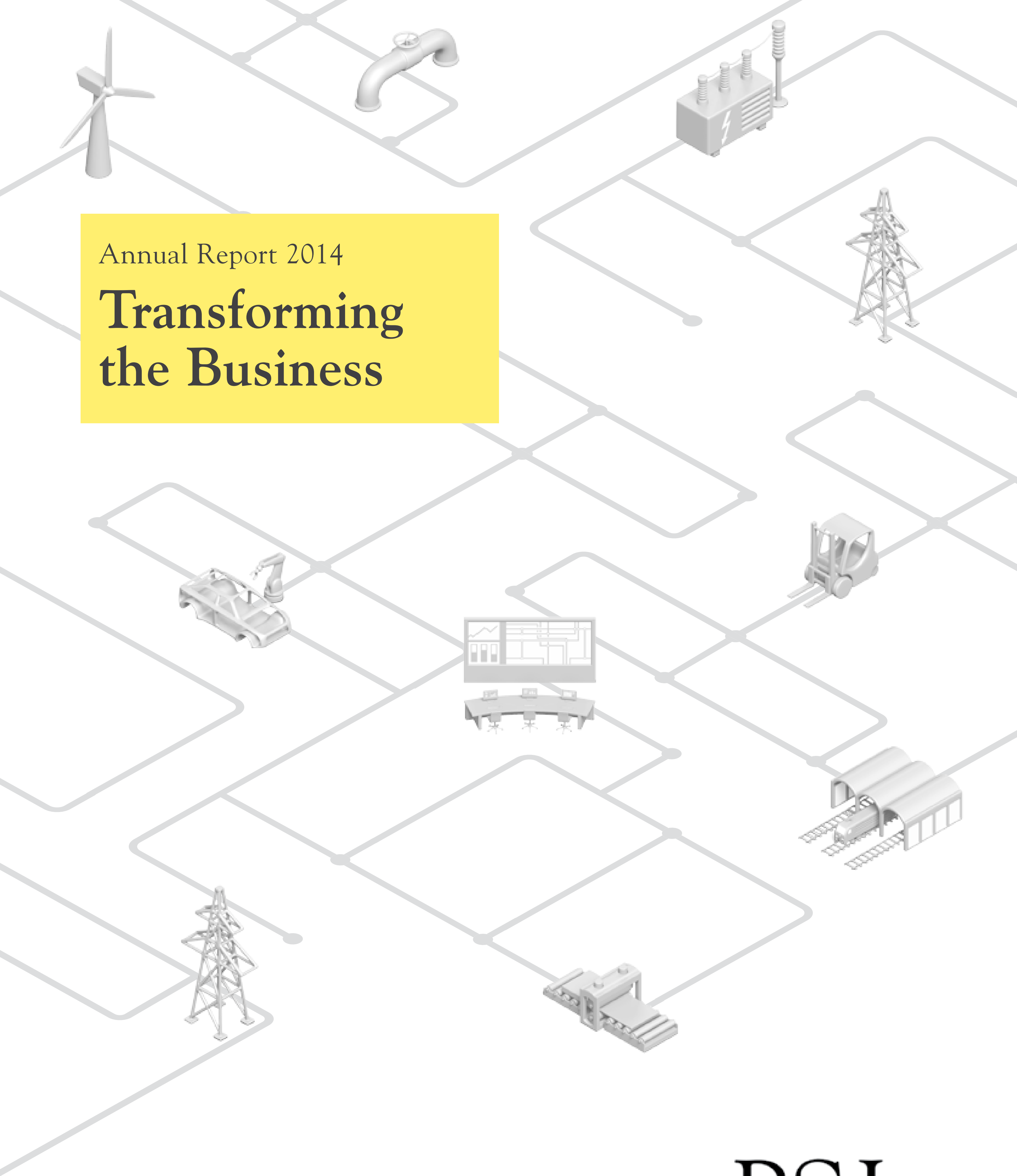
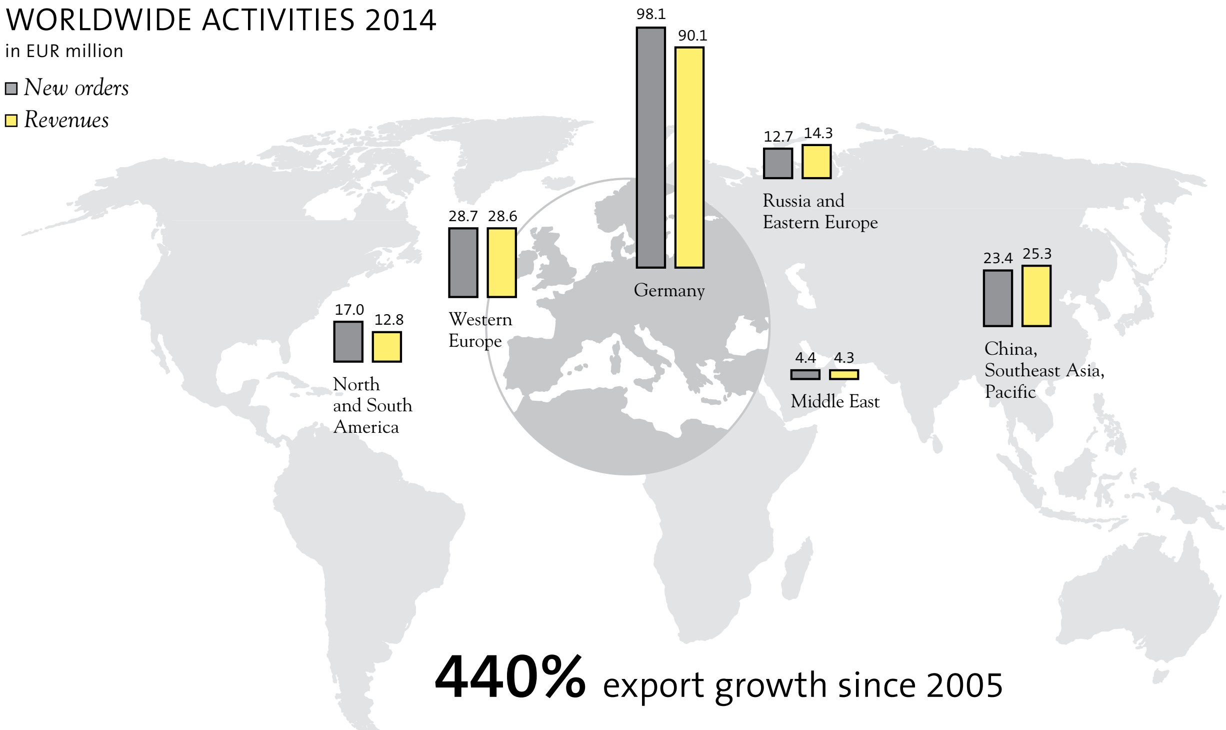
Annual Report 2014

Transforming the Business



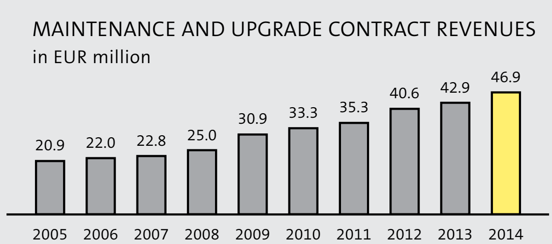
PSI

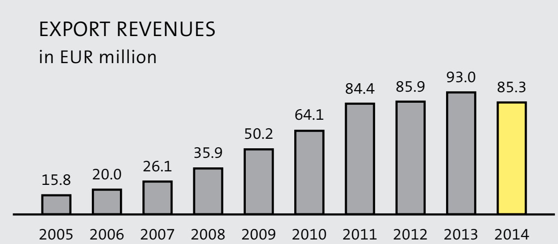
PSI International

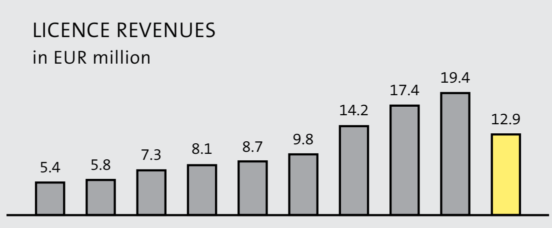


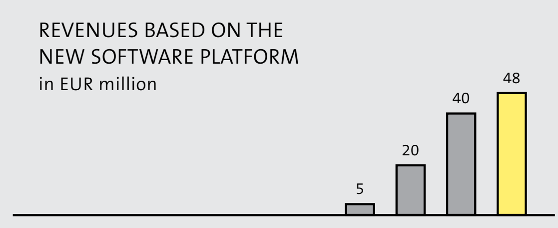
440% export growth since 2005

On course to becoming an international software product company









The PSI Group in Figures (IFRS) in EUR million

	2014	2013	%
Revenues	175.4	176.3	−0.5
Operating result	7.2	4.2	71.4
Earnings before taxes	5.7	3.1	83.9
Group net result	4.1	0.4	925.0
Shareholders' equity	68.3	68.8[2]	−0.7
Equity ratio (in %)	35.5	38.6[2]	−8.0
Shareholder equity (in %)	6.0	0.6	900.0
Investments[1]	13.3	5.1	160.8
Research & Development expenditure	16.1	20.4	−21.1
Research & Development ratio (in %)	9.2	11.6	−20.7
New orders	184	185	−0.5
Order backlog on Dec. 31	120	118	1.7
Employees at Dec. 31 (number)	1,714	1,692	1.3

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

In **2014** we completed important investments and improved our result.

Our Segments

	2014 EUR K	2013 EUR K
Revenues	64,145	60,966
Operating result	3,973	633
Employees	534	557

ENERGY MANAGEMENT

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

	2014 EUR K	2013 EUR K
Revenues	79,606	84,068
Operating result	2,232	1,430
Employees	676	673

PRODUCTION MANAGEMENT

Software products and solutions for production planning, control and logistics. The focus is on optimising resource utilisation and enhancing cost-efficiency in the metallurgy, plant and mechanical engineering, automotive and logistics industries.

	2014 EUR K	2013 EUR K
Revenues	31,635	31,296
Operating result	2,158	3,267
Employees	504	462

INFRASTRUCTURE MANAGEMENT

Control solutions for the economical operation of rail/road and public safety infrastructures. The focus is on operations control systems, safety and telematics applications.

PSI AG develops and integrates

complete solutions, based on its own software products, for energy management (gas, oil, electricity, heat, energy trading), production management (raw materials extraction, metal production, automotive, mechanical engineering, logistics) and infrastructure management for transportation and safety. PSI employs more than 1,700 people worldwide.

PSI solutions are extremely reliable, and ensure that energy, labour and raw materials are used effectively. In close cooperation with industry-leading customers we develop new functions and products that help users improve their existing processes and make new ones possible.

Contents

On course …





Dr. Harald Schrimpf online in an interview on the topics of the year

www.psi.de/de/psi-investor-relations/news/interviews/





… to becoming an international software product company

Fast, innovative, cost-effective: With the shift to software products we intend to expand our international growth. In 2014 we passed important milestones on that way.

1

Conversion of our market-leading grid control system into a standard system

The new control system release for electrical transmission, distribution and traction power grids was successfully introduced onto the market. It has a new, modern user interface and many innovative functions, even in its standard version.

2

Launch of new release of production software for automotive and machinery manufacture based on the Group-wide platform

The new version offers refined functions and a new Java-based user interface in which interfaces and processes can easily be individualised.

3

Logistics pilot project completed

Logistics completed a very costly pilot project. The new integrated transportation management system combines logistics network optimisation with operative control of transportation processes. This improves the capacity utilisation of all resources.

4

Electricity trading and gas planning on the same platform

We reimplemented our gas planning software and combined it with our energy trading software based on the Group-wide software platform.

Dr. Harald Schrimpf (50)
Chairman
Responsibilities: Marketing, Sales, Technology and Investor Relations

Harald Fuchs (50)
Responsibilities:
Organisation, HR, Finances and Controlling

Ladies and gentlemen,

The 2014 annual result was a clear improvement on the previous year. After the major product investments of the previous years, the Electricity division is gaining strength again, while Mechanical Engineering and Automotive have made a solid contribution.

The recovery should have been stronger. It was dampened by extra outlays and the depreciation and amortisation of post-projects, which have since been completed, as well as weak results in the areas of Raw Materials Extraction, Energy Trading, Southeast Asia and the steel industry. Despite peaking at EUR 14.76 in June, the PSI share was pushed out of the TecDAX and after bottoming out at EUR 10.28 closed the year at EUR 11.91.

*»The title of the annual report, **"Transforming the Business"**, indicates how much our modern software helps customers in the ongoing improvement of their business processes, and makes many new processes possible in the first place.«*

GROUP CONTINUES RECOVERY

New orders und revenues remain almost unchanged at EUR 184 and 175 million respectively. While Energy recovered well, the steel industry software business was weak. Long-term maintenance and upgrade contracts increased by EUR 4 million to 47 million but export licences from BRIC states declined considerably. The operating result before depreciation and amortization (EBITDA) recovered to reach EUR 11 million, the operating result (EBIT) was EUR 7.2 million and the result before taxes (EBT) was EUR 5.7 million. The consolidated net profit came in at EUR 4.1 million. The completion of major projects, especially in the Energy business, resulted in a good operative cash flow of EUR +24.1 million (previous year –0.1 million). Cash flow from investment activity was EUR –14.3 million (previous year –3.7 million), much of which was due to the approximately 12 million acquisition of Broner Metals Solutions Ltd. UK. The non-payment of dividends resulted in a cash flow from financing activity of just EUR –1.7 million (previous year –7.2 million). Overall, cash flow turned around from EUR –11.5 million to +7.5 million. Despite the Broner acquisition cash grew to EUR 29.3 million (previous year 21.8 million). A disproportionate share of working capital is tied up in South Asia and China and we are taking steps to mitigate that. The Board of Directors suggests that no payment of dividends be made for the 2014 financial year. Starting in the 2015 financial year, the Board will again propose dividend payments: around 30% of consolidated profit. We consider this sufficient to finance future growth, while addressing the interests of the current shareholder structure with its significantly higher proportion of value investors, who prefer reinvestment.

»The title also refers to the transformation of PSI, from a German custom developer to an international software product company.«

DEVELOPMENTS IN THE SEGMENTS

In the Energy segment the large Gas and Oil division contributed 10% EBIT margin after cost allocation. The second strong division, Electrical and Combined Energy, again made a positive contribution after the investments of the previous year and under new management, at 4% EBIT from revenues. In Energy Trading the "Gas Analysis and Planning" software was reimplemented in Java on the PJF Group software platform and, combined with the PSI*markets* energy trading software, likewise migrated to the Group platform. Consequently, the result was EUR –0.8 million. In the Production segment, the result was burdened to the tune of EUR 1.6 million from PSI Logistics remaining work, and depreciation and amortisation on post-projects of previous years. However, the lively demand for this transportation management software will not generate new licences until 2016 because the software must first be migrated to the latest Group platform. Another EUR 1.5 million had to be invested in PSI Mining projects in China; for among other things for, localisation into Chinese. Mechanical Engineering and Automotive (PSIPENTA) and Metals Production (PSI Metals) contributed 6% and 9% EBIT from sales respectively. The Metals business used the current weak business climate to acquire competitor Broner Metals, London, with some 60 employees, for just under EUR 12 million (of which 2.5 went to an escrow account). The Production Management segment is going to great lengths, by means of government funded research orders and own resources, to implement the future-oriented topic of Industry 4.0 in the form of saleable products and product features. In the Infrastructure segment, the Public Transportation business (PSI Transcom) took in large orders from regular clients and from Switzerland. PSI Transcom contributed 5% EBIT from own revenues, and PSI Poland again contributed 11% while PSI Incontrol Malaysia dropped from 11% to 6%.

»This transformation requires the coordination of a growth, focus and acquisition strategy to build volume.«

»To make use of the volume effect across the full breadth of our company we have developed a uniform Group-wide platform using the latest Java/Eclipse technology.«

FURTHER DEVELOPMENT OF THE BUSINESS MODEL

The title of the annual report, "Transforming the Business", indicates how much our modern software helps customers in the ongoing improvement of their business processes, and makes many new processes possible in the first place. The title also refers to the transformation of PSI, from a German custom developer that could normally make only a few percent profit on a sale, to an international software product company focusing on energy and material streams, which will reach an EBIT margin over 20%. This transformation requires the coordination of a growth, focus and acquisition strategy (to build volume) with a technological change from to-order programming to deploy standard modules, core products, product upgrades and SaaS/cloud platforms.

To make use of the volume effect across the full breadth of our Company we have developed a uniform Group-wide platform using the latest Java/Eclipse technology with an investment well into the double-digit millions. Virtually all PSI products will be modernised and transferred to this platform in opportunistic order. With an inventory of over 40 million lines of code, an investment of some 5,000 specialist years over more than ten years will be necessary for this. PSI invests a large portion of its annual research and development budget of EUR 15 to 20 million in this. The conversion is proceeding in stages; from the user interface, to the application logic, to the database (three-layer architecture). In addition, during this conversion, there are also other innovation waves, such as JavaFX/Web rendering, which must be implemented for already migrated products. Approximately a third of the conversion is complete and preparatory work has been done on the remaining stages.

»Virtually all PSI products will be modernised and transferred to this platform. During this conversion, there are also other innovation waves which must be implemented for already migrated products.«

Completion of platform release 2.11 at the end of the year was a major breakthrough and brings with it the very attractive feature that in future our customers' IT departments can edit roles, menus and views themselves without programming. By the end of 2015 we will have converted the 5,000 or so user interfaces of all of the major products in the Production Management segment. More and more customers are switching to upgrade contracts, and for their annual licence fees receive ongoing functional and security-related software upgrades. This represents a great opportunity for us to get more consistent revenues, but also requires that we keep pace with the fast-changing technology standards specified by customers.

»PSI is in the research and investment phase with regard to the Industry 4.0 hype. Customer interest looks to be high in the coming years.«

OUTLOOK: EXPORT PIVOT AND RETURN TO DOUBLE-DIGIT RESULTS

We wish to thank our dedicated employees, our loyal and innovative customers and our patient shareholders. As raw material prices, business climates and currencies in the BRIC countries weakened, PSI reacted by pivoting exports toward North America, to the aluminium industry and energy distribution grids. Nevertheless, in 2015 we hope to achieve an EBIT of EUR 11 million. PSI is in the research and investment phase with regard to the Industry 4.0 hype. The first manufacturers are making experimental purchases and customer interest looks to be high in the coming years.

Berlin, March 2015

Dr. Harald Schrimpf | Harald Fuchs

Professor Dr. Rolf Windmöller (66)
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 2014. During this time our focus was on the targeted expansion of the international structures and the improvement 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 intensive cooperation between him and both members of the Board of Directors. The Chairman of the Supervisory Board communicated important information from this exchange to the other members of the Supervisory Board.

FOCUSES OF SUPERVISORY BOARD DISCUSSIONS

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

- Supporting and monitoring the acquisition of Broner Metals Solutions Ltd for the further expansion of the market position in the metals production sector and international structures
- Supporting the Board of Directors when concluding the organisational improvements in the logistics business
- Supporting measures to successfully conclude a demanding pilot project in the logistics business
- Ongoing support for further measures to transform the Group 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 2014 the Supervisory Board particularly focused on the preparation for the Supervisory Board elections during the Annual General Meeting on 6 May 2014. During the Supervisory Board elections Bernd Haus, Professor Dr.-Ing. Ulrich Wilhelm Jaroni, Karsten Trippel and Professor Dr.-Ing. Rolf Windmöller were elected to the Supervisory Board as shareholder representatives. After six years of active commitment, Wilfried Götze did not stand again for election to the Supervisory Board. We wish to thank Mr Götze for the great commitment that he has shown in his position as Deputy Chairman during the previous years.

Regular discussions and resolutions of the Supervisory Board focused on the Annual Financial Statements, reviewing the Group strategy and its implementation, short- and medium-term planning, the acquisition of Broner Metals Solutions Ltd., the ongoing development of the operative business, reviewing and upgrading the Group risk management system, and auditing the Board's own work. The Supervisory Board concerned itself not only with the financial development of PSI AG and the Group, but also with the development of individual subsidiaries, while also monitoring activities abroad. The Board of Directors reported to the Supervisory Board comprehensively and on an ongoing basis regarding the assets and financial position, risk position, market and competitive position, and personnel situation. The Supervisory Board held seven regular meetings in 2014 to fulfil its aforementioned duties. These included a meeting mainly devoted to discussing and approving of the 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 the remuneration for top management and the staff of PSI in general, as required by the German Corporate Governance Code.

The Audit Committee focuses on accounting and risk management matters. The committee met three times in 2014, one session being devoted to the approval of the Annual Financial Statements and the endorsement of the Consolidated Financial Statements.

The shareholders' representatives on the Supervisory Board (a Nomination Committee was not formed due to 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 5 December 2014 the Supervisory Board approved the Declaration of Compliance in accordance with section 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 2014, 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 2014, the membership of the Supervisory Board comprised the shareholder representatives Professor Dr. Rolf Windmöller (Chairman), Wilfried Götze (Deputy Chairman until 6 May 2014), Professor Dr. Ulrich Wilhelm Jaroni (Deputy Chairman from 6 May 2014), Bernd Haus and Karsten Trippel as well as the employee representatives Elena Günzler and Dr. Ralf Becherer. The members of the Personnel Committee are currently the Supervisory Board members Professor Dr. Rolf Windmöller as Chairman, Professor Dr. Ulrich Wilhelm Jaroni and Elena Günzler, and the members of the Audit Committee are the Supervisory Board members Bernd Haus as Chairman, Dr. Ralf Becherer, Professor Dr. Ulrich Wilhelm Jaroni and 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 6 May 2014. Ernst & Young GmbH audited the Annual Financial Statements, the Management Report, the Consolidated Financial Statements and the Group Management Report for the fiscal year from 1 January to 31 December 2014, and issued an unqualified audit opinion.

All members of the Supervisory Board received the Financial Statements and Management Reports, the Audit Reports of the auditor and the recommendation of the Board of Directors regarding the appropriation of net retained profits, following the preparation of these reports and in good time before the meeting. After a preparatory discussion by the Audit Committee the plenary Supervisory Board discussed these documents in its meeting on

12 March 2015. Both the members of the Board of Directors and representatives of the auditor attended this meeting. They reported on the audit in general, on the main points established in the audit, on the key findings of the audit and on services that the auditor rendered in addition to the audit services, and further answered questions from members of the Supervisory Board. The Supervisory Board did not raise any objections and thus acknowledged and approved the findings of the audit.

The Supervisory Board checked the Group Statements and the Consolidated Management Report as well as the Annual Statements and Annual Report for 2014 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 12 March 2015 it approved the Annual Statements and Group Statements. The Supervisory Board endorses the proposal of the Board of Directors not to pay out any dividends for the financial year 2014 and to carry any profits forward.

The 2014 fiscal year was a challenging year for the PSI Group. Above all, the final endeavours to conclude the complex pilot projects in Logistics caused a lot of pressure during the first half of the year. The geopolitical changes hampered the PSI export business in particular countries and regions. As a result, performance was affected again but in spite of this was able to be improved in comparison with the previous year. Incoming orders and sales remained stable at the previous year's level. As a result of investments made in technology and export structures in 2013 and 2014 the conditions have however been created for a steady and sustainable increase in profit levels together with growth again from 2015. Both in Germany and abroad, PSI also gained important new customers and subsequent orders in 2014. The successes jointly achieved by the Board of Directors, the Management and the employees deserve special recognition and respect, especially against the background of an additional demanding business year. The Supervisory Board would like to express its gratitude to all concerned for their outstanding commitment and productivity.

The Supervisory Board thanks its customers and shareholders for the confidence shown during 2014. PSI will also be a reliable partner for its customers in 2015 and will make every effort to support them with even better solutions for the ongoing improvement of their business processes. It is only with satisfied reference customers that we can also successfully continue to gain new international customers in the future and continue PSI's growth in the coming years.

Professor Dr. Rolf Windmöller
Chairman of the Supervisory Board

R. Windmöller

Berlin, March 2015

PSI customers benefit from the sum of our experience

New strength through products

For a long time we have offered outstanding solutions. Now we offer customers outstanding software products as solutions. After all, we don't have to reinvent the wheel every time – all of our experience goes into our standard products. From an already high level, we refine and develop them and, as a result, our customers benefit from numerous advantages.

LESS EXPENSIVE THAN CUSTOM DEVELOPMENT

The development costs for a standard product are spread among many users, making it much less expensive for each.

FAST IMPLEMENTATION THROUGH STANDARDISATION

Pre-existing product components and standardised tools greatly accelerate implementation.

FUTURE-PROOF THROUGH MAINTENANCE CONTRACTS

To provide optimum support of user business processes we offer regular updates and comprehensive maintenance.

FUTURE-PROOF THROUGH UPDATES AND UPGRADES

Ongoing development work on the software benefits all users.

BROAD FUNCTIONALITY

Our software products bundle the experience of many users.

BROAD CUSTOMER BASE

A large number of users add value through discussion and the exchange of information.

SIMPLE INTEGRATION THROUGH STANDARD INTERFACES

Proven interfaces facilitate integration into user IT environments.

LONG-TERM CUSTOMER SUPPORT

PSI

100 % JAVA

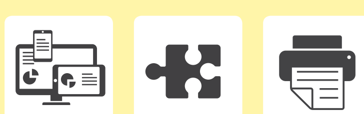
INDUSTRY SOLUTION

This level expands the standard software with industry- and customer-specific functions and algorithms. Interfaces to existing company software or specific links to the machine park with SCADA systems enable individual solutions.

APPLICATION

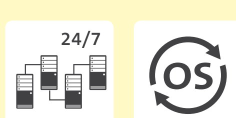
At the application level there are operational standard functions that have the character of standard software. The functional areas on offer encompass optimisation calculations, production control and logistics.

FRAMEWORK



The framework comprises the basic interfaces and tools used by the applications, fully implemented in Java. This is the ideal basis for scalable, reliable, secure software solutions.

INFRASTRUCTURE



The infrastructure provides all the components and services needed to operate application software. Its core elements are the operating system (client and server), databases and networks.

Systematic efficiency

The new PSI software platform incorporates our experience from over 45 years. Based on the latest Java technology it forms a shared, powerful basis for all PSI products. Virtually all PSI products will be modernised and transferred to this platform. With an inventory of over 40 million lines of code, an investment of several thousand specialist years over more than ten years will be necessary for this. PSI invests a large portion of its annual research and development budget in this.

WHAT ADVANTAGES DOES THE NEW DEVELOPMENT PLATFORM OFFER?

- Highly available, scalable and based on the latest technology
- Modern user interface with numerous productivity improvements
- Model-driven architecture to improve productivity and flexibility

2014

Big steps in the transformation of PSI.

INTERNATIONAL SUCCESSES IN VEHICLE MANUFACTURING

Our new products for vehicle manufacturing achieved an international breakthrough in 2014. We received the roll-out order from a Chinese rail technology company and entered the Russian automotive market.

TAILWIND FOR TRAFFIC CONTROL TECHNOLOGY

In traffic technology we gained numerous new customers, and new orders went up by 64% in 2014.

MARKET INTRODUCTION OF THE STANDARD CONTROL SYSTEM

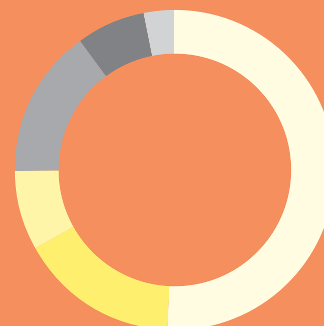
The new standard control system entered use with the first utility customers in 2014. It enables simple upgrades in the future.

27%

... of total revenues from long-term maintenance and upgrade agreements in 2014.

... of Group revenues in 2014 were made with the new software platform.

REVENUES BY REGIONS



- Germany 51%
- Western Europe 16%
- Eastern Europe and Russia 8%
- China, Southeast Asia, Pacific 15%
- North and South America 7%
- Middle East 3%

PRODUCT DEVELOPMENT IN FOUR PHASES

PSI uses a successful four-phase model for economical development and market-near results in its innovations.

International marketing via subsidiaries and partnerships

Definition of a standard product and marketing

Further development in subsequent projects

Innovative pilot projects with industry-leading clients

EMPLOYEES IN EXPORT MARKETS

584	671
2013	2014

IN 2014 OUR RESEARCH AND DEVELOPMENT RATIO WAS

9.2%

Energy Management

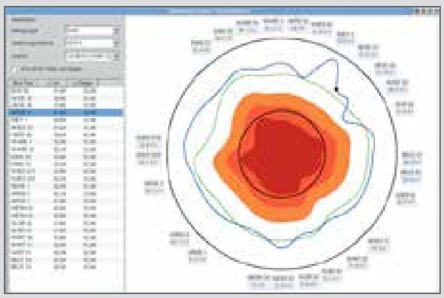
Mastering complexity

The control of electrical transmission and distribution grids is becoming ever more complex. The highly fluctuating feed-in from renewable energy sources, the reduction in conventional generating capacity and the resulting bottlenecks are placing greater demands on personnel in grid control stations. Only a control system that has a mastery of this complexity can meet these demands.

Intelligent Power Grids

TRANSFORMATION TO A STANDARD SYSTEM

In late 2013 we completed the transformation of our market-leading PSI*control* system into a multi-grid-capable standard system. This doesn't just mean a new, modern user interface; it also means that we have made innovative functions standard, including decentralised feed-in management, dynamic limit value monitoring and overhead line monitoring. With these components we offer market-oriented improvements to proven grid safety calculation functions – and the market is rewarding it. In 2014 we completed several projects based on the new standard system.

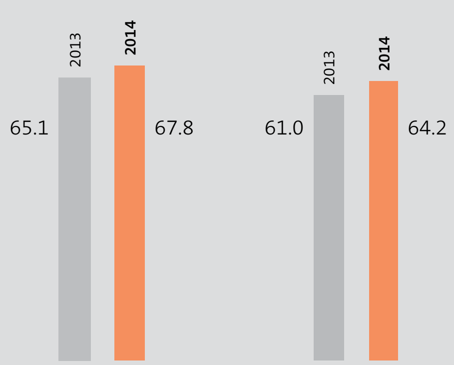


Grid condition assessment with SASO

NEW SYSTEM FOR TRANSMISSION GRID OPERATORS

With Security Assessment and Stability Optimisation (SASO) we offer transmission grid operators a new system with status evaluation, visualisation and decision support components, greatly simplifying grid condition assessment. In addition, if the system detects problems it presents suggested remedies. Status assessment is based on traditional grid calculations and uses algorithm processes like fuzzy logic and neural networks for decision support.

ENERGY MANAGEMENT BACK ON GROWTH COURSE



Energy Management new orders
in EUR million

Energy Management revenues
in EUR million

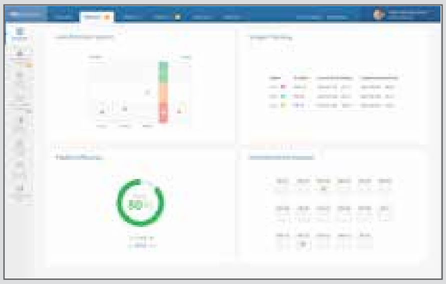
Intelligent power grid uses PSI technology

In the summer of 2014 the first smart grid installations using PSI technology for the intelligent control of households and central components in local grids came into operation. Intelligent control harmonises expected feed-ins from decentralised sources, loads, take-up capacity and storage capacity.

Pipeline Management

Advanced solutions for pipeline safety

PSI has developed an integrated, high-availability system for petroleum, oil and gas pipeline operation that meets the special safety requirements incumbent on the transport of liquids and gases. Its integrated leak detection and location system offers the highest precision and reliability, and meets even the toughest safety standards.

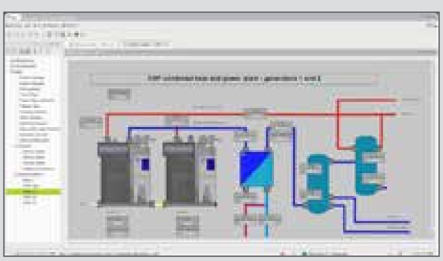


Important data on the condition and efficiency of the pipeline are available at a glance.

MANY FUNCTIONS HELP BOOST EFFICIENCY

Our system for pipelines offers operators comprehensive functions for improving efficiency. These include: simulation options, energy-optimised pipeline operation and condition monitoring.

Virtual Power Plants



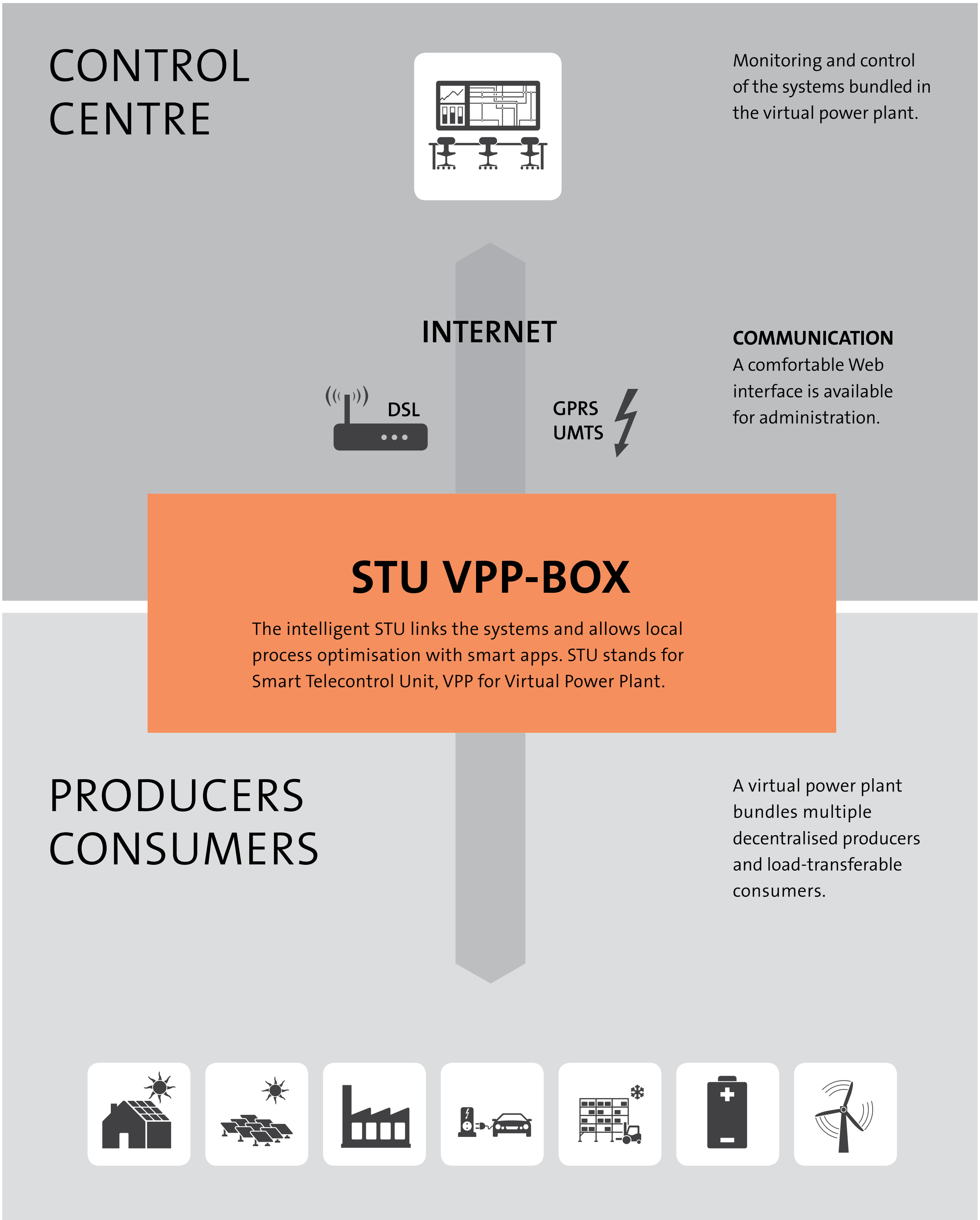
Power plants and their performance parameters are monitored in real time.

ALL-IN TURNKEY SOLUTIONS FOR OPTIMUM RESULTS

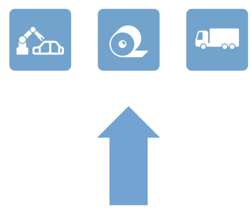
A central portfolio management system is at the heart of a virtual power plant, complemented by plant monitoring, control in real time and a Smart Telecontrol Unit. This intelligent device connects power producers and consumers to the control system and transfers measurements and messages. In addition, it lets plants be locally optimised and controlled with smart apps.

Bundling of decentralised producers in virtual power plants

Virtual power plants play a key role in the integration of renewable energy in the market. In a virtual power plant, a portfolio of decentralised power producers, storage and load-transferable consumers is controlled and marketed as a whole. The combination of near-term controllable systems and load transfers reduces the problems arising from the fluctuating nature of energy from renewable sources. Virtual power plants are thus essential in smart grids and indispensable for the shift to renewable energy.


CONTROL CENTRE
Monitoring and control of the systems bundled in the virtual power plant.
INTERNET
DSL
GPRS
UMTS
COMMUNICATION
A comfortable Web interface is available for administration.
STU VPP-BOX
The intelligent STU links the systems and allows local process optimisation with smart apps. STU stands for Smart Telecontrol Unit, VPP for Virtual Power Plant.
PRODUCERS CONSUMERS
A virtual power plant bundles multiple decentralised producers and load-transferable consumers.

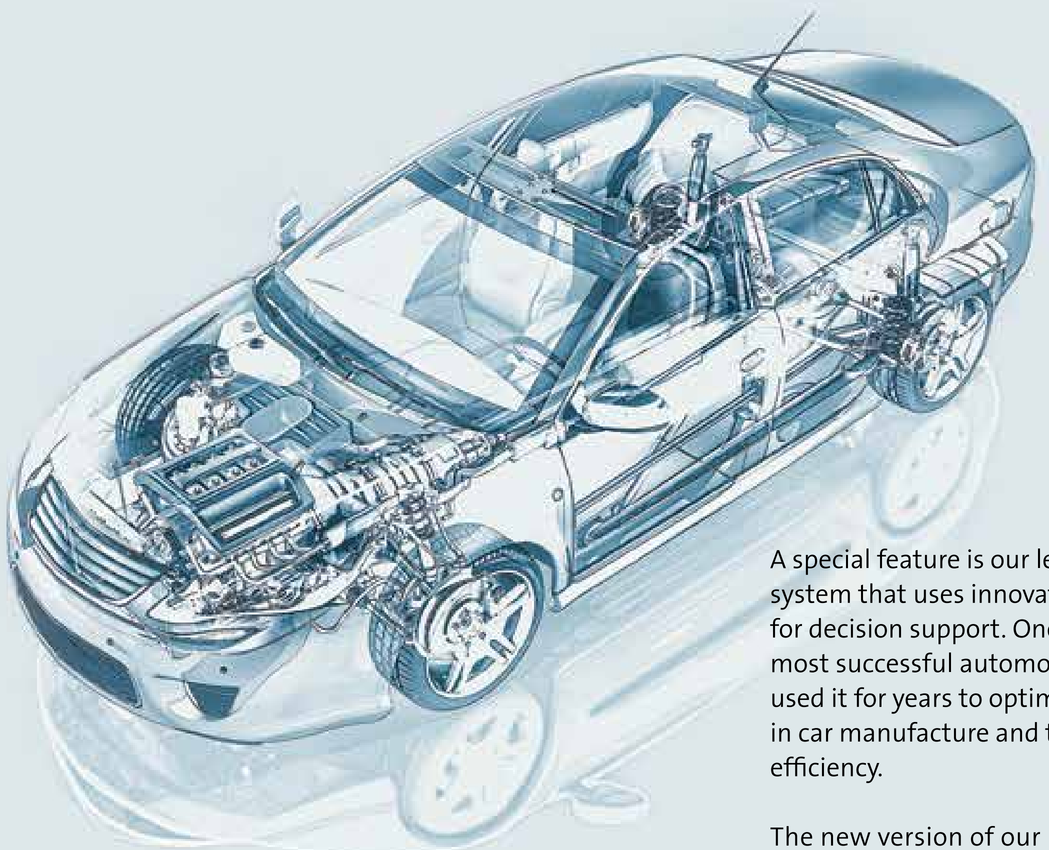
Production Management



Ready for Industry 4.0

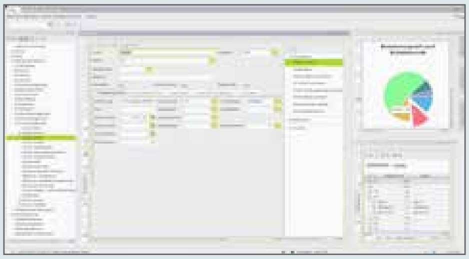
Flexibility will be essential for the manufacturing of the future. Customers expect individualised products and short delivery times with competitive pricing. In the future, mobile internet technologies will play an increasingly important role in production and logistics. Industry 4.0 stands for this type of self-organising, highly flexible production.

Automotive Industry



A special feature is our lean sequencing system that uses innovative methods for decision support. One of Germany's most successful automobile makers has used it for years to optimise sequences in car manufacture and thus production efficiency.

The new version of our production software offers refined functions and a new Java-based user interface in which interfaces and processes can easily be individualised.



Software for Industry 4.0: The new version of our production software with new Java-based user interface.

SMART SOLUTIONS FOR VEHICLE MANUFACTURING

We developed our standard vehicle manufacturing software especially for the processes in the automotive industry. It meets the requirements of medium-size automotive suppliers, conventional car manufacturers and special vehicle producers alike.

The complete PSI Automotive package covers supply chain management, EDI standards, just-in-time and just-in-sequence deliveries, and production control.

Steel Production

Standard for metal production

Our solutions for the steel and non-ferrous metals industry cover the entire value addition chain, from suppliers, to production and logistics, to the customer. One special feature is its KPI-based optimisation for boosting economic efficiency.

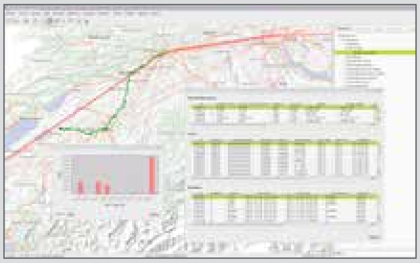
A SOLUTION FOR ALL AREAS
PSI*metals* standard software covers all the functional requirements of large metal producers, from planning to production and quality, logistics, energy management to company control for overall optimisation. All information is based on an integrated factory model, thus allowing a consistent overview in real time.

A view of production: The condition of the plant is transparent at all times.

Transportation Logistics

Better logistics through innovative software

Our new integrated transportation management system combines logistics network optimisation with operative control of transportation processes. This improves the capacity utilisation of all resources. It reacts immediately if volumes change or other destinations need to be addressed at short notice. This helps companies reduce their shipping costs.



Simple visualisation: Logistics networks in view at all times.

MODULAR SYSTEM FOR COMPLEX TRANSPORTATION CHAINS

For logistics users and operators alike, the newly developed transportation management system covers all the functions needed to optimise transportation chains. It covers all key processes such as communication and product flow, dispatching, controlling monitoring and overall order management.

Infrastructure Management

Safe mobility

Economy and safety are the top priorities in the operation of high-performance infrastructures for public transportation, road and rail traffic. Innovative software for operations management, process control and monitoring makes a decisive contribution to meeting these priorities. The software also enables ever better information and service offerings.

Depot Management

FULLY AUTOMATIC DEPOT MANAGEMENT

Vehicle utilisation planning and dispatching based on the current schedule are the tasks of fleet management. Our system has an intelligent optimisation core that provides for higher economy and efficiency. It reduces the delays caused by shunting, downtime and out of service conditions. In addition, it allows better maintenance planning. This means the vehicle fleet can be reduced while providing the same level of service.

In 2014 one of Europe's largest and most modern vehicle depots implemented our system for the city of Poznań in Poland. The 17-hectare depot provides roofed space for 150 streetcars, and is now controlled fully automatically with our software.

Innovative infrastructure control technology

Software for controlling interlinked processes is indispensable for transportation operators. Only smooth, efficient processes can ensure that passengers get where they're going conveniently safely and on time.

WIDE RANGE OF SOLUTIONS FOR TRANSPORTATION PROVIDERS

PSI control systems monitor and control the entire operational process of public transportation and railway operators. PSI also offers multi-client capable operations control systems for real-time passenger information and depot management systems for buses, streetcars and rail traffic. In addition, we offer video monitoring systems and systems for automatic, video-based train dispatching.

Environment/Safety

Water and drainage systems

Due to the climate, flood and water supply protection are particularly important in Southeast Asia.

PSI has successfully implemented several water and drainage systems in the region, including the world's first combined traffic and flood solution in Kuala Lumpur.

FLOOD MANAGEMENT SYSTEM

In Malaysia, PSI has implemented a system for irrigation and flow control along the Muda River. It bundles the communications among 50 stations along the river, and controls dams and weirs from a central control point.

Dam visualisation: The system shows water levels and system condition in overview.

The PSI share

» The focus of our dialogue with the capital market was the transformation of the PSI Group«

The share in 2014

- **Share remains flat in the first half of the year**
  The PSI share started 2014 with a price of EUR 13.55 and initially remained flat. After the Annual General Meeting it rose to its high for the year of EUR 14.76 on 9 June 2014.

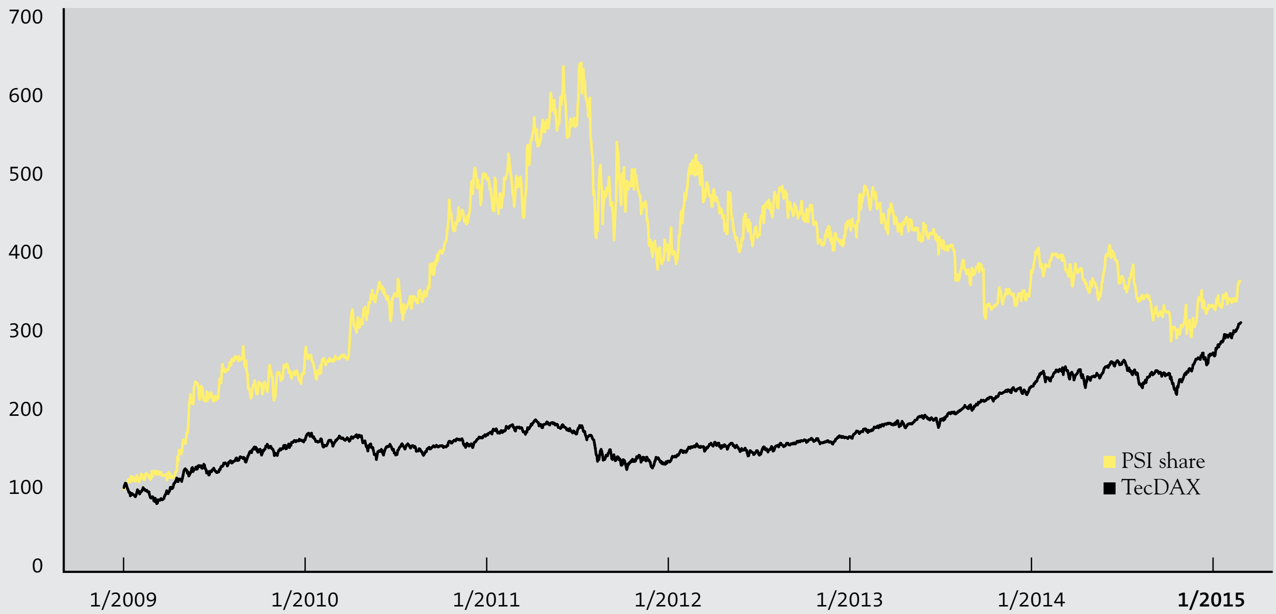
- **International crises and TecDAX departure cause drop in price**
  During the summer the share price was pushed down by reporting on international crises and a valuation correction of a legacy project. After it left the TecDAX the PSI share bottomed out for the year at EUR 10.28 on 8 October 2014.

- **Intensive communication with the capital market**
  Especially in view of the international crises, we communicated proactively and intensively with the capital markets in 2014. We presented PSI at 22 investment conferences and roadshows in Europe and the US.

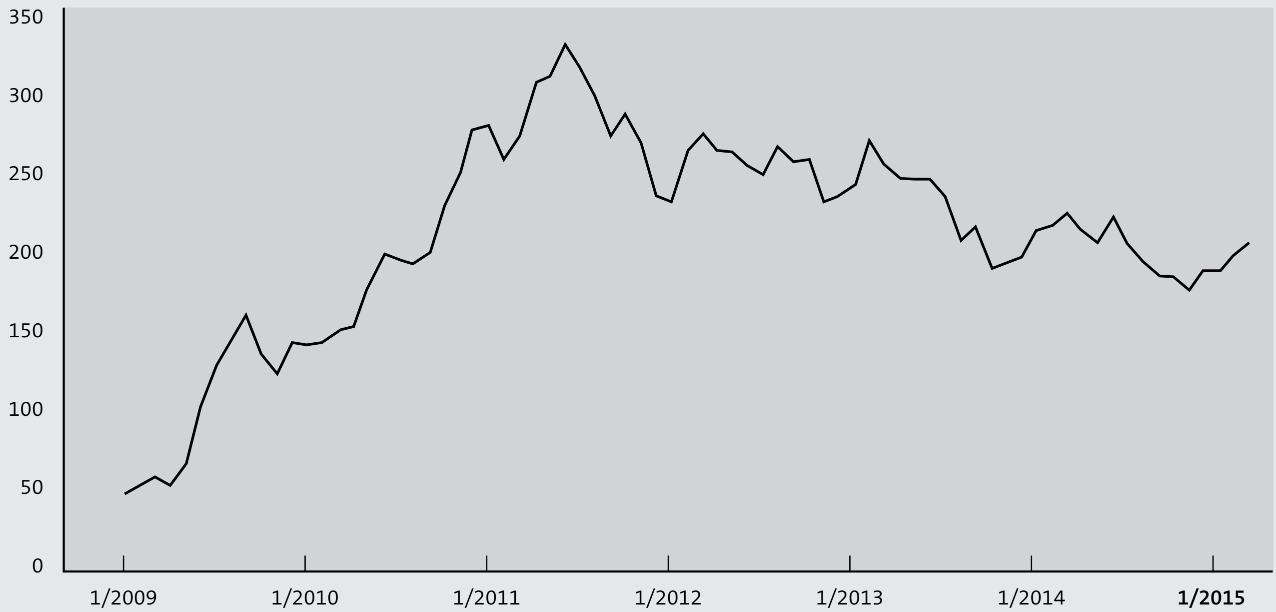
- **International developments in the focus of communication**
  The focus of our dialogue with the capital market was the transformation of the PSI Group and the effects of international politics, currencies and raw materials prices on business developments.

- **Slight recovery towards year's end**
  After the mood of the capital markets brightened up in the 4th quarter, the PSI share recovered slightly to close out the year at EUR 11.91.

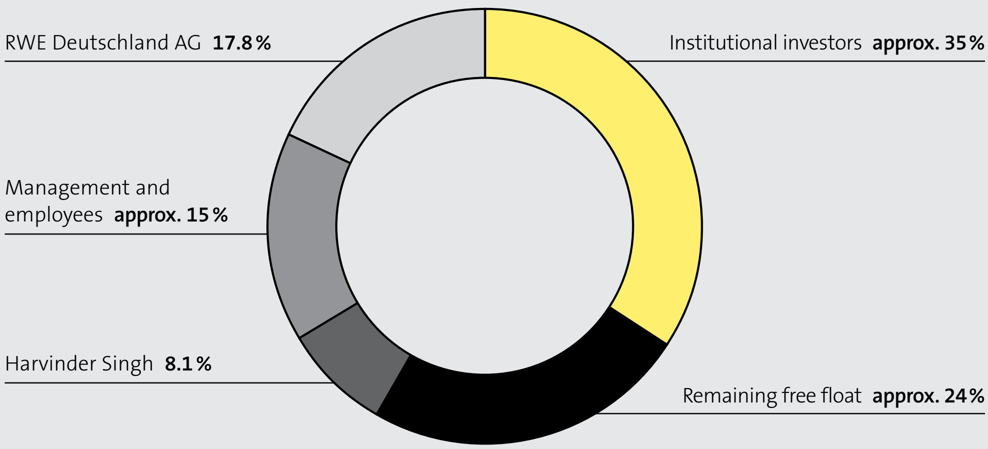
PSI SHARE PRICE COMPARED WITH TECDAX **in %**



MARKET CAPITALISATION 2009 – 2015 **in Euro million**



SHAREHOLDER STRUCTURE



KEY RATIOS AND DATA RELATING TO THE PSI SHARE

		2014	**2013**
Earnings per share	in EUR	0.26	0.02
Market capitalisation on 31 December	in EUR	186,955,629	212,699,309
Annual high	in EUR	14.76	17.53
Annual low	in EUR	10.28	11.32
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	Technology All Share, DAXsector Software, DAXsector All Software, DAXsubsector Software, DAXsubsector All Software, DAX International Mid 100, Prime All Share, CDAX
ISIN	DE000A0Z1JH9
German Security Code	A0Z1JH
Exchange symbol	PSAN

Investors ask, PSI answers

What do international crises and falling oil prices mean for PSI?

In regions that are heavily dependent on raw materials exports, low prices for these goods negatively impact PSI licence revenues. The military coup in Thailand delayed a large licence order. The large devaluations of some currencies made PSI software products more expensive in those countries, which affected our sales. We addressed these effects by shifting the focus of our export activity. This was greatly aided by the fact that we are much more international today than we were a few years ago.

Does PSI expect an upturn in electricity grids?

2016 is the base year of a new five-year regulation period for the calculation of grid operator revenue caps. At the same time, some providers are showing a tendency to separate the grid operation and energy services business from traditional power plants. Both of these factors will result in an upturn in investment that PSI is ready to address. We used the less successful years to develop a new, product-like version of the electric grid control system as well as many intelligent functions for the efficient handling of decentralised power generation.

What is PSI AG's dividend policy?

Due to the weaker results in 2013 and 2014, PSI has refrained from proposing dividend payments for those years. Starting in 2015 the Board of Directors plans to again propose a dividend payment of around 30% of the consolidated net result. Management deems this appropriate, as investment is still required for growth and the completion of the transformation of the PSI Group. This will enhance Company value in the long term.

What does Industry 4.0 mean for the PSI Group?

Industry 4.0 is about the application of paradigms and methods of the Internet industry to manufacturing. The goal is self-organising, highly flexible yet cost-effective production. As a specialist for the optimisation of production processes PSI is naturally going to play a formative role in this movement and use the market opportunities it provides. Accordingly, we have taken part in five research projects for Industry 4.0, and expect to see the first customer orders soon.

Financial Statements

Consolidated Management Report

Group revenues at level of preceding year, Energy Management on the rise again after several years

New orders 5% above revenues, order backlog up

Recovery for **operating result**

Cash flow from current operating activities strongly improved

Onerous **pilot projects** were completed

Market position in Metals business strengthened by **takeover**

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 the 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 processes in the fields of raw materials extraction, metal production, logistics, and mechanical and vehicle engineering.

Infrastructure Management includes control solutions for the monitoring and operation of infrastructures in traffic and public safety.

With more than 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. PSI is represented internationally by subsidiaries and representative offices in Bahrain, Belgium, Brazil, China, Great Britain, India, Japan, Malaysia, Oman, Austria, Poland, Russia, Saudi Arabia, Switzerland, South Africa, Thailand, Turkey and the US.

STRATEGY AND MONITORING 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 growth driver is the export to the markets of Asia, Eastern Europe and increasingly North America. PSI aims to further increase the share of revenues from product sales, expand its export share and intensify its efforts in geographic target markets over the next few years. This will bring economies of scale, thereby improving the outlook for further profitability growth.

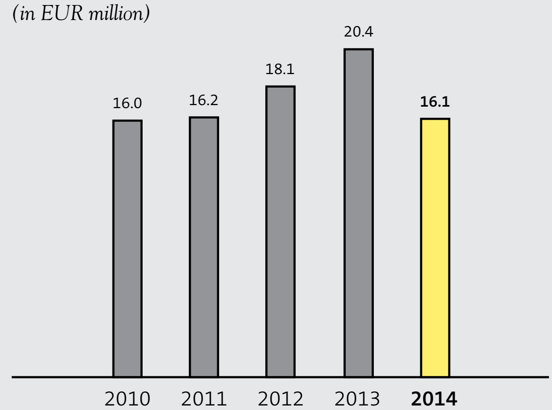
The key management parameters for attainment of these strategic targets are:

- 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 licencing 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 from EUR 115.2 million to EUR 175.4 million due to its strategy focused on growth and profitability. The Group's international revenue share almost quadrupled from 13% to 49% during this period.

R&D COSTS DOWN

(in EUR million)



RESEARCH AND DEVELOPMENT

Developing 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 2014 was on the re-implementation of the planning software for the gas industry, and merging it with the energy trade software based on the Group-wide software platform, the conclusion of a very extensive pilot project in Logistics, and the further roll-out of the Group-wide software platform in the PSI segments. PSI has created a Group-wide development community and developed a modern software platform, which will be the basis of all products in the medium term. The aim is to further increase the reuse of the same software modules throughout the Group, and to standardise the software tools and programming language for all employees worldwide. The software platform improves the premises for further export growth, moreover it reduces development costs.

At EUR 16.1 million, the PSI Group's R&D costs in 2014 were noticeably below the previous year's figure of EUR 20.4 million. The previous year included one-off costs for developments that have since been completed in the Machinery and Vehicle Construction businesses (supply chain management software) and Electrical Energy (product-like network management system). The expenses for R&D do not contain any relevant third-party services.

The emphases of development activities in 2014 were placed on

- the integrated solution for virtual power plants
- the new release of the production software PSI*penta* for machinery and vehicle construction, based on the Group platform
- an extensive revision and expansion of the new control system JSCADA2, based on the Group platform
- the merger of the electricity trading system and the planning system 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 Chinese version of the control system for raw materials extraction
- the ongoing further development of the Group-wide software platform and its roll-out in further business units. In particular, the further development relates to a modelling and configuration for user interfaces, which in future will reduce the costs for application development.

The new control system release for electrical transmission, distribution and traction power networks was successfully introduced onto the market in 2014. At the Hanover Fair 2014, PSI presented innovative man-machine-interfaces for controlling Industry 4.0 processes as part of an integrated scenario, based on the product PSI*penta*.

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, among others, the development of platforms for creating versatile production systems, controlling intelligent logistic networks and optimising serial production using intelligent and self-steering workpieces.

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 year 2014, the PSI Group received a total of EUR 0.7 million in public subsidies.

ECONOMIC REPORT

BUSINESS DEVELOPMENT AND ECONOMIC ENVIRONMENT

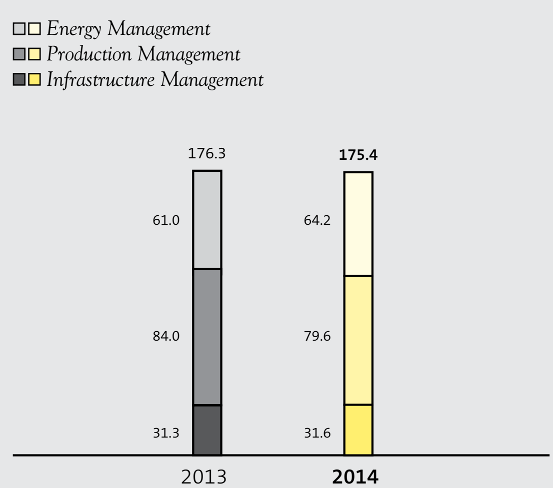
Rising demand for power grids in Germany

For a focused software provider like PSI, economic development in the most important target industries is particularly relevant. Following several years characterised by weak demand, PSI noted a rise in incoming orders on the part of the operators of power grids in Germany in 2014, who constitute an important customer segment of the Group.

According to the World Steel Association, growth of the global steel market, to which PSI is a major software provider, slowed down. Following a plus of 3.1% in 2013, global raw steel production expanded by only 0.8% in 2014. This had a negative impact on the income orders of PSI.

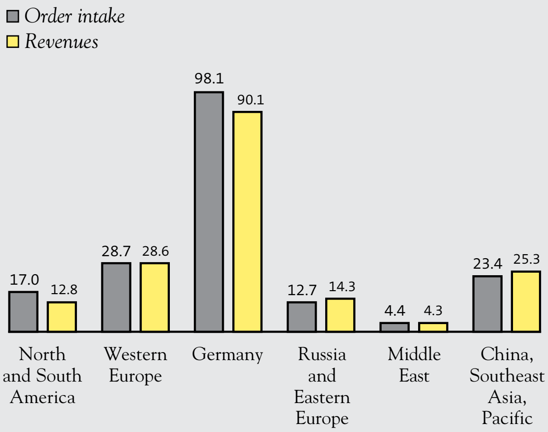
PSI REVENUES NEARLY REACH PREVIOUS YEAR'S LEVEL

(in EUR million)

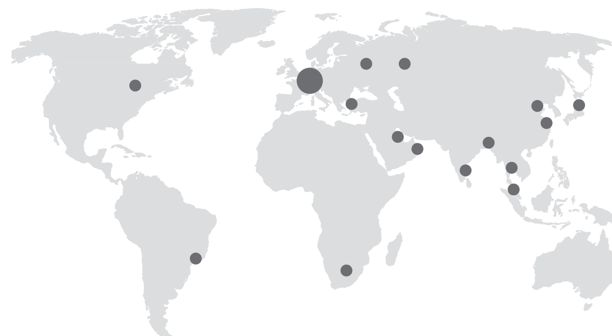


NEW ORDERS AND REVENUES BY REGIONS

(in EUR million)



INTERNATIONAL PRESENCE AND LOCATIONS IN EUROPE AND WORLDWIDE



● PSI locations: Austria, Bahrain, Belgium, Brazil, China, Germany, Great Britain, India, Japan, Malaysia, Oman, Poland, Russia, Saudi Arabia, South Africa, Switzerland, Thailand, Turkey, USA

Recovery in the Energy business and less export licences

In 2014, the PSI Group was able to complete, in particular, large projects in the Energy and Logistics businesses that had negatively affected earnings. In the regions strongly dependent on the export of raw materials, the decline of raw materials prices had a negative impact, which also dampened the licence proceeds of PSI in these countries. Nevertheless, PSI achieved overall almost consistent revenues and a strongly improved operating profit and consolidated net result. At EUR 184 million, the prior year's level for new orders remained virtually unchanged at EUR 185 million. The order backlog at year-end rose from EUR 118 million to EUR 120 million.

In Production Management, the machinery and vehicle production business improved, whereas Logistics improved gradually following the completion of burdensome projects. Following the investment hold-up of the preceding years in the energy market, a rise of customer investments in distribution networks becomes apparent in the preliminary stages of the regulatory base year 2016. As a consequence of the high level of R&D investments by the PSI Group in solutions for virtual power plants, intelligent grid control functions and the product character of the solutions, PSI benefits from the increased customer demand and the improved economic efficiency of the solutions offered.

GROUP STRUCTURE AS OF 31 DECEMBER 2014

Energy Management	
PSI AG Electrical Energy Gas/Oil	
PSI Nentec GmbH	100%
PSI Energy Markets GmbH	100%
PSI CNI GmbH	100%
PSI TURKEY BILIŞIM TEKNOLOJILERY SANAYI VE TICARET A.Ş., Istanbul (Turkey)	100%
Time-steps AG (Switzerland)	100%
OOO PSI (Russia)	100%
caplog-x GmbH	31,3%

Production Management	
PSI Mines&Roads 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%
Broner Metals Solutions Ltd.	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%

On 12 November 2014, the PSI Group acquired 100% of the shares in the British Broner Metals Solutions Ltd., based in Watford, Great Britain. Broner Metals is a leading supplier of IT solutions in the fields of production planning and control, supply chain management and MES (Manufacturing Execution Systems) for the steel industry. The company serves customers in twelve countries, among them some of the worldwide largest steel producers.

At year-end 2014, PSI secured a large follow-up order for the supply of software from the Russian OAO Gazprom for several control systems and control system extensions for dispatching centres and compressor stations in the north-western region of Russia.

PSI did not succeed in reaching the target set for 2014, namely to raise Group revenues by 5% to 10%, due to the fact that particularly licence orders for export into the BRIC countries and Thailand were stretched towards the future. Despite a significant rise in earnings as compared to the previous year, the original target of EUR 12 million for the operating result was not achieved. The reasons were additional expenditure and depreciation in the meanwhile completed logistics projects, but also an overall weaker course of business in the businesses Raw Materials Extraction, Energy Trade and Steel Industry as well as in Southeast Asia.

EARNINGS

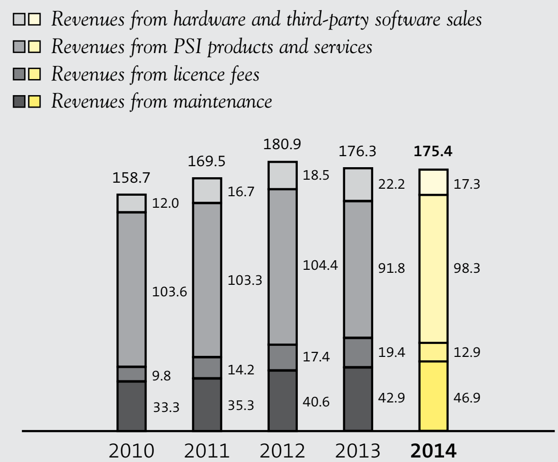
Group revenues to match last year's level

In 2014, Group revenues at EUR 175.4 million were just short of previous year's level of EUR 176.3 million; this corresponds to a decline of approximately 0.5%. For the first time in several years Energy Management was able to raise its revenues again. Whereas the Infrastructure Management reported a stable development, revenues in Production Management remained under last year's level, due to the weaker course of business in the fields of Logistics, Raw Materials Extraction and Steel. As a result of the further expansion of international structures, revenues per employee based on the average number of employees in the Group fell slightly from EUR 106,000 to EUR 104,000.

Third-party share further reduced

Expenditures for materials and services decreased by EUR 1.7 million to EUR 33.1 million. Expenses for project-related purchases of hardware and licences declined by EUR 3.7 million, and costs for purchased services increased by EUR 2.0 million. Personnel expenses dropped by 0.6% to EUR 103.6 million due to the closing down of small-scale facilities in Germany.

SHARE OF LICENCE AND MAINTENANCE REVENUES
(in EUR million)



Operating result and Group net profit recovered

The Group's operating result rose by 71% from EUR 4.2 million in the previous year to EUR 7.2 million. Accordingly, the Group result in the financial year increased from EUR 0.4 million to EUR 4.1 million. The reasons leading to the improved earnings were not only the elimination of part of the exceptional expenses contained in the previous year, but also the improved course of business in the Energy business. Earnings per share improved accordingly, from EUR 0.02 to EUR 0.26. The major contributors to this result were the divisions Gas and Oil, Electrical Power, Metal Production, Mechanical and Automotive Engineering businesses along with the subsidiaries in Poland and Malaysia. The result was mainly negatively impacted by high development expenditures and follow-up costs in the Logistics, Raw Materials Extraction and Energy Trade businesses.

New orders also exceed revenues in 2014

In 2014, new orders were 0.5% lower than previous year's level of EUR 185 million, at EUR 184 million; however, they exceeded revenues by 5%. Consequently, the order backlog at year-end rose to EUR 120 million.

Export share in revenues slightly declining, less licencing revenues

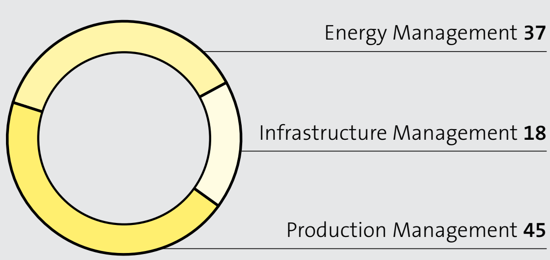
Revenues generated outside of Germany decreased by 8.3%, from EUR 93.0 million in the previous year to EUR 85.3 million. This corresponds to a decrease in the export share from 53% to 49%. The share of international orders decreased slightly from 49% to 47%. Maintenance revenues went up from EUR 42.9 million to EUR 46.9 million, with the maintenance proportion increasing from 24% to 27%. Licencing revenues dropped from EUR 19.4 million to EUR 12.9 million, owing to less export licences. As part of the focus on the growing software product business it is planned to increase licence, maintenance and long-term upgrade contracts.

As a result of the weaker performance in Logistics, Raw Oil Extraction and Steel, Production Management recorded a reduction in segment revenues. Consequently, the share of this segment in Group revenues decreased from 48% to 45% as compared to the previous year. The Energy Management percentage rose from 34% to 37%, while Infrastructure Management remained unchanged at 18%. Infrastructure Management includes the revenues of the PSI Incontrol Group, which in addition to infrastructure projects also deals in energy management for Asian customers.

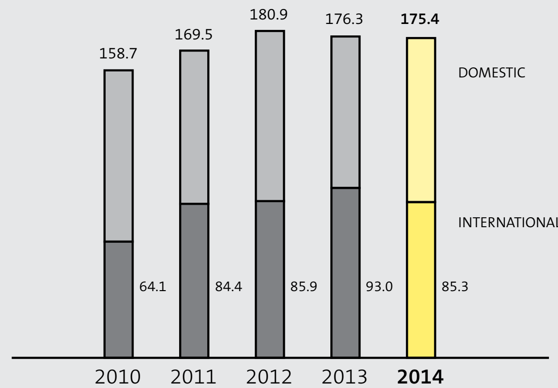
Segment Energy Management 2014 with improved result and further investments

In 2014 Energy Management was marked by the persistently positive performance of Gas and Oil, as well as the improvement in Electrical Energy business. Overall revenues increased by 5.2% to EUR 64.2 million. The segment encompasses electrical energy, gas, oil, heating and energy trading. The operating result improved from EUR 0.6 million last year, to EUR 4.0 million, following the high-level investments in the product base. The Gas and Oil business continued positively and received a large follow-up order from the Gazprom Group. The Energy Trading business revised the gas management software by merging it with the power trading software, which was previously migrated to the Group platform. Furthermore, the division invested in the new solution for virtual power plants; both developments are expected to be completed in 2015 with pilot projects.

REVENUES ALLOCATION BY SEGMENT
(in %)



EXPORT REVENUES SLIGHTLY DOWN
(in EUR million)
Not including foreign revenues from domestic export partners



Production Management with international successes regarding PSIPENTA

Revenues from Production Management in 2014 fell by 5.4% to EUR 79.6 million. In this segment PSI develops solutions for the efficient planning and control of production and logistics processes. In this context PSI continues to invest in the key issue of the future, Industry 4.0, thus adding interesting USPs and potentials for growth. The segment's operating result rose from EUR 1.4 million for the previous year to EUR 2.2 million. Once again, PSI Metals, which is focussed on the metals industry, obtained the highest margins although business in the steel industry weakened. Within the scope of two projects, PSI Mines&Roads invested in the Chinese version of the mining control system. The ERP software supplier PSIPENTA was able to lift its good result of the previous year and reported international sales successes. Logistics completed a very costly pilot project and carried out the last depreciation regarding another old project.

Infrastructure Management with growth in public transport

At EUR 31.6 million, Infrastructure Management had 1.0% higher revenues than in 2014. The operating result fell from EUR 3.3 million last year to EUR 2.2 million. The Public Transport business recorded a high level of new orders from Germany and Switzerland. The Asian PSI Incontrol Group made the largest contribution to earnings although the business in Southeast Asia noticeably declined as against the preceding year.

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. The long-term financial liabilities were further reduced in 2014.

Financing predominantly through business operations

PSI capital expenditure goes mainly to product development and further 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 2014, PSI had guarantee and credit lines of EUR 121.6 million to finance ongoing business. In the previous year the guaranteed and bank credit facility totalled EUR 115.5 million. The claimed amount related almost entirely to the guaranteed loan, and on the Balance Sheet date it had increased from EUR 39.9 million in the prior year to EUR 42.1 million. The Group was in a position to meet its payment obligations at all times in fiscal year 2014. The Group has internal ratings issued by its banks, which correspond to ratings in the A- to BBB range.

Cash flow from current operating activities strongly improved

Cash flow from current operating activities improved from EUR –0.1 million in the previous year to EUR 24.1 million, mainly accounted for by a reduction of the working capital and the increased result.

Cash flow from investment activities fell noticeably from EUR −3.7 million to EUR −14.3 million. This was mainly accounted for by the takeover of Broner Metals Solutions, whereas the investments in intangible assets and fixed assets declined.

Cash flow from financing activities improved, due to the absence of dividend payments, to EUR −1.7 million. In the previous year cash flow amounted to EUR −7.2 million, including dividend payments of EUR 4.7 million. As of year-end, cash increased from EUR 21.8 million to EUR 29.3 million.

ASSETS

Asset structure: Goodwill rose due to takeover

In 2014, the PSI Group invested EUR 13.3 million in intangible assets and property, plant and equipment, compared to EUR 5.1 million the previous year. Investments mainly relate to intangible assets and fixed assets acquired from third parties. EUR 10.3 million thereof were accounted for by intangible assets and fixed assets acquired within the scope of the takeover of Broner Metals Solutions in 2014.

In particular, the goodwill carrying amount rose by EUR 7.0 million to EUR 51.5 million due to this acquisition.

Balance sheet structure: Equity ratio of 36%

The PSI Group's total assets rose in 2014 by 7.9% to EUR 192.2 million.

On the asset side, non-current assets experienced an increase from EUR 69.3 million to EUR 80.5 million. Current assets were up from EUR 108.8 million to EUR 111.8 million. Cash and cash equivalents increased by EUR 7.5 million, trade receivables were reduced by EUR 6.2 million and receivables from long-term contract manufacturing rose by EUR 2.0 million.

On the liabilities side, current liabilities grew from EUR 64.8 million to EUR 75.7 million, primarily due to the increase in receivables from long-term manufacturing. Non-current liabilities rose from EUR 44.5 million to EUR 48.2 million, due to increased pension provisions. Shareholders' equity decreased slightly from EUR 68.8 million to EUR 68.3 million. The equity ratio went down from 39% to 36%.

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

Overall, the results of operations, financial position and net assets of the PSI Group improved as compared to the previous year in the 2014 fiscal year. In particular, the earnings position and cash flow from operating activities improved noticeably. 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 2014, 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 the energy industry and in production 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 is actively engaged with partners from the energy sector and science in developing intelligent energy supply infrastructures of the future. Among others, this involves the new product for virtual power plants and intelligent micro grids. PSI gas management systems enable optimised 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, PSI has, among other things, developed new solutions for the dynamic control of optimised logistics networks in recent years, which will support savings of up to 10% of transport costs and reduce emissions. Further functions are energy-optimised operation in the rail sector and a depot management system with route and fuelling optimisation. 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 been participating in the Carbon Disclosure project since 2011, and has continuously improved the score obtained ever since. In 2014, PSI was awarded the DZ Bank quality seal for sustainability. 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 in Germany, as well as the qualification of employees for internationalisation in the form of training courses for marketing, project management and contract law including Group software tools. 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 2014, the Company invested an average of five days per employee for further training.

In order to make early contact with graduates of appropriate degree programmes, 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, including, for example, offering work placements and cooperating on dual degree programmes.

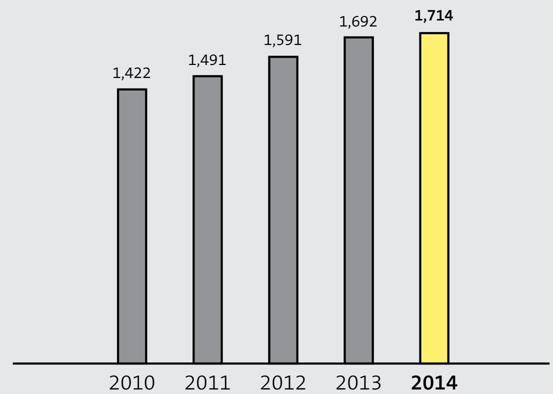
Since the autumn of 2010, PSI has actively been engaged as an industrial partner for the logistics research cluster, and as project partner for the cluster of environmentally friendly and sustainable energy technology at the RWTH Aachen campus.

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 are purchased on the stock market for this purpose. In 2014, employee fluctuation at the PSI Group was 6%. In a broad survey of working 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.

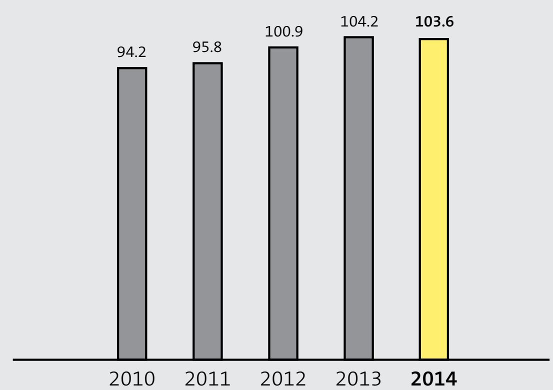
The workforce increased in size by 22 to 1,714 employees. Energy Management had 534 employees, Production Management 676, and Infrastructure Management 504.

At EUR 103.6 million, personnel expenses were 0.6% lower than the previous year's figure of EUR 104.2 million. With increasing direct service in the export regions Southeast Asia, China, Poland and Russia, average per-employee expenditures will be close to the international industry average.

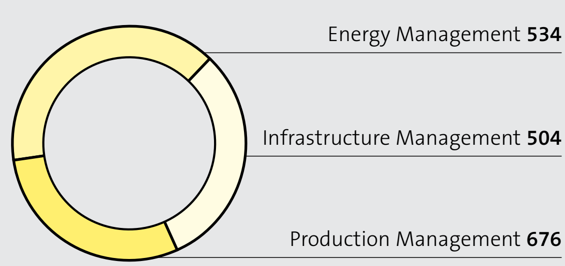
NUMBER OF EMPLOYEES HIGHER AGAIN



PERSONNEL EXPENSES DOWN SLIGHTLY
(in EUR million)



PRODUCTION MANAGEMENT REMAINS THE LARGEST SEGMENT
(number of employees)



LEGAL DISCLOSURES

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

As of 31 December 2014, 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 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 2014 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 § 27 a(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 84f. of the Stock Corporation Act (AktG) apply to the appointment and dismissal of Board members.

In accordance with section 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 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. In particular it can be used 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 in 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 members of the Board of Directors 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), a variable component in turn consisting of a potential achievement bonus at the discretion of the Supervisory Board, as well as a short-term and a long-term performance-related component.

The Chairman of the Board has an employment agreement that provides for non-performance-related fixed remuneration in the amount of EUR 360,000 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, share price and certain strategic goals. The goals are agreed in an annual target agreement made between the Supervisory Board and each member of the Board of Directors.

In 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 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 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 2014 fiscal year, the risk profile changed as a result of the completion of pilot projects with burdening effect in the Electrical Energy and Logistics fields and macroeconomic changes, particularly due to declining raw materials prices and currency fluctuations. There were no substantial changes to the regional distribution of the business, the shareholder structure or the regulatory environment of the Energy business.

Opportunities and risks by segment

In **Energy Management**, PSI secured further international orders from Russia and Southeast Asia, while at the same time some important roll-out projects were postponed. In Germany, PSI reported an increase of new orders in the Electrical Networks business, however, the risk of a continuous investment hold-up exists in the medium term. At short notice there is a chance to benefit from the expected increase in investments in the preliminary stages of the regulatory base year 2016. In the medium term, further growth opportunities exist in the neighbouring European countries and in Asia. However, the need for pre-financing and guarantees is increasing as our international business grows.

In the long run, 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 risks due to reliance on local partners and their expertise, deviating 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 the expansion of its international business in metal production with the takeover of Broner Metals Solutions in 2014. With new customers and follow-up orders from Argentina, the USA, Turkey, Australia, Mexico and China, among other countries, the global leading position of PSI as a provider of special software in this field was further reinforced. Overall however, the economic climate in the cyclical steel market has cooled in 2014, whereas the aluminium market developed very strongly on account of the lightweight construction in the automobile industry. Apart from the risks of the cyclical market fluctuations and the development of the raw materials prices, new opportunities are, however, created by the rising demand for large metal producers following a Group-wide roll-out of the PSI solution. 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 businesses 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. In 2014, the ERP-subsidiary PSIPENTA was able to further improve especially in the sub-segment Vehicle construction, which managed to access the Chinese market after product investments.

In the past years, PSI Mines&Roads accessed the Chinese market and secured two large orders for the control system for the supervision of raw material extraction. In the period up to the successful completion of the first Chinese projects, implementation and payment risks will exist, however, at the same time the projects also underline the good export chances of the new solution.

In **Infrastructure Management**, the Traffic Systems business in Germany and Switzerland reported a strong rise of new orders. 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 Traffic business'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, continued its positive performance in 2014. It proved its value in pre-production and was able to further reduce its dependence on internal orders.

With PSI Incontrol Group, since 2009 PSI has had its own access to growth markets in Southeast Asia, India and the Middle East. PSI also has access to low-cost hardware and integration services. The use of a larger pool of highly qualified specialists in the region can reduce the cost of services and equipment. 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 2014, the international activities declined as against the previous year due to the postponement of roll-out licences. Nevertheless, PSI is still slightly dependent on the domestic market with an export share of just short of 50%, and new growth opportunities are opened up. However, this expansion involves additional risks through the integration of new subsidiaries into the Group and dependency on international partners, exchange rates, legal systems and political developments. Particularly the worsening of the political situation in Russia is likely to create new risks for PSI. 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 by Kajo Neukirchen GmbH, Eschborn, could have caused a loss of up to 28.60% of tax losses carried forward in the second quarter of 2009. The exclusion of the possibility to use the 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.

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 2014 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 the PSI strategy for the next few years is the conversion of the Group into a software product supplier and the further globalisation 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

Following a fiscal year 2014 that was marked by the successful completion of onerous old projects, PSI started into the new year with attractive products and an improved financial and earnings position. In 2014, we booked EUR 184 million in incoming orders, more than annual revenues. The order backlog at year-end rose to EUR 120 million. Despite the burdens relating to the completion of the projects, the operating result has recovered. The international market position in the steel business was further expanded and a significant competitor was taken over. PSI continues to benefit from the clear focus on this attractive niche market and the high investments in the product and the development of international sales structures of the past years.

The trend towards a more efficient use of energy, raw materials and workforce will continue in the years ahead. Above all, PSI will benefit from this trend in Energy Management, thus expecting an overall moderate growth in 2015. In our opinion, the energy transition in Germany will be boosted further, even if essential questions still remain unanswered. In view of the above and following the regulatory one-off effects in the years 2015 and 2016, we hope for a continuity of investments in the German transportation and distribution networks. Our Gas and Oil business continues to enjoy high demand for its solutions in Eastern Europe and the Arabian countries; nevertheless, it is affected by the political development in these regions and by the currency fluctuations. In Infrastructure Management we are expecting a further normalisation in investment patterns, with moderate increases in Germany and Europe as well as a continuation of the high demand in Southeast Asia. We intend to use these positive impulses in 2015 as well, to again generate growth and further reduce our dependency on individual regional markets.

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 and Southeast Asia.

Globalisation objectives include further increasing the number of products sold and expanding the share of licences and maintenance in revenues. These positive effects will be enhanced by migrating additional products to the newly created uniform software platform and by continuous investments in the convergence of our technical basis. We will systematically supplement our portfolio in order to make use of opportunities and enhance our efficiency. In this manner we will improve the foundation for achieving double-digit margins in the future.

In 2015, we expect the recovery of the result to continue in the Energy Management segment, following the completion of the increased product investments. In Production Management we continue to invest in the future topic Industry 4.0, and intend to further improve our profitability after the completion of burdensome pilot projects in the preceding year. In Infrastructure Management, we expect further slight increases in revenues and a return to the former earnings level. Overall, our goal is to increase new orders and Group revenues in a mid-single-digit range and an operating result of EUR 11 million in 2015. To reach these targets we will continue investing in the quality and productivity of our solutions and the internationalisation of our core businesses.

Berlin, 10 March 2015

Dr. Harald Schrimpf Harald Fuchs

Consolidated Balance Sheet

dated 31 December 2014 (IFRS)

ASSETS	Note	31.12.2014 EUR K	31.12.2013 adjusted* EUR K	1.1.2013 adjusted* EUR K
Non-current assets				
Property, plant and equipment	C. 1	12,949	13,781	14,242
Intangible assets	C. 1	61,698	50,595	50,941
Investments in associates	C. 2	149	298	427
Deferred tax assets	C. 14	5,657	4,648	4,106
		80,453	**69,322**	**69,716**
Current assets				
Inventories	C. 4	3,468	3,888	4,020
Trade receivables, net	C. 5	33,708	39,908	34,068
Receivables from long-term development contracts	C. 6	39,865	37,893	42,241
Other assets	C. 7	5,409	5,290	4,634
Cash and cash equivalents	C. 8	29,314	21,800	33,338
		111,764	**108,779**	**118,301**
		192,217	**178,101**	**188,017**

* Some of the amounts presented vary from the amounts in the Group accounts for the 2013 financial year due to adjustments (see Notes page 73, currency translation, and page 80, taxes on income).

EQUITY AND LIABILITiES	Note	31.12.2014 EUR K	31.12.2013 adjusted * EUR K	1.1.2013 adjusted * EUR K
Shareholders' equity				
Subscribed capital	C. 8	40,185	40,185	40,185
Capital reserves	C. 8	35,137	35,137	35,137
Reserve for own stock		−890	−402	−106
Other reserves		−11,473	−7,343	−3,692
Net retained profit		5,335	1,236	5,567
		68,294	**68,813**	**77,091**
Non-current liabilities				
Financial liabilities	C. 10	188	3,387	3,900
Pension provisions	C. 9	47,080	40,087	38,997
Deferred tax liabilities	C. 14	960	1,038	227
		48,228	**44,512**	**43,124**
Current liabilities				
Trade payables		15,113	15,400	15,646
Other liabilities	C. 13	29,489	25,726	27,976
Liabilities from long-term development contracts	C. 6	26,011	20,097	18,553
Financial liabilities	C. 11	5,082	3,544	5,449
Provisions	C. 12	0	9	178
		75,695	**64,776**	**67,802**
		192,217	**178,101**	**188,017**

Consolidated Income Statement

for the period 1 January to 31 December 2014 (IFRS)

	Note	2014 EUR K	2013 EUR K
Revenues	D. 15	175,386	176,330
Other operating income	D. 16	8,416	5,844
Cost of materials	D. 17	−33,101	−34,783
Personnel expenses	D. 18	−103,604	−104,243
Depreciation and amortisation	D. 19	−3,882	−3,820
Other operating expenses	D. 20	−36,047	−35,159
Operating result		**7,168**	**4,169**
Interest income		132	127
Interest expense		−1,690	−1,730
Income from investments in associates		54	504
Earnings before taxes		**5,664**	**3,070**
Taxes on income	C. 14	−1,565	−2,699
Consolidated net profit		**4,099**	**371**
Group earnings per share in EUR (basic and diluted)	D. 21	0.26	0.02
Average shares outstanding (thousand)	D. 21	15,650	15,683

Consolidated Comprehensive Income Statement

for the period 1 January to 31 December 2014 (IFRS)

	Note	2014 EUR K	2013 adjusted* EUR K
Consolidated net profit		**4,099**	**371**
Currency translation for foreign operations		469	−3,265
Net result from cash flow hedges		441	490
Income tax effects		−132	−145
		309	345
Other result to be reposted to the Group profit and loss account in future periods		**778**	**−2,920**
Actuarial losses from the valuation of pension commitments	C. 9	−6,994	−1,042
Income tax effects	C. 14	2,086	311
		−4,908	−731
Other result not to be reposted to the Group profit and loss account in future periods		**−4,908**	**−731**
Other earnings after taxes		**−4,130**	**−3,651**
Total Group earnings after taxes		**−31**	**−3,280**

* Some of the amounts presented vary from the amounts in the Group accounts for the 2013 financial year due to adjustments (see Notes page 73, currency translation).

Consolidated Cash Flow Statement

for the period 1 January to 31 December 2014 (IFRS)

	Note	2014 EUR K	2013 EUR K
1. Cash flow from operating activities			
Consolidated net earnings before tax		**5,664**	**3,070**
Adjustment for non-cash expenses			
Amortisation of intangible assets		1,267	1,011
Depreciation of property, plant and equipment		2,615	2,809
Losses from the disposal of assets		4	136
Income from investments in associates		−54	−504
Interest income		−132	−127
Interest expense		1,690	1,730
Other non-cash income/expenses		0	270
		11,054	**8,395**
Changes in inventories	C. 3	420	186
Changes in trade receivables and long-term development contracts	C. 4/C. 5	8,417	−2,084
Changes in other assets	C. 6	−343	−1,338
Changes in provisions	C. 9/C. 12	−976	−1,848
Changes in trade payables	page 76	−1,163	−490
Changes in other liabilities	C. 14	8,319	−988
		25,728	**1,833**
Interest paid		−303	−339
Income taxes paid		−1,348	−1,617
		24,077	**−123**
2. Cash flow from investment activities			
Additions to intangible assets		−1,124	−2,483
Additions to property, plant and equipment		−1,878	−2,482
Payments for investments in associated companies (minus cash acquired)	page 70	−11,674	0
Inflows from the sale of subsidiaries in previous years		0	479
Inflows from the distribution of associated companies		0	136
Inflows from the sale of associates		203	497
Interest received		132	127
		−14,341	**−3,726**
3. Cash flow from financing activities			
Outflows for share buybacks	C. 8	−488	−568
Inflows from financial liabilities incurred	C. 8	0	−4,702
Dividends paid to the shareholders of the parent company	C. 11	−1,220	−1,928
		−1,708	**−7,198**
4. Cash and cash equivalents at end of period			
Change in cash and cash equivalents		8,028	−11,047
Changes to the financial resource fund due to exchange rate fluctuations		−514	−491
Cash and cash equivalents at beginning of period		21,800	33,338
Cash and cash equivalents at end of period	C. 7	**29,314**	**21,800**

Consolidated Statement of Changes in Equity

for the period 1 January to 31 December, 2014

	Subscribed capital EUR K	Capital reserves EUR K	Reserve for treasury stock EUR K
Balance at 31 December 2012 (adjusted*)	**40,158**	**35,137**	**−106**
Consolidated net profit			
Other earnings after taxes			
Total Group earnings after taxes	**0**	**0**	**0**
Dividends distributed to the parent company's shareholders			
Share buybacks			−568
Issue of own shares			272
Total capital transactions	0	0	−296
Balance at 31 December 2013 (adjusted*)	**40,185**	**35,137**	**−402**
Consolidated net profit			
Other earnings after taxes			
Total Group earnings after taxes	**0**	**0**	**0**
Share buybacks		0	−488
Total capital transactions	0	0	−488
Balance at 31 December 2014	**40,185**	**35,137**	**−890**

* Some of the amounts presented vary from the amounts in the Group accounts for the 2013 financial year due to adjustments (see Notes page 73, currency translation).

Other reserves EUR K	Balance Sheet profit/-loss EUR K	Total EUR K
−3,692	**5,567**	**77,091**
	371	371
−3,651		−3,651
−3,651	**371**	**−3,280**
	−4,702	−4,702
		−568
		272
0	−4,702	−4,998
−7,343	**1,236**	**68,813**
	4,099	4,099
−4,130		−4,130
−4,130	**4,099**	**−31**
		−488
0	0	−488
−11,473	**5,335**	**68,294**

Consolidated Segment Reporting

2014 and 2013 (IFRS)

	Energy Management		Production Management	
	31.12.2014 EUR K	31.12.2013 EUR K	31.12.2014 EUR K	31.12.2013 EUR K
REVENUES				
External revenues	64,145	60,966	79,606	84,068
Revenues with other segments	972	1,640	2,313	2,202
Total revenues	**65,117**	**62,606**	**81,919**	**86,270**
Other operating income	5,718	6,029	8,443	6,027
Costs of purchased services	−5,640	−4,595	−9,304	−8,570
Costs of purchased goods	−3,521	−5,505	−2,520	−6,220
Personnel expenses	−41,262	−41,853	−49,429	−50,663
Depreciation and amortisation	−1,411	−1,462	−1,299	−1,355
Other operating expenses	−14,943	−14,502	−25,302	−23,939
Segment operating result before depreciation/amortisation	**5,469**	**2,180**	**3,807**	**2,905**
Segment operating result before depreciation/amortisation resulting from purchase price allocation	**4,058**	**718**	**2,508**	**1,550**
Amortisation/depreciation resulting from purchase price allocation	−85	−85	−276	−120
Segment operating result	**3,973**	**633**	**2,232**	**1,430**
Financial result	−401	106	−768	−696
Segment result	**3,572**	**739**	**1,464**	**734**
Carried at equity, shareholdings in associated companies	**149**	**298**	**0**	**0**
SEGMENT ASSETS	**42,711**	**47,727**	**77,240**	**65,165**
SEGMENT LIABILITIES	**38,204**	**32,150**	**53,276**	**44,351**
SEGMENT INVESTMENTS	**673**	**959**	**10,874**	**1,310**

* Some of the amounts presented vary from the amounts in the Group accounts for the 2013 financial year due to adjustments (see Notes page 73, currency translation, and page 80, taxes on income).

	Infrastructure Management		Reconciliation		PSI Group	
	31.12.2014 EUR K	31.12.2013 adjusted* EUR K	31.12.2014 EUR K	31.12.2013 EUR K	31.12.2014 EUR K	31.12.2013 adjusted* EUR K
	31,635	31,296	0	0	175,386	176,330
	5,302	6,815	−8,587	−10,657	0	0
	36,937	**38,111**	**−8,587**	**−10,657**	**175,386**	**176,330**
	2,262	1,878	−8,007	−8,090	8,416	5,844
	−6,162	−4,580	4,105	2,765	−17,001	−14,980
	−11,370	−13,035	1,311	4,957	−16,100	−19,803
	−12,798	−12,074	−115	347	−103,604	−104,243
	−750	−738	−61	−60	−3,521	−3,615
	−5,961	−6,295	10,159	9,577	−36,047	−35,159
	2,908	**4,005**	**−1,134**	**−1,101**	**11,050**	**7,989**
	2,158	**3,267**	**−1,195**	**−1,161**	**7,529**	**4,374**
	0	0	0	0	−361	−205
	2,158	**3,267**	**−1,195**	**−1,161**	**7,168**	**4,169**
	−335	−509	0	0	−1,504	−1,099
	1,823	**2,758**	**−1,195**	**−1,161**	**5,664**	**3,070**
	0	**0**	**0**	**0**	**149**	**298**
	55,895	**53,139**	**10,714**	**7,422**	**186,560**	**173,453**
	18,093	**17,341**	**11,943**	**12,755**	**121,516**	**106,597**
	522	**542**	**1,191**	**2,445**	**13,260**	**5,256**

Statement of Changes in Fixed Assets

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

2013	Purchase and production costs			
	1.1.2013 adjusted* EUR K	Currency differences EUR K	Additions EUR K	Disposals EUR K
Intangible assets				
Other intangible assets	15,484	0	1,987	117
Goodwill	50,241	−1,962	0	0
Capitalised software development costs	499	0	641	0
	66,224	**−1,962**	**2,628**	**117**
Property, plant and equipment				
Lots and buildings	17,804	0	209	53
Computers and equipment	13,066	0	1,480	609
Other equipment, operating and office equipment	7,016	0	793	400
	37,886	**0**	**2,482**	**1,062**
Financial assets				
Investments in associates	427	0	146	275
	427	**0**	**146**	**275**
	104,537	**−1,962**	**5,256**	**1,454**

* Some of the amounts presented vary from the amounts in the Group accounts for the 2013 financial year due to adjustments (see Notes page 73).

Statement of Changes in Fixed Assets

For the period 1 January to 31 December 2014 (IFRS)

2014	Purchase and production costs				
	1.1.2014 EUR K	Currency differences EUR K	Change to the scope of consolidation EUR K	Transfer EUR K	Additions EUR K
Intangible assets					
Other intangible assets	17,354	−13	5,804	0	745
Goodwill	48,279	1,068	4,387	0	0
Capitalised software development costs	1,140	0	0	0	379
	66,773	**1,055**	**10,191**	**0**	**1,124**
Property, plant and equipment					
Lots and buildings	17,960	32	0	0	87
Computers and equipment	13,937	−5	55	−3	1,177
Other equipment, operating and office equipment	7,409	−83	11	3	614
	39,306	**−56**	**66**	**0**	**1,878**
Financial assets					
Investments in associates	298	0	0	0	0
	298	**0**	**0**	**0**	**0**
	106,377	**999**	**10,257**	**0**	**3,002**

		Accumulated depreciation				Net carrying amounts	
	31.12.2013 adjusted* EUR K	1.1.2013 adjusted* EUR K	Additions EUR K	Disposals EUR K	31.12.2013 adjusted* EUR K	31.12.2013 adjusted* EUR K	31.12.2012 adjusted* EUR K
	17,354	12,797	1,011	116	13,692	3,662	2,687
	48,279	2,258	0	0	2,258	46,021	47,983
	1,140	228	0	0	228	912	271
	66,773	**15,283**	**1,011**	**116**	**16,178**	**50,595**	**50,941**
	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
	39,307	**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**
	106,378	**38,927**	**3,820**	**1,044**	**41,703**	**64,674**	**65,610**

		Accumulated depreciation					Net carrying amounts	
Disposals EUR K	31.12.2014 EUR K	1.1.2014 EUR K	Currency differences EUR K	Additions EUR K	Disposals EUR K	31.12.2014 EUR K	31.12.2014 EUR K	31.12.2013 EUR K
288	23,602	13,692	0	1,168	288	14,572	9,030	3,662
0	53,734	2,258	0	0	0	2,258	51,476	46,021
0	1,519	228	0	99	0	327	1,192	912
288	**78,855**	**16,178**	**0**	**1,267**	**288**	**17,157**	**61,698**	**50,595**
0	18,079	9,402	33	437	1	9,871	8,208	8,558
1,272	13,889	11,045	−4	1,433	1,273	11,201	2,688	2,892
571	7,383	5,078	72	745	565	5,330	2,053	2,331
1,843	**39,351**	**25,525**	**101**	**2,615**	**1,839**	**26,402**	**12,949**	**13,781**
149	149	0	0	0	0	0	149	298
149	**149**	**0**	**0**	**0**	**0**	**0**	**149**	**298**
2,280	**118,355**	**41,703**	**101**	**3,882**	**2,127**	**43,559**	**74,796**	**64,674**

Notes on the Consolidated Financial Statements

PSI Aktiengesellschaft für Produkte und Systeme der Informationstechnologie, Berlin,
as at 31 December 2014

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 2014 and the Consolidated Management Report for the 2014 fiscal year dated 10 March 2015 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 in three main business areas (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 A0Z1JH).

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. Exempt 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 2014 were generally in line with the principles applied last year. In the financial year a correction was posted in the context of a currency conversion. We make reference to page 73.

EFFECTS OF NEW ACCOUNTING STANDARDS

The Group applied the following standards and amendments for the first time: 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". Several other amendments were applicable for the first time in 2014. However, these do not affect the Group Financial Statements. The nature and effects of the individual new standards and amendments are described below:

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 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") were replaced by IFRS 11. The disclosure requirements formerly set out in the IAS 27, IAS 28 and IAS 31 were 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 was 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 new or revised standards have no significant effect on the PSI Group's net assets, financial position and results of operations.

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

On 24 July 2014, IASB published the final standard IFRS 9 "Financial instruments" (IFRS 9 [2014]), which contains the results of all IFRS 9 projects and replaces both IAS 39 "Financial instruments: Recognition and Measurement" as well as all earlier versions of IFRS 9 "Financial Instruments". The standard contains new regulations regarding classification and measurement, reductions in value and hedge accounting. IFRS 9 must be initially applied in fiscal years starting on or after 1 January 2018. An early application is permissible to the extent that the EU has recognised this. The Group is analysing the effects of this new regulation. The current status of the analyses does not currently allow for a statement regarding the effect of the amended rules on the net assets, financial position and results of operations.

The amended standard IFRS 15 was published in May 2014 and must first be applied in financial years starting on or after 1 January 2017. Earlier application is permissible. The standard applies retroactively. The standard introduces a new revenues realisation model consisting of five analysis steps, which must be applied to all revenues from contracts with customers. The core principle of this standard is that an entity will recognise revenues to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The principles of IFRS 15 offer a structured approach for measuring and recognising revenues. The scope of the standard covers all types of industries and enterprises and therefore replaces all existing regulations relating to the area of revenues realisation (IAS 11 “Construction Contracts”, IAS 18 “Revenues”, IFRIC 13 “Customer Loyalty Programmes”, IFRIC 15 “Agreements for the Construction of Real Estate”, IFRIC 18 “Transfers of Assets From Customers”, and SIC 31 “Revenues – Barter Transactions Involving Advertising Services“). Compared to the currently valid standards regarding revenues realisation, the application of the new standard requires more estimates and discretionary judgements because the amount of revenues to be recognised is determined by the consideration to which the entity expects to be entitled in exchange for those goods or services. This might constitute special challenges where a consideration is variable. 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 revenues and claims as well as liabilities from long-term contract manufacturing.

The Group is analysing the effects of this new regulation. The current status of the analyses does not currently allow for a statement regarding the effect of the amended rules on the net assets, financial position and results of operations.

As part of its higher-order project “Disclosure Initiative” to take account of and improve presentation and disclosure requirements, the IASB has published first amendments to IAS 1 “Presentation of Financial Statements”. These comprise limited amendments, which aim at encouraging entities to exercise more discretion when providing and presenting information. This e.g. relates to the clarification that materiality relates to the Financial Statements as a whole and that the provision of immaterial information might limit the usefulness of financial information. Moreover, more discretion should also be applied to where and in what sequence information is provided in the Financial Statements. These are mandatory for fiscal years starting on or after 1 January 2016. Earlier application is permissible. It has yet to be adopted under European law. The application of the new standard will result in changes to the Notes.

The IASB and the IFRS IC published further announcements in the reporting year which have not had nor will have no significant influence on the PSI Group’s Consolidated Financial Statement.

IMPORTANT JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

When compiling the Group 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 Group 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 Group 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 2014 was EUR 51,476 K (previous year: EUR 46,021 K, see page 81).

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 2014, realised income from ongoing projects totalled EUR 14,671 K (previous year: EUR 10,895 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 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 2014 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 2014, non-capitalised tax benefit carryforwards totalled EUR 53.2 million (previous year: EUR 51.0 million). No deferred tax assets were classified from these tax losses. At 31 December 2014, deferred tax assets allocated to temporary posting differences totalled EUR 5,657 K (previous year: EUR 4,648 K); deferred tax liabilities totalled EUR 960 K (previous year: EUR 1,038 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 2014, provisions for pensions and similar obligations totalled EUR 47,080 K (previous year: EUR 40,087 K). For further details, see Note C. 9.

Development costs

Development costs are capitalised according to the accounting method explained on page 74. 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 2014 was EUR 1,192 K (previous year: EUR 912 K).

PRINCIPLES OF CONSOLIDATION

a) Subsidiaries

The Consolidated Group Financial Statements encompass PSI AG and the companies it controlled as of 31 December 2014. The consolidated accounts include PSI AG and its subsidiaries over which it is able to exercise control in the sense of IFRS 10. PSI AG controls an investee if PSI AG has effective control over the investee directly or indirectly, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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 2014:

In a contract signed 12 November 2014, a 100% stake was acquired in Broner Metals Solutions Limited headquartered in Watford, UK. The company reported assets of EUR 4,967 K and liabilities of EUR 2,286 K as of the acquisition date. Net assets (at carrying amount) totalled EUR 2,681 K. In the context of the purchase price allocation, these net assets, which include intangible assets with a useful life of between six and eight years, were set against the acquisition cost (EUR 11,694 K). The results difference relates to goodwill. The intangible assets relate primarily to recognising customers. Goodwill particularly results from the position of Broner Metals Solution as the leading provider of IT solutions in the production planning and control areas for the steel industry. The enterprise serves customers in twelve countries, among them some of the worldwide largest steel producers. Acquisition costs are made up of the purchase price of EUR 12,101 K less the variable purchase price component of EUR 407 K. The purchase price was paid in cash.

Had the newly acquired subsidiary already been included in the Consolidated Financial Statement at 1 January 2014, the consolidated revenues and consolidated net profit would have totalled EUR 182,089 K and EUR 4,456 K respectively.

	Carrying amount before acquisition EUR K	Adjustment amount EUR K	Adjustment amount EUR K
Non-current assets			
Property, plant and equipment	66	0	66
Other intangible assets	22	5,782	5,804
Current assets			
Receivables from long-term development contracts	2,661	0	2,661
Trade and receivables*	1,511	0	1,511
Other assets	280	0	280
Cash and cash equivalents	427	0	427
Liabilities			
Deferred tax liabilities	11	1,156	1,167
Liabilities from trade receivables	875	0	875
Other liabilities	1,400	0	1,400
Total identifiable net assets at fair value	**2,681**	**4,626**	**7,307**
Goodwill resulting from the acquisition of the Company			4,387
Consideration			**11,694**

* Gross amount of contractual receivables. A recoverability of the receivables is assumed.

Presentation of the effects on cash flows:	
Acquired cash	427
Purchase price paid	−12,101
Net cash flows from company acquisition	**−11,674**

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, Schweiz (“PSI AG/CH”)
- PSI Mines&Roads GmbH (“PSI Mines&Roads”)
- PSI Energy Markets GmbH (“PSI Energy”)
- PSI CNI Control Networks & Information Management GmbH, Österreich (“CNI”)
- PSI Polska Sp. z o.o., Poland (“PSI Poland”)
- PSI Information Technology Shanghai Co. Ltd., China (“PSI China”)
- PSI Metals Non Ferrous GmbH (“PSI Metals NF”)
- FLS FUZZY Logik Systeme GmbH (“FLS”)
- OOO PSI, Russia (“PSI Russia”)
- PSI Metals Austria GmbH, Austria (“PSI Metals Austria”)
- PSI Metals Belgium NV, Belgium (“PSI Metals Belgium”)
- AIS Advanced Information Systems Private Limited, India
- PSI Incontrol Sdn. Bhd., Malaysia (“PSI Incontrol”) as the holding company of the following companies (hereinafter jointly called the “PSI Incontrol Group”):
    a) inControl Tech Private Limited, India
    b) inControl Tech For Shares SPC, Bahrain
    c) inControl Tech Holding Thailand Ltd., Thailand
    d) inControl Tech (Thailand) Ltd., Thailand
- PSI METALS NORTH AMERICA INC., USA (“PSI Metals NA”)
- PSI TURKEY BILISIM TEKNOLOJILERI SANAYI VE TICARET ANONIM SIRKETI, Turkey (“PSI Turkey”)
- Time-steps AG, Switzerland (“Time-steps”)
- PSI Metals Brazil Ltda., Brazil (“PSI Metals Brazil”)
- Broner Metals Solutions Limited, Great-Britain (“Broner Metals”; since 12 November 2014).

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.

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. The profit and loss statement shows the Group's percentage ownership of associated companies. The Group records changes in associates' equity reported in the applicable ownership percentage and presents this in the statement of changes in shareholders' equity, as applicable. Unrealised gains and losses from transactions between the Group and its associated companies are eliminated in accordance with the percentage ownership of associates.

Shares in the following associated companies are valued at equity:

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

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.

Intra-Group balances and transactions, resulting intra-Group 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, the PSI Incontrol Group companies and PSI China is generally the respective national currency. The assets and liabilities of these subsidiaries are translated into the presentation currency of PSI AG (EUR) 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.

In 2014, the following adjustment was made to previous years: The goodwill resulting from the acquisition of PSI Incontrol, Malaysia, in 2009 of MYR 75.7 (EUR 15.2 million) had in the past been translated into the presentation currency (EUR) using the historic conversion rate. In accordance with the provision in IAS 21 "The Effects of Changes in Foreign Exchange Rates", in the present Financial Statements, goodwill was translated using the rate at the Balance Sheet date. The figures for the previous year were adjusted accordingly. Since the resulting translation differences must be recognised in other comprehensive income, the amended Balance Sheet will affect neither the consolidated profit for the year, nor the Group earnings per share. Goodwill in the Balance Sheet increased as at 1 January 2013 (and fell as at 31 December 2013) in favour of (or to the detriment of) other reserves by EUR 3.5 million to EUR 18.7 million (or by EUR 1.5 million to EUR 16.7 million).

	31.12.2013 EUR million	1.1.2013 EUR million
Intangible assets (before the adjustment)	49.1	47.5
Adjustment amount	1.5	3.4
Intangible assets (after the adjustment)	**50.6**	**50.9**
Other reserves (before the adjustment)	−8.8	−7.2
Adjustment amount	1.5	3.5
Other reserves (after the adjustment)	**−7.3**	**−3.7**
Other comprehensive income (before the adjustment)	−1.7	
Adjustment amount	−1.9	
Other comprehensive income (after the adjustment)	**−3.7**	

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 licences

Amounts paid for the purchase of industrial property rights and licences 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 2014 or 2013.

FINANCIAL ASSETS

Financial assets are classified into the following basic categories:

- Extended loans and receivables and
- Financial assets held for trading.

On 31 December 2014 and 31 December 2013, 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.

Financial assets held for trading are 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 these financial assets held for trading are immediately recorded as income.

The PSI Group uses derivative financial instruments in the form of foreign exchange forward contracts to protect itself against exchange rate risks. One part of these derivatives are classified as held for trading.

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 in the paragraph above are attributed to step 2.

Financial assets are tested for impairment on each Balance Sheet date. An impairment or bad debt allowance is 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
- Other financial liabilities.

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

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

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

At 31 December, 2014 the maturities of financial liabilities were as follows:

	Due immediately EUR K	Due within 1 year EUR K	Due in longer than 1 year EUR K	Total EUR K
Trade payables	3,017	12,096	0	15,113
Other liabilities	169	28,312	1,009	29,490
Financial liabilities	16	5,066	188	5,270
	3,202	**45,474**	**1,197**	**49,873**

The trade payables due within one year represent provisions for services still to be rendered in the amount of EUR 6,031 K.

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

	Due immediately EUR K	Due within 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 within up to one year represent provisions for services still to be rendered in the amount of EUR 5,265 K.

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 2014 and 2013 fiscal years.

The PSI Group monitors capital on a consolidated basis utilising the equity ratio. According to internal requirements, an equity ratio of 30% of the Balance Sheet total is the aim for the equity determined for the PSI Group according to 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 Group Cash Flow Statement likewise employs the above definition of cash and cash equivalents.

SHAREHOLDERS' EQUITY

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

Capital reserves include premiums in accordance with article 150 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 is reported as other operating income on the Income Statement.

Funds provided to the Company by Investitionsbank Berlin as investment grants are subject to future compliance 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 2014, the PSI Group received a total of EUR 650 K for various development programmes, including governmental programmes, programmes in the state of Berlin and in the EU (previous year: EUR 1,052 K). The subsidies granted were recognised as income in the prior year 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

No material borrowing costs were incurred or capitalised in the context of producing qualified assets neither in the financial year nor in the prior year.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs came to EUR 15.7 million in the 2014 fiscal year (previous year: EUR 19.8 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 are generated primarily from project business and licencing software products to end users, both with and without customer-specific adaptation. Revenues are 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 licences

The PSI Group realises revenues from contracts once a licence 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 are realised on a straight line basis over the term of the agreement based on historical data. Revenues from consultancy and training is 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

Actual tax assets and liabilities for the ongoing 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 temporarily taxable differences connected with investments in subsidiaries, associated companies and interests in joint ventures, 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 deferred tax liabilities are set off if these relate to taxes on income levied on the same taxable entity by the same taxation authority and a mutual set-off between current taxes is possible.

For tax assets and tax liabilities, the presentation of comparative data for the previous period was adjusted to the presentation for the current financial year by setting off deferred tax assets with specific deferred tax liabilities, where these were not set off previously. This set-off for the comparative data as at 31 December 2013 (or 1 January 2013) resulted in a reduction of deferred tax assets and deferred tax liabilities by EUR 1,425 K each (or EUR 1,878 K).

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 revenues office is included in the Company Financial Statement 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 on page 62.

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 2014 and on 31 December 2013, reference is made to the attached schedule “Change in intangible assets and property, plant and equipment” (see on page 64 f.).

Goodwill and property, plant and equipment

The PSI Group carried out impairment testing on non-current assets on 31 December 2014 and 31 December 2013. Impairment testing to determine value in use takes the following units and proportionate goodwill carrying amounts into account:

	31.12. 2014 EUR K	31.12. 2013 EUR K	1.1. 2013 EUR K
Energy Management			
Electrical Energy division of PSI AG, Nentec and CNI	1,493	1,493	1,493
Gas and Oil division of PSI AG	1,576	1,576	1,576
PSI Energy Markets	2,267	2,267	2,267
Time-steps AG	605	605	605
	5,941	**5,941**	**5,941**
Production Management			
PSIPENTA	615	615	615
PSI Metals	8,198	8,198	8,198
PSI Logistics	838	838	838
PSI Production	285	285	285
FLS	342	342	342
PSI Metals Austria Group	10,750	10,750	10,750
Broner Metals Solutions Ltd.	4,387	0	0
	25,415	**21,028**	**21,028**
Infrastructure Management			
PSI Transcom	2,352	2,352	2,352
PSI Incontrol Group	17,768*	16,700*	18,662*
	20,120	**19,052**	**21,014**
Total goodwill	**51,476**	**46,021**	**47,983**

* We make reference to the Note regarding the adjustment of prior-year values on page 73.

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 licences). 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 5.18% before tax and 6.16% after tax was applied (previous year: 6.42% after tax and 7.78% before tax). For the PSI Incontrol Group, taking into account a country risk surcharge, a discount rate of 8.37% before tax and 6.83% after tax was applied (previous year: 9.60% before tax and 7.68% 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

As per an agreement dated 3 March 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 19 December 2014, shares were sold for a purchase price of EUR 57 K; the share of caplog-x GmbH's capital thus decreased by 2% to 31.33%.

CURRENT ASSETS

3 Inventories

	2014 EUR K	2013 EUR K
Hardware and third-party licences	2,935	3,351
Subcontractor payments	533	537
	3,468	**3,888**

4 Trade receivables, net

	2014 EUR K	2013 EUR K
Trade receivables, gross	34,864	40,705
Individual valuation allowances	−1,156	−797
	33,708	**39,908**

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

	2014 EUR K	2013 EUR K
As of 1 January	797	639
Appropriation recognised as expense	677	368
Claimed	−66	−130
Reversals recognised as income	−252	−80
As of 31 December	**1,156**	**797**

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

	2014 EUR K	2013 EUR K
Neither past due nor impaired	**22,559**	**28,328**
Overdue		
< 30 days	3,971	5,110
30–60 days	1,383	1,276
60–90 days	260	1,051
90–120 days	703	316
> 120 days*	4,832	3,827
	11,149	**11,580**
As of 31 December	**33,708**	**39,908**

* Paid as of 20 February 2015: EUR 308 K (previous year: 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:

	2014 EUR K	2013 EUR K
Costs incurred	75,442	64,493
Share of profit	14,671	10,895
Contract revenues	**90,113**	**75,388**
Advance payments received	−76,259	−57,592
Set off against contract revenues	−50,248	−37,495
Receivables from long-term development contracts	39,865	37,893
Liabilities from long-term development contracts	26,011	20,097

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 39,865 K (previous year: EUR 37,893 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

	2014 EUR K	2013 EUR K
Tax credits	1,907	2,832
Prepaid expenses	1,756	1,294
Subcontractor payments	678	256
Subsidies	131	149
Other	937	759
	5,409	**5,290**

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

	2014 EUR K	2013 EUR K
Bank balances	28,023	13,341
Fixed term deposits	1,258	8,427
Cash	33	32
	29,314	**21,800**

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 Consolidated Statements of Changes in Group Equity.

a) Subscribed capital

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

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 expires 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.

	2014 EUR K	2013 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	8,036
	8,036	**8,036**
	16,072	**16,072**

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 of EUR 8,035,840.00 by issuing new nominal no-par shares in exchange for cash contributions or investments in kind.

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:

	2014 EUR K	2013 adjusted EUR K
Currency fluctuation reserve	1,664	1,195
Actuarial losses	−19,341	−12,347
Deferred taxes	6,204	4,250
Cash flow hedge reserve	0	−441
	−11,473	**−7,343**

The deferred taxes resulted from actuarial losses.

Last year, the cash flow hedge reserve contained the effective part of hedges for future estimated payments in foreign currency. The hedge was terminated in 2014.

e) Distributed dividends

No dividend for the fiscal year 2013 was paid in the reporting year. Last year, a dividend on ordinary shares amounting to EUR 0.30 per share was paid out (EUR 4,702,009.80).

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 pay-out 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:

	2014 %	2013 %
Discount rate	2.30	3.50
Increase in salaries	1.50	1.50
Increase in pension pay-outs	1.50	1.50
Staff turnover	4.50*	4.50*

* Fluctuation was based on an age-dependent probable employee revenues 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 2014, an age at expiry of financing of 64 years was assumed in calculating pension obligations (previous year: 64 years). The age at expiry of financing is based on statistical surveys of retirement ages within the PSI Group.

Pension benefits break down as follows:

	2014 EUR K	2013 EUR K
Work time expenditure recorded in staff costs	30	32
Interest expense recorded in interest result	1,388	1,390
Pension benefits	**1,418**	**1,422**

Liabilities from defined benefit plans:

	2014 EUR K	2013 EUR K
Cash value of defined benefit plan	47,080	40,087
Pension obligation	**47,080**	**40,087**

The table below shows the change in pension obligations:

	2014 EUR K	2013 EUR K
Pension obligation, start of period	40,087	38,997
Actuarial gains and losses from changes in demographic assumptions recognised in other comprehensive income	7,122	1,572
Actuarial gains and losses from changes in financial assumptions recognised in other comprehensive income	−128	−529
Pension benefit payments	−1,419	−1,375
Pension benefits	1,418	1,422
Pension obligation, end of period	**47,080**	**40,087**

A quantitative sensitivity analysis of the most important assumptions as at 31 December 2014 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)	−666	681	1,035	−1,002

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 14.38 years (previous year: 13.72 years).

The following shows the expected payment structure for the next few years:

	2014 EUR K	2013 EUR K
Pension benefit payments	1,419	1,375
Projected pension benefit payments		
Within the next twelve months	1,668	1,565
Between one and two years	1,761	1,675
Between two and three years	1,897	1,778

10 Financial liabilities

Financial liabilities contain liabilities from loans of EUR 188 K (previous year: EUR 3,347 K) and the non-current part of derivatives amounting to EUR 0 K (previous year: EUR 40 K). For more explanations on derivatives, please see the following paragraph 11 "Current financial liabilities".

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

CURRENT LIABILITIES

11 Financial liabilities

Financial liabilities contain liabilities from loans of EUR 3,150 K (previous year: EUR 200 K), from current account credit of EUR 1,932 K (previous year: EUR 2,943 K) and the non-current part of derivatives amounting to EUR 0 K (previous year: EUR 401 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 3.3% 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 2014, the PSI Group had unused credit lines in the amount of EUR 22,537 K (previous year: EUR 9,163 K).

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 2014 amounted to EUR 3,150 K. Collateral was not provided.

Interest expenses from bank overdrafts amounted to EUR 251 K in the 2014 fiscal year (previous year: EUR 287 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). In 2014, the hedge was terminated because the underlying transactions, the expected transactions in the context of customer contracts, were settled.

The inventory of derivatives showed the following development:

Underlying transaction/ hedging relationship	Risk/type of hedge	Nominal amount	Amount of risk hedges	Fair value	
				31.12.2014	31.12.2013
		EUR K	EUR K	EUR K	EUR K
Future transactions/ foreign currency contracts	Currency risk/ cash flow hedge	0	0	0	−441
Total		**0**	**0**	**0**	**−441**

12 Provisions

The change in provisions was as follows:

	As of 1.1.2014 EUR K	Claimed EUR K	Appropriation EUR K	As on 31.12.2014 EUR K
Personnel provisions	1	−1	0	0
Other provisions	8	−8	0	0
	9	**−9**	**0**	**0**
thereof current	9			0
thereof non-current	0			0

13 Other liabilities

	2014 EUR K	2013 EUR K
Personnel-related liabilities	11,477	12,277
Tax liabilities (payroll and sales tax)	6,778	5,280
Deferred income	6,427	3,638
Social security liabilities	14	110
Other	4,793	4,421
	29,489	**25,726**

Employee liabilities principally represent claims to vacation, overtime and special payments. Deferred income (mostly prepaid maintenance revenues) will be recognised as income in the year – except for 1,256 K (previous year: EUR 1,035), which will be recognised in future years.

14 Deferred taxes/taxes on income

Trade income tax in Germany is levied on taxable income of the German group companies, 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 relevant group company operates. The average trade tax rate in 2014 was approximately 15%. A corporation tax rate of 15% was applied in the 2013 and 2014 fiscal years. A solidarity surcharge of 5.5% was additionally levied on corporation tax assessed. The effective income tax rate for 2014 was thus 29.83% (previous year: 29.83%).

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

	2014 EUR K	2013 EUR K
Actual tax expense		
Current year	**−1,865**	**−2,264**
Deferred tax expense		
Change in intangible assets	−114	−122
Change in long-term development contracts	442	−119
Change in inventories	0	−10
Phased retirement programmes	2	−1
Changes to trade receivables	−903	350
Change in pension provisions	−84	−234
Project-related provisions	−484	−149
Other provisions	−62	5
Fixed assets	17	−67
Deferred income	1,486	−88
	300	**−435**
Income tax expense	**−1,565**	**−2,699**

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

	2014 EUR K	2013 EUR K
Earnings before taxes	5,664	3,070
Theoretical income tax expense (29.83%; previous year: 29.83%)	−1,690	−916
Uncapitalised tax loss carryforwards	−1,057	−2,222
Non tax-deductible business expense and trade tax additions	−190	−104
Use of non-capitalised loss carryforwards	587	535
Effects of differences due to foreign tax rates	681	203
Tax expense for previous year	6	−504
Tax-free foreign income	−20	275
Other	118	34
Actual tax expense	**−1,565**	**−2,699**

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

	2014 EUR K	Change EUR K	2013 EUR K
Deferred taxes			
Pension provisions	6,660	2,002	4,658
Intangible assets	−1,085	−1,103	18
Tax-deductible goodwill impairment	−419	−179	−240
Phased retirement programmes	21	2	19
Project-related provisions	329	−484	813
Receivables from long-term development contracts	−1,604	442	−2,046
Derivatives/Financial instruments	19	−148	167
Fixed assets	−50	17	−67
Trade receivables	−610	−903	293
Other provisions	96	−9	105
Deferred income	1,398	1,486	−88
Other	−58	−37	−22
	4,697	**1,086**	**3,610**
of these, recorded in the Income Statement		300	(previous year: −435)
of these, recorded in Other Comprehensive Income		1,954	(previous year: 166)
thereof from Company acquisitions		−1,168	(previous year: 0)
Balance Sheet (previous year adjusted)			
deferred tax assets	5,657		4,648
deferred tax liabilities	−960		−1,038

The PSI Group has the following tax loss carryforwards:

	2014 EUR million	2013 EUR million
Loss carryforward, domestic trade tax	45.4*	46.5*
Loss carryforward, domestic corporation tax	47.2*	44.9*
Loss carryforwards abroad	6.0	6.0

* The information regarding the domestic carryforwards takes into account the 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

	2014 EUR K	2013 EUR K
Software development and maintenance	145,153	134,771
Licence fees	12,930	19,370
Merchandise	17,303	22,189
	175,386	**176,330**

16 Other operating income

	2014 EUR K	2013 EUR K
Project income	3,936	3,142
Income from currency translations	2,384	378
Income from 1% rule for car leases	944	1,024
Other	1,152	1,300
	8,416	**5,844**

17 Cost of materials

	2014 EUR K	2013 EUR K
Costs of purchased services	17,001	14,980
Costs of purchased goods	16,100	19,803
	33,101	**34,783**

18 Staff costs

	2014 EUR K	2013 EUR K
Wages and salaries	88,109	88,684
Social security	15,495	15,559
	103,604	**104,243**

Staff costs include expenses for payments in connection with defined contribution pension commitments of EUR 643 K (previous year: EUR 644 K) and state pension funds of EUR 5,469 K (previous year: EUR 5,547 K).

19 Depreciation and amortisation

	2014 EUR K	2013 EUR K
Of intangible assets and property, plant and equipment	3,882	3,820
	3,882	**3,820**

20 Other operating expenses

	2014 EUR K	2013 EUR K
Travel costs	7,562	7,854
Rent/leasing property	6,344	6,188
Project expenses	3,900	4,081
Advertising and marketing	4,430	4,200
Equipment leasing	2,323	2,408
Data line, IT and telephone costs	2,947	2,925
Legal and advisory costs	1,554	1,477
Contributions, fees, expenses	304	348
Other	6,683	5,678
	36,047	**35,159**

21 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.

	2014	2013
Net profit/loss for the period (EUR K)	4,099	371
Weighted number of no-par shares (in thousand)	15,650	15,683
Basic/diluted earnings per no-par share (EUR/share)	0.26	0.02

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

E. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Cash and cash equivalents reported are not subject to restrictions on disposal claims or rights imposed by third parties. No dividend for the fiscal year 2013 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 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 contribute to the gross assets and gross liabilities as follows:

	2014 EUR K	2013 adjusted* EUR K
Gross assets per Balance Sheet	192,217	178,101
Deferred tax assets	−5,657	−4,648
Segment assets	**186,560**	**173,453**
Gross liabilities per Balance Sheet	123,923	109,288
Tax provisions	−1,447	−1,653
Deferred tax liabilities	−960	−1,038
Segment liabilities	**121,516**	**106,597**

* Adjustment regarding segment assets, see 73, currency translation.

Additional geographical disclosures

For the 2014 fiscal year, the PSI Group achieved domestic revenues of EUR 90.1 million (previous year: EUR 83.3 million) and revenues of EUR 85.3 million abroad (previous year: EUR 93.0 million). Non-current fixed assets of EUR 40,874 K (previous year: EUR 30,047 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 2014, leasing charges of EUR 240 K accrued (previous year: EUR 223 K), leasing fees of EUR 870 K for leased data processing systems, vehicles and other equipment (previous year: EUR 910 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 as at 31 December 2014 shown below stem from these rental and lease agreements:

	Rent payments EUR K	Leasing payments EUR K	Total EUR K
2015	3,654	1,510	5,164
2016	2,627	763	3,390
2017	683	350	1,033
2018	138	64	202
2019	136	1	137
2020	136	0	136
and beyond	136	0	136
Total	**7,510**	**2,688**	**10,198**

The rent and lease payments as at 31 December 2013 shown below stem from these rental and lease agreements:

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

Guaranteed sureties

At the Balance Sheet date PSI AG had guaranteed sureties totalling EUR 42,087 K (previous year: EUR 39,866 K) from various insurers and banks.

Employees

The average number of PSI Group employees in the fiscal year was 1,683 (previous year: 1,671 employees). Employees break down by function as follows:

	2014	2013
Production	1,380	1,368
Administration	137	136
Sales	138	145
Development	28	22
Total	**1,683**	**1,671**

Equity statement

	Shares in %	Shareholders' equity[1)] 31.12.2014 EUR K	Net result[1)] 2014 EUR K
PSIPENTA Software Systems GmbH, Berlin	100	4,908	1,679
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	1,866	346 [3)]
PSI Metals North America Inc., Pittsburgh, USA	100	754	402
PSI Transcom GmbH, Berlin	100	1,159	−91
PSI AG Produkte und Systeme der Informationstechnologie, Glattzentrum, Switzerland	100	1,231	502
PSI Logistics GmbH, Berlin	100	−5,832	−2,032
PSI Energy Markets GmbH, Hanover	100	1,330	0 [2)]
PSI Mines&Roads GmbH, Berlin	100	−1,559	−1,567
PSI Polska Sp. z o.o., Poznań, Poland	100	1,708	1,055
PSI CNI Control, Networks & Information Management GmbH, Wels, Austria	100	1,177	177
FLS FUZZY Logik Systeme GmbH, Dortmund	100	378	0 [2)]
PSI Metals Non Ferrous GmbH, Aachen	100	1,005	0 [2)]
OOO 'PSI', Moskau, Russia	100	2,866	2,914
PSI Incontrol Sdn. Bhd., Selangor, Malaysia	100	11,189	831 [3)]
inControl Tech Private Limited, Chennai, India	100	−95	48 [3)]
inControl Tech For Shares SPC, Salimabad, Bahrain	100	503	661 [3)]
inControl Tech (Thailand) Ltd., Bangkok, Thailand	100	−484	−443 [3)]
inControl Tech Holdings (Thailand) Ltd., Bangkok, Thailand	100	−107	−109 [3)]
PSI Metals Austria GmbH, Linz, Austria	100	3,216	503
AIS Advanced Information Systems (India) Private Ltd., Kolkata, India	100	190	68 [3)]
PSI Metals Belgien NV, Brüssel, Belgium	100	828	243
PSI Metals Brazil Ltda, Rio de Janeiro, Brazil	100	280	231 [3)]
PSI TURKEY BILISIM TEKNOLOJILERY SANAYI VE TICARET A.Ş., Istanbul, Turkey	100	8	−21
Time-steps AG, Affoltern am Albis, Switzerland	100	287	−45
Broner Metals Solutions Limited, Watford, United Kingdom	100	11,461	−245 [4)]
caplog-x GmbH, Leipzig	31.3	637	437 [5)]

1) Values according to legal and local accounting regulations before consolidation bookings.
2) Profit-pooling contracts.
3) Values according to IFRS before consolidation bookings.
4) Values according to IFRS before consolidation bookings, pro rata since 12 November 2014.
5) Values as of 31 December 2013, as values as of Balance Sheet date 31 December 2014 were not available at the date of the financial statements.

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 198 K (previous year: EUR 221 K).

For tax consultancy services from the auditors of the Financial Statements, the PSI Group recorded fees in the amount of EUR 181 K (previous year: EUR 150 K), and EUR 61 K for other audit services (previous year: EUR 22 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 individuals:

Members of the PSI AG Board of Directors
Dr. Harald Schrimpf
(Chairman of the Board)
Harald Fuchs

Members of the PSI AG Supervisory Board
Karsten Trippel
Professor Dr. Rolf Windmöller
Dr. rer. nat. Ralf Becherer
Bernd Haus
Wilfried Götze, until 6 May 2014
Elena Günzler
Professor Dr.-Ing. Ulrich Wilhelm Jaroni, since 6 May 2014

Transactions with related individuals

No business transactions took place between the PSI Group and related individuals in 2013 and 2014.

Supervisory Board

The individuals below were Supervisory Board members in fiscal year 2014:

Name	Occupation	Registered office	Supervisory Board memberships at other companies
Professor Dr. Rolf Windmöller (Chairman)	Graduate engineer	Ennepetal	ProDV Software AG, Dortmund (Chairman)
Wilfried Götze (Deputy Chairman) until 6 May 2014	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 CCP Systems AG, Stuttgart
Professor Dr.-Ing. Ulrich Wilhelm Jaroni (Deputy Chairman) since 6 May 2014	Graduate engineer	Aschau	
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 765 K was paid to the PSI AG Board of Directors in the fiscal year 2014 (previous year: EUR 1,089):

	2014 EUR K	2013 EUR K
Fixed remuneration		
Armin Stein	–	116
Harald Fuchs	280	140
Dr. Harald Schrimpf	360	296
	640	**552**
Long-term fee components		
Armin Stein	–	0
Harald Fuchs	0	0
Dr. Harald Schrimpf	8	160
	8	**160**
Variable remuneration		
Armin Stein	–	204
Harald Fuchs	29	0
Dr. Harald Schrimpf	88	173
	117	**377**
Board of Directors – total	**765**	**1,089**

In addition, provisions for the Board of Directors' long-term fee components totalled EUR 292 K (previous year: EUR 152 K).

No pension commitments exist for Board of Directors members.

Pension provisions of EUR 693 K are reported for former Board of Directors members (previous year: EUR 641 K). No further remuneration was paid to former Board members other than pension benefit payments of EUR 54 K (previous year: EUR 53 K).

The Supervisory Board was paid remuneration of EUR 188 K (previous year: EUR 190 K):

	2014 EUR K	2013 EUR K
Dr. rer. nat. Ralf Becherer	27	28
Wilfried Götze	12	35
Bernd Haus	29	30
Karsten Trippel	24	24
Professor Dr. Rolf Windmöller	45	45
Elena Günzler	28	28
Professor Dr.-Ing. Ulrich Wilhelm Jaroni	23	0
	188	**190**

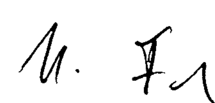
The Board of Directors and Supervisory Board shareholdings were as shown below:

	2014 Number of shares	2013 Number of shares
Dr. Harald Schrimpf	63,500	64,000
Harald Fuchs	3,023	423
Dr. rer. nat. Ralf Becherer	1,281	1,281
Bernd Haus	1,000	1,000
Elena Günzler	1,013	1,013
Professor Dr.-Ing. Ulrich Wilhelm Jaroni	0	–
Karsten Trippel	111,322	110,322
Professor Dr. Rolf Windmöller	7,805	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 5 December 2014. 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, 10 March 2015

Dr. Harald Schrimpf
(Chairman of the
Board of Directors)



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 2014. 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, 12 March 2015

Ernst & Young GmbH
Accounting firm

Schepers	Böhm
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, 10 March 2015

PSI Aktiengesellschaft für Produkte und Systeme der Informations-technologie

The Board of Directors

Dr. Harald Schrimpf   Harald Fuchs

PSI Multi-Year Overview

	2014 EUR million	2013 EUR million	2012 EUR million	2011 EUR million	2010 EUR million
Orders					
New orders	184	185	188	174	177
Order backlog	120	118	118	112	108
Income statement					
Revenues	175.4	176.3	180.9	169.5	158.7
of which Energy Management	64.2	61.0	62.3	68.9	65.5
of which Production Management	79.6	84.1	89.4	78.6	67.3
of which Infrastructure Management	31.6	31.3	29.2	22.1	26.0
Export ratio in %	48.6	52.7	47.5	49.8	40.4
Licence revenues	12.9	19.4	17.4	14.2	9.8
Licence share in %	7.4	11.0	9.6	8.4	6.2
R&D expenditure	16.1	20.4	18.1	16.2	16.0
R&D ratio in %	9.2	11.6	10.0	9.6	10.1
Operating result (EBIT)	7.2	4.2	12.9	10.7	9.5
EBIT margin in %	4.1	2.4	7.1	6.3	6.0
Earnings before taxes (EBT)	5.7	3.1	11.3	8.7	7.9
Group result	4.1	0.4	9.4	7.4	7.0
Return on sales in %	2.3	0.2	5.2	4.4	4.4
Cash flow					
Cash flow from operating activities	24.1	−0.1	0.8	15.4	13.1
Cash flow from investment activities	−14.3	−3.7	−3.6	−1.6	−6.8
Cash flow from financing activities	−1.7	−7.2	−2.3	−9.0	1.5
Investments [1]	13.3	5.1	5.2	4.4	6.9
Balance sheet					
Shareholders' equity	68.3	68.8 [2]	73.6	72.9	68.1
Equity ratio in %	35.5	38.6 [2]	39.5	41.5	40.2
Return on equity in %	6	0.6	12.8	10.2	10.3
Balance sheet total	192.2	178.1 [2]	186.4	175.7	169.2
Share					
Earnings per share in EUR	0.26	0.02	0.60	0.47	0.45
Annual closing price in EUR	11.91	13.55	15.41	14.72	17.85
Market capitalisation at 31 December	187.0	212.7	241.9	231.1	280.2
Employees					
Number of employees at 31 December	1,714	1,692	1,591	1,491	1,422
Personnel expenses	103.6	104.2	100.9	95.8	94.2

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

PSI Quarterly Overview 2014

	1st quarter EUR million	2nd quarter EUR million	3rd quarter EUR million	4th quarter EUR million
Orders				
New orders	56	33	44	51
Order backlog	129	121	120	120
Income statement				
Revenues	40.8	43.4	43.0	48.2
of which Energy Management	15.3	15.0	15.4	18.4
of which Production Management	18.9	20.2	21.6	18.9
of which Infrastructure Management	6.6	8.2	6.0	10.9
Operating result (EBIT)	2.1	0.7	1.8	2.6
EBIT margin in %	5.1	1.6	4.2	5.3
Earnings before taxes (EBT)	1.7	0.3	1.4	2.3
Group result	1.2	0.1	0.8	2.1
Return on sales in %	2.9	0.2	1.8	4.4
Share				
Earnings per share in EUR	0.07	0.00	0.05	0.13
Quarterly closing price in EUR	13.54	13.01	11.65	11.91
Employees				
Number of employees at the end of the quarter	1,704	1,687	1,660	1,714
Personnel expenses	25.9	26.2	24.7	26.8

2015 Financial dates

19 March 2015	Annual result published
19 March 2015	Analyst conference
28 April 2015	First-quarter report
12 May 2015	Shareholder meeting
28 July 2015	First semi-annual report
29 October 2015	Third-quarter report
23–25 November 2015	German Equity Capital Forum analyst conference

The PSI share

Stock market segment	Prime Standard
Exchange symbol	PSAN
WKN	A0Z1JH
ISIN	DE000A0Z1JH9

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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 http://www.psi.de/en/psi-investor-relations/.

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