Supporting the Board of Directors in implementing measures to successfully conclude a demanding pilot project in the area of logistics
- Supporting measures to further develop the Electrical Energy division from a project-based business model to a more product-based one
- Ongoing support in migrating further Group activities and products to the new Group-wide technology platform

In 2013, the Supervisory Board focused in particular on accompanying the changes to the Board of Directors of PSI AG: Since 1 July 2013, Harald Fuchs has been responsible for Organisation, HR, Finances and Controlling at PSI AG as new Board Member. He replaced Armin Stein, who left the Company on 30 June 2013 on expiry of his contract. Dr. Harald Schrimpf has been the Chairman of the Board of Directors since 1 July 2013.

The Supervisory Board would like to thank Mr. Stein for his personal commitment in the last twelve years, which contributed much to the success story of PSI.

Regular discussions and resolutions of the Supervisory Board focused on the Annual Financial Statements, reviewing the Group strategy and its implementation, long-term and short-term planning, ongoing operative business, reviewing and upgrading the Group risk management system, and auditing the Board's own work. The Supervisory Board concerned itself not only with the financial development of PSI AG and the Group, but also with the development of individual subsidiaries, while also monitoring activities abroad. The Board of Directors reported to the Supervisory Board comprehensively and on an ongoing basis regarding developments in assets and financial position, risk position, market and competitive position, and personnel. The Supervisory Board held seven regular meetings in 2013 to fulfil its aforementioned duties. These included a meeting devoted to discussing and adopting the Annual Financial Statements, a strategy meeting, a planning meeting and an audit meeting. All members of the Supervisory Board attended each of these meetings.

Activities of Supervisory Board Committees
The Supervisory Board formed two committees.

The Personnel Committee is concerned with the employment contracts and personnel matters of the Board of Directors. The committee met three times during the financial year. It addressed matters including the structure of remuneration for the Board of Directors, and in particular with the remuneration for top management and the staff of PSI generally – as required by the German Corporate Governance Code.

The Audit Committee focuses on accounting and risk management matters. The committee met three times in 2013, one session being devoted to the adoption of the Annual Financial Statements and endorsement of the Consolidated Financial Statements.

The shareholders' representatives on the Supervisory Board (a Nomination Committee was not formed given the low number of Supervisory Board members) focused on preparing the Supervisory Board elections at the Annual General Meeting in 2014.

Corporate Governance
As in previous years, the Board of Directors and the Supervisory Board monitored the Group's compliance with the German Corporate Governance Code. On 8 November 2013, the Supervisory Board approved the Declaration of Compliance in accordance with Article 161 of the German Stock Corporation Act. The Company meets most of the recommendations of the Code. The few exceptions are also explained in the Corporate Governance Report, which is published on the website www.psi.de together with the Corporate Governance Declaration. The audit revealed no indications of non-compliance with respect to further recommendations of the Code, other than those mentioned in the Declaration of Compliance.

In 2013, the Supervisory Board again reviewed the efficiency of its own activity in an audit meeting.

Composition of the Supervisory Board and Committees
During the fiscal year 2013, the membership of the Supervisory Board comprised the shareholder representatives Professor Dr. Rolf Windmöller (Chairman), Wilfried Götze (Deputy Chairman), Bernd Haus and Karsten Trippel as well as employee representatives Elena Günzler and Dr. Ralf Becherer. The members of the Personnel Committee are currently Supervisory Board members Professor Dr. Rolf Windmöller as Chairman as well as Wilfried Götze and Elena Günzler, and the members of the Audit Committee are Bernd Haus as Chairman as well as Dr. Ralf Becherer, Wilfried Götze und Professor Dr. Rolf Windmöller.

Audit of the Annual and Consolidated Financial Statements

The accounting firm Ernst & Young GmbH was appointed as auditor at the Annual General Meeting of PSI AG on Thursday, 7 May 2013. Ernst & Young GmbH audited the Annual Financial Statements, Management Report, Consolidated Financial Statements and Consolidated Management Report for the fiscal year from 1 January to 31 December 2013, and issued an unqualified audit certificate.

All members of the Supervisory Board received the financial statements and management reports, the audit reports of the auditor and the recommendation of the Board of Directors regarding the appropriation of net retained profits, following the preparation of these reports and in good time before the meeting. After a preparatory discussion by the Audit Committee, the plenary Supervisory Board discussed these documents in its meeting of Tuesday, 11 March 2014. The members of the Board of Directors as well as representatives of the auditor attended this meeting. They reported on the audit in general, on the main points established in the audit, on the key findings of the audit and on services that the auditor rendered in addition to the audit services, and further answered questions from members of the Supervisory Board. The Supervisory Board did not raise any objections, and thus acknowledged and approved the findings of the audit.

The Supervisory Board checked the Consolidated Financial Statements and the Consolidated Management Report as well as the Annual Statements and Annual Report for 2013 and the results of the Auditors' Audit. Based on the final results of these checks, the Supervisory Board raised no objections, and at the Supervisory Board meeting on 11 March 2014 it approved the Annual Statements and Consolidated Financial Statements.

The 2013 financial year was a difficult year for the PSI Group. After eight years of continuous growth in revenues and profits, the transition of the Electrical Energy division and extensive pilot projects in logistics were a financial burden. This strongly impacted profits, while incoming orders and revenues were just under prior-year levels. As a result of the investments made in technology and export structures in 2013, the conditions have been created for a return to the previous income level and for steady growth again in 2014. PSI also acquired important new customers and follow-up orders in 2014, especially abroad. The successes achieved together with the Board of Directors, Management and employees deserve special recognition and respect, especially against the background of a demanding business year. The Supervisory Board would like to express its gratitude to all concerned for their outstanding commitment and efforts.

The Supervisory Board thanks its customers and shareholders for the confidence shown during 2013. PSI will as always be a reliable partner for its customers in 2014 and will make every effort to provide them with even better solutions for dealing with the challenges in their business. It is only with satisfied reference customers that we can successfully continue to gain new international customers and continue PSI's growth from 2014 onwards.

Prof. Dr. Rolf Windmöller
Chairman of the Supervisory Board

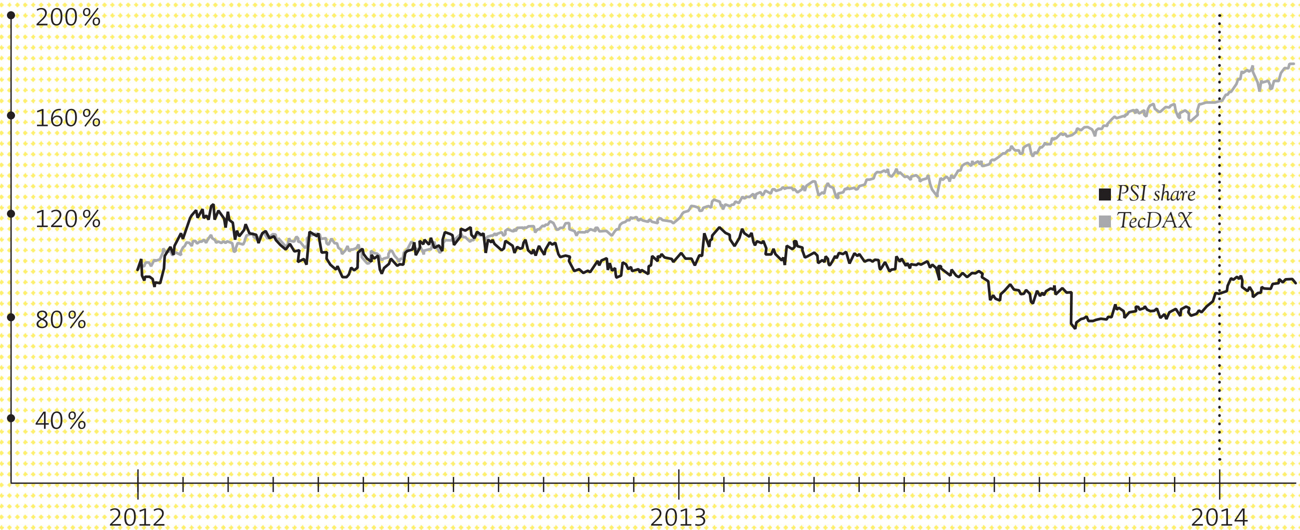
R. Windmöller

Berlin, March 2014

TRANSITIONAL YEAR 2013

The PSI Share

PSI SHARE PRICE compared to TecDAX



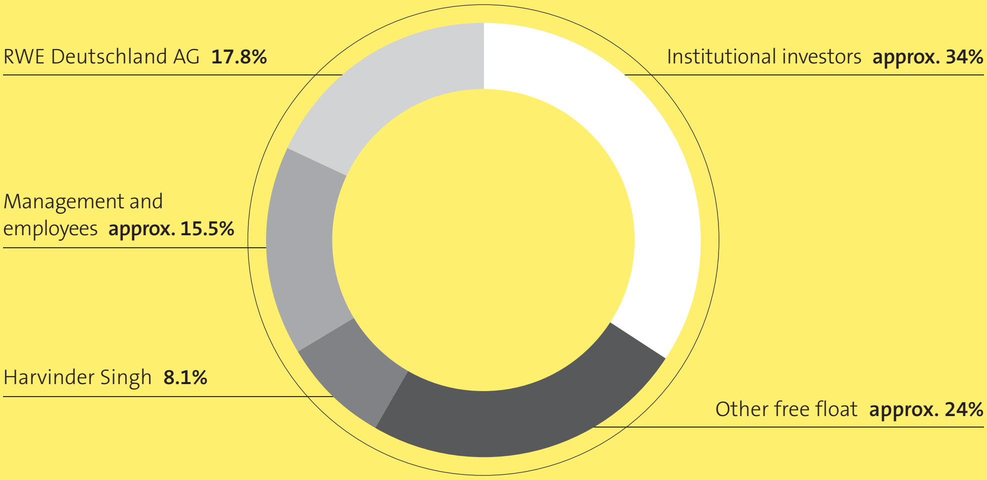
PSI SHARE SHOWS SIDEWAYS MOVEMENT

Starting in 2013 at a price of EUR 15.41, the PSI share reached its annual peak of EUR 17.53 on 17 January. After this date, it moved sideways against the general market trend, and after the profit warning at the end of the third quarter it reached a low of EUR 11.32. After new value investors joined, the share recovered slightly in December, closing the year at EUR 13.55.

INTENSIVE COMMUNICATION WITH THE CAPITAL MARKET

Against the background of the difficult news situation, we communicated intensively and openly with the capital market and our investors again in 2013. At 24 investment conferences and road shows, we presented PSI in the most important European financial centres. Our dialogue with the press, analysts and investors centred around the opportunities and risks of the German energy transition, questions regarding the exposure of our industrial business to overall economic conditions, and costly pilot projects.

SHAREHOLDER STRUCTURE



KEY INDICATORS AND DATA RELATING TO THE PSI SHARE:

		2013	2012
Earnings per share	in EUR	0.02	0.60
Market capitalisation on 31 December	in EUR	212,699,309	241,896,410
Annual high	in EUR	17.53	19.16
Annual low	in EUR	11.32	13.80
Number of shares outstanding on 31 December		15,697,366	15,697,366

Stock markets:	Xetra, Frankfurt, Berlin, Stuttgart, Düsseldorf, Hamburg, Hanover, Munich, Tradegate
Stock market segment:	Regulated market, prime standard
Indices:	TecDAX, Technology All Share, DAXsector Software, DAXsector All Software, DAXsubsector Software, DAXsubsector All Software, DAX International Mid 100, Midcap Market Index, HDAX, Prime All Share, CDAX, Tradegate Indicator TecDAX
ISIN:	DE000A0Z1JH9
German Security Code:	A0Z1JH
Exchange symbol:	PSAN

2013

Consolidated Management Report

— **Group revenues** slightly below the previous year, continued growth in Infrastructure Management segment

— Further increase in **R&D spending**

— High **investment** in the product base

— **Export revenues** over 50% for the first time

— Large **pilot projects** are weighing on results

— Recovery is expected for **2014**

BASICS OF THE GROUP

BUSINESS MODEL OF THE GROUP

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

- Electricity, gas, oil, and district heating utilities
- Metals, raw material extraction, mechanical and plant engineering, automobile and automotive supply, and logistics
- Infrastructure operators in the fields of traffic, safety and environment.

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

In Energy Management, the PSI Group develops control systems for electrical networks, multi-sector control systems, gas and pipeline management systems and solutions for virtual power plants, energy trading, energy sales and portfolio management on the deregulated energy market.

In Production Management, PSI has an integrated solutions portfolio for the planning and control of production and logistics processes in the fields of raw material extraction, metal production, logistics, and mechanical and vehicle engineering.

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

With almost 1,700 employees, PSI is one of Germany's largest software manufacturers. As a specialist for high-end control systems, particularly for energy providers and metal manufacturers, PSI has grown to become a leader, both nationally and internationally in target export markets. The functionality and innovative character of PSI's products are key competitive advantages. Founded in 1969, PSI is one of Germany's most experienced information technology companies.

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

STRATEGY AND MANAGEMENT SYSTEM

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

PSI is pursuing a growth strategy with a heavy emphasis on international markets. The most important source of growth is exports to the markets of Asia and Eastern Europe. PSI aims to further increase the share of revenues from product sales, expand its export share and intensify its efforts in geographic target markets in upcoming years. This will bring economies of scale, thereby improving the outlook for further profitability growth.

The key management parameters for attainment of these strategic targets are:

- Operating result to revenues (EBIT margin) as a key indicator of improvement in profitability of the Group
- Revenues growth as a key indicator for the growth rate of the Group
- New orders as a key early indicator of future revenues growth
- The proportion of licensing revenues and maintenance revenues in Group revenues as key indicators for the transformation of PSI from a service-oriented IT provider to a software product provider.

Since 2004, the PSI Group has increased its revenues by an average of 5% per year due to its strategy focused on growth and profitability. The Group's international revenues share quadrupled from 13% to 53% during this period.

RESEARCH AND DEVELOPMENT

Innovative products and maintaining technological leadership are key competitive advantages in the software market. The development of new USPs and products is thus extremely important for the PSI Group. The functionality and modernity of products are decisive for business success, as are the use of a Group-wide development platform and the exchange of new functionalities within the Group.

In new product development, PSI works closely with pilot customers who are industry leaders. This collaboration ensures that customers gain benefits from the products right from the start. Products are optimised on an ongoing basis in follow-up projects and adapted to the shifting requirements in our target markets. The resulting core products provide the basis for broader distribution and export.

The focus of development activities in 2013 was on shifting the Electrical Energy division from project to product business, a very extensive pilot project in logistics and the rollout of the Group-wide software platform in the PSI business areas. PSI has established a Group-wide development community which promotes the exchange of software components within the Group and accelerates the further convergence of product platforms. Convergence improves the foundations for further export growth and also reduces development costs.

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

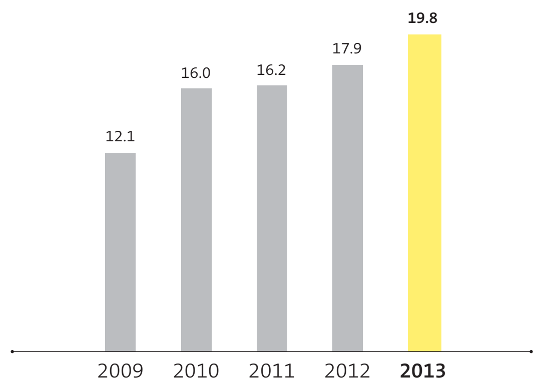
At EUR 19.8 million, the PSI Group's R&D expenditure in 2013 was again significantly above the previous year's figure of EUR 17.9 million. This does not include relevant third-party services.

The primary development objectives were:

- The new control system release and product variants for electricity transmission, distribution and traction power networks
- The integrated solution for virtual power plants
- The new Java-based supply chain management and just-in-time solution
- The merger of the electricity management system and the planning tool for gas suppliers into an integrated energy management solution based on the Group technology platform
- The combination of the logistics network simulation with the shipping system into one large transport management system
- The ongoing further development of the Group-wide software platform and its rollout in further business units.

FURTHER INCREASE IN R&D SPENDING

(in EUR million)



The global research company Frost & Sullivan recognised PSI in May 2013 for its continuing further development of the PSI energy management solutions by presenting it with the 2012 European Customer Value Enhancement Award for outstanding performance in the smart energy market. The award cited the numerous innovative functions of the PSI software for the intelligent management of renewable energy feed-in, creating significant added value for the customers.

At the 2013 Hanover Trade Fair, PSI presented an integrated production scenario based on the PSI*penta* product, which demonstrated the practical use of Industry 4.0 research results for the real production of electric vehicles.

In addition to product development, PSI has participated for many years in research projects for innovative technology development subsidised by the public sector. One focus of this research is on projects dedicated to realising the Industry 4.0 development project initiated by the German Federal Government. This includes the development of platforms for creating versatile production systems, controlling intelligent logistics networks and optimising small-series manufacture using fuzzy logic.

The findings of the projects are implemented under cooperation/consortium agreements concluded among the participants of the respective research association. The funding covers approximately 40% to 50% of personnel and non-labour costs that the PSI Group incurs for its research projects. The funding provider is continually updated as to the use of the funds and the project status. In fiscal 2013, the PSI Group received a total of EUR 1.1 million in public subsidies.

ECONOMIC REPORT

BUSINESS DEVELOPMENTS AND ECONOMIC ENVIRONMENT

Investment lag for power grids continues in 2013

For a focused software provider like PSI, the economic development in the most important target industries is particularly relevant. In 2013, a resolution of the investment lag was again not on the horizon for the suppliers of power grids in Germany, who constitute an important customer group for PSI.

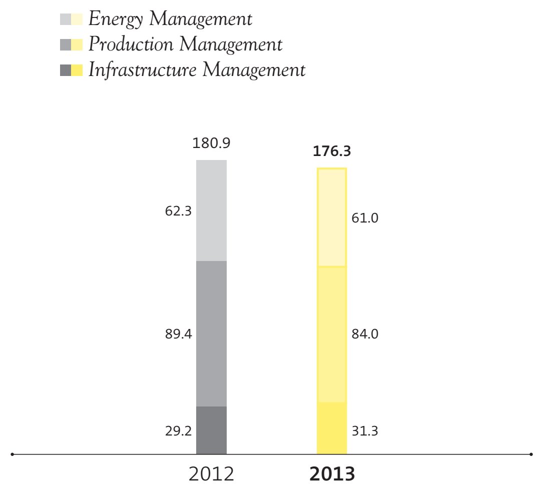
The global steel industry, to which PSI is a major software provider, grew again according to the World Steel Association. On top of an increase of 1.2% in 2012, global raw steel production increased by a further 3.1% in 2013.

Continued high investment in the product base in 2013

The PSI Group made significant investments in its product base in 2013. These focused on the shift of the Electrical Energy division from the project to the product business, and the consolidation of the logistics network simulation with the shipping system into one large transport management system in a very extensive pilot project. The over budget expenditure incurred as a result led to a slight reduction in revenues and, together with one-off special effects, to a significant reduction in the operating and Group result. At EUR 185 million, the prior-year level of EUR 188 million for new orders was almost reached. Orders in hand at the end of the year were stable at EUR 118 million.

PSI REVENUES SLIGHTLY UNDER THE PREVIOUS YEAR

(in EUR million)



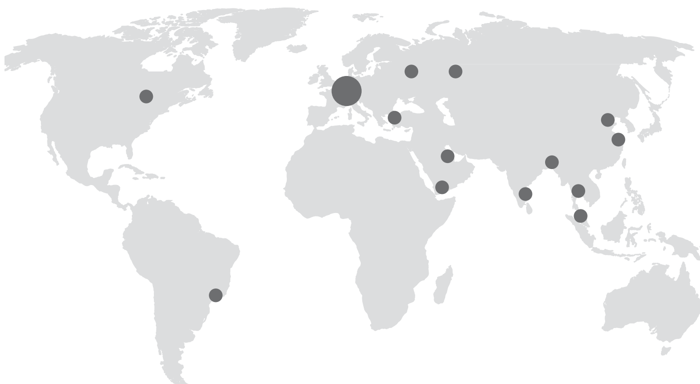
GROUP STRUCTURE AS OF 31 DECEMBER 2013

Energy Management	
PSI AG Electrical Energy Gas/Oil	
PSI Nentec GmbH	100%
PSI Energy Markets GmbH	100%
PSI CNI	100%
PSI TURKEY BILIŞIM TEKNOLOJILERY SANAYI VE TICARET A.Ş., Istanbul (Turkey)	100%
Time-steps AG (Switzerland)	100%
caplog-x GmbH	33,3%

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

Infrastructure Management	
PSI Transcom GmbH	100%
PSI Polska Sp z o.o.	100%
PSI Incontrol Group	100%

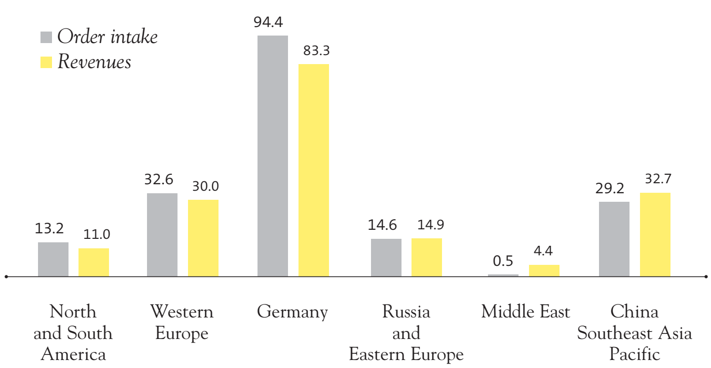
INTERNATIONAL PRESENCE AND LOCATIONS IN EUROPE AND WORLDWIDE



● *PSI locations: Austria, Bahrain, Belgium, Brazil, China, Germany, Great Britain, India, Malaysia, Oman, Poland, Russia, Switzerland, Thailand, Turkey, USA*

NEW ORDERS AND REVENUES BY REGIONS

(in EUR million)



In the Production Management segment, the Metals division continued its positive development of the last few years, while the Logistics division recorded project-related losses. In the energy market, discussions continued on the future of the German energy transition in the context of the German Bundestag elections, exacerbating the investment backlog for many German customers of the Energy Management segment. Despite these issues, in 2013 PSI continued to invest in solutions for virtual power plants, intelligent network control functions, the product character of its solutions and the Group-wide uniform technology platform.

On 16 January 2013, the PSI Group divested its 24.9% share in the Moscow sales joint venture PSI Energo. Russian customers of the Electrical Energy division will in future be served either by our wholly-owned subsidiary OOO PSI in Moscow or directly by PSI AG.

On 18 March 2013, PSI Metals Brazil Ltda. was founded and a branch opened in Rio de Janeiro, Brazil. With the new company, PSI is intensifying its activities in the Latin American market, adding to its on-site support for existing PSI customers and at the same time expanding its regional sales activities.

Towards the end of 2013, PSI won a further important large order for the PSI*mining* product from a major Chinese coal producer. PSI*mining* is a central control system used to increase mining productivity and developed during the last few years specifically for use in countries such as China, Australia and Russia.

The PSI Group did not reach its revenues target for 2013 of EUR 190 million. The original target of EUR 14 to 17 million for the operating result could not be achieved due to higher product investments and one-time costs, and was revised in the third quarter.

EARNINGS

Group revenues slightly under the previous year

In 2013 Group revenues totalled EUR 176.3 million, 2.5% under the previous year's total of EUR 180.9 million. Whereas Infrastructure Management experienced additional growth, revenues in Energy Management and Production Management were below prior-year levels as a result of capacities tied up in development projects. Revenues per employee based on the average number of employees in the Group fell from EUR 116,000 to EUR 106,000 as a result of the expansion of international structures and slightly regressive revenues.

Reduced third-party costs

Expenditures for materials and services decreased by EUR 1.3 million to EUR 34.8 million. Outlays for project-related purchases of hardware and licenses increased by EUR 2.9 million, and costs for purchased services went down by EUR 4.2 million. Personnel expenses went up by 3.4% to EUR 104.2 million.

Strain on operating and Group results

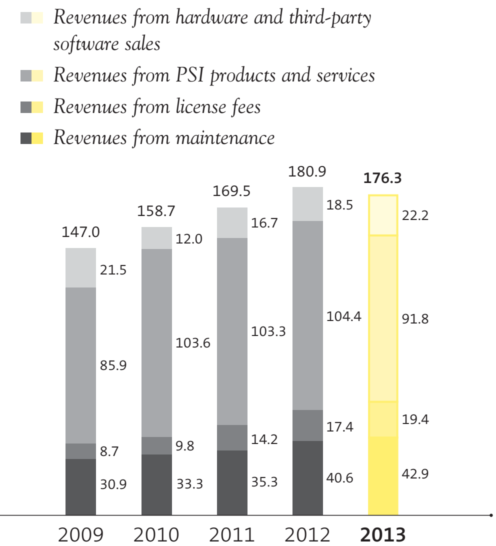
The Group's operating result fell by 67% from EUR 12.9 million in the previous year to EUR 4.2 million. The Group results in the financial year declined from EUR 9.4 million to EUR 0.4 million. The main reasons for the worse result were high development costs, a EUR 4.1 million correction in the valuation of two projects in the logistics business and a value adjustment of an old legal risk from 2009 of EUR 0.8 million. Tax expenses included significant deferred taxes and a special charge of EUR 0.7 million as a result of an allegedly detrimental share acquisition by an investor in 2009. Earnings per share fell accordingly, from EUR 0.60 to EUR 0.02. As in the previous year, the major contributors to this outcome were the Metals and Gas and Oil divisions, along with subsidiaries in Poland and Malaysia. The result was negatively impacted by high development expenditures and one-off effects in the Electrical Energy and Logistics divisions.

New orders were again above revenues

At EUR 185 million in 2013, new orders were 2% lower than the previous year's EUR 188 million, and thus 5% higher than revenues. Existing orders at the end of the year were stable at EUR 118 million.

CONTINUED RISE IN THE SHARE OF LICENSE AND MAINTENANCE REVENUES

(in EUR million)



Exports up again as percentage of total revenues, higher license revenues

Revenues generated outside of Germany increased by 8.3%, from EUR 85.9 million in the previous year to EUR 93.0 million. Exports thus increased from 47% to 53%. The percentage of international orders increased slightly from 48% to 49%. Maintenance revenues went up from EUR 40.6 million to EUR 42.9 million, with the maintenance proportion increasing from 22% to 24%. License revenues rose from EUR 17.4 million to EUR 19.4 million. As part of the focus on growing the software product business, it is planned to substantially increase license, maintenance and long-term upgrade contracts.

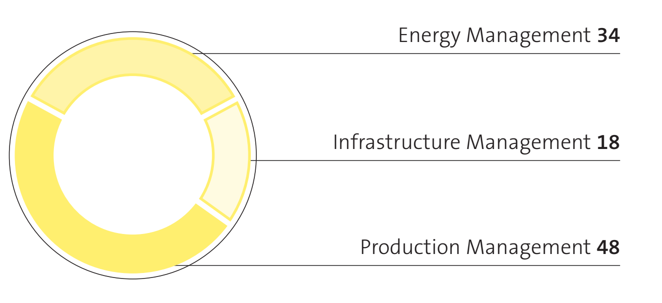
As a result of the downfall in Logistics, Production Management saw a reduction in segment revenues. As a result, the revenues share of this segment decreased from 50% last year to 48%. The Energy Management percentage remained stable at 34%, while Infrastructure Management accounted for 18%, up from 16%. Infrastructure Management includes the revenues of the PSI Incontrol Group, which in addition to infrastructure projects also deals in energy management for Asian customers.

Energy Management segment with continued investment in the product base in 2013

In 2013, Energy Management was marked by the positive development of Gas and Oil, but also by high investments in Electrical Energy and Energy Sales. Total revenues decreased by 2.1% to EUR 61.0 million. The segment encompasses electrical energy, gas, oil, heating and energy trading. The operating result continued to suffer due to a combination of delayed investment in electricity distribution networks in Germany and own investments in the product base, falling from EUR 3.2 million in the previous year to EUR 0.6 million. The Gas and Oil division continued on a positive course and received further orders from the Gazprom Group and large orders from Germany and Scandinavia. The Energy Sales Systems business invested in a new product for virtual power plants and the migration of the existing product base to the Group-wide technology platform.

REVENUES ALLOCATION BY SEGMENT

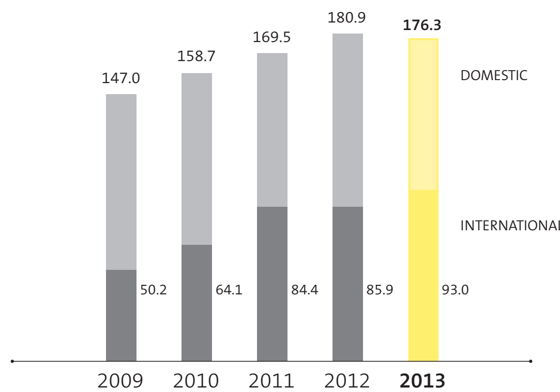
(in %)



EXPORT REVENUES OVER 50% FOR THE FIRST TIME

(in EUR million)

Not including foreign revenues from domestic export partners



Production Management with investments in Industry 4.0 and Logistics

Revenues from Production Management in 2013 fell by 5.9% to EUR 84.1 million. In this segment, PSI develops solutions for the efficient planning and control of production and logistics processes. In this context, PSI showed a strong commitment to several research projects for the Industry 4.0 development initiative, thus adding interesting USPs and potential for growth. The segment's operating result fell from EUR 6.6 million for the previous year to EUR 1.4 million. PSI Metals, which focuses on the steel industry, achieved the highest margins and was able to further improve its result. With an additional large order from China for its raw material extraction control system, PSI Production remains on a growth course. The ERP software provider PSIPENTA was able to repeat its performance of the year before, while the Logistics unit experienced significant losses from a very extensive pilot project.

Infrastructure Management sees its major growth in exports

At EUR 31.3 million, Infrastructure Management had 7.2% higher revenues than in 2013. The operating result fell from EUR 4.4 million last year to EUR 3.3 million. As last year, the Asian PSI Incontrol and PSI Poland provided the largest contributions to results, while results from German public transportation weakened.

FINANCIAL POSITION

PSI's monthly liquidity planning and the actions it takes as a result ensure the coverage of operational and capital expenditure. A rolling monthly risk management forecast is performed for all Group companies, with a planning horizon of twelve months. This serves to minimise bank borrowing by individual Group companies and optimises interest income on fixed term deposits. Loans taken out in previous years were partially redeemed in 2013.

Financing predominantly through business operations

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

As of 31 December 2013, PSI had guarantee and credit lines of EUR 115.5 million to finance ongoing business. In the prior year, the guaranteed and bank credit facility totalled EUR 105.8 million. The amount claimed related almost entirely to the guaranteed loan, and on the balance sheet date it had decreased from EUR 45.1 million in the prior year to EUR 39.9 million. The Group was in a position to meet its payment obligations at all times in fiscal 2013. The Group has internal ratings issued by its banks, which correspond to ratings in the A- to BBB range.

Cash flow from operating activities below the previous year

Cash flow from operating activities decreased from EUR 0.8 million in the previous year to EUR −0.1 million, mainly due to the weaker Group result.

Cash flow from investment activities fell slightly from EUR −3.6 million to EUR −3.7 million. Whereas the previous year was characterised by the acquisition of Time-steps AG, 2013 saw more investment in intangible assets.

Cash flow from financing dropped to EUR −7.2 million due to a higher dividend payment and repayments of loan. In the prior year, due to taking out an export financing loan, this was EUR 2.3 million. As of year end, cash decreased from EUR 33.3 million to EUR 21.8 million.

ASSETS

Asset structure: Goodwill remains steady

In 2013 the PSI Group invested EUR 5.1 million in intangible assets and property, plant and equipment, compared to EUR 5.2 million in the previous year. Investment went to intangible assets and plant, property and equipment from third parties.

The book value of goodwill was constant at EUR 44.5 million.

Balance sheet structure: Equity ratio of 38%

The PSI Group's total assets declined by 4.5% to EUR 178.0 million in 2013.

On the asset side, non-current assets experienced an increase from EUR 68.1 million to EUR 69.3 million. Current assets were down from EUR 118.3 million to EUR 108.8 million. Cash and cash equivalents decreased by EUR 11.5 million, trade receivables grew by EUR 5.8 million and receivables from long-term development contracts fell by EUR 4.3 million.

On the liabilities side, current liabilities dropped from EUR 67.8 million to EUR 64.8 million. Non-current liabilities rose from EUR 45.0 million to EUR 45.9 million, due to higher pension provisions and loan repayments. Shareholder equity decreased from EUR 73.6 million to EUR 67.3 million. The equity ratio went down slightly from 40% to 38%.

OVERALL ASSESSMENT OF THE RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

The results of operations, financial position and net assets deteriorated for the PSI Group in the fiscal year 2013. Earnings in particular showed negative development, while cash flow from operating activities decreased only slightly. For 2014, Management expects significantly higher earnings and an improvement in cash flow after projects with negative impact are completed. The Group thus remains well positioned financially to finance organic growth and smaller acquisitions.

SUSTAINABILITY

Since the foundation of the Company in 1969, the long-term viability of its customer projects and own processes has been of key significance for PSI. In addition to environmental protection, this also includes social responsibility on the part of the Company and its employees as well as of Management.

Transparent and responsible corporate governance
PSI follows ethical principles in its dealings with customers, shareholders, employees, partners and competitors. These are set forth in the Code of Conduct, which is posted on the Group's website at *www.psi.de*. In it, PSI undertakes to follow ethical business practices and comply with legal standards of work dignity and fair business practices, protect natural resources and respect intellectual property.

Besides its code of conduct, PSI has adopted a new policy which sets out rules for numerous aspects of sustainable and responsible corporate governance. PSI also complied with the recommendations of the government commission for the German Corporate Governance Code in 2013, with a few exceptions which are explained in the compliance declaration. The compliance declaration and the corporate governance declaration are published on the PSI website under *www.psi.de/en/psi-investor-relations/corporate-governance*.

Sustainability in PSI's solutions and own processes
PSI software solutions make a major contribution to ensuring that energy, raw materials and labour in energy management and the energy industry are used carefully and sustainably. PSI production management systems for the steel and aluminium industries thus have functions for optimising energy input and the use of energy released during production.

PSI control systems for managing large electricity grids have been continually expanded in recent years with functions for the intelligent management of renewable energy feed-in. PSI gas management systems enable optimum control of the compressor stations needed for network operations and minimise losses due to technical causes. Leak detection and localisation systems contribute to reducing losses during gas and oil transport over large distances and to preventing environmental damage.

In Logistics and Traffic, in recent years PSI has developed new solutions for the dynamic control of optimised logistics networks and energy-optimised rail traffic, among other things. This allows us to effectively help customers reduce greenhouse gas emissions and save energy.

PSI uses Green IT devices and employs combined heat and power generation at its Aschaffenburg site. PSI has participated in the Carbon Disclosure project since 2011. An environmental management system is under development.

Social responsibility of Company and employees
PSI has been involved in social welfare projects for years. Examples are aid for flood victims in Southeast Asia and various regional initiatives to support charitable organisations in the areas where PSI is located. In addition, PSI supports team-oriented sports activities for various employee groups by financing tournament participations and equipment.

Further details about sustainability are published on the PSI websites at *http://www.psi.de/en/psi-investor-relations/sustainability*.

EMPLOYEES

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

Personnel development and employee qualification are key to the functionality and innovative character of PSI's products. The major focus is on the specialist training of new employees at international locations and locations in Germany, as well as the qualification of employees for international work. Standardisation and knowledge transfer within the Group are further promoted through Group-wide working groups on technology, infrastructure, maintenance, quality management, controlling and marketing. Training employees on the uniform Java technology platform is particularly important for the strategic further development of the Group. In 2013, the Company invested an average of 5.6 days per employee for further training.

In order to make early contact with graduates of appropriate degree programs, PSI is involved in promoting education and research in engineering and natural sciences on many levels. PSI also maintains working ties with universities near the Group's most important locations, for example by offering work placements and cooperating on dual major programmes.

Since the fall of 2010, PSI has been an industry partner for the logistics research cluster and a project partner for the environmentally friendly and sustainable energy technology cluster at the new RWTH Aachen campus.

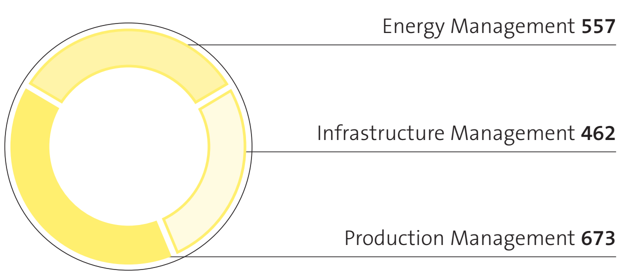
A special feature of PSI is that employees and Management hold around 25% of PSI shares. A large number of employees formed a consortium after PSI AG's IPO. Coordinating unified voting behaviour among participating employee shareholders at the Annual General Meeting is an essential goal. To promote employee involvement, since 2011 PSI has been issuing workforce shares which have been purchased on the stock market for this purpose. In 2013, employee fluctuation at PSI was 5% as in the previous year. In a broad survey of work conditions conducted by the magazine FOCUS in 2,000 German companies, PSI took 16th place in the industry ranking for telecommunications and IT and was recognised as a top employer.

The workforce at year end had increased in size by 101 to 1,692 employees. Energy Management had 557 employees, Production Management 673, and Infrastructure Management 462.

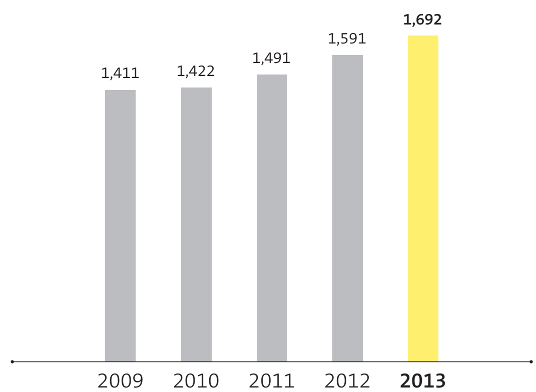
At EUR 104.2 million, personnel expenditures were up 3.4% over the previous year's figure of EUR 100.9 million. With increasing direct service in export regions Southeast Asia, China, Poland and Russia, average per-employee expenditures will be close to the international industry average.

PRODUCTION MANAGEMENT REMAINS THE LARGEST SEGMENT

(number of employees)

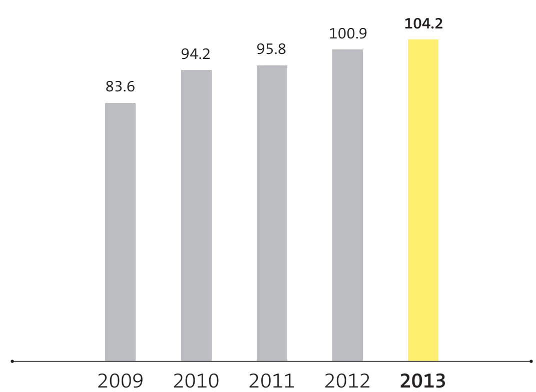


NUMBER OF EMPLOYEES HIGHER AGAIN



PERSONNEL EXPENSES UP SLIGHTLY

(in EUR million)



LEGAL DISCLOSURES

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

As of 31 December, 2013, the subscribed capital of the PSI AG totalled EUR 40,185,256.96, consisting of 15,697,366 no-par value shares with a notional par value of EUR 2.56. Each share entitles its holder to one vote. There were no different types of shares. Shareholders exercise their voting rights at the Annual General Meeting in accordance with applicable laws and the Articles of Association. Legal restrictions on voting rights may exist, for example pursuant to § 136 of the German Stock Corporation Act or, insofar as the Company holds shares, pursuant to § 71 b of the German Stock Corporation Act. In the second half of 2011, PSI AG issued a total of 9,332 PSI AG shares as workforce shares to employees. These shares were subject to a contractual lock-up period until 8 December 2013. In the second half of 2012, PSI AG issued a further total of 17,330 PSI AG shares as workforce shares to employees. These shares are subject to a contractual lock-up period until 23 October 2014. In the second half of 2013, PSI AG issued a further total of 19,657 PSI AG shares as workforce shares to employees. These shares are subject to a contractual lock-up period until 18 August 2015. There are no further restrictions with respect to voting rights or the disposal of shares.

In the 2013 fiscal year, RWE Deutschland AG, Essen, held a 17.77% share in PSI AG. According to information known to PSI AG, RWE Deutschland AG is a company managed by RWE AG, Essen. The RWE Group is a major utility and key customer of PSI AG's Energy Management segment. According to a disclosure under § 27a(1) Securities Trading Act (Wertpapierhandelsgesetz – WpHG) of 22 September 2009, the RWE Group's investment in PSI AG serves to secure the cooperation between PSI AG and the RWE Group on a sustained basis.

PSI AG did not issue shares with special rights.

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

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

In accordance with Sect. 11 of the Articles of Association, the Supervisory Board is authorised to make changes and amendments to Articles of Association relating to its version only. Apart from this, the Annual General Meeting approves the Articles according to Section 19 of the Articles by a simple majority of submitted votes and a simple majority of the share capital represented when passing the resolution. This applies insofar as there are no legal provisions stating that resolutions are to be passed with a majority of at least three quarters of the subscribed capital represented when passing the resolution.

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

Through 6 May 2018, PSI AG has contingent capital in the amount of EUR 8.0 million. This serves to meet the requirements of convertible and warrant bonds and profit certificates. On 7 May 2013, the General Meeting authorised the Company to issue these up to a total nominal amount of EUR 100 million. To date, the Company has not exercised this authority.

PSI AG's Board of Directors was authorised by the Annual General Meeting on 7 May 2013, to acquire and sell its own shares until 30 June 2016, to an amount up to 10% of the subscribed capital as of the date of the authorising resolution. Based on the share capital from that date, the Company is authorised to buy back up to 1,569,736 shares. The authorisation can be exercised in full or in partial amounts, in one go or in several parts. It may furthermore be exercised by companies authorised by PSI AG to exercise this right or by companies majority-owned by PSI AG. The authorisation may not be used for the purpose of trading own shares. Acquisition can be either on the stock market, adhering to the equality principle, or using a public bid addressed to all shareholders of the Company.

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

BOARD MEMBER REMUNERATION

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

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

The Chief Executive Officer has an employment agreement that provides for non-performance-related fixed remuneration in the amount of EUR 296,000 a year, and the second board member has an employment agreement for EUR 280,000 a year. These amounts are paid in twelve equal monthly instalments. Included in this figure is a leased vehicle for each board member for business and personal use for the actual term of office.

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

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

In November 2013 a variable, long-term remuneration plan was agreed with the members of the Board of Directors, which under certain circumstances also pays out in the case of change of control. The amount of remuneration is linked to a long-term increase in PSI AG's market capitalisation above a set amount and the cumulative development of the PSI AG's EBITA in the period from 1 July 2013 to 30 June 2016. Partial payment of this remuneration component will take place in the fiscal year 2016 at the earliest and the rest will take place in 2017.

EVENTS AFTER THE BALANCE SHEET DATE

There were no major events after the balance sheet date.

RISK REPORT

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

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

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

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

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

With regard to the financial reporting processes of the consolidated companies and the Consolidated Financial Statements, we consider the characteristics of internal control and risk management systems to be important insofar as they are able to significantly impact the Consolidated Balance Sheet and the general Consolidated Financial Statements, including the Consolidated Management Report. This includes in particular:

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

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

- Market: Too few new orders or orders in hand
- Employees: Insufficient availability of required qualifications
- Liquidity: Unfavourable payment terms and insufficient credit limits
- Costs and revenues: Deviations from projected values, especially for project handling and development

Risk management policy governs the divisions

- Risk strategy: Explicit basic principles for minimising main risks, and general risk management principles
- Risk management organisation: Responsibilities of the management levels and controllers involved
- Risk detection, control and monitoring: Risk detection tools and tools for monitoring key performance indicators
- Risk management system: Use of the Group-wide Professional Services Automation (PSA) and a Group-wide issue-tracking solution.

Supplemental project risk management policies are in place. These govern the implementation of risk management in projects, including the identification, documentation, analysis and evaluation of risks as well as planning, specifying and monitoring measures for minimising project-related risks. In particular, this concerns measures for limiting project pre-financing.

The Professional Services Automation (PSA) solution, featuring an integrated Management Information System (MIS), is a standardised information and control instrument for all levels of the Group. Regular MIS reports are generally created monthly, and provide key performance indicators defined in the policies on:

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

RISK AND OPPORTUNITY ANALYSIS

The PSI Group is exposed to a number of risks. These include normal risks of doing business, general economic risks, tax and finance risks, as well as risks that can arise from the shareholder structure. In the 2013 fiscal year, the risk profile changed as a result of the impact of major pilot projects in the Electrical Energy and Logistics divisions, which were however largely adjusted in the second half of the year. There were no substantial changes to the regional distribution of the business, the shareholder structure or the regulatory environment of the Energy division.

Opportunities and risks by segment

In **Energy Management**, PSI won further international contracts from Russia and Scandinavia but could still not entirely compensate for the negative effects of the German energy transition. As a result of the ongoing investment lag, the Electricity Distribution Network division at PSI again received only few new orders. There is the risk of a prolonged investment lag here. A normalisation of investment behaviour would result in very favourable opportunities for PSI. Further growth opportunities exist in neighbouring European countries and in Asia. However, the need for pre-financing and guarantees is increasing as our international business grows.

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

Large export projects involve inherent execution risk due to reliance on local partners with varying levels of training, conflicting interpretations of performance and standards, and shifting customer policies in some cases. Existing international partnerships increase our distribution reach, and thus sales opportunities for PSI products. But they also bring new dependencies.

In **Production Management**, PSI continued to expand its international business in 2013, particularly in Metals. With new customers and follow-on orders from Argentina, the USA, China, France, Belgium, Luxembourg, Denmark, India, the United Arab Emirates, Brazil, Mexico and Canada, the Company's global leading position as a provider of special software was further reinforced. After the global steel market grew faster again in 2013, the risk of a slowdown of the business climate remains in this cyclical target market. That said, the risk in this segment was reduced for PSI, since a dependency on the development of individual regions or customers was further reduced due to the improved market position and important new customers. In particular, the rising demand by large metal producers for Group-wide rollouts of the PSI solution is creating opportunities. There remains the risk of a rise in the cost of raw materials. Another risk lies in the still underdeveloped awareness of the importance of quality and brand protection in some countries in East Asia.

Due to their market position and customer base, the Logistics and Production Control/ERP divisions are particularly exposed to fluctuations in the business climate. Incoming orders thus could suffer if the domestic economy slumps. Therefore, in the logistics market, PSI has concentrated increasingly on solutions for complex requirements, characterised by short amortisation periods. The higher complexity resulted in project risks, while at the same time PSI's new USPs allow it to address special business opportunities. ERP subsidiary PSIPENTA saw further improvement in the Mechanical Engineering sub-segment in 2013, while activities in the Vehicle Engineering sub-segment were characterised by product investments and the costs of market entry in China.

PSI Production won an additional large order from a Chinese customer for the new raw material extraction control system in 2013. This again confirmed the very strong export prospects of the new solution. However, opportunities for gaining further large orders must be seen in the context of the costs and risks associated with market entry.

In **Infrastructure Management,** Traffic Systems once again had increased new orders in its home country. PSI has special USPs particularly in vehicle depot management systems, which results in additional growth potential. In this area, however, PSI is heavily dependent on the financial situation of its primarily public-sector customers. In recent years, the Transportation segment's dependency on the German market has been reduced by orders from European neighbours, Eastern Europe and the growth regions in Southeast Asia. PSI Poland, which is part of Infrastructure Management, developed well again in 2013. It proved its value in pre-production and won its first orders from Polish energy suppliers in 2013.

With PSI Incontrol Group, since 2009 PSI has had its own access to growth markets in Southeast Asia, India and the Middle East. PSI also has access to low-cost hardware and integration solutions. The use of a larger pool of highly qualified specialists in the region can reduce the cost of services and equipment. With its large share in the systems integration business and the associated need for pre-financing, the integration of PSI Incontrol into the processes of the PSI Group involves risks.

Opportunities and risks of internationalisation
In 2013, international activities expanded further, through a higher proportion of international orders and revenues as well as new customers. This has reduced PSI's dependency on the German market and opened up new growth opportunities. However, this expansion involves additional risks through the integration of new subsidiaries into the Group and dependency on international partners, exchange rates and legal systems. Further expansion of international activities will spread opportunities and risks over a wider area.

Opportunities and risks of new products and technologies
PSI kept up investment in new product versions and extensions, to heighten competitiveness. At the same time, PSI merged its products and components onto one platform in a Group-wide convergence process, to benefit from economies of scale. The PSI Group's future income and liquidity depends to a large degree on the market success of its new products and its mastery of new technologies.

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

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

PSI considers that there is a risk that the short-term ownership and thereby possible attribution of a total of 28.60% of voting rights in the Company in the second quarter of 2009 by Kajo Neukirchen GmbH, Eschborn, could have caused a loss of up to 28.60% of tax losses carried forward. The exclusion of the possibility to use the carryforward amounts could cause a higher tax burden on the Company for the tax period starting from the fiscal year of the detrimental share acquisition. The Board of Directors takes the view that there was no detrimental share acquisition and that the unused tax losses were therefore not lost proportionately. To take that risk into account, a provision of EUR 0.7 million has been set up.

Financial risks
PSI primarily uses trade receivables, liquid funds, liabilities to banks and guarantees as instruments to finance operative business. The most important risks in this respect are default risk, liquidity risk and market value risk. Default and liquidity risks are managed using credit lines and control procedures. For PSI, there is no concentration of default risk among individual contractual partners or groups of them. The Group endeavours to have sufficient liquidity and credit lines to fulfil its obligations.

PSI Group carries out its transactions predominantly in Euros. In the 2013 fiscal year, the Group again used hedges in the form of exchange-forward contracts to protect itself from currency risks. Details on these hedges and the hedged risks are provided in the Notes.

Employees
With our technically challenging work, we are successful at recruiting qualified employees, and integrating and retaining them at our Company for a long time. Our fluctuation rate is low. The compensation structure includes performance and results-based components. With the freezing of pension provisions at the end of 2006, all future benefits are defined, direct salary components.

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

OUTLOOK

After the 2013 transitional year, which was characterised by large investments, PSI started the new year with attractive new products and a leaner structure in the Logistics division. In 2013, we booked EUR 185 million in incoming orders, more than annual revenues. Existing orders at the end of the year were stable at EUR 118 million. The operating result was impacted by higher expenses and risks in projects, which have in part been adjusted now after acceptance. Our international market position was extended further, especially in the steel business. PSI was able to profit from its clear focus on this attractive niche market and high investments in previous years in the product and the extension of international sales structures.

The trend towards more efficient use of energy, raw materials and workforce will continue in the years ahead. In 2014, PSI will benefit from this particularly in Production Management and return to the growth path of 2004 to 2012. We project that the German energy transition will continue to be driven by the current government with few changes. With this in mind, we do not expect a resolution of the investment lag on the German electricity market before the turn of 2014/2015. Our Gas and Oil division continued to enjoy high demand for its solutions in Eastern Europe and Arabian countries. In Infrastructure Management we are expecting a further normalisation in investment patterns, with moderate increases in Germany and Eastern Europe and continuing high demand in Southeast Asia. We also want to use these positive drivers in 2014 to again generate growth and reduce our dependency on the German market.

With the continuation of our successful strategy of focus and internationalisation, we intend to intensify business at our existing international sites as well as enter new geographical markets. For the next few years we are targeting further growth in further business areas in China, Poland, Russia, Southeast Asia and North America.

Through greater international activity we hope to further boost the number of products sold and slightly increase the share of license and maintenance fees in revenues. These positive effects will be enhanced by migrating additional divisions to the newly created single product platform, and by further investment in the convergence of our technical basis. We will systematically add to the portfolio in order to make use of opportunities and enhance efficiency. In this manner we will improve the foundation for achieving double-digit margins in the future.

In 2014, we are expecting a significant recovery of the result in the Energy Management unit as the temporary spike in product investment outlay returns to a sustainable level. In Production Management, we hope to build on our increased market share to achieve further growth and return to profitability. In Infrastructure Management, we expect further slight increases in revenues and profit. Overall, we are aiming at an increase of Group revenues of 5 to 10% and an operating result of EUR 12 million in 2014. To reach these targets, we will continue investing in the quality and productivity of our solutions and the internationalisation of our core businesses.

Berlin, 7 March 2014

Dr. Harald Schrimpf Harald Fuchs

Consolidated Balance Sheet

dated 31 December 2013 (IFRS)

ASSETS	Note	31/12/2013 EUR K	31/12/2012 EUR K
Non-current assets			
Property, plant and equipment	C. 1	13,781	14,242
Intangible assets	C. 1	49,103	47,487
Investments in associates	C. 2	298	427
Deferred tax assets	C. 14	6,073	5,984
		69,255	**68,140**
Current assets			
Inventories	C. 3	3,888	4,020
Trade receivables, net	C. 4	39,908	34,068
Receivables from long-term development contracts	C. 5	37,893	42,241
Other assets	C. 6	5,290	4,634
Cash and cash equivalents	C. 7	21,800	33,338
		108,779	**118,301**
		178,034	**186,441**

EQUITY AND LIABILITES	Note	31/12/2013 EUR K	31/12/2012 EUR K
Shareholders' equity			
Subscribed capital	C. 8	40,185	40,185
Capital reserves	C. 8	35,137	35,137
Reserve for own stock		−402	−106
Other reserves	C. 8	−8,835	−7,146
Net retained profit		1,236	5,567
		67,321	**73,637**
Non-current liabilities			
Financial liabilities	C. 10	3,387	3,900
Pension provisions	C. 9	40,087	38,997
Deferred tax liabilities	C. 14	2,463	2,105
		45,937	**45,002**
Current liabilities			
Trade payables		15,400	15,646
Other liabilities	C. 13	25,726	27,976
Liabilities from long-term development contracts	C. 5	20,097	18,553
Financial liabilities	C. 11	3,544	5,449
Provisions	C. 12	9	178
		64,776	**67,802**
		178,034	**186,441**

Consolidated Income Statement

for the period 1 January to 31 December 2013 (IFRS)

	Note	2013 EUR K	2012 EUR K
Revenues	D. 15	176,330	180,888
Other operating income		5,844	8,523
Changes in inventories		0	−224
Cost of materials	D. 16	−34,783	−36,125
Personnel expenses	D. 17	−104,243	−100,850
Depreciation and amortisation	D. 18	−3,820	−4,034
Other operating expenses	D. 19	−35,159	−35,293
Operating result		**4,169**	**12,885**
Interest income		127	243
Interest expense		−1,730	−1,963
Income from investments in associates		504	170
Earnings before taxes		**3,070**	**11,335**
Taxes on income	C. 14	−2,699	−1,977
Consolidated net profit		**371**	**9,358**
Group earnings per share in EUR (basic and diluted)	D. 20	0,02	0,60
Average shares outstanding (thousand)	D. 20	15,683	15,680

Consolidated Comprehensive Income Statement

for the period 1 January to 31 December 2013 (IFRS)

	Note	2013 EUR K	2012 EUR K
Consolidated net profit		**371**	**9,358**
Currency translation for foreign operations		−1,303	−72
Net result from cash flow hedges	C. 11	490	−26
Income tax effects	C. 14	−145	8
		345	−18
Other result to be reposted to the Group profit and loss account in future periods		**−958**	**−90**
Actuarial losses from the valuation of pension commitments	C. 9	−1,042	−6,960
Income tax effects	C. 14	311	2,076
		−731	−4,884
Other result not to be reposted to the Group profit and loss account in future periods		**−731**	**−4,884**
Other earnings after taxes		**−1,689**	**−4,974**
Total Group earnings after taxes		**−1,318**	**4,384**

Consolidated Cash Flow Statement

for the period 1 January to 31 December 2013 (IFRS)

	Note	2013 EUR K	2012 EUR K
1. Cash flow from operating activities			
Consolidated net earnings before tax		**3,070**	**11,335**
Adjustment for non-cash expenses			
Amortisation of intangible assets	C. 1	1,011	1,250
Depreciation of property, plant and equipment	C. 1	2,809	2,784
Losses from the disposal of assets		136	66
Income from investments in associates	C. 2	−504	−170
Interest income		−127	−243
Interest expense		1,730	1,963
Other non-cash income/expenses		270	265
		8,395	**17,250**
Changes in inventories		186	28
Changes in trade receivables and long-term development contracts		−2,084	−7,641
Changes in other assets		−1,338	−1,396
Changes in provisions		−1,848	−1,641
Changes in trade payables		−490	−1,353
Changes in other liabilities		−988	−2,029
		1,833	**3,218**
Interest paid		−339	−310
Income taxes paid		−1,617	−2,099
		−123	**809**
2. Cash flow from investment activities			
Additions to intangible assets		−2,483	−1,394
Additions to property, plant and equipment		−2,482	−2,615
Payments for investments in associated companies (minus cash acquired)	C. 2	0	−102
Payments for investments in subsidiaries		0	−556
Inflows from the sale of subsidiaries in previous years		479	746
Inflows from the distribution of associated companies		136	53
Inflows from the sale of associates		497	0
Interest received		127	243
		−3,726	**−3,625**
3. Cash flow from financing activities			
Outflows for share buybacks		−568	0
Inflows from financial liabilities incurred	C. 10	−1,928	6,191
Dividends paid to the shareholders of the parent company	C. 8	−4,702	−3,919
		−7,198	**2,272**
4. Cash and cash equivalents at end of period			
Change in cash and cash equivalents		−11,047	−544
Changes to the financial resource fund due to exchange rate fluctuations		−491	36
Cash and cash equivalents at beginning of period		33,338	33,846
Cash and cash equivalents at end of period		**21,800**	**33,338**

Consolidated Statement of Changes in Equity

for the period 1 January to 31 December 2013 (IFRS)

	Subscribed capital EUR K	Capital reserves EUR K	Reserve for Treasury stock EUR K
Note	C. 8	C. 8	
Balance at 31 December 2011	**40,185**	**35,137**	**−368**
Consolidated net profit			
Other earnings after taxes			
Total Group earnings after taxes	0	0	0
Dividend distributions			
Share buybacks			0
Issue of own shares			262
Total capital transactions	0	0	262
Balance at 31 December 2012	**40,185**	**35,137**	**−106**
Consolidated net profit			
Other earnings after taxes			
Total group earnings after taxes	0	0	0
Dividend distributions			
Share buybacks			−568
Issue of own shares			272
Total capital transactions	0	0	−296
Balance at 31 December 2013	**40,185**	**35,137**	**−402**

Other reserves EUR K	Balance sheet profit/-loss EUR K	Total EUR K
C. 8		
−2,172	**128**	**72,910**
	9,358	9,358
−4,974		−4,974
−4,974	9,358	4,384
	−3,919	−3,919
		0
		262
0	−3,919	−3,657
−7,146	**5,567**	**73,637**
	371	371
−1,689		−1,689
−1,689	371	−1,318
	−4,702	−4,702
		−568
		272
0	−4,702	−4,998
−8,835	**1,236**	**67,321**

Consolidated Segment Reporting

2013 and 2012 (IFRS)

	Energy Management		Production Management	
	31/12/2013 EUR K	**31/12/2012 EUR K**	**31/12/2013 EUR K**	**31/12/2012 EUR K**
REVENUES				
External revenues	60,966	62,293	84,068	89,422
Revenues with other segments	1,640	1,947	2,202	1,087
Total revenues	**62,606**	**64,240**	**86,270**	**90,509**
Other income	6,029	6,638	6,027	7,317
Changes in inventories	0	44	0	−268
Costs of purchased services	−4,595	−5,515	−8,570	−14,026
Costs of purchased goods	−5,505	−4,572	−6,220	−3,599
Personnel expenses	−41,853	−40,974	−50,663	−49,027
Depreciation and amortisation	−1,462	−1,461	−1,355	−1,322
Other operating expenses	−14,502	−15,094	−23,939	−22,579
Segment operating result before depreciation/amortisation	**2,180**	**4,767**	**2,905**	**8,327**
Segment operating result before depreciation/amortisation resulting from purchase price allocation	**718**	**3,306**	**1,550**	**7,005**
Amortisation/depreciation resulting from purchase price allocation	−85	−111	−120	−368
Segment operating result	**633**	**3,195**	**1,430**	**6,637**
Financial result	106	−314	−696	−937
Segment result	**739**	**2,881**	**734**	**5,700**
Carried at equity, shareholdings in associated companies	**298**	**415**	**0**	**0**
SEGMENT ASSETS	**47,727**	**39,041**	**65,165**	**73,251**
SEGMENT LIABILITIES	**32,150**	**27,095**	**44,351**	**48,004**
SEGMENT INVESTMENTS	**959**	**2,659**	**1,310**	**1,239**

Infrastructure Management		Reconciliation		PSI Group	
31/12/2013 EUR K	31/12/2012 EUR K	31/12/2013 EUR K	31/12/2012 EUR K	31/12/2013 EUR K	31/12/2012 EUR K
31,296	29,173	0	0	176,330	180,888
6,815	6,370	−10,657	−9,404	0	0
38,111	**35,543**	**−10,657**	**−9,404**	**176,330**	**180,888**
1,878	2,152	−8,090	−7,584	5,844	8,523
0	0	0	0	0	−224
−4,580	−4,426	2,765	4,732	−14,980	−19,235
−13,035	−11,586	4,957	2,867	−19,803	−16,890
−12,074	−10,704	347	−145	−104,243	−100,850
−738	−694	−60	−60	−3,615	−3,537
−6,295	−5,921	9,577	8,301	−35,159	−35,293
4,005	**5,058**	**−1,101**	**−1,233**	**7,989**	**16,919**
3,267	**4,364**	**−1,161**	**−1,293**	**4,374**	**13,382**
0	−18	0	0	−205	−497
3,267	**4,346**	**−1,161**	**−1,293**	**4,169**	**12,885**
−509	−299	0	0	−1,099	−1,550
2,758	**4,047**	**−1,161**	**−1,293**	**3,070**	**11,335**
0	**12**	**0**	**0**	**298**	**427**
51,647	**52,223**	**7,422**	**15,942**	**171,961**	**180,457**
17,341	**21,411**	**12,755**	**13,268**	**106,597**	**109,778**
542	**604**	**2,445**	**950**	**5,256**	**5,452**

Statement of Changes in Fixed Assets

for the period 1 January to 31 December 2012 (IFRS)

2012	Purchase and production costs			
	01/01/2012 EUR K	Changes to the Consolidated Group EUR K	Additions EUR K	Disposals EUR K
Intangible assets				
Other intangible assets	14,374	550	1,123	563
Goodwill	46,182	605	0	0
Capitalised software development costs	228	0	271	0
	60,784	**1,155**	**1,394**	**563**
Property, plant and equipment				
Lots and buildings	17,781	0	23	0
Computers and equipment	11,910	4	1,707	555
Other equipment, operating and office equipment	6,822	9	885	700
	36,513	**13**	**2,615**	**1,255**
Financial assets				
Investments in associates	208	0	275	56
	208	**0**	**275**	**56**
	97,505	**1,168**	**4,284**	**1,874**

Statement of Changes in Fixed Assets

for the period 1 January to 31 December 2013 (IFRS)

2013	Purchase and production costs		
	01/01/2013 EUR K	Additions EUR K	Disposals EUR K
Intangible assets			
Other intangible assets	15,484	1,987	117
Goodwill	46,787	0	0
Capitalised software development costs	499	641	0
	62,770	**2,628**	**117**
Property, plant and equipment			
Lots and buildings	17,804	209	53
Computers and equipment	13,066	1,480	609
Other equipment, operating and office equipment	7,016	793	400
	37,886	**2,482**	**1,062**
Financial assets			
Investments in associates	427	146	275
	427	**146**	**275**
	101,083	**5,256**	**1,454**

Accumulated depreciation					Net carrying amounts	
31/12/2012 EUR K	01/01/2012 EUR K	Additions EUR K	Disposals EUR K	31/12/2012 EUR K	31/12/2012 EUR K	31/12/2011 EUR K
15,484	12,186	1,174	563	12,797	2,687	2,188
46,787	2,258	0	0	2,258	44,529	43,924
499	152	76	0	228	271	76
62,770	**14,596**	**1,250**	**563**	**15,283**	**47,487**	**46,188**
17,804	8,468	539	0	9,007	8,797	9,313
13,066	9,098	1,495	537	10,056	3,010	2,812
7,016	4,483	750	652	4,581	2,435	2,339
37,886	**22,049**	**2,784**	**1,189**	**23,644**	**14,242**	**14,464**
427	0	0	0	0	427	208
427	**0**	**0**	**0**	**0**	**427**	**208**
101,083	**36,645**	**4,034**	**1,752**	**38,927**	**62,156**	**60,860**

Accumulated depreciation					Net carrying amounts	
31/12/2013 EUR K	01/01/2013 EUR K	Additions EUR K	Disposals EUR K	31/12/2013 EUR K	31/12/2013 EUR K	31/12/2012 EUR K
17,354	12,797	1,011	116	13,692	3,662	2,687
46,787	2,258	0	0	2,258	44,529	44,529
1,140	228	0	0	228	912	271
65,281	**15,283**	**1,011**	**116**	**16,178**	**49,103**	**47,487**
17,960	9,007	446	51	9,402	8,558	8,797
13,937	10,056	1,567	578	11,045	2,892	3,010
7,409	4,581	796	299	5,078	2,331	2,435
39,306	**23,644**	**2,809**	**928**	**25,525**	**13,781**	**14,242**
298	0	0	0	0	298	427
298	**0**	**0**	**0**	**0**	**298**	**427**
104,885	**38,927**	**3,820**	**1,044**	**41,703**	**63,182**	**62,156**

Notes on the Consolidated Financial Statements

PSI Aktiengesellschaft für Produkte und Systeme der Informationstechnologie,
Berlin, 31 December 2013

A. GENERAL COMPANY INFORMATION

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

The Board of Directors prepared the Consolidated Financial Statements dated 31 December 2013 and the Consolidated Management Report for the 2013 fiscal year dated 7 March 2014 and submitted these to the Supervisory Board for approval.

The operations of the PSI Group encompass the production and distribution of software systems and products that meet the special needs and requirements of customers, primarily in the following industries and service sectors: Energy supply, production, infrastructure, software technology, internet applications and corporate consultancy. The PSI Group also provides the full range of data processing services, distributes electronic equipment and operates data processing systems.

The PSI Group is organised into three main business segments: Energy Management, Production Management and Infrastructure Management.

The Company is publicly listed in the Prime Standard of the German Stock Exchange in Frankfurt (German Security Code 696822) and listed there in the TecDAX. Inclusion in the TecDAX took place in September 2011.

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

REPORTING PRINCIPLES

The PSI Group Consolidated Financial Statements are prepared based on historical cost. Excepted from this are derivative financial instruments and available-for-sale financial assets carried at fair value.

The PSI Group Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) as applicable in the EU. The Consolidated Financial Statements were prepared in euro. Unless otherwise indicated, all figures are rounded up or down two decimal places to the nearest thousand (EUR K).

CHANGES IN ACCOUNTING AND VALUATION PRINCIPLES

The accounting and valuation principles applied in the fiscal year 2013 were generally in line with the principles applied last year.

EFFECTS OF NEW ACCOUNTING STANDARDS

The Group applied the following standards and amendments for the first time: IAS 19 *Employee Benefits* (revised 2011), IFRS 13 *Fair Value Measurement* and the amendments of IAS 1 *Presentation of Financial Statements*. Several other amendments were applicable for the first time in 2013. However, these do not affect the Consolidated Financial Statements. The nature and effects of the individual new standards and amendments are described below:

IFRS 13 *Fair Value Measurement*: The standard lays down uniform guidelines for determining fair value. The standard does not specify when assets and liabilities must be measured at fair value, but only how fair value is to be determined properly according to IFRS. IFRS 13 defines fair value as the sales price. As a result of the guidelines of IFRS 13, the Group has checked its accounting methods for measuring fair value. IFRS 13 also defines additional disclosure requirements. The application of IFRS 13 had no major impact on the Group's measurement of fair value. Stipulated disclosures are made in the Notes to the individual assets and liabilities, whose fair values were determined.

In order to preclude any unintended effects of IFRS 13 on the disclosure obligations of IAS 36, the disclosure requirements of IAS 36 were amended for the recoverable amount of non-financial assets as well as the recoverable amount of assets and cash-generating units, for which value adjustments or impairment losses were recorded during the year. The amendment applies retroactively for fiscal years starting on or after 1 January 2014. Early amendments are permissible to the extent that IFRS is also applied. The Group applied this amendment to IAS 36 early in the current reporting period because the amended/additional disclosure obligations provide useful information, as intended by the IASB. As a result, they were taken into account in disclosing the impairment of non-financial assets (see page 63).

IAS 1 *Presentation of Financial Statements* – Presentation of items of other comprehensive income: The amendment to IAS 1 requires a new grouping of items of other comprehensive income. Items to be reclassified in the income statement are shown separately from items where no reclassification is required. The changes merely relate to presentation and do not affect the Group's net assets, financial position and results of operations.

IAS 19 *Employee Benefits* (revised 2011): Among other things, the standard revises the recognition of defined benefit pension plans and also requires more extensive disclosures. These are contained in Note C. 9. The first-time application of IAS 19 (revised 2011) did not result in significant effects for the Group.

IFRSs that have already been published but not yet applied are explained in the following.

As part of the IASB project to extensively revise the balancing of financial instruments, the IASB published IFRS 9 "Financial Instruments" in November 2009 as the first part of the revisions; this regulates only the classification and valuation of financial assets. According to this, financial assets must be recognised either at amortised cost or at fair value in the income statement, depending on their characteristics and taking into account the business models for managing financial assets. Equity instruments must always be recognised at fair value, but value fluctuations in equity instruments may be recognised in other comprehensive income to the extent that this option was specified when they were acquired.

In October 2010, the IASB published the second part of IFRS 9 with new rules for classifying and valuing financial liabilities. In particular, the new regulations change the valuation of financial liabilities recognised in the income statement under the so-called "fair-value option". In November 2013, the IASB published amendments for IFRS 9, which contain the new regulations for hedge accounting and replace the relevant regulations in IAS 39. These additions introduce a new general model for recognising hedging relationships in the standard, which extends the scope of relevant underlying transactions and hedging instruments. However, the additions to IFRS 9 also include a right to choose a method of either presenting all hedging relationships according to the existing rules of IAS 39 or according to the new provisions of IFRS 9. Moreover, the IASB cancelled its date for mandatory first-time application on 1 January 2015 formerly contained in IFRS 9. A new date for first-time application will only be set once the standard is available in full. It has yet to be adopted under European law. The application of the new standard will result in changes to the presentation and accounting of financial assets and liabilities.

In May 2011, the IASB published IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Agreements", IFRS 12 "Disclosure of Interests in Other Entities", changes to the IAS 27 "Separate Financial Statements" and changes to the IAS 28 "Investments in Associates and Joint Ventures". IFRS 10 replaces the previous regulations concerning Consolidated Financial Statements (parts of the IAS 27 "Consolidated and Separate Financial Statements") and special purpose entities (SIC-12 "Consolidation – Special Purpose Entities") and sets forth the control approach as the unifying principle in future. The standard also contains guidelines for the assessment of control in cases of doubt. The currently applicable regulations governing the accounting of shares in joint ventures (the IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers") will in future be replaced by IFRS 11. The disclosure requirements formerly set out in the IAS 27, IAS 28 and IAS 31 are being merged in IFRS 12 and extended by additional disclosures. Due to these changes, the IAS 27 now contains only those regulations governing the accounting of shares in subsidiaries, associated companies and joint ventures disclosed in the individual financial statements of the parent company. The IAS 28 is being extended by regulations governing the accounting of shares in joint ventures and sets forth the obligatory application of the carried-at-equity method for associated companies and joint ventures. The amendments are mandatory for fiscal years starting on or after 1 January 2014. In June 2012, the IASB published changes to IFRS 10, IFRS 11 and IFRS 12 which have not yet been adopted under European law. Following an analysis performed by us, we can assume that the new or revised standards will have no significant effects on the PSI Group's net assets, financial position and results.

The IASB and the IFRS IC published further announcements in the reporting year which have not had nor will have significant influence on the PSI Group's Consolidated Financial Statements.

IMPORTANT JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

When compiling the Consolidated Financial Statements, Management makes discretionary judgements, estimates and assumptions which affect the amount of the income, expenditure, assets, liabilities and related disclosures, as well as the disclosure of contingent liabilities shown in the statements.

In applying the Group's accounting methods, Management has made no discretionary judgements which would have a material effect on the amounts presented in the Consolidated Financial Statements.

The most important forward-looking assumptions and any material causes of uncertainty concerning estimates as of the reporting date, which would involve a considerable risk of substantial restatement of the carrying amounts of assets or liabilities in the next reporting period, are presented below. The Group's assumptions and estimates are based on parameters present at the time of compiling the Consolidated Financial Statements. However, these circumstances and assumptions regarding future developments could be subject to change due to market fluctuations or conditions over which the Group has no influence. Such changes are only taken into account when they appear in the assumptions.

Impairment of non-current assets

The PSI Group tests for the impairment of non-current assets on an annual basis, in line with IAS 36. Impairment testing is based on future cash flows generated by individual assets or groups of assets combined into cash-generating units. An impairment applies if the book value of an asset or a cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is the higher of the fair value less selling costs and the value in use. A discounted cash flow method is used to calculate the value in use. The recoverable amount depends on the discounting interest rate used as part of the discounted cash flow method as well as on the expected future cash flows and the growth rate used for the extrapolation. Goodwill reported by the PSI Group is a significant non-current asset subject to annual impairment testing. Further details about testing on non-current assets can be found in note C.1. The carrying amount of goodwill as per the impairment test as of 31 December 2013 was EUR 44,529 K (previous year: EUR 44,529 K).

Project accounting

The PSI Group realises revenues based on estimated project performance. Performance estimates are made based on an estimated hourly volume and estimated costs for third-party services or on contractually agreed milestones, and are updated continually. Further details about revenues from projects which have been recognised but not yet invoiced are provided in note C. 5. At 31 December 2013, realised income from ongoing projects totalled EUR 10,895 K (previous year: EUR 10,505 K).

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and temporary accounting differences to the extent that they are likely or that there are substantial objective indications that taxable income will be generated so that the losses can actually be used. Significant deferred tax assets have furthermore been recognised in the 2005 to 2013 fiscal years due to internal restructuring (asset deals). Determining the amount of the deferred tax assets requires an estimate to be made by corporate management based on the expected date of accrual and the amount of the income to be taxed in future, in view of tax planning strategy (timing of taxable income accrual, consideration of tax risks etc.). At 31 December 2013, capitalised tax loss carryforwards totalled EUR 0 K (previous year: EUR 0 K) and uncapitalised tax loss carryforwards totalled EUR 51.0 million. (Previous year: EUR 43.2 million). No deferred tax assets were classified from these tax losses. At 31 December 2013, deferred tax assets allocated to temporary posting differences totalled EUR 6,073 K (previous year: EUR 5,984 K); deferred tax liabilities totalled EUR 2,463 K (previous year: EUR 2,105 K). For further details, see note C. 14.

Pensions and other post-employment benefits

Post-employment expense from defined benefit plans and the cash value of pension obligations are determined on the basis of actuarial calculations. Actuarial calculation involves assumptions pertaining to discount rates, expected retirement age, future wage and salary increases, mortality and future pension increases. Such estimates are subject to considerable uncertainty, commensurate with the long-term nature of these plans. All assumptions are checked for each balance sheet date. When determining an appropriate discounting interest rate, Management considers the interest rates of corporate bonds in currencies matching the currency of the commitment to pay benefits after the end of the employment relationship, which have at least an AA rating by an internationally recognised rating agency. If necessary, these interest rates are adjusted to the expected term of the defined benefit obligation through extrapolation along the yield curve. At 31 December 2013, provisions for pensions and similar obligations totalled EUR 40,087 K (previous year: EUR 38,997 K). For further details, see note C. 9.

Development costs

Development costs are capitalised according to the accounting method explained on page 62 f. The first-time capitalisation of the costs is based on Management's opinion that technical and economic feasibility has been demonstrated. To determine the amounts to be capitalised, Management makes assumptions about the amount of future estimated cash flows from the project. The carrying amount of the capitalised development costs as at 31 December 2013 was EUR 912 K (previous year: EUR 271 K).

PRINCIPLES OF CONSOLIDATION

a) Subsidiaries

The Consolidated Group Financial Statements encompass PSI AG and the companies it controlled as of 31 December 2013. A control relationship typically exists when PSI AG directly or indirectly holds over 50% of the voting rights on the subscribed capital of a company, and can influence a company's financial and business policy in such a way that PSI AG profits from its activities.

The purchase method is applied for the accounting of corporate acquisitions in accordance with IFRS 3. Companies acquired or sold in the course of a fiscal year are included in the Consolidated Financial Statements from the time of acquisition or until the time of the sale.

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

The following changes occurred among fully consolidated companies in the fiscal year 2013:

In March 2013, PSI Metals Brazil Ltda., Brazil, was founded as a 100% subsidiary. The company was recorded in the Commercial Register of Rio de Janeiro.

Besides PSI AG, the following companies were included in the Consolidated Financial Statements:

- PSIPENTA Software Systems GmbH (“PSIPENTA”)
- PSI Logistics GmbH (“PSI Logistics”)
- PSI Nentec GmbH (“Nentec”)
- PSI Metals GmbH (“PSI Metals”)
- PSI Transcom GmbH (“PSI Transcom”)
- PSI AG für Produkte und Systeme der Informationstechnologie, Switzerland (“PSI AG/CH”)
- PSI Production GmbH (“PSI Production”)
- PSI Energy Markets GmbH (“PSI Energy”)
- PSI CNI Control Networks & Information Management GmbH (“CNI”)
- PSI Produkty i Systemy Informatyczne Sp z o.o. (“PSI Poland”)
- PSI Information Technology Shanghai Co. Ltd. (“PSI China”)
- PSI Metals Non Ferrous GmbH (“PSI Metals NF”)
- FLS FUZZY Logik Systeme GmbH (“FLS”)
- OOO PSI (“PSI Russia”)
- PSI Metals Austria GmbH (“PSI Metals Austria”)
- PSI Metals Belgium NV (“PSI Metals Belgium”)
- AIS Advanced Information Systems Private Limited, India
- PSI Incontrol Sdn. Bhd., Selangor, Malaysia (“PSI Incontrol”) as the holding company of the following companies (hereinafter jointly called the “PSI Incontrol Group”):
  a) inControl Tech Private Limited, Chennai, Tamil Nadu, India
  b) inControl Tech For Shares SPC, Bahrain
  c) inControl Tech Holding Thailand Ltd., Thailand
  d) inControl Tech (Thailand) Ltd., Thailand
- PSI NORTH AMERICA INC., USA (“PSI Metals NA”)
- PSI TURKEY BILISIM TEKNOLOJILERI SANAYI VE TICARET ANONIM SIRKETI, Turkey (“PSI Turkey”)
- Time-steps AG (“Time-steps”)
- PSI Metals Brazil Ltda., Brazil (“PSI Metals Brazil”).

The following changes occurred among fully consolidated companies in the fiscal year 2012:

In a contract signed 3 February 2012, a 100% stake was acquired in Time-steps AG headquartered in Switzerland. The Company reported assets of EUR 275 K and liabilities of EUR 116 K as of the acquisition date. Net assets (at carrying amount) totalled EUR 159 K. In the context of the purchase price allocation, these net assets were set against the acquisition cost (EUR 1,150 K). The resulting difference is attributable to intangible assets with a time of use of between six and eight years and goodwill. The intangible assets are mainly due to the evaluation of a software product developed by Time-steps itself called “Stochastic Optimisation”. Goodwill is due in particular to Time-steps’ position among storage operators in the Swiss market and technological expertise. The total purchase price of EUR 650 K was paid in cash. Included is a variable portion of the purchase price totalling EUR 500 K, which is measured according to expected future licensing receipts for the years 2012 to 2015.

Had the newly acquired subsidiary already been included in the Consolidated Financial Statements at 1 January, 2012, the consolidated revenues and consolidated net profit would have totalled EUR 180,897 K and EUR 9,342 K respectively.

	Carrying amount before acquisition EUR K	Adjustment amount EUR K	Carrying amount after acquisition EUR K
Non-current assets			
Property, plant and equipment	13	0	13
Other intangible assets	0	550	550
Goodwill	0	605	605
Current assets			
Trade receivables	13	0	13
Other assets	155	0	155
Cash and cash equivalents	94	0	94
Liabilities			
Deferred tax liabilities	0	164	164
Liabilities from trade receivables	10	0	10
Other liabilities	106	0	106
Net assets	**159**	**991**	**1,150**

b) Associated companies

Investments in associated companies are reported using the equity method. An associated company is a company over which the Group exercises material influence. Carrying at equity means that shareholdings in associates are carried at cost plus/minus the change in the Group's percentage ownership of the net assets of the associated company. Goodwill from associated companies is included in the carrying amount of the investment, and is neither amortised nor tested for impairment. The profit and loss statement shows the Group's percentage ownership of associated companies. The Group records changes in associated companies' equity reported in the applicable ownership percentage and presents this in the statement of changes in shareholders' equity if applicable. Unrealised gains and losses from transactions between the Group and its associated companies are eliminated in accordance with the percentage ownership of associates.

As of 31 December 2013, shares in the following associated companies were valued at equity:

- caplog-x GmbH, Leipzig ("caplog-x")

As of 31 December 2012, shares in the following associated companies were valued at equity:

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

c) Consolidation measures and uniform Group valuation

The Financial Statements of the subsidiaries and associated companies included in the Consolidated Financial Statements are based on uniform accounting standards and reporting periods/ dates.

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

FAIR VALUE MEASUREMENT

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value, it is assumed that the transaction in whose context the asset is sold or the liability is transferred takes place either

- in the principal market for the asset or liability
- or, in the absence of a principal market, in the most advantageous market for the asset or liability.

The Group must have access to the principal market or to the most advantageous market. The fair value of an asset or a liability is measured based on the assumptions which market participants would use when pricing the asset or liability. Here, it is assumed that the market participants act in their own best interest. When measuring the fair value of a non-financial asset, the market participants' ability to generate economic benefits through the highest and best use of the asset, or by selling it to another market participant who would find the best use for the asset, is taken into account. The Group applies valuation techniques which are appropriate under the relevant circumstances and for which sufficient data are available for measuring the fair value. The use of material, observable input factors is as high as possible and any non-observable input factors are kept as low as possible.

All assets and liabilities for which the fair value is determined or which are shown in the financial statements are arranged in the fair-value hierarchy described below, based on the input parameter of the lowest level important for the valuation at fair value overall:

- Level 1 – (non-adjusted) prices in active markets for identical assets or liabilities
- Level 2 – valuation processes where the input parameter for the lowest level relevant for the valuation at fair value is observable for the asset or liability, either directly or indirectly
- Level 3 – valuation processes where the input parameter for the lowest level relevant for the valuation at fair value is not observable for the asset or liability.

For assets and liabilities included in the financial statements on a recurring basis, the Group determines whether regroupings have taken place between the levels of the hierarchy by checking the classification at the end of each reporting period.

CURRENCY TRANSLATION

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

The functional currency of the major foreign companies such as PSI AG/CH, PSI Poland, PSI Russia, PSI Incontrol Group companies, PSI Metals NA and PSI China is generally the respective national currency. The assets and liabilities of these subsidiaries are translated into the presentation currency of PSI AG (euro) on the balance sheet at the rate effective at the reporting date. Income and expenses are translated at the rate effective at the reporting date. Exchange rate differences arising from translation are recognised separately in equity.

NON-CURRENT ASSETS

a) Intangible assets

Intangible assets are measured initially at cost of purchase or manufacture. Intangible assets are recognised if it is likely that future economic benefit from the asset will flow to the Company, and the cost of purchasing or manufacturing the asset can be measured reliably. For the purposes of subsequent measurement, intangible assets are recognised at cost of purchase or manufacture less accumulated amortisation and accumulated impairment losses (reported in depreciation/amortisation). The depreciation/amortisation schedule and method are reviewed at the end of each fiscal year.

Intangible assets encompass:

Goodwill

Goodwill from a business combination is carried at cost on initial recognition, measured as the premium paid for the acquisition of the business combination above the PSI Group's percentage ownership of the fair value of identifiable assets, liabilities and contingent liabilities acquired. After initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is tested for impairment at least once a year, and whenever the situation or changed circumstances would indicate that the carrying amount may be impaired. To test whether impairment has occurred, goodwill acquired in a business combination must be assigned to a cash-generating unit. If the recoverable amount of the cash-generating unit is less than its carrying value, an impairment loss must be recognised. Impairment losses are not reversed.

Industrial property rights and licenses

Amounts paid for the purchase of industrial property rights and licenses are capitalised and then written down on a straight line basis over their estimated useful life (four to five years).

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

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

Research and development costs

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

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

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

b) Property, plant and equipment

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

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

Depreciation is calculated on a straight-line basis over an estimated useful life assuming a residual carrying amount of EUR 0. The following useful lives are applied for individual asset groups

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

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

c) Impairment of non-current, non-financial assets

Non-current assets are tested for impairment if the situation or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The first step in impairment testing is to determine the recoverable amount of the asset or cash-generating unit. This is defined as the higher of fair value less cost to sell, or value in use. Fair value less costs to sell is defined as the price recoverable from sale of an asset or cash-generating unit in a transaction between two knowledgeable and willing parties in an arm's length transaction, less the cost to sell. The value in use of an asset or cash-generating unit is determined as the present value of expected cash flows based on current use. No impairments of non-current assets were recognised in fiscal years 2013 or 2012.

FINANCIAL ASSETS

Financial assets are classified into the following basic categories:

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

On 31 December 2013 and 31 December 2012, the PSI Group had only loans and receivables extended.

Loans and receivables extended are non-derivative financial assets with fixed or definable payments that are not listed on an active market. These assets are measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

The PSI Group uses derivative financial instruments in the form of foreign exchange forward contracts to protect itself against exchange rate risks. A part of these derivative financial instruments is carried at fair value at the time the contract is concluded and revalued at fair value in the subsequent periods. Profits or losses from changes to the fair value of derivatives are immediately recorded as income.

The Group uses the following hierarchy to determine and report the fair value of financial instruments for each valuation method: Step 1: Listed (not adjusted) prices on active markets for similar assets or similar liabilities. Step 2: Procedures where input parameters have a significant effect on the fair value, either directly or indirectly. Step 3: Procedures where input parameters have a significant effect on the fair value, either directly or indirectly, and are not based on observed market data. The foreign exchange forward contracts mentioned on page 76 are attributed to Step 2.

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

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

FINANCIAL LIABILITIES

Financial liabilities are classifiable into the following categories:

- Financial liabilities held for trading, and
- other financial liabilities.

Financial liabilities reported in the PSI Consolidated Financial Statements were classified as other financial liabilities.

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

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

At 31 December 2013, the maturities of financial liabilities were as follows:

	Due immediately EUR K	Due within up to 1 year EUR K	Due in longer than 1 year EUR K	Total EUR K
Trade payables	4,973	10,427	0	15,400
Other liabilities	0	25,309	417	25,726
Financial liabilities	303	3,241	3,387	6,931
	5,276	**38,977**	**3,804**	**48,057**

The trade payables due after 1 year represent provisions for services still to be rendered in the amount of EUR 5,265 K.

For the 2013 fiscal year, there were no significant variations between the balance sheet carrying values and the undiscounted cash flows.

At 31 December 2012, the maturities of financial liabilities were as follows:

	Due immediately EUR K	Due within up to 1 year EUR K	Due in longer than 1 year EUR K	Total EUR K
Trade payables	4,835	10,811	0	15,646
Other liabilities	485	27,004	487	27,976
Financial liabilities	0	5,449	3,900	9,349
	5,320	**43,264**	**4,387**	**52,971**

The trade payables due after one year represent provisions for services still to be rendered in the amount of EUR 5,844 K.

For the 2012 fiscal year, there were no significant variations between the balance sheet carrying values and the undiscounted cash flows.

OBJECTIVES AND METHODS OF FINANCIAL RISK MANAGEMENT

The main financial instruments used to finance the Company's operations are cash, available-for-sale financial assets, current liabilities (bank credit lines) and other liabilities. Current receivables and liabilities arising from long-term contract manufacturing are another component of financial risk management. The primary risks are default and liquidity risk. Due to its business activities and net investments in foreign subsidiaries, the Group faces currency risks. The Group hedges against currency risks using forward exchange transactions. Interest risks exist only to a minor extent due to relatively insignificant interest-bearing liabilities. Market value risks were incurred exclusively in association with available-for-sale financial assets, and only to a minor extent.

a) Default risk

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

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

b) Capital management

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

The PSI Group manages its capital structure in view of prevailing economic circumstances. No adjustments or changes were made to capital management objectives or policies in the 2013 and 2012 fiscal years.

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

CURRENT ASSETS

a) Inventories

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

b) Cash

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

SHAREHOLDERS' EQUITY

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

Capital reserves include premiums in accordance with Article 150 of the German Stock Corporation Act, as well as loss carryforwards applied in accordance with profit appropriation resolutions.

Retained earnings include profit appropriation in accordance with Article 174 of the German Stock Corporation Act.

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

Unrealised gains/losses from currency translation, actuarial gains/losses from the valuation of pension provisions and reserves to secure cash flow are reported under other reserves.

PENSION PROVISIONS

The PSI Group has several defined benefit plans and other defined contribution pension plans in place. The former do not involve plan assets. The expenditure for defined benefit plan benefits is determined separately for each plan using the projected unit credit method. Actuarial gains/losses are taken directly to equity without affecting profit.

CURRENT LIABILITIES

Other provisions

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

GOVERNMENT GRANTS

Government grants are recognised when there is reasonable assurance that the Company will comply with the applicable conditions. Government grants are recognised in income on a scheduled basis in a similar way to the recognition of the related expenditure which they are to compensate. Grants obtained for the purchase of property, plant and equipment are reported in other liabilities as deferred income; this is recognised as revenues over the useful life of the asset in question in accordance with the recorded depreciation. Realised revenues associated with expenditures are reported as other operating income on the income statement.

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

In 2013, the PSI Group received a total of EUR 1,052 K for various development programs, including governmental programs, programs in the state of Berlin and in the European Union (previous year: EUR 1,618 K). The subsidies granted were recognised as income in 2013 and shown as a reduction in the corresponding expenses. There are no additional requirements or obligations in connection with development projects, other than the obligation to verify expenses in the amount for which subsidies were granted.

BORROWING COSTS

The Group capitalises borrowing costs for all qualifying assets for which production was begun on or after 1 January 2013. Borrowing costs in connection with production processes that began before 1 January 2013 are still recognised by the Group in the period incurred. In 2013, no significant borrowing costs were incurred for qualifying assets.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs came to EUR 19.8 million in the 2013 fiscal year (previous year: 17.9 million).

LEASING

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

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

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

REVENUES REALISATION AND RECOGNITION

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

a) Project business

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

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

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

d) Recognition of interest income
Interest is recognised proportionately over time based on the effective yield on the asset.

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

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

- Deferred tax liabilities arising from the initial recognition of goodwill or of an asset, or liabilities in transactions not constituting a business combination which at the time of the transaction impact neither financial-accounting net profit or loss for a period or the taxable profit, and
- deferred tax liabilities from taxable temporary differences connected with investments in subsidiaries, associated companies and interests in joint ventures. This may not be recognised if the timing of the reversal of temporary differences can be controlled, and it is likely that the temporary differences will not be reversed in the foreseeable future.

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

- Deferred tax assets from deductible temporary differences arising from the initial recognition of an asset or liability in transactions not constituting a business combination where neither the financial-accounting net profit or loss for a period or the taxable profit are impacted at the time of the transaction,
- and deferred tax assets from taxable temporary differences connected with investments in subsidiaries, associated companies and interests in joint ventures. These may be recognised only to the extent that it is likely that the temporary differences will be reversed in the foreseeable future and there is sufficient taxable profit against which the temporary differences can be used.

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

Deferred tax assets and liabilities are measured at the tax rates expected to be valid for the period in which an asset is realised or a liability discharged. Tax rates (and tax laws) valid or announced on the balance sheet date are applied. Income taxes concerning items recognised directly in equity are recognised in equity rather than the income statement.

Deferred tax assets and liabilities are offset against one another if the Group has a legally enforceable right to offset current tax assets against current tax liabilities, and this relates to taxes on income levied on the same taxable entity by the same taxation authority.

SALES TAX
Sales revenues, expenditures and assets are recorded after deducting sales tax, with the exception of the following cases:

- Accrued sales tax for purchased assets or services uncollectible by the tax revenues office is classified as production costs of or expenditure for the asset in question
- Receivables and payables are stated with the amount of sales tax included.

The sales tax amount which is refunded by or paid to the tax revenue office is included in the Consolidated Balance Sheet under liabilities and/or debts.

SEGMENT REPORTING
a) Business segments
The PSI Group is organised into three main business segments:

- Energy Management
- Production Management
- Infrastructure Management.

Financial information by business segment and geographical segment is shown under Note F. and in a special annex to these Notes to the Consolidated Financial Statements.

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

C. NOTES ON THE CONSOLIDATED BALANCE SHEET

NON-CURRENT ASSETS
1 Intangible assets and property, plant and equipment
With respect to the change in non-current assets in the fiscal year ending on 31 December 2013, reference is made to the attached schedule “Change in intangible assets and property, plant and equipment” on page 54f.

Goodwill and property, plant and equipment
The PSI Group carried out impairment testing on non-current assets on 31 December 2013 and 31 December 2012. Impairment testing to determine value in use takes the following units and proportionate goodwill carrying amounts into account:

	31/12/2013 EUR K	31/12/2012 EUR K
Energy Management		
Electrical Energy division of PSI AG, Nentec and CNI	1,493	1,493
Gas and Oil division of PSI AG	1,576	1,576
PSI Energy Markets	2,267	2,267
Time-steps AG	605	605
	5,941	**5,941**
Production Management		
PSIPENTA	615	615
PSI Metals	8,198	8,198
PSI Logistics	838	838
PSI Production	285	285
FLS	342	342
PSI Metals Austria Group	10,750	10,750
	21,028	**21,028**
Infrastructure Management		
PSI Transcom	2,352	2,352
PSI Incontrol Group	15,208	15,208
	17,560	**17,560**
Total goodwill	**44,529**	**44,529**

Impairment testing is based on cash flow projections for individual cash-generating units given market expectations (growth rates in relevant market segments, software project revenues and maintenance revenues, hourly and daily rates for employees, average personnel expenditure, mark-ups on sales of hardware and third-party licenses). The three-year planning time frame reflects long-term business projections. The estimated cash flows are determined based on past information. Cash flows were also adjusted downward to reflect the current economic situation. A further 1 to 2% growth of the operating margin was planned in the budgets for the next few years. Assumptions made by Management with regard to business trends in the software industry are in accord with the expectations of industry experts and market observers.

Apart from for the Incontrol Group, a discount rate of 6.42% after tax and 7.78% before tax was applied (previous year: 5.64% after tax and 6.74% before tax). For the Incontrol Group, taking into account a country risk surcharge, a discount rate of 9.60% before tax and 7.68% after tax was applied (previous year: 8.35% before tax and 6.85% after tax). The discount rate was adjusted in view of the current economic situation (real economy developments and financing conditions). Cash flows arising after the three-year time period are extrapolated using a growth rate of 1.3% (previous year: 1.3%).

Management believes that, at this time, no reasonably possible change in the fundamental assumptions used for determining value in use of the cash-generating units could result in the carrying amount of the cash-generating unit substantially exceeding its recoverable amount. Because of considerable economic uncertainty regarding projected cash flows and financing conditions, the PSI Group Board of Directors applied 20% lower cash flows and a 9% after-tax discount rate as a worst-case scenario for impairment testing. Even under these parameters, no impairment was identified.

2 *Investments in associates*

Since 5 June 2008, the Group has held a 24.9% stake in PSI Energo, Moscow, Russia. This company was established to build up a distribution structure in Russia. PSI Energo is not listed on the stock exchange. In 2009, PSI AG subscribed shares in the amount of EUR 27 K as part of a capital increase in PSI Energo; the share of PSI Energo's capital after the capital increase remains 24.9%. On 16 January 2013 the shares in PSI Energo were sold for a purchase price of EUR 497 K.

As per an agreement dated March 3, 2009, PSI AG acquired 25% of the shares in caplog-x GmbH headquartered in Leipzig for EUR 50 K. The company provides companies in the gas market with the full information chain from data collection to remote data supply, particularly for invoicing large customers. As per an agreement dated 28 December 2012, further shares were acquired for a purchase price of EUR 102 K; the share of caplog-x GmbH's capital thus increased by 8.33% to 33.33%.

As per an agreement dated 28 June 2011, PSI Transcom acquired 30 % of the shares in Talk-IP International AG headquartered in Eching for EUR 15 K. The company provides and markets telecommunications services. On 13 June 2013 the shares in Talk-IP International AG were sold for a purchase price of EUR 15 K.

The following table contains the summarised financial information regarding the Group's holdings in caplog-x GmbH for 2013 and in Talk-IP AG and caplog-x GmbH for 2012.

	2013 EUR K	2012 EUR K
Share in assets and liabilities of associates		
Current assets	214	247
Non-current assets	43	41
Current liabilities	−44	−71
Non-current liabilities	0	0
Equity	**213**	**217**
Share in the revenues and result of associates		
Revenues	1,205	1,189
Result	146	118

	2013 EUR K	2012 EUR K
Carrying value of the investment	**298**	**284**

CURRENT ASSETS

3 *Inventories*

	2013 EUR K	2012 EUR K
Hardware and third-party licenses	3,351	3,634
Subcontractor payments	537	386
	3,888	**4,020**

4 *Trade receivables, net*

	2013 EUR K	2012 EUR K
Trade receivables, gross	40,705	34,707
Individual valuation allowances	−797	−639
	39,908	**34,068**

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

	2013 EUR K	2012 EUR K
As of 1 January	639	482
Appropriation recognised as expense	368	173
Claimed	−130	0
Reversals recognised as income	−80	−16
As of 31 December	**797**	**639**

As of 31 December, the age structure of the trade receivables was as follows in each case:

	2013 EUR K	2012 EUR K
Neither past due nor impaired:	**28,328**	**20,600**
Overdue:		
< 30 days	5,110	7,244
30–60 days	1,276	1,849
60–90 days	1,051	1,446
90–120 days	316	953
> 120 days*	3,827	1,976
	11,580	**13,468**
As of 31 December	**39,908**	**34,068**

* Paid as of 20 February 2014: EUR 859 K

5 *Receivables from long-term development contracts*

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

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

	2013 EUR K	2012 EUR K
Costs incurred	64,493	67,392
Share of profit	10,895	10,505
Contract revenues	**75,388**	**77,897**
Advance payments received	−57,592	−54,209
Set off against contract revenues	−37,495	−35,656
Receivables from long-term development contracts	37,893	42,241
Liabilities from long-term development contracts	20,097	18,553

Advance payments which exceed the respective receivables from contract manufacturing are listed as liabilities from long-term contract manufacturing.

Receivables from long-term contract manufacturing in the amount of EUR 37,893 K (previous year: EUR 42,241 K) are neither past due nor impaired as of the balance sheet date.

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

6 *Other assets*

	2013 EUR K	2012 EUR K
Tax credits	2,832	1,573
Prepaid expenses	1,294	1,333
Claims from the sale of business units	0	479
Subcontractor payments	256	236
Subsidies	149	83
Other	759	930
	5,290	**4,634**

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

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

7 *Cash*

	2013 EUR K	2012 EUR K
Bank balances	13,341	26,631
Fixed term deposits	8,427	6,668
Cash	32	39
	21,800	**33,338**

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

8 *Shareholders' equity*

See the schedule of changes in the Consolidated Statements of Changes in Equity.

a) Subscribed capital

Fully paid-up share capital recorded in the commercial register totals EUR 40,185,256.96 (previous year: EUR 40,185,256.96).

In a 22 December 2008 resolution, the PSI AG Board of Directors, with Supervisory Board approval, declared 212,870 shares withdrawn pursuant to the shareholder resolution passed at the April 25, 2008 Annual General Meeting, reducing share capital by EUR 544,947.20 from EUR 31,008,947.20 to EUR 30,464,000.00. The share capital reduction was recorded in the Commercial Register on 9 March 2009. Share capital is comprised of 15,697,366 no-par shares (2008: 12,112,870).

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

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

At the PSI AG Annual General Meeting on 28 April 2009, the Board of Directors was authorised to buy back shares up to 10% of share capital. Based on the share capital of that date in the amount of EUR 30,464,000, the Company was authorised for a maximum amount of own shares in the amount of EUR 3,046,400.00. This is about 1,190,000 shares of the Company. The authorisation expired on 27 October 2010.

At the PSI AG Annual General Meeting on 7 May 2013, the Board of Directors was authorised to buy back shares up to 10% of share capital. Based on the share capital from that date, the Company is authorised to buy back up to 1,569,736 shares. The authorisation expired on 30 June 2016.

b) Contingent and authorised capital
Upon resolution of the Annual General Meeting on 7 May 2013, the Board of Directors was authorised to issue convertible bonds and bonds with warrants alongside profit-sharing rights and/or participating bonds (with the option to exclude subscription rights) up to 6 May 2018.

To fulfil any exercised rights as above, the Annual General Meeting on 7 May 2013 created a new "contingent capital 2013". According to this, the Company's share capital of up to EUR 8,035,840, divided into up to 3,139,000 no-par shares, is contingently increased.

The contingent capital from an authorisation of 28 April 2009 (BK 2009) was replaced by the aforementioned new contingent capital 2013.

	2013 EUR K	2012 EUR K
Authorised capital (AC)		
AC 2010 (expires 2 May 2015)	8,036	8,036
	8,036	**8,036**
Contingent capital (CC)		
BK 2013 (expires 6 May 2018)	8,036	15,232
	8,036	**15,232**
	16,072	**23,268**

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

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

d) Other reserves
Other reserves break down as follows:

	2013 EUR K	2012 EUR K
Currency fluctuation reserve	−297	1,005
Actuarial losses	−12,347	−11,305
Deferred taxes	4,250	4,085
Cash flow hedge reserve	−441	−931
	−8,835	**−7,146**

The cash flow hedge reserve contains the effective part of hedges for future estimated payments in foreign currency at the balance sheet date.

e) Distributed dividends
During the financial year, a dividend on ordinary shares for the fiscal year 2012 amounting to EUR 0.30 (previous year: EUR 0.25) per share (EUR 4,702,009.80; previous year: EUR 3,919,174.50) was distributed.

NON-CURRENT LIABILITIES

9 *Pension provisions*

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

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

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

- Vested rights as of 31 December 2006 of a majority of employees were frozen as fixed amounts. The result of this procedure is that accrued pension benefits will not increase beyond the level reached at 31 December 2006 through either future service or salary increases.

- Freezing of vested rights is done by determining pension benefits payable from age 65 for each plan participant, as if they were age 65. Vested rights are determined as though the employee had reached his or her 65th birthday by 31 December 2006.

- As compensation for the discontinuation of future increases in the Company pension (pension increases), either equal increasing amounts will be paid into an insured provident fund until the end of employment, or the employees will be given increased gross cash compensation in the form of an annual payment increasing in equal amounts, ending at the latest upon reaching the age of 65. These compensation amounts are determined by actuarial formulas.

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

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

	2013 %	2012 %
Discount rate	3.50	3.60
Increase in salaries	1.50	1.50
Increase in pension payouts	1.50	1.50
Staff turnover	4.50 [1]	4.50 [1]

[1] Fluctuation was based on an age-dependent probable employee turnover rate of between 4% and 5%.

As in the previous year, RT Heubeck 2005 G was used as the mortality table.

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

At 31 December 2013, an age at expiry of financing of 64 was assumed in calculating pension obligations. The age at expiry of financing is based on statistical surveys of retirement ages within the PSI Group.

In fiscal year 2008, the PSI Group opted to record actuarial gains and losses in connection with measurement of pension provisions directly in equity.

Pension benefits break down as follows:

	2013 EUR K	2012 EUR K
Work time expenditure recorded in staff costs	32	37
Interest expense recorded in interest result	1,390	1,653
Pension benefits	**1,422**	**1,690**

Liabilities from defined benefit plans:

	2013 EUR K	2012 EUR K
Cash value of defined benefit plan	40,087	38,997
Pension obligation	**40,087**	**38,997**

The table below shows the change in pension obligations:

	2013 EUR K	2012 EUR K
Pension obligation, start of period	38,997	32,104
Actuarial gains and losses from changes in demographic assumptions recognised in equity	1,572	6,684
Actuarial gains and losses from changes in financial assumptions recognised in equity	−529	276
Pension benefit payments	−1,375	−1,242
Pension benefits	1,422	1,690
Work time expenditure to be taken into account retrospectively	0	−443
Group disposals	0	−72
Pension obligation, end of period	**40,087**	**38,997**

A quantitative sensitivity analysis of the most important assumptions as at 31 December 2013 is shown below.

Assumption	Interest rate sensitivity		Sensitivity to pension increase	
Scenario	Increase by 0.2%	Decrease by 0.2%	Increase by 0.2%	Decrease by 0.2%
Effects of the defined benefit obligation (in EUR K)	−1,059	1,104	823	−798

The sensitivity analysis above was carried out using a process which extrapolates the effects of realistic changes to the most important assumptions on the defined benefit obligation at the end of the reporting period.

The average duration of a defined benefit obligation at the end of the reporting period is 13.72 years (previous year: 13.95 years).

The following shows the expected payment structure for the years 2014 to 2016:

	EUR K
Pension benefit payments	
2012	1,242
2013	1,375
Projected pension benefit payments	
2014	1,565
2015	1,675
2016	1,778

10 Financial liabilities

Financial liabilities contain liabilities from loans of EUR 3,347 K (previous year: EUR 3,596 K) and the non-current part of derivatives amounting to EUR 40 K (previous year: EUR 304 K). For more explanations on derivatives, please see the disclosures in paragraph 11 (financial liabilities).

In the 2012 financial year, a loan contract was taken out with Landesbank Berlin for a nominal amount of EUR 3,600 K and a term to 31 December 2015. The loan is subject to a variable interest rate (3-month EURIBOR plus a margin of 1.220%). The remaining value until 31 December 2013 amounts to EUR 3,350 K. Collateral was not provided.

Interest expenses from non-current bank loans amounted to EUR 52 K in the financial year (previous year: EUR 59 K).

CURRENT LIABILITIES

11 Financial liabilities

Financial liabilities contain liabilities from currency accounts of EUR 3,143 K (previous year: EUR 4,822 K) and the non-current part of derivatives amounting to EUR 401 K (previous year: EUR 627 K).

The PSI Group uses short-term, variable interest rate bank credit lines for financing purposes. Financial liabilities are paid back monthly, with interest rates between 3.2% and 3.5%. Collateral is not provided. The objective is to ensure continuous refinancing of all short-term financial liabilities. The fair value of financial liabilities is the carrying amount. As of 31 December 2013, the PSI Group had unused credit lines in the amount of EUR 9,163 K (previous year: EUR 6,386 K).

Interest expenses from bank overdrafts amounted to EUR 287 K in the 2013 fiscal year (previous year: EUR 186 K).

In the 2010 fiscal year, in the context of contracted foreign currency customer orders, exchange forward contracts were agreed in order to hedge against currency risks. This is to hedge future cash flows from expected transactions. The Company has designated the expected transactions in the context of customer orders and exchange forward contracts as a hedge (cash flow hedge). Cash flows from expected transactions are likely to be received in the period from 30 April 2014 and 31 March 2015. The hedging instruments were included in the balance sheet at fair value on 31 December 2013 with no effect on profits.

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

Underlying transaction/ hedging relationship	Risk/type of hedge	Nominal amount EUR K	Amount of risk hedges EUR K	Fair value 31/12/2013 EUR K	Fair value 31/12/2012 EUR K
Future transactions/ foreign currency contracts	Currency risk/ cash flow hedge	6,735	6,735	−441	−931
Total		**6,735**	**6,735**	**−441**	**−931**

Opposing cash flows relating to the secured risk of underlying transactions/expected transactions and hedges are expected to balance out fully over the hedging period, based on the information available when compiling the Consolidated Financial Statements, because significant interest risk items are hedged at the same amount, duration and interest rate immediately after they arise, in accordance with Group risk policy. In order to measure the effectiveness of hedges, the "Critical Terms Match" method is used. The "dollar offset method" is used to measure retrospective effectiveness.

12 Provisions

The change in provisions was as follows:

	As of 1/1/2013 EUR K	Claimed EUR K	Appropriation EUR K	As on 31/12/2013 EUR K
Personnel provisions	5	−4	0	1
Other provisions	173	−165	0	8
	178	**−169**	**0**	**9**
thereof current	178			9
thereof non-current	0			0

13 Other liabilities

	2013 EUR K	2012 EUR K
Personnel-related liabilities	12,277	12,670
Tax liabilities (payroll and sales tax)	5,280	4,805
Deferred income	3,638	3,872
Social security liabilities	110	46
Other	4,421	6,583
	25,726	**27,976**

Employee liabilities principally represent claims to vacation, overtime and special payments. Deferred income (mostly prepaid maintenance revenues) is recognised in income within one year, apart from EUR 1,035 K to be recognised in the following years. Miscellaneous liabilities are non-interest bearing.

14 Deferred taxes/taxes on income

The trade income tax in Germany is levied on taxable income of the PSI Group, determined by deducting certain income not subject to trade tax and adding certain expenses not deductible for trade income tax purposes. The effective trade tax rate varies by the municipality in which the PSI Group operates. The average trade tax rate in 2013 was approximately 15%. A corporation tax rate of 15% was applied in the 2012 and 2013 fiscal years. A solidarity surcharge of 5.5% was additionally levied on corporation tax assessed. The effective income tax rate for 2013 was thus 29.83% (previous year: 29.83%).

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

	2013 EUR K	2012 EUR K
Actual tax expense		
Current year	**−2,264**	**−1,959**
Deferred tax expense		
Change in intangible assets	−122	58
Change in long-term development contracts	−119	282
Change in inventories	−10	−12
Phased retirement programmes	−1	−46
Changes to trade receivables	350	−57
Change in pension provisions	−234	13
Project-related provisions	−149	−225
Other provisions	−83	8
Fixed assets	−67	32
Use of tax loss carryforwards	0	−71
	−435	**−18**
Income tax expense	**−2,699**	**−1,977**

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

	2013 EUR K	2012 EUR K
Earnings before taxes	3,070	11,335
Theoretical income tax expense (29.83%; previous year: 29.83%)	−916	−3,387
Uncapitalised tax loss carryforwards	−2,222	−95
Non tax-deductible business expense and trade tax additions	−104	−109
Use of non-capitalised loss carryforwards	535	1,266
Effects of differences due to foreign tax rates	203	172
Tax expense for previous year	−504	−411
Capitalisation of temporary differences previously value-adjusted	0	122
Tax-free foreign income	275	298
Other	34	167
Actual tax expense	**−2,699**	**−1,977**

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

	2013 EUR K	Change EUR K	2012 EUR K
Deferred taxes			
Pension provisions	4,658	77	4,581
Intangible assets	18	58	−40
Tax-deductible goodwill impairment	−240	−180	−60
Phased retirement programmes	19	−1	20
Project-related provisions	813	−149	962
Receivables from long-term development contracts	−2,046	−119	−1,927
Derivatives/Financial instruments	167	−168	335
Fixed assets	−67	−67	0
Inventories	0	−10	10
Trade receivables	293	350	−57
Other provisions	105	29	76
Other	−110	−89	−21
	3,610	**−269**	**3,879**
of these, recorded in the income statement		−435	
of these, recorded in other comprehensive income		166	
Balance sheet			
Deferred tax assets	6,073		5,984
Deferred tax liabilities	−2,463		−2,105

The PSI Group has the following tax loss carryforwards:

	2013 EUR million	2012 EUR million
Loss carryforward, domestic trade tax	46.5*	39.2*
Loss carryforward, domestic corporation tax	44.9*	37.2*
Loss carryforwards abroad	6.0	6.0

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

Domestic loss carryforwards do not expire.

D. DETAILS RELATING TO GROUP PROFIT/LOSS ACCOUNT

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

15 Revenues

	2013 EUR K	2012 EUR K
Software development and maintenance	134,771	144,945
License fees	19,370	17,445
Merchandise	22,189	18,498
	176,330	**180,888**

16 Cost of materials

	2013 EUR K	2012 EUR K
Costs of purchased services	14,980	19,235
Costs of purchased goods	19,803	16,890
	34,783	**36,125**

17 Staff costs

	2013 EUR K	2012 EUR K
Wages and salaries	88,684	84,971
Social security	15,559	15,879
	104,243	**100,850**

Staff costs include expenses for payments in connection with defined contribution pension commitments of EUR 644 K (previous year: EUR 657 K) and state pension funds of EUR 5,547 K (previous year: EUR 5,647 K).

18 Depreciation and amortisation

	2013 EUR K	2012 EUR K
Of intangible assets and property, plant and equipment	3,820	4,034
	3,820	**4,034**

19 Other operating expenses

	2013 EUR K	2012 EUR K
Travel costs	7,854	8,153
Rent/leasing property	6,188	6,032
Project expenses	4,081	1,617
Advertising and marketing	4,200	4,343
Equipment leasing	2,408	2,543
Data line, IT and telephone costs	2,925	2,603
Legal and advisory costs	1,477	1,222
Contributions, fees, expenses	348	395
Other	5,678	8,385
	35,159	**35,293**

20 Earnings per share

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

	2013	2012
Net profit/loss for the period (EUR K)	371	9,358
Weighted number of no-par shares (in thousand)	15,683	15,680
Basic/diluted earnings per no-par share (EUR/share)	**0.02**	**0.60**

To calculate diluted earnings per share, net profit or loss for the period attributable to ordinary shareholders and the weighted average number of the shares outstanding are adjusted for the dilutive effect on common shares potentially issued from the exercise of stock options, rights and/or warrants.

E. NOTES ON THE CONSOLIDATED STATEMENT OF CASH FLOWS

Cash and cash equivalents reported are not subject to restrictions on disposal claims or rights imposed by third parties. The PSI Group has made no payments for extraordinary transactions. Interest and income tax payments have been reported. A dividend for the fiscal year 2012 was paid in the reporting year. The breakdown of cash and cash equivalents is shown under C. 7. Current account liabilities were not included in cash and cash equivalents.

F. NOTES ON SEGMENT REPORTING

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

Breakdown by business segments

- Energy Management: Intelligent solutions for electricity, gas, oil and water utilities. The focus is on delivering reliable and efficient solutions for grid management and for trading and sales in the deregulated energy markets.

- Production Management: Software products and customised solutions for production planning, specialised production controls and efficient logistics. The focus is on optimising resource utilisation and enhancing quality and efficiency.

- Infrastructure Management: High-availability control solutions for monitoring and effective operations in the areas of traffic, public safety, environmental protection and disaster prevention.

Reconciliation of segment assets and liabilities

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

	2013 EUR K	2012 EUR K
Gross assets per balance sheet	178,034	186,441
Deferred tax assets	−6,073	−5,984
Segment assets	**171,961**	**180,457**
Gross liabilities per balance sheet	110,713	112,804
Tax provisions	−1,653	−921
Deferred tax liabilities	−2,463	−2,105
Segment liabilities	**106,597**	**109,778**

Additional geographical disclosures

For the 2013 fiscal year, the PSI Group achieved domestic revenues of EUR 83.3 million (Previous year: EUR 95.0 million) and revenues of EUR 93.0 million abroad (Previous year: EUR 85.9 million). Non-current fixed assets of EUR 28,555 K (previous year: EUR 28,719 K) were allocated to foreign entities.

G. OTHER INFORMATION

Other financial obligations and contingencies

Tenancy and leasing agreements

Cars, office furniture and fixtures, data processing systems and other equipment were leased under operating leasing agreements. In 2013, leasing charges of EUR 223 K accrued (previous year: EUR 242 K), leasing fees of EUR 910 K for leased data processing systems, vehicles and other equipment (previous year: EUR 1,038 K).

In the 1996 fiscal year, PSI AG concluded a tenancy agreement for an office building in Berlin. The rental contract was renegotiated in 2010 and has a term up to 31 March 2017.

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

	Rent payments EUR K	Leasing payments EUR K	Total EUR K	Previous year Total EUR K
2014	3,902	1,680	5,582	3,723
2015	2,471	1,022	3,493	2,515
2016	2,376	400	2,776	1,918
2017	835	123	958	1,910
2018	323	12	335	516
2019	323	0	323	0
and beyond	136	0	136	0
Total	**10,366**	**3,237**	**13,603**	**10,582**

Guaranteed sureties

At the balance sheet date PSI AG had guaranteed sureties totalling EUR 39,866 K (previous year: EUR 45,147 K) from various insurers and banks.

Employees

The average number of PSI Group employees in the fiscal year was 1,671 (previous year: 1,559 employees). Employees break down by function as follows:

	2013	2012
Production	1,368	1,270
Administration	136	126
Sales	145	138
Development	22	25
Total	**1,671**	**1,559**

Equity statement

	Shares in %	Shareholders' equity[1] 31/12/2013 EUR K	Net result[1] 2013 EUR K
PSIPENTA Software Systems GmbH, Berlin	100	3,229	756
PSI Nentec GmbH, Karlsruhe	100	501	0 [2]
PSI Metals GmbH, Düsseldorf	100	5,163	0 [2]
PSI Information Technology Shanghai Co. Ltd., Shanghai, China	100	1,320	−107 [3]
PSI Metals North America Inc., Pittsburgh, USA	100	562	292
PSI Transcom GmbH, Berlin	100	1,311	61
PSI AG Produkte und Systeme der Informationstechnologie, Glattzentrum, Switzerland	100	877	216
PSI Logistics GmbH, Berlin	100	−3,800	−4,503
PSI Energy Markets GmbH, Hanover	100	1,330	0 [2]
PSI Production GmbH, Berlin	100	8	266
PSI Produkty i Systemy Informatyczne Sp z o.o., Poznan, Poland	100	1,482	972
PSI CNI Control, Networks & Information Management GmbH, Wels, Austria	100	1,107	165
FLS FUZZY Logik Systeme GmbH, Dortmund	100	378	0[2]
PSI Metals Non Ferrous GmbH, Aachen	100	1,005	0[2]
OOO 'PSI', Moscow, Russia	100	2,584	1,774
PSI Incontrol Sdn. Bhd., Selangor, Malaysia	100	11,588	2,061 [3]
inControl Tech Private Limited, Chennai, India	100	−141	23 [3]
inControl Tech For Shares SPC, Salimabad, Bahrain	100	−198	36 [3]
inControl Tech (Thailand) Ltd., Bangkok, Thailand	100	−13	−200 [3]
inControl Tech Holding (Thailand) Ltd., Bangkok, Thailand	100	9	4 [3]
PSI Metals Austria GmbH, Linz, Austria	100	2,714	851
AIS Advanced Information Systems (India) Private Ltd., Kolkata, India	100	114	6 [3]
PSI Metals Belgien NV, Brussels, Belgium	100	974	389
PSI Metals Brazil Ltda, Rio de Janeiro, Brazil	100	56	58 [3]
PSI TURKEY BILISIM TEKNOLOJILERY SANAYI VE TICARET A.Ş., Istanbul, Turkey	100	28	35
Time-steps AG, Affoltern am Albis, Switzerland	100	473	312
caplog-x GmbH, Leipzig	33.3	637	437

1) Values according to legal and local accounting regulations before consolidation bookings
2) Profit-pooling contracts
3) Values according to IFRS before consolidation bookings

Audit fees

Audit fees for the auditing of PSI AG, the PSI Consolidated Financial Statements and all material subsidiaries of the PSI Group amounted to EUR 221 K (previous year: EUR 213 K). For tax consultancy services from the auditors of the Financial Statements, the PSI Group recorded fees in the amount of EUR 150 K (previous year: EUR 101 k), and EUR 22 K for other audit services (previous year: EUR 0 K).

Related party disclosures

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

Related companies

The associates included in the Consolidated Financial Statements are considered related companies. Furthermore, caplog-x as an associated company must be treated as a related company. There are no other related companies.

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

Related persons

The following are considered related persons:

Members of the PSI AG Board of Directors

Dr. Harald Schrimpf
(Chairman of the Board of Directors since 6 September 2013)
Armin Stein until 30 June 2013
Harald Fuchs since 1 July 2013

Members of the PSI AG Supervisory Board

Karsten Trippel
Prof. Dr. Rolf Windmöller
Dr. rer. nat. Ralf Becherer
Bernd Haus
Wilfried Götze
Elena Günzler

Transactions with related persons

No business transactions took place between the PSI Group and related persons in 2013.

Supervisory Board

The individuals below were Supervisory Board members in fiscal year 2013:

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

Remuneration for the Board of Directors and Supervisory Board

Remuneration of EUR 1,089 K was paid to the PSI AG Board of Directors in the fiscal year 2013 (previous year: EUR 890 K):

	2013 EUR K	2012 EUR K
Fixed remuneration		
Armin Stein	116	232
Harald Fuchs	140	0
Dr. Harald Schrimpf	296	232
	552	**464**
Long-term fee components		
Harald Fuchs	0	0
Dr. Harald Schrimpf	160	0
	160	**0**
Variable remuneration		
Armin Stein	204	213
Harald Fuchs	0	0
Dr. Harald Schrimpf	173	213
	377	**426**
Board of Directors – total	**1,089**	**890**

In addition, provisions for the Board of Directors' long-term fee components totalled EUR 152 K.

No pension commitments exist for Board of Directors members.

Pension provisions of EUR 641 K are reported for former Board of Directors members (previous year: EUR 638 K). No further remuneration was paid to former Board members other than pension benefit payments of EUR 53 K (previous year: EUR 52 K).

The Supervisory Board was paid remuneration of EUR 190 K (previous year: EUR 193 K):

	2013 EUR K	2012 EUR K
Dr. rer. nat. Ralf Becherer	28	28
Wilfried Götze	35	35
Bernd Haus	30	30
Karsten Trippel	24	25
Prof. Dr. Rolf Windmöller	45	46
Elena Günzler	28	19
Barbara Simon	0	10
	190	**193**

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

	2013 Number of shares	2012 Number of shares
Dr. Harald Schrimpf	64,000	60,000
Armin Stein	0	23,300
Harald Fuchs	423	0
Dr. rer. nat. Ralf Becherer	1,281	1,281
Wilfried Götze	54,683	54,683
Bernd Haus	1,000	1,000
Elena Günzler	1,013	1,013
Karsten Trippel	110,322	109,750
Prof. Dr. Rolf Windmöller	6,305	6,305

Disclosures concerning the German "Corporate Governance Code"

PSI AG submitted the declaration prescribed per Article 161 of the German Stock Corporation Act on 8 November 2013. This document is available for viewing by shareholders at all times on the PSI AG website (www.psi.de) in the Investor Relations section.

Berlin, 7 March 2014

Dr. Harald Schrimpf   Harald Fuchs

Audit certificate

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

“We have audited the Consolidated Financial Statements prepared by PSI Aktiengesellschaft für Produkte und Systeme der Informationstechnologie, Berlin – consisting of the balance sheet, income statement, comprehensive income statement, statement of changes in shareholders’ equity, cash flow statement, and Notes to the Consolidated Financial Statements – and the Consolidated Management Report for the fiscal year 1 January to 31 December 2013. The preparation of the Consolidated Financial Statements and Consolidated Management Report in accordance with IFRS as applicable within the EU and with the supplementary provisions of Section 315 a (1) HGB are the responsibility of the legal representatives of the Company. Our responsibility is to express an opinion on the Consolidated Financial Statements and the Consolidated Management Report based on our audit.

We conducted the audit of the Consolidated Financial Statements in accordance with Section 317 HGB (German commercial code) and generally accepted German standards for the auditing of financial statements outlined by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany, IDW). These standards require that we plan and perform audits in such a way that misstatements materially affecting the presentation of net assets, financial position and results of operations in the Consolidated Financial Statements and the Consolidated Management Report in accordance with the applicable financial reporting framework will, with reasonable assurance, be detected. In determining the audit procedures, the business activity, business and legal environment, and expectations as to possible errors were taken into consideration. The effectiveness of the internal financial reporting control system and the evidence supporting the disclosures in the Consolidated Financial Statements and the Consolidated Management Report are assessed primarily on the basis of spot checks as part of the audit. The audit includes assessment of the Annual Financial Statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and key estimates made by the legal representatives, as well as evaluation of the overall presentation of the Consolidated Financial Statements and the Consolidated Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Berlin, 11 March 2014

Ernst & Young GmbH
Accounting firm

Schepers	Weiß
Public accountant	Public accountant

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group, and the Consolidated Management Report includes a fair review of the performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Berlin, 7 March 2014

PSI Aktiengesellschaft für Produkte und Systeme der Informationstechnologie

The Board of Directors

Dr. Harald Schrimpf　　Harald Fuchs

PSI Multi-Year Overview

	2013 EUR million	2012 EUR million	2011 EUR million	2010 EUR million	2009 EUR million
Orders					
New orders	185	188	174	177	150
Order backlog	118	118	112	108	97
Income statement					
Revenues	176.3	180.9	169.5	158.7	147.0
of which Energy Management	61.0	62.3	68.9	65.5	59.8
of which Production Management	84.1	89.4	78.6	67.3	62.2
of which Infrastructure Management	31.3	29.2	22.1	26.0	25.0
Export ratio in %	52.7	47.5	49.8	40.4	34.1
License revenues	19.4	17.4	14.2	9.8	8.7
License share in %	11.0	9.6	8.4	6.2	5.9
R&D expenditure	19.8	17.9	16.2	16.0	12.1
R&D ratio in %	11.2	9.9	9.6	10.1	8.2
Operating result (EBIT)	4.2	12.9	10.7	9.5	7.8
EBIT margin in %	2.4	7.1	6.3	6.0	5.3
Earnings before taxes (EBT)	3.1	11.3	8.7	7.9	6.9
Group result	0.4	9.4	7.4	7.0	6.6
Return on sales in %	0.2	5.2	4.4	4.4	4.5
Cash flow					
Cash flow from operating activities	−0.1	0.8	15.4	13.1	4.4
Cash flow from investment activities	−3.7	−3.6	−1.6	−6.8	−15.9
Cash flow from financing activities	−7.2	−2.3	−9.0	1.5	8.6
Investments*	5.1	5.2	4.4	6.9	18.9
Balance sheet					
Shareholders' equity	67.3	73.6	72.9	68.1	66.3
Equity ratio in %	37.8	39.5	41.5	40.2	42.9
Return on equity in %	0.6	12.8	10.2	10.3	10.0
Balance sheet total	178.0	186.4	175.7	169.2	154.7
Share					
Earnings per share in EUR	0.02	0.60	0.47	0.45	0.46
Annual closing price in EUR	13.55	15.41	14.72	17.85	8.85
Market capitalisation at 31 December	212.7	241.9	231.1	280.2	138.9
Employees					
Number of employees at 31 December	1,692	1,591	1,491	1,422	1,411
Personnel expenses	104.2	100.9	95.8	94.2	83.6

* Corporate acquisitions, intangible assets, plant and equipment.

PSI Quarterly Overview 2013

	1st quarter EUR million	2nd quarter EUR million	3rd quarter EUR million	4th quarter EUR million
Orders				
New orders	73	36	34	42
Order backlog	145	137	124	118
Income statement				
Revenues	45.4	42.3	41.4	47.2
of which Energy Management	14.9	14.8	13.4	17.9
of which Production Management	23.0	20.2	20.1	20.7
of which Infrastructure Management	7.5	7.3	7.9	8.6
Operating result (EBIT)	2.1	1.5	−2.8	3.4
EBIT margin in %	4.6	3.3	−6.8	7.0
Earnings before taxes (EBT)	2.0	1.1	−3.2	3.2
Group result	1.6	0.1	−4.5	3.2
Return on sales in %	3.5	0.2	−10.9	7.2
Share				
Earnings per share in EUR	0.10	0.01	−0.28	0.19
Quarterly closing price in EUR	15.72	14.95	12.03	13.55
Employees				
Number of employees at the end of the quarter	1,622	1,667	1,701	1,692
Personnel expenses	26.7	25.5	25.7	26.3

FINANCIAL DATES FOR 2014

Publication of Annual Result	20 March 2014
Analysts' Conference	20 March 2014
First Quarter Report	30 April 2014
Annual General Meeting	6 May 2014
First Half-Year Report	31 July 2014
Third Quarter Report	30 October 2014
Analysts' Conference German Equity Forum	24 to 26 November 2014

PSI SHARES

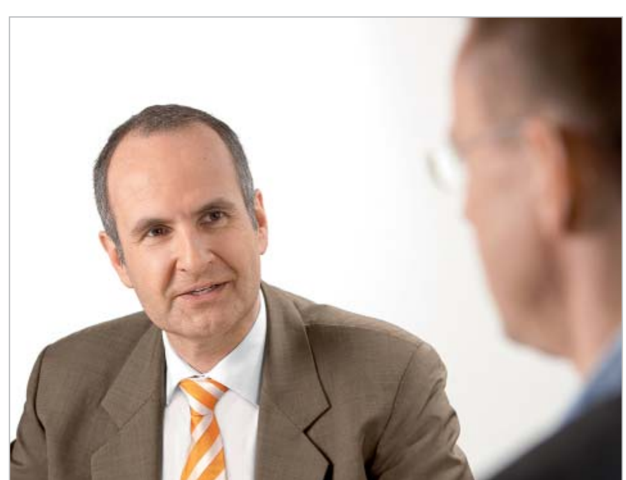
Stock Market Segment:	Prime Standard
Part of Indices:	TecDAX
Exchange Symbol:	PSAN
German Security Code:	A0Z1JH
ISIN:	DE000A0Z1JH9

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

"2013 WAS A TRANSITIONAL YEAR FOR PSI, IN WHICH WE MADE HUGE INVESTMENTS IN OUR PRODUCT BASE. NOW WE ARE RETURNING TO OUR LONG-TERM REVENUES, PROFIT AND COMPANY VALUE GROWTH PATH."

YOUR INVESTOR RELATIONS CONTACT

PSI AG
Karsten Pierschke
Head of Investor Relations and
Corporate Communication
Dircksenstrasse 42 – 44
10178 Berlin
Germany
Phone: +49 30 2801 - 2727
Fax: +49 30 2801 - 1000
E-Mail: ir@psi.de



Publication Details

Publisher
PSI Aktiengesellschaft für Produkte und Systeme
der Informationstechnologie, Berlin

Concept and Layout
HGB Hamburger Geschäftsberichte GmbH & Co. KG

Illustrations: Christian Eisenberg.
Photos: Sebastian Vollmert (6, 7, 8, 11 top, 12, 13 bottom, 16, 20), Streetscooter GmbH (9), Steffen Jänicke (24), plainpicture (10), iStock (11 bottom), SBB CFF FFS (13)

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C004323

PSI Aktiengesellschaft für
Produkte und Systeme der
Informationstechnologie

Dircksenstrasse 42–44
10178 Berlin
Germany
Phone: + 49 30 2801 - 0
Fax: + 49 30 2801 - 1000
ir@psi.de
www.psi.de

PSI